



HONG LEONG FINANCE

First Quarter Financial Statements

First quarter financial statements on consolidated results for the three months ended 31 March 2018. These figures have not been audited.

1(a). Unaudited Group Statement of Comprehensive Income For The Quarter Ended 31 March 2018

	1st Qtr 2018	1st Qtr 2017	+/(-)
	\$'000	\$'000	%
Profit and loss account:			
Interest on loans	59,681	53,523	11.5
Hiring charges	13,044	11,242	16.0
Other interest income	7,679	7,336	4.7
Interest income/hiring charges	80,404	72,101	11.5
Less: Interest expense	30,706	35,818	(14.3)
Net interest income/hiring charges	49,698	36,283	37.0
Fee and commission income	4,022	3,651	10.2
Other operating income	115	30	283.3
Income before operating expenses	53,835	39,964	34.7
Less: Staff costs	16,394	15,398	6.5
Depreciation of property, plant and equipment	688	929	(25.9)
Other operating expenses	4,935	4,736	4.2
Profit from operations before allowances/provision	31,818	18,901	68.3
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	(813)	920	(188.4)
Profit before tax	31,005	19,821	56.4
Less: Income tax expense	5,150	3,358	53.4
Profit for the period/Comprehensive income attributable to owners of the Company	25,855	16,463	57.0
Annualised earnings per share (cents)			
- Basic	23.22	14.83	
- Diluted	23.18	14.82	

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

Other operating income includes:

- (i) gain on disposal of plant and equipment amounting to \$78,000 (31 March 2017: loss on disposal of plant and equipment of \$1,000); and
- (ii) loss on disposal of Singapore Government securities close to their maturity amounting to \$Nil (31 March 2017: \$7,000).

2(a). Summarised Statements of Financial Position

	Group		Company	
	31 Mar 2018	31 Dec 2017	31 Mar 2018	31 Dec 2017
Number of shares in issue	445,443,233	445,173,033	445,443,233	445,173,033
	\$'000	\$'000	\$'000	\$'000
Share capital	883,511	882,829	883,511	882,829
Reserves	698,072	662,574	698,072	662,574
Accumulated profits	261,589	196,449	258,365	193,235
Equity attributable to owners of the Company	1,843,172	1,741,852	1,839,948	1,738,638
Liabilities				
Deposits and balances of customers	11,196,517	10,658,850	11,200,636	10,662,965
Trade and other payables	117,109	123,862	115,759	122,548
Current tax payable	32,621	18,322	32,615	18,317
Deferred tax liabilities	2,094	-	2,094	-
Total liabilities	11,348,341	10,801,034	11,351,104	10,803,830
Total equity and liabilities	13,191,513	12,542,886	13,191,052	12,542,468
Assets				
Cash at banks and in hand	1,062,873	1,088,908	1,061,877	1,087,956
Statutory deposit with the Monetary Authority of Singapore	300,742	285,467	300,742	285,467
Singapore Government securities	1,352,302	1,248,850	1,352,302	1,248,850
Hire purchase receivables	1,623,721	1,626,849	1,623,721	1,626,849
Loans, advances and factoring receivables	8,822,083	8,362,366	8,822,083	8,362,366
Allowances for doubtful debts	10,445,804	9,989,215	10,445,804	9,989,215
	(13,909)	(112,636)	(13,909)	(112,636)
	10,431,895	9,876,579	10,431,895	9,876,579
Other receivables, deposits and prepayments	22,995	21,230	22,995	21,229
Subsidiaries and long-term investments	-	-	535	535
Property, plant and equipment	20,706	21,324	20,706	21,324
Deferred tax assets	-	528	-	528
Total assets	13,191,513	12,542,886	13,191,052	12,542,468
Acceptances, guarantees and other obligations on behalf of customers	14,685	16,531	14,685	16,531

2(b). Net Asset Value

Net asset value per share (\$)	4.14	3.91	4.13	3.91
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2(c). There are no outstanding borrowings and debt securities as at 31 March 2018 (31 December 2017: \$Nil) for the Group and the Company.

3. Consolidated Statement of Cash Flows

	31 Mar 2018	31 Mar 2017
	\$'000	\$'000
Operating activities		
Profit for the period	25,855	16,463
Adjustments for:		
Impact of accrual of interest income	2,355	1,227
Impact of accrual of interest expense	(3,882)	(22,486)
Allowances for/(reversal of) doubtful debts and other financial assets	927	(524)
Depreciation of property, plant and equipment	688	929
(Gain)/loss on disposal of property, plant and equipment	(78)	1
Value of employee services received for issue of share options	56	49
Income tax expense	5,150	3,358
	31,071	(983)
Changes in working capital:		
Loans, advances and receivables	(466,287)	6,982
Other receivables, deposits and prepayments	(4,120)	14,650
Singapore Government securities	(103,452)	1,027
Deposits and balances of customers	537,667	(99,224)
Trade and other payables	(2,705)	10,285
Cash used in operations	(7,826)	(67,263)
Income taxes paid	(3,546)	(2,259)
Cash flows used in operating activities	(11,372)	(69,522)
Investing activities		
Purchase of property, plant and equipment	(87)	(380)
Proceeds from disposal of property, plant and equipment	95	-
Cash flows from/(used in) investing activities	8	(380)
Financing activities		
Proceeds from exercise of share options	630	1,014
Cash flows from financing activities	630	1,014
Net decrease in cash and cash equivalents	(10,734)	(68,888)
Cash and cash equivalents at 1 January, as restated*	1,374,349	1,485,212
Cash and cash equivalents at 31 March	1,363,615	1,416,324

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

	31 Mar 2018	31 Mar 2017
	\$'000	\$'000
Cash at banks and in hand	1,062,873	1,141,577
Statutory deposit with the Monetary Authority of Singapore	300,742	274,747
Cash and cash equivalents	1,363,615	1,416,324

In addition to the cash and cash equivalents above, marketable Singapore Government securities amounted to \$1,352,302,000 (31 March 2017: \$1,257,371,000) 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. Consolidated Statement 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
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

4. Statement 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
Company							
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
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

5. Review Of The Performance Of The Group

Net loan assets including hire purchase receivables (net of allowances) stood at \$10,432 million at the end of the period under review. This was an increase of 5.6% or \$555 million over the previous year's base of \$9,877 million as at 31 December 2017, and an increase of 9.7% or \$924 million over the figure of \$9,508 million as at 31 March 2017.

In line with higher funding requirements, deposits and balances of customers amounted to \$11,197 million as at 31 March 2018. This was an increase of 5.0% or \$538 million over the previous year's base of \$10,659 million as at 31 December 2017, and an increase of 8.3% or \$854 million over the base as at 31 March 2017. Cash and cash equivalents (including balances with the Monetary Authority of Singapore) together with Singapore Government securities held as liquid assets amounted to \$2,716 million as at 31 March 2018.

The Group recorded profit from operations before allowances/provision of \$31.8 million for the period under review, an increase of 68.3% from \$18.9 million for the previous corresponding period. Group profit before tax was arrived at after topping up provision (net of write back of provision/recoveries) amounting to \$813,000 against a write back of \$920,000 in the previous corresponding period. Accordingly, Group profit after tax for the period under review amounted to \$25.9 million, an increase of \$9.4 million or 57.0% over the previous corresponding period. The Group continues to maintain adequate loss allowances in respect of its loan portfolio.

For the period under review, total interest income/hiring charges increased by 11.5% due to the increase in average loan base and a higher loan yield. Interest expense for the quarter registered a decrease of \$5.1 million or 14.3% over the previous corresponding period. This was due to lower interest payable on deposits resulting from lower applicable interest rates partially offset by a larger average deposits base. Accordingly, net interest income/hiring charges for the period under review increased by 37.0% from the previous corresponding quarter.

Fee and commission income increased by 10.2% to \$4.0 million with higher fee income from some lending products partially offset by a decrease in non-lending fee income. Lower depreciation on computer equipment accounted for the decrease in depreciation of property, plant and equipment. Staff costs and other operating expenses were controlled.

Group shareholders' funds as at 31 March 2018 totalled \$1,843 million (31 December 2017: \$1,742 million) amounting to \$4.14 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

According to advance estimates released by the Ministry of Trade and Industry, the Singapore economy grew by 4.3% on a year-on-year basis in the first quarter of 2018. This is higher than the 3.6% growth achieved in the last quarter of 2017.

On a quarter-on-quarter seasonally-adjusted annualised basis, the economy expanded by 1.4%, a moderation from the 2.1% growth in the fourth quarter 2017.

The sectoral composition of this growth has not been even. Within manufacturing, the semiconductor segment continued its strong expansion, while the marine and offshore engineering industry remains subdued. The retail and food sector saw some pullback in activity while the business services sector posted further growth. The financial services sector also recorded varying outturns across its segments with lending in the domestic and offshore sectors showing better growth.

In its latest release, the Monetary Authority of Singapore (“MAS”) projects global demand to stay firm in 2018 although the pace of expansion could slow down slightly. Barring a setback in global trade, with the US-China trade dispute remaining unresolved, growth in the Singapore economy should continue at a broadly steady pace in the quarters ahead. In particular, the construction and domestic-oriented services are expected to show improvement, with the latter supported by upturn in private consumption.

Against this backdrop of events, Hong Leong Finance (“HLF”) will continue to build up its growth momentum and at the same time to maintain its strong focus on risks and compliance. To support our SMEs to upgrade themselves in the Smart Nation Master Plan, we partnered Infocomm Media Development Authority in the SMEs Go Digital programme. We also continue to partner SPRING Singapore (now Enterprise Singapore) to promote the Government-Assisted SME loans and capability development grants programme. Both programmes have been well received by our SMEs.

HLF has also rolled out various initiatives following MAS exemptions from the Finance Companies Act to support our SMEs. We launched a SME Appreciation Loans programme to assist them in their cash flow needs and operations following a SME Survey we made on the most pressing needs of our SMEs.

Meanwhile we will continue with building a strong balance sheet with good liquidity in a rising interest rate market and robust credit underwriting parameters amidst the uncertainties and volatilities in the market. We are also continuing our discussions with various Financial Technology companies. It is our intention to collaborate with them and engage in areas where HLF will be able to provide solutions to SMEs in this new digital era.

7. Dividends

The directors are not recommending the payment of an interim dividend (31 March 2017: Nil) in respect of the period under review.

8. Shares Issued and Outstanding Convertibles

Since the end of the previous quarter,

- (i) the Company issued 41,200 shares at an exercise price of \$2.28 per share, 31,500 shares at an exercise price of \$2.45 per share, 26,000 shares at an exercise price of \$2.56 per share, 5,500 shares at an exercise price of \$2.66 per share, 68,000 shares at an exercise price of \$2.34 per share and 98,000 shares at an exercise price of \$2.23 per share upon exercise of options under the Hong Leong Finance Share Option Scheme 2001 (the "Share Option Scheme"); and
- (ii) options to 242,335 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 17,391,065 shares (31 March 2017: 21,069,385 shares).

Pursuant to the Finance Companies Act, Chapter 108, the Company does not hold treasury shares and accordingly there are no treasury shares held during or at the end of the current period.

9. Accounting Policies

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

As previously announced, SFRS(I) 9 came into effect on 1 January 2018. Two main areas applicable to the Group under this standard relate to classification and measurement of financial assets and liabilities, and impairment allowances of financial assets. Regulatory requirements in relation to credit loss provisioning have also been revised effective from the same date. Under SFRS(I) 9, there is no material impact in the area of classification and measurement. There is a reversal of collective allowance for doubtful debts and at the same time, the Group, as required under MAS 811, has set up a non-distributable regulatory loss allowance reserve account, as allowances under SFRS(I) 9 falls below the minimum regulatory loss allowance. At initial adoption on 1 January 2018, the Group's expected credit loss provisioning reserve account amounts to \$16.9 million, with a credit booking 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. 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 26th day of April 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 ended 31 March 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

26 April 2018