



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 2015. These figures have not been audited.

1(a). Unaudited Group Statements of Comprehensive Income For The Quarter And Half Year Ended 30 June 2015

	2nd Qtr 2015	2nd Qtr 2014	+ / (-)	1st Half 2015	1st Half 2014	+ / (-)
	\$'000	\$'000	%	\$'000	\$'000	%
Profit and loss account:						
Interest on loans	58,256	48,126	21.0	112,006	94,604	18.4
Hiring charges	8,362	9,113	(8.2)	16,722	18,794	(11.0)
Other interest income	6,606	5,414	22.0	12,666	10,727	18.1
Interest income/hiring charges	73,224	62,653	16.9	141,394	124,125	13.9
Less: Interest expense	32,000	25,255	26.7	61,844	50,401	22.7
Net interest income/hiring charges	41,224	37,398	10.2	79,550	73,724	7.9
Fee and commission income	3,081	2,985	3.2	6,675	5,559	20.1
Other operating income	119	60	98.3	156	97	60.8
Income before operating expenses	44,424	40,443	9.8	86,381	79,380	8.8
Less: Staff costs	17,420	16,262	7.1	34,354	32,810	4.7
Depreciation of property, plant and equipment	1,128	647	74.3	2,034	1,283	58.5
Other operating expenses	6,213	4,514	37.6	11,341	8,922	27.1
Profit from operations before allowances/provision	19,663	19,020	3.4	38,652	36,365	6.3
Less: Allowances for doubtful debts and impairment losses of other assets	3,038	2,022	50.2	3,386	1,991	70.1
Profit before tax	16,625	16,998	(2.2)	35,266	34,374	2.6
Less: Income tax expense	2,666	2,935	(9.2)	5,741	5,876	(2.3)
Profit for the period/Comprehensive income attributable to owners of the Company	13,959	14,063	(0.7)	29,525	28,498	3.6
Annualised earnings per share (cents)						
- Basic	12.58	12.69		13.31	12.87	
- Diluted	12.57	12.67		13.30	12.85	

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

- (i) Other operating income includes gain on disposal of plant and equipment amounting to \$61,000 (30 June 2014 : \$Nil) and \$60,000 (30 June 2014 : \$Nil) for the quarter and half year ended 30 June 2015 respectively.
- (ii) Allowances for doubtful debts and impairment losses of other assets includes impairment losses of other assets (property, plant and equipment) amounting to \$Nil (30 June 2014 : \$186,000) for the quarter and half year ended 30 June 2015.

2(a). Summarised Statements of Financial Position

	Group		Company	
	30 Jun 2015	31 Dec 2014	30 Jun 2015	31 Dec 2014
Number of shares in issue	443,782,033	443,546,503	443,782,033	443,546,503
	\$'000	\$'000	\$'000	\$'000
Share capital	879,274	878,664	879,274	878,664
Reserves	611,997	611,892	611,997	611,892
Accumulated profits	170,968	168,012	167,984	165,081
Equity attributable to owners of the Company	1,662,239	1,658,568	1,659,255	1,655,637
Liabilities				
Deposits and balances of customers	10,797,343	10,468,530	10,801,308	10,472,491
Trade and other payables	193,065	118,680	191,782	117,385
Current tax payable	13,744	16,269	13,739	16,262
Total liabilities	11,004,152	10,603,479	11,006,829	10,606,138
Total equity and liabilities	12,666,391	12,262,047	12,666,084	12,261,775
Assets				
Cash at banks and in hand	1,023,501	1,082,543	1,022,659	1,081,737
Statutory deposit with the Monetary Authority of Singapore	291,384	282,905	291,384	282,905
Singapore Government securities	1,385,844	1,258,688	1,385,844	1,258,688
Hire purchase receivables	1,303,466	1,229,864	1,303,466	1,229,864
Loans, advances and factoring receivables	8,722,177	8,457,898	8,722,177	8,457,898
	10,025,643	9,687,762	10,025,643	9,687,762
Allowances for doubtful debts	(107,447)	(105,222)	(107,447)	(105,222)
	9,918,196	9,582,540	9,918,196	9,582,540
Other receivables, deposits and prepayments	15,782	23,686	15,782	23,685
Subsidiaries and long term investments	546	546	1,081	1,081
Property, plant and equipment	29,619	27,553	29,619	27,553
Deferred tax assets	1,519	3,586	1,519	3,586
Total assets	12,666,391	12,262,047	12,666,084	12,261,775
Acceptances, guarantees and other obligations on behalf of customers	10,026	11,174	10,026	11,174

2(b). Net Asset Value

Net asset value per share (\$)	3.75	3.74	3.74	3.73
--------------------------------	-------------	------	-------------	------

2(c). There are no outstanding borrowings and debt securities as at 30 June 2015 (31 December 2014 : \$Nil) for the Group and the Company.

3. Consolidated Statement of Cash Flows

	2nd Qtr 2015 \$'000	2nd Qtr 2014 \$'000	1st Half 2015 \$'000	1st Half 2014 \$'000
Operating activities				
Comprehensive income after tax	13,959	14,063	29,525	28,498
Adjustments for:				
Impact of accrual of interest income	(1,810)	(3,027)	(561)	(580)
Impact of accrual of interest expense	17,642	3,649	16,940	(6,765)
Allowances for doubtful debts and receivables	3,494	2,393	4,362	3,124
Depreciation of property, plant and equipment	1,128	647	2,034	1,283
Gain on disposal of property, plant and equipment	(61)	-	(60)	-
Impairment losses on other assets	-	186	-	186
Value of employee services received for issue of share options	113	140	226	280
Income tax expense	2,666	2,935	5,741	5,876
	37,131	20,986	58,207	31,902
Changes in working capital:				
Loans, advances and receivables	(349,773)	(160,640)	(340,050)	(200,678)
Other receivables, deposits and prepayments	(74)	(126)	8,497	2,431
Singapore Government securities	(111,533)	(127,172)	(127,156)	(144,297)
Deposits and balances of customers	173,764	346,815	328,813	387,810
Trade and other payables	59,099	269	57,445	1,080
Cash generated from/(used in) operations	(191,386)	80,132	(14,244)	78,248
Income taxes paid	(3,721)	(4,142)	(6,199)	(6,901)
Cash flows from/(used in) operating activities	(195,107)	75,990	(20,443)	71,347
Investing activities				
Purchase of property, plant and equipment	(2,735)	(8,909)	(4,108)	(8,943)
Proceeds from disposal of property, plant and equipment	68	-	68	-
Cash flows used in investing activities	(2,667)	(8,909)	(4,040)	(8,943)
Financing activities				
Proceeds from exercise of share options	471	809	543	1,378
Dividends paid	(26,623)	(35,460)	(26,623)	(35,460)
Cash flows used in financing activities	(26,152)	(34,651)	(26,080)	(34,082)
Net increase/(decrease) in cash and cash equivalents	(223,926)	32,430	(50,563)	28,322
Cash and cash equivalents at beginning of period	1,538,811	1,338,993	1,365,448	1,343,101
Cash and cash equivalents at end of period	1,314,885	1,371,423	1,314,885	1,371,423

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

	30 Jun 2015 \$'000	30 Jun 2014 \$'000
Cash at banks and in hand	1,023,501	1,099,495
Statutory deposit with the Monetary Authority of Singapore	291,384	271,928
Cash and cash equivalents at 30 June	1,314,885	1,371,423

In addition to the cash and cash equivalents above, marketable Singapore Government securities amounted to \$1,385,844,000 (30 June 2014 : \$1,345,948,000) 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 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
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
Issue of shares under share option scheme	809					809
Value of employee services received for issue of share options				140		140
Value of employee services transferred for share options exercised or lapsed	104			(104)		-
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					14,063	14,063
At 30 June 2014	877,944	586,109	2,307	7,569	167,038	1,640,967

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 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
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
Issue of shares under share option scheme	809					809
Value of employee services received for issue of share options				140		140
Value of employee services transferred for share options exercised or lapsed	104			(104)		-
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					14,018	14,018
At 30 June 2014	877,944	586,109	2,307	7,569	164,157	1,638,086

5. Review Of The Performance Of The Group

Net loan assets including hire purchase receivables (net of allowances) stood at \$9,918 million at the end of the financial period under review. This was an increase of 3.5% or \$335 million over the previous year's base of \$9,583 million as at 31 December 2014, and an increase of 6.8% or \$632 million over the figure of \$9,286 million as at 30 June 2014.

Deposits and balances of customers amounted to \$10,797 million as at 30 June 2015. This was an increase of 3.1% or \$328 million over the previous year's base as at 31 December 2014, and an increase of 4.9% or \$503 million over the base as at 30 June 2014. Cash and cash equivalents (including balances with the Monetary Authority of Singapore) together with Singapore Government securities held as liquid assets amounted to \$2,701 million as at 30 June 2015.

The Group recorded profit from operations before allowances/provision of \$19.7 million for the quarter under review, an increase of 3.4% from \$19.0 million for the previous corresponding quarter. For the half year ended 30 June 2015, the increase was 6.3% from \$36.4 million to \$38.7 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 and industry practice, Group profit before tax for the quarter and the half year ended 30 June 2015 were arrived at after topping up provision (net of write back of provision/recoveries) amounting to \$3.0 million (30 June 2014 : \$2.0 million) and \$3.4 million (30 June 2014 : \$2.0 million) respectively. Accordingly, Group profit after tax for the quarter under review amounted to \$14.0 million, a decrease of \$0.1 million or 0.7% over the previous corresponding quarter, whilst that for the half year ended 30 June 2015 showed an increase of \$1.0 million or 3.6% over the previous corresponding period to \$29.5 million. The Group continues to maintain adequate individual and collective provisions in respect of its loan portfolio.

Total interest income/hiring charges for the quarter and half year under review increased by 16.9% and 13.9% respectively due to the increase in loan base and a higher loan yield. Interest expense for the quarter registered an increase of \$6.7 million or 26.7% over the previous corresponding quarter, whilst that for the half year ended 30 June 2015 showed an increase of \$11.4 million or 22.7% over the previous corresponding period. This was due to a higher interest payable on deposits resulting from a combination of higher prevailing interest rates and a larger deposits base. Net interest income/hiring charges for the quarter and half year under review increased 10.2% and 7.9% respectively due to higher loan base and loan yield.

Fee and commission income for the half year under review improved by 20.1% to \$6.7 million with higher fee income from some lending products partially offset by a decrease in non-lending fee income. Higher depreciation on computer equipment accounted for the increase in depreciation on property, plant and equipment. Staff costs for the quarter under review rose by 7.1% due to salary increment and a special one-off SG50 bonus payment. An increase of 37.6% and 27.1% in other operating expenses for the quarter and half year under review respectively was due mainly to increased business promotion expenses and cost of upgrading computer systems and IT capabilities.

Group shareholders' funds as at 30 June 2015 totalled \$1,662 million (31 December 2014 : \$1,659 million) amounting to \$3.75 per share (31 December 2014 : \$3.74 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 Singapore economy expanded by a slower than expected 1.7% year-on-year in the second quarter, primarily due to a contraction in the manufacturing sector, and according to advance estimates by the Ministry of Trade and Industry, the expansion in the April to June period was lower than the 2.8% growth achieved in the first quarter of 2015. On a quarter-on-quarter seasonally-adjusted annualised basis, the economy contracted 4.6%, reversing from the 4.2% expansion in the preceding quarter.

The slowdown in GDP growth is expected to continue. The domestic structural challenges such as manpower supply shortages, competitiveness issues arising from higher labour and business cost relative to productivity, as well as other factors like the lacklustre property market are capping Singapore's growth. At the same time, the global outlook remains very challenging. China's slowdown and its stock market downturn, the Greek crisis and the weaker growth in the immediate neighbourhood of South East Asia including Indonesia and Malaysia, will likely add to dampen growth.

During this difficult time, Hong Leong Finance is therefore very focused on maintaining a strong and healthy balance sheet with careful underwriting risk parameters. We have also rolled out our 9th SME Centre to bring our services closer to the SMEs. To build and preserve our relationships with our HDB customers, our HDB Home loans remain one of the most competitive packages in the market. We will also continue to delight our customers with deposit campaigns bundled with useful gifts suitable for use in all households. As Singapore celebrates its 50th birthday, Hong Leong Finance is also celebrating this happy occasion with special SG50 loan and deposit packages tailored to the needs of our customers. All these will continue to help maintain the Company's competitive standing.

7. Dividend

An interim dividend of 4 cents per share (tax exempt one-tier) (2014 : 4 cents per share, tax exempt one-tier) has been declared in respect of the financial year ending 31 December 2015. The interim dividend will be paid on 9 September 2015.

	Latest Period	Previous Period
Name of Dividend	Interim	Interim (paid on 15 September 2014)
Dividend Type	Cash	Cash
Dividend Rate	4 cents per share	4 cents per share.
Total Dividend	\$17,751,000*	\$17,742,000
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) the Company issued 192,530 shares at an exercise price of \$2.28 per share and 12,500 shares at an exercise price of \$2.56 per share upon exercise of options under the Share Option Scheme; and
- (ii) options to 119,200 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 22,700,225 shares (30 June 2014 : 22,065,765 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 or after 1 July 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 2014.

10. Closure of Books

Notice is hereby given that the Share Transfer Books and Register of Members of the Company will be closed on 26 August 2015. 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 25 August 2015 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 6th day of August 2015

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 2015 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

6 August 2015