



HONG LEONG FINANCE

Third Quarter And Nine Months Financial Statements

Third quarter and nine months financial statements on consolidated results for the period ended 30 September 2019. These figures have not been audited.

1(a). Unaudited Group Statements of Comprehensive Income for the Quarter and Nine Months Ended 30 September 2019

Ref	3rd Qtr 2019	3rd Qtr 2018	+ / (-)	9 Months 2019	9 Months 2018	+ / (-)
	\$'000	\$'000	%	\$'000	\$'000	%
Profit and loss account:						
Interest on loans	76,606	66,771	14.7	217,247	191,720	13.3
Hiring charges	14,522	13,468	7.8	42,843	39,679	8.0
Other interest income	11,253	9,371	20.1	35,522	25,958	36.8
Interest income/hiring charges	102,381	89,610	14.3	295,612	257,357	14.9
Less: Interest expense	(51,051)	34,956	46.0	(141,916)	98,997	43.4
Net interest income/hiring charges	51,330	54,654	(6.1)	153,696	158,360	(2.9)
Fee and commission income	3,074	3,751	(18.0)	9,688	10,869	(10.9)
Other operating income	127	60	111.7	207	446	(53.6)
Income before operating expenses	54,531	58,465	(6.7)	163,591	169,675	(3.6)
Less: Staff costs	17,942	16,580	8.2	53,518	48,841	9.6
Depreciation of property, plant and equipment	(2,043)	426	379.6	(6,040)	1,559	287.4
Other operating expenses	(3,324)	4,646	(28.5)	(10,422)	14,380	(27.5)
Total operating expenses	(23,309)	21,652	7.7	(69,980)	64,780	8.0
Profit from operations before allowances	31,222	36,813	(15.2)	93,611	104,895	(10.8)
Add/(Less): (Allowances for)/reversal or recovery of doubtful debts and other financial assets	(2,899)	7,353	(139.4)	(2,162)	5,732	(137.7)
Profit before tax	28,323	44,166	(35.9)	91,449	110,627	(17.3)
Less: Income tax expense	4,746	7,504	(36.8)	15,348	18,549	(17.3)
Profit for the period/Comprehensive income attributable to owners of the Company	23,577	36,662	(35.7)	76,101	92,078	(17.4)
Annualised earnings per share (cents)						
- Basic	21.12	32.90		22.74	27.55	
- Diluted	21.08	32.85		22.70	27.51	

For the third quarter and nine months ended 30 September 2019, profit from operations before allowances were \$31.2 million and \$93.6 million, 15.2% and 10.8% dip from a year ago, mainly attributed to the rise in funding costs amid the competitive market interest rates. The Singapore Interbank Offered Rate (Sibor) tends to move in line with the US Federal Reserve's rate movement, yet the Singapore dollar fixed deposit rates have not softened until recently. As Hong Leong Finance is not a participant in the interbank market, we rely on customer deposits to fund our loan growth of 9.3%. This has resulted in higher cost of funds with our margins squeezed. With interest rates begin trending downwards, we know our cost of funds should go down and we will be able to manage our margin better.

The total allowance increased due to net allowance of \$2.9 million and \$2.2 million mainly for credit-impaired loan, as compared with net recovery of \$7.4 million and \$5.7 million a year ago due to bad debts recovered. There was therefore a reduction in net attributable profit by 35.7% to \$23.6 million and by 17.4% to \$76.1 million respectively.

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

The Group adopted SFRS(I) 16 Leases effective 1 January 2019. On adoption, right-of-use (“ROU”) assets and lease liabilities were recognised on the balance sheet of the Group. Depreciation charge on “ROU” assets and interest expense on lease liabilities were recognised in the income statement, replacing the rental expenses.

For third quarter and nine months ended 30 September 2019:

- (i) interest expense on lease liabilities were \$0.2 million and \$0.6 million;
- (ii) depreciation on “ROU” assets were \$1.6 million and \$4.8 million;
- (iii) rental expenses were \$1.7 million and \$5.2 million for comparative period of third quarter and nine months ended 30 September 2018.

The net impact on income statements were not material.

2(a). Summarised Statements of Financial Position

	Group		Company	
	30 Sep 2019	31 Dec 2018	30 Sep 2019	31 Dec 2018
Number of shares in issue	447,499,973	445,818,433	447,499,973	445,818,433
	\$'000	\$'000	\$'000	\$'000
Share capital	888,983	884,440	888,983	884,440
Reserves	725,960	726,600	725,960	726,600
Accumulated profits	272,136	263,311	268,780	260,020
Equity attributable to owners of the Company	1,887,079	1,874,351	1,883,723	1,871,060
Liabilities				
Deposits and balances of customers	12,106,014	11,337,820	12,110,247	11,341,986
Trade and other payables	205,944	129,822	204,609	128,507
Current tax payable	23,240	37,112	23,235	37,108
Deferred tax liabilities	2,096	2,150	2,096	2,150
Total liabilities	12,337,294	11,506,904	12,340,187	11,509,751
Total equity and liabilities	14,224,373	13,381,255	14,223,910	13,380,811
Assets				
Cash at banks and in hand	939,620	1,442,327	938,622	1,441,349
Statutory deposit with the Monetary Authority of Singapore ("MAS")	333,211	297,645	333,211	297,645
Singapore Government debt securities and MAS Bills	1,569,862	1,322,326	1,569,862	1,322,326
Hire purchase receivables	1,805,528	1,680,916	1,805,528	1,680,916
Loans, advances and factoring receivables	9,513,291	8,615,791	9,513,291	8,615,791
Allowances for doubtful debts	11,318,819 (20,234)	10,296,707 (19,044)	11,318,819 (20,234)	10,296,707 (19,044)
	11,298,585	10,277,663	11,298,585	10,277,663
Other receivables, deposits and prepayments	14,619	21,218	14,619	21,217
Subsidiaries and long-term investments	-	-	535	535
Property, plant and equipment	68,476	20,076	68,476	20,076
Total assets	14,224,373	13,381,255	14,223,910	13,380,811
Acceptances, guarantees and other obligations on behalf of customers	4,289	5,526	4,289	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 \$46,335,000 (31 December 2018: \$Nil); and
- (ii) Property, plant and equipment includes right-of-use ("ROU") assets with a net book value amounting to \$45,227,000 (31 December 2018: \$Nil).

2(c). Net Asset Value

Net asset value per share (\$)	4.22	4.20	4.21	4.20
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2(d). There are no outstanding borrowings and debt securities issuance as at 30 September 2019 (31 December 2018: \$Nil) for the Group and the Company.

3. Consolidated Statement of Cash Flows

	3rd Qtr 2019 \$'000	3rd Qtr 2018 \$'000	9 Months 2019 \$'000	9 Months 2018 \$'000
Operating activities				
Profit for the period	23,577	36,662	76,101	92,078
Adjustments for:				
Impact of accrual of interest income	1,932	2,572	3,137	1,398
Impact of accrual of interest expense	16,590	1,860	30,275	13,482
Allowances for doubtful debts	3,022	992	3,204	3,577
Interest expense on lease liabilities	221	-	557	-
Depreciation of property, plant and equipment	2,043	426	6,040	1,559
(Gain)/loss on disposal of property, plant and equipment	(66)	2	(62)	(296)
Value of employee services received for issue of share options	54	56	162	168
Income tax expense	4,746	7,504	15,348	18,549
	52,119	50,074	134,762	130,515
Changes in working capital:				
Loans, advances and receivables	(77,847)	257,506	(1,024,126)	(375,944)
Other receivables, deposits and prepayments	9,471	(364)	3,462	1,419
Singapore Government debt securities and MAS Bills	(71,081)	29,378	(247,536)	(75,997)
Deposits and balances of customers	169,067	134,751	768,194	639,491
Trade and other payables	(3,098)	(11,494)	(488)	(7,552)
Cash generated from/(used in) operations	78,631	459,851	(365,732)	311,932
Income taxes paid	(10,928)	(5,308)	(29,141)	(14,163)
Cash flows from/(used in) operating activities	67,703	454,543	(394,873)	297,769
Investing activities				
Purchase of property, plant and equipment	(161)	(18)	(4,457)	(673)
Proceeds from disposal of property, plant and equipment	71	-	71	330
Cash flows used in investing activities	(90)	(18)	(4,386)	(343)
Financing activities				
Payment for lease liabilities	(1,669)	-	(5,000)	-
Proceeds from exercise of share options	2,811	146	4,072	1,445
Dividends paid	(22,324)	(22,289)	(66,954)	(62,399)
Cash flows used in financing activities	(21,182)	(22,143)	(67,882)	(60,954)
Net increase/(decrease) in cash and cash equivalents	46,431	432,382	(467,141)	236,472
Cash and cash equivalents at beginning of period	1,226,400	1,178,439	1,739,972	1,374,349
Cash and cash equivalents at end of period	1,272,831	1,610,821	1,272,831	1,610,821

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

	30 Sep 2019 \$'000	30 Sep 2018 \$'000
Cash at banks and in hand	939,620	1,309,346
Statutory deposit with the Monetary Authority of Singapore ("MAS")	333,211	301,475
Cash and cash equivalents	1,272,831	1,610,821

In addition to the cash and cash equivalents above, marketable Singapore Government debt securities and MAS Bills amounted to \$1,569,862,000 (30 September 2018: \$1,324,847,000) 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	1,261						1,261
Value of employee services received for issue of share options				108			108
Value of employee services transferred for share options exercised or lapsed	134			(329)		195	-
Final dividend of 10 cents per share (tax exempt one-tier) paid in respect of year 2018						(44,630)	(44,630)
Adjustment under MAS 811					1,085	(1,085)	-
Comprehensive income for the period						52,524	52,524
At 30 June 2019	885,835	702,994	2,307	4,534	17,629	269,662	1,882,961
Issue of shares under share option scheme	2,811						2,811
Value of employee services received for issue of share options				54			54
Value of employee services transferred for share options exercised or lapsed	337			(1,403)		1,066	-
Interim dividend of 5 cents per share (tax exempt one-tier) paid in respect of year 2019						(22,324)	(22,324)
Adjustment under MAS 811					(155)	155	-
Comprehensive income for the period						23,577	23,577
At 30 September 2019	888,983	702,994	2,307	3,185	17,474	272,136	1,887,079
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	1,299						1,299
Value of employee services received for issue of share options				112			112
Value of employee services transferred for share options exercised or lapsed	106			(210)		104	-
Final dividend of 9 cents per share (tax exempt one-tier) paid in respect of year 2017						(40,110)	(40,110)
Adjustment under MAS 811					73	(73)	-
Comprehensive income for the period						55,416	55,416
At 30 June 2018	884,234	673,408	2,307	5,456	17,005	250,938	1,833,348
Issue of shares under share option scheme	146						146
Value of employee services received for issue of share options				56			56
Value of employee services transferred for share options exercised or lapsed	12			(769)		757	-
Interim dividend of 5 cents per share (tax exempt one-tier) paid in respect of year 2018						(22,289)	(22,289)
Adjustment under MAS 811					371	(371)	-
Comprehensive income for the period						36,662	36,662
At 30 September 2018	884,392	673,408	2,307	4,743	17,376	265,697	1,847,923

4. Statements of Changes in Equity (continued)

	Share capital \$'000	Statutory reserve \$'000	Capital reserve \$'000	Share option reserve \$'000	Regulatory loss allowance reserve \$'000	Accumulated profits \$'000	Total \$'000
Company							
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	1,261						1,261
Value of employee services received for issue of share options				108			108
Value of employee services transferred for share options exercised or lapsed	134			(329)		195	-
Final dividend of 10 cents per share (tax exempt one-tier) paid in respect of year 2018						(44,630)	(44,630)
Adjustment under MAS 811					1,085	(1,085)	-
Comprehensive income for the period						52,479	52,479
At 30 June 2019	885,835	702,994	2,307	4,534	17,629	266,326	1,879,625
Issue of shares under share option scheme	2,811						2,811
Value of employee services received for issue of share options				54			54
Value of employee services transferred for share options exercised or lapsed	337			(1,403)		1,066	-
Interim dividend of 5 cents per share (tax exempt one-tier) paid in respect of year 2019						(22,324)	(22,324)
Adjustment under MAS 811					(155)	155	-
Comprehensive income for the period						23,557	23,557
At 30 September 2019	888,983	702,994	2,307	3,185	17,474	268,780	1,883,723
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	1,299						1,299
Value of employee services received for issue of share options				112			112
Value of employee services transferred for share options exercised or lapsed	106			(210)		104	-
Final dividend of 9 cents per share (tax exempt one-tier) paid in respect of year 2017						(40,110)	(40,110)
Adjustment under MAS 811					73	(73)	-
Comprehensive income for the period						55,380	55,380
At 30 June 2018	884,234	673,408	2,307	5,456	17,005	247,688	1,830,098
Issue of shares under share option scheme	146						146
Value of employee services received for issue of share options				56			56
Value of employee services transferred for share options exercised or lapsed	12			(769)		757	-
Interim dividend of 5 cents per share (tax exempt one-tier) paid in respect of year 2018						(22,289)	(22,289)
Adjustment under MAS 811					371	(371)	-
Comprehensive income for the period						36,644	36,644
At 30 September 2018	884,392	673,408	2,307	4,743	17,376	262,429	1,844,655

5. Review of the Performance of the Group

The Group reported profit from operations before allowances of \$93.6 million and \$31.2 million for the nine months and third quarter 2019 respectively, declined by 10.8% and 15.2% on the back of a record high performance in the previous corresponding periods. The net attributable profits were \$76.1 million and \$23.6 million for the nine months and third quarter of 2019, 17.4% and 35.7% dip over a year ago, which included a net recovery of doubtful debts and other financial assets of \$5.7 million and \$7.4 million respectively.

The net interest income for the nine months and third quarter 2019 declined by 2.9% to \$153.7 million and 6.1% to \$51.3 million comparing year-on-year, driven by increased cost of fund on higher deposit base to support the loan growth. The net interest margin was down by 13 and 21 basis points (bps) respectively.

For nine months and third quarter 2019, fee and commission income declined by 10.9% to \$9.7 million and 18.0% to \$3.1 million with lower fee income earned from lending activities in 2019. The lower other operating income for nine months 2019 was due to the gain on disposal of plant and equipment recognised in the previous corresponding period.

Total operating expenses rose by 8.0% to \$70.0 million and 7.7% to \$23.3 million for nine months and third quarter 2019 respectively, mainly attributed to higher staff cost, technology and other business expenses incurred to support new business initiatives and system enhancements.

Net allowances for loans and other financial assets for nine months and third quarter 2019 were \$2.2 million and \$2.9 million respectively, against the net write-back of \$5.7 million and \$7.4 million in corresponding periods 2018 due to bad debts recovered. The Group continues to maintain adequate loss allowances in respect of its loan portfolio and other financial assets.

Net loan assets totalling \$11,299 million as at 30 September 2019, grew by 9.9% or \$1,021 million over the previous year's base of \$10,278 million as at 31 December 2018 and 9.3% or \$960 million over corresponding period as at 30 September 2018.

In tandem with the growth in loan balances, deposits and balances of customers amounted to \$12,106 million as at 30 September 2019, representing an increase of 6.8% or \$768 million over the previous year's base of \$11,338 million as at 31 December 2018, and 7.1% or \$808 million over corresponding period as at 30 September 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 \$2,843 million as at 30 September 2019. The Group continues to maintain sound liquidity positions.

Group shareholders' funds as at 30 September 2019 totalled \$1,887 million (31 December 2018: \$1,874 million) with higher net asset value at \$4.22 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

According to the Advance Estimates released by the Ministry of Trade and Industry, the Singapore economy grew by 0.1% year-on-year in the third quarter of 2019, similar to the preceding quarter. On a quarter-on-quarter seasonally-adjusted annualised basis, the economy expanded by 0.6%, a turnaround from the 2.7% contraction in the preceding quarter.

The manufacturing sector contracted by 3.5% on a year-on-year basis in the third quarter, extending the 3.3% decline in the previous quarter. In the last six months, the drag on GDP growth exerted by the manufacturing sector has intensified, reflecting the ongoing downturn in the global electronics cycle as well as the pullback in investment spending, caused in part by the uncertainty in US-China relations.

The construction sector grew by 2.7% on a year-on-year basis in the third quarter, extending the 2.8% expansion in the previous quarter. Growth in this sector was supported by a pickup in both the public and private sector construction activities. On a quarter-on-quarter seasonally-adjusted annualised basis, the sector contracted by 1.1%, a slower pace of decline compared to the 5.3% contraction in the previous quarter.

The services producing industries expanded by 0.9% on a year-on-year basis in the third quarter. This follows the 1.1% growth in the previous quarter. The growth in this quarter was primarily supported by the finance and insurance sector. On a quarter-on-quarter seasonally-adjusted annualised basis, the services producing industries grew by 0.7%, a reversal from the 1.4% decline in the preceding quarter.

In its latest Monetary Policy Statement, the MAS projects Singapore GDP growth to come in at around the mid-point of the 0% - 1.0% forecast range in 2019 and improve modestly in 2020. The MAS baseline view is that the current cycle should be bottoming out towards the end of this year and turn around by the middle of next year.

On the international front, global growth is expected to slow down. The latest IMF World Economic Outlook forecast sees global growth moderating to 3.3% this year. The Chinese economy is slowing down. Whether US and China will reach a trade war agreement is still uncertain. Interest rates are also moderating downwards. On the other hand Brexit and tensions in the Middle East and the Korean peninsula continue.

Under the above circumstances and uncertainties, Hong Leong Finance (“HLF”) has been writing new loans selectively. Our focus is on managing risks. As SMEs are faced with slower collections, we have initiated various schemes, some with Enterprise Singapore support, to help the SMEs’ cash flows. On the deposits side, HLF continues to promote attractive interest rate programs for both corporate and consumer depositors.

We are in discussion with fintech companies to help us transform to the digital space and at the same time meet with the younger customers’ expectations. We also believe in being closer to the customers and understand their needs better. Our 28 branches, 12 SME Centres and the various marketing teams are in constant contact with customers for loans as well as for deposits.

7. Dividends

An interim dividend of 5 cents per share (tax exempt one-tier) in respect of the current year declared in the previous quarter was paid on 11 September 2019.

The directors are not recommending the payment of a further interim dividend (30 September 2018: Nil) in respect of the current year as it is not the practice of the Board to declare any further interim dividend with respect to the third quarter of the financial year.

8. Shares Issued and Outstanding Convertibles

Since the end of the previous quarter,

- (i) pursuant to the Hong Leong Finance Share Option Scheme 2001 (“Share Option Scheme”), market price options to subscribe for 3,488,000 shares at an exercise price of \$2.62 per share were granted on 23 September 2019;
- (ii) the Company issued the following 1,174,840 shares upon exercise of options under the Share Option Scheme

Share price	Number of shares issued
\$2.74	63,500
\$2.28	381,800
\$2.45	264,500
\$2.56	167,000
\$2.66	5,000
\$2.34	174,500
\$2.23	103,040
\$2.61	7,000
\$2.58	8,500
Total	<u>1,174,840</u>

- (iii) options to 379,900 shares under the Share Option Scheme lapsed upon cessation of employment of participants; and
- (iv) options to 1,771,000 shares under the Share Option Scheme lapsed upon expiry of options.

As at the end of the period, unissued shares of the Company under option amounted to 15,399,150 shares (30 September 2018: 16,528,855 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 September 2019 and 30 September 2018. There were also no shares held as subsidiary holdings as at 30 September 2019 and 30 September 2018.

9. Accounting Policies

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

As previously announced, 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 nine months ended 30 September 2019, except for SFRS(I) 16 Leases on first time adoption impact.

SFRS(I) 16 Leases 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 was recognised as an adjustment to the opening balance of accumulated profits at 1 January 2019, with no restatement of comparative information. At initial adoption on 1 January 2019, the Group accounted for \$39.9 million of ROU assets, \$40.7 million of lease liabilities, an increase of \$0.1 million deferred tax asset 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 nine months ended 30 September 2019 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
YEO SWEE GIM, JOANNE
COMPANY SECRETARY

Dated this 13th day of November 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 and the nine months ended 30 September 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

13 November 2019