



HONG LEONG FINANCE

Full Year Financial Statements And Related Announcement

Full year financial statements on consolidated results for the year ended 31 December 2014. These figures have been audited in accordance with Singapore Standards on Auditing.

1(a). Audited Group Statement of Comprehensive Income For The Year Ended 31 December 2014

	2014	2013	+ / (-)
	\$'000	\$'000	%
Profit and loss account:			
Interest on loans	196,729	182,639	7.7
Hiring charges	36,056	43,946	(18.0)
Other interest income	21,858	22,309	(2.0)
Interest income/hiring charges	254,643	248,894	2.3
Less: Interest expense	105,652	100,678	4.9
Net interest income/hiring charges	148,991	148,216	0.5
Fee and commission income	12,293	15,545	(20.9)
Other operating income	199	1,252	(84.1)
Income before operating expenses	161,483	165,013	(2.1)
Less: Staff costs	61,695	62,169	(0.8)
Depreciation of property, plant and equipment	2,727	2,502	9.0
Other operating expenses	19,291	18,270	5.6
Profit from operations before allowances/provision	77,770	82,072	(5.2)
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	(2,024)	2,339	(186.5)
Profit before tax	75,746	84,411	(10.3)
Less: Income tax expense	12,949	14,333	(9.7)
Profit for the year/Comprehensive income attributable to owners of the Company *	62,797	70,078	(10.4)
Earnings per share (cents):			
- Basic	14.17	15.85	
- Diluted	14.15	15.83	

* The decline in profit for 2014 when compared to 2013 is accentuated by the standard industry practice of immediately topping-up general prudential provision when the loan book grew in 2014, ahead of the income generated from the increases in the loan portfolio.

1(b). Other Information

- (i) Profit after tax
 - first half year
 - second half year

2014	2013	+ / (-)
\$'000	\$'000	%
28,498	32,652	(12.7)
34,299	37,426	(8.4)

The decrease in profit after tax in the two half-years of 2014 when compared to the same periods in 2013 was mainly due to movements in provision net of recoveries as follows:-

- (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
 - first half year
 - second half year

2014	2013	+ / (-)
\$'000	\$'000	%
(1,991)	200	(1,095.5)
(33)	2,139	(101.5)

- (ii) Other operating income includes loss on disposal of plant and equipment amounting to \$23,000 (2013 : gain on disposal of plant and equipment of \$295,000).
- (iii) (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 (2013 : \$Nil).
- (iv) The Group operates in only one segment. Its activities relate to financing business augmented by secondary non-lending activities. All activities are carried out in the Republic of Singapore. Fee and commission income in paragraph 1(a) above includes revenue from non-lending activities amounting to \$2,423,000 (2013 : \$2,103,000).

2(a). Summarised Statements of Financial Position

	Group		Company	
	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013
Number of shares in issue	443,546,503	442,700,193	443,546,503	442,700,193
	\$'000	\$'000	\$'000	\$'000
Share capital	878,664	876,389	878,664	876,389
Reserves	611,892	595,900	611,892	595,900
Accumulated profits	168,012	173,982	165,081	171,161
Equity attributable to owners of the Company	1,658,568	1,646,271	1,655,637	1,643,450
Liabilities				
Deposits and balances of customers	10,468,530	9,905,800	10,472,491	9,909,716
Trade and other payables	118,680	108,923	117,385	107,635
Current tax payable	16,269	14,152	16,262	14,145
Total liabilities	10,603,479	10,028,875	10,606,138	10,031,496
Total equity and liabilities	12,262,047	11,675,146	12,261,775	11,674,946
Assets				
Cash at banks and in hand	1,082,543	1,081,566	1,081,737	1,080,832
Statutory deposit with the Monetary Authority of Singapore	282,905	261,535	282,905	261,535
Singapore Government securities	1,258,688	1,201,651	1,258,688	1,201,651
Hire purchase receivables	1,229,864	1,373,649	1,229,864	1,373,649
Loans, advances and factoring receivables	8,457,898	7,815,024	8,457,898	7,815,024
Allowances for doubtful debts	(105,222)	(100,701)	(105,222)	(100,701)
	9,582,540	9,087,972	9,582,540	9,087,972
Other receivables, deposits and prepayments	23,686	20,482	23,685	20,481
Subsidiaries and long term investments	546	546	1,081	1,081
Property, plant and equipment	27,553	18,119	27,553	18,119
Deferred tax assets	3,586	3,275	3,586	3,275
Total assets	12,262,047	11,675,146	12,261,775	11,674,946
Acceptances, guarantees and other obligations on behalf of customers	11,174	8,149	11,174	8,149

2(b). Net Asset Value

Net asset value per share (\$)	3.74	3.72	3.73	3.71
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2(c). There are no outstanding borrowings and debt securities as at 31 December 2014 (31 December 2013 : \$Nil) for the Group and the Company.

3. Consolidated Statement of Cash Flows

	2014 \$'000	2013 \$'000
Operating activities		
Comprehensive income after tax	62,797	70,078
Adjustments for:		
Impact of accrual of interest income	1,198	304
Impact of accrual of interest expense	5,517	1,712
Allowances for doubtful debts and receivables	6,530	1,335
Depreciation of property, plant and equipment	2,727	2,502
Loss/(gain) on disposal of property, plant and equipment	23	(295)
Impairment losses on other assets	186	-
Value of employee services received for issue of share options	685	866
Income tax expense	12,949	14,333
	92,612	90,835
Changes in working capital:		
Loans, advances and receivables	(501,072)	(193,062)
Other receivables, deposits and prepayments	(4,428)	5,453
Singapore Government securities	(57,037)	(94,166)
Deposits and balances of customers	562,730	(139,955)
Trade and other payables	4,240	(2,031)
Cash generated from/(used in) operations	97,045	(332,926)
Income taxes paid	(11,143)	(14,402)
Cash flows from/(used in) operating activities	85,902	(347,328)
Investing activities		
Purchase of property, plant and equipment	(12,371)	(1,806)
Proceeds from disposal of property, plant and equipment	1	316
Cash flows used in investing activities	(12,370)	(1,490)
Financing activities		
Proceeds from exercise of share options	2,017	3,533
Dividends paid	(53,202)	(53,046)
Cash flows used in financing activities	(51,185)	(49,513)
Net increase/(decrease) in cash and cash equivalents	22,347	(398,331)
Cash and cash equivalents at beginning of year	1,343,101	1,741,432
Cash and cash equivalents at end of year	1,365,448	1,343,101

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

	31 December 2014 \$'000	31 December 2013 \$'000
Cash at banks and in hand	1,082,543	1,081,566
Statutory deposit with the Monetary Authority of Singapore	282,905	261,535
Cash and cash equivalents at end of year	1,365,448	1,343,101

In addition to the cash and cash equivalents above, marketable Singapore Government securities amounted to \$1,258,688,000 (31 December 2013 : \$1,201,651,000) 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 2013	872,418	568,589	2,307	7,200	174,326	1,624,840
Issue of shares under share option scheme	3,533					3,533
Value of employee services received for issue of share options				866		866
Value of employee services transferred for share options exercised or lapsed	438			(582)	144	-
Final dividend paid of 8 cents per share (tax exempt one-tier) in respect of year 2012					(35,362)	(35,362)
Interim dividend paid of 4 cents per share (tax exempt one-tier) in respect of year 2013					(17,684)	(17,684)
Comprehensive income for the year					70,078	70,078
Transfer to Statutory reserve		17,520			(17,520)	-
At 31 December 2013	<u>876,389</u>	<u>586,109</u>	<u>2,307</u>	<u>7,484</u>	<u>173,982</u>	<u>1,646,271</u>
At 1 January 2014	876,389	586,109	2,307	7,484	173,982	1,646,271
Issue of shares under share option scheme	2,017					2,017
Value of employee services received for issue of share options				685		685
Value of employee services transferred for share options exercised or lapsed	258			(393)	135	-
Final dividend paid of 8 cents per share (tax exempt one-tier) in respect of year 2013					(35,460)	(35,460)
Interim dividend paid of 4 cents per share (tax exempt one-tier) in respect of year 2014					(17,742)	(17,742)
Comprehensive income for the year					62,797	62,797
Transfer to Statutory reserve		15,700			(15,700)	-
At 31 December 2014	<u>878,664</u>	<u>601,809</u>	<u>2,307</u>	<u>7,776</u>	<u>168,012</u>	<u>1,658,568</u>
Company						
At 1 January 2013	872,418	568,589	2,307	7,200	171,606	1,622,120
Issue of shares under share option scheme	3,533					3,533
Value of employee services received for issue of share options				866		866
Value of employee services transferred for share options exercised or lapsed	438			(582)	144	-
Final dividend paid of 8 cents per share (tax exempt one-tier) in respect of year 2012					(35,362)	(35,362)
Interim dividend paid of 4 cents per share (tax exempt one-tier) in respect of year 2013					(17,684)	(17,684)
Comprehensive income for the year					69,977	69,977
Transfer to Statutory reserve		17,520			(17,520)	-
At 31 December 2013	<u>876,389</u>	<u>586,109</u>	<u>2,307</u>	<u>7,484</u>	<u>171,161</u>	<u>1,643,450</u>
At 1 January 2014	876,389	586,109	2,307	7,484	171,161	1,643,450
Issue of shares under share option scheme	2,017					2,017
Value of employee services received for issue of share options				685		685
Value of employee services transferred for share options exercised or lapsed	258			(393)	135	-
Final dividend paid of 8 cents per share (tax exempt one-tier) in respect of year 2013					(35,460)	(35,460)
Interim dividend paid of 4 cents per share (tax exempt one-tier) in respect of year 2014					(17,742)	(17,742)
Comprehensive income for the year					62,687	62,687
Transfer to Statutory reserve		15,700			(15,700)	-
At 31 December 2014	<u>878,664</u>	<u>601,809</u>	<u>2,307</u>	<u>7,776</u>	<u>165,081</u>	<u>1,655,637</u>

5. Review Of The Performance Of The Group

Net loan assets including hire purchase receivables (net of allowances) stood at \$9,583 million at the end of the year. This was an increase of 5.4% or \$495 million over the previous year's base of \$9,088 million as at 31 December 2013.

Deposits and balances of customers amounted to \$10,469 million as at 31 December 2014. This was an increase of 5.7% or \$563 million over the previous year's base as at 31 December 2013. Cash and cash equivalents (including balances with the Monetary Authority of Singapore) together with Singapore Government securities held as liquid assets amounted to \$2,624 million as at 31 December 2014.

The Group recorded profit from operations before allowances/provision of \$77.8 million for the year ended 31 December 2014, a decrease of 5.2% from \$82.1 million for the previous year. 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 year ended 31 December 2014 was arrived at after topping up provision (net of write back of provision/recoveries) amounting to \$2.0 million against a write back of \$2.3 million in 2013. Accordingly, Group profit after tax for the year registered a decrease of \$7.3 million or 10.4% over the previous year.

The Group continues to maintain adequate individual and collective provisions in respect of its loan portfolio. In line with the practice in our industry, the growth in loan assets continued to attract a charge for general provision in the year under review.

Pricing for lending products remained under some pressure, but this was mitigated by overall growth in the total loan book. For the year ended 31 December 2014, total interest income/hiring charges increased by 2.3% resulting from a higher loan base partially offset by a slightly lower loan yield. Interest expense for the year registered an increase of \$5.0 million or 4.9% over the previous year. This was due to a higher interest payable on deposits resulting from a combination of marginally higher prevailing interest rates and a larger deposits base. Net interest income/hiring charges for the year increased 0.5% mainly due to a higher loan base.

Fee and commission income decreased by 20.9% to \$12.3 million with lower fee income from some lending products offset by an increase in non-lending fee income. Staff and other costs were controlled.

Group shareholders' funds as at 31 December 2014 totalled \$1,659 million (31 December 2013 : \$1,646 million) amounting to \$3.74 per share (31 December 2013 : \$3.72 per share).

There has been no forecast or prospect statement previously disclosed to shareholders in respect of the year ended 31 December 2014.

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

According to statistics from the Ministry of Trade and Industry in the fourth quarter of 2014, the Singapore economy grew by 2.1% on a year-on-year basis, compared to 2.8% in the previous quarter. On a quarter-on-quarter seasonally-adjusted annualised basis, the growth translated to 4.9%, higher than the revised 2.6% growth in the third quarter.

For the whole of 2014, the Singapore economy grew by 2.9%, within the range estimated between 2.5% to 3.5%.

The global economies continued to experience uneven growth, with the US economy performing better than much of the rest of the world. In tandem with this is the expected increase in US interest rates by the Federal Reserve Board in the second half of 2015.

Domestically there are still lots of uncertainties and challenges facing businesses. The restructuring of the economy has taken its toll on the SMEs on several fronts. The higher operating costs of doing business, the lack of manpower, low productivity and high compliance costs have all added to the challenges faced by most companies. Business models and processes have to change, thus creating new avenues of financing for small companies.

The property market being one of the key domestic pillars had been and continues to be subdued following the series of cooling measures. The motor vehicle market is likewise experiencing a steep downturn due to the current rules and regulations in place. The poor sentiment together with the uncertain global markets has also affected the local stock market.

On 28 January 2015, the Monetary Authority of Singapore announced a reduction in the slope of the Singapore Dollar Nominal Effective Exchange Rate policy band, effectively translating to lowered prospective appreciation in the currency. The policy statement also emphasised that receding imported inflationary pressures and subdued global oil prices were drivers for the unexpected shift.

In the light of all these developments, Hong Leong Finance ("HLF") will continue to adopt the approach of building a strong and robust balance sheet with emphasis on writing good assets and continues to build up deposits from customers with competitive rates complemented with high service standards. We will also remain close to the HDB dwellers and provide them with HDB home loan packages to suit their needs.

Our SME customers are also being offered loan programmes to help them during these challenging times. HLF remains a relevant financier differentiating ourselves with innovative deposit campaigns and relevant loan offerings for the market we serve.

7. Dividends

A Final Dividend of 6 cents per share (tax exempt one-tier) is recommended by the directors for approval by shareholders in respect of the financial year ended 31 December 2014. Subject to shareholders' approval at the Annual General Meeting to be held on 23 April 2015, the dividend will be payable on 25 May 2015.

7. Dividends (continued)

Latest Year

(i)	Name of Dividend	Final (Proposed)
	Dividend Type	Cash
	Dividend Rate	6 cents per share
	Total Dividend	\$26,613,000*
	Tax Rate	Tax exempt one-tier
(ii)	Name of Dividend	Interim (Paid on 15 September 2014)
	Dividend Type	Cash
	Dividend Rate	4 cents per share
	Total Dividend	\$17,742,000
	Tax Rate	Tax exempt one-tier

Previous Year

(i)	Name of Dividend	Final (Paid on 26 May 2014)
	Dividend Type	Cash
	Dividend Rate	8 cents per share
	Total Dividend	\$35,460,000
	Tax Rate	Tax exempt one-tier
(ii)	Name of Dividend	Interim (Paid on 11 September 2013)
	Dividend Type	Cash
	Dividend Rate	4 cents per share
	Total Dividend	\$17,684,000
	Tax Rate	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 15,100 shares at an exercise price of \$2.28 per share upon exercise of options under the Share Option Scheme;
- (ii) no options lapsed under the Share Option Scheme; and
- (iii) options to 37,500 shares under the Share Option Scheme to subscribe for shares granted on 25 September 2014 were not accepted.

As at the end of the year, unissued shares of the Company under option amounted to 23,107,955 shares (31 December 2013 : 22,717,665 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 year.

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 year under review. Save as already disclosed, accounting policies and methods of computation used in the financial statements for the year 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, subject to shareholders' approval of the payment of a final dividend of 6 cents per share in respect of the year ended 31 December 2014 at the Annual General Meeting to be held on 23 April 2015, the Share Transfer Books and Register of Members of the Company will be closed on 8 May 2015. Duly completed registrable transfers received by the Company's Registrar, M & C Services Private Limited of 112 Robinson Road #05-01, Singapore 068902 up to 5.00 p.m. on 7 May 2015 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.

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 ("Listing Rules").

12. 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	74	Brother of Mr Kwek Leng Joo.	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
COMPANY SECRETARY

Dated this 26th day of February 2015

Independent Auditors' Report

To the Members of Hong Leong Finance Limited

Report on the financial statements

We have audited the accompanying financial statements of Hong Leong Finance Limited (the "Company") and its subsidiaries (the "Group"), which comprise the statements of financial position of the Group and the Company as at 31 December 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows of the Group and statement of changes in equity of the Company for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility 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 Singapore Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards, 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 profit and loss accounts and balance sheets and to maintain accountability of assets.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the 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 Act and Singapore Financial Reporting Standards to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2014 and the results, changes in equity and cash flows of the Group and the changes in equity of the Company for the year ended on that date.

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 subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

KPMG LLP

Public Accountants and
Chartered Accountants

Singapore

26 February 2015