Forward

We adopt prudent and comprehensive financial management strategies to maintain a strong financial position with a high degree of moving forward to meet the Company's capital commitments and long-term business plans.

Forum 66, Shenyang

Grand Plaza

Olympia 66, Dalian

Financial Review

Consolidated Results

For the financial year ended December 31, 2018, total revenue of Hang Lung Properties Limited (the Company) and its subsidiaries (collectively known as "Hang Lung Properties") decreased 16% to HK$9,408 million due to fewer residential units being sold during the year. Revenue from property leasing increased 5% to HK$8,181 million. Property sales income dropped 64% to HK$1,227 million. Total operating profit decreased 14% to HK$6,822 million.

Underlying net profit attributable to shareholders fell 26% to HK$4,093 million. After including a revaluation gain on properties, net profit attributable to shareholders decreased 1% to HK$8,078 million. Correspondingly, earnings per share slightly decreased to HK$1.80.

Revenue and Operating Profit

	Revenue			Operating Profit		
	2018 HK$ Million	2017 HK$ Million	Change	**2018 HK$ Million**	2017 HK$ Million	Change
Property Leasing	**8,181**	7,779	5%	**6,060**	5,672	7%
Mainland China	**4,244**	3,958	7%	**2,739**	2,454	12%
Hong Kong	**3,937**	3,821	3%	**3,321**	3,218	3%
Property Sales	**1,227**	3,420	-64%	**762**	2,238	-66%
Total	**9,408**	11,199	-16%	**6,822**	7,910	-14%

Dividend

The Board of Directors has recommended a final dividend of HK58 cents per share for 2018 (2017: HK58 cents) to be paid by cash on May 21, 2019 to shareholders whose names appeared on the register of members on May 7, 2019. Together with an interim dividend of HK17 cents per share (2017: HK17 cents), the full year dividends for 2018 amounted to HK75 cents per share (2017: HK75 cents).

Property Leasing

For the financial year ended December 31, 2018, the property leasing performance continued to be resilient as demonstrated by decent revenue and profit growth. Total revenue of our leasing properties grew 5% to HK$8,181 million. Revenue from our Mainland portfolio increased 7% and that of our Hong Kong portfolio rose 3% year-on-year. These revenue growths were achieved against the backdrop of the Sino-US trade war (Trade War) and other global uncertainties.

In Hong Kong, gross domestic product (GDP) growth for the first three quarters of 2018 was 3.7%. Growth in the retail market has slowed down to 1.4% year-on-year in November 2018 after five consecutive months of double-digit increases. This index was significantly influenced by high-value items. As our properties in Hong Kong are not luxury-driven, we have experienced a steadier growth in sales and rental revenue throughout the year.

In mainland China, GDP growth for 2018 was 6.6%. Despite jitters in the market as a response to the Trade War, the luxury sector has been resilient on the strength of the "bigger" brands, showing healthy and continuous growth since the second half of 2017. This growth was supported by several factors, including the RMB depreciation leading to more domestic spending, the tightened border controls on undeclared imports, and the e-commerce law to combat parallel import "daigou" activity.

Mainland China

Our leasing properties in mainland China performed well in the year. Even though certain areas in Grand Gateway 66 were temporarily closed for renovation, revenue of the entire portfolio increased 4% to RMB3,577 million. A strong growth momentum was built up during the year. Revenue of the mainland properties in RMB terms achieved growth rates at 6% and 2% during the second half and first half of 2018, respectively, compared to a year ago. In particular, revenue of mainland properties outside Shanghai grew 7% for the year, with a 9% growth in the second half of the year. Operating profit rose 8% to RMB2,305 million. Average margin increased three points to 65%.

Our eight malls in mainland China collected 3% more in revenue to RMB2,755 million, or 6% when excluding the renovation impact of Grand Gateway 66.

In Shanghai, Plaza 66 maintained a strong growth momentum in both revenue and retail sales after the asset enhancement program completed in phases since January 2017. The upgrade has not only added value to the asset but also the potential for future rental revenue growth. The revenue growth in Plaza 66 more than compensated for the short-term income disruption caused by the upgrading work at Grand Gateway 66. Outside of Shanghai, all properties, except Forum 66 in Shenyang and Riverside 66 in Tianjin, made good progress in leasing revenue.

Income from our four office towers at Shanghai Plaza 66, Shenyang Forum 66 and Wuxi Center 66 advanced 8% to RMB822 million. The Plaza 66 office towers recorded rental growth amidst keen competition as a result of our rigorous efforts to retain quality tenants and solicit new ones at above average market rents. The office towers at Forum 66 and Center 66 continued to grow in both rental and average occupancy rate. Revenue from all the office towers accounted for 23% of our total mainland China leasing revenue.

Mainland China Property Leasing Portfolio

	Revenue			Occupancy Rate*	
City and Name of Property	**2018 RMB Million**	2017 RMB Million	Change	Mall	Office
Shanghai Plaza 66	**1,554**	1,409	10%	99%	95%
Shanghai Grand Gateway 66	**803**	883	-9%#	79%#	N/A
Shenyang Palace 66	**162**	155	5%	88%	N/A
Shenyang Forum 66	**216**	213	1%	93%	88%
Jinan Parc 66	**292**	271	8%	96%	N/A
Wuxi Center 66	**252**	219	15%	89%	86%
Tianjin Riverside 66	**179**	181	-1%	90%	N/A
Dalian Olympia 66	**119**	99	20%	79%	N/A
Total	**3,577**	3,430	4%		
Total in HK$ Million equivalent	**4,244**	3,958	7%		

About 19% of leasable area was temporarily void for major asset upgrading.

* All occupancy rates stated therein were as of December 31, 2018.

Shanghai Plaza 66

Total revenue of Plaza 66 increased 10% to RMB1,554 million, resulting from the strong performance of both the mall and office towers.

After completion of the asset enhancement program in 2017, the Plaza 66 mall has successfully anchored its leading market position as the Home to Luxury, capturing the upswing in luxury sales and then converting it into strong growth in both revenue and retail sales. In September 2018, a brand-new customer relationship management program, HOUSE 66, was launched at the mall. HOUSE 66 is dedicated to providing customers with unique and personalized services, allowing us to establish a more personal and enduring relationship with our loyal customers. As a result, the Plaza 66 mall reported an encouraging performance for the year, with revenue and retail sales advancing 12% and 13% respectively. The mall was almost fully let at the end of 2018.

The Plaza 66 offices recorded a 7% revenue growth to RMB622 million driven by new lettings and expansion by existing tenants. The enhancement works for Office Tower Two were completed during the year. Overall occupancy rate increased six points to 95%.

Shanghai Grand Gateway 66 (Mall only)

The performance of Grand Gateway 66 was affected by the three-year upgrading program which commenced in 2017. Revenue of the mall declined 9% to RMB803 million, but was flat when excluding the renovation impact.

The first phase of the upgrade works covering the entire North Building was finished and the refurbished building re-opened in September 2018. More than 80 brands were recruited, comprising a good mix of fashion & accessories, food & beverage, and lifestyle & entertainment tenants. Among the notable brands, 18 were making their debut in Shanghai, or even their first appearance in the Mainland. The renovated cinema with about 1,500 seats in 11 houses re-opened, equipped with the world's leading visual and audio technologies to offer audiences superb experiences. The second phase of the upgrade program commenced in July 2018, covering the bulk of the South Building including the transformation of the mall's main entrance and its basement and the building of a linkage with Metro Link 9. The works are expected to be completed in stages starting in late 2019.

To maintain the mall's vibrant ambience and business continuity for key tenants during the renovation, innovative promotional campaigns and customer experience activities were launched and many exclusive pop-up stores were introduced. Retail sales dropped 3% on a like-for-like basis when excluding the impact of the renovation.

Shenyang Palace 66

The Palace 66 mall continued to report a steady growth in revenue, collecting 5% more in revenue to RMB162 million. More sporting and popular lifestyle fashion brands were brought in during the year, with many trend-setting, emerging and lifestyle brands making their first appearance in the mall. Occupancy rate was 88%. Retail sales rose 7%.

Shenyang Forum 66

Total revenue of Forum 66 increased 1% to RMB216 million driven by the rise in income from the office tower, which was partly offset by the drop in revenue from the mall.

Income of the office tower at Forum 66 advanced 15% to RMB117 million. Occupancy rate increased by eight points to 88%. The six floors in the high zone of the tower, representing 14% of leasable area, were available for leasing from July 2018. The conversion of the top 19 floors of the office tower into a Conrad hotel is progressing. The hotel, expected to open in the second half of 2019, will become a focal point for business and social gatherings in the city.

Revenue of the mall decreased 11% as our efforts to reshuffle tenants and diversify the trade mix continued. Retail sales at the mall fell 1%. During the year, more lifestyle and family-related elements were introduced to meet the needs of the local market, boosting the occupancy rate by 10 points to 93%.

Jinan Parc 66

The Parc 66 mall reported healthy growth in the year. Income increased 8% to RMB292 million. Occupancy rate rose two points to 96%. Retail sales jumped 18%. During the year, the trade mix of the mall was further enhanced with several first-in-town brands brought in, more non-conventional shopping, entertainment and lifestyle elements introduced, and food & beverage brands upgraded. In December 2018, our new customer relationship management program, HOUSE 66, was launched in Parc 66 following its successful debut in Shanghai Plaza 66.

Wuxi Center 66

Revenue of Center 66 picked up remarkably well in the year. Total income of the entire property increased 15% to RMB252 million even though 9% of the mall's leasable area was temporarily closed for construction of the second office tower.

Income of the mall increased 19% driven by positive rental reversions and rising occupancy, which rose to 89% at the end of 2018. Retail sales surged 20%. The 9% of the mall closed because of construction of the second office tower will re-open in the middle of 2019. That area will become the podium of the second office tower and house a new cinema as well as more luxury brands and quality food & beverage tenants.

Income from the office tower increased 8% to RMB83 million also driven by the growth in average occupancy over the year. Well received by multinational and national corporations including renowned financial institutions, this tower out-performed other Grade A offices in Wuxi in both occupancy and effective rent. Leasing activities for the second tower have commenced with good progress made. The tower will be ready for handing over to tenants in the second half of 2019.

Tianjin Riverside 66

Revenue of the Riverside 66 mall slipped 1% to RMB179 million as the mall has been undergoing a tenant mix refinement after completion of the first lease term introduced at its opening in 2014. Occupancy rate improved one point to 90%. During the year, more lifestyle and entertainment tenants, including a cinema with 570 seats, were introduced, offering a more comprehensive experience to customers. Retail sales decreased 8% due to competition from new malls opening in the city during the year.

Dalian Olympia 66

The Olympia 66 mall made good progress in building up occupancy and increasing footfall in the year. Revenue surged 20% to RMB119 million driven by increase in occupancy, which rose to 79% at the end of 2018. Year 2018 was the second consecutive year that the mall recorded a double-digit rental growth. Retail sales jumped 36%, with the main contribution coming from the business growth of trendy lifestyle and food & beverage tenants.

Hong Kong

Total revenue and operating profit from the leasing of our matured Hong Kong properties both reported mild growth of 3% to HK$3,937 million and HK$3,321 million, respectively, in spite of the high base. Overall rental margin was 84%. With our efforts made during the past few years in asset enhancement and improvement of tenancy profile, a solid foundation has been laid for sustainable growth in future years.

Hong Kong Property Leasing Portfolio

	Revenue			Occupancy Rate*
	2018 HK$ Million	2017 HK$ Million	Change	
Commercial	**2,326**	2,261	3%	95%
Office and Industrial/Offices	**1,286**	1,257	2%	94%
Residential & Serviced Apartments	**325**	303	7%	85%
Total	**3,937**	3,821	3%	

* All occupancy rates stated therein were as of December 31, 2018.

Commercial

The performance of our Hong Kong commercial portfolio was steady with revenue advancing 3% to HK$2,326 million, mainly driven by the positive rental reversions of our major tenants in recent years. Riding on the positive momentum of the retail market, total retail sales of our malls rose 9% year-on-year. Occupancy fell one point to 95% because of the renovation at The Peak Galleria, but was up three points when excluding the closed area.

The **Causeway Bay portfolio** collected 4% more in revenue to HK$634 million. During the year, Kingston, which represents 25% of the retail space of our Causeway Bay portfolio, fully re-opened in the first quarter, marking the completion of the three-year major asset enhancement initiative of Fashion Walk. The rejuvenation has created a vibrant, integrated hub of fashion and lifestyle shopping and experiences, providing an all-new selection of shops ranging from active sports brands to chic modern furniture stores, as well as acclaimed gourmet choices. Retail sales of our tenants in Causeway Bay grew 9% year-on-year.

Revenue of **Kornhill Plaza in Hong Kong East** increased 6% as a result of an enhanced trade mix. The property was fully let. Retail sales increased 5% driven by the good performance of the anchor tenants, including AEON STYLE and Grand Kornhill Cinema.

Revenues of **Grand Plaza and Gala Place in Mongkok** rose 2%. Both properties were fully let. New healthcare and lifestyle tenants were added to cater for the aspirations of style-seekers and the younger generation. At the same time, more brand-new dining concepts were introduced to further enrich the gourmet options. These initiatives have made the two properties into shopping magnets for both locals and tourists. Total retail sales increased 24% year-on-year.

Income of **Amoy Plaza in Kowloon East** advanced 5% due to positive rental reversions and the opening of a cinema in August 2018. The cinema, UA Amoy, has more than 600 seats in three houses, offering a unique entertainment experience in the neighborhood with its stylish design, 4D technology, and food & beverage offerings. Continuing the tenant upgrade, more culinary choices were added to satisfy customers' pursuit of novelty and diversity.

During the year, **The Peak Galleria** continued its major renovation. The program enhances its hardware, overall ambience and shopping experience with new shopping, entertainment and food & beverage options for discerning customers and tourists alike. To expedite the renovation, the whole of The Peak Galleria has been closed since October 2018. While the first phase is expected to be completed for re-opening in the summer of 2019, certain restaurants are targeted to start operations in the first quarter of 2019.

Offices

The Hong Kong office portfolio recorded a 2% revenue growth to HK$1,286 million mainly attributable to continuing positive rental reversions. Overall occupancy rate slipped one point to 94%. Our offices in Central and Mongkok achieved revenue growth of 4% and 7%, respectively, but income from those in Causeway Bay dropped 3%. The Hong Kong office rental amount accounted for 33% of our total leasing income in Hong Kong.

The refurbishment of Gala Place in Mongkok, covering the façade, elevator lobbies and car park of the office tower, commenced in 2018 to maintain the property's competitiveness. The entire program is scheduled to be completed in 2019 and minimal adverse impact on our revenue is expected.

Residential and Serviced Apartments

Revenue of the apartments advanced 7% to HK$325 million mainly attributable to the higher occupancy at Kornhill Apartments and The Summit.

Property Sales

As the residential market of Hong Kong remained active with rising prices in the first half of 2018, we continued to sell down our remaining inventory. During the year, three semi-detached houses at 23-39 Blue Pool Road (2017: one house) and nine units of The Long Beach apartments (2017: 226 units) were sold. Revenue from property sales amounted to HK$1,227 million, down 64% because far fewer residential units were sold compared with a year ago. Profit from property sales decreased 66% to HK$762 million. Overall profit margin was 62%.

During the year, we disposed of 39 car parking spaces held as investment properties at The Long Beach. Total gain on disposal of HK$71 million was recorded as part of other income in the statement of profit or loss for the year ended December 31, 2018.

In addition, we sold the remaining apartments and car parking spaces at Garden Terrace in two transactions. One transaction was made in April 2018, with completion in July 2018 and the other was made in December 2018 with completion in April 2019. According to accounting rules, these properties were reclassified as assets held for sale at the reporting dates at valuation with reference to selling price. A gain of HK$82 million was included as part of the fair value gain of investment properties in 2018, compared to the valuation at December 31, 2017.

Property Revaluation

The total value of our investment properties amounted to HK$136,676 million as of December 31, 2018, comprising the value of the Hong Kong portfolio and the mainland China portfolio of HK$66,065 million and HK$70,611 million, respectively. Our investment properties were revalued by Savills, an independent valuer, as at December 31, 2018.

An overall revaluation gain of HK$4,170 million, representing a 3% growth in valuation, was recorded in 2018 (2017: HK$2,599 million). Properties in Hong Kong and the Mainland recorded a revaluation gain of HK$3,852 million and HK$318 million respectively.

Property Development and Capital Commitment

The aggregated value of investment properties under development was HK$31,186 million. They comprised mainland China projects in Kunming, Wuhan, Hangzhou and the remaining phases of the developments in Shenyang and Wuxi. The portfolio consists of malls, office towers, hotels and serviced apartments.

The construction work at Kunming Spring City 66 is progressing as planned. Located at the center of Kunming's Central Business District, Spring City 66 is the city's only large-scale complex connected to the metro interchange station. This mixed-use development, covering a total gross floor area of 432,000 square meters, will comprise a premier mall, a Grade A office tower, serviced apartments and car parking spaces. The mall and the office tower were topped out in September 2018. Leasing activities for the mall have commenced with encouraging responses. More than 70% of the leasable area has been committed, including for some key anchor tenants. Both the mall and the office tower are planned to open in the second half of 2019.

Wuhan Heartland 66 covers a total gross floor area of 460,000 square meters. This prestigious mixed-use commercial project will house a 177,000-square-meter mall, a Grade A office tower, serviced apartments and car parking spaces. The office tower was topped out in June 2018. The project will be completed in stages starting from 2020. Leasing activities for the mall have commenced.

The conversion of the top 19 floors of the office tower at Shenyang Forum 66 into a Conrad hotel is in progress. This five-star hotel will have 315 keys and a grand ballroom to accommodate more than 500 guests. The hotel lobby will be situated at the highest floor offering a 360-degree panoramic view of Shenyang's skyline. The addition of this hotel will complement the positioning of Forum 66 as the best choice for those seeking high-end shopping, entertainment, business and hospitality experiences. The hotel is expected to open in the second half of 2019.

The construction work for the second office tower at Wuxi Center 66 is progressing as planned. This Grade A office tower, built above the southeastern part of the Center 66 mall, will add 52,000 square meters in gross floor area to our properties available for leasing. Topping out was on June 29, 2018, and interior fitting-out works have commenced. There will be a linkage between the mall and the new tower, and a renowned cinema will be brought in, further enriching the tenant mix and increasing footfall. Leasing activities for the new tower have commenced and the tower will be ready for handing over to tenants in the second half of 2019.

The master plan for the Wuxi Phase Two development has been submitted for government approval. The project includes luxury serviced apartments and a small boutique hotel.

In May 2018, Hang Lung Properties successfully acquired a prime plot of land in Hangzhou for RMB10.7 billion. The site is located in the central business district of Hangzhou with well-established roads, other infrastructure and a large existing catchment area. The acquisition marks a new milestone for our growth in mainland China, as the development of the site will create a strong synergy with our flagship projects in Shanghai and Wuxi in the Yangtze River Delta region. We will develop the premium site into a large-scale and high-end commercial mixed-use complex, comprising a world-class mall and office towers with a maximum floor area of approximately 194,100 square meters above ground. While the architectural design work is continuing and focusing on aesthetic features, we will continue to uphold the highest standards of environmental sustainability to fulfill our mission of "Build to Own and Build to Last". The project is planned for completion in phases from 2024.

The projects mentioned above represented the majority of Hang Lung Properties' capital commitments at the reporting date, amounting to HK$35 billion. They will be completed in phases over a number of years. With a solid base of recurrent income and ample financial resources, we are able to meet the funding requirements of these projects and are well placed to seize further growth opportunities when they arise.

In Hong Kong, we plan to re-develop the Amoycan Industrial Centre (AIC) in Ngau Tau Kok, in which Hang Lung Properties owns almost 85% interests. An application for a Land Compulsory Sale for the remaining interests in AIC was submitted to the Lands Tribunal in December 2017.

Liquidity and Financial Resources

The major objective of our financial management is to maintain an appropriate capital structure with a high degree of agility. This is to ensure that we will have sufficient financial resources to meet operational needs and planned capital commitments, and to capture investment opportunities for sustaining our long-term growth. To mitigate financial risks, multiple channels of debt financing have also been established. All related risk management, including debt re-financing, foreign exchange exposure and interest rate volatility, etc., are centrally managed and controlled at the corporate level.

Liquidity and Financing Management

The cash flow position and funding needs are closely reviewed and monitored to ensure that Hang Lung Properties has a good degree of financial flexibility and liquidity. This is achieved by keeping sufficient cash resources and maintaining multiple channels of fund-raising in both Hong Kong and mainland China.

As of December 31, 2018, Hang Lung Properties had total cash and bank balances of HK$12,363 million (December 31, 2017: HK$22,106 million). All the deposits are placed with banks with strong credit ratings and the counterparty risk is monitored on a regular basis.

On debt portfolio management, Hang Lung Properties focuses on mitigating the re-financing and interest rate risks by maintaining an appropriate mix of fixed/floating rate borrowings, a staggered debt repayment profile and a diversified source of funding.

In February 2018, Hang Lung Properties was the first Hong Kong property developer to obtain approval from the National Association of Financial Market Institutional Investors (NAFMII) to establish an on-shore green bond issuance platform in mainland China (Green Panda Bonds). The total amount of the facility is RMB10 billion. A debut issuance of Green Panda Bonds of RMB1 billion with a tenor of three years took place in July 2018 to finance the construction of some of our investment properties under development in mainland China.

As of December 31, 2018, total borrowings of Hang Lung Properties amounted to HK$27,253 million, of which about 54% was denominated in RMB. The higher debt balance against a year ago was due to payments for the various projects under development in mainland China, including the partial land cost for the newly acquired Hangzhou site.

The following table shows the composition of our debt portfolio:

	At December 31, 2018		At December 31, 2017	
	HK$ Million	% of Total	HK$ Million	% of Total
Floating rate HKD bank loans	**255**	0.9%	296	1.2%
Floating rate RMB bank loans	**13,490**	49.5%	11,814	47.6%
Fixed rate bonds	**13,508**	49.6%	12,710	51.2%
Denominated in USD	**7,832**	28.7%	7,816	31.5%
Denominated in HKD	**4,540**	16.7%	4,894	19.7%
Denominated in RMB	**1,136**	4.2%	–	–
Total borrowings	**27,253**	100%	24,820	100%

At the reporting date, the average tenor of the entire loan portfolio was 3.3 years (December 31, 2017: 3.4 years). The maturity profile was well staggered and spread over a period of 7 years. Around 78% of the loans were repayable after 2 years.

	At December 31, 2018		At December 31, 2017	
	HK$ Million	% of Total	HK$ Million	% of Total
Repayable:				
Within 1 year	**2,414**	8.8%	2,112	8.5%
After 1 but within 2 years	**3,514**	12.9%	3,605	14.5%
After 2 but within 5 years	**17,900**	65.7%	15,981	64.4%
Over 5 years	**3,425**	12.6%	3,122	12.6%
Total borrowings	**27,253**	100%	24,820	100%

As of December 31, 2018, Hang Lung Properties' undrawn committed banking facilities amounted to HK$16,224 million (December 31, 2017: HK$9,969 million). The available balances of the USD3 billion Medium Term Note Program and the RMB10 billion Green Panda Bonds Program amounted to USD1,411 million and RMB9,000 million respectively, equivalent to HK$21,297 million in total (December 31, 2017: HK$10,645 million).

Gearing Ratios and Interest Cover

At the end of 2018, the net debt balance of Hang Lung Properties amounted to HK$14,890 million (December 31, 2017: HK$2,714 million). Net debt to equity ratio was 10.4% (December 31, 2017: 1.9%) and debt to equity ratio was 19.0% (December 31, 2017: 17.4%).

For the year ended December 31, 2018, the amount of total gross interest expense incurred was similar to the level a year ago at HK$1,320 million (2017: HK$1,258 million). The amount of finance costs charged to the statement of profit or loss for 2018 decreased HK$133 million to HK$1,069 million because of a larger amount of interest capitalization for the projects under development.

Interest income for the year was HK$445 million (2017: HK$548 million). The decrease was mainly due to a lower average balance of deposits.

The amount of net interest expense for 2018, i.e. the excess of finance costs over interest income, decreased to HK$624 million (2017: HK$654 million). The average effective cost of borrowings during the year was 4.9% (2017: 5.1%) given a portfolio of debts comprising 50% in RMB bank loan, 4% in RMB bond, 45% in HKD and USD bond and 1% in HKD bank loan.

Interest cover for 2018 was 7 times (2017: 11 times).

Foreign Exchange Management

The activities of Hang Lung Properties are exposed to foreign currency risks mainly arising from its operations in mainland China and certain bank deposits denominated in RMB held in and relating to mainland China entities. There is also exposure in USD arising from the two USD500 million bonds issued. Appropriate measures have been taken to mitigate the foreign exchange risk exposure.

The currencies of cash and bank balances at the reporting date were as follows:

	At December 31, 2018		At December 31, 2017	
	HK$ Million	% of Total	HK$ Million	% of Total
Denominated in:				
HKD	**4,673**	37.8%	12,761	57.7%
RMB	**7,681**	62.1%	9,341	42.3%
USD	**9**	0.1%	4	–
Total cash and bank balances	**12,363**	100%	22,106	100%

(a) RMB Exposure

The RMB exposure of Hang Lung Properties is mainly derived from two respects of the operations. Firstly, currency translation risk arising from the net assets of our Mainland subsidiaries. Secondly, the RMB deposits held in and relating to mainland China entities which are primarily for the purposes of settling future construction payments in RMB.

As of December 31, 2018, net assets denominated in RMB accounted for about 56% of Hang Lung Properties' total net assets. The re-translation of these net assets denominated in RMB into HKD using the exchange rate as of the reporting date resulted in a re-translation loss of HK$3,658 million (2017: gain of HK$5,206 million), as RMB depreciated by about 4.6% against HKD compared to December 31, 2017. The re-translation loss was recognized in other comprehensive income/exchange reserve.

Hang Lung Properties' business operations and projects under development in mainland China are funded by cash inflow from Mainland operations and RMB borrowings, which form a natural hedge against our exposure to exchange rate fluctuation. We have adopted an enterprise risk management approach to mitigate the currency risks and practiced good disciplines of not taking any speculative position on the movement of RMB against HKD. Regular business reviews were made to assess the level of funding needs for our Mainland projects, after taking account of various factors such as regulatory constraints, project development timelines and the business environment. Appropriate modifications to the currency hedging program will be conducted in light of the outcome of the periodic reviews.

(b) USD Exposure

The USD foreign exchange exposure is related to the two USD500 million fixed rate bonds issued, equivalent to HK$7,832 million at the reporting date. The related currency exchange risk was covered back-to-back by two USD/HKD cross currency swap contracts. The swap contracts were entered into in order to effectively fix the exchange rate between USD and HKD for future interest payments and principal repayments.

The changes in the fair value of both swap contracts did not impact the cash flows and the profit or loss materially as they qualified for cash flow hedge accounting.

Charge of Assets

Assets of Hang Lung Properties were not charged to any third parties as at December 31, 2018.

Contingent Liabilities

Hang Lung Properties did not have any material contingent liabilities as at December 31, 2018.