



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 2022.

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

Group

	6 months ended 31 Dec 2022	6 months ended 31 Dec 2021	+ / (-)	12 months ended 31 Dec 2022	12 months ended 31 Dec 2021	+ / (-)
Note	\$'000	\$'000	%	\$'000	\$'000	%
Interest on loans	167,560	88,106	90.2	266,018	179,765	48.0
Hiring charges	21,738	21,633	0.5	41,322	44,668	(7.5)
Other interest income	20,917	7,136	193.1	29,837	15,544	92.0
Interest income/hiring charges	210,215	116,875	79.9	337,177	239,977	40.5
Less: Interest expense	64,414	28,132	129.0	94,944	62,011	53.1
Net interest income/hiring charges	145,801	88,743	64.3	242,233	177,966	36.1
Fee and commission income	8,251	6,510	26.7	16,359	11,181	46.3
Other operating income	73	113	(35.4)	149	270	(44.8)
Income before operating expenses	154,125	95,366	61.6	258,741	189,417	36.6
Less: Staff costs	37,294	31,948	16.7	73,380	64,506	13.8
Depreciation of property, plant and equipment	3,948	4,020	(1.8)	7,940	8,011	(0.9)
Other operating expenses	9,163	7,951	15.2	17,556	14,896	17.9
Total operating expenses	50,405	43,919	14.8	98,876	87,413	13.1
Profit from operations before allowances	103,720	51,447	101.6	159,865	102,004	56.7
Less: Allowances for doubtful debts and other financial assets net of reversal or recovery of doubtful debts	920	3,099	(70.3)	2,753	60	NM
Profit before tax	102,800	48,348	112.6	157,112	101,944	54.1
Less: Income tax expense	17,037	8,212	107.5	26,233	17,123	53.2
Profit for the year/ Comprehensive income attributable to owners of the Company	85,763	40,136	113.7	130,879	84,821	54.3
Annualised earnings per share (cents)						
- Basic	38.28	17.93		29.21	18.95	
- Diluted	38.26	17.92		29.19	18.94	

NM: Not meaningful

B. Condensed interim statements of financial position

	Note	Group		Company	
		31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
		\$'000	\$'000	\$'000	\$'000
Assets					
Cash at banks and in hand		584,669	528,208	583,633	527,198
Statutory deposit with the Monetary Authority of Singapore ("MAS")		339,438	298,598	339,438	298,598
Singapore Government debt securities, MAS Bills and MAS Floating Rate Note ("FRN")		1,625,349	1,357,675	1,625,349	1,357,675
Hire purchase receivables		1,711,178	1,476,391	1,711,178	1,476,391
Loans, advances and factoring receivables		9,964,587	9,246,176	9,964,587	9,246,176
		11,675,765	10,722,567	11,675,765	10,722,567
Allowances for doubtful debts		(24,793)	(27,073)	(24,793)	(27,073)
		11,650,972	10,695,494	11,650,972	10,695,494
Other receivables, deposits and prepayments		25,153	16,963	25,152	16,962
Subsidiaries and long-term investments		-	-	535	535
Property, plant and equipment		49,931	55,325	49,931	55,325
Total assets		14,275,512	12,952,263	14,275,010	12,951,787
Liabilities					
Deposits and balances of customers		12,030,183	10,806,871	12,034,533	10,811,206
Trade and other payables	E10	177,484	164,710	176,148	163,365
Current tax payable		26,146	17,165	26,145	17,163
Deferred tax liabilities		1,003	970	1,003	970
Total liabilities		12,234,816	10,989,716	12,237,829	10,992,704
Equity					
Share capital		890,553	889,771	890,553	889,771
Reserves		811,724	778,592	811,724	778,592
Accumulated profits		338,419	294,184	334,904	290,720
Equity attributable to owners of the Company		2,040,696	1,962,547	2,037,181	1,959,083
Total equity and liabilities		14,275,512	12,952,263	14,275,010	12,951,787
Acceptances, guarantees and other obligations on behalf of customers		759	1,978	759	1,978
Number of shares in issue		448,131,733	447,817,233	448,131,733	447,817,233
Net asset value per share (\$)		4.55	4.38	4.55	4.37

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
Group							
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
At 1 January 2021	889,117	744,744	2,307	2,397	7,493	272,055	1,918,113
Issue of shares under share option scheme	602						602
Value of employee services received for issue of share options				418			418
Value of employee services transferred for share options exercised or lapsed	52			(347)		295	-
Final dividend of 5.5 cents per share (tax exempt one-tier) paid in respect of year 2020						(24,618)	(24,618)
Interim dividend of 3.75 cents per share (tax exempt one-tier) paid in respect of year 2021						(16,789)	(16,789)
Adjustment under MAS 811					374	(374)	-
Comprehensive income for the year						84,821	84,821
Transfer to Statutory reserve		21,206				(21,206)	-
At 31 December 2021	889,771	765,950	2,307	2,468	7,867	294,184	1,962,547

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

	Share capital \$'000	Statutory reserve \$'000	Capital reserve \$'000	Share option reserve \$'000	Regulatory loss allowance reserve \$'000	Accumulated profits \$'000	Total \$'000
Company							
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
At 1 January 2021	889,117	744,744	2,307	2,397	7,493	268,612	1,914,670
Issue of shares under share option scheme	602						602
Value of employee services received for issue of share options				418			418
Value of employee services transferred for share options exercised or lapsed	52			(347)		295	-
Final dividend of 5.5 cents per share (tax exempt one-tier) paid in respect of year 2020						(24,618)	(24,618)
Interim dividend of 3.75 cents per share (tax exempt one-tier) paid in respect of year 2021						(16,789)	(16,789)
Adjustment under MAS 811					374	(374)	-
Comprehensive income for the year						84,800	84,800
Transfer to Statutory reserve		21,206				(21,206)	-
At 31 December 2021	889,771	765,950	2,307	2,468	7,867	290,720	1,959,083

D. Condensed interim consolidated statement of cash flows

	Group	
	12 months ended \$'000	12 months ended \$'000
Operating activities		
Profit for the year	130,879	84,821
Adjustments for:		
Impact of accrual of interest income	(3,215)	(2,653)
Impact of accrual of interest expense	36,764	(29,087)
Allowances for doubtful debts	2,948	587
Interest expense on lease liabilities	368	339
Interest expense on borrowings	94	52
Depreciation of property, plant and equipment	7,940	8,011
Loss on disposal of property, plant and equipment	-	1
Value of employee services received for issue of share options	316	418
Income tax expense	26,233	17,123
	202,327	79,612
Changes in working capital:		
Loans, advances and receivables	(958,426)	251,828
Other receivables, deposits and prepayments	(4,975)	4,760
Singapore Government debt securities, MAS Bills and MAS FRN	(267,674)	47,759
Deposits and balances of customers	1,223,312	(387,488)
Trade and other payables	662	(42,464)
Cash generated from/(used in) operations	195,226	(45,993)
Income taxes paid	(17,219)	(19,365)
Cash flows from/(used in) operating activities	178,007	(65,358)
Investing activities		
Purchase of property, plant and equipment	(1,431)	(399)
Cash flows used in investing activities	(1,431)	(399)
Financing activities		
Payment for lease liabilities	(6,576)	(6,578)
Proceeds from exercise of share options	727	602
Proceeds from borrowings	23,723	16,361
Repayment of borrowings	(42,914)	(7,420)
Interest paid	(462)	(391)
Dividends paid	(53,773)	(41,407)
Cash flows used in financing activities	(79,275)	(38,833)
Net increase/(decrease) in cash and cash equivalents	97,301	(104,590)
Cash and cash equivalents at beginning of year	826,806	931,396
Cash and cash equivalents at end of year	924,107	826,806

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

	31 Dec 2022	31 Dec 2021
	\$'000	\$'000
Cash at banks and in hand	584,669	528,208
Statutory deposit with the Monetary Authority of Singapore ("MAS")	339,438	298,598
Cash and cash equivalents	924,107	826,806

In addition to the cash and cash equivalents above, marketable Singapore Government debt securities, MAS Bills and MAS FRN amounted to \$1,625,349,000 (31 December 2021: \$1,357,675,000) 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 2022 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 2022 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 2022.

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

A number of amendments to Standards have become applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting those standards.

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 2021.

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 \$Nil (2H 2021: \$1,000) for the second half of 2022 and \$Nil (31 December 2021: \$1,000) for the year ended 31 December 2022.

7. Profit after tax

	Group		
	2022	2021	+ / (-)
	\$'000	\$'000	%
- first half year	45,116	44,685	1.0
- second half year	85,763	40,136	113.7

The increase in the profit after tax for the second half of 2022 as compared to the same period in 2021 was mainly attributed to the substantial increase in net interest income, driven by improved net interest margin.

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:

	Group			
	6 months ended 31 Dec 2022	6 months ended 31 Dec 2021	12 months ended 31 Dec 2022	12 months ended 31 Dec 2021
	\$'000	\$'000	\$'000	\$'000
Current year	17,026	8,501	26,204	17,163
Adjustment for prior years	(4)	-	(4)	(113)
Current tax expense	17,022	8,501	26,200	17,050
Deferred tax expense relating to origination and reversal of temporary differences	15	(289)	33	73
Total income tax expense	17,037	8,212	26,233	17,123

The effective tax rate for the year ended 31 December 2022 is 16.7% (31 December 2021: 16.8%).

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 2022 (31 December 2021: \$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:-

	Group			
	Carrying amount	Fair value	Carrying amount	Fair value
	31 Dec 2022 \$'000	31 Dec 2022 \$'000	31 Dec 2021 \$'000	31 Dec 2021 \$'000
Financial assets				
Loans, advances and receivables	11,650,972	11,559,319	10,695,494	10,704,980
Singapore Government debt securities, MAS bills and MAS FRN	1,625,349	1,611,734	1,357,675	1,362,858
	13,276,321	13,171,053	12,053,169	12,067,838
Financial liabilities				
Deposits and balances of customers	(12,030,183)	(12,215,281)	(10,806,871)	(10,825,699)
	1,246,138	955,772	1,246,298	1,242,139

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

9. Financial instruments (continued)

Accounting classifications and fair values (continued)

	Company		Carrying amount 31 Dec 2021 \$'000	Fair value 31 Dec 2021 \$'000
	Carrying amount	Fair value		
	31 Dec 2022 \$'000	31 Dec 2022 \$'000		
Financial assets				
Loans, advances and receivables	11,650,972	11,559,319	10,695,494	10,704,980
Singapore Government debt securities, MAS bills and MAS FRN	1,625,349	1,611,734	1,357,675	1,362,858
	13,276,321	13,171,053	12,053,169	12,067,838
Financial liabilities				
Deposits and balances of customers	(12,034,533)	(12,219,699)	(10,811,206)	(10,830,037)
	1,241,788	951,354	1,241,963	1,237,801

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 \$3.05 billion (31 December 2021: \$2.47 billion) against a carrying value of \$3.142 billion (31 December 2021: \$2.462 billion). Singapore Government debt securities, MAS bills and MAS FRN are Level 1 instruments with fair value of \$1.61 billion (31 December 2021: \$1.36 billion). The portion of deposits and balances of customers being Level 2 instruments have a fair value of \$10.52 billion (31 December 2021: \$8.94 billion) against a carrying value of \$10.34 billion (31 December 2021: \$8.92 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. Trade and other payables

Included in trade and other payables are borrowings from MAS SGD Facility as follows:

	Group and Company	
	31 Dec 2022	31 Dec 2021
	\$'000	\$'000
Borrowings from MAS SGD Facility (secured)		
- Amount repayable within one year	8,941	42,914
- Amount repayable after one year	23,723	8,941
	32,664	51,855

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 \$55,000 (2H 2021: \$27,000) for the second half of 2022 and \$80,000 for the year ended 31 December 2022 (31 December 2021: \$52,000).

There are no bank borrowings as at 31 December 2022 (31 December 2021: \$Nil). Interest expense on bank borrowings amounting to \$Nil (2H 2021: \$Nil) for the second half of 2022 and \$14,000 for the year ended 31 December 2022 (31 December 2021: \$Nil).

11. There are no outstanding debt securities issuance as at 31 December 2022 (31 December 2021: \$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 2022 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 2022 and 31 December 2021 have not been audited or reviewed.

2. Review of the performance of the Group

The Group recorded a solid net attributable profit for second half 2022 at \$85.8 million, grew 113.7% from the same period last year. For the full year ended 31 December 2022, the Group reported a record net attributable profit of \$130.9 million, up 54.3% from the previous year, driven by strong loan growth and uplift of asset yields outpacing higher cost of deposit amid the ongoing interest rate hikes.

For second half 2022, net interest margin expanded by 70 basis points to 2.11% for the corresponding prior period, bringing net interest income up by 64.3% to \$145.8 million. Net interest income for 2022 rose by 36.1% to \$242.2 million, on the back of expanded net interest margin by 41 basis points at 1.82%, reaping the upside momentum from rising benchmark rates with effective interest rate repricing management.

Fee and commission income increased 26.7% to \$8.3 million for second half 2022 and 46.3% to \$16.4 million for the full year 2022 from lending activities.

For second half and full year 2022, staff costs were higher by 16.7% to \$37.3 million and 13.8% to \$73.4 million respectively, mainly on lower base last year and annual increment as well as investment in resources to strengthen our key transformation initiatives, compliance and risk management. Other operating expenses increased 15.2% to \$9.2 million and 17.9% to \$17.6 million for second half and full year 2022 respectively, attributed to higher business transaction, marketing promotion expenses and premises cost.

Net allowances for loans and other financial assets for second half 2022 was lower at \$0.9 million arising from lower allowance for credit-impaired loans compared to same period last year. For the full year 2022, net allowances for loans and other financial assets increased to \$2.8 million due to higher allowance for non credit-impaired loans on revised risk parameters and higher loan portfolio.

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 \$11,651 million as at 31 December 2022, increased by 8.9% or \$956 million over the previous year's base of \$10,695 million as at 31 December 2021. The loan portfolio remained largely secured.

In line with higher funding requirements for loan growth, deposits and balances of customers increased to \$12,030 million as at 31 December 2022, representing an increase of 11.3% or \$1,223 million over the previous year's base of \$10,807 million as at 31 December 2021. 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 \$2,549 million as at 31 December 2022 (31 December 2021: \$2,184 million). The Group's balance sheet remained resilient with prudent liquidity and strong capital to support lending activities and is well-positioned to ride through the economic and market uncertainties.

Group shareholders' funds as at 31 December 2022 totalled \$2,041 million (31 December 2021: \$1,963 million) with higher net asset value at \$4.55 per share (31 December 2021: \$4.38 per share).

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

Ministry of Trade and Industry ("MTI") announced that for the whole of 2022, the Singapore economy expanded by 3.6%, moderating from the 8.9% growth in 2021. The manufacturing sector grew by 2.5%, slower than the 13.3% growth in 2021. The construction sector posted growth of 6.7%, extending the 20.5% expansion in 2021, supported by both public and private sector construction works. The services producing industries expanded by 4.8%, easing from the 7.6% expansion in 2021. Taking into account the global and domestic economic environment, the Singapore GDP growth forecast for 2023 is maintained at 0.5% to 2.5%.

The World Economic Outlook Update projects that global growth will fall to 2.9% in 2023. While China's recent reopening has paved the way for a faster-than-expected recovery, the rising interest rates and Russia-Ukraine war will continue to weigh on economic activity. Global inflation is expected to fall to 6.6% in 2023, still above pre-pandemic levels.

In February 2023, Federal Open Market Committee ("FOMC") lifted the Federal Reserve ("Fed")'s target for its benchmark rate by a quarter percentage point to a range of 4.5% to 4.75%, signals smaller rate hikes but ongoing increases toward the target range to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2% over time. Singapore interest rates have seen edging higher and tracking behind Fed rate hikes.

F. Other information (continued)

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

The battle against inflation, economic uncertainty and geopolitical instability will continue to weigh on growth in 2023, while the interplay of inflation and central-bank intervention will ultimately shape the economic growth for 2023.

Amid challenging business environment, we remain steadfast in supporting our customers' financial needs and business growth. Our commitment and dedication to serve our customers have entrenched trust and loyal support from our customers and earn us external recognition over the years. This year, we were honoured to be awarded Euromoney Market Leaders in Singapore 2022 for Corporate Banking and SME Banking, ASEAN Finance Company 2022 by Asian Banking and Finance, Top 100 Singaporean Brand 2022 by Brand Finance, Top 100 ASEAN Banks and Best Performing Bank in Singapore 2022 by The Banker.

To drive operational resiliency and business sustainability, we will step-up our digital adoption and transformation as part of our business strategy to scale our business growth and expand our service offering, in complement with our strong branch network to deliver omnichannel experiences, enhance customers' engagement and enable value creation. As a responsible financier, we will focus on sustainable business priorities and integrate responsible business practices and impact management in our strategies planning.

Looking ahead, we remain watchful that 2023 will be a year of normalization amid cyclical headwinds. We will monitor the impact of interest rate on our asset and liabilities management and strengthen our risk management to sustain growth and profitability.

F. Other information (continued)

4. Dividends

A Final Dividend of 13.25 cents per share (tax exempt one-tier) is recommended by the directors for approval by shareholders in respect of the year ended 31 December 2022. Subject to shareholders' approval at the Annual General Meeting to be held on 27 April 2023, the dividend will be payable on 26 May 2023.

Latest Year

(i)	Name of Dividend	Final (Proposed)
	Dividend Type	Cash
	Dividend Rate	13.25 cents per share
	Total Dividend	\$59,377,000*
	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

Previous Year

(i)	Name of Dividend	Final (Paid on 27 May 2022)
	Dividend Type	Cash
	Dividend Rate	8.25 cents per share
	Total Dividend	\$36,969,000
	Tax Rate	Tax exempt one-tier
(ii)	Name of Dividend	Interim (Paid on 8 September 2021)
	Dividend Type	Cash
	Dividend Rate	3.75 cents per share
	Total Dividend	\$16,789,000
	Tax Rate	Tax exempt one-tier

* The amount of dividend is computed on the shares in issue as at 31 December 2022. 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 2022 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 2,532,000 shares at an exercise price of \$2.45 per share were granted on 21 September 2022;
- (ii) options to 371,500 shares under the Share Option Scheme to subscribe for shares granted on 21 September 2022 were not accepted;
- (iii) the Company issued the following 8,000 shares upon exercise of options under the Share Option Scheme

Share price	Number of shares issued
\$2.34	1,000
\$2.23	1,000
\$2.38	6,000
Total	<u>8,000</u>

- (iv) options to 745,680 shares under the Share Option Scheme lapsed upon cessation of employment of participants; and
- (v) options to 1,021,000 shares granted prior to 21 September 2022 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 14,931,500 shares (31 December 2021: 15,286,180 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 2022 and 31 December 2021. There were also no shares held as subsidiary holdings as at 31 December 2022 and 31 December 2021.

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 13.25 cents per share in respect of the year ended 31 December 2022 at the Annual General Meeting to be held on 27 April 2023, the Share Transfer Books and Register of Members of the Company will be closed from 5.00 pm on 10 May 2023 up to (and including) 11 May 2023. 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 10 May 2023 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.

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	82	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 24th day of February 2023



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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 2022, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 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 2022 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group 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 11 to the financial statements)

The key audit matter

The Group's loans, advances and receivables to customers represent 82% of its total assets.

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 development of the model parameters, including the probability of default, loss given default and exposure at default.

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

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.

As the uncertain economic outlook continues to pose challenges and complexities to the adequacy of the ECL recorded, the Group exercised judgement in assessing the reasonableness and validity of post-model adjustments, including economic scenarios to be applied, to address possible model limitations.

How the matter was addressed in our audit

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.

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 inputs used to compute the ECL allowances.

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.

In respect of credit-impaired exposures, we assessed the controls over the determination of ECL allowances for credit-impaired exposures. 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 response to the uncertain economic outlook, we assessed the reasonableness of the post-model adjustments applied by management. In addition, we considered the adequacy of disclosure of these key assumptions in the financial statements.

We found that the methodology, assumptions and data 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 Ian Hong Cho Hor.

KPMG LLP

*Public Accountants and
Chartered Accountants*

Singapore

24 February 2023