



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 2017. These figures have not been audited.

1(a). Unaudited Group Statements of Comprehensive Income For The Quarter And Nine Months Ended 30 September 2017

	3rd Qtr 2017	3rd Qtr 2016	+ / (-)	9 Months 2017	9 Months 2016	+ / (-)
	\$'000	\$'000	%	\$'000	\$'000	%
Profit and loss account:						
Interest on loans	57,273	57,778	(0.9)	165,589	182,260	(9.1)
Hiring charges	12,441	9,756	27.5	35,600	27,998	27.2
Other interest income	7,383	6,882	7.3	21,669	24,061	(9.9)
Interest income/hiring charges	77,097	74,416	3.6	222,858	234,319	(4.9)
Less: Interest expense	29,727	42,414	(29.9)	96,563	130,764	(26.2)
Net interest income/hiring charges	47,370	32,002	48.0	126,295	103,555	22.0
Fee and commission income	3,803	3,012	26.3	11,520	8,351	37.9
Other operating income	68	61	11.5	152	157	(3.2)
Income before operating expenses	51,241	35,075	46.1	137,967	112,063	23.1
Less: Staff costs	14,329	14,043	2.0	44,548	46,406	(4.0)
Depreciation of property, plant and equipment	956	1,012	(5.5)	2,848	3,112	(8.5)
Other operating expenses	4,859	5,330	(8.8)	14,792	15,918	(7.1)
Profit from operations before allowances/provision	31,097	14,690	111.7	75,779	46,627	62.5
Add/(Less): (Allowances for)/reversal or recovery of doubtful debts and provision for settlements and costs relating to distribution of wealth management products	(2,762)	749	(468.8)	(2,520)	(304)	728.9
Profit before tax	28,335	15,439	83.5	73,259	46,323	58.1
Less: Income tax expense	4,779	2,654	80.1	12,372	7,954	55.5
Profit for the period/Comprehensive income attributable to owners of the Company	23,556	12,785	84.2	60,887	38,369	58.7
Annualised earnings per share (cents)						
- Basic	21.19	11.52		18.27	11.53	
- Diluted	21.15	11.52		18.24	11.53	

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 \$Nil (30 September 2016: \$2,000) and \$1,000 (30 September 2016: \$3,000) for the quarter and nine months ended 30 September 2017 respectively; and
- loss on disposal of Singapore Government securities close to their maturity amounting to \$Nil (30 September 2016: \$Nil) and \$7,000 (30 September 2016: \$Nil) for the quarter and nine months ended 30 September 2017 respectively.

2(a). Summarised Statements of Financial Position

	Group		Company	
	30 Sep 2017	31 Dec 2016	30 Sep 2017	31 Dec 2016
Number of shares in issue	444,938,633	443,784,033	444,938,633	443,784,033
	\$'000	\$'000	\$'000	\$'000
Share capital	882,250	879,279	882,250	879,279
Reserves	641,124	642,622	641,124	642,622
Accumulated profits	193,032	175,207	189,836	172,072
Equity attributable to owners of the Company	1,716,406	1,697,108	1,713,210	1,693,973
Liabilities				
Deposits and balances of customers	10,714,163	10,441,758	10,718,278	10,445,816
Trade and other payables	115,233	162,075	113,912	160,765
Current tax payable	16,223	12,159	16,218	12,155
Total liabilities	10,845,619	10,615,992	10,848,408	10,618,736
Total equity and liabilities	12,562,025	12,313,100	12,561,618	12,312,709
Assets				
Cash at banks and in hand	1,205,463	1,207,113	1,204,521	1,206,188
Statutory deposit with the Monetary Authority of Singapore	284,595	278,099	284,595	278,099
Singapore Government securities	1,252,403	1,258,398	1,252,403	1,258,398
Hire purchase receivables	1,613,137	1,545,273	1,613,137	1,545,273
Loans, advances and factoring receivables	8,271,564	8,080,517	8,271,564	8,080,517
	9,884,701	9,625,790	9,884,701	9,625,790
Allowances for doubtful debts	(112,804)	(110,863)	(112,804)	(110,863)
	9,771,897	9,514,927	9,771,897	9,514,927
Other receivables, deposits and prepayments	23,901	29,161	23,901	29,160
Subsidiaries and long term investments	546	546	1,081	1,081
Property, plant and equipment	22,166	24,530	22,166	24,530
Deferred tax assets	1,054	326	1,054	326
Total assets	12,562,025	12,313,100	12,561,618	12,312,709
Acceptances, guarantees and other obligations on behalf of customers	27,243	15,645	27,243	15,645

2(b). Net Asset Value

Net asset value per share (\$)	3.86	3.82	3.85	3.82
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2(c). There are no outstanding borrowings and debt securities as at 30 September 2017 (31 December 2016: \$Nil) for the Group and the Company.

3. Consolidated Statement of Cash Flows

	3rd Qtr 2017 \$'000	3rd Qtr 2016 \$'000	9 Months 2017 \$'000	9 Months 2016 \$'000
Operating activities				
Profit for the period	23,556	12,785	60,887	38,369
Adjustments for:				
Impact of accrual of interest income	1,591	1,919	1,538	2,018
Impact of accrual of interest expense	(20,857)	5,658	(48,796)	17,546
Allowances for doubtful debts	2,888	22	3,427	4,713
Depreciation of property, plant and equipment	956	1,012	2,848	3,112
Loss on disposal of property, plant and equipment	-	2	1	3
Value of employee services received for issue of share options	48	66	145	197
Income tax expense	4,779	2,654	12,372	7,954
	12,961	24,118	32,422	73,912
Changes in working capital:				
Loans, advances and receivables	(217,627)	282,017	(260,397)	330,966
Other receivables, deposits and prepayments	(9,026)	(1,402)	3,722	20,351
Singapore Government securities	(34,063)	62,934	5,995	71,048
Deposits and balances of customers	539,117	(445,978)	272,405	(906,251)
Trade and other payables	1,697	619	1,954	(615)
Cash generated from/(used in) operations	293,059	(77,692)	56,101	(410,589)
Income taxes paid	(3,389)	(4,022)	(9,036)	(10,726)
Cash flows from/(used in) operating activities	289,670	(81,714)	47,065	(421,315)
Investing activities				
Purchase of property, plant and equipment	(41)	(103)	(485)	(273)
Proceeds from disposal of property, plant and equipment	-	1	-	3
Cash flows used in investing activities	(41)	(102)	(485)	(270)
Financing activities				
Proceeds from exercise of share options	591	-	2,734	-
Dividends paid	(17,791)	(13,314)	(44,468)	(44,379)
Cash flows used in financing activities	(17,200)	(13,314)	(41,734)	(44,379)
Net increase/(decrease) in cash and cash equivalents	272,429	(95,130)	4,846	(465,964)
Cash and cash equivalents at beginning of period	1,217,629	1,425,151	1,485,212	1,795,985
Cash and cash equivalents at end of period	1,490,058	1,330,021	1,490,058	1,330,021

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

	30 Sep 2017 \$'000	30 Sep 2016 \$'000
Cash at banks and in hand	1,205,463	1,042,985
Statutory deposit with the Monetary Authority of Singapore	284,595	287,036
Cash and cash equivalents	1,490,058	1,330,021

In addition to the cash and cash equivalents above, marketable Singapore Government securities amounted to \$1,252,403,000 (30 September 2016: \$1,262,157,000) 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 2017	879,279	633,291	2,307	7,024	175,207	1,697,108
Issue of shares under share option scheme	2,143					2,143
Value of employee services received for issue of share options				97		97
Value of employee services transferred for share options exercised or lapsed	205			(220)	15	-
Final dividend paid of 6 cents per share (tax exempt one-tier) in respect of year 2016					(26,677)	(26,677)
Comprehensive income for the period					37,331	37,331
At 30 June 2017	881,627	633,291	2,307	6,901	185,876	1,710,002
Issue of shares under share option scheme	591					591
Value of employee services received for issue of share options				48		48
Value of employee services transferred for share options exercised or lapsed	32			(1,423)	1,391	-
Interim dividend paid of 4 cents per share (tax exempt one-tier) in respect of year 2017					(17,791)	(17,791)
Comprehensive income for the period					23,556	23,556
At 30 September 2017	882,250	633,291	2,307	5,526	193,032	1,716,406
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				131		131
Value of employee services transferred for share options exercised or lapsed				(397)	397	-
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					25,584	25,584
At 30 June 2016	879,279	620,024	2,307	7,224	173,927	1,682,761
Value of employee services received for issue of share options				66		66
Value of employee services transferred for share options exercised or lapsed				(341)	341	-
Interim dividend paid of 3 cents per share (tax exempt one-tier) in respect of year 2016					(13,314)	(13,314)
Comprehensive income for the period					12,785	12,785
At 30 September 2016	879,279	620,024	2,307	6,949	173,739	1,682,298

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 2017	879,279	633,291	2,307	7,024	172,072	1,693,973
Issue of shares under share option scheme	2,143					2,143
Value of employee services received for issue of share options				97		97
Value of employee services transferred for share options exercised or lapsed	205			(220)	15	-
Final dividend paid of 6 cents per share (tax exempt one-tier) in respect of year 2016					(26,677)	(26,677)
Comprehensive income for the period					37,288	37,288
At 30 June 2017	881,627	633,291	2,307	6,901	182,698	1,706,824
Issue of shares under share option scheme	591					591
Value of employee services received for issue of share options				48		48
Value of employee services transferred for share options exercised or lapsed	32			(1,423)	1,391	-
Interim dividend paid of 4 cents per share (tax exempt one-tier) in respect of year 2017					(17,791)	(17,791)
Comprehensive income for the period					23,538	23,538
At 30 September 2017	882,250	633,291	2,307	5,526	189,836	1,713,210
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				131		131
Value of employee services transferred for share options exercised or lapsed				(397)	397	-
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					25,529	25,529
At 30 June 2016	879,279	620,024	2,307	7,224	170,840	1,679,674
Value of employee services received for issue of share options				66		66
Value of employee services transferred for share options exercised or lapsed				(341)	341	-
Interim dividend paid of 3 cents per share (tax exempt one-tier) in respect of year 2016					(13,314)	(13,314)
Comprehensive income for the period					12,761	12,761
At 30 September 2016	879,279	620,024	2,307	6,949	170,628	1,679,187

5. Review Of The Performance Of The Group

Net loan assets including hire purchase receivables (net of allowances) stood at \$9,772 million at the end of the period under review. This was an increase of 2.7% or \$257 million over the previous year's base of \$9,515 million as at 31 December 2016, and an increase of 0.2% or \$17 million over the figure of \$9,755 million as at 30 September 2016.

In line with higher funding requirements, deposits and balances of customers closed at \$10,714 million as at 30 September 2017. This was an increase of 2.6% or \$272 million over the previous year's base of \$10,442 million as at 31 December 2016, and an increase of 1.7% or \$176 million over the base of \$10,538 million as at 30 September 2016. Cash and cash equivalents (including balances with the Monetary Authority of Singapore) together with Singapore Government securities held as liquid assets amounted to \$2,742 million as at 30 September 2017 (30 September 2016: \$2,592 million).

The Group recorded profit from operations before allowances/provision of \$31.1 million for the quarter under review, an increase of 111.7% from \$14.7 million for the previous corresponding quarter, due mainly to decreases in interest expense. For the nine months ended 30 September 2017, the increase in profit from operations before allowances/provision was 62.5% from \$46.6 million to \$75.8 million. Group profit before tax for the quarter and nine months ended 30 September 2017 were arrived at after topping up provision (net of write back of provision/recoveries) amounting to \$2.8 million (30 September 2016: write back of \$0.7 million) and \$2.5 million (30 September 2016: \$0.3 million) respectively. Accordingly, Group profit after tax for the quarter under review amounted to \$23.6 million, an increase of \$10.8 million or 84.2% over the previous corresponding quarter, whilst that for the nine months ended 30 September 2017 showed an increase of \$22.5 million or 58.7% over the previous corresponding period to \$60.9 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 under review increased by 3.6% mainly due to a higher loan yield partially offset by a lower average loan base. For the nine months ended 30 September 2017, total interest income/hiring charges decreased by 4.9% mainly due to a lower average loan base. Interest expense for the quarter registered a decrease of \$12.7 million or 29.9% over the previous corresponding quarter, whilst that for the nine months ended 30 September 2017 showed a decrease of \$34.2 million or 26.2% over the previous corresponding period. The decreases resulted from a combination of a lower average deposits base and lower applicable interest rates. Accordingly, net interest income/hiring charges for the quarter and nine months under review increased 48.0% and 22.0% respectively from the previous corresponding periods.

Fee and commission income for the quarter and nine months under review increased by 26.3% and 37.9% to \$3.8 million and \$11.5 million respectively, with higher fee income from lending products. Staff costs were controlled. Lower depreciation on renovation accounted for the slight decrease in depreciation of property, plant and equipment for both the periods under review. Other operating expenses for the quarter and nine months under review decreased by 8.8% and 7.1% respectively mainly due to reduced business promotion expenses.

Group shareholders' funds as at 30 September 2017 totalled \$1,716 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

GDP growth surged to a 3-year high of 4.6% in the third quarter of 2017 from a year ago according to advance estimates released by the Ministry of Trade and Industry ("MTI"). This is higher than the 2.9% growth in the previous quarter. On a quarter-on-quarter seasonally-adjusted annualised basis, GDP expanded by a strong 6.3%, an improvement from the 2.4% growth in the second quarter.

Continuing from the second quarter, manufacturing again was the main growth driver in the third quarter, growing by 15.5%. Construction with -6.3% remained the weakest link, dragged down by weak private sector activity. The services producing industries grew by 2.6% on a year-on-year basis in the third quarter, similar to the 2.5% growth in the second quarter, with further subsequent reports that the services sector including financial services will continue to perform well.

With this better growth in GDP figures, economists are forecasting that MTI will upgrade full year's growth to 3.0% to 3.5% from the current 2.0% to 3.0%.

While there are signs that 2017 may be the best year for global growth since the 2008 financial crisis, there are a number of threats on the horizon that could derail the world's economic recovery. The threats include growing political tensions in Asia, the Middle East and Europe with increased scepticism on globalisation arising from economic policies of the new US administration and economic slowdown in China. On-going developments in the US' approach to North Korea, and in the UK's negotiations for Brexit also continue to create much uncertainty for the markets.

In the light of these uncertainties, Hong Leong Finance continues with its risk and customer focused strategies. With the prospect of higher interest rates, liquidity management and the deposit taking activities are closely managed. At the same time we roll out attractive SME loan packages to help SMEs with their cash flows and working capital. To ensure that we are nearer to where SMEs operate, we have established our 11th SME Centre@Branches to cater to their needs.

We will also continue to explore opportunities to collaborate with FinTechs and to work closely with the Authorities on the new initiatives the Monetary Authority of Singapore is extending to Finance Companies to help SMEs.

7. Dividend

An interim dividend of 4 cents per share (tax exempt one-tier) in respect of the current year declared in the previous quarter was paid on 12 September 2017.

As at the date of this report, the directors are not recommending the payment of a further interim dividend (30 September 2016: Nil) in respect of the current 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 1,544,000 shares at an exercise price of \$2.61 per share were granted on 21 September 2017;
- (ii) the Company issued 20,000 shares at an exercise price of \$2.28 per share, 56,500 shares at an exercise price of \$2.45 per share, 59,900 shares at an exercise price of \$2.34 per share and 119,400 shares at an exercise price of \$2.23 per share upon exercise of options under the Share Option Scheme;
- (iii) options to 1,070,385 shares under the Share Option Scheme lapsed upon cessation of employment of participants; and
- (iv) options to 2,524,000 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 18,296,400 shares (30 September 2016: 21,601,185 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 10th day of November 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 and the nine months ended 30 September 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

10 November 2017