

VICE CHAIR'S NOTES



Adriel Chan
Vice Chair



It feels oddly fitting that I write this inaugural set of Vice Chair's Notes from Shanghai, China, where life is basically back to normal. I made the trip here from Hong Kong in mid-January in order to get a first-hand feel for how China is doing, and to check in on our operating projects and those under construction, after a year of remote observation.

Normally, I am in mainland China about 20 times a year, each time visiting several cities, and each trip being three to four days long. In 2020, I made just one trip: a mere six days in Shanghai. Being back has been a shock in several ways, the most dramatic being the strength and dynamism of the retail market here. Although the reports I have read on a regular basis all point to mainland China's retail strength, it is altogether another thing to see it in person. Dense crowds and long lines throughout both Grand Gateway 66 and Plaza 66 in Shanghai stand in stark contrast to stories of shuttered stores and empty streets across Europe and North America. Hong Kong stands, perhaps thankfully, somewhere between these extremes, but closer to the situation on the Mainland. Although I have several observations on the evolution of the Chinese retail market, these observations are not necessarily unique, so I want to take a step back and try to anticipate some of the more fundamental questions that readers might have about where I hope to bring Hang Lung.

Since our founding, Hang Lung has always had a strong set of values. These values originated from the Company's founder, Mr. T.H. Chan, have continued through our current Chair, and will continue through me. When I joined the Group in 2010, the values were captured under "SAIL": Simplicity, Authority, Integrity, and Loyalty. In 2012, we updated it to "We Do it

Right", a motto which we felt embodied that same integrity, but also captured the broader spirit of our values. Today, we have expressed this set of values in a format that is more current and also more detailed, represented as our "VMV" – Vision, Mission, and Values.

I think we have captured the essence concisely in its original text, so I will expand a little bit on the thinking behind each part of the VMV here.

Our Vision: Create compelling spaces that enrich lives

As a real estate developer that has no delusions about our business priorities or expertise, we are only interested in the core of our business: space. A discrete location that exists in space (and time). We are not a conglomerate, and we are not a tech company. We are a real estate company, and our edge lies in how we create spaces that enrich the lives of our stakeholders. We have no intentions of branching out into incongruous businesses, nor blindly grabbing at so-called "technology". Technology offers us many new tools and new ways of thinking – which we must explore and embrace, but it is a means, not an end.

Our Mission: Pursue sustainable growth by connecting our customers and communities

Everyone talks about sustainability and sustainable growth, but for it to be meaningful, we must take its definition a step further. For Hang Lung, this means that we reach this end by connecting and engaging our customers and communities, rather than by doing it on our own, in a vacuum.

I have said, for the past 11 years (to investors, analysts, and colleagues), that we must continue to iterate on our model. The last iteration of our industry has basically been to build a box, add lights and air conditioning, and then rent this space to tenants for more than what we spent. In mainland China, that was still a viable model until fairly recently, but certainly not today. To maintain our advantage, and indeed our relevance, we must add to that box a high level of service, approach our business with a customer-centric mindset, and use all the tools at our disposal. This is captured in the second part of our mission – *connecting our customers and communities*. The landlord-tenant-customer relationship is no longer uni-directional or uni-dimensional, and to succeed, we need to engage rather than sit back, using our spaces as a venue and medium for such engagement.

Our Values are: Integrity, Sustainability, Excellence, Openness

I cannot emphasize our focus on **integrity** enough, even though it has been at our core for 60 years. Business integrity, stakeholder integrity, environmental integrity. These are prerequisites for our existence, and part of our social contract.

Sustainability has been a personal value of mine since early childhood. I grew up with David Attenborough on TV and National Geographic (“World”) Magazines, which helped tint the lens through which I understand our world. The lush natural environment of Hong Kong has helped shape me into a lover of nature, while the density and disparity have helped make me a conscious citizen.

Excellence must mark everything we do – both “front of house” in the design, construction, leasing, operations, and marketing of our properties, but equally, in our “back of house” operations. We must continue to strive for excellence, lest we become complacent. When work is done to the level of excellence that we strive for, respect and pride will follow, which will not go unnoticed by our customers. Implicit here is the need to constantly improve and question ourselves.

Openness may sound vague, but it is another topic that I regularly raise with colleagues. As an organization, just as people, we must be open to things. Open to criticism, open to better ways of doing things, open to new trends and new markets. I constantly remind my colleagues to expose themselves to new things, in order to inspire themselves and, in turn, inspire our customers.

In another interpretation of the word, we must also be open to our customers – sincere and hospitable.

Together, our VMV are not actually new, but a clearer way of communicating to our stakeholders the guiding principles by which we do business, and to “justify” our existence.

I hope that this has given you some perspective on the approach that Ronnie, Weber, and myself envision.

I want to change tack a little bit now and talk about two areas that are pivotally important to our business, and made even more so by the COVID-19 pandemic: sustainability and technology.

Sustainability

You will gather from our VMV that sustainability is integral to how we do business. I encourage you to scrutinize our performance and am sure that our results will speak for themselves, so I won't discuss specific goals and targets here. Those are publicly available in our stand-alone sustainability report (to be released shortly), press releases, and analyst briefings. What I want to focus on is the reason behind our renewed emphasis on sustainability.

Ronnie has remarked to me that in some respects, the world is now a place that he almost no longer recognizes, and that things are happening that he can't fully interpret or explain. I am in the same boat, though I have experienced and seen less than he has. Thinking about these changes, however, the one clear signal that I take away is that businesses must be more engaged with their communities and stakeholders, and that this engagement must be transparent and accessible.

Stakeholders are no longer satisfied with businesses whose only sustainable returns are financial, received through normal business operations and/or dividends. Businesses now need to prove that they are contributing meaningfully and appropriately to relevant Environmental, Social, and Governance (ESG) issues, lest they be shunned by consumers, investors, employees, or governments.

Furthermore, in a world where existing systems and structures are strained or unable to cope with modern ways of life (from the impact of technology to our burden on the environment), people are increasingly taking matters into their own hands. They are doing this through direct action (e.g. volunteering at beach clean-ups), leveraging their power as consumers (e.g. choosing eco-friendly products), and also by leveraging their social media voices to evangelize or debate (e.g. sharing environmental best practices on Facebook or Clubhouse).

For companies that have traditionally cared only for bare-minimum legal compliance, this is a paradigm-shift to a market-led form of corporate responsibility. For us, though, it means speaking more loudly about the values that we have always espoused, engaging our stakeholders more frequently, revisiting and refining our operations, and making sure that we execute well.

Technology

We have been looking seriously at technology (or what we currently consider “technology”) since at least my joining the Company in 2010. I am at the same time gratified and extremely anxious about the way things have developed since then. On one hand, our business has done well, and there have been no industry-revolutionizing technologies. On the other hand, I cannot help but worry that we may be approaching a Kodak moment.

Technology is catalyzing a polarization in the retail real estate market. Broadly speaking, the best malls will get better, and the rest will get worse. This is not a 50-50 scenario where half gets worse and the other half gets better, but more likely an 80-20 scenario, or perhaps even more extreme. This happens because

the worst retailers and least attractive malls will be jettisoned by customers in favor of a combination of the best malls and retailers, e-commerce, and alternate modes of entertainment (our primary retail customers are looking as much for entertainment as they are looking for consumption!). Working further in our favor is that top-end retail, and many of the experiences associated therewith, are not replicable online – at least, not yet. This dynamic feeds a self-perpetuating cycle: virtuous if you are at the top, or vicious if you are not.

Both Ronnie and I have explained at length the pivotal differences of our business from the vast majority of other mall owners, both in China and internationally. In short, our *truly* top locations, plus advantages in both hardware and software, result in tenants and customers accreting to our properties. This is what puts us in that minority group of beneficiaries. Those familiar with real estate and operations will note that none of our advantages is easily replicable. It is interesting to observe that, as with many industries, the Internet has facilitated a winner-takes-all (or, -most) market dynamic. I am cognizant that this may not be sustainable, so we must also be aware of how the dynamic may change in the future. I discuss the future of retail regularly with our tenants, digital competitors, end consumers, and other stakeholders, insights from which supplement and enrich our internal discussions.

These are complex topics that could easily be discussed at great length, but for the sake of brevity, I will leave my notes at this for now. Having repeatedly questioned my premises above, I am confident that the Company's prospects are bright, and hope that I have convinced you of the same. If you would like to discuss any of these, I would be happy to do so on one of our regular analysts' calls or non-deal roadshows; or, better yet, on the floor of our Annual General Meeting.

Adriel Chan

Vice Chair

Shanghai, January 28, 2021