



HONG LEONG FINANCE

Half-Year Financial Statements And Related Announcement

Half-year financial statements on consolidated results for the period ended 30 June 2020. These figures have not been audited.

1(a). Unaudited Group Statement of Comprehensive Income for the Half Year Ended 30 June 2020

	1st Half 2020	1st Half 2019	+ / (-)
	\$'000	\$'000	%
Profit and loss account:			
Interest on loans	132,234	140,641	(6.0)
Hiring charges	27,232	28,321	(3.8)
Other interest income	18,703	24,269	(22.9)
Interest income/hiring charges	178,169	193,231	(7.8)
Less: Interest expense	96,001	90,865	5.7
Net interest income/hiring charges	82,168	102,366	(19.7)
Fee and commission income	4,813	6,614	(27.2)
Other operating income	83	80	3.8
Income before operating expenses	87,064	109,060	(20.2)
Less: Staff costs	27,115	35,576	(23.8)
Depreciation of property, plant and equipment	3,953	3,997	(1.1)
Other operating expenses	6,731	7,098	(5.2)
Total operating expenses	37,799	46,671	(19.0)
Profit from operations before allowances	49,265	62,389	(21.0)
Add/(Less): (Allowances for)/reversal or recovery of doubtful debts and other financial assets	(6,747)	737	NM
Profit before tax	42,518	63,126	(32.6)
Less: Income tax expense	5,999	10,602	(43.4)
Profit for the period/Comprehensive income attributable to owners of the Company	36,519	52,524	(30.5)
Earnings per share (cents)			
- Basic	16.32	23.55	
- Diluted	16.31	23.51	

NM: Not Meaningful

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

- (i) Interest expense includes interest on borrowings from bank and MAS SGD Facility amounting to \$28,000 (30 June 2019: \$Nil) for the half year ended 30 June 2020; and
- (ii) Other operating income includes loss on disposal of plant and equipment amounting to \$1,000 (30 June 2019: \$4,000) for the half year ended 30 June 2020.

2(a). Summarised Statements of Financial Position

	Group		Company	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019
Number of shares in issue	447,552,473	447,526,473	447,552,473	447,526,473
	\$'000	\$'000	\$'000	\$'000
Share capital	889,117	889,051	889,117	889,051
Reserves	743,013	749,914	743,013	749,914
Accumulated profits	274,040	275,278	270,624	271,899
Equity attributable to owners of the Company	1,906,170	1,914,243	1,902,754	1,910,864
Liabilities				
Deposits and balances of customers	11,758,410	12,307,049	11,762,649	12,311,282
Trade and other payables	250,667	215,866	249,378	214,549
Current tax payable	25,572	21,828	25,567	21,823
Deferred tax liabilities	534	1,794	534	1,794
Total liabilities	12,035,183	12,546,537	12,038,128	12,549,448
Total equity and liabilities	13,941,353	14,460,780	13,940,882	14,460,312
Assets				
Cash at banks and in hand	853,660	947,430	852,654	946,428
Statutory deposit with the Monetary Authority of Singapore ("MAS")	334,371	338,393	334,371	338,393
Singapore Government debt securities and MAS Bills	1,519,892	1,531,763	1,519,892	1,531,763
Hire purchase receivables	1,615,745	1,764,978	1,615,745	1,764,978
Loans, advances and factoring receivables	9,560,823	9,808,646	9,560,823	9,808,646
	11,176,568	11,573,624	11,176,568	11,573,624
Allowances for doubtful debts	(25,859)	(19,322)	(25,859)	(19,322)
	11,150,709	11,554,302	11,150,709	11,554,302
Other receivables, deposits and prepayments	19,059	22,160	19,059	22,159
Subsidiaries and long-term investments	-	-	535	535
Property, plant and equipment	63,662	66,732	63,662	66,732
Total assets	13,941,353	14,460,780	13,940,882	14,460,312
Acceptances, guarantees and other obligations on behalf of customers	4,181	3,804	4,181	3,804

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

For the Group and the Company, trade and other payables includes borrowings from MAS SGD Facility amounting to \$5,145,000 (31 December 2019: \$Nil) secured by assignment of eligible loan agreements as collaterals under Enterprise Singapore's Enhanced Enterprise Financing Scheme, repayable after two years.

2(c). Net Asset Value

Net asset value per share (\$)	4.26	4.28	4.25	4.27
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2(d). There are no outstanding debt securities issuance as at 30 June 2020 (31 December 2019: \$Nil) for the Group and the Company.

3. Consolidated Statement of Cash Flows

	1st Half 2020 \$'000	1st Half 2019 \$'000
Operating activities		
Profit for the period	36,519	52,524
Adjustments for:		
Impact of accrual of interest income	(6)	1,205
Impact of accrual of interest expense	(37,844)	13,685
Allowances for doubtful debts	6,944	182
Interest expense on lease liabilities	392	336
Depreciation of property, plant and equipment	3,953	3,997
Loss on disposal of property, plant and equipment	1	4
Value of employee services received for issue of share options	99	108
Income tax expense	5,999	10,602
	16,057	82,643
Changes in working capital:		
Loans, advances and receivables	396,649	(946,279)
Other receivables, deposits and prepayments	3,107	(6,009)
Singapore Government debt securities and MAS Bills	11,871	(176,455)
Deposits and balances of customers	(548,639)	599,127
Trade and other payables	25,064	2,610
Cash used in operations	(95,891)	(444,363)
Income taxes paid	(3,515)	(18,213)
Cash flows used in operating activities	(99,406)	(462,576)
Investing activities		
Purchase of property, plant and equipment	(267)	(4,296)
Cash flows used in investing activities	(267)	(4,296)
Financing activities		
Payment for lease liabilities	(3,326)	(3,331)
Proceeds from exercise of share options	62	1,261
Proceeds from borrowings	5,145	-
Dividends paid	-	(44,630)
Cash flows from/(used in) financing activities	1,881	(46,700)
Net decrease in cash and cash equivalents	(97,792)	(513,572)
Cash and cash equivalents at beginning of period	1,285,823	1,739,972
Cash and cash equivalents at end of period	1,188,031	1,226,400

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

	30 Jun 2020 \$'000	30 Jun 2019 \$'000
Cash at banks and in hand	853,660	908,864
Statutory deposit with the Monetary Authority of Singapore ("MAS")	334,371	317,536
Cash and cash equivalents	1,188,031	1,226,400

In addition to the cash and cash equivalents above, marketable Singapore Government debt securities and MAS Bills amounted to \$1,519,892,000 (30 June 2019: \$1,498,781,000) 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 2020	889,051	728,766	2,307	3,279	15,562	275,278	1,914,243
Issue of shares under share option scheme	62						62
Value of employee services received for issue of share options				99			99
Value of employee services transferred for share options exercised or lapsed	4			(25)		21	-
Final dividend of 10 cents per share (tax exempt one-tier) declared in respect of year 2019						(44,753)	(44,753)
Adjustment under MAS 811					(6,975)	6,975	-
Comprehensive income for the period						36,519	36,519
At 30 June 2020	889,117	728,766	2,307	3,353	8,587	274,040	1,906,170
At 1 January 2019	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

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 2020	889,051	728,766	2,307	3,279	15,562	271,899	1,910,864
Issue of shares under share option scheme	62						62
Value of employee services received for issue of share options				99			99
Value of employee services transferred for share options exercised or lapsed	4			(25)		21	-
Final dividend of 10 cents per share (tax exempt one-tier) declared in respect of year 2019						(44,753)	(44,753)
Adjustment under MAS 811					(6,975)	6,975	-
Comprehensive income for the period						36,482	36,482
At 30 June 2020	889,117	728,766	2,307	3,353	8,587	270,624	1,902,754
At 1 January 2019	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

5. Review of the Performance of the Group

The Group reported profit from operations before allowances of \$49.3 million for the half year ended 30 June 2020 declined by 21.0% from \$62.4 million in the same period last year, on the backdrop of Covid-19 disruptions which had hit businesses very hard. The net attributable profit was \$36.5 million for first half of 2020, 30.5% dip from \$52.5 million a year ago, after taking into account the higher allowances for both non credit-impaired and credit-impaired loans raised against risk arising from Covid-19 pandemic.

The net interest income for the half year ended 30 June 2020 fell 19.7% to \$82.2 million, driven by softening of yields amid the plummeting interest rates environment and slowing business momentum towards the end of the second quarter due to the effects of the global pandemic. The higher cost of fund on the larger deposit base was proactively managed down based on net funding needs and mitigated by the strategic lowering of deposit cost in tandem with market benchmark rates. The interest rates are likely to stay low given the weak economy outlook on Covid-19 impact.

Fee and commission income decreased by 27.2% to \$4.8 million with lower fee income earned from both lending and non-lending activities in 2020.

Total operating expenses stood at \$37.8 million, declined by 19.0% from a year ago, as a result of tightened cost management and helped by the budget relief measures.

Net allowances for loans and other financial assets for the first half of 2020 rose to \$6.7 million from the higher credit loss allowance for credit-impaired loans as well as the conservative build-up in allowances for non credit-impaired loans to recognise the possible downside risks inherent in the current economic conditions. The Group continues to monitor its loss allowances in respect of its loans portfolio and other financial assets in the light of on-going Covid-19 pandemic.

Net loan assets totalling \$11,151 million as at 30 June 2020 came down by 3.5% or \$403 million over the previous year's base of \$11,554 million as at 31 December 2019 and 0.7% or \$73 million over corresponding period as at 30 June 2019.

In tandem with the lower loan balances, deposits and balances of customers were managed down to \$11,758 million as at 30 June 2020, representing a decrease of 4.5% or \$549 million over the previous year's base of \$12,307 million as at 31 December 2019 and 1.5% or \$179 million over corresponding period as at 30 June 2019. 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 \$2,708 million as at 30 June 2020 (31 December 2019: \$2,818 million). The Group continues to maintain strong levels of capital, funding and liquidity to ride through current market uncertainties.

Group shareholders' funds as at 30 June 2020 totalled \$1,906 million (31 December 2019: \$1,914 million) with slightly lower net asset value at \$4.26 per share (31 December 2019: \$4.28 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

The Ministry of Trade and Industry reported that the Singapore economy contracted by 12.6% on a year-on-year basis in the second quarter of 2020 due to implementation of Circuit Breaker (CB) measures that spanned almost the entire second quarter from 7 April to 1 June, including the suspension of non-essential services and closure of most workplace premises, to slow down the spread of Covid-19. The Covid-19 pandemic also precipitated weak external demand amidst a global economic downturn. On a quarter-on-quarter seasonally-adjusted annualised basis, the economy shrank by 41.2% in the second quarter, deepening the 3.3% contraction in the preceding quarter. With two straight quarters of quarter-on-quarter contraction, Singapore has entered a technical recession.

Several months of CB measures and restrictions have battered Singapore's construction, retail and tourism sectors. The manufacturing sector was the only one to see positive growth of 2.5% year-on-year due to a surge in the output in the biomedical manufacturing, albeit slower than the 8.2% growth in the preceding quarter. Weak external demand and workplace disruptions during the CB period weighed on output in the chemicals, transport engineering and manufacturing sectors. Quarter-to-quarter, the manufacturing sector shrank by 23.1%, sharply reversing the 45.5% expansion in the preceding quarter.

The construction sector deteriorated significantly in the second quarter, contracting by 54.7% on a year-on-year basis from the 1.1% decline in the previous quarter. Construction output weakened due to stoppage of most construction activities as well as manpower disruptions arising from movement restriction to curb the spread of Covid-19 during this period. Quarter-to-quarter, the sector shrank by 95.6% in the second quarter, far worse than the 12.2% decline in the preceding quarter.

The services producing industries contracted by a steeper 13.6% on a year-on-year basis in the second quarter, compared to the preceding quarter of a 2.4% decline. Tourism-related sectors such as accommodation and air transport were severely affected by global and domestic travel restrictions; while domestically-oriented services sectors such as food services, retail and business services were significantly affected by the CB measures. Quarter-to-quarter, the services producing industries shrank by 37.7% in the second quarter, extending the 13.4% decline in the preceding quarter.

Amid the rising concerns of a resurgent COVID-19 outbreak which could reignite financial market volatility, there are uncertainties and downside risks predominated by the rising geopolitical tensions between the U.S. and China.

Domestically, amid the worst-ever recession to hit the Singapore economy, Singapore's GDP is expected to shrink between 4% and 7% this year while unemployment rate is projected to rise by 4% to 4.5%. The government has already pledged about S\$93 billion in stimulus packages to shore up troubled businesses and households and to prevent a surge in retrenchments. However, the full impact on the business and labour market remained uncertain. MAS is expected to keep monetary policy unchanged for the rest of the year. A further fiscal boost cannot be ruled out to ensure recovery stays the course amidst a still uncertain external environment. Domestic money market rates are expected to stay low for an extended period of time, alongside with the expectations of U.S. interest rates to stay near the zero boundary region to support the U.S. economic recovery.

Hong Leong Finance (HLF) has launched an outreach campaign to help small and medium-sized enterprises (SMEs) and individuals with targeted cash flow management solutions to cushion the impact of the Covid-19 pandemic. The solutions include the Enterprise Financing Scheme- SME Working Capital Loan and the Temporary Bridging Loan Programme to help businesses with their immediate cash flow needs at a lower interest rate and payment moratoriums under government debt relief program. We also extended alternate digital banking options to help customers to manage their banking needs.

The loan exposures are monitored closely and preemptive measures are taken as part of the company's credit risk management process. Our exposure to the riskier sectors such as aviation, hotel and tourism-related services remains low and we do not finance oil traders. A large proportion of our loans portfolio is on a secured basis.

The business environment remains uncertain even as the Singapore economy moved into phase two of the reopening. Many impacted businesses and individuals are struggling to get back on their feet. In this unprecedented crisis, we remain committed to help local businesses and retail customers tide through this challenging time.

7. Dividends

An interim dividend of 3.5 cents per share (tax exempt one-tier) (2019: 5 cents per share, tax exempt one tier) has been declared in respect of the year ending 31 December 2020. The interim dividend will be paid on 9 September 2020.

	Latest Period	Previous Period
Name of Dividend	Interim	Interim (paid on 11 September 2019)
Dividend Type	Cash	Cash
Dividend Rate	3.5 cents per share	5 cents per share
Total Dividend	\$15,664,000*	\$22,324,000
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 2020. 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 2020 and the last day for exercise of options to determine shareholders' entitlement to the interim dividend.

On 7 August 2020, the Monetary Authority of Singapore ("MAS") has issued a media release urging finance companies (FC) to cap the total dividend per share ("DPS") for FY2020 at 60% of FY2019's level and encourage FC to offer shareholders the option of scrip dividend. The Board took note of the said media release and will review the rate of the final dividend payable for FY2020 to be in line with the cap.

The Group continues to maintain strong level of capital and adequate liquidity to support lending activities and will moderate the returns to shareholders, amid the uncertain economic conditions.

8. Shares Issued and Outstanding Convertibles

Since the end of the previous financial year,

- (i) the Company issued the following 26,000 shares upon exercise of options under the Share Option Scheme

Share price	Number of shares issued
\$2.28	500
\$2.23	15,500
\$2.58	10,000
Total	<u>26,000</u>

- (ii) options to 103,900 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 options amounted to 14,945,750 shares (30 June 2019: 15,236,890 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 2020 and 30 June 2019. There were also no shares held as subsidiary holdings as at 30 June 2020 and 30 June 2019.

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 2020 does not have a material impact on the financial statements of the Group and the Company for the period under review.

Other than the above, the accounting policies and methods of computation used in the financial statements for the half year ended 30 June 2020 are consistent with those applied in the audited financial statements for the year ended 31 December 2019.

10. Closure of Books

Notice is hereby given that the Share Transfer Books and Register of Members of the Company will be closed from 5.00 pm on 25 August 2020 up to (and including) 26 August 2020. 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 25 August 2020 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 7th day of August 2020

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 half year ended 30 June 2020 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

7 August 2020