



HONG LEONG FINANCE

Second Quarter And Half-Year Financial Statements And Related Announcement

Second quarter and half-year financial statements on consolidated results for the period ended 30 June 2018. These figures have not been audited.

1(a). Unaudited Group Statements of Comprehensive Income For The Quarter And Half Year Ended 30 June 2018

	2nd Qtr 2018	2nd Qtr 2017	+ / (-)	1st Half 2018	1st Half 2017	+ / (-)
	\$'000	\$'000	%	\$'000	\$'000	%
Profit and loss account:						
Interest on loans	65,268	54,793	19.1	124,949	108,316	15.4
Hiring charges	13,167	11,917	10.5	26,211	23,159	13.2
Other interest income	8,908	6,950	28.2	16,587	14,286	16.1
Interest income/hiring charges	87,343	73,660	18.6	167,747	145,761	15.1
Less: Interest expense	33,335	31,018	7.5	64,041	66,836	(4.2)
Net interest income/hiring charges	54,008	42,642	26.7	103,706	78,925	31.4
Fee and commission income	3,096	4,066	(23.9)	7,118	7,717	(7.8)
Other operating income	271	54	401.9	386	84	359.5
Income before operating expenses	57,375	46,762	22.7	111,210	86,726	28.2
Less: Staff costs	15,867	14,821	7.1	32,261	30,219	6.8
Depreciation of property, plant and equipment	445	963	(53.8)	1,133	1,892	(40.1)
Other operating expenses	4,799	5,197	(7.7)	9,734	9,933	(2.0)
Profit from operations before allowances/provision	36,264	25,781	40.7	68,082	44,682	52.4
Add/(Less): (Allowances for)/reversal or recovery of doubtful debts, other financial assets and provision for settlements and costs relating to distribution of wealth management products	(808)	(678)	19.2	(1,621)	242	(769.8)
Profit before tax	35,456	25,103	41.2	66,461	44,924	47.9
Less: Income tax expense	5,895	4,235	39.2	11,045	7,593	45.5
Profit for the period/Comprehensive income attributable to owners of the Company	29,561	20,868	41.7	55,416	37,331	48.4
Annualised earnings per share (cents)						
- Basic	26.53	18.78		24.88	16.81	
- Diluted	26.49	18.74		24.83	16.78	

1(b). Other Information In Relation To The Group Statements of Comprehensive Income

Other operating income includes:

- (i) gain on disposal of plant and equipment amounting to \$220,000 (30 June 2017: \$Nil) and \$298,000 (30 June 2017: loss on disposal of plant and equipment of \$1,000) for the quarter and half year ended 30 June 2018 respectively; and
- (ii) loss on disposal of Singapore Government securities close to their maturity amounting to \$Nil (30 June 2017: \$Nil) and \$Nil (30 June 2017: \$7,000) for the quarter and half year ended 30 June 2018 respectively.

2(a). Summarised Statements of Financial Position

	Group		Company	
	30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017
Number of shares in issue	445,736,433	445,173,033	445,736,433	445,173,033
	\$'000	\$'000	\$'000	\$'000
Share capital	884,234	882,829	884,234	882,829
Reserves	698,176	662,574	698,176	662,574
Accumulated profits	250,938	196,449	247,688	193,235
Equity attributable to owners of the Company	1,833,348	1,741,852	1,830,098	1,738,638
Liabilities				
Deposits and balances of customers	11,163,590	10,658,850	11,167,709	10,662,965
Trade and other payables	139,260	123,862	137,974	122,548
Current tax payable	33,234	18,322	33,229	18,317
Deferred tax liabilities	2,067	-	2,067	-
Total liabilities	11,338,151	10,801,034	11,340,979	10,803,830
Total equity and liabilities	13,171,499	12,542,886	13,171,077	12,542,468
Assets				
Cash at banks and in hand	871,645	1,088,908	870,688	1,087,956
Statutory deposit with the Monetary Authority of Singapore	306,794	285,467	306,794	285,467
Singapore Government securities	1,354,225	1,248,850	1,354,225	1,248,850
Hire purchase receivables	1,646,236	1,626,849	1,646,236	1,626,849
Loans, advances and factoring receivables	8,966,627	8,362,366	8,966,627	8,362,366
Allowances for doubtful debts	10,612,863	9,989,215	10,612,863	9,989,215
	(15,463)	(112,636)	(15,463)	(112,636)
	10,597,400	9,876,579	10,597,400	9,876,579
Other receivables, deposits and prepayments	20,621	21,230	20,621	21,229
Subsidiaries and long-term investments	-	-	535	535
Property, plant and equipment	20,814	21,324	20,814	21,324
Deferred tax assets	-	528	-	528
Total assets	13,171,499	12,542,886	13,171,077	12,542,468
Acceptances, guarantees and other obligations on behalf of customers	12,575	16,531	12,575	16,531

2(b). Net Asset Value

Net asset value per share (\$)	4.11	3.91	4.11	3.91
--------------------------------	-------------	------	-------------	------

2(c). There are no outstanding borrowings and debt securities as at 30 June 2018 (31 December 2017: \$Nil) for the Group and the Company.

3. Consolidated Statement of Cash Flows

	2nd Qtr 2018 \$'000	2nd Qtr 2017 \$'000	1st Half 2018 \$'000	1st Half 2017 \$'000
Operating activities				
Profit for the period	29,561	20,868	55,416	37,331
Adjustments for:				
Impact of accrual of interest income	(3,529)	(1,280)	(1,174)	(53)
Impact of accrual of interest expense	15,504	(5,453)	11,622	(27,939)
Allowances for doubtful debts	1,658	1,063	2,585	539
Depreciation of property, plant and equipment	445	963	1,133	1,892
(Gain)/loss on disposal of property, plant and equipment	(220)	-	(298)	1
Value of employee services received for issue of share options	56	48	112	97
Income tax expense	5,895	4,235	11,045	7,593
	49,370	20,444	80,441	19,461
Changes in working capital:				
Loans, advances and receivables	(167,163)	(49,752)	(633,450)	(42,770)
Other receivables, deposits and prepayments	5,903	(1,902)	1,783	12,748
Singapore Government securities	(1,923)	39,031	(105,375)	40,058
Deposits and balances of customers	(32,927)	(167,488)	504,740	(266,712)
Trade and other payables	6,647	(10,028)	3,942	257
Cash used in operations	(140,093)	(169,695)	(147,919)	(236,958)
Income taxes paid	(5,309)	(3,388)	(8,855)	(5,647)
Cash flows used in operating activities	(145,402)	(173,083)	(156,774)	(242,605)
Investing activities				
Purchase of property, plant and equipment	(568)	(64)	(655)	(444)
Proceeds from disposal of property, plant and equipment	235	-	330	-
Cash flows used in investing activities	(333)	(64)	(325)	(444)
Financing activities				
Proceeds from exercise of share options	669	1,129	1,299	2,143
Dividends paid	(40,110)	(26,677)	(40,110)	(26,677)
Cash flows used in financing activities	(39,441)	(25,548)	(38,811)	(24,534)
Net decrease in cash and cash equivalents	(185,176)	(198,695)	(195,910)	(267,583)
Cash and cash equivalents at beginning of period, as restated*	1,363,615	1,416,324	1,374,349	1,485,212
Cash and cash equivalents at end of period	1,178,439	1,217,629	1,178,439	1,217,629

Cash and cash equivalents included in the consolidated statement of cash flows comprise the following:

	30 Jun 2018 \$'000	30 Jun 2017 \$'000
Cash at banks and in hand	871,645	942,311
Statutory deposit with the Monetary Authority of Singapore	306,794	275,318
Cash and cash equivalents	1,178,439	1,217,629

In addition to the cash and cash equivalents above, marketable Singapore Government securities amounted to \$1,354,225,000 (30 June 2017: \$1,218,340,000) for the Group.

* Cash and cash equivalents before the adoption of SFRS(I) 9 in relation to allowance on cash at banks as at 31 December 2017 stated at \$1,374,375,000 has been restated at \$1,374,349,000 as at 1 January 2018 after initial adoption.

4. Statements of Changes in Equity

	Share capital \$'000	Statutory reserve \$'000	Capital reserve \$'000	Share option reserve \$'000	Regulatory loss allowance reserve \$'000	Accumulated profits \$'000	Total \$'000
Group							
At 1 January 2018, as previously stated	882,829	654,713	2,307	5,554	-	196,449	1,741,852
Effect of initial adoption of SFRS(I) 9 (net of tax)		18,695				56,084	74,779
Amount set up under MAS 811					16,932	(16,932)	-
At 1 January 2018, as restated	882,829	673,408	2,307	5,554	16,932	235,601	1,816,631
Issue of shares under share option scheme	630						630
Value of employee services received for issue of share options				56			56
Value of employee services transferred for share options exercised or lapsed	52			(89)		37	-
Adjustment under MAS 811					(96)	96	-
Comprehensive income for the period						25,855	25,855
At 31 March 2018	883,511	673,408	2,307	5,521	16,836	261,589	1,843,172
Issue of shares under share option scheme	669						669
Value of employee services received for issue of share options				56			56
Value of employee services transferred for share options exercised or lapsed	54			(121)		67	-
Final dividend paid of 9 cents per share (tax exempt one-tier) in respect of year 2017						(40,110)	(40,110)
Adjustment under MAS 811					169	(169)	-
Comprehensive income for the period						29,561	29,561
At 30 June 2018	884,234	673,408	2,307	5,456	17,005	250,938	1,833,348
At 1 January 2017	879,279	633,291	2,307	7,024	-	175,207	1,697,108
Issue of shares under share option scheme	1,014						1,014
Value of employee services received for issue of share options				49			49
Value of employee services transferred for share options exercised or lapsed	98			(113)		15	-
Comprehensive income for the period						16,463	16,463
At 31 March 2017	880,391	633,291	2,307	6,960	-	191,685	1,714,634
Issue of shares under share option scheme	1,129						1,129
Value of employee services received for issue of share options				48			48
Value of employee services transferred for share options exercised or lapsed	107			(107)			-
Final dividend paid of 6 cents per share (tax exempt one-tier) in respect of year 2016						(26,677)	(26,677)
Comprehensive income for the period						20,868	20,868
At 30 June 2017	881,627	633,291	2,307	6,901	-	185,876	1,710,002

4. Statements of Changes in Equity (continued)

Company	Share capital \$'000	Statutory reserve \$'000	Capital reserve \$'000	Share option reserve \$'000	Regulatory loss allowance reserve \$'000	Accumulated profits \$'000	Total \$'000
At 1 January 2018, as previously stated	882,829	654,713	2,307	5,554	-	193,235	1,738,638
Effect of initial adoption of SFRS(I) 9 (net of tax)		18,695				56,084	74,779
Amount set up under MAS 811					16,932	(16,932)	-
At 1 January 2018, as restated	882,829	673,408	2,307	5,554	16,932	232,387	1,813,417
Issue of shares under share option scheme	630						630
Value of employee services received for issue of share options				56			56
Value of employee services transferred for share options exercised or lapsed	52			(89)		37	-
Adjustment under MAS 811					(96)	96	-
Comprehensive income for the period						25,845	25,845
At 31 March 2018	883,511	673,408	2,307	5,521	16,836	258,365	1,839,948
Issue of shares under share option scheme	669						669
Value of employee services received for issue of share options				56			56
Value of employee services transferred for share options exercised or lapsed	54			(121)		67	-
Final dividend paid of 9 cents per share (tax exempt one-tier) in respect of year 2017						(40,110)	(40,110)
Adjustment under MAS 811					169	(169)	-
Comprehensive income for the period						29,535	29,535
At 30 June 2018	884,234	673,408	2,307	5,456	17,005	247,688	1,830,098
At 1 January 2017	879,279	633,291	2,307	7,024	-	172,072	1,693,973
Issue of shares under share option scheme	1,014						1,014
Value of employee services received for issue of share options				49			49
Value of employee services transferred for share options exercised or lapsed	98			(113)		15	-
Comprehensive income for the period						16,449	16,449
At 31 March 2017	880,391	633,291	2,307	6,960	-	188,536	1,711,485
Issue of shares under share option scheme	1,129						1,129
Value of employee services received for issue of share options				48			48
Value of employee services transferred for share options exercised or lapsed	107			(107)			-
Final dividend paid of 6 cents per share (tax exempt one-tier) in respect of year 2016						(26,677)	(26,677)
Comprehensive income for the period						20,839	20,839
At 30 June 2017	881,627	633,291	2,307	6,901	-	182,698	1,706,824

5. Review Of The Performance Of The Group

Total interest income/hiring charges for the quarter and half year ended 30 June 2018 increased by 18.6% and 15.1% respectively due to a higher average loan base and a higher loan yield. Interest expense for the quarter registered an increase of \$2.3 million or 7.5% over the previous corresponding quarter due to higher interest payable on deposits resulting from a larger average deposits base partially offset by a slightly lower applicable interest rates. For the half year ended 30 June 2018, interest expense decreased by \$2.8 million or 4.2% over the previous corresponding period, mainly due to lower applicable interest rates partially offset by a larger average deposits base. Accordingly, net interest income/hiring charges for the quarter and half year under review increased 26.7% and 31.4% respectively from the previous corresponding period.

Fee and commission income for the quarter and half year under review decreased by 23.9% and 7.8% to \$3.1 million and \$7.1 million respectively, with lower fee income from both lending and non-lending products. Staff costs for the quarter and half year under review increased by 7.1% and 6.8% respectively mainly due to higher provision for bonus. Lower depreciation on computer equipment accounted for the decrease in depreciation of property, plant and equipment for both the periods under review. Other operating expenses were controlled.

The Group recorded profit from operations before allowances/provision of \$36.3 million for the quarter under review, an increase of 40.7% from \$25.8 million for the previous corresponding quarter, due mainly to increases in interest income. For the half year ended 30 June 2018, the increase in profit from operations before allowances/provision was 52.4% from \$44.7 million to \$68.1 million. Group profit before tax for the quarter and half year ended 30 June 2018 were arrived at after topping up provision (net of write back of provision/recoveries) amounting to \$0.8 million (30 June 2017: \$0.7 million), and \$1.6 million (30 June 2017: write back of \$0.2 million) respectively. Accordingly, Group profit after tax for the quarter under review amounted to \$29.6 million, an increase of \$8.7 million or 41.7% over the previous corresponding quarter, whilst that for the half year ended 30 June 2018 showed an increase of \$18.1 million or 48.4% over the previous corresponding period to \$55.4 million. The Group continues to maintain adequate loss allowances in respect of its loan portfolio.

Net loan assets including hire purchase receivables (net of allowances) stood at \$10,597 million at the end of the period under review. This was an increase of 7.3% or \$720 million over the previous year's base of \$9,877 million as at 31 December 2017, and an increase of 10.9% or \$1,040 million over the figure of \$9,557 million as at 30 June 2017.

In line with higher funding requirements, deposits and balances of customers closed at \$11,164 million as at 30 June 2018. This was an increase of 4.7% or \$505 million over the previous year's base of \$10,659 million as at 31 December 2017, and an increase of 9.7% or \$989 million over the base of \$10,175 million as at 30 June 2017. Cash and cash equivalents (including balances with the Monetary Authority of Singapore) together with Singapore Government securities held as liquid assets amounted to \$2,533 million as at 30 June 2018 (30 June 2017: \$2,436 million).

Group shareholders' funds as at 30 June 2018 totalled \$1,833 million (31 December 2017: \$1,742 million) amounting to \$4.11 per share (31 December 2017: \$3.91 per share).

There has been no forecast or prospect statement previously disclosed to shareholders in respect of the period under review.

6. Commentary On Significant Trends and Competitive Conditions In The Industry

Singapore's economic growth slowed to 3.8% in the second quarter from a year ago as the manufacturing sector lost some momentum, as revealed by the advance estimates released by the Ministry of Trade and Industry. This comes in below the median forecast of 4.0% in an economist poll by Reuters and is also down from the year-on-year growth of 4.3% in the first quarter. On a quarter-on-quarter seasonally-adjusted annualised basis, the economy expanded at a slower pace of 1.0% during the April to June period. This is also lower than the quarter-on-quarter growth of 1.5% in the previous three months.

The manufacturing sector grew by 8.6% on a year-on-year basis in the second quarter, slower than the 9.7% growth in the first quarter. The construction sector contracted by 4.4% on a year-on-year basis in the second quarter, extending the 5.2% decline in the first quarter. The services producing industries expanded by 3.4% on a year-on-year basis in the second quarter, easing from the 4.0% growth in the previous quarter.

There were indications that the construction sector would start to bottom up and see a pick-up in activities towards the second half of this year. This could, however, change with the surprise property curbs announced on July 5. The measures were said to aim at cooling the market and keeping "price increases in line with economic fundamentals". The Government hiked the Additional Buyer's Stamp Duty ("ABSD") rates and tightened loan-to-value limits on residential property purchases. Developers were also slapped with a non-remissible 5% ABSD when they purchase en bloc properties for redevelopment, alongside a 10% increase in the waivable ABSD to 25%.

Meanwhile with interest rates rising further, these would be translated to lower property activities, both at the developers' as well as at the end buyers' level.

The manufacturing sector would also be affected by the ongoing trade conflict between the United States and China. The tit-for-tat measures between the two major economies could trigger a sharp and sustained fall in global and consumer confidence or a tightening of global liquidity conditions. This macroeconomic changes and disruption in trade flows would significantly impact Singapore's open economy and thereby affect our SMEs in the manufacturing area.

Taking into consideration the above factors and the Monetary Authority of Singapore's view that tail risks to growth have grown significantly over the last six months, Hong Leong Finance while growing its loans selectively will continue its focus on risks and compliance. Close attention is also being made to ensure that during these uncertain and volatile period our liquidity remains strong and well managed. Supporting SMEs during this period will remain key. We do not just grant facilities to these companies but provide suitable solutions to help SMEs grow as well as ease their cash flows. At the same time we have collaborated with AXS so that our customers have another channel of payments. We are also actively engaging FinTechs so as to collaborate with them to provide relevant services to our customers in the digital space.

7. Dividend

An interim dividend of 5 cents per share (tax exempt one-tier) (2017: 4 cents per share, tax exempt one-tier) has been declared in respect of the year ending 31 December 2018. The interim dividend will be paid on 12 September 2018.

	Latest Period	Previous Period
Name of Dividend	Interim	Interim (paid on 12 September 2017)
Dividend Type	Cash	Cash
Dividend Rate	5 cents per share	4 cents per share
Total Dividend	\$22,287,000*	\$17,791,000
Tax Rate	Tax exempt one-tier	Tax exempt one-tier

* The amount of dividend is computed on the shares in issue as at 30 June 2018. This amount is subject to change arising from the issue of shares upon exercise of options, if any, under the Hong Leong Finance Share Option Scheme 2001 ("Share Option Scheme") between 30 June 2018 and the last day for exercise of options to determine shareholders' entitlement to the dividend.

8. Shares Issued and Outstanding Convertibles

Since the end of the previous quarter,

- (i) the Company issued the following 293,200 shares upon exercise of options under the Share Option Scheme

Share price	Number of shares issued
\$2.28	91,200
\$2.45	8,000
\$2.56	8,500
\$2.66	5,000
\$2.34	37,000
\$2.23	143,500
Total	<u>293,200</u>

- (ii) options to 196,600 shares under the Share Option Scheme lapsed upon cessation of employment of participants.

As at the end of the period, unissued shares of the Company under option amounted to 16,901,265 shares (30 June 2017: 20,602,585 shares).

Pursuant to the Finance Companies Act, Chapter 108, the Company does not hold treasury shares and accordingly, there were no treasury shares held as at 30 June 2018 and 30 June 2017. There were also no shares held as subsidiary holdings as at 30 June 2018 and 30 June 2017.

9. Accounting Policies

The financial statements are prepared in accordance with Singapore Financial Reporting Standards (International) ("SFRS(I)s"). As previously announced, the Group adopted the SFRS(I)s which became effective for financial years beginning 1 January 2018. The initial adoption of SFRS(I)s does not have a material impact on the financial statements except SFRS(I) 9.

9. Accounting Policies (continued)

Under SFRS(I) 9, there is no material impact in the area of classification and measurement. At initial adoption on 1 January 2018, the Group accounted \$16.9 million as its regulatory loss allowance reserve account and booked a credit to accumulated profits amounting to \$39.2 million and to Statutory Reserve amounting to \$18.7 million.

Except as described above, the accounting policies and methods of computation used in the financial statements for the period under review are consistent with those applied in the audited financial statements for the year ended 31 December 2017.

10. Closure of Books

Notice is hereby given that the Share Transfer Books and Register of Members of the Company will be closed on 29 August 2018. Duly completed registrable transfers received by the Company's Registrar, M & C Services Private Limited of 112 Robinson Road #05-01, Singapore 068902 up to 5.00 pm on 28 August 2018 will be registered to determine shareholders' entitlement to the interim dividend. In respect of shares in the securities accounts with The Central Depository (Pte) Limited ("CDP"), the interim dividend will be paid by the Company to CDP which will distribute the interim dividend to holders of the securities accounts.

11. Shareholders' Mandate for Interested Person Transactions

The Company has not sought any shareholders' mandate for interested person transactions pursuant to Rule 920 of the Listing Manual of the Singapore Exchange Securities Trading Limited.

BY ORDER OF THE BOARD
YEO SWEE GIM, JOANNE
COMPANY SECRETARY

Dated this 10th day of August 2018

Directors' Confirmation

The Directors hereby confirm that, to the best of their knowledge, nothing has come to the attention of the Board of Directors which may render the Group's unaudited interim financial statements for the quarter and the half year ended 30 June 2018 to be false or misleading in any material aspect.

On behalf of the Board of Directors

Kwek Leng Beng

Director

Po'ad bin Shaik Abu Bakar Mattar

Director

Singapore

10 August 2018