

As you will see from this Interim Report, Hang Lung delivered another solid set of results for the first half of 2023. While the overall numbers were good, if we look more closely, the trajectory was one of plateauing. This trend, combined with a more conservative consumer sentiment, gives us pause, although we remain reasonably confident about the full year's prospects.

With the above in mind, I visited four cities in late July — Kunming, Shenyang, Dalian, and Shanghai — to try to get a more nuanced, on-the-ground sense of consumer sentiment on the Mainland.

As expected, what I *heard* from colleagues, friends, and customers was even more negative than what I heard after the 2012 crackdown on corruption and opulence. Across the board, consumers said they are more conservative in their outlook and are less willing to spend. This tallied with what we have also heard from Hong Kong. However, what I *saw* seemed to tell a different story: buzzing malls, packed flights, and full hotels — all things that appear to point to healthy economic activity.

I want to highlight a few specific examples of the feedback I received:

- Everyone said that they are holding back on large purchases such as cars and housing. However, at least one person said this is partly because the government has rolled back some of the big subsidies they had been offering to stimulate electric vehicle sales, causing end-customer prices to rise.
- When asked about clothing purchases, one white-collar respondent said that while they previously bought around three to four new pieces each season, they have now pared that back to two to three pieces. These are not luxury-brand items but mid-range, average brands. (It appears that luxury brands have not seen the same kind of taper.)
- On Internet shopping, another person (a senior employee for a multinational company's China operations) responded that they have shifted more of their spending to lower-end platforms such as Pinduoduo, from the relatively more full-priced Taobao (Alibaba) and JD.com. This was quite a commonly repeated phenomenon, although there may be a case to be made that Pinduoduo has simply done a better job of improving its products and services (e.g., dramatically improving its customer returns experience.)

On the other hand, these were some of the telling divergent observations:

- On eating/F&B, multiple upper-middle-class respondents said that they had not changed their restaurant eating habits at all. They still go to restaurants just as frequently and order the same food and wine. The explanation I received for this divergence from the change in shopping habits was that, “We have to eat anyway, and things aren’t that bad that we need to change how we eat.” This one statement gave me a little bit of (cold) comfort and helped shed more light on just where sentiment stands.
- The resilience of travel was something I managed to experience first-hand. On three of my four flights, business class was full, and economy was either full or nearly full. (I know because I was unable to secure a business class seat on those three flights!)
- Hotels are also doing well, not only in tourist hot spots like Shanghai and Chengdu but even in Shenyang and Dalian. As our Chair alluded to, our Conrad Hotel in Shenyang has been doing strong business, and in July, there were three nights of 100% occupancy, including the presidential suite, with no “comped” (complimentary) rooms! Considering we are the most expensive hotel in Shenyang, as well as the most highly rated Conrad in the country, this further reinforces the relative resilience of high-end consumers.
- Our shopping malls were absolutely bustling. Both foot traffic and sales were strong, which contributed to an energetic atmosphere. Unfortunately, the same cannot be said for some of our competitors. Especially in second-tier cities, a number of mass-market malls were really suffering. In the most extreme example, I walked through six stories of a new competitor mall and saw only five other customers. Although this speaks to our strong ability to attract customers, it does not bode well for non-luxury malls across the country.

So, how is this discrepancy explained? Broadly speaking, most consumers do not have materially reduced spending power, so they can still spend when and where they choose. It's more that they lack confidence in the broader economy, so they choose to spend more selectively. There have not been mass layoffs, nor have there been significant income reductions. Considering the scale of savings and balance sheet wealth that most urban Chinese have already amassed, potential short-term impacts on their disposable income will hopefully be minimal. Therefore, their spending adjustments are primarily a reaction to lower confidence levels rather than a lower spending ability. Of course, this is painful for some vendors — mainly mass and lower-end retailers — but it does not spell the end of Chinese retail, and especially not high-end retail. The question is, from here, in which direction will the economy go?

I believe there is still the opportunity for the government to stem falling sentiment. However, it will take more than the announcement of new policy measures — in order to rebuild confidence, consumers are keenly watching how the government makes good on any announcements.

As an operator of high-end malls and offices in mainland China — a scarce and unique product — rather than a developer of mass residential or commoditized offices, we are subject to a slightly modified set of challenges compared to our peers. Our customers are more affluent and less cost-conscious, and are less likely to have suffered catastrophic financial losses over the past several years and in the years to come. Whatever the scenario, I think it is a reasonable expectation that Hang Lung continues to outperform the broader industry.

Adriel Chan

Vice Chair

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