



HONG LEONG FINANCE

Second Quarter And Half-Year Financial Statements And Related Announcement

Second quarter and half-year financial statements on consolidated results for the period ended 30 June 2014. These figures have not been audited.

1(a). Unaudited Group Statements of Comprehensive Income For The Quarter And Half Year Ended 30 June 2014

	2nd Qtr 2014	2nd Qtr 2013	+ / (-)	1st Half 2014	1st Half 2013	+ / (-)
	\$'000	\$'000	%	\$'000	\$'000	%
Profit and loss account:						
Interest on loans	48,126	45,498	5.8	94,604	90,250	4.8
Hiring charges	9,113	11,350	(19.7)	18,794	23,029	(18.4)
Other interest income	5,414	5,580	(3.0)	10,727	11,580	(7.4)
Interest income/hiring charges	62,653	62,428	0.4	124,125	124,859	(0.6)
Less: Interest expense	25,255	24,895	1.4	50,401	50,833	(0.8)
Net interest income/hiring charges	37,398	37,533	(0.4)	73,724	74,026	(0.4)
Fee and commission income	2,985	3,457	(13.7)	5,559	6,812	(18.4)
Other operating income	60	356	(83.1)	97	392	(75.3)
Income before operating expenses	40,443	41,346	(2.2)	79,380	81,230	(2.3)
Less: Staff costs	16,262	15,598	4.3	32,810	31,557	4.0
Depreciation of property, plant and equipment	647	596	8.6	1,283	1,194	7.5
Other operating expenses	4,514	4,414	2.3	8,922	9,479	(5.9)
Profit from operations before allowances/provision	19,020	20,738	(8.3)	36,365	39,000	(6.8)
Add/(Less): (Allowances for)/reversal or recovery of doubtful debts and provision for settlements and costs relating to distribution of wealth management products and impairment losses of other assets	(2,022)	127	N.M.	(1,991)	200	N.M.
Profit before tax	16,998	20,865	(18.5)	34,374	39,200	(12.3)
Less: Income tax expense	2,935	3,470	(15.4)	5,876	6,548	(10.3)
Profit for the period/Comprehensive income attributable to owners of the Company	14,063	17,395	(19.2)	28,498	32,652	(12.7)
Annualised earnings per share (cents)						
- Basic	12.69	15.74		12.87	14.78	
- Diluted	12.67	15.72		12.85	14.77	

N.M. – Not meaningful

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

- (i) Other operating income includes gain on disposal of plant and equipment amounting to \$Nil (30 June 2013 : \$293,000) for the quarter and half year ended 30 June 2014.
- (ii) (Allowances for)/reversal or recovery of doubtful debts and provision for settlements and costs relating to distribution of wealth management products and impairment losses of other assets includes impairment losses of other assets (property, plant and equipment) amounting to \$186,000 (30 June 2013 : \$Nil) for the quarter and half year ended 30 June 2014.

2(a). Summarised Statements of Financial Position

	Group		Company	
	30 Jun 2014	31 Dec 2013	30 Jun 2014	31 Dec 2013
Number of shares in issue	443,276,793	442,700,193	443,276,793	442,700,193
	\$'000	\$'000	\$'000	\$'000
Share capital	877,944	876,389	877,944	876,389
Reserves	595,985	595,900	595,985	595,900
Accumulated profits	167,038	173,982	164,157	171,161
Equity attributable to owners of the Company	1,640,967	1,646,271	1,638,086	1,643,450
Liabilities				
Deposits and balances of customers	10,293,610	9,905,800	10,297,534	9,909,716
Trade and other payables	103,238	108,923	101,962	107,635
Current tax payable	13,568	14,152	13,562	14,145
Total liabilities	10,410,416	10,028,875	10,413,058	10,031,496
Total equity and liabilities	12,051,383	11,675,146	12,051,144	11,674,946
Assets				
Cash at banks and in hand	1,099,495	1,081,566	1,098,721	1,080,832
Statutory deposit with the Monetary Authority of Singapore	271,928	261,535	271,928	261,535
Singapore Government securities	1,345,948	1,201,651	1,345,948	1,201,651
Hire purchase receivables	1,270,775	1,373,649	1,270,775	1,373,649
Loans, advances and factoring receivables	8,117,669	7,815,024	8,117,669	7,815,024
Allowances for doubtful debts	9,388,444	9,188,673	9,388,444	9,188,673
	(102,924)	(100,701)	(102,924)	(100,701)
	9,285,520	9,087,972	9,285,520	9,087,972
Other receivables, deposits and prepayments	18,637	20,482	18,637	20,481
Subsidiaries and long term investments	546	546	1,081	1,081
Property, plant and equipment	25,593	18,119	25,593	18,119
Deferred tax assets	3,716	3,275	3,716	3,275
Total assets	12,051,383	11,675,146	12,051,144	11,674,946
Acceptances, guarantees and other obligations on behalf of customers	7,781	8,149	7,781	8,149

2(b). Net Asset Value

Net asset value per share (\$)	3.70	3.72	3.70	3.71
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2(c). There are no outstanding borrowings and debt securities as at 30 June 2014 (31 December 2013 : \$Nil) for the Group and the Company.

3. Consolidated Statement of Cash Flows

	2nd Qtr 2014 \$'000	2nd Qtr 2013 \$'000	1st Half 2014 \$'000	1st Half 2013 \$'000
Operating activities				
Comprehensive income after tax	14,063	17,395	28,498	32,652
Adjustments for:				
Impact of accrual of interest income	(3,027)	(3,428)	(580)	(1,073)
Impact of accrual of interest expense	3,649	4,574	(6,765)	(3,158)
Allowances for doubtful debts and receivables	2,393	420	3,124	1,177
Depreciation of property, plant and equipment	647	596	1,283	1,194
Gain on disposal of property, plant and equipment	-	(293)	-	(293)
Impairment losses on other assets	186	-	186	-
Value of employee services received for issue of share options	140	180	280	359
Income tax expense	2,935	3,470	5,876	6,548
	20,986	22,914	31,902	37,406
Changes in working capital:				
Loans, advances and receivables	(160,640)	(70,298)	(200,678)	(182,473)
Other receivables, deposits and prepayments	(126)	732	2,431	7,900
Singapore Government securities	(127,172)	(146,365)	(144,297)	(251,685)
Deposits and balances of customers	346,815	120,744	387,810	118,849
Trade and other payables	269	(1,345)	1,080	(2,496)
Cash generated from/(used in) operations	80,132	(73,618)	78,248	(272,499)
Income taxes paid	(4,142)	(4,399)	(6,901)	(8,713)
Cash flows from/(used in) operating activities	75,990	(78,017)	71,347	(281,212)
Investing activities				
Purchase of property, plant and equipment	(8,909)	(1,048)	(8,943)	(1,067)
Proceeds from disposal of property, plant and equipment	-	314	-	314
Cash flows (used in) investing activities	(8,909)	(734)	(8,943)	(753)
Financing activities				
Proceeds from exercise of share options	809	1,122	1,378	1,921
Dividends paid	(35,460)	(35,362)	(35,460)	(35,362)
Cash flows (used in) financing activities	(34,651)	(34,240)	(34,082)	(33,441)
Net increase/(decrease) in cash and cash equivalents	32,430	(112,991)	28,322	(315,406)
Cash and cash equivalents at beginning of period	1,338,993	1,539,017	1,343,101	1,741,432
Cash and cash equivalents at end of period	1,371,423	1,426,026	1,371,423	1,426,026

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

	30 Jun 2014 \$'000	30 Jun 2013 \$'000
Cash at banks and in hand	1,099,495	1,158,310
Statutory deposit with the Monetary Authority of Singapore	271,928	267,716
Cash and cash equivalents at 30 June	1,371,423	1,426,026

In addition to the cash and cash equivalents above, marketable Singapore Government securities amounted to \$1,345,948,000 (30 June 2013 : \$1,359,170,000) for the Group.

4. Statements of Changes in Equity

Group	Share capital \$'000	Statutory reserve \$'000	Capital reserve \$'000	Share option reserve \$'000	Accumulated profits \$'000	Total \$'000
At 1 January 2014	876,389	586,109	2,307	7,484	173,982	1,646,271
Issue of shares under share option scheme	569					569
Value of employee services received for issue of share options				140		140
Value of employee services transferred for share options exercised or lapsed	73			(91)	18	-
Comprehensive income for the period					14,435	14,435
At 31 March 2014	877,031	586,109	2,307	7,533	188,435	1,661,415
Issue of shares under share option scheme	809					809
Value of employee services received for issue of share options				140		140
Value of employee services transferred for share options exercised or lapsed	104			(104)		-
Final dividend paid of 8 cents per share (tax exempt one-tier) in respect of year 2013					(35,460)	(35,460)
Comprehensive income for the period					14,063	14,063
At 30 June 2014	877,944	586,109	2,307	7,569	167,038	1,640,967
At 1 January 2013	872,418	568,589	2,307	7,200	174,326	1,624,840
Issue of shares under share option scheme	799					799
Value of employee services received for issue of share options				179		179
Value of employee services transferred for share options exercised or lapsed	101			(130)	29	-
Comprehensive income for the period					15,257	15,257
At 31 March 2013	873,318	568,589	2,307	7,249	189,612	1,641,075
Issue of shares under share option scheme	1,122					1,122
Value of employee services received for issue of share options				180		180
Value of employee services transferred for share options exercised or lapsed	144			(167)	23	-
Final dividend paid of 8 cents per share (tax exempt one-tier) in respect of year 2012					(35,362)	(35,362)
Comprehensive income for the period					17,395	17,395
At 30 June 2013	874,584	568,589	2,307	7,262	171,668	1,624,410

4. Statements of Changes in Equity (continued)

Company	Share capital \$'000	Statutory reserve \$'000	Capital reserve \$'000	Share option reserve \$'000	Accumulated profits \$'000	Total \$'000
At 1 January 2014	876,389	586,109	2,307	7,484	171,161	1,643,450
Issue of shares under share option scheme	569					569
Value of employee services received for issue of share options				140		140
Value of employee services transferred for share options exercised or lapsed	73			(91)	18	-
Comprehensive income for the period					14,420	14,420
At 31 March 2014	877,031	586,109	2,307	7,533	185,599	1,658,579
Issue of shares under share option scheme	809					809
Value of employee services received for issue of share options				140		140
Value of employee services transferred for share options exercised or lapsed	104			(104)		-
Final dividend paid of 8 cents per share (tax exempt one-tier) in respect of year 2013					(35,460)	(35,460)
Comprehensive income for the period					14,018	14,018
At 30 June 2014	877,944	586,109	2,307	7,569	164,157	1,638,086
At 1 January 2013	872,418	568,589	2,307	7,200	171,606	1,622,120
Issue of shares under share option scheme	799					799
Value of employee services received for issue of share options				179		179
Value of employee services transferred for share options exercised or lapsed	101			(130)	29	-
Comprehensive income for the period					15,245	15,245
At 31 March 2013	873,318	568,589	2,307	7,249	186,880	1,638,343
Issue of shares under share option scheme	1,122					1,122
Value of employee services received for issue of share options				180		180
Value of employee services transferred for share options exercised or lapsed	144			(167)	23	-
Final dividend paid of 8 cents per share (tax exempt one-tier) in respect of year 2012					(35,362)	(35,362)
Comprehensive income for the period					17,355	17,355
At 30 June 2013	874,584	568,589	2,307	7,262	168,896	1,621,638

5. Review Of The Performance Of The Group

Net loan assets including hire purchase receivables (net of allowances) stood at \$9,286 million at the end of the financial period under review. This was an increase of 2.2% or \$198 million over the previous year's base of \$9,088 million as at 31 December 2013, and an increase of 2.3% or \$208 million over the figure of \$9,078 million as at 30 June 2013.

Deposits and balances of customers amounted to \$10,294 million as at 30 June 2014. This was an increase of 3.9% or \$388 million over the previous year's base as at 31 December 2013, and an increase of 1.3% or \$129 million over the base as at 30 June 2013. Cash and cash equivalents (including balances with the Monetary Authority of Singapore) together with Singapore Government securities held as liquid assets amounted to \$2,717 million as at 30 June 2014.

The Group recorded profit from operations before allowances/provision of \$19.0 million for the quarter under review, a decrease of 8.3% from \$20.7 million for the previous corresponding quarter. For the half year ended 30 June 2014, the decrease was 6.8% from \$39.0 million to \$36.4 million. Whilst non-performing loans remain low and are substantially secured, the Group maintains a general provision pegged to the size of its loan portfolio. Hence in line with the growth in loan assets, Group profit before tax for the quarter and the half year ended 30 June 2014 were arrived at after topping up provision net of write back of provision/recoveries amounting to \$2.0 million (30 June 2013 : write back of \$0.1 million) and \$2.0 million (30 June 2013 : write back of \$0.2 million) respectively. Accordingly, Group profit after tax for the quarter under review amounted to \$14.1 million, a decrease of \$3.3 million or 19.2% over the previous corresponding quarter, whilst that for the half year ended 30 June 2014 showed a decrease of \$4.2 million or 12.7% over the previous corresponding period to \$28.5 million. The Group continues to maintain adequate individual and collective provisions in respect of its loan portfolio.

Pricing for lending products remained under some pressure, but this was mitigated by overall growth in the total loan book. Total interest income/hiring charges for the quarter registered an increase of \$0.2 million or 0.4% over the previous corresponding quarter, resulting from a higher loan base partially offset by a slightly lower loan yield. For the half year ended 30 June 2014, total interest income/hiring charges decreased by \$0.7 million or 0.6% over the previous corresponding period with a marginal increase in interest income from loans/hiring charges offset by a lower other interest income from liquid assets. Interest expense for the quarter registered an increase of \$0.4 million or 1.4% over the previous corresponding quarter due to a higher interest payable on deposits resulting from a combination of marginally higher prevailing interest rates and a higher deposits base. For the half year ended 30 June 2014, interest expense decreased by \$0.4 million or 0.8% over the previous corresponding period due mainly to a slightly lower prevailing interest rates partially offset by a higher deposits base. Net interest income/hiring charges for the quarter and half year under review decreased by 0.4% as a result of a slight reduction in lending spread achieved and lower other interest income.

Fee and commission income for the quarter and half year under review decreased by 13.7% and 18.4% respectively mainly due to lower fee income from some lending products. Staff and other costs were controlled.

Group shareholders' funds as at 30 June 2014 totalled \$1,641 million (31 December 2013 : \$1,646 million) amounting to \$3.70 per share (31 December 2013 : \$3.72 per share).

5. Review Of The Performance Of The Group (continued)

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

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

Based on advance estimates, the Singapore economy grew by 2.1% on a year-on-year basis in the second quarter of 2014. This was slower than the 4.7% growth in the previous quarter. On a quarter-on-quarter seasonally-adjusted annualised basis, the economy contracted by 0.8%, a reversal from the 1.6% growth in the preceding quarter.

This slowdown in 2Q GDP could be attributed to several factors. External demand has been stalling after seeing growth through much of 2013; domestically we face formidable headwinds from a combination of labour shortages, consumer deleveraging, higher inflation, low productivity and a slowdown in both property and motor vehicle markets. The deferment of over \$2 billion of public construction projects due to labour constraints may have also weighed on 2Q GDP.

The near term outlook for the external environment is also a concern. Violence in the Middle East, factions taking sides in Eastern Europe and a slowdown in the Chinese economy are all contributing directly or indirectly to slower domestic growth.

With these challenging factors in play, Hong Leong Finance will remain focused on ensuring a healthy and robust balance sheet with strong underwriting risk parameters. We continue to assist the HDB dwellers with both deposits and loan products and to support the SMEs by being close and relevant to them. We reach out to our loyal customers with personalised and relevant service they value. While keeping our costs under control, we also ensure that we pay competitive rates to our deposit customers and charge reasonable fees and acceptable market interest rates in the provision of loan products. In the current interest rate environment, spreads are low but should benefit from the expected uptrend in interest rates. Non-lending fee income is also expected to improve with more SMEs tapping the capital markets.

7. Dividend

An interim dividend of 4 cents per share (tax exempt one-tier) (2013 : 4 cents per share, tax exempt one-tier) has been declared in respect of the financial year ending 31 December 2014. The interim dividend will be paid on 15 September 2014.

	Latest Period	Previous Period
Name of Dividend	Interim	Interim (paid on 11 September 2013)
Dividend Type	Cash	Cash
Dividend Rate	4 cents per share	4 cents per share
Total Dividend	\$17,731,000*	\$17,684,000
Tax Rate	Tax exempt one-tier	Tax exempt one-tier

* The amount of dividend is computed on the shares in issue as at the reporting date. This amount is subject to change arising from the issue of shares upon exercise of options, if any, under the Hong Leong Finance Share Option Scheme 2001 ("Share Option Scheme") between the reporting date and the last day for exercise of options to determine shareholders' entitlement to the dividend.

8. Shares Issued and Outstanding Convertibles

Since the end of the previous quarter,

- (i) the Company issued 117,600 shares at an exercise price of \$2.28 per share and 221,000 shares at an exercise price of \$2.45 per share upon exercise of options under the Share Option Scheme; and
- (ii) options to 5,500 shares under the Share Option Scheme lapsed upon cessation of employment of participants.

As at the end of the period, unissued shares of the Company under option amounted to 22,065,765 shares (30 June 2013 : 21,764,555 shares).

Pursuant to the Finance Companies Act, Chapter 108, the Company does not hold treasury shares and accordingly there are no treasury shares held during or at the end of the current financial period.

9. Accounting Policies

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

As previously announced, the adoption of the FRSs which came into effect for annual periods beginning on 1 January 2014 does not have a material impact on the financial statements for the financial period under review. Save as already disclosed, accounting policies and methods of computation used in the financial statements for the financial period under review are consistent with those applied in the audited financial statements for the year ended 31 December 2013.

10. Closure of Books

Notice is hereby given that the Share Transfer Books and Register of Members of the Company will be closed on 29 August 2014. 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 28 August 2014 will be registered to determine shareholders' entitlement to the interim dividend. In respect of shares in the securities accounts with The Central Depository (Pte) Limited ("CDP"), the interim dividend will be paid by the Company to CDP which will distribute the interim dividend to holders of the securities accounts.

11. Shareholders' Mandate for Interested Person Transactions

The Company has not sought any shareholders' mandate for interested person transactions pursuant to Rule 920 of the Listing Manual of the Singapore Exchange Securities Trading Limited.

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

Dated this 11th day of August 2014

Directors' Confirmation

The Directors hereby confirm that, to the best of their knowledge, nothing has come to the attention of the Board of Directors which may render the Group's unaudited interim financial statements for the quarter and the half year ended 30 June 2014 to be false or misleading in any material aspect.

On behalf of the Board of Directors

Kwek Leng Beng

Director

Po'ad bin Shaik Abu Bakar Mattar

Director

Singapore

11 August 2014