



HONG LEONG FINANCE

Second Quarter And Half-Year Financial Statements And Related Announcement

Second quarter and half-year financial statements on consolidated results for the period ended 30 June 2016. These figures have not been audited.

1(a). Unaudited Group Statements of Comprehensive Income For The Quarter And Half Year Ended 30 June 2016

	2nd Qtr 2016	2nd Qtr 2015	+/(-)	1st Half 2016	1st Half 2015	+/(-)
	\$'000	\$'000	%	\$'000	\$'000	%
Profit and loss account:						
Interest on loans	60,927	58,256	4.6	124,482	112,006	11.1
Hiring charges	9,320	8,362	11.5	18,242	16,722	9.1
Other interest income	8,204	6,606	24.2	17,179	12,666	35.6
Interest income/hiring charges	78,451	73,224	7.1	159,903	141,394	13.1
Less: Interest expense	44,429	32,000	38.8	88,350	61,844	42.9
Net interest income/hiring charges	34,022	41,224	(17.5)	71,553	79,550	(10.1)
Fee and commission income	3,108	3,081	0.9	5,339	6,675	(20.0)
Other operating income	56	119	(52.9)	96	156	(38.5)
Income before operating expenses	37,186	44,424	(16.3)	76,988	86,381	(10.9)
Less: Staff costs	15,839	17,420	(9.1)	32,363	34,354	(5.8)
Depreciation of property, plant and equipment	1,021	1,128	(9.5)	2,100	2,034	3.2
Other operating expenses	5,081	6,213	(18.2)	10,588	11,341	(6.6)
Profit from operations before allowances/provision	15,245	19,663	(22.5)	31,937	38,652	(17.4)
Less: Allowances for doubtful debts net of reversal or recovery of doubtful debts and provision for settlements and costs relating to distribution of wealth management products	1,906	3,038	(37.3)	1,053	3,386	(68.9)
Profit before tax	13,339	16,625	(19.8)	30,884	35,266	(12.4)
Less: Income tax expense	2,301	2,666	(13.7)	5,300	5,741	(7.7)
Profit for the period/Comprehensive income attributable to owners of the Company	11,038	13,959	(20.9)	25,584	29,525	(13.3)
Annualised earnings per share (cents)						
- Basic	9.95	12.58		11.53	13.31	
- Diluted	9.95	12.57		11.53	13.30	

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

Other operating income includes loss on disposal of plant and equipment amounting to \$2,000 (30 June 2015 : gain on disposal of plant and equipment of \$61,000) and \$1,000 (30 June 2015 : gain on disposal of plant and equipment of \$60,000) for the quarter and half year ended 30 June 2016 respectively.

2(a). Summarised Statements of Financial Position

	Group		Company	
	30 Jun 2016	31 Dec 2015	30 Jun 2016	31 Dec 2015
Number of shares in issue	443,784,033	443,784,033	443,784,033	443,784,033
	\$'000	\$'000	\$'000	\$'000
Share capital	879,279	879,279	879,279	879,279
Reserves	629,555	629,821	629,555	629,821
Accumulated profits	173,927	179,011	170,840	175,979
Equity attributable to owners of the Company	1,682,761	1,688,111	1,679,674	1,685,079
Liabilities				
Deposits and balances of customers	10,983,726	11,443,999	10,987,731	11,448,002
Trade and other payables	150,502	139,848	149,223	138,540
Current tax payable	13,950	15,171	13,946	15,165
Total liabilities	11,148,178	11,599,018	11,150,900	11,601,707
Total equity and liabilities	12,830,939	13,287,129	12,830,574	13,286,786
Assets				
Cash at banks and in hand	1,127,133	1,495,006	1,126,233	1,494,129
Statutory deposit with the Monetary Authority of Singapore	298,018	300,979	298,018	300,979
Singapore Government securities	1,325,091	1,333,205	1,325,091	1,333,205
Hire purchase receivables	1,450,882	1,343,363	1,450,882	1,343,363
Loans, advances and factoring receivables	8,697,339	8,856,287	8,697,339	8,856,287
Allowances for doubtful debts	10,148,221	10,199,650	10,148,221	10,199,650
	(110,768)	(108,557)	(110,768)	(108,557)
	10,037,453	10,091,093	10,037,453	10,091,093
Other receivables, deposits and prepayments	15,626	37,478	15,626	37,477
Subsidiaries and long term investments	546	546	1,081	1,081
Property, plant and equipment	25,964	27,897	25,964	27,897
Deferred tax assets	1,108	925	1,108	925
Total assets	12,830,939	13,287,129	12,830,574	13,286,786
Acceptances, guarantees and other obligations on behalf of customers	17,532	14,026	17,532	14,026

2(b). Net Asset Value

Net asset value per share (\$)	3.79	3.80	3.78	3.80
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2(c). There are no outstanding borrowings and debt securities as at 30 June 2016 (31 December 2015 : \$Nil) for the Group and the Company.

3. Consolidated Statement of Cash Flows

	2nd Qtr 2016 \$'000	2nd Qtr 2015 \$'000	1st Half 2016 \$'000	1st Half 2015 \$'000
Operating activities				
Profit for the period	11,038	13,959	25,584	29,525
Adjustments for:				
Impact of accrual of interest income	(921)	(1,810)	99	(561)
Impact of accrual of interest expense	13,504	17,642	11,888	16,940
Allowances for doubtful debts and receivables	3,071	3,494	4,691	4,362
Depreciation of property, plant and equipment	1,021	1,128	2,100	2,034
Loss/(gain) on disposal of property, plant and equipment	2	(61)	1	(60)
Value of employee services received for issue of share options	65	113	131	226
Income tax expense	2,301	2,666	5,300	5,741
	30,081	37,131	49,794	58,207
Changes in working capital:				
Loans, advances and receivables	(113,412)	(349,773)	48,949	(340,050)
Other receivables, deposits and prepayments	3,203	(74)	21,753	8,497
Singapore Government securities	4,053	(111,533)	8,114	(127,156)
Deposits and balances of customers	(108,281)	173,764	(460,273)	328,813
Trade and other payables	327	59,099	(1,234)	57,445
Cash used in operations	(184,029)	(191,386)	(332,897)	(14,244)
Income taxes paid	(4,023)	(3,721)	(6,704)	(6,199)
Cash flows used in operating activities	(188,052)	(195,107)	(339,601)	(20,443)
Investing activities				
Purchase of property, plant and equipment	(123)	(2,735)	(170)	(4,108)
Proceeds from disposal of property, plant and equipment	-	68	2	68
Cash flows used in investing activities	(123)	(2,667)	(168)	(4,040)
Financing activities				
Proceeds from exercise of share options	-	471	-	543
Dividends paid	(31,065)	(26,623)	(31,065)	(26,623)
Cash flows used in financing activities	(31,065)	(26,152)	(31,065)	(26,080)
Net decrease in cash and cash equivalents	(219,240)	(223,926)	(370,834)	(50,563)
Cash and cash equivalents at beginning of period	1,644,391	1,538,811	1,795,985	1,365,448
Cash and cash equivalents at end of period	1,425,151	1,314,885	1,425,151	1,314,885

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

	30 Jun 2016 \$'000	30 Jun 2015 \$'000
Cash at banks and in hand	1,127,133	1,023,501
Statutory deposit with the Monetary Authority of Singapore	298,018	291,384
Cash and cash equivalents at 30 June	1,425,151	1,314,885

In addition to the cash and cash equivalents above, marketable Singapore Government securities amounted to \$1,325,091,000 (30 June 2015 : \$1,385,844,000) 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 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
Value of employee services received for issue of share options				65		65
Value of employee services transferred for share options exercised or lapsed				(153)	153	-
Final dividend paid of 7 cents per share (tax exempt one-tier) in respect of year 2015					(31,065)	(31,065)
Comprehensive income for the period					11,038	11,038
At 30 June 2016	879,279	620,024	2,307	7,224	173,927	1,682,761
At 1 January 2015	878,664	601,809	2,307	7,776	168,012	1,658,568
Issue of shares under share option scheme	72					72
Value of employee services received for issue of share options				113		113
Value of employee services transferred for share options exercised or lapsed	9			(25)	16	-
Comprehensive income for the period					15,566	15,566
At 31 March 2015	878,745	601,809	2,307	7,864	183,594	1,674,319
Issue of shares under share option scheme	471					471
Value of employee services received for issue of share options				113		113
Value of employee services transferred for share options exercised or lapsed	58			(96)	38	-
Final dividend paid of 6 cents per share (tax exempt one-tier) in respect of year 2014					(26,623)	(26,623)
Comprehensive income for the period					13,959	13,959
At 30 June 2015	879,274	601,809	2,307	7,881	170,968	1,662,239

4. Statements of Changes in Equity (continued)

Company	Share capital \$'000	Statutory reserve \$'000	Capital reserve \$'000	Share option reserve \$'000	Accumulated profits \$'000	Total \$'000
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
Value of employee services received for issue of share options				65		65
Value of employee services transferred for share options exercised or lapsed				(153)	153	-
Final dividend paid of 7 cents per share (tax exempt one-tier) in respect of year 2015					(31,065)	(31,065)
Comprehensive income for the period					10,999	10,999
At 30 June 2016	879,279	620,024	2,307	7,224	170,840	1,679,674
At 1 January 2015	878,664	601,809	2,307	7,776	165,081	1,655,637
Issue of shares under share option scheme	72					72
Value of employee services received for issue of share options				113		113
Value of employee services transferred for share options exercised or lapsed	9			(25)	16	-
Comprehensive income for the period					15,554	15,554
At 31 March 2015	878,745	601,809	2,307	7,864	180,651	1,671,376
Issue of shares under share option scheme	471					471
Value of employee services received for issue of share options				113		113
Value of employee services transferred for share options exercised or lapsed	58			(96)	38	-
Final dividend paid of 6 cents per share (tax exempt one-tier) in respect of year 2014					(26,623)	(26,623)
Comprehensive income for the period					13,918	13,918
At 30 June 2015	879,274	601,809	2,307	7,881	167,984	1,659,255

5. Review Of The Performance Of The Group

Net loan assets including hire purchase receivables (net of allowances) stood at \$10,037 million at the end of the period under review. This was a reflection of the slowing economy, giving a decrease of 0.5% or \$54 million over the previous year's base of \$10,091 million as at 31 December 2015, although an increase of 1.2% or \$119 million over the figure of \$9,918 million as at 30 June 2015.

With foreign banks competing for retail customer deposits, deposits and balances of customers closed at \$10,984 million as at 30 June 2016. This was a decrease of 4.0% or \$460 million over the previous year's base as at 31 December 2015, and an increase of 1.7% or \$187 million over the base as at 30 June 2015. Cash and cash equivalents (including balances with the Monetary Authority of Singapore) together with Singapore Government securities held as liquid assets amounted to \$2,750 million as at 30 June 2016 (30 June 2015 : \$2,701 million).

The Group recorded profit from operations before allowances/provision of \$15.2 million for the quarter under review, a decrease of 22.5% from \$19.7 million for the previous corresponding quarter, due mainly to increases in interest expense outpacing interest income. For the half year ended 30 June 2016, the decrease was 17.4% from \$38.7 million to \$31.9 million. Group profit before tax for the quarter and the half year ended 30 June 2016 were arrived at after topping up provision (net of write back of provision/recoveries) amounting to \$1.9 million (30 June 2015 : \$3.0 million) and \$1.1 million (30 June 2015 : \$3.4 million) respectively. Accordingly, Group profit after tax for the quarter under review amounted to \$11.0 million, a decrease of \$2.9 million or 20.9% over the previous corresponding quarter, whilst that for the half year ended 30 June 2016 showed a decrease of \$3.9 million or 13.3% over the previous corresponding period to \$25.6 million. The Group continues to maintain adequate individual and collective provisions in respect of its loan portfolio in line with the practice in prior years.

Total interest income/hiring charges for the quarter and half year under review increased by 7.1% and 13.1% respectively due to the increase in loan base and a higher loan yield. Interest expense for the quarter registered an increase of \$12.4 million or 38.8% over the previous corresponding quarter, whilst that for the half year ended 30 June 2016 showed an increase of \$26.5 million or 42.9% over the previous corresponding period. This was due to a higher interest payable on deposits resulting from a combination of a larger deposits base and higher prevailing interest rates. Longer term Singapore interbank rates remained elevated compared to a year ago, compounded by industry moves away from wholesale funding to competing for retail deposits, to build up liquidity buffers. Accordingly, net interest income/hiring charges for the quarter and half year under review decreased 17.5% and 10.1% respectively from the previous corresponding period.

Fee and commission income for the half year under review decreased by 20.0% to \$5.3 million with lower fee income from some lending products partially offset by an increase in non-lending fee income. Staff costs for the quarter and half year under review decreased by 9.1% and 5.8% respectively mainly due to lower provision for bonus. A decrease of 18.2% and 6.6% in other operating expenses for the quarter and half year under review respectively was due mainly to reduced business promotion expenses and lower cost of upgrading computer systems and IT capabilities.

Group shareholders' funds as at 30 June 2016 totalled \$1,683 million (31 December 2015 : \$1,688 million) amounting to \$3.79 per share (31 December 2015 : \$3.80 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 has announced that it has narrowed the GDP growth forecast for 2016 to 1.0% to 2.0%, from 1.0% to 3.0%. The Singapore economy grew by 2.1% on a year-on-year basis in the second quarter of 2016, unchanged from the previous quarter. On a quarter-on-quarter seasonally-adjusted annualised basis, the economy expanded by 0.3%, slightly faster than the 0.1% growth in the first quarter.

According to the latest Monetary Authority of Singapore macroeconomic review, the slow growth environment is expected to continue for Singapore's economy as cyclical factors put a damper on economic growth. Externally, growth from G3 economies and China are all expected to be lower. With the recent UK Brexit vote, the political and economic undertones in Britain are going to be volatile and uncertain. Of a bigger concern is the European Union ("EU") as the latter is Singapore's second largest export market. The integrity of the EU will be at risk if other countries decide along the British route.

There are also a lot of uncertainties over the US interest rate with the Federal Reserve unsure of any further rate increases this year. The prices of oil and other commodities are also very volatile with no signs of stabilising. All these factors have made the Singapore economy very challenging, and together with our slow productivity improvements and similarly slow abatement of manpower and rental costs, weigh on the already lacklustre market.

During these difficult times Hong Leong Finance ("HLF") remains very focused on maintaining a healthy and strong balance sheet. We continue with our strong underwriting and due diligence parameters taking cognizance that the credit standing of our customers could be jeopardized by changes in quality of their own customers where affected by political or other economic issues beyond their control. In this regard, our Risk Management and Compliance teams have been enhancing our credit controls.

HLF continues to support SPRING's efforts in providing working capital loans to SMEs during these stressful times. We have also rolled out HDB SME loans to assist our shop keepers in the HDB estates. This support is provided through our ten SME Centres. Other initiatives include competitive deposit and equipment loan packages to ensure we remain relevant to the depositors as well as the small business community respectively.

7. Dividend

An interim dividend of 3 cents per share (tax exempt one-tier) (2015 : 4 cents per share, tax exempt one-tier) has been declared in respect of the year ending 31 December 2016. The interim dividend will be paid on 16 September 2016.

	Latest Period	Previous Period
Name of Dividend	Interim	Interim (paid on 9 September 2015)
Dividend Type	Cash	Cash
Dividend Rate	3 cents per share	4 cents per share
Total Dividend	\$13,314,000*	\$17,751,000
Tax Rate	Tax exempt one-tier	Tax exempt one-tier

* The amount of dividend is computed on the shares in issue as at the reporting date. 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 the reporting date and the last day for exercise of options to determine shareholders' entitlement to the dividend.

8. Shares Issued and Outstanding Convertibles

Since the end of the previous quarter,

- (i) no shares were issued under the Share Option Scheme; and
- (ii) options to 405,605 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 21,311,390 shares (30 June 2015 : 22,700,225 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").

As previously announced, the adoption of the FRSs which came into effect for the current year does not have a material impact on the financial statements for the period under review. Save as disclosed, 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 2015.

10. Closure of Books

Notice is hereby given that the Share Transfer Books and Register of Members of the Company will be closed on 30 August 2016. 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 29 August 2016 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 12th day of August 2016

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 half year ended 30 June 2016 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

12 August 2016