



## HONG LEONG FINANCE

### Full Year Financial Statements And Dividend Announcement

Condensed interim consolidated financial statements for the six months and full year ended 31 December 2023.

A. Condensed interim consolidated statement of profit or loss and other comprehensive income

**Group**

Note	6 months ended 31 Dec 2023	6 months ended 31 Dec 2022	+ / (-)	12 months ended 31 Dec 2023	12 months ended 31 Dec 2022	+ / (-)
	\$'000	\$'000	%	\$'000	\$'000	%
Interest on loans	233,096	167,560	39.1	450,330	266,018	69.3
Hiring charges	24,582	21,738	13.1	48,071	41,322	16.3
Other interest income	38,127	20,917	82.3	70,699	29,837	137.0
Interest income/hiring charges	295,805	210,215	40.7	569,100	337,177	68.8
Less: Interest expense	E10 195,056	64,414	202.8	366,890	94,944	286.4
Net interest income/hiring charges	100,749	145,801	(30.9)	202,210	242,233	(16.5)
Fee and commission income	5,548	8,251	(32.8)	9,952	16,359	(39.2)
Other operating income	E6 78	73	6.8	146	149	(2.0)
Income before operating expenses	106,375	154,125	(31.0)	212,308	258,741	(17.9)
Less: Staff costs	39,768	37,294	6.6	80,453	73,380	9.6
Depreciation of property, plant and equipment	3,756	3,948	(4.9)	7,560	7,940	(4.8)
Other operating expenses	8,581	9,163	(6.4)	16,892	17,556	(3.8)
Total operating expenses	52,105	50,405	3.4	104,905	98,876	6.1
<b>Profit from operations before allowances</b>	54,270	103,720	(47.7)	107,403	159,865	(32.8)
Add/(Less): (Allowances for)/reversal or recovery of doubtful debts and other financial assets	1,895	(920)	(306.0)	4,626	(2,753)	(268.0)
Profit before tax	56,165	102,800	(45.4)	112,029	157,112	(28.7)
Less: Income tax expense	E8 9,367	17,037	(45.0)	18,655	26,233	(28.9)
<b>Profit for the year/ Comprehensive income attributable to owners of the Company</b>	46,798	85,763	(45.4)	93,374	130,879	(28.7)
Annualised earnings per share (cents)						
- Basic	20.87	38.28		20.82	29.21	
- Diluted	20.85	38.26		20.81	29.19	

B. Condensed interim statements of financial position

	Note	Group		Company	
		31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
		\$'000	\$'000	\$'000	\$'000
<b>Assets</b>					
Cash at banks and in hand		<b>1,156,773</b>	584,669	<b>1,155,367</b>	583,633
Statutory deposit with the Monetary Authority of Singapore ("MAS")		<b>342,362</b>	339,438	<b>342,362</b>	339,438
Singapore Government debt securities, MAS Bills and MAS Floating Rate Note ("FRN")		<b>1,710,012</b>	1,625,349	<b>1,710,012</b>	1,625,349
Hire purchase receivables		<b>1,757,249</b>	1,711,178	<b>1,757,249</b>	1,711,178
Loans, advances and factoring receivables		<b>9,922,233</b>	9,964,587	<b>9,922,233</b>	9,964,587
		<b>11,679,482</b>	11,675,765	<b>11,679,482</b>	11,675,765
Allowances for doubtful debts		<b>(20,100)</b>	(24,793)	<b>(20,100)</b>	(24,793)
		<b>11,659,382</b>	11,650,972	<b>11,659,382</b>	11,650,972
Other receivables, deposits and prepayments		<b>28,091</b>	25,153	<b>28,090</b>	25,152
Subsidiaries and long-term investments		-	-	<b>535</b>	535
Property, plant and equipment	E11	<b>60,996</b>	49,931	<b>60,996</b>	49,931
Total assets		<b>14,957,616</b>	14,275,512	<b>14,956,744</b>	14,275,010
<b>Liabilities</b>					
Deposits and balances of customers	E10	<b>12,647,934</b>	12,030,183	<b>12,652,388</b>	12,034,533
Borrowings		<b>17,922</b>	36,509	<b>17,922</b>	36,509
Trade and other payables		<b>211,884</b>	140,975	<b>210,232</b>	139,639
Current tax payable		<b>17,584</b>	26,146	<b>17,573</b>	26,145
Deferred tax liabilities		<b>2,012</b>	1,003	<b>2,012</b>	1,003
Total liabilities		<b>12,897,336</b>	12,234,816	<b>12,900,127</b>	12,237,829
<b>Equity</b>					
Share capital		<b>891,578</b>	890,553	<b>891,578</b>	890,553
Reserves		<b>841,547</b>	811,724	<b>841,547</b>	811,724
Accumulated profits		<b>327,155</b>	338,419	<b>323,492</b>	334,904
Equity attributable to owners of the Company		<b>2,060,280</b>	2,040,696	<b>2,056,617</b>	2,037,181
Total equity and liabilities		<b>14,957,616</b>	14,275,512	<b>14,956,744</b>	14,275,010
Acceptances, guarantees and other obligations on behalf of customers		<b>249</b>	759	<b>249</b>	759
Number of shares in issue		<b>448,543,933</b>	448,131,733	<b>448,543,933</b>	448,131,733
Net asset value per share (\$)		<b>4.59</b>	4.55	<b>4.59</b>	4.55

C. Condensed interim statements of changes in equity

	Share capital \$'000	Statutory reserve \$'000	Capital reserve \$'000	Share option reserve \$'000	Regulatory loss allowance reserve \$'000	Accumulated profits \$'000	Total \$'000
<b>Group</b>							
At 1 January 2023	890,553	798,671	2,307	2,203	8,543	338,419	2,040,696
Issue of shares under share option scheme	958						958
Value of employee services received for issue of share options				375			375
Value of employee services transferred for share options exercised or lapsed	67			(488)		421	-
Final dividend of 13.25 cents per share (tax exempt one-tier) paid in respect of year 2022						(59,424)	(59,424)
Interim dividend of 3.5 cents per share (tax exempt one-tier) paid in respect of year 2023						(15,699)	(15,699)
Adjustment under MAS 811					6,592	(6,592)	-
Comprehensive income for the year						93,374	93,374
Transfer to Statutory reserve		23,344				(23,344)	-
At 31 December 2023	<b>891,578</b>	<b>822,015</b>	<b>2,307</b>	<b>2,090</b>	<b>15,135</b>	<b>327,155</b>	<b>2,060,280</b>
At 1 January 2022	889,771	765,950	2,307	2,468	7,867	294,184	1,962,547
Issue of shares under share option scheme	727						727
Value of employee services received for issue of share options				316			316
Value of employee services transferred for share options exercised or lapsed	55			(581)		526	-
Final dividend of 8.25 cents per share (tax exempt one-tier) paid in respect of year 2021						(36,969)	(36,969)
Interim dividend of 3.75 cents per share (tax exempt one-tier) paid in respect of year 2022						(16,804)	(16,804)
Adjustment under MAS 811					676	(676)	-
Comprehensive income for the year						130,879	130,879
Transfer to Statutory reserve		32,721				(32,721)	-
At 31 December 2022	890,553	798,671	2,307	2,203	8,543	338,419	2,040,696

C. Condensed interim statements of changes in equity (continued)

<b>Company</b>	<b>Share capital \$'000</b>	<b>Statutory reserve \$'000</b>	<b>Capital reserve \$'000</b>	<b>Share option reserve \$'000</b>	<b>Regulatory loss allowance reserve \$'000</b>	<b>Accumulated profits \$'000</b>	<b>Total \$'000</b>
At 1 January 2023	<b>890,553</b>	<b>798,671</b>	<b>2,307</b>	<b>2,203</b>	<b>8,543</b>	<b>334,904</b>	<b>2,037,181</b>
Issue of shares under share option scheme	<b>958</b>						<b>958</b>
Value of employee services received for issue of share options				<b>375</b>			<b>375</b>
Value of employee services transferred for share options exercised or lapsed	<b>67</b>			<b>(488)</b>		<b>421</b>	<b>-</b>
Final dividend of 13.25 cents per share (tax exempt one-tier) paid in respect of year 2022						<b>(59,424)</b>	<b>(59,424)</b>
Interim dividend of 3.5 cents per share (tax exempt one-tier) paid in respect of year 2023						<b>(15,699)</b>	<b>(15,699)</b>
Adjustment under MAS 811					<b>6,592</b>	<b>(6,592)</b>	<b>-</b>
Comprehensive income for the year						<b>93,226</b>	<b>93,226</b>
Transfer to Statutory reserve		<b>23,344</b>				<b>(23,344)</b>	<b>-</b>
At 31 December 2023	<b>891,578</b>	<b>822,015</b>	<b>2,307</b>	<b>2,090</b>	<b>15,135</b>	<b>323,492</b>	<b>2,056,617</b>
At 1 January 2022	889,771	765,950	2,307	2,468	7,867	290,720	1,959,083
Issue of shares under share option scheme	727						727
Value of employee services received for issue of share options				316			316
Value of employee services transferred for share options exercised or lapsed	55			(581)		526	-
Final dividend of 8.25 cents per share (tax exempt one-tier) paid in respect of year 2021						(36,969)	(36,969)
Interim dividend of 3.75 cents per share (tax exempt one-tier) paid in respect of year 2022						(16,804)	(16,804)
Adjustment under MAS 811					676	(676)	-
Comprehensive income for the year						130,828	130,828
Transfer to Statutory reserve		32,721				(32,721)	-
At 31 December 2022	890,553	798,671	2,307	2,203	8,543	334,904	2,037,181

D. Condensed interim consolidated statement of cash flows

	<b>Group</b>	
	<b>12 months ended 31 Dec 2023 \$'000</b>	12 months ended 31 Dec 2022 \$'000
Operating activities		
Profit for the year	<b>93,374</b>	130,879
Adjustments for:		
Impact of accrual of interest income	<b>1,787</b>	(3,215)
Impact of accrual of interest expense	<b>61,018</b>	36,764
(Reversal)/allowances for impairment loss on loans, advances and receivables	<b>(4,508)</b>	2,948
Interest expense on lease liabilities	<b>1,129</b>	368
Interest expense on borrowings	<b>173</b>	173
Depreciation of property, plant and equipment	<b>7,560</b>	7,940
Loss on disposal of property, plant and equipment	<b>1</b>	-
Value of employee services received for issue of share options	<b>375</b>	316
Income tax expense	<b>18,655</b>	26,233
	<b>179,564</b>	202,406
Changes in working capital:		
Loans, advances and receivables	<b>(3,897)</b>	(958,446)
Other receivables, deposits and prepayments	<b>(4,798)</b>	(4,975)
Singapore Government debt securities, MAS Bills and MAS FRN	<b>(84,663)</b>	(267,674)
Deposits and balances of customers	<b>617,751</b>	1,223,312
Trade and other payables	<b>270</b>	(1,316)
Cash generated from operations	<b>704,227</b>	193,307
Income taxes paid	<b>(26,208)</b>	(17,219)
Cash flows from operating activities	<b>678,019</b>	176,088
Investing activities		
Purchase of property, plant and equipment	<b>(2,935)</b>	(1,431)
Cash flows used in investing activities	<b>(2,935)</b>	(1,431)
Financing activities		
Payment for lease liabilities	<b>(6,070)</b>	(6,576)
Proceeds from exercise of share options	<b>958</b>	727
Proceeds from borrowings	<b>300</b>	76,793
Repayment of borrowings	<b>(18,819)</b>	(93,986)
Interest paid	<b>(1,302)</b>	(541)
Dividends paid	<b>(75,123)</b>	(53,773)
Cash flows used in financing activities	<b>(100,056)</b>	(77,356)
Net increase in cash and cash equivalents	<b>575,028</b>	97,301
Cash and cash equivalents at beginning of year	<b>924,107</b>	826,806
Cash and cash equivalents at end of year	<b>1,499,135</b>	924,107

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

	<b>31 Dec 2023 \$'000</b>	31 Dec 2022 \$'000
Cash at banks and in hand	<b>1,156,773</b>	584,669
Statutory deposit with the Monetary Authority of Singapore ("MAS")	<b>342,362</b>	339,438
Cash and cash equivalents	<b>1,499,135</b>	924,107

In addition to the cash and cash equivalents above, marketable Singapore Government debt securities, MAS Bills and MAS FRN amounted to \$1,710,012,000 (31 December 2022: \$1,625,349,000) for the Group.

E. Notes to the condensed interim consolidated financial statements

1. Corporate information

Hong Leong Finance Limited (the “Company”) is incorporated and domiciled in Singapore and whose shares are publicly traded on the Mainboard of the Singapore Exchange. These condensed interim consolidated financial statements as at and for the six months ended 31 December 2023 comprise the Company and its subsidiaries (collectively, the “Group”). The principal activities of the Company are those relating to financing business and provision of corporate advisory services. The principal activities of the subsidiaries are the provision of nominee services.

2. Basis of preparation

The condensed interim financial statements for the six months ended 31 December 2023 have been prepared in accordance with Singapore Financial Reporting Standards (International) SFRS(I) 1-34 *Interim Financial Reporting* issued by the Accounting Standards Council Singapore. The condensed interim financial statements do not include all the information required for a complete set of financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group’s financial position and performance of the Group since the last interim financial statements for the period ended 30 June 2023.

The accounting policies adopted are consistent with those of the previous financial year which were prepared in accordance with SFRS(I)s, except for the adoption of new and amended standards as set out in Note 2.1.

The condensed interim financial statements are presented in Singapore dollar which is the Company’s functional currency.

2.1 New and amended standards adopted by the Group

The following Financial Reporting Standards became effective for the Group on 1 January 2023:

- Amendments to SFRS(I) 1-1 and SFRS(I) Practice Statement 2, SFRS(I) 1-8 and SFRS(I) 1-12

The adoption of the above standards does not have a material effect on the financial statements of the Group.

E. Notes to the condensed interim consolidated financial statements (continued)

3. Use of estimates and judgements

In preparing the condensed interim financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2022.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

4. Seasonal operations

The Group's businesses are not affected significantly by seasonal or cyclical factors during the financial period.

5. Segment information

The majority of the revenue for the Group is from the same business segment. Its principal activities relate to financing business augmented by secondary non-lending activities such as provision of corporate advisory services and provision of nominee services. All activities are carried out in the Republic of Singapore.

E. Notes to the condensed interim consolidated financial statements (continued)

6. Other operating income includes loss on disposal of plant and equipment amounting to \$1,000 (2H 2022: \$Nil) for the second half of 2023 and \$1,000 (31 December 2022: \$Nil) for the year ended 31 December 2023.

7. Profit after tax

	<b>Group</b>		
	<b>2023</b>	2022	
	<b>\$'000</b>	\$'000	
		+ / (-)	
		%	
- first half year	<b>46,576</b>	45,116	3.2
- second half year	<b>46,798</b>	85,763	(45.4)

The decrease in the profit after tax for the second half of 2023 as compared to the same period in 2022 was mainly attributed to the year-on-year increase in interest expense outpacing the increase in interest income.

8. Taxation

The Group calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expense are:

	<b>Group</b>			
	<b>6 months ended 31 Dec 2023</b>	6 months ended 31 Dec 2022	<b>12 months ended 31 Dec 2023</b>	12 months ended 31 Dec 2022
	<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000
Current year	<b>8,953</b>	17,026	<b>17,588</b>	26,204
Adjustment for prior years	-	(4)	<b>58</b>	(4)
Current tax expense	<b>8,953</b>	17,022	<b>17,646</b>	26,200
Deferred tax expense relating to origination and reversal of temporary differences	<b>414</b>	15	<b>1,009</b>	33
Total income tax expense	<b>9,367</b>	17,037	<b>18,655</b>	26,233

The effective tax rate for the year ended 31 December 2023 is 16.6% (31 December 2022: 16.7%).



E. Notes to the condensed interim consolidated financial statements (continued)

9. Financial instruments

Accounting classifications and fair values

(i) Loans, advances and receivables and deposits and balances of customers

The fair value of fixed rate loans, advances and receivables and deposits and balances of customers, which will mature and reprice more than six months after the reporting date, has been determined by discounting the relevant cash flows using current interest rates for similar instruments at the reporting date. The carrying amounts of financial assets and financial liabilities with a maturity of six months or less (including other loans, advances and receivables, and other deposits/savings accounts) approximate their fair values.

(ii) Singapore Government debt securities, MAS bills and MAS FRN

Fair value is based on quoted market bid prices at the reporting date.

(iii) Investments (long-term), other financial assets and financial liabilities

Investments (long-term) in unquoted securities amounted to \$12,000, are classified as fair value through other comprehensive income and fully impaired as at 31 December 2023 (31 December 2022: \$12,000, fully impaired).

The carrying amounts of other financial assets and financial liabilities with a maturity of less than one year (including other receivables, other deposits, cash, trade payables and other payables) are estimated to approximate their fair values in view of the short period to maturity.

In accordance with the accounting policy on Financial Instruments, certain financial assets and financial liabilities are not carried at fair value in the statements of financial position as at the reporting dates. The aggregate net fair values of these financial assets and financial liabilities are disclosed in the following table:-

	<b>Group</b>		Carrying amount 31 Dec 2022 \$'000	Fair value 31 Dec 2022 \$'000
	<b>Carrying amount 31 Dec 2023 \$'000</b>	<b>Fair value 31 Dec 2023 \$'000</b>		
<b>Financial assets</b>				
Loans, advances and receivables	<b>11,659,382</b>	<b>11,614,897</b>	11,650,972	11,559,319
Singapore Government debt securities, MAS bills and MAS FRN	<b>1,710,012</b>	<b>1,705,716</b>	1,625,349	1,611,734
	<b>13,369,394</b>	<b>13,320,613</b>	13,276,321	13,171,053
<b>Financial liabilities</b>				
Deposits and balances of customers	<b>(12,647,934)</b>	<b>(12,817,235)</b>	(12,030,183)	(12,215,281)
	<b>721,460</b>	<b>503,378</b>	1,246,138	955,772

E. Notes to the condensed interim consolidated financial statements (continued)

9. Financial instruments (continued)

Accounting classifications and fair values (continued)

	<b>Company</b>			
	<b>Carrying amount</b>	<b>Fair value</b>	Carrying amount	Fair value
	<b>31 Dec 2023 \$'000</b>	<b>31 Dec 2023 \$'000</b>	31 Dec 2022 \$'000	31 Dec 2022 \$'000
<b>Financial assets</b>				
Loans, advances and receivables	<b>11,659,382</b>	<b>11,614,897</b>	11,650,972	11,559,319
Singapore Government debt securities, MAS bills and MAS FRN	<b>1,710,012</b>	<b>1,705,716</b>	1,625,349	1,611,734
	<b>13,369,394</b>	<b>13,320,613</b>	13,276,321	13,171,053
<b>Financial liabilities</b>				
Deposits and balances of customers	<b>(12,652,388)</b>	<b>(12,821,698)</b>	(12,034,533)	(12,219,699)
	<b>717,006</b>	<b>498,915</b>	1,241,788	951,354

*Fair value hierarchy*

Fair value measurements for financial assets and financial liabilities by the levels in the fair value hierarchy are based on the inputs to valuation techniques. The different levels are defined as follows:-

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.
- Level 2: inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: unobservable inputs for the asset or liability including prices of an item that is not identical.

*Group/Company financial assets and financial liabilities not carried at fair value but for which fair values are disclosed\**

The fair value of the portion of loans, advances and receivables being Level 3 instruments amounts to \$2.74 billion (31 December 2022: \$3.05 billion) against a carrying value of \$2.782 billion (31 December 2022: \$3.142 billion). Singapore Government debt securities, MAS bills and MAS FRN are Level 1 instruments with fair value of \$1.71 billion (31 December 2022: \$1.61 billion). The portion of deposits and balances of customers being Level 2 instruments have a fair value of \$10.54 billion (31 December 2022: \$10.52 billion) against a carrying value of \$10.37 billion (31 December 2022: \$10.34 billion).

\*Excludes financial assets and financial liabilities whose carrying amounts measured on the amortised cost basis approximate their fair values due to their short-term nature or frequent repricing and where the effect of discounting is immaterial.

E. Notes to the condensed interim consolidated financial statements (continued)

10. Borrowings

Included in borrowings are borrowings from MAS SGD Facility and borrowings from Enterprise Singapore as follows:

	<b>Group and Company</b>	
	<b>31 Dec 2023</b>	31 Dec 2022
	<b>\$'000</b>	\$'000
Borrowings from MAS SGD Facility		
- Amount repayable within one year	<b>15,389</b>	8,941
- Amount repayable after one year	-	23,723
	<b>15,389</b>	32,664
Borrowings from Enterprise Singapore		
- Amount repayable within one year	<b>1,003</b>	1,367
- Amount repayable after one year	<b>1,530</b>	2,478
	<b>2,533</b>	3,845
Total Borrowings	<b>17,922</b>	36,509

Borrowings from MAS SGD Facility are secured by assignment of eligible loan agreements as collaterals under Enterprise Singapore's Enhanced Enterprise Financing Scheme. Interest expense on MAS SGD Facility amounting to \$47,000 (2H 2022: \$55,000) for the second half of 2023 and \$106,000 for the year ended 31 December 2023 (31 December 2022: \$80,000).

Borrowings from Enterprise Singapore represents unsecured advances from Enterprise Singapore under the Local Enterprise Finance Scheme ("LEFS") and Extended Local Enterprise Finance Scheme ("ELEFS") to finance LEFS and ELEFS borrowers. Interest expense on Enterprise Singapore amounting to \$30,000 (2H 2022: \$45,000) for the second half of 2023 and \$67,000 for the year ended 31 December 2023 (31 December 2022: \$79,000).

There are no bank borrowings as at 31 December 2023 (31 December 2022: \$Nil). Interest expense on bank borrowings amounting to \$Nil (2H 2022: \$Nil) for the second half of 2023 and \$Nil for the year ended 31 December 2023 (31 December 2022: \$14,000).

11. During the six months ended 31 December 2023, the Group acquired property, plant and equipment amounting to \$941,000 (2H 2022: \$1,368,000) and disposed of property, plant and equipment amounting to \$273,000 (2H 2022: \$89,000).
12. There are no outstanding debt securities issuance as at 31 December 2023 (31 December 2022: \$Nil) for the Group and the Company.

F. Other information required by SGX Listing Rule Appendix 7.2

1. Review

The consolidated statement of financial position of Hong Leong Finance Limited (the “Company”) and its subsidiaries (the “Group”) as at 31 December 2023 and its related consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity of the Group and the Company and consolidated statement of cash flows of the Group for the year then ended have been audited in accordance with Singapore Standards on Auditing.

The condensed consolidated statement of profit or loss and other comprehensive income of the Group for the six months ended 31 December 2023 and 31 December 2022 have not been audited or reviewed.

2. Review of the performance of the Group

The Group recorded a net profit of \$46.8 million for the second half 2023 contributing to a net profit of \$93.4 million for full year ended 31 December 2023, attributed to operating income of \$212.3 million and write-back of \$4.6 million ECL allowances. Riding on the high interest rate environment, the Group has attained higher interest income on sustained asset yields while managing the higher cost of deposit driven by the market factors. Compared with a year ago, net profit declined by 28.7% on high base due to lower net interest margins on moderated loan growth.

For the second half 2023, net interest margin was lower at 1.4% compared to the corresponding prior period, bringing net interest income down by 30.9% to \$100.7 million. Net interest income for 2023 decreased by 16.5% to \$202.2 million, on an overall lower net interest margin of 1.5% (2022: 1.8%).

Fee and commission income decreased by 32.8% to \$5.5 million for second half 2023 and 39.2% to \$10.0 million for the full year 2023 from lending business due to subdued property financing activities in the financial market.

For second half and full year 2023, staff costs rose by 6.6% to \$39.8 million and 9.6% to \$80.5 million respectively, mainly on annual increment as well as investment in resources to accelerate our key digital transformation initiatives and strengthen our compliance and risk management. Other operating expenses reduced by 6.4% to \$8.6 million and 3.8% to \$16.9 million for second half and full year 2023 respectively, attributed to well-controlled business transaction and marketing expenses.

Net allowances for loans and other financial assets for second half 2023 was a net reversal at \$1.9 million arising from lower allowance for non credit-impaired loans compared to same period last year. For the full year 2023, net reversal for loans and other financial assets was \$4.6 million due to lower allowance for non credit-impaired loans on updated risk parameters. The non-performing loan ratio is well managed at 0.5%.

The Group continues to stay vigilant in its credit risk management and set aside adequate loss allowances to cover its loan portfolio.

F. Other information (continued)

2. Review of the performance of the Group (continued)

Net loan assets totalling \$11,659 million as at 31 December 2023, increased by 0.1% or \$8 million over the previous year's base of \$11,651 million as at 31 December 2022. The loan portfolio remained largely secured.

Deposits and balances of customers increased to \$12,648 million as at 31 December 2023, representing an increase of 5.1% or \$618 million over the previous year's base of \$12,030 million as at 31 December 2022. Cash and cash equivalents including statutory deposit with the Monetary Authority of Singapore ("MAS") together with Singapore Government debt securities, MAS Bills and MAS FRN held as liquid assets amounted to \$3,209 million as at 31 December 2023 (31 December 2022: \$2,549 million). The Group maintained liquidity buffer above regulatory Minimum Liquid Asset ("MLA") and stayed well-positioned to weather the market uncertainties.

Group shareholders' funds as at 31 December 2023 totalled \$2,060 million (31 December 2022: \$2,041 million) with higher net asset value at \$4.59 per share (31 December 2022: \$4.55 per share). The Group's Capital Adequacy Ratio stood at 16.3% as at 31 December 2023, well above regulatory requirement and remained strong to support lending activities.

There has been no forecast or prospect statement previously disclosed to shareholders in respect of the period under review.

3. Commentary on significant trends and competitive conditions in the industry

The Ministry of Trade and Industry ("MTI") announced that the economy grew by 2.2% year-on-year in the fourth quarter of 2023, supported by expansion across all sectors with the growth in manufacturing sector by 1.4%, construction sector by 5.2% and services producing sector by 2.0%. For the whole of 2023, the Singapore economy grew by 1.1%, moderating from the 3.8% growth seen a year ago. MTI has maintained the GDP growth forecast for Singapore for 2024 at 1.0% to 3.0%.

Singapore Central Bank kept unchanged its monetary policy stance that is aimed at strengthening the trade-weighted Singapore dollar to fight still-elevated inflation. It revised its estimate for overall inflation in 2024 to 2.5% to 3.5%, down from a previous projection of between 3% and 4%. It kept its core inflation projection unchanged at an average of 2.5% to 3.5% for 2024.

US Central Bank maintained the Federal Reserve ("Fed") Funds Rates at 5.25% to 5.50% following the Fed Open Market Committee ("FOMC") meeting in January 2024. The Fed is closely monitoring economic developments and inflation dynamics to determine the appropriate path for monetary policy in the coming months, with a potential shift in interest rates expected later in the year. The Fed will likely take a more gradual approach to rate cuts than markets have priced in. The exact timing and amount of these cuts are still uncertain.

F. Other information (continued)

3. Commentary on significant trends and competitive conditions in the industry (continued)

Economic growth, inflation rates, and monetary policies of major economies can impact interest rates and overall market sentiment. Interest rates set by central banks influence borrowing costs, asset margins, and the overall profitability of financial institutions. Domestically, interest rates in Singapore track closely behind the rates set by the US Central Bank. The higher-for-longer interest rates and sticky inflation have raised the focus on liquidity and credit fundamentals. Hong Leong Finance Limited (“HLF”) will manage these market risk through effective risk management practices, stay agile in its liquidity management and maintain vigilant in its credit assessment.

The financial industry is undergoing rapid technological changes for customer servicing and risk assessment. In cognizance of the pivotal role of technology in the financial ecosystem, HLF will deepen its digital capabilities with strategic partnerships and drive digital adoption to expand its product offering and customer engagement with scalability, efficiency, and operational resilience. With the acceleration of our digital transformation, we will strengthen our fraud monitoring and cybersecurity protection as they become paramount with the advancement of technology related scams.

Against the above backdrop and alongside with continuing geopolitical uncertainty, HLF will remain prudent and committed in driving sustainable business growth and practices, fostering product and technology innovation and delivering value to all our stakeholders. In alignment with our strategic vision and backed by a robust corporate governance, we are confident in our ability to navigate the evolving business landscape through customer-centric value propositions and sustainable return to shareholders.

F. Other information (continued)

4. Dividends

A Final Dividend of 9 cents per share (tax exempt one-tier) is recommended by the directors for approval by shareholders in respect of the year ended 31 December 2023. Subject to shareholders' approval at the Annual General Meeting to be held on 25 April 2024, the dividend will be payable on 24 May 2024.

Latest Year

(i)	Name of Dividend	Final (Proposed)
	Dividend Type	Cash
	Dividend Rate	9 cents per share
	Total Dividend	\$40,369,000*
	Tax Rate	Tax exempt one-tier
(ii)	Name of Dividend	Interim (Paid on 31 August 2023)
	Dividend Type	Cash
	Dividend Rate	3.5 cents per share
	Total Dividend	\$15,699,000
	Tax Rate	Tax exempt one-tier

Previous Year

(i)	Name of Dividend	Final (Paid on 26 May 2023)
	Dividend Type	Cash
	Dividend Rate	13.25 cents per share
	Total Dividend	\$59,424,000
	Tax Rate	Tax exempt one-tier
(ii)	Name of Dividend	Interim (Paid on 1 September 2022)
	Dividend Type	Cash
	Dividend Rate	3.75 cents per share
	Total Dividend	\$16,804,000
	Tax Rate	Tax exempt one-tier

\* The amount of dividend is computed on the shares in issue as at 31 December 2023. 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 31 December 2023 and the last day for exercise of options to determine shareholders' entitlement to the dividend.

F. Other information (continued)

5. Shares issued and outstanding convertibles

Since the end of the previous half year,

- (i) pursuant to the Hong Leong Finance Share Option Scheme 2001 (“Share Option Scheme”), market price options to subscribe for 3,765,000 shares at an exercise price of \$2.48 per share were granted on 20 September 2023;
- (ii) options to 507,000 shares under the Share Option Scheme to subscribe for shares granted on 20 September 2023 were not accepted;
- (iii) the Company issued the following 57,000 shares upon exercise of options under the Share Option Scheme

Share price	Number of shares issued
\$2.31	39,500
\$2.38	11,500
\$2.45	6,000
Total	<u>57,000</u>

- (iv) options to 231,975 shares under the Share Option Scheme lapsed upon cessation of employment of participants; and
- (v) options to 873,900 shares granted prior to 20 September 2023 under the Share Option Scheme lapsed upon expiry of options.

As at the end of the year, unissued shares of the Company under options amounted to 16,170,025 shares (31 December 2022: 14,931,500 shares).

Pursuant to the Finance Companies Act 1967, the Company does not hold treasury shares and accordingly, there were no treasury shares held as at 31 December 2023 and 31 December 2022. There were also no shares held as subsidiary holdings as at 31 December 2023 and 31 December 2022.



F. Other information (continued)

6. Closure of books

Notice is hereby given that, subject to shareholders' approval of the payment of a final dividend of 9 cents per share in respect of the year ended 31 December 2023 at the Annual General Meeting to be held on 25 April 2024, the Share Transfer Books and Register of Members of the Company will be closed from 5.00 pm on 8 May 2024 up to (and including) 9 May 2024. Duly completed registrable transfers received by the Company's Registrar up to 5.00 pm on 8 May 2024 will be registered to determine shareholders' entitlement to the dividend. In respect of shares in the securities accounts with The Central Depository (Pte) Limited ("CDP"), the said dividend will be paid by the Company to CDP which will distribute the said dividend to holders of the securities accounts. Details of the Company's Registrar will be announced later.

7. 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 ("Listing Rules").

8. Confirmation pursuant to Rule 720(1) of the Listing Manual

The Company confirms that it has procured undertakings from all its directors and executive officers in the format set out in Appendix 7.7 in accordance with Rule 720(1) of the Listing Manual.

9. Disclosure of person occupying a managerial position in the Company or any of its principal subsidiaries who is a relative of a director or chief executive officer or substantial shareholder of the Company pursuant to Rule 704(13) of the Listing Rules.

Name	Age	Family relationship with any director and/or substantial shareholder	Current position and duties, and the year the position was held	Details of changes in duties and position held, if any, during the year
Kwek Leng Beng	83	Cousin of Mr Kwek Leng Peck and Mr Kwek Leng Kee; and uncle of Mr Kevin Hangchi.	Chairman/Managing Director Full responsibilities as Chief Executive Officer. Managing Director of the Company since March 1979. Chairman of the Company since 1984.	-

BY ORDER OF THE BOARD  
YEO SWEE GIM, JOANNE  
NG SIEW PING, JASLIN  
COMPANY SECRETARIES

Dated this 23<sup>rd</sup> day of February 2024



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## **Independent auditors' report**

### **Members of the Company Hong Leong Finance Limited**

#### **Report on the audit of the financial statements**

##### *Opinion*

We have audited the financial statements of Hong Leong Finance Limited (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2023, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group and the statement of changes in equity of the Company for the year then ended, and notes to the financial statements, including material accounting policy information, as set out on pages 14 to 73.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Companies Act 1967 (the "Act") and Singapore Financial Reporting Standards (International) ("SFRS(I)s") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2023 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and changes in equity of the Company for the year ended on that date.

##### *Basis for opinion*

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the financial statements*" section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### *Key audit matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## **Impairment of loans, advances and receivables**

(Refer to Note 12 to the financial statements)

### ***The key audit matter***

The Group's loans, advances and receivables to customers represent 78% of its total assets. Given the magnitude of loans, advances and receivables and coupled with the estimation uncertainty over ECL allowances, the impairment of loans, advances and receivables is considered a key audit risk.

SFRS(I) 9 "Financial Instruments" requires the Group to determine the probability weighted estimate of the expected credit loss ("ECL") of loans, advances and receivables to customers.

The Group has developed models to calculate the ECL allowances for non credit-impaired exposures. Significant judgement and assumptions are required in the following areas:

- Appropriateness of the model methodology and parameters including the probability of default and loss given default;
- Identification of exposures with significant increase in credit risk; and
- Incorporation of economic scenarios.

The ECL allowances for credit-impaired exposures is highly subjective due to the judgement applied by management in estimating the realisable value of collaterals, if relevant, and consequently the ECL.

### ***How the matter was addressed in our audit***

In respect of credit exposures, we tested the design, implementation and operating effectiveness of the key controls in place over the credit approval and review process. We performed sample checks of credit reviews on loans and advances to critically assess the appropriateness of the credit grading and any objective evidence of impairment.

For a sample of credit-impaired exposures, we critically assessed the expected recoveries from realisable values of collaterals and other possible sources of repayment. This includes checking the valuation of collaterals, where possible, to externally derived evidence, such as real estate valuations.

In respect of non credit-impaired exposures, we assessed the appropriateness of the model, methodology and parameters for compliance with SFRS(I) 9 requirements. We tested the accuracy and integrity of the data used to compute the ECL allowances. We also applied sensitivity analysis to assess the impact of different economic scenarios on ECL.

For a sample of non credit-impaired exposures, we re-calculated the ECL allowance using the modelled attributes to test the mathematical accuracy of the calculations produced by the ECL model.

We found that the methodology and parameters adopted by management in the ECL model were appropriate and the ECL allowances computation was consistent with the ECL model.

### *Other information*

Management is responsible for the other information contained in the annual report. Other information is defined as all information in the annual report other than the financial statements and our auditors' report thereon.

We have obtained all other information prior to the date of this auditors' report except for the analysis of shareholdings ("the Report") which is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate actions in accordance with SSAs.

### *Responsibilities of management and directors for the financial statements*

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and SFRS(I)s, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

### *Auditors' responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless the law or regulations preclude public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### **Report on other legal and regulatory requirements**

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditors' report is Tan Chun Wei (Chen Junwei).

### **KPMG LLP**

*Public Accountants and  
Chartered Accountants*

### **Singapore**

23 February 2024