

CHAIR'S LETTER TO SHAREHOLDERS

Dear Stakeholders,

Thank you for joining us for another half-year on our journey.

Between January and June 2025, we have seen clear signs of stabilization across our markets, with improvements in both retail sales and rentals, and even modest growth in May and June. This is a welcome salve after 2024's drop, which was our first mainland China rental decline after 24 continuous years of growth. The fact is, as early as the end of 2024, we felt the atmosphere in our malls improving, starting with foot traffic, although at the time it was not yet reflected in sales figures. It is, therefore, with some relief that I can report that sales and rental revenues are finally beginning to catch up.

While I hope that the market will continue to improve, I remain cautious. The team will have to work especially hard in the second half of the year to try to eke out some growth, and there are still multiple areas of concern. Much of what is reported in the media is, of course, exaggerated, but the overall trends they highlight are mostly true. Some concerns of particular interest to Hang Lung are the “involution”-driven price wars (which is extreme competition that covers more than just products and services, but also employment, schooling, manufacturing, and more), the continued property market slump, pressure on luxury sales, youth unemployment, and the broader risk of deflation.

These concerns are partially offset by the fact that Chinese households, on average, still maintain a relatively high level of wealth. Already-high savings rates have been significantly elevated for at least five years, driven in part by COVID and also as a way to prepare for a rainy day. As such, many families have even more cash to spend. There remains both a desire and the ability to spend, but not in the same ways as before. Spending patterns are shifting, which has created a “new consumption” paradigm in China, focusing on emotional value as well as financial value.

In addition to trades such as travel and hospitality, the three widely acknowledged champions of this new consumption wave are Laopu Gold (gold and gold jewelry), POP MART (collectible LABUBU toys), and Mixue (milk tea and ice cream). Their success has been extensively researched (some of the best write-ups are by the Baiguan newsletter, which you can find on Substack), and their outstanding performance in an otherwise weak market has made them instant case studies. As a landlord, we have introduced these brands to our malls when it was appropriate and complementary. We have actually been a landlord to POP MART since 2014, when they opened at Riverside 66 in Tianjin upon its launch. Because of the strength of our relationship and the standing of our malls, POP MART recently decided to open their inaugural jewelry store, named POPOP, at Grand Gateway 66 (“GG66”). At the opening, one of the co-founders even showed me a photo that he had taken with our Honorary Chair back in 2014!

What is important to note is that each of these brands has built its success almost exclusively through physical stores rather than e-commerce. Besides these three well-known champions, many brands are moving from online “pure play” into offline stores, driven by the significantly greater cost of acquiring new customers online (“CAC”), high rates of product returns — often well over 80% on fashion items — and squeezed margins due to competition and platform fees. In just six months, I have personally fielded no fewer than three prospective online-only brands that are urgently looking for offline locations. This proves that offline, in-person retail is as important and influential as ever. In such a polarized market, it underscores the need for Hang Lung to be one of the very top landlords in each of our cities — a feature that has always been a priority for us.

Another key development for Hang Lung is our updated strategy, which Weber (our CEO) and I call “Hang Lung V.3,” or “HL V.3” for short. You may think of “HL V.1” as our launch and early operations with diverse businesses in Hong Kong, and “HL V.2” as our expansion into mainland China, focusing on mixed-use development. HL V.3, our next phase, represents our renewed focus on strengthening our positions in the cities in which we already own assets, through management contracts, additional construction, and asset enhancements. Many observers would likely consider this an addition of “asset-light” projects to our portfolio, but I want to stress the difference in our case: these are *strategic reinvestments in existing assets* that improve scale, visibility, and accessibility, rather than simply hanging as many of our logos on other people’s assets as possible. We are not merely pursuing opportunities to increase our footprint and revenue; we are being highly selective in our choice of projects, all of which are either adjoining, within, or in extremely close proximity to our existing assets. In fact, in some cases, it is not asset “light” at all.

Since 1992, Hang Lung has been making large, asset-heavy greenfield investments in mainland China. By purchasing land, building assets, and managing those assets, we have ensured the capture of both operational returns and capital appreciation, while retaining maximum autonomy and flexibility. That strategy served us well for over 30 years, proven by 24 consecutive years of mainland Chinese rental revenue growth up until 2023. However, for many reasons, the time is now ripe for us to embrace a more asset-efficient approach, which means strengthening our existing positions with accretive, strategic retail management contracts in some markets, and doubling down with additional capital investment in others.

Looking at the four projects that we have undertaken or announced to date, I will explain how these types of extensions add outsized value to our existing assets.

Although we are only highlighting HL V.3 now, this has, in fact, been occurring gradually since 2017, when we agreed to take over space owned by our JV partner in GG66 in Shanghai. While planning the renovation of GG66, Hang Lung decided to rent the portion of the GG66 North Building owned by our JV partners. This was an elegant solution to facilitate our overall mall renovation and to consolidate our leasing and management activities. It also produced additional income in the form of better leasing rates and a seamless new image throughout the mall.

In 2023, we began planning our Plaza 66 Pavilion project in Shanghai, which is a new building in the north-west corner of the existing site and connects to the mall via a basement tunnel. Slated for completion in 2026, the Pavilion will expand our leasable area by over 13%, which was only made possible by the increased flexibility of the government as a direct result of the sluggish real estate market and slowing economy. Although this is a capital-intensive project, its manageable scale allows us to reinforce our dominant position in the market without significantly increasing our overheads. Basically, we can operate the additional space without incurring any extra costs. It is also worth noting that there is virtually no additional project or operational risk, given the stellar track record of Plaza 66. When combined with the increased defensibility that the Pavilion brings to the broader project, this is truly a “no-brainer” for management and investors alike.

Last year, we embarked on our first genuinely independent asset-light expansion project in Kunming, adjacent to Spring City 66. There, we rented a series of street shops directly across the road from our project, in order to upgrade the retail and street environments. This not only improved the attractiveness and cleanliness of our immediate surroundings, but has also yielded additional revenue and profitability — both directly from the operations, and indirectly from the enhanced appeal to consumers. Both geographically and commercially, this increases our mass and, therefore, our defensibility.

The latest planned project was announced in a public filing by our partner three weeks before the date of this letter: a partnership in Hangzhou between Hang Lung and the Baida Group, which owns the department store abutting Westlake 66. The addition of Baida's property makes us dramatically more competitive by improving three key metrics for Westlake 66, namely expanding our leasable floor area by approximately 40%, increasing our street frontage by over 200%, and enhancing customer connectivity — all of which will be achieved with only the slightest increase of expenditures. The expansion strengthens my confidence in our competitive position in Hangzhou's highly lucrative — and highly competitive — market.

When considered individually, none of these projects represents a particularly large investment. However, when taken together — and especially if we emulate these in the future — this marks a critical juncture in Hang Lung's strategy. We have evolved from making purely capital-intensive investments to building a diverse portfolio of both asset-heavy and asset-light projects across multiple cities. We expect these new projects to deliver substantial impact on our return on capital and return on assets over a much shorter time frame than our investors are used to, thanks to the relatively small amount of construction and renovations needed. I look forward to building this new revenue stream and sharing the rewards with you before long.

Adriel Chan

Chair

Hong Kong, July 30, 2025