



HONG LEONG FINANCE

First Quarter Financial Statements

First quarter financial statements on consolidated results for the three months ended 31 March 2019. These figures have not been audited.

1(a). Unaudited Group Statement of Comprehensive Income for the Quarter Ended 31 March 2019

	1st Qtr 2019	1st Qtr 2018	+ / (-)
	\$'000	\$'000	%
Profit and loss account:			
Interest on loans	68,744	59,681	15.2
Hiring charges	13,993	13,044	7.3
Other interest income	12,444	7,679	62.1
Interest income/hiring charges	95,181	80,404	18.4
Less: Interest expense	43,705	30,706	42.3
Net interest income/hiring charges	51,476	49,698	3.6
Fee and commission income	2,623	4,022	(34.8)
Other operating income	34	115	(70.4)
Income before operating expenses	54,133	53,835	0.6
Less: Staff costs	17,790	16,394	8.5
Depreciation of property, plant and equipment	1,954	688	184.0
Other operating expenses	3,213	4,935	(34.9)
Total operating expenses	22,957	22,017	4.3
Profit from operations before allowances	31,176	31,818	(2.0)
Add/(Less): (Allowances for)/reversal or recovery of doubtful debts and other financial assets	349	(813)	(142.9)
Profit before tax	31,525	31,005	1.7
Less: Income tax expense	5,286	5,150	2.6
Profit for the period/Comprehensive income attributable to owners of the Company	26,239	25,855	1.5
Annualised earnings per share (cents)			
- Basic	23.54	23.22	
- Diluted	23.50	23.18	

1(b). Other information in relation to the Group Statement of Comprehensive Income

- (i) Interest expense includes interest on lease liabilities amounting to \$136,000 (31 March 2018: \$Nil); and
- (ii) Other operating income includes loss on disposal of plant and equipment amounting to less than \$1,000 (31 March 2018: gain on disposal of plant and equipment of \$78,000).

2(a). Summarised Statements of Financial Position

	Group		Company	
	31 Mar 2019	31 Dec 2018	31 Mar 2019	31 Dec 2018
Number of shares in issue	445,856,933	445,818,433	445,856,933	445,818,433
	\$'000	\$'000	\$'000	\$'000
Share capital	884,537	884,440	884,537	884,440
Reserves	727,363	726,600	727,363	726,600
Accumulated profits	288,182	263,311	284,874	260,020
Equity attributable to owners of the Company	1,900,082	1,874,351	1,896,774	1,871,060
Liabilities				
Deposits and balances of customers	11,397,163	11,337,820	11,401,334	11,341,986
Trade and other payables	170,837	129,822	169,529	128,507
Current tax payable	34,993	37,112	34,988	37,108
Deferred tax liabilities	2,138	2,150	2,138	2,150
Total liabilities	11,605,131	11,506,904	11,607,989	11,509,751
Total equity and liabilities	13,505,213	13,381,255	13,504,763	13,380,811
Assets				
Cash at banks and in hand	1,270,254	1,442,327	1,269,269	1,441,349
Statutory deposit with the Monetary Authority of Singapore ("MAS")	302,046	297,645	302,046	297,645
Singapore Government debt securities and MAS Bills	1,408,923	1,322,326	1,408,923	1,322,326
Hire purchase receivables	1,738,155	1,680,916	1,738,155	1,680,916
Loans, advances and factoring receivables	8,722,542	8,615,791	8,722,542	8,615,791
Allowances for doubtful debts	10,460,697	10,296,707	10,460,697	10,296,707
	(18,660)	(19,044)	(18,660)	(19,044)
	10,442,037	10,277,663	10,442,037	10,277,663
Other receivables, deposits and prepayments	17,240	21,218	17,240	21,217
Subsidiaries and long-term investments	-	-	535	535
Property, plant and equipment	64,713	20,076	64,713	20,076
Total assets	13,505,213	13,381,255	13,504,763	13,380,811
Acceptances, guarantees and other obligations on behalf of customers	5,516	5,526	5,516	5,526

2(b). Other information in relation to the Summarised Statements of Financial Position

For the Group and the Company,

- (i) Trade and other payables includes lease liabilities amounting to \$41,864,000 (31 December 2018: \$Nil); and
- (ii) Property, plant and equipment includes right-of-use ("ROU") asset with a net book value amounting to \$41,051,000 (31 December 2018: \$Nil).

2(c). Net Asset Value

Net asset value per share (\$)	4.26	4.20	4.25	4.20
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2(d). There are no outstanding borrowings and debt securities issuance as at 31 March 2019 (31 December 2018: \$Nil) for the Group and the Company.

3. Consolidated Statement of Cash Flows

	31 Mar 2019	31 Mar 2018
	\$'000	\$'000
Operating activities		
Profit for the period	26,239	25,855
Adjustments for:		
Impact of accrual of interest income	1,206	2,355
Impact of accrual of interest expense	(285)	(3,882)
Allowances for doubtful debts	105	927
Interest expense on lease liabilities	136	-
Depreciation of property, plant and equipment	1,954	688
Gain on disposal of property, plant and equipment	-	(78)
Value of employee services received for issue of share options	54	56
Income tax expense	5,286	5,150
	34,695	31,071
Changes in working capital:		
Loans, advances and receivables	(164,479)	(466,287)
Other receivables, deposits and prepayments	2,772	(4,120)
Singapore Government debt securities and MAS Bills	(86,597)	(103,452)
Deposits and balances of customers	59,343	537,667
Trade and other payables	(565)	(2,705)
Cash used in operations	(154,831)	(7,826)
Income taxes paid	(7,284)	(3,546)
Cash flows used in operating activities	(162,115)	(11,372)
Investing activities		
Purchase of property, plant and equipment	(3,986)	(87)
Proceeds from disposal of property, plant and equipment	-	95
Cash flows from/(used in) investing activities	(3,986)	8
Financing activities		
Payment for lease liabilities	(1,662)	-
Proceeds from exercise of share options	91	630
Cash flows from/(used in) financing activities	(1,571)	630
Net decrease in cash and cash equivalents	(167,672)	(10,734)
Cash and cash equivalents at 1 January	1,739,972	1,374,349
Cash and cash equivalents at 31 March	1,572,300	1,363,615

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

	31 Mar 2019	31 Mar 2018
	\$'000	\$'000
Cash at banks and in hand	1,270,254	1,062,873
Statutory deposit with the Monetary Authority of Singapore ("MAS")	302,046	300,742
Cash and cash equivalents	1,572,300	1,363,615

In addition to the cash and cash equivalents above, marketable Singapore Government debt securities and MAS Bills amounted to \$1,408,923,000 (31 March 2018: \$1,352,302,000) for the Group.

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 2019, as previously stated	884,440	702,994	2,307	4,755	16,544	263,311	1,874,351
Effect of initial adoption of SFRS(I) 16 (net of tax)						(653)	(653)
At 1 January 2019, as restated	884,440	702,994	2,307	4,755	16,544	262,658	1,873,698
Issue of shares under share option scheme	91						91
Value of employee services received for issue of share options				54			54
Value of employee services transferred for share options exercised or lapsed	6			(201)		195	-
Adjustment under MAS 811					910	(910)	-
Comprehensive income for the period						26,239	26,239
At 31 March 2019	884,537	702,994	2,307	4,608	17,454	288,182	1,900,082
At 1 January 2018	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

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 2019, as previously stated	884,440	702,994	2,307	4,755	16,544	260,020	1,871,060
Effect of initial adoption of SFRS(I) 16 (net of tax)						(653)	(653)
At 1 January 2019, as restated	884,440	702,994	2,307	4,755	16,544	259,367	1,870,407
Issue of shares under share option scheme	91						91
Value of employee services received for issue of share options				54			54
Value of employee services transferred for share options exercised or lapsed	6			(201)		195	-
Adjustment under MAS 811					910	(910)	-
Comprehensive income for the period						26,222	26,222
At 31 March 2019	884,537	702,994	2,307	4,608	17,454	284,874	1,896,774
At 1 January 2018	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

5. Review of the Performance of the Group

The Group recorded net profit after tax of \$26.2 million for the first quarter 2019, an increase of \$0.4 million or 1.5% over the previous corresponding period.

Comparing to the previous corresponding period, total interest income/hiring charges rose by 18.4% to \$95.2 million driven by loan growth and a higher average loan yield. Interest expense including interest on lease liabilities, registered an increase of \$13.0 million or 42.3% due to a larger deposits base and higher funding cost. Net interest income/hiring charges for the first quarter increased by 3.6% to \$51.5 million, moderated by the drop in net interest margin of 3 basis points.

Fee and commission income decreased by 34.8% to \$2.6 million with lower fee income from lending activities. The lower other operating income was due to the gain on disposal of plant and equipment recognised in the previous corresponding period.

Total operating expenses increased by 4.3% to \$23.0 million for the first quarter 2019 mainly due to higher staff cost and higher depreciation of property, plant and equipment due to the depreciation charge of the ROU asset totalling \$1.6 million arising from the adoption of the new lease accounting standard, using the modified retrospective approach, which replaces the straight line operating lease expense, effective 1 January 2019. The straight line operating lease expense amounting to \$1.7 million was previously classified under "Other operating expenses" and mainly accounted for the decrease in that expense category.

Allowances for loans and other financial assets for first quarter 2019 were net recoveries of \$349,000 arising from higher bad debts recovered and lower expected credit loss allowances for non-credit impaired loans. The Group continues to maintain adequate loss allowances in respect of its loan portfolio and other financial assets.

Net loan assets including hire purchase receivables (net of allowances) stood at \$10,442 million at the end of the period under review. Some loans were not disbursed during the first quarter of 2019 due to the delay in legal process. The increase was moderated at 1.6% or \$164 million over the previous year's base of \$10,278 million as at 31 December 2018, and an increase of 0.1% or \$10 million over the figure of \$10,432 million as at 31 March 2018.

Deposits and balances of customers amounted to \$11,397 million as at 31 March 2019. This was an increase of 0.5% or \$59 million over the previous year's base of \$11,338 million as at 31 December 2018, and an increase of 1.8% or \$201 million over the base as at 31 March 2018. Cash and cash equivalents including statutory deposit with the Monetary Authority of Singapore ("MAS") together with Singapore Government debt securities and MAS Bills held as liquid assets amounted to \$2,981 million as at 31 March 2019.

Group shareholders' funds as at 31 March 2019 totalled \$1,900 million (31 December 2018: \$1,874 million) amounting to \$4.26 per share (31 December 2018: \$4.20 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 came in at 1.3% in the first quarter of 2019, slowing again as manufacturing contracted for the first time in three years. This is the weakest year-on-year quarterly growth since the second quarter of 2009 during the global financial crisis.

Based on the Advance Estimates released by the Ministry of Trade and Industry, the 1.3% growth was 0.6% lower than the growth achieved in the last quarter of 2018. The manufacturing sector contracted by 1.9% on a year-on-year basis in the first quarter. This is a reversal from the 5.1% growth in the previous quarter. The construction sector on the other hand grew by 1.4% on a year-on-year basis in the first quarter and represented a turnaround from the 1.0% decline in the previous quarter. This is the first quarter of positive growth in this sector following 10 consecutive quarters of decline. The services producing sector continued its growth with a 2.1% expansion on a year-on-year basis. This is slightly higher than the 1.8% growth in fourth quarter of 2018. Against this backdrop, Singapore's GDP growth is expected to come in slightly below the mid-point of the 1.5% - 3.5% forecast range in 2019.

The IMF has cut its outlook for global growth amid slowing economic activity in the second half of 2018 and a gloomier outlook in major economies. The global economy is predicted to grow 3.3% this year, the slowest pace since the financial crisis in 2009. In its semi-annual World Economic Outlook, the IMF pointed to the trade tensions between the United States and China; a potentially disorderly British exit from the European Union (EU) and the recent announcement by the United States to impose tariffs on US\$11 billion in imports from the EU as key risks. There are also uncertainties on whether interest rates are moving higher or lower with the Federal Reserve Bank signalling patience amid mounting risks to growth.

In the light of these uncertainties Hong Leong Finance ("HLF") will continue to practice prudence in its lending activities. We will support the SMEs during these difficult times with innovative schemes to assist in their cash flows. We have also competitive packages to help HDB dwellers. We have also established a branch at Potong Pasir to serve the residents in the area. A 12th SME Centre is also opened at this branch to serve the requirements of SMEs. This is to ensure we remain relevant to all customers, both individuals as well as corporates.

7. Dividends

The directors are not recommending the payment of an interim dividend (31 March 2018: Nil) in respect of the period under review, as it is not the practice of the Board to declare any interim dividend with respect to the first quarter of the financial year.

8. Shares Issued and Outstanding Convertibles

Since the end of the previous quarter,

- (i) the Company issued the following 38,500 shares upon exercise of options under the Hong Leong Finance Share Option Scheme 2001 (the "Share Option Scheme")

Share price	Number of shares issued
\$2.45	3,000
\$2.34	16,000
\$2.23	12,500
\$2.61	7,000
Total	<u>38,500</u>

- (ii) options to 440,365 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 15,708,590 shares (31 March 2018: 17,391,065 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 31 March 2019 and 31 March 2018. There were also no shares held as subsidiary holdings as at 31 March 2019 and 31 March 2018.

9. Accounting Policies

The financial statements are prepared in accordance with Singapore Financial Reporting Standards (International) ("SFRS(I)s").

The adoption of the new/revised/amendments to SFRS(I)s which came into effect from 1 January 2019 does not have a material impact on the financial statements of the Group and the Company for the period under review, except for SFRS(I) 16 Leases.

As previously announced, SFRS(I) 16 Leases came into effect on 1 January 2019. SFRS(I) 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a ROU asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The Group has applied SFRS(I) 16 initially on 1 January 2019 using the modified retrospective approach. The cumulative effect of adopting SFRS(I) 16 has been recognised as an adjustment to the opening balance of accumulated profits at 1 January 2019, with no restatement of comparative information. As at 1 January 2019, the Group has accounted for an increase in ROU assets of \$39.9 million, an increase in lease liabilities of \$40.7 million, an increase in deferred tax asset of \$0.1 million and a decrease in accumulated profits of \$0.7 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 2018.

10. 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
YEOW SWEE GIM, JOANNE
COMPANY SECRETARY

Dated this 25th day of April 2019

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 ended 31 March 2019 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

25 April 2019