



## HONG LEONG FINANCE

### First Quarter Financial Statements

First quarter financial statements on consolidated results for the three months ended 31 March 2017. These figures have not been audited.

#### 1(a). Unaudited Group Statement of Comprehensive Income For The Quarter Ended 31 March 2017

	<b>1st Qtr 2017</b>	1st Qtr 2016	+ / (-)
	<b>\$'000</b>	\$'000	%
Profit and loss account:			
Interest on loans	<b>53,523</b>	63,555	(15.8)
Hiring charges	<b>11,242</b>	8,922	26.0
Other interest income	<b>7,336</b>	8,975	(18.3)
Interest income/hiring charges	<b>72,101</b>	81,452	(11.5)
Less: Interest expense	<b>35,818</b>	43,921	(18.4)
Net interest income/hiring charges	<b>36,283</b>	37,531	(3.3)
Fee and commission income	<b>3,651</b>	2,231	63.6
Other operating income	<b>30</b>	40	(25.0)
Income before operating expenses	<b>39,964</b>	39,802	0.4
Less: Staff costs	<b>15,398</b>	16,524	(6.8)
Depreciation of property, plant and equipment	<b>929</b>	1,079	(13.9)
Other operating expenses	<b>4,736</b>	5,507	(14.0)
Profit from operations before allowances/provision	<b>18,901</b>	16,692	13.2
Add: Reversal or recovery of doubtful debts and provision for settlements and costs relating to distribution of wealth management products	<b>920</b>	853	7.9
Profit before tax	<b>19,821</b>	17,545	13.0
Less: Income tax expense	<b>3,358</b>	2,999	12.0
Profit for the period/Comprehensive income attributable to owners of the Company	<b>16,463</b>	14,546	13.2
Annualised earnings per share (cents)			
- Basic	<b>14.83</b>	13.11	
- Diluted	<b>14.82</b>	13.11	

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

- (i) Other operating income includes loss on disposal of plant and equipment amounting to \$1,000 (31 March 2016: gain on disposal of plant and equipment of \$1,000).
- (ii) Other operating income includes loss on disposal of Singapore Government securities close to their maturity amounting to \$7,000 (31 March 2016: \$Nil).

2(a). Summarised Statements of Financial Position

	<b>Group</b>		<b>Company</b>	
	<b>31 Mar 2017</b>	31 Dec 2016	<b>31 Mar 2017</b>	31 Dec 2016
Number of shares in issue	<b>444,216,033</b>	443,784,033	<b>444,216,033</b>	443,784,033
	<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000
Share capital	<b>880,391</b>	879,279	<b>880,391</b>	879,279
Reserves	<b>642,558</b>	642,622	<b>642,558</b>	642,622
Accumulated profits	<b>191,685</b>	175,207	<b>188,536</b>	172,072
Equity attributable to owners of the Company	<b>1,714,634</b>	1,697,108	<b>1,711,485</b>	1,693,973
Liabilities				
Deposits and balances of customers	<b>10,342,534</b>	10,441,758	<b>10,346,597</b>	10,445,816
Trade and other payables	<b>149,874</b>	162,075	<b>148,566</b>	160,765
Current tax payable	<b>13,322</b>	12,159	<b>13,318</b>	12,155
Total liabilities	<b>10,505,730</b>	10,615,992	<b>10,508,481</b>	10,618,736
Total equity and liabilities	<b>12,220,364</b>	12,313,100	<b>12,219,966</b>	12,312,709
Assets				
Cash at banks and in hand	<b>1,141,577</b>	1,207,113	<b>1,140,644</b>	1,206,188
Statutory deposit with the Monetary Authority of Singapore	<b>274,747</b>	278,099	<b>274,747</b>	278,099
Singapore Government securities	<b>1,257,371</b>	1,258,398	<b>1,257,371</b>	1,258,398
Hire purchase receivables	<b>1,583,277</b>	1,545,273	<b>1,583,277</b>	1,545,273
Loans, advances and factoring receivables	<b>8,034,574</b>	8,080,517	<b>8,034,574</b>	8,080,517
Allowances for doubtful debts	<b>9,617,851</b>	9,625,790	<b>9,617,851</b>	9,625,790
	<b>(109,382)</b>	(110,863)	<b>(109,382)</b>	(110,863)
	<b>9,508,469</b>	9,514,927	<b>9,508,469</b>	9,514,927
Other receivables, deposits and prepayments	<b>13,284</b>	29,161	<b>13,284</b>	29,160
Subsidiaries and long term investments	<b>546</b>	546	<b>1,081</b>	1,081
Property, plant and equipment	<b>23,980</b>	24,530	<b>23,980</b>	24,530
Deferred tax assets	<b>390</b>	326	<b>390</b>	326
Total assets	<b>12,220,364</b>	12,313,100	<b>12,219,966</b>	12,312,709
Acceptances, guarantees and other obligations on behalf of customers	<b>15,584</b>	15,645	<b>15,584</b>	15,645

2(b). Net Asset Value

Net asset value per share (\$)	<b>3.86</b>	3.82	<b>3.85</b>	3.82
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2(c). There are no outstanding borrowings and debt securities as at 31 March 2017 (31 December 2016: \$Nil) for the Group and the Company.



### 3. Consolidated Statement of Cash Flows

	31 Mar 2017 \$'000	31 Mar 2016 \$'000
Operating activities		
Profit for the period	16,463	14,546
Adjustments for:		
Impact of accrual of interest income	1,227	1,020
Impact of accrual of interest expense	(22,486)	(1,616)
(Reversal of)/allowances for doubtful debts	(524)	1,620
Depreciation of property, plant and equipment	929	1,079
Loss/(gain) on disposal of property, plant and equipment	1	(1)
Value of employee services received for issue of share options	49	66
Income tax expense	3,358	2,999
	(983)	19,713
Changes in working capital:		
Loans, advances and receivables	6,982	162,361
Other receivables, deposits and prepayments	14,650	18,550
Singapore Government securities	1,027	4,061
Deposits and balances of customers	(99,224)	(351,992)
Trade and other payables	10,285	(1,561)
Cash used in operations	(67,263)	(148,868)
Income taxes paid	(2,259)	(2,681)
Cash flows used in operating activities	(69,522)	(151,549)
Investing activities		
Purchase of property, plant and equipment	(380)	(47)
Proceeds from disposal of property, plant and equipment	-	2
Cash flows used in investing activities	(380)	(45)
Financing activities		
Proceeds from exercise of share options	1,014	-
Cash flows from financing activities	1,014	-
Net decrease in cash and cash equivalents	(68,888)	(151,594)
Cash and cash equivalents at 1 January	1,485,212	1,795,985
Cash and cash equivalents at 31 March	1,416,324	1,644,391

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

	31 Mar 2017 \$'000	31 Mar 2016 \$'000
Cash at banks and in hand	1,141,577	1,348,629
Statutory deposit with the Monetary Authority of Singapore	274,747	295,762
Cash and cash equivalents at 31 March	1,416,324	1,644,391

In addition to the cash and cash equivalents above, marketable Singapore Government securities amounted to \$1,257,371,000 (31 March 2016: \$1,329,144,000) for the Group.

#### 4. Statements of Changes in Equity

	Share capital \$'000	Statutory reserve \$'000	Capital reserve \$'000	Share option reserve \$'000	Accumulated profits \$'000	Total \$'000
<b>Group</b>						
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
At 1 January 2016	879,279	620,024	2,307	7,490	179,011	1,688,111
Value of employee services received for issue of share options				66		66
Value of employee services transferred for share options exercised or lapsed				(244)	244	-
Comprehensive income for the period					14,546	14,546
At 31 March 2016	879,279	620,024	2,307	7,312	193,801	1,702,723
<b>Company</b>						
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
At 1 January 2016	879,279	620,024	2,307	7,490	175,979	1,685,079
Value of employee services received for issue of share options				66		66
Value of employee services transferred for share options exercised or lapsed				(244)	244	-
Comprehensive income for the period					14,530	14,530
At 31 March 2016	879,279	620,024	2,307	7,312	190,753	1,699,675



## 5. Review Of The Performance Of The Group

Net loan assets including hire purchase receivables (net of allowances) stood at \$9,508 million at the end of the period under review. This was a reflection of the slowing economy, giving a decrease of 0.1% or \$7 million over the previous year's base of \$9,515 million as at 31 December 2016, and a decrease of 4.2% or \$419 million over the figure of \$9,927 million as at 31 March 2016.

In line with lower funding requirements, deposits and balances of customers amounted to \$10,343 million as at 31 March 2017. This was a decrease of 1.0% or \$99 million over the previous year's base of \$10,442 million as at 31 December 2016, and a decrease of 6.8% or \$749 million over the base as at 31 March 2016. Cash and cash equivalents (including balances with the Monetary Authority of Singapore) together with Singapore Government securities held as liquid assets amounted to \$2,674 million as at 31 March 2017.

The Group recorded profit from operations before allowances/provision of \$18.9 million for the period under review, an increase of 13.2% from \$16.7 million for the previous corresponding period. Group profit before tax was arrived at after writing back provision/recoveries amounting to \$920,000 compared to \$853,000 in the previous corresponding period. Accordingly, Group profit after tax for the period under review amounted to \$16.5 million, an increase of \$1.9 million or 13.2% over the previous corresponding period. The Group continues to maintain adequate individual and collective provisions in respect of its loan portfolio in line with the practice in prior years.

For the period under review, total interest income/hiring charges decreased by 11.5% and interest expense also registered a decrease, of \$8.1 million or 18.4% over the previous corresponding period. Both decreases resulted from a combination of a lower base and lower applicable interest rates. Accordingly, net interest income/hiring charges for the period under review marginally decreased by 3.3% from the previous corresponding quarter.

Fee and commission income increased by 63.6% to \$3.7 million with higher fee income from both lending and non-lending products. Staff costs decreased by 6.8% mainly due to lower provision for bonus and headcount. Lower depreciation on renovation accounted for the slight decrease in depreciation of property, plant and equipment. A decrease of 14.0% in other operating expenses was due mainly to decreased business promotion expenses.

Group shareholders' funds as at 31 March 2017 totalled \$1,715 million (31 December 2016: \$1,697 million) amounting to \$3.86 per share (31 December 2016: \$3.82 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 GDP expanded by 2.5% in the first quarter of 2017 from a year ago, moderating from the 2.9% recorded in the previous quarter. On a quarter-on-quarter seasonally-adjusted annualised basis, GDP contracted by 1.9% from the last quarter. This reverses the 12.3% surge recorded in the fourth quarter of 2016 according to the Ministry of Trade and Industry ("MTI").

The manufacturing sector, which surged by about 40% quarter-on-quarter seasonally-adjusted annualised basis in the fourth quarter of 2016, gave up some momentum and contracted by 6.6%. Activity in services also fell sequentially, due to a pullback in trade-related and financial services. Despite the pullback, the Monetary Authority of Singapore noted that the underlying momentum in the economy remains intact, with output of electronics and its related services segments still at healthy levels.

For the global economy, uncertainties and downside risks remain. Political risks and economic uncertainties have risen. While the UK is navigating itself through "Brexit", upcoming elections in key Eurozone economies may create uncertainties on the future of the monetary union. There are also signs of a rise in anti-globalisation sentiments. The lack of clarity on the policies of the new US administration and heightened tensions on the Korean Peninsula have also given rise to more economic uncertainties leading to financial market volatility. Should monetary conditions in China tighten further, this would likely lead to a further slowdown in the country.

Against this global backdrop, the Singapore economy is expected to be sustained in 2017 from the manufacturing and infrastructure sectors. MTI believes the information and communications, education, and health sectors are expected to remain resilient while the marine and offshore, retail and food services and construction sectors are likely to face headwinds. Taking the above factors into account, the economy is expected to grow at a modest pace of "1.0% to 3.0%" in 2017.

Hong Leong Finance being a strong SME supporter continues to provide innovative solutions for these companies. We rolled out a series of products including the SME Care program and SME HDB scheme to help SMEs in collaboration with SPRING. Other programmes like the ME@50 provide solutions for the retirees. Our SME Centres located at HDB estates have been successfully assisting SMEs with solutions to help their cash flows with Accounts Receivable Financing and Factoring services.

Our focus has been to ensure we maintain a strong balance sheet with good liquidity and robust credit underwriting parameters and to always be relevant to our depositors and the small business community during these challenging times.

As previously announced, on 14 February 2017, the Monetary Authority of Singapore announced forthcoming changes to Finance Company regulations to enhance the industry's ability to finance and support SMEs. The proposed measures are a relaxation of some of the business restrictions, and as an example include an increase in the limit for the grant of unsecured business loans. The Company welcomes the relaxation which represents further opportunities for the Company to expand its business with SMEs and further support them in their quest to grow and expand both domestically and overseas. We will actively study the applicable regulatory changes as and when they are phased in by the regulator.



7. Dividends

The directors are not recommending the payment of an interim dividend (31 March 2016: 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 160,500 shares at an exercise price of \$2.28 per share, 47,000 shares at an exercise price of \$2.45 per share, 34,000 shares at an exercise price of \$2.56 per share and 190,500 shares at an exercise price of \$2.34 per share upon exercise of options under the Hong Leong Finance Share Option Scheme 2001 (the "Share Option Scheme"); and
- (ii) options to 54,300 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 21,069,385 shares (31 March 2016: 21,716,995 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 ("FRS").

The adoption of the new/revised/amendments to FRSs/interpretations of FRSs which came into effect from 1 January 2017 does not have a material impact on the financial statements of the Group and the Company for the period under review.

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 2016.

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 26<sup>th</sup> day of April 2017

### **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 2017 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 2017