



HONG LEONG FINANCE

First Quarter Financial Statements

First quarter financial statements on consolidated results for the three months ended 31 March 2014. These figures have not been audited.

1. Unaudited Group Statement of Comprehensive Income For The Quarter Ended 31 March 2014

	1st Qtr 2014	1st Qtr 2013	+ / (-)
	\$'000	\$'000	%
Profit and loss account:			
Interest on loans	46,478	44,752	3.9
Hiring charges	9,681	11,679	(17.1)
Other interest income	5,313	6,000	(11.5)
Interest income/hiring charges	61,472	62,431	(1.5)
Less: Interest expense	25,146	25,938	(3.1)
Net interest income/hiring charges	36,326	36,493	(0.5)
Fee and commission income	2,574	3,355	(23.3)
Other operating income	37	36	2.8
Income before operating expenses	38,937	39,884	(2.4)
Less: Staff costs	16,548	15,959	3.7
Depreciation of property, plant and equipment	636	598	6.4
Other operating expenses	4,408	5,065	(13.0)
Profit from operations before allowances/provision	17,345	18,262	(5.0)
Add: Reversal or recovery of doubtful debts and provision for settlements and costs relating to distribution of wealth management products	31	73	(57.5)
Profit before tax	17,376	18,335	(5.2)
Less: Income tax expense	2,941	3,078	(4.5)
Profit for the period/Comprehensive income attributable to owners of the Company	14,435	15,257	(5.4)
Annualised earnings per share (cents)			
- Basic	13.04	13.82	
- Diluted	13.02	13.81	

2(a). Summarised Statements of Financial Position

	Group		Company	
	31 Mar 2014	31 Dec 2013	31 Mar 2014	31 Dec 2013
Number of shares in issue	442,938,193	442,700,193	442,938,193	442,700,193
	\$'000	\$'000	\$'000	\$'000
Share capital	877,031	876,389	877,031	876,389
Reserves	595,949	595,900	595,949	595,900
Accumulated profits	188,435	173,982	185,599	171,161
Equity attributable to owners of the Company	1,661,415	1,646,271	1,658,579	1,643,450
Liabilities				
Deposits and balances of customers	9,946,795	9,905,800	9,950,719	9,909,716
Trade and other payables	99,320	108,923	98,044	107,635
Current tax payable	14,474	14,152	14,467	14,145
Total liabilities	10,060,589	10,028,875	10,063,230	10,031,496
Total equity and liabilities	11,722,004	11,675,146	11,721,809	11,674,946
Assets				
Cash at banks and in hand	1,075,758	1,081,566	1,075,028	1,080,832
Statutory deposit with the Monetary Authority of Singapore	263,235	261,535	263,235	261,535
Singapore Government securities	1,218,776	1,201,651	1,218,776	1,201,651
Hire purchase receivables	1,324,402	1,373,649	1,324,402	1,373,649
Loans, advances and factoring receivables	7,904,166	7,815,024	7,904,166	7,815,024
	9,228,568	9,188,673	9,228,568	9,188,673
Allowances for doubtful debts	(101,295)	(100,701)	(101,295)	(100,701)
	9,127,273	9,087,972	9,127,273	9,087,972
Other receivables, deposits and prepayments	15,484	20,482	15,484	20,481
Subsidiaries and long term investments	546	546	1,081	1,081
Property, plant and equipment	17,517	18,119	17,517	18,119
Deferred tax assets	3,415	3,275	3,415	3,275
Total assets	11,722,004	11,675,146	11,721,809	11,674,946
Acceptances, guarantees and other obligations on behalf of customers	8,244	8,149	8,244	8,149

2(b). Net Asset Value

Net asset value per share (\$)	3.75	3.72	3.74	3.71
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2(c). There are no outstanding borrowings and debt securities as at 31 March 2014 (31 December 2013 : \$Nil) for the Group and the Company.

3. Consolidated Statement of Cash Flows

	31 Mar 2014	31 Mar 2013
	\$'000	\$'000
Operating activities		
Comprehensive income after tax	14,435	15,257
Adjustments for:		
Impact of accrual of interest income	2,447	2,355
Impact of accrual of interest expense	(10,414)	(7,732)
Allowances for doubtful debts and receivables	731	757
Depreciation of property, plant and equipment	636	598
Value of employee services received for issue of share options	140	179
Income tax expense	2,941	3,078
	10,916	14,492
Changes in working capital:		
Loans, advances and receivables	(40,038)	(112,175)
Other receivables, deposits and prepayments	2,557	7,168
Singapore Government securities	(17,125)	(105,320)
Deposits and balances of customers	40,995	(1,895)
Trade and other payables	811	(1,151)
Cash (used in) operations	(1,884)	(198,881)
Income taxes paid	(2,759)	(4,314)
Cash flows (used in) operating activities	(4,643)	(203,195)
Investing activities		
Purchase of property, plant and equipment	(34)	(19)
Cash flows (used in) investing activities	(34)	(19)
Financing activities		
Proceeds from exercise of share options	569	799
Cash flows from financing activities	569	799
Net (decrease) in cash and cash equivalents	(4,108)	(202,415)
Cash and cash equivalents at 1 January	1,343,101	1,741,432
Cash and cash equivalents at 31 March	1,338,993	1,539,017

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

	31 Mar 2014	31 Mar 2013
	\$'000	\$'000
Cash at banks and in hand	1,075,758	1,280,179
Statutory deposit with the Monetary Authority of Singapore	263,235	258,838
Cash and cash equivalents at 31 March	1,338,993	1,539,017

In addition to the cash and cash equivalents above, marketable Singapore Government securities amounted to \$1,218,776,000 (31 March 2013 : \$1,212,805,000) for the Group.

4. Statements of Changes in Equity

Group	Share capital \$'000	Statutory reserve \$'000	Capital reserve \$'000	Share option reserve \$'000	Accumulated profits \$'000	Total \$'000
At 1 January 2014	876,389	586,109	2,307	7,484	173,982	1,646,271
Issue of shares under share option scheme	569					569
Value of employee services received for issue of share options				140		140
Value of employee services transferred for share options exercised or lapsed	73			(91)	18	-
Comprehensive income for the period					14,435	14,435
At 31 March 2014	877,031	586,109	2,307	7,533	188,435	1,661,415
At 1 January 2013	872,418	568,589	2,307	7,200	174,326	1,624,840
Issue of shares under share option scheme	799					799
Value of employee services received for issue of share options				179		179
Value of employee services transferred for share options exercised or lapsed	101			(130)	29	-
Comprehensive income for the period					15,257	15,257
At 31 March 2013	873,318	568,589	2,307	7,249	189,612	1,641,075
Company						
At 1 January 2014	876,389	586,109	2,307	7,484	171,161	1,643,450
Issue of shares under share option scheme	569					569
Value of employee services received for issue of share options				140		140
Value of employee services transferred for share options exercised or lapsed	73			(91)	18	-
Comprehensive income for the period					14,420	14,420
At 31 March 2014	877,031	586,109	2,307	7,533	185,599	1,658,579
At 1 January 2013	872,418	568,589	2,307	7,200	171,606	1,622,120
Issue of shares under share option scheme	799					799
Value of employee services received for issue of share options				179		179
Value of employee services transferred for share options exercised or lapsed	101			(130)	29	-
Comprehensive income for the period					15,245	15,245
At 31 March 2013	873,318	568,589	2,307	7,249	186,880	1,638,343

5. Review Of The Performance Of The Group

Net loan assets including hire purchase receivables (net of allowances) stood at \$9,127 million at the end of the financial period under review. This was an increase of 0.4% or \$39 million over the previous year's base of \$9,088 million as at 31 December 2013, and an increase of 1.3% or \$119 million over the figure of \$9,008 million as at 31 March 2013.

Deposits and balances of customers amounted to \$9,947 million as at 31 March 2014. This was an increase of 0.4% or \$41 million over the previous year's base of \$9,906 million as at 31 December 2013, and a decrease of 1.0% or \$97 million over the base as at 31 March 2013. Cash and cash equivalents (including balances with the Monetary Authority of Singapore) together with Singapore Government securities held as liquid assets amounted to \$2,558 million as at 31 March 2014.

The Group recorded profit from operations before allowances/provision of \$17.3 million for the financial period under review, a decrease of 5.0% from \$18.3 million for the previous corresponding period. Group profit before tax was arrived at after writing back provision/recoveries (net of top up of general provision) amounting to \$31,000 (31 March 2013 : \$73,000). Accordingly, Group profit after tax for the financial period under review amounted to \$14.4 million, a decrease of \$0.8 million or 5.4% over the previous corresponding period. The Group continues to maintain adequate individual and collective provisions in respect of its loan portfolio.

Pricing for lending products remained under some pressure, although this was mitigated by overall growth in the total loan book. For the financial period under review, total interest income/hiring charges decreased by 1.5% compared to the previous corresponding period, resulting from a slightly lower loan yield partially offset by a higher loan base. Interest expense for the financial period under review registered a decrease of \$0.8 million or 3.1% over the previous corresponding period. This was due to lower interest payable on deposits resulting from a combination of marginally lower prevailing interest rates and a lower deposits base. Net interest income/hiring charges for the financial period under review decreased 0.5% as a result of a slight reduction in lending spread achieved.

Fee and commission income declined by 23.3% to \$2.6 million mainly due to lower fee income from lending products. Staff costs were controlled. A decrease of 13.0% in other operating expenses was due largely to reduced business promotion expenses.

Group shareholders' funds as at 31 March 2014 totalled \$1,661 million (31 December 2013 : \$1,646 million) amounting to \$3.75 per share (31 December 2013 : \$3.72 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

Based on advance estimates by the Ministry of Trade and Industry, the Singapore economy grew by 5.1% on a year-on-year basis in the first quarter of 2014. This is lower than the 5.5% growth in the fourth quarter of 2013. On a quarter-on-quarter seasonally-adjusted annualised basis, the economy grew by 0.1%, moderating from the 6.1% expansion in the preceding quarter. Progressive regulatory action has taken a toll and the consequences are now impacting the economic data.

The cooling measures implemented by the Authorities have affected the property market, with the imposition of the Total Debt Servicing Ratio in the latest round having the most severe impact amongst all the measures. The motor vehicle market has also been shrinking since last year. In addition, many of our SMEs are hurt by the manpower supply constraints and other heightened operating costs. The external markets of the United States, the European Union and China have also seen lower and uneven growth. Although the worst seems to be over, volatility and uncertainty continue to prevail in many markets. However as a transition to higher interest rates becomes more likely, yields on assets should improve over time.

Hong Leong Finance continues to focus on growing its core business profitably yet prudently. Risk management and maintaining a strong and robust balance sheet remain a priority in the current difficult and challenging environment. We will continue to place emphasis on helping SMEs and will be opening more SME Centres to enhance support at our branches. Deposit gathering campaigns continued in the first quarter. With our history over 50 years and our broad appeal, we had a very successful Chinese New Year deposit campaign and will build up our deposit base in line with the growth of our loan assets.

7. Dividends

The directors are not recommending the payment of an interim dividend (31 March 2013 : Nil) in respect of the financial period under review.

8. Shares Issued and Outstanding Convertibles

Since the end of the previous quarter,

- (i) the Company issued 85,000 shares at an exercise price of \$2.28 per share and 153,000 shares at an exercise price of \$2.45 per share upon exercise of options under the Hong Leong Finance Share Option Scheme 2001 (the "Share Option Scheme"); and
- (ii) options to 69,800 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 22,409,865 shares (31 March 2013 : 22,330,925 shares).

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

9. Accounting Policies

The financial statements are prepared in accordance with Singapore Financial Reporting Standards ("FRS").

For the current financial year, the Group has adopted the following applicable FRSs:-

- FRS 27 Separate Financial Statements
- FRS 28 Investments in Associates and Joint Ventures
- FRS 110 Consolidated Financial Statements
- FRS 111 Joint Arrangements
- FRS 112 Disclosure of Interests in Other Entities
- Amendments to FRS 32 : Offsetting Financial Assets and Financial Liabilities
- Amendments to FRS 36 : Recoverable Amount Disclosures for Non-Financial Assets
- Amendments to FRS 39 : Novation of Derivatives and Continuation of Hedge Accounting
- Amendments to FRS 110, FRS 111 and FRS 112 : Transition Guidance
- Amendments to FRS 110, FRS 112 and FRS 27 : Investment Entities
- INT FRS 121 Levies

The adoption of these FRSs does not have a material impact on the financial statements for the financial period under review.

Save as already disclosed, accounting policies and methods of computation used in the financial statements for the financial period under review are consistent with those applied in the audited financial statements for the year ended 31 December 2013.

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 24th day of April 2014

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 2014 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

24 April 2014