



HONG LEONG FINANCE

First Quarter Financial Statements

First quarter financial statements on consolidated results for the three months ended 31 March 2009. These figures have not been audited.

1(a). Unaudited Group Statement of Comprehensive Income For The Quarter Ended 31 March 2009

	1st Qtr 2009	1st Qtr 2008	+ / (-)
	\$'000	\$'000	%
Profit and loss account:			
Interest on loans	51,638	63,284	(18.4)
Hiring charges	21,587	23,647	(8.7)
Other interest income	7,334	8,948	(18.0)
Interest income/hiring charges	80,559	95,879	(16.0)
Less: Interest expense	27,493	47,835	(42.5)
Net interest income/hiring charges	53,066	48,044	10.5
Fee and commission income	1,437	6,531	(78.0)
Other operating income	91	132	(31.1)
Income before operating expenses	54,594	54,707	(0.2)
Less: Staff costs	12,122	14,115	(14.1)
Depreciation of property, plant and equipment	355	352	0.9
Other operating expenses	5,413	5,399	0.3
Profit from operations before allowances/provision	36,704	34,841	5.3
Less: Allowances for/(reversal or recovery) of doubtful debts and provision for settlements and costs relating to distribution of wealth management products	4,784	(2,529)	N.M.
Profit before tax	31,920	37,370	(14.6)
Less: Income tax expense	6,234	6,872	(9.3)
Profit for the period	25,686	30,498	(15.8)
Other comprehensive income:			
Cash flow hedges: net movement in hedging reserve	-	738	-
Total comprehensive income attributable to owners of the Company	25,686	31,236	(17.8)
Earnings per share:			
Annualised earnings per share (cents)			
- based on weighted average number of shares	23.34	27.74	
- on a diluted basis	23.34	27.68	

N.M. – Not meaningful

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

- (i) Interest expense includes interest on borrowings amounting to \$Nil (31 March 2008 : \$607,000).
- (ii) Other operating income includes profit on disposal of plant and equipment amounting to \$46,000 (31 March 2008 : \$64,000).

2(a). Summarised Balance Sheets

	Group		Company	
	31 Mar 2009	31 Dec 2008	31 Mar 2009	31 Dec 2008
Number of shares in issue	440,179,793	440,179,793	440,179,793	440,179,793
	\$'000	\$'000	\$'000	\$'000
Share capital	869,006	869,006	869,006	869,006
Accumulated profits	49,919	24,233	47,605	21,938
Other components of equity	472,163	471,978	472,163	471,978
Equity attributable to owners of the Company	1,391,088	1,365,217	1,388,774	1,362,922
Liabilities				
Deposits and savings accounts	7,638,973	8,101,653	7,642,406	8,105,084
Trade and other payables	143,509	196,508	142,251	195,268
Current tax payable	23,625	25,858	23,611	25,844
Total liabilities	7,806,107	8,324,019	7,808,268	8,326,196
Total equity and liabilities	9,197,195	9,689,236	9,197,042	9,689,118
Assets				
Cash at banks and in hand	845,037	931,450	844,349	930,797
Statutory deposit with the Monetary Authority of Singapore	205,367	216,746	205,367	216,746
Singapore Government securities	954,183	1,059,474	954,183	1,059,474
Hire purchase receivables	2,035,831	2,085,258	2,035,831	2,085,258
Loans, advances and factoring receivables	5,210,560	5,436,484	5,210,560	5,436,484
Allowances for doubtful debts	(110,545)	(108,825)	(110,545)	(108,825)
Other assets	15,610	26,908	15,610	26,908
Subsidiaries and long term investments	5,744	4,544	6,279	5,079
Property, plant and equipment	17,690	17,882	17,690	17,882
Deferred tax assets	17,718	19,315	17,718	19,315
Total assets	9,197,195	9,689,236	9,197,042	9,689,118
Acceptances, guarantees and other obligations on behalf of customers	18,654	18,254	18,654	18,254

2(b). Net Asset Value

Net asset value per share (\$)	3.16	3.10	3.16	3.10
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3. Consolidated Statement of Cash Flows

	31 Mar 2009	31 Mar 2008
	\$'000	\$'000
Operating activities		
Profit after tax	25,686	30,498
Adjustments for:		
Impact of accrual of interest income	6,774	6,153
Impact of accrual of interest expense	(15,543)	(12,143)
Allowances for/(reversal of) doubtful debts	2,363	(1,796)
Depreciation of property, plant and equipment	355	352
Gain on disposal of property, plant and equipment	(46)	(64)
Value of employee services received for issue of share options	185	232
Income tax expense	6,234	6,872
	26,008	30,104
Changes in working capital:		
Loans, advances and receivables	274,708	(38,440)
Other receivables, deposits and prepayments	4,524	31,208
Deposits and savings accounts	(462,680)	274,715
Trade and other payables	(37,456)	13,837
Cash generated from operations	(194,896)	311,424
Income taxes paid	(6,870)	(11,489)
Cash flows from operating activities	(201,766)	299,935
Investing activities		
Purchase of investments (long term)	(1,200)	-
Purchase of property, plant and equipment	(164)	(214)
Proceeds from disposal of property, plant and equipment	47	65
Cash flows from investing activities	(1,317)	(149)
Financing activities		
Repayment of interest-bearing borrowings	-	(120,000)
Proceeds from exercise of share options	-	215
Cash flows from financing activities	-	(119,785)
Net (decrease)/increase in cash and cash equivalents	(203,083)	180,001
Cash and cash equivalents at 1 January	2,207,670	1,799,921
Cash and cash equivalents at 31 March	2,004,587	1,979,922

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

	31 Mar 2009	31 Mar 2008
	\$'000	\$'000
Cash at banks and in hand	845,037	714,234
Statutory deposit with the Monetary Authority of Singapore	205,367	232,858
Singapore Government securities	954,183	1,032,830
Cash and cash equivalents at 31 March	2,004,587	1,979,922

4. Statements of Changes in Equity

Group	Share capital \$'000	Statutory reserve \$'000	Capital reserve \$'000	Hedging reserve \$'000	Share option reserve \$'000	Accumulated profits \$'000	Total \$'000
At 1 January 2009	869,006	465,970	2,307	-	3,701	24,233	1,365,217
Value of employee services received for issue of share options					185		185
Total comprehensive income for the period				-		25,686	25,686
At 31 March 2009	869,006	465,970	2,307	-	3,886	49,919	1,391,088
At 1 January 2008	867,577	446,466	2,307	(738)	2,594	22,942	1,341,148
Issue of shares under share option scheme	215						215
Value of employee services received for issue of share options					232		232
Total comprehensive income for the period				738		30,498	31,236
At 31 March 2008	867,792	446,466	2,307	-	2,826	53,440	1,372,831
Company							
At 1 January 2009	869,006	465,970	2,307	-	3,701	21,938	1,362,922
Value of employee services received for issue of share options					185		185
Total comprehensive income for the period				-		25,667	25,667
At 31 March 2009	869,006	465,970	2,307	-	3,886	47,605	1,388,774
At 1 January 2008	867,577	446,466	2,307	(738)	2,594	20,786	1,338,992
Issue of shares under share option scheme	215						215
Value of employee services received for issue of share options					232		232
Total comprehensive income for the period				738		30,473	31,211
At 31 March 2008	867,792	446,466	2,307	-	2,826	51,259	1,370,650

5. Review Of The Performance Of The Group

Net loan assets including hire purchase receivables (net of allowances) stood at \$7,136 million at the end of the financial period under review. This was a decrease of 3.7% or \$277 million over the previous year's base of \$7,413 million as at 31 December 2008, and a decrease of 11.7% or \$943 million over the figure of \$8,079 million as at 31 March 2008. Deposits and savings accounts of customers amounted to \$7,639 million as at 31 March 2009. Cash and cash equivalents (including balances with the Monetary Authority of Singapore and liquid assets) amounted to \$2,005 million as at 31 March 2009.

The Group recorded profit from operations before allowances/provision of \$36.7 million for the financial period under review, an increase of 5.3% from \$34.8 million for the previous corresponding period. In spite of an improvement in net interest income by 10.5%, the overall results for the period were lower due to a much reduced contribution from wealth management business and a top-up in provisioning made.

With a decline in recovery of debts previously provided for, Group profit after tax for the financial period under review amounted to \$25.7 million, a decrease of \$4.8 million or 15.8% over the previous corresponding period. The results were arrived at after making top-up provisions amounting to \$4.8 million for loans and advances and settlements with wealth management customers relating to structured products distributed, against a write back of \$2.5 million in the previous corresponding period. The Group continues to maintain adequate individual and collective provisions in respect of its loan portfolio. While a more cautious lending approach has been in place and an overall decline of 3.7% in the loan book has been recorded in the quarter, nevertheless provisions continued to be maintained as a prudential measure.

The tax charge for the period exceeds that arrived at by applying the current rate of tax of 17% to the net income for the period principally due to the tax charge arising from a corresponding decrease in deferred tax assets previously recognised.

For the financial period under review, interest spreads widen with a reduction in gross interest income more than offset by a fall in interest payable. Interest income/hiring charges declined by 16% to \$80.6 million resulting mainly from a lower loan base compared to the previous corresponding period. Interest expense for the financial period under review amounted to \$27.5 million, a decrease of 42.5% over the previous corresponding period due to lower interest expense on deposits resulting from a combination of lower prevailing interest rates and a lower deposits base. No interest on borrowings was incurred compared to \$0.6 million for the previous corresponding period. Net interest income/hiring charges accordingly rose 10.5% as a result of lower interest expense.

Fee and commission income declined 78.0% to \$1.4 million from previous corresponding period mainly due to lower commissions from sales of wealth management products and lower fee income from corporate advisory services. A decrease of 14.1% in staff costs to \$12.1 million was due to lower provision for bonus and an incentive received under the Jobs Credit Scheme.

Group shareholders' funds as at 31 March 2009 totalled \$1,391 million amounting to \$3.16 per share.

In the opinion of the Directors, no undisclosed trend, item or event of a material and unusual nature which would have affected materially the results of the operations of the Group has occurred in the interval between the end of the financial period and the date of this report.

6. Commentary On Significant Trends and Competitive Conditions In The Industry

The Government has announced that it expects the Singapore economy to contract by 6% to 9% this year. At the same time, the Ministry of Trade and Industry has released advance estimates showing that GDP in 1Q 2009 contracted by 19.7% compared to a 16.4% contraction in 4Q 2008. There are still many unknowns that could impact the general economic conditions with this recession one of the worst since World War Two. The continuing fragility of the global financial system is adding uncertainty as to the length and depth of the recession.

On the back of the uncertain outlook and confidence in the economy, the Singapore Government has implemented a Resilience Package of \$20.5 billion in its fiscal year 2009 Budget with \$5.8 billion earmarked to help stimulate bank lending.

Hong Leong Finance has been and will always be a strong supporter of SMEs and other corporates wishing to avail themselves of the package and of other government schemes under the auspices of SPRING and IE Singapore. Since the rolling out of this package, we have seen double digit growth in financing to such customers.

During this very uncertain period, strong risk management and strict credit parameters are applied to all underwriting of loans. This is to ensure that we maintain a healthy and sustainable balance sheet with a balanced and well-controlled loan portfolio. Our capital adequacy ratio which strictly comprises Tier One capital remains robust at approximately 18%.

We will also continue to build a broad deposit base by rolling out innovative deposit campaigns aimed at the heartland customers who have been supporting us throughout all these years.

7. Dividends

The directors are not recommending the payment of an interim dividend (31 March 2008 : Nil) in respect of the financial period under review.

8. Shares Issued and Outstanding Convertibles

Since the end of the previous quarter, options to 75,500 shares under the Hong Leong Finance Share Option Scheme 2001 lapsed upon cessation of employment of participants.

As at the end of the period, unissued shares of the Company under the options amounted to 12,105,960 shares (31 March 2008 : 9,280,841 shares).

9. Accounting Policies

The financial statements are prepared in accordance with Singapore Financial Reporting Standards (FRSs).

For the current financial year, the Group has adopted the following FRSs:-

- FRS 1 (revised 2008) Presentation of Financial Statements
- FRS 23 (revised 2007) Borrowing Costs
- Amendments to FRS 32 Financial Instruments: Presentation and FRS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation
- Amendments to FRS 101 First-time Adoption of Financial Reporting Standards and FRS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
- Amendments to FRS 102 Share-based Payment – Vesting Conditions and Cancellations
- FRS 108 Operating Segments
- Improvements to FRSs 2008
- INT FRS 113 Customer Loyalty Programmes
- INT FRS 116 Hedges of a Net Investment in a Foreign Operation

The adoption of these FRSs does not have a material impact on the financial statements for the financial period under review.

Accounting policies and methods of computation used in the financial statements for the financial period under review are consistent with those applied in the audited financial statements for the year ended 31 December 2008.

BY ORDER OF THE BOARD
YEO SWEE GIM, JOANNE
COMPANY SECRETARY

Dated this 24th day of April 2009

Directors' Confirmation

The Directors hereby confirm that, to the best of their knowledge, nothing has come to the attention of the Board of Directors which may render the Group's unaudited interim financial statements for the quarter ended 31 March 2009 to be false or misleading in any material aspect.

On behalf of the Board of Directors

Kwek Leng Beng

Director

Cheng Shao Shiong @ Bertie Cheng

Director

Singapore

24 April 2009