



HONG LEONG FINANCE

Third Quarter And Nine Months Financial Statements

Third quarter and nine months financial statements on consolidated results for the period ended 30 September 2014. These figures have not been audited.

1(a). Unaudited Group Statements of Comprehensive Income For The Quarter And Nine Months Ended 30 September 2014

	3rd Qtr 2014	3rd Qtr 2013	+ / (-)	9 Months 2014	9 Months 2013	+ / (-)
	\$'000	\$'000	%	\$'000	\$'000	%
Profit and loss account:						
Interest on loans	50,349	45,810	9.9	144,953	136,060	6.5
Hiring charges	8,730	10,771	(18.9)	27,524	33,800	(18.6)
Other interest income	5,385	5,328	1.1	16,112	16,908	(4.7)
Interest income/hiring charges	64,464	61,909	4.1	188,589	186,768	1.0
Less: Interest expense	26,865	24,918	7.8	77,266	75,751	2.0
Net interest income/hiring charges	37,599	36,991	1.6	111,323	111,017	0.3
Fee and commission income	3,278	5,603	(41.5)	8,837	12,415	(28.8)
Other operating income	41	184	(77.7)	138	576	(76.0)
Income before operating expenses	40,918	42,778	(4.3)	120,298	124,008	(3.0)
Less: Staff costs	16,041	15,304	4.8	48,851	46,861	4.2
Depreciation of property, plant and equipment	677	646	4.8	1,960	1,840	6.5
Other operating expenses	4,816	4,335	11.1	13,738	13,814	(0.6)
Profit from operations before allowances/provision	19,384	22,493	(13.8)	55,749	61,493	(9.3)
Add/(Less): (Allowances for)/reversal or recovery of doubtful debts and provision for settlements and costs relating to distribution of wealth management products and impairment losses of other assets	(2,091)	1,503	(239.1)	(4,082)	1,703	(339.7)
Profit before tax	17,293	23,996	(27.9)	51,667	63,196	(18.2)
Less: Income tax expense	2,962	4,070	(27.2)	8,838	10,618	(16.8)
Profit for the period/Comprehensive income attributable to owners of the Company	14,331	19,926	(28.1)	42,829	52,578	(18.5)
Annualised earnings per share (cents)						
- Basic	12.93	18.02		12.89	15.87	
- Diluted	12.91	18.01		12.87	15.84	

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

- (i) Other operating income includes loss on disposal of plant and equipment amounting to \$24,000 (30 September 2013 : \$Nil) and \$24,000 (30 September 2013 : gain on disposal of plant and equipment of \$293,000) for the quarter and nine months ended 30 September 2014 respectively; and
- (ii) (Allowances for)/reversal or recovery of doubtful debts and provision for settlements and costs relating to distribution of wealth management products and impairment losses of other assets includes impairment losses of other assets (property, plant and equipment) amounting to \$Nil (30 September 2013 : \$Nil) and \$186,000 (30 September 2013 : \$Nil) for the quarter and nine months ended 30 September 2014 respectively.

2(a). Summarised Statements of Financial Position

	Group		Company	
	30 Sep 2014	31 Dec 2013	30 Sep 2014	31 Dec 2013
Number of shares in issue	443,531,403	442,700,193	443,531,403	442,700,193
	\$'000	\$'000	\$'000	\$'000
Share capital	878,625	876,389	878,625	876,389
Reserves	595,950	595,900	595,950	595,900
Accumulated profits	163,725	173,982	160,819	171,161
Equity attributable to owners of the Company	1,638,300	1,646,271	1,635,394	1,643,450
Liabilities				
Deposits and balances of customers	10,685,239	9,905,800	10,689,201	9,909,716
Trade and other payables	157,125	108,923	155,824	107,635
Current tax payable	13,013	14,152	13,007	14,145
Total liabilities	10,855,377	10,028,875	10,858,032	10,031,496
Total equity and liabilities	12,493,677	11,675,146	12,493,426	11,674,946
Assets				
Cash at banks and in hand	1,143,001	1,081,566	1,142,215	1,080,832
Statutory deposit with the Monetary Authority of Singapore	279,156	261,535	279,156	261,535
Singapore Government securities	1,333,063	1,201,651	1,333,063	1,201,651
Hire purchase receivables	1,254,127	1,373,649	1,254,127	1,373,649
Loans, advances and factoring receivables	8,546,434	7,815,024	8,546,434	7,815,024
	9,800,561	9,188,673	9,800,561	9,188,673
Allowances for doubtful debts	(106,403)	(100,701)	(106,403)	(100,701)
	9,694,158	9,087,972	9,694,158	9,087,972
Other receivables, deposits and prepayments	13,917	20,482	13,917	20,481
Subsidiaries and long term investments	546	546	1,081	1,081
Property, plant and equipment	25,497	18,119	25,497	18,119
Deferred tax assets	4,339	3,275	4,339	3,275
Total assets	12,493,677	11,675,146	12,493,426	11,674,946
Acceptances, guarantees and other obligations on behalf of customers	8,390	8,149	8,390	8,149

2(b). Net Asset Value

Net asset value per share (\$)	3.69	3.72	3.69	3.71
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2(c). There are no outstanding borrowings and debt securities as at 30 September 2014 (31 December 2013 : \$Nil) for the Group and the Company.

3. Consolidated Statement of Cash Flows

	3rd Qtr 2014 \$'000	3rd Qtr 2013 \$'000	9 Months 2014 \$'000	9 Months 2013 \$'000
Operating activities				
Comprehensive income after tax	14,331	19,926	42,829	52,578
Adjustments for:				
Impact of accrual of interest income	3,283	3,937	2,703	2,864
Impact of accrual of interest expense	10,718	6,643	3,953	3,485
Allowances for doubtful debts and receivables	3,548	304	6,672	1,481
Depreciation of property, plant and equipment	677	646	1,960	1,840
Loss/(gain) on disposal of property, plant and equipment	24	-	24	(293)
Impairment losses on other assets	-	-	186	-
Value of employee services received for issue of share options	140	179	420	538
Income tax expense	2,962	4,070	8,838	10,618
	35,683	35,705	67,585	73,111
Changes in working capital:				
Loans, advances and receivables	(412,186)	(39,003)	(612,864)	(221,476)
Other receivables, deposits and prepayments	1,437	1,966	3,868	9,866
Singapore Government securities	12,885	153,268	(131,412)	(98,417)
Deposits and balances of customers	391,629	(66,256)	779,439	52,593
Trade and other payables	43,169	1,334	44,249	(1,162)
Cash generated from/(used in) operations	72,617	87,014	150,865	(185,485)
Income taxes paid	(4,140)	(4,303)	(11,041)	(13,016)
Cash flows from/(used in) operating activities	68,477	82,711	139,824	(198,501)
Investing activities				
Purchase of property, plant and equipment	(605)	(533)	(9,548)	(1,600)
Proceeds from disposal of property, plant and equipment	-	-	-	314
Cash flows (used in) investing activities	(605)	(533)	(9,548)	(1,286)
Financing activities				
Proceeds from exercise of share options	604	1,192	1,982	3,113
Dividends paid	(17,742)	(17,684)	(53,202)	(53,046)
Cash flows (used in) financing activities	(17,138)	(16,492)	(51,220)	(49,933)
Net increase/(decrease) in cash and cash equivalents	50,734	65,686	79,056	(249,720)
Cash and cash equivalents at beginning of period	1,371,423	1,426,026	1,343,101	1,741,432
Cash and cash equivalents at end of period	1,422,157	1,491,712	1,422,157	1,491,712

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

	30 Sep 2014 \$'000	30 Sep 2013 \$'000
Cash at banks and in hand	1,143,001	1,228,016
Statutory deposit with the Monetary Authority of Singapore	279,156	263,696
Cash and cash equivalents at 30 September	1,422,157	1,491,712

In addition to the cash and cash equivalents above, marketable Singapore Government securities amounted to \$1,333,063,000 (30 September 2013 : \$1,205,902,000) 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	1,378					1,378
Value of employee services received for issue of share options				280		280
Value of employee services transferred for share options exercised or lapsed	177			(195)	18	-
Final dividend paid of 8 cents per share (tax exempt one-tier) in respect of year 2013					(35,460)	(35,460)
Comprehensive income for the period					28,498	28,498
At 30 June 2014	877,944	586,109	2,307	7,569	167,038	1,640,967
Issue of shares under share option scheme	604					604
Value of employee services received for issue of share options				140		140
Value of employee services transferred for share options exercised or lapsed	77			(175)	98	-
Interim dividend paid of 4 cents per share (tax exempt one-tier) in respect of year 2014					(17,742)	(17,742)
Comprehensive income for the period					14,331	14,331
At 30 September 2014	878,625	586,109	2,307	7,534	163,725	1,638,300
At 1 January 2013	872,418	568,589	2,307	7,200	174,326	1,624,840
Issue of shares under share option scheme	1,921					1,921
Value of employee services received for issue of share options				359		359
Value of employee services transferred for share options exercised or lapsed	245			(297)	52	-
Final dividend paid of 8 cents per share (tax exempt one-tier) in respect of year 2012					(35,362)	(35,362)
Comprehensive income for the period					32,652	32,652
At 30 June 2013	874,584	568,589	2,307	7,262	171,668	1,624,410
Issue of shares under share option scheme	1,192					1,192
Value of employee services received for issue of share options				179		179
Value of employee services transferred for share options exercised or lapsed	139			(215)	76	-
Interim dividend paid of 4 cents per share (tax exempt one-tier) in respect of year 2013					(17,684)	(17,684)
Comprehensive income for the period					19,926	19,926
At 30 September 2013	875,915	568,589	2,307	7,226	173,986	1,628,023

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 2014	876,389	586,109	2,307	7,484	171,161	1,643,450
Issue of shares under share option scheme	1,378					1,378
Value of employee services received for issue of share options				280		280
Value of employee services transferred for share options exercised or lapsed	177			(195)	18	-
Final dividend paid of 8 cents per share (tax exempt one-tier) in respect of year 2013					(35,460)	(35,460)
Comprehensive income for the period					28,438	28,438
At 30 June 2014	877,944	586,109	2,307	7,569	164,157	1,638,086
Issue of shares under share option scheme	604					604
Value of employee services received for issue of share options				140		140
Value of employee services transferred for share options exercised or lapsed	77			(175)	98	-
Interim dividend paid of 4 cents per share (tax exempt one-tier) in respect of year 2014					(17,742)	(17,742)
Comprehensive income for the period					14,306	14,306
At 30 September 2014	878,625	586,109	2,307	7,534	160,819	1,635,394
At 1 January 2013	872,418	568,589	2,307	7,200	171,606	1,622,120
Issue of shares under share option scheme	1,921					1,921
Value of employee services received for issue of share options				359		359
Value of employee services transferred for share options exercised or lapsed	245			(297)	52	-
Final dividend paid of 8 cents per share (tax exempt one-tier) in respect of year 2012					(35,362)	(35,362)
Comprehensive income for the period					32,600	32,600
At 30 June 2013	874,584	568,589	2,307	7,262	168,896	1,621,638
Issue of shares under share option scheme	1,192					1,192
Value of employee services received for issue of share options				179		179
Value of employee services transferred for share options exercised or lapsed	139			(215)	76	-
Interim dividend paid of 4 cents per share (tax exempt one-tier) in respect of year 2013					(17,684)	(17,684)
Comprehensive income for the period					19,902	19,902
At 30 September 2013	875,915	568,589	2,307	7,226	171,190	1,625,227

5. Review Of The Performance Of The Group

Net loan assets including hire purchase receivables (net of allowances) stood at \$9,694 million at the end of the financial period under review. This was an increase of 6.7% or \$606 million over the previous year's base of \$9,088 million as at 31 December 2013, and an increase of 6.3% or \$578 million over the figure of \$9,116 million as at 30 September 2013.

Deposits and balances of customers amounted to \$10,685 million as at 30 September 2014. This was an increase of 7.9% or \$779 million over the previous year's base as at 31 December 2013, and an increase of 5.8% or \$587 million over the base as at 30 September 2013. Cash and cash equivalents (including balances with the Monetary Authority of Singapore) together with Singapore Government securities held as liquid assets amounted to \$2,755 million as at 30 September 2014.

The Group recorded profit from operations before allowances/provision of \$19.4 million for the quarter under review, a decrease of 13.8% from \$22.5 million for the previous corresponding quarter. For the nine months ended 30 September 2014, the decrease was 9.3% from \$61.5 million to \$55.7 million. Whilst non-performing loans remain low and are substantially secured, the Group maintains a general provision pegged to the size of its loan portfolio. Hence in line with the growth in loan assets, Group profit before tax for the quarter and the nine months ended 30 September 2014 were arrived at after topping up provision net of write back of provision/recoveries amounting to \$2.1 million (30 September 2013 : write back of \$1.5 million) and \$4.1 million (30 September 2013 : write back of \$1.7 million) respectively. Accordingly, Group profit after tax for the quarter under review amounted to \$14.3 million, a decrease of \$5.6 million or 28.1% over the previous corresponding quarter, whilst that for the nine months ended 30 September 2014 showed a decrease of \$9.7 million or 18.5% over the previous corresponding period to \$42.8 million.

The Group continues to maintain adequate individual and collective provisions in respect of its loan portfolio. In line with the practice in our industry, the growth in loan assets continued to require a charge for general provision in the quarter under review.

Pricing for lending products remained under some pressure, but this was mitigated by overall growth in the total loan book. Total interest income/hiring charges for the quarter and nine months under review increased by 4.1% and 1.0% respectively resulting from a higher loan base partially offset by a slightly lower loan yield. Interest expense for the quarter registered an increase of \$1.9 million or 7.8% over the previous corresponding quarter, whilst that for the nine months ended 30 September 2014 showed an increase of \$1.5 million or 2.0% over the previous corresponding period. This was due to a higher interest payable on deposits resulting from a combination of marginally higher prevailing interest rates and a larger deposits base. Net interest income/hiring charges for the quarter and nine months under review increased 1.6% and 0.3% respectively mainly due to a higher loan base.

Fee and commission income for the quarter and nine months under review decreased by 41.5% and 28.8% respectively mainly due to lower fee income from some lending products. Staff costs were controlled. An increase of 11.1% in other operating expenses for the quarter under review was due largely to increased business promotion expenses.

Group shareholders' funds as at 30 September 2014 totalled \$1,638 million (31 December 2013 : \$1,646 million) amounting to \$3.69 per share (31 December 2013 : \$3.72 per share).

5. Review Of The Performance Of The Group (continued)

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 the Singapore economy grew by 2.4% on a year-on-year basis in the third quarter of this year, matching the pace of growth recorded in the previous quarter. On a quarter-on-quarter seasonally-adjusted annualised basis, the economy expanded by 1.2%, a reversal from the 0.1% contraction in the previous quarter. The estimated growth for the whole of 2014 remains between 2.5% to 3.5%.

Externally the global economies are experiencing uneven growth. Along with continuing slowdown in the Chinese economy, Europe particularly Germany, Italy and France faces a reduction in economic growth; the conflicts in the Middle East are getting worse; Ebola is now spreading to other parts of the world; and the US Federal Reserve could raise interest rates although this is unlikely in the first half of 2015. Uncertainties continue which add pressure to all businesses.

On the home front, restructuring of the economy continues with many SMEs facing the burden of higher costs with productivity yet to pick up. There is also higher inflationary pressure and labour shortages, although recently tempered by a government statement that the level of resident foreigners had more or less moderated to an acceptable level. The slowdown in the property market continues in the light of the various cooling measures.

These are therefore very challenging times. Hong Leong Finance will continue to serve the HDB dwellers and the SME segment of the market. Promotions for both loans and deposits aim to help them through this period. To assist our SMEs to unlock their cash flows, we have innovative Receivables packages to suit their needs. We also remain very focused on building a strong and healthy balance sheet which should benefit from a future rise in the interest rate environment.

7. Dividend

An interim dividend of 4 cents per share (tax exempt one-tier) in respect of the current financial year declared in the previous quarter was paid on 15 September 2014.

As at the date of this report, the directors are not recommending the payment of a further interim dividend (30 September 2013 : Nil) in respect of the current financial year.

8. Shares Issued and Outstanding Convertibles

Since the end of the previous quarter,

- (i) pursuant to the Hong Leong Finance Share Option Scheme 2001 ("Share Option Scheme"), market price options to subscribe for 2,053,000 shares at an exercise price of \$2.66 per share were granted on 25 September 2014;
- (ii) the Company issued 117,610 shares at an exercise price of \$2.28 per share and 137,000 shares at an exercise price of \$2.45 per share upon exercise of options under the Share Option Scheme;
- (iii) options to 51,100 shares under the Share Option Scheme lapsed upon cessation of employment of participants; and
- (iv) options to 652,500 shares under the Share Option Scheme lapsed upon expiry of options.

As at the end of the period, unissued shares of the Company under option amounted to 23,160,555 shares (30 September 2013 : 22,916,965 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 financial 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 annual periods beginning on 1 January 2014 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 7th day of November 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 and the nine months ended 30 September 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

7 November 2014