RESULTS AND DIVIDEND

Compared to the last corresponding period, revenue advanced 19% to HK$4,975 million for the six months ended June 30, 2021, in the absence of property sale income. Net profit attributable to shareholders was HK$2,235 million (2020: loss of HK$2,537 million). The corresponding earnings per share was HK50 cents.

Underlying net profit attributable to shareholders climbed 11% to HK$2,200 million when excluding property revaluation gain and all related effects. Earnings per share rose similarly to HK49 cents.

The Board has declared an interim dividend of HK18 cents per share payable on September 29, 2021 to shareholders of record on September 15, 2021. It represents an increase of HK1 cent. The last time that Hang Lung Properties raised interim dividend was in 2010.

BUSINESS REVIEW

Mainland investment properties now account for two-thirds of total rental revenue. There is a good reason for this, and a not-so-good one. The good reason is that our commercial complexes up north are all performing well, some very well. The not-so-good reason is that Hong Kong is still a drag, although indications are that the worst may be behind us. Business activities locally are picking up, albeit slowly.

Compared to the year before, tenant sales have soared in our Mainland luxury malls and have greatly improved in the sub-luxury ones. They rose, respectively, 122% and 56%. However, the first half of 2020 was abnormal because COVID-19 struck during the last few days of January, and its effects on consumption lasted until sometime in April 2020. As such, it is more meaningful to compare the half year under review to the same period of 2019. In that case, on a like-for-like basis, our top-end shopping centers did 137% more business this year. For our other properties, sales were up 6%.

A very pleasant event in the past six months was the inauguration of Heartland 66 in Wuhan on March 25. The 460,000-square-meter luxury complex was so named because Wuhan is in many ways truly at the heart or center of the country. It is where China's longest river, the Yangtze River (or Chang Jiang), meets a main north-south thoroughfare. Traditionally, it has been a major transportation hub, even to this day. The city is big with a population of over 11 million. Historically, it was one of the first inland cities to open to foreign trade and foreigners. It has always been an industrial town with many significant universities. Its stature in China is in many ways similar to Chicago in the U.S.

The location of Heartland 66 within the city of Wuhan is superb, and the site is very big. All the high-end shopping facilities are within two blocks from us. Our mall spans 177,000 square meters and houses basically all the world's top luxury brands. Most of them have migrated from elsewhere in the city, while others are new to the city. The near 150,000-square-meter office skyscraper was opened four months earlier in November 2020 and is already one-third occupied. The 130,000 square meters of serviced apartments will be ready for sale in the first half of next year. We have a total of 2,800 car parking spaces, which is, by far, more than any development in the neighborhood.

The initial performance of the mall has been very encouraging. As my readers know, Spring City 66 in Kunming opened 19 months earlier (in August 2019) and has been a huge success. Its retail space is about 6% smaller than Heartland 66 in Wuhan, but the two have the same market positioning —— both can be crowned as the top luxury mall in their respective cities. Judging from the results of Heartland 66 so far, it is running ahead of Spring City 66 for the same period. We anticipate the same for the office towers.

In terms of tenant sales, Spring City 66 is already the second highest in our portfolio outside Shanghai, next only to Center 66 in Wuxi. It should continue to trade well in the long term since it occupies a position of the undisputed market leadership. However, it will not surprise me if Heartland 66 in Wuhan surpasses it for the following reasons. Heartland 66 is a slightly larger facility; Wuhan is a bigger city in terms of population and economy compared to Kunming, and its citizens on average have higher consumption power. The only moderating factor is that, in terms of market dominance, Spring City 66 is stronger, i.e., it has less competition. It is probably too early to tell, since Heartland 66 is only four months old, but I believe that for now it has the potential to be the highest, or at least one of the highest, grossing malls we have outside Shanghai.

Although relatively small at about 120,000 square meters, the mall at Center 66 in Wuxi now has the highest tenant sales of all properties outside Shanghai. Momentum is still strong. The main part of the city only has about four million people, but it ranks among the top two or three in the country in terms of per capita wealth. For centuries, the residents in Wuxi have been known for being well-educated and highly entrepreneurial. Today, many manufacturing concerns that dot the region are among the best and the biggest in the world, in whatever niche they play. Traditionally, Wuxi people are among the most cultured in the country, which is reflected in their sophistication and refined tastes today. All these contribute to powerful sales at the city's number one luxury mall. I wonder how far consumption can grow, but for at least the next few years, I expect our rental to rise nicely.

The two office towers at Center 66 in Wuxi are leasing well with a combined occupancy of 84% —— 90% for the older and slightly bigger, and 74% for the other. Our tenants are among the most prestigious business names.

The two residential towers are now under construction. We plan to presell the serviced apartments in 2022 and have them ready for occupancy in 2024. We have also signed up a top international brand to manage our boutique hotel. Once all parts are completed, the complex will be most pleasing to all —— to us, financially, to our clients, and to the citizens of Wuxi, culturally. It is a gem in the very center of this lovely and thriving city.

The mall at Forum 66 in Shenyang is slowly improving. The high-rise office tower is fully occupied and its domestic and international tenants form an impressive list. It reflects China's economic significance in the world. Our Conrad Shenyang hotel is trading well, and is the go-to place for business leaders, opinion leaders, and the wealthy, alike. They come not only from the city but all around the region.

In a few short months, all the world-class luxury brands that have signed leases at Olympia 66 in Dalian will have opened for business. This is why we have internally reclassified the mall as luxury. (As a result, we will only have three in the sub-luxury malls category in our portfolio of ten retail properties.) Phase two, which accounts for some 13% of total space, is just having shops open as I write. The tunnel that links our property to the subway station was inaugurated three months ago. All these point towards a rise in tenant sales beginning at the end of this year. The growth curve next year may be quite steep, the rate of which may be among the highest in our portfolio. Rent rises will follow.

To round out our luxury malls, the two in Shanghai, Plaza 66 and Grand Gateway 66, seem for now unstoppable. Compared to the year before, tenant sales more than doubled, yet this pales beside our other five-star facilities —— Spring City 66 in Kunming more than tripled at 232%, and Center 66 in Wuxi almost tripled at 190%. Given market abnormality in the first half of 2020, we compare the last six months with the second half of last year. Most of our luxury malls grew by double digits, led by Center 66 in Wuxi at 33%, Olympia 66 in Dalian at 25% and Spring City 66 in Kunming at 19%. Only Plaza 66 in Shanghai and Forum 66 in Shenyang were in the single-digit territory. As suggested in my last letter, Grand Gateway 66, which saw the completion of its Asset Enhancement Initiative (AEI) only in November 2020, outperformed Plaza 66. It rose by 16%. In the coming six to 12 months, I will not be surprised if the trend continues.

Because sales figures are those of our tenants and not shown in our financial reporting, I have highlighted them above. To be sure, sustainably more sales will sooner or later translate to higher rents. Presently at relatively high turnover rent levels in most of our properties compared to the past, base rent can be expected to rise at the next lease renewal. (Over the years and with few exceptions, our malls have primarily relied on fixed base rent, a practice which we will strive to continue.)

Another way of anticipating future rental levels is to look at the occupancy cost to our tenants. In general, luxury shops with much richer profit margins should be able to bear a higher occupancy cost. At present, our malls are low compared to history. There is room for them to rise through rent increases.

Our three sub-luxury malls are faring acceptably. As a group, tenant sales rose 56% over the same period of 2020 and 3% over the previous six months. The AEI at Parc 66 in Jinan began last month and will take two to three years to complete. Disruption to tenants will be kept to a minimum, but rents will inevitably be somewhat affected. The good news is that several luxury brands have already signed leases and will start moving in two years from now. This ushers in a gradual transformation of the facility to luxury status, which will take several years to complete.

Contributing to the recent successes of our Mainland malls was the nationwide CRM (or Customer Relationship Management) program known as HOUSE 66. It was initiated by our former CEO, Mr. Philip Chen, but taken to today's heights by our current CEO, Mr. Weber Lo. By last year, we had completed the rollout to all our facilities, and by the time we met with the press and analysts to discuss our results in early July 2021, we had already surpassed the one-million-users mark. Heartland 66 in Wuhan was the first of our shopping centers that was inaugurated with it, and it has greatly lifted the stickiness of our most valuable customers. Our reward is their loyalty, resulting in sustained increases in tenant sales. Shoppers are happy, our tenants are happy, and so are we.

All our Mainland offices are doing well. In spite of oversupply everywhere, our two older properties, namely Plaza 66 in Shanghai and Forum 66 in Shenyang —— saw occupancy between 95% and 97%. Even the newer facilities are filling up. As reported earlier, the two towers in Center 66 in Wuxi are, respectively, at 90% and 74%, the newer building being 22 months old. Spring City 66 in Kunming, which also opened in August 2019, just crossed the halfway mark, while Heartland 66 in Wuhan is one-third occupied after less than eight months in operation.

One reason for the satisfactory result is the inauguration in mid-2020 of our own brand of multi-functional workspace called HANGOUT. Our other new product of modular offices was launched at the same time and has also proven popular. The two help to fill up our new office buildings faster, and they also command higher rents than the conventional leases. Innovation in business models can be lucrative. The first HANGOUT is located in Center 66 in Wuxi, while modular offices have been installed in Spring City 66 in Kunming and Heartland 66 in Wuhan. As appropriate, we will do more.

Westlake 66 in Hangzhou is proceeding as planned. We are already in serious discussions with many top luxury brands regarding shop layout and eventually lease contracts, even though the mall (and some office towers) are not expected to top out until the end of 2024 at the earliest. Four months ago, we signed a management agreement with Mandarin Oriental, which is one of the world's most prestigious hotel brands. Its truly five-star status will complement the top luxury fashion names that are expected to be our mall tenants.

Just as critical is the overall design of the entire complex which entails a mall, a hotel, and five mid-rise office towers. (They are mid-rise because of height restrictions, given the proximity to the undisputedly most scenic in-city lake in China —— the West Lake. The tallest of the five is 150 meters, with a commanding view of West Lake.) All building structures are put in a garden setting that juxtaposes in perfect harmony modern architecture with several old buildings preserved within. The development sits right next to Wulin Square, which is the city center. In some ways, we are redefining the traditional downtown of this most beautiful of all Chinese cities. It also happens to be economically a near tier-one municipality.

Six months ago, I invited our newly appointed Vice Chair, Adriel, to start offering his thoughts to shareholders. He wrote the inaugural *Vice Chair's Notes* on three topics: (1) Our Vision, Mission, and Values (or VMV), (2) sustainability, and (3) technology. Given the renewed VMV, it is perhaps appropriate that we should adjust our English motto from **We Do It Right** to **We Do It Well**. The Chinese version, which is richer in meaning, remains unchanged. It encompasses the dual meaning of **We Do It Well** and **We Do It Right**. As explained in my interim *Letter to Shareholders* of 2020, the former is a matter of quality in decision and execution, whereas the latter implies strongly ethical behavior. To make it succinct in the English language, we only use the latter. This "rightness" is clearly included in the first of four focuses of the "Value" part of our Vision, Mission and Values —— integrity. It is also something that is already in the genes of our corporate culture, an emphasis that dates back to our founding 61 years ago. As such, it seems reasonable to now emphasize another focus of the fourfold value, that of excellence, hence **We Do It Well**.

This is also an opportune time to refresh our corporate image. The logo for the "66" brand used on the Mainland has been redesigned. I hope you like it. There is much brand equity associated with the name all over the country. On the Mainland, we have adopted the simplified Chinese characters used there. This way, we identify more closely with the local communities where the majority of our customers live.

Due to the pandemic, nowadays Hong Kong residents cannot enter the Mainland without 14 or 21 days of quarantine, depending on the destination. This effectively cuts off most business travel. Whereas before COVID-19, I traveled north every month, my last visit was December 2019 which was 19 months ago! After returning in May from four months on the Mainland and visiting 20 cities, what Adriel described to me seemed to be a new land that I have never visited. Apparently, social and not just economic advancements have been brisk. (Adriel has informed me that among other topics, he would share with our shareholders his observations from his latest trip in his second *Vice Chair's Notes*. It comes out concurrently with this letter.) If anything, his experience has strengthened the resolve of management to pursue the Mainland market with renewed vigor.

Hong Kong rental remains weak although indications are that the worst for retail space should be over. The same is true for offices. Any recovery, however, may be slow.

Four weeks after my last *Letter to Shareholders* dated January 28, and before the Annual Report 2020 went to print, the hiccup in the closing of the tender we won last September for the Shouson Hill site was satisfactorily resolved. As a result, we published an addendum to that effect on February 25.

Planning is ongoing for five or six sizable stand-alone houses, each with a private garden and a swimming pool. I expect the final product to be more luxurious than any that we have developed so far. Especially given the superb location and ocean view, interest in such houses has been keen. But for now, we will make sure that the development is well-designed, well-constructed, and executed expeditiously.

We continue to receive inquiries for our development on Blue Pool Road. Last month, we sold one house whose transaction is expected to close in the first quarter of 2022. As such, profit therefrom will not be reflected in this year's accounts. Suffice it to say that the price received was rather satisfactory.

All constructions on the Mainland and in Hong Kong are basically on schedule. The Company remains comfortably geared. Net debt to equity is below 25%.

Preparations are being made to sell all our Mainland serviced apartments outside Shanghai. This may be a good time to say a word about the Chinese housing market. This is a topic asked of me often by shareholders and non-shareholders alike and is closely related to our business.

A few years ago, I publicly stated that the golden era of Mainland housing market was over. Demand will always exist but the way the market, and so market participants, behave will be different from before. What is amazing is that humankind has seldom seen an industry so big and essential to society expanded so quickly and now wane so fast. The industry began less than 30 years ago when the Central Government privatized housing. Before the early 1990's, I could hardly use the words "housing market" for there was none. Everything was owned by the State.

Given societal need, the entrepreneurship of the Chinese people and the then irregularities of the economy, the industry exploded. For all practical purposes, for the first time in 50-60 years, city dwellers could buy their own lodging. This was a new phenomenon yet an ancient tradition because of the importance of family and home in Chinese culture. As the salaries of average citizens rose along with overall economic growth, demand took off. And where there is demand, supply will follow to the extent feasible.

Hundreds of real estate developers popped up and some became extraordinarily large. They are, in fact, among the biggest in the world in terms of number of apartments constructed and sold annually. Yet, almost all of them were founded in the early to mid-1990's. In other words, in about 20 years, they achieved the top few spots globally in size. This is not unusual for technology companies but not for supposedly asset-heavy industries like homebuilders. The only reason is the size of the Chinese market and the relaxed regulatory environment of the time.

The by-product of this phenomenon, and some would say the cause of it, is a group of dynamic and risk-taking entrepreneurs of various backgrounds. They rose to prominence and rank among the wealthiest in the world once their companies were publicly listed. Because we are more or less in the same business, I have met most of the big players. Obviously, they each have their own distinct abilities that contribute to their amazing success.

The game they played in the past decades was definitely not for the faint-hearted. It was primarily a contest of size and speed. In today's high-tech sector, some companies can keep growing bigger and bigger but never make a profit. They talk about the burn rate (how much money they have to spend annually to pursue a dream) and not financial returns. So, among the Chinese homebuilders of the past two to three decades, some cared only for the size of their land bank and the number of units or square meters constructed, but much less for profitability. After all, until recently, they could somehow borrow money from banks, raise equities, and even issue bonds. The sustainability of their business model was of little concern to them. They seemed to be only fixated on beating the next person in numbers. It became almost irrational to us observers.

The more sensible among those developers were definitely the state-owned enterprises (SOEs). Their CEOs have real bosses —— government agencies that own those SOEs. By contrast, private developers, although publicly listed, hardly have any effective supervision over them. Shareholders can only vote with their feet —— sell the stocks if they are unhappy. So, the wild game continued, which could not have a good ending. I publicly warned them, but few would listen.

As predicted, a few years ago, the more audacious of the bunch started to have financial difficulties. Some of them began to diversify into many fields from selling bottled drinks to manufacturing steel and, more recently, electric vehicles. These are bad omens for the industry. If the real estate model which is supposed to be lucrative —— and it was for about two decades —— could continue, why diversify into completely unrelated industries? The only explanation is that their risky homebuilding game could not continue indefinitely. In other words, their business model is not sustainable.

There is another layer of complication. Housing is critical to the stability of any society and its economy. The dollar amount involved is big —— very big. As such, every national government watches this industry carefully. Given the Chinese history of the past decades, it is especially sensitive. Consequently, Beijing interferes regularly. This is certainly understandable, although the means employed often surprise people.

(For a discussion on the subject, I refer my readers to my 2019 year-end *Letter to Shareholders* of our controlling shareholder of Hang Lung Group. Another writing, including my analysis on why in the past almost 30 years, powerful Hong Kong developers did not and could not succeed in that sector, can be found in my annual *Letter to Shareholders* of 2004-2005. At that time, the fiscal year-end was June 30.)

What will happen to this sector? It will always be there, as there is a genuine social need for mass housing. However, profit margins will be greatly squeezed which means that the risks will seriously increase. It has actually started already. Developers will continue to chase numbers, i.e., to become bigger, for that is the only way to make more money given thin margins. In the process, some will be allowed to go bankrupt. The sector will further consolidate into fewer big players until the government steps in to rightly break up near monopolistic situations. We will unlikely see the same excesses of the past two decades. The “golden era” came and went, in lightning speed.

Our residential units on the Mainland are all serviced apartments that are part of a huge commercial complex. They sit on top of or right next to a mall, one or more office towers, and possibly a hotel. As a result, we are differently categorized by the government and so are not subjected to the same rules as regular housing. There are advantages and disadvantages, but on balance, we are pleased with what we have. We only participate in the luxury end of the market which has different dynamics from mass housing. We expect to make reasonable profits in all four projects of Heartland 66 in Wuhan, Center 66 in Wuxi, Spring City 66 in Kunming, and Forum 66 in Shenyang.

More significantly, our overall business of focusing on rental of commercial space is much more sustainable than the homebuilding craze of the past almost 30 years. It is much less regulated by the government, if at all, for we do not affect the fundamental needs of society like basic housing.

Frankly, we somewhat foresaw this critical difference in the early 1990’s. Our first project on the Mainland, around the same time as Grand Gateway 66, was actually a stand-alone high-rise apartment block also in Shanghai. It was a typical residential development for sale to the masses. Comparing it and Grand Gateway 66, we decided to get out of the mass homebuilding business in the mid-1990’s and focused instead on high-end commercial complexes for rent. With hindsight, it was a correct decision.

PROSPECTS

As in the past two years, upcoming challenges will primarily emanate from external factors. Of the three recent troubles, the Hong Kong riots are now behind us. The National Security Law (NSL) enacted 13 months ago and the subsequent amendments to the electoral rules have effectively restored peace. The question now is how to rebuild society. The most critical factor to watch is who will be our city's next Chief Executive come July 1, 2022. We should know latest by next spring. This is a critical time for Hong Kong, and this person will set the course of our future beyond his or her five-year term.

Our second challenge is still COVID-19. I fear that humankind will have to live with it for a lot longer than people had hoped. Because many Hong Kong citizens are hesitant to get the vaccine, even though it is readily accessible and free, this hampers the efforts to reopen the border. This is very damaging to our economy. Look at nearby Macau, the other Special Administrative Region (SAR) like us. Because they have managed the pandemic better, there are much less travel barriers between them and the Mainland. Consequently, they are benefiting from the thriving economy of the Motherland.

What remains is the last of the three major external challenges —— deteriorating China-U.S. relations. To me, this is the one area which may, for better or worse, affect our business the most and possibly for a very long time. Since I have previously written on the subject, I will not belabor it here.

Suffice it to say that, short of a direct military conflict with the U.S., China should be able to continue to grow economically as she becomes more international in her outlook and in her commercial activities. Being the only major country on earth of size which is economically capable of self-sustaining, America will also move forward, although she may no longer be as global as she once was. In both countries, I believe that there will be many opportunities for business, especially those that are domestically oriented.

For Hang Lung, our primary business is in mainland China and is basically of a domestic nature. We rely on local consumption. In fact, I believe that the niche in which we play is one of the sweet spots in the country. If we execute well, our future should be bright, as long as there is a relatively peaceful environment.

Let me now turn to a few salient issues on our home base, Hong Kong. As I had previously written, the riots of 2019 have seriously damaged our city's economic prosperity. The good old days are not to return anytime soon. Mainland citizens whose consumption was a major source of our wealth have completely altered their previously favorable views of our city. Beijing's attitude towards us has also fundamentally changed. Bending over backwards for 20-some years to please us has left them disappointed. This SAR had become chaotic and frankly ungovernable. Beijing was forced to use the only measure that could restore order and stability. It began with the NSL. Fortunately, it worked. Peace has been restored but the economy has been irreparably damaged. We need to look for new impetus for growth.

In the near future, Hong Kong will have to rely heavily on its one remaining key industry —— financial services. It produces a disproportionate amount of GDP, but its direct job-creating capacity is limited. Nevertheless, it has many ripple effects on the economy and creates jobs indirectly. As such, it is critical that we do our best to keep our status as an international financial center. The one big unknown is that the U.S. will surely try to derail us.

Closer to Hang Lung is another local industry that is also significant to our economy, that of real estate, especially residential. Hang Lung started over 60 years ago as a home developer in Hong Kong, and we still build them when attractive opportunities present themselves. However, this is no longer our primary business. We have not bought land for mass residential developments for about two decades. Today, we only participate in the luxury housing sector as evidenced by our purchase of the Shouson Hill site less than a year ago.

Nevertheless, mass residential is a very important part of our economy and society. It will in turn affect our commercial rental operations. Frankly, it is a subject that evokes emotional responses from many locals. A number of our international shareholders have also enquired about my opinion. As such, I should briefly comment.

At the heart of the problem of high residential prices is land shortage. Six months ago, I presented the reasons for the undersupply. Here I will expand a little. To refresh my readers' memories, I stated that all major efforts of the government to sell land after 1997 were blocked by opposition legislators, namely, the so-called pro-democrats. Their publicly stated goal was to first bring down the Hong Kong government, followed by their dream of a regime change in Beijing, something that they absolutely could not have attempted without massive foreign aid, financial or otherwise. The opposers had publicly stated these intentions of theirs.

Knowing how sensitive housing was to the local populace, the opposition's tactic was simple. Yet, how few have publicly explained it. Namely, they thwarted all government land sales efforts including any related legislation. Examples include landfill projects, new town developments, rezoning efforts, etc. With pitifully little land supply, residential prices soared. They blamed the government for incompetence and hence it must be brought down. They wanted to run Hong Kong not as a part of China. At issue was not economics; it was politics.

What is unfortunate is that such a populist narrative has been bought —— hook, line, and sinker —— by our community. We know that everywhere, East and West, few people truly exercise independent thinking. Consequently, the populace is easily swayed by ill-intentioned populist press and loud social voices. Thus, on the issue of Hong Kong land supply, not only taxi drivers and waiters condemned the government, even highly educated citizens believed the same.

Here is an anecdote. Earlier this year I was at the home of a local friend who graduated from one of the top American universities. He is in the manufacturing business and is also a financial investor. Also present were a university president, a renowned economist, a high-tech entrepreneur, and a senior government official. I purposely posed the question to all: who must bear the primary responsibility for our city's shortage of land? All but the civil servant who kept silent said, "Of course, it is the government!" I then proceeded to explain why that was not the case. Upon finishing, there was dead silence. No one could dispute my arguments that it was the opposition politicians who were the primary culprits for our land shortage. Let me further explain.

First, did government officials have a motive not to sell land? Of course not! By not selling, they would become a public enemy. No one in his or her right mind would want that for himself or herself. If so, then the only other possible explanation was the incompetence of such officials. But that too could not be true. Almost all of our government leaders are graduates of top local universities. Those are institutions that I could only have dreamed of attending as a young man.

Consider, also, the fact that shortly after Hong Kong's first Chief Executive (CE) Mr. C.H. Tung announced his plans in 1997 to provide 85,000 units per year for multiple years, the then Financial Secretary (later our second CE) Mr. Donald Tsang soon identified sufficient land for 10 years of housing supply at that level. Unfortunately, the Asian Financial Crisis struck on July 2, 1997, and the plan was inevitably scrapped. But the land did not disappear. Much of that remain available today.

So why did successive administrations not sell land? This is because of the opposition in the Legislative Council (LegCo) that obstructed any land sales. This was critical to their political game plan as spelled out earlier. Whenever government officials brought land matters to the legislature, the opposition blocked them. In fact, they verbally abused our civil servants regularly. Being normal human beings like you and me, those officials dreaded their sessions in LegCo. Who could blame them?

This way, the opposition won: land prices soared, housing became super expensive and unaffordable, our citizens complained, and those opposition legislators criticized the government for incompetence, exclaiming that the government must be thrown out. Once the populace bought into this narrative, then opposition leaders were reelected with ease. The fact of the matter is: they were the offenders. These perpetrators created havoc, blamed their targeted “enemy” (the government), and then led the public to “execute” the wrongly accused. They may have eventually succeeded, if not for the NSL.

To further strengthen my case: our third CE Mr. C.Y. Leung (from 2012 to 2017) is a chartered surveyor by profession and is recognized as a top expert in the industry. In the 1980’s, he personally penned the first land sales contracts in Shenzhen and Shanghai. He is a socially minded individual who seeks for a more egalitarian society. He surely had the ability as well as the motivation to sell land. Yet try as he did, he could not for the five years as the head of the SAR government. By then, the political environment in Hong Kong had already been totally poisoned by the opposition.

Whatever anyone thinks about the present CE Mrs. Carrie Lam, she, too, is socially minded, and was for many years our Secretary for Development in charge of land and housing. Although knowledgeable and willing, she also failed to sell land, again blocked by those politicians. As a result, our housing remains one of the most expensive in the world. The underlying reason is political, not economic.

So, what will housing prices be like moving forward? Given the NSL and a new electoral regime, unconscionable behavior in LegCo with devious motives should be kept in check. I am hopeful that in the future, we will be able to steer clear of factional infighting. If all these could be worked out, then land supply in the coming years should increase. Land costs will moderate, as will residential prices.

Given strong demand, I am not worried about a market collapse. There is little incentive for anyone to want that. After all, about half of our citizens already own a lodging. They would certainly like to see the value of their biggest investment be maintained. As such, I am rather sanguine about the industry.

That said, it will take a lot more for our overall economy to resume healthy growth. As I have repeatedly stated in public, it must be more integrated with that of the Mainland. In particular, our future lies with the Greater Bay Area, or GBA, given the determination of the central government to develop it. With a population of well over 80 million, the GBA includes Hong Kong, Shenzhen, and Guangzhou, three big and very important cities. Accounting for about 6% of the country's population, it produces 12% of its economic output. With a GDP of almost US$1.7 trillion, it is the world's 12^{th} largest economy. In terms of growth rate, it must be twice the world's average. Hong Kong would be unwise not to take advantage of this opportunity.

However, there are two daunting challenges that my city need to overcome. Overcoming them is not impossible, but it will take determination and leadership.

In Hong Kong, the primary dialect is Cantonese, but very few of the rest of the 1.4 billion Chinese use it. They speak Putonghua which is very different in pronunciation. People who speak only either cannot understand each other. Yet, without a common spoken language, the social and economic integration of Hong Kong with the rest of the GBA, and indeed with the rest of the country, will be, in my opinion, very difficult. It is not easy to find many successful cases elsewhere in the world where two groups speaking two mutually unrecognizable dialects can work together well, let alone seamlessly. In economic parlance, we have to minimize friction to gain efficiency.

One encouraging fact is that over the past two decades or so, almost all Hong Kong children are taught Putonghua at school as a subject. They can manage but how fluent they are is questionable. For our economic good, I have advocated its adoption in our local schools —— kindergarten, primary schools, and middle schools —— as the primary teaching medium. Being a very expressive spoken dialect, Cantonese, like any other dialect, should be preserved. However, it should be mainly used colloquially at home or on the streets. All official or semi-official discussions, including those for business, should be held in Putonghua.

There is a second reason to use Putonghua. This relates to the other challenge that must be overcome if Hong Kong were to be integrated, economically and otherwise, into the rest of China, including the GBA. Namely, whereas this former colony has legally returned to her Motherland on July 1, 1997, the hearts of many of our citizens have not. Key to this is the issue of national identity, including cultural identity. These must be adequately addressed. Speaking a dialect different from that on the Mainland will make it doubly difficult.

All this leads me to a simple but critical business decision: given the uncertainty that our city faces, we should not be blindly optimistic about our near- to medium-term social and economic future. It is wise to be cautious at this time.

Before sharing my assessments on Hang Lung's near-term performance, I would like to mention one other challenge. Although not as urgent as the U.S.-China divide, it is nevertheless extremely important: climate change.

Some six years ago, I was invited to address a group of graduate students at a top American university. I presented eight issues that will each cause detriment to a swath of humanity. For sure they will all happen, but I do not know their order of appearance. We can do something to mitigate the risk of some but not others. In the latter category, humankind is helpless.

The first three issues —— natural catastrophes, man-made global warming, and pandemic —— are all directly or indirectly related to climate change. (Pandemics are a subject that we now personally experience yet scientifically we know so little.) Of late, calamities relating thereto have befallen humankind in many parts of the world. Floods, draughts, forest fires, extreme climates, and accentuated weather patterns are but a few of the manifestations. I fear that they will directly impact many businesses, and none of us can escape them. Vengeance has caught up with humankind for all that we have done to the planet. Nature is no longer respecting us, because we did not respect nature.

This is why your Company pays great attention to sustainability. I doubt if all of us working together can completely avert disasters. But if we do not at least try, then payback time will come even earlier, and with greater force. Frankly, we have no choice but to act decisively.

Let me finally turn to our Company's likely performance in the near future. In Hong Kong, domestic consumption reached its peak in 2018. It will unlikely be surpassed for a long time. As a result, retail rental does not have a bright future, and overall commercial rent levels will have to adjust downward.

Our office market will depend, to a good extent, on the financial services industry as indicated earlier. Although recent rents seem to have firmed, the market may not become vibrant anytime soon. The overall economy will unlikely be strong in the next few years, yet a new supply of Class A space in Central in the coming two to three years will be more than what Hong Kong has seen in a very long time.

The only attractive market is in the residential sector. Mass housing should be acceptable, but we will only participate when we deem the timing auspicious. The last such opportunity was in 2001, exactly 20 years ago, when we bought several pieces of land on the cheap, including that for The HarbourSide. Otherwise, we will go for luxury houses such as the Shouson Hill site that we recently bought. But to be frank, such opportunities are limited.

For the past 30 years, we have increasingly cast our lot with the Mainland market. That strategy seems more attractive today than ever. Barring unforeseen circumstances, we should perform well in the coming few years, especially in luxury malls. The sub-luxury ones should do acceptably but not great.

Since the second half of any calendar year usually has stronger consumption than the first, our Mainland malls should continue to perform well in the rest of the year. Office leasing is anticipated to progress similar to the first half of the year. Hong Kong rental is expected to slowly recover, thus lessening the drag on overall results for the full year. The overall rental picture is thus quite encouraging.

As reported, the house on Blue Pool Road that was sold last month is expected to close early next year. We will do our best to part with the remaining units whenever the offer price meets with our approval. As before, we are not under pressure to sell, and so will try to maximize profit.

Residential sales on the Mainland will not begin in earnest until next year. Profits therefrom will start to appear in 2023 and should last for several years.

All construction projects should proceed full steam ahead. The commercial complex Westlake 66 being built in Hangzhou is particularly significant to our continued growth. As well, we are always searching for new land to buy in new metropolises as well as in cities where we already have a presence. Our business model dictates that we can sustain our growth momentum as long as we succeed to buy a nice big piece of land every few years.

We live in a troubled world. The two best places to invest in the coming decade are, I believe, China and the U.S. Both have huge domestic markets. While the latter is highly developed and sophisticated, the former is still at a relatively early stage of economic and social development. I always believe that it is easier to make money in real estate in developing economies, for faster growth lifts all boats. What is required in such fast-evolving markets is a stable environment that is relatively corruption-free. At present, China appears to be at that sweet spot. There are many fast-growing business opportunities of which luxury mall ownership is one. The chances are fairly good that even with possible geopolitical turmoil, the domestic Chinese market will proceed acceptably. If so, then we should be one of the beneficiaries in the years to come. I remain cautiously optimistic.

Ronnie C. Chan
Chair
Hong Kong, July 29, 2021