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**Adriel Chan**  
Vice Chair



Thank you for your continued support of Hang Lung Group. In these tumultuous times, that is not to be taken for granted, and you can rest assured that management is working hard to ensure we have earned — and continue to earn — your trust and confidence.

2022 was another challenging year. However, it differed from the previous year in several ways. One of the key differences was the almost continuous unexpected closures of our projects across mainland China, which were followed by stunted restarts and further stops, driven mainly by government requirements and insufficient shop staffing due to spikes in COVID infection rates. The frequency and unpredictability of these closures made operations especially difficult to plan and manage.

Our business suffered sudden closures and reopenings that ultimately affected over 230 mall-weeks. (I define one "mall-week" as a week in which a mall or its stores were closed in one project. We have 10 operating mall projects, so our annual mall-weeks total 520: 10 malls multiplied by 52 weeks.) This is significantly more closures than we saw in the previous two years.

Similarly, our construction sites were impacted for more than 105 site-weeks (construction site work weeks) across our five projects in mainland China and two in Hong Kong. The primary reasons for this were COVID-related construction worker management issues and logistical delays (e.g., transporting materials or machinery to a site or an inability to move soil from a site). This disruption comprised 77 site-weeks in mainland China and 28 in Hong Kong. Thus far, the time impact on construction has been relatively manageable, but we will only know the true extent once we emerge from the pandemic.

If our mall and construction site closures had been predictable or forewarned, then management could have adapted our workforce and operations accordingly. However, the fact that they were unpredictable and differed from city to city meant that our teams had to be on high alert at all times and react swiftly to sudden changes. Needless to say, customer sentiment and traffic were significantly disrupted by this, which resulted in a dent in most same-store sales figures.

Suffice it to say, if our teams were not as agile, professional, or committed as they are, our mainland China operations would not have been able to eke out the 1% total growth (in RMB terms) that we recorded. Considering the magnitude of the disruptions last year, this outcome is as favorable as I believe any observer could have hoped for. Projecting into 2023, this sets us up for what should be a strong year, provided there are no major external shocks.

Despite these challenges, this past year was a rewarding one for not only our business but our sustainability endeavors. It gives me great pleasure to report on the groundbreaking sustainability agreement that Hang Lung and LVMH, the French luxury conglomerate, signed in October. At the signing event, Antoine Arnault and I shared the stage in front of several hundred colleagues and other stakeholders — live in Paris and live-streamed to Hong Kong, Shanghai, and other cities — to jointly and publicly commit our groups to specific, measurable, and time-bound sustainable practices in the malls and stores where we cooperate. This numbers nearly 100 individual LVMH shops across 27,000 square meters of our rented space in seven Chinese cities. These numbers are expected to grow in the coming months and years, naturally deepening our ties and impact. This collaboration and its targets address the most pressing sustainability issues of our time, including energy, waste, biodiversity, water, wellness, and more. Both our groups consider this so important that we have agreed to meaningful financial impacts if we fall short of predetermined targets, as well as the right to check in on one another.

This is the first time a partnership of this depth and breadth has been signed between a tenant and a landlord anywhere in the world. However, rather than keeping this effort exclusive, we have, in fact, explicitly stated that we would like to increase the scope of the partnership in due course: for Hang Lung, to our other leasing partners, and for LVMH, to their other landlord partners. One day, we could even expand the agreement to cover broader aspects of real estate and the built environment.

If what we have committed to was the full extent of our collaboration, it would already be unprecedented. However, we went even further. After signing the agreement, Hang Lung and LVMH jointly organized and hosted the inaugural Real Estate and Climate Forum (the Forum) — a two-day, international event both in-person and online, which brought together hundreds of internal and external stakeholders of both companies to discuss relevant sustainability topics and find implementable solutions to some of our shared challenges. The Forum took place in November, just one month after the signing of our agreement, and is intended to be a regular series of events, which, like the agreement, we hope will grow to include other partners, stakeholders, and industry bodies.



Besides the typical outcomes expected of an industry forum, Hang Lung and LVMH wanted a more concrete next step. As such, we took the recommendations from the Forum, combined them with key elements of our agreement, and will be issuing a Common Charter for sustainability in March 2023 outlining our commitments and actions. The hope is that this charter will set a new standard for cooperation between landlords and tenants and will be adopted by others regionally and perhaps even globally. I believe this is the type of broad – yet deep – and comprehensive partnership that businesses must embrace to truly move the needle on sustainability.

With the end of the pandemic in sight, there is a sense of urgency for us to pick up the pace. Despite having three surprisingly strong COVID years, there is no doubt that we are emerging into the next normal, for which our organization must be more resilient yet also more flexible. The past few years have made clear that we can no longer expect relatively easy growth and that the stability and prosperity enjoyed by my generation as the norm can no longer be taken for granted. There are shifts in the states of all three main economic resources – nature, people, and capital – which are coming to a head, for which we must be prepared. Yet, it is during such shifts that some of the most interesting opportunities arise, so we must also keep an open mind.

Finally, I extend my heartfelt thanks to all my colleagues. We have made it through yet another strange year, and because of your commitment and perseverance, we have thrived. You have worked harder than ever and skillfully managed unprecedented challenges at our sites. I also know that you will have likely faced many personal challenges as well. The year's results – including the LVMH partnership – would not have been possible without your dedication and genuine care for our work. I truly believe that what Hang Lung is doing – what *you* are doing – improves our communities and our sector, and that gives us all the more reason to continue doing it well.

**Adriel Chan**

*Vice Chair*

Hong Kong, January 31, 2023