



## HONG LEONG FINANCE

### Third Quarter And Nine Months Financial Statements

Third quarter and nine months financial statements on consolidated results for the period ended 30 September 2015. These figures have not been audited.

1(a). Unaudited Group Statements of Comprehensive Income For The Quarter And Nine Months Ended 30 September 2015

	3rd Qtr 2015	3rd Qtr 2014	+ / (-)	9 Months 2015	9 Months 2014	+ / (-)
	\$'000	\$'000	%	\$'000	\$'000	%
Profit and loss account:						
Interest on loans	<b>59,517</b>	50,349	18.2	<b>171,523</b>	144,953	18.3
Hiring charges	<b>8,402</b>	8,730	(3.8)	<b>25,124</b>	27,524	(8.7)
Other interest income	<b>7,013</b>	5,385	30.2	<b>19,679</b>	16,112	22.1
Interest income/hiring charges	<b>74,932</b>	64,464	16.2	<b>216,326</b>	188,589	14.7
Less: Interest expense	<b>34,025</b>	26,865	26.7	<b>95,869</b>	77,266	24.1
Net interest income/hiring charges	<b>40,907</b>	37,599	8.8	<b>120,457</b>	111,323	8.2
Fee and commission income	<b>2,729</b>	3,278	(16.7)	<b>9,404</b>	8,837	6.4
Other operating income	<b>126</b>	41	207.3	<b>282</b>	138	104.3
Income before operating expenses	<b>43,762</b>	40,918	7.0	<b>130,143</b>	120,298	8.2
Less: Staff costs	<b>16,767</b>	16,041	4.5	<b>51,121</b>	48,851	4.6
Depreciation of property, plant and equipment	<b>1,158</b>	677	71.0	<b>3,192</b>	1,960	62.9
Other operating expenses	<b>5,168</b>	4,816	7.3	<b>16,509</b>	13,738	20.2
Profit from operations before allowances/provision	<b>20,669</b>	19,384	6.6	<b>59,321</b>	55,749	6.4
Less: Allowances for doubtful debts and impairment losses of other assets	<b>598</b>	2,091	(71.4)	<b>3,984</b>	4,082	(2.4)
Profit before tax	<b>20,071</b>	17,293	16.1	<b>55,337</b>	51,667	7.1
Less: Income tax expense	<b>3,243</b>	2,962	9.5	<b>8,984</b>	8,838	1.7
Profit for the period/Comprehensive income attributable to owners of the Company	<b>16,828</b>	14,331	17.4	<b>46,353</b>	42,829	8.2
Annualised earnings per share (cents)						
- Basic	<b>15.17</b>	12.93		<b>13.93</b>	12.89	
- Diluted	<b>15.16</b>	12.91		<b>13.92</b>	12.87	

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 \$61,000 (30 September 2014 : loss on disposal of plant and equipment of \$24,000) and \$121,000 (30 September 2014 : loss on disposal of plant and equipment of \$24,000) for the quarter and nine months ended 30 September 2015 respectively.
- (ii) Allowances for doubtful debts and impairment losses of other assets includes impairment losses of other assets (property, plant and equipment) amounting to \$Nil (30 September 2014 : \$Nil) and \$Nil (30 September 2014 : \$186,000) for the quarter and nine months ended 30 September 2015 respectively.

2(a). Summarised Statements of Financial Position

	Group		Company	
	30 Sep 2015	31 Dec 2014	30 Sep 2015	31 Dec 2014
Number of shares in issue	<b>443,784,033</b>	443,546,503	<b>443,784,033</b>	443,546,503
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Share capital	<b>879,279</b>	878,664	<b>879,279</b>	878,664
Reserves	<b>611,460</b>	611,892	<b>611,460</b>	611,892
Accumulated profits	<b>170,695</b>	168,012	<b>167,689</b>	165,081
Equity attributable to owners of the Company	<b>1,661,434</b>	1,658,568	<b>1,658,428</b>	1,655,637
Liabilities				
Deposits and balances of customers	<b>10,917,847</b>	10,468,530	<b>10,921,849</b>	10,472,491
Trade and other payables	<b>140,087</b>	118,680	<b>138,770</b>	117,385
Current tax payable	<b>13,361</b>	16,269	<b>13,357</b>	16,262
Total liabilities	<b>11,071,295</b>	10,603,479	<b>11,073,976</b>	10,606,138
Total equity and liabilities	<b>12,732,729</b>	12,262,047	<b>12,732,404</b>	12,261,775
Assets				
Cash at banks and in hand	<b>1,117,874</b>	1,082,543	<b>1,117,014</b>	1,081,737
Statutory deposit with the Monetary Authority of Singapore	<b>291,344</b>	282,905	<b>291,344</b>	282,905
Singapore Government securities	<b>1,312,204</b>	1,258,688	<b>1,312,204</b>	1,258,688
Hire purchase receivables	<b>1,309,379</b>	1,229,864	<b>1,309,379</b>	1,229,864
Loans, advances and factoring receivables	<b>8,762,855</b>	8,457,898	<b>8,762,855</b>	8,457,898
Allowances for doubtful debts	<b>10,072,234</b>	9,687,762	<b>10,072,234</b>	9,687,762
	<b>(107,938)</b>	(105,222)	<b>(107,938)</b>	(105,222)
	<b>9,964,296</b>	9,582,540	<b>9,964,296</b>	9,582,540
Other receivables, deposits and prepayments	<b>16,266</b>	23,686	<b>16,266</b>	23,685
Subsidiaries and long term investments	<b>546</b>	546	<b>1,081</b>	1,081
Property, plant and equipment	<b>28,586</b>	27,553	<b>28,586</b>	27,553
Deferred tax assets	<b>1,613</b>	3,586	<b>1,613</b>	3,586
Total assets	<b>12,732,729</b>	12,262,047	<b>12,732,404</b>	12,261,775
Acceptances, guarantees and other obligations on behalf of customers	<b>9,635</b>	11,174	<b>9,635</b>	11,174

2(b). Net Asset Value

Net asset value per share (\$)	<b>3.74</b>	3.74	<b>3.74</b>	3.73
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2(c). There are no outstanding borrowings and debt securities as at 30 September 2015 (31 December 2014 : \$Nil) for the Group and the Company.

### 3. Consolidated Statement of Cash Flows

	3rd Qtr 2015 \$'000	3rd Qtr 2014 \$'000	9 Months 2015 \$'000	9 Months 2014 \$'000
Operating activities				
Comprehensive income after tax	<b>16,828</b>	14,331	<b>46,353</b>	42,829
Adjustments for:				
Impact of accrual of interest income	<b>1,526</b>	3,283	<b>965</b>	2,703
Impact of accrual of interest expense	<b>2,746</b>	10,718	<b>19,686</b>	3,953
Allowances for doubtful debts and receivables	<b>1,207</b>	3,548	<b>5,569</b>	6,672
Depreciation of property, plant and equipment	<b>1,158</b>	677	<b>3,192</b>	1,960
Loss/(gain) on disposal of property, plant and equipment	<b>(61)</b>	24	<b>(121)</b>	24
Impairment losses on other assets	-	-	-	186
Value of employee services received for issue of share options	<b>113</b>	140	<b>339</b>	420
Income tax expense	<b>3,243</b>	2,962	<b>8,984</b>	8,838
	<b>26,760</b>	35,683	<b>84,967</b>	67,585
Changes in working capital:				
Loans, advances and receivables	<b>(47,307)</b>	(412,186)	<b>(387,357)</b>	(612,864)
Other receivables, deposits and prepayments	<b>(2,010)</b>	1,437	<b>6,487</b>	3,868
Singapore Government securities	<b>73,640</b>	12,885	<b>(53,516)</b>	(131,412)
Deposits and balances of customers	<b>120,504</b>	391,629	<b>449,317</b>	779,439
Trade and other payables	<b>(55,724)</b>	43,169	<b>1,721</b>	44,249
Cash generated from operations	<b>115,863</b>	72,617	<b>101,619</b>	150,865
Income taxes paid	<b>(3,720)</b>	(4,140)	<b>(9,919)</b>	(11,041)
Cash flows from operating activities	<b>112,143</b>	68,477	<b>91,700</b>	139,824
Investing activities				
Purchase of property, plant and equipment	<b>(126)</b>	(605)	<b>(4,234)</b>	(9,548)
Proceeds from disposal of property, plant and equipment	<b>62</b>	-	<b>130</b>	-
Cash flows used in investing activities	<b>(64)</b>	(605)	<b>(4,104)</b>	(9,548)
Financing activities				
Proceeds from exercise of share options	<b>5</b>	604	<b>548</b>	1,982
Dividends paid	<b>(17,751)</b>	(17,742)	<b>(44,374)</b>	(53,202)
Cash flows used in financing activities	<b>(17,746)</b>	(17,138)	<b>(43,826)</b>	(51,220)
Net increase in cash and cash equivalents	<b>94,333</b>	50,734	<b>43,770</b>	79,056
Cash and cash equivalents at beginning of period	<b>1,314,885</b>	1,371,423	<b>1,365,448</b>	1,343,101
Cash and cash equivalents at end of period	<b>1,409,218</b>	1,422,157	<b>1,409,218</b>	1,422,157

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

	30 Sep 2015 \$'000	30 Sep 2014 \$'000
Cash at banks and in hand	<b>1,117,874</b>	1,143,001
Statutory deposit with the Monetary Authority of Singapore	<b>291,344</b>	279,156
Cash and cash equivalents at 30 September	<b>1,409,218</b>	1,422,157

In addition to the cash and cash equivalents above, marketable Singapore Government securities amounted to \$1,312,204,000 (30 September 2014 : \$1,333,063,000) for the Group.



#### 4. Statements of Changes in Equity

<b>Group</b>	<b>Share capital \$'000</b>	<b>Statutory reserve \$'000</b>	<b>Capital reserve \$'000</b>	<b>Share option reserve \$'000</b>	<b>Accumulated profits \$'000</b>	<b>Total \$'000</b>
At 1 January 2015	878,664	601,809	2,307	7,776	168,012	1,658,568
Issue of shares under share option scheme	543					543
Value of employee services received for issue of share options				226		226
Value of employee services transferred for share options exercised or lapsed	67			(121)	54	-
Final dividend paid of 6 cents per share (tax exempt one-tier) in respect of year 2014					(26,623)	(26,623)
Comprehensive income for the period					29,525	29,525
At 30 June 2015	879,274	601,809	2,307	7,881	170,968	1,662,239
Issue of shares under share option scheme	5					5
Value of employee services received for issue of share options				113		113
Value of employee services transferred for share options exercised or lapsed				(650)	650	-
Interim dividend paid of 4 cents per share (tax exempt one-tier) in respect of year 2015					(17,751)	(17,751)
Comprehensive income for the period					16,828	16,828
At 30 September 2015	<b>879,279</b>	<b>601,809</b>	<b>2,307</b>	<b>7,344</b>	<b>170,695</b>	<b>1,661,434</b>
At 1 January 2014	876,389	586,109	2,307	7,484	173,982	1,646,271
Issue of shares under share option scheme	1,378					1,378
Value of employee services received for issue of share options				280		280
Value of employee services transferred for share options exercised or lapsed	177			(195)	18	-
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					28,498	28,498
At 30 June 2014	877,944	586,109	2,307	7,569	167,038	1,640,967
Issue of shares under share option scheme	604					604
Value of employee services received for issue of share options				140		140
Value of employee services transferred for share options exercised or lapsed	77			(175)	98	-
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 period					14,331	14,331
At 30 September 2014	<b>878,625</b>	<b>586,109</b>	<b>2,307</b>	<b>7,534</b>	<b>163,725</b>	<b>1,638,300</b>

#### 4. Statements of Changes in Equity (continued)

<b>Company</b>	<b>Share capital \$'000</b>	<b>Statutory reserve \$'000</b>	<b>Capital reserve \$'000</b>	<b>Share option reserve \$'000</b>	<b>Accumulated profits \$'000</b>	<b>Total \$'000</b>
At 1 January 2015	878,664	601,809	2,307	7,776	165,081	1,655,637
Issue of shares under share option scheme	543					543
Value of employee services received for issue of share options				226		226
Value of employee services transferred for share options exercised or lapsed	67			(121)	54	-
Final dividend paid of 6 cents per share (tax exempt one-tier) in respect of year 2014					(26,623)	(26,623)
Comprehensive income for the period					29,472	29,472
At 30 June 2015	879,274	601,809	2,307	7,881	167,984	1,659,255
Issue of shares under share option scheme	5					5
Value of employee services received for issue of share options				113		113
Value of employee services transferred for share options exercised or lapsed				(650)	650	-
Interim dividend paid of 4 cents per share (tax exempt one-tier) in respect of year 2015					(17,751)	(17,751)
Comprehensive income for the period					16,806	16,806
At 30 September 2015	<b>879,279</b>	<b>601,809</b>	<b>2,307</b>	<b>7,344</b>	<b>167,689</b>	<b>1,658,428</b>
At 1 January 2014	876,389	586,109	2,307	7,484	171,161	1,643,450
Issue of shares under share option scheme	1,378					1,378
Value of employee services received for issue of share options				280		280
Value of employee services transferred for share options exercised or lapsed	177			(195)	18	-
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					28,438	28,438
At 30 June 2014	877,944	586,109	2,307	7,569	164,157	1,638,086
Issue of shares under share option scheme	604					604
Value of employee services received for issue of share options				140		140
Value of employee services transferred for share options exercised or lapsed	77			(175)	98	-
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 period					14,306	14,306
At 30 September 2014	<b>878,625</b>	<b>586,109</b>	<b>2,307</b>	<b>7,534</b>	<b>160,819</b>	<b>1,635,394</b>

## 5. Review Of The Performance Of The Group

Net loan assets including hire purchase receivables (net of allowances) stood at \$9,964 million at the end of the financial period under review. This was an increase of 4.0% or \$381 million over the previous year's base of \$9,583 million as at 31 December 2014, and an increase of 2.8% or \$270 million over the figure of \$9,694 million as at 30 September 2014.

Deposits and balances of customers amounted to \$10,918 million as at 30 September 2015. This was an increase of 4.3% or \$449 million over the previous year's base as at 31 December 2014, and an increase of 2.2% or \$233 million over the base as at 30 September 2014. Cash and cash equivalents (including balances with the Monetary Authority of Singapore) together with Singapore Government securities held as liquid assets amounted to \$2,721 million as at 30 September 2015.

The Group recorded profit from operations before allowances/provision of \$20.7 million for the quarter under review, an increase of 6.6% from \$19.4 million for the previous corresponding quarter. For the nine months ended 30 September 2015, the increase was 6.4% from \$55.7 million to \$59.3 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 and industry practice, Group profit before tax for the quarter and the nine months ended 30 September 2015 were arrived at after topping up provision (net of write back of provision/recoveries) amounting to \$0.6 million (30 September 2014 : \$2.1 million) and \$4.0 million (30 September 2014 : \$4.1 million) respectively. Accordingly, Group profit after tax for the quarter under review amounted to \$16.8 million, an increase of \$2.5 million or 17.4% over the previous corresponding quarter, whilst that for the nine months ended 30 September 2015 showed an increase of \$3.5 million or 8.2% over the previous corresponding period to \$46.4 million. The Group continues to maintain adequate individual and collective provisions in respect of its loan portfolio.

Total interest income/hiring charges for the quarter and nine months under review increased by 16.2% and 14.7% respectively due to the increase in loan base and a higher loan yield. Interest expense for the quarter registered an increase of \$7.2 million or 26.7% over the previous corresponding quarter, whilst that for the nine months ended 30 September 2015 showed an increase of \$18.6 million or 24.1% over the previous corresponding period. This was due to a higher interest payable on deposits resulting from a combination of higher prevailing interest rates and a larger deposits base. Net interest income/hiring charges for the quarter and nine months under review increased 8.8% and 8.2% respectively mainly due to higher loan base and loan yield.

Fee and commission income for the quarter under review decreased by 16.7% to \$2.7 million mainly due to lower fee income from some lending products. For the nine months ended 30 September 2015, fee and commission income improved by 6.4% to \$9.4 million with higher fee income from some lending products partially offset by a decrease in non-lending fee income. Staff costs were controlled. Higher depreciation on computer equipment accounted for the increase in depreciation on property, plant and equipment. An increase of 7.3% and 20.2% in other operating expenses for the quarter and nine months under review respectively was due mainly to increased business promotion expenses and operating lease premises expenses.

Group shareholders' funds as at 30 September 2015 totalled \$1,661 million (31 December 2014 : \$1,659 million) amounting to \$3.74 per share (31 December 2014 : \$3.74 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

The Ministry of Trade and Industry has announced that the Singapore economy expanded by 1.4% in the third quarter of this year from a year ago. This was a decline from the 2.0% growth, year on year, seen in the second quarter. On a quarter-on-quarter seasonally-adjusted annualised basis, gross domestic product expanded 0.1% in the July to September period, showing a reversal from the 2.5% contraction in the previous quarter.

Externally the world is stuck in a low growth pattern, with over-leveraged or commodity-dependent emerging economies together with a slowing China heightening risks. Some emerging economies are facing difficult times, with some in leadership crisis mode and others in recession.

On the domestic front, the restructuring of our economy continues with little improvement in productivity. Many SMEs are facing the burden of high operating costs in a slowing economy. The property market continues to be lacklustre with little activity.

The Group has now achieved four consecutive quarters of improved operating results relative to the respective previous corresponding quarters, indicating that we may have turned a corner after suffering the impact of the prolonged low interest rate environment for the past several years.

However, there are challenging and uncertain times ahead. Hong Leong Finance will remain cautious in its lending policy and focus on serving the SME markets and the HDB dwellers. We continue to structure attractive loans and deposits promotions to help meet their needs during these difficult times. Another SME Centre @ Branches has just been opened to cater to SMEs at the heartlands, bringing to 10 our SME Centres spread over various parts of Singapore. The focus on SME lending will enhance our hire purchase machinery portfolio, to help balance the decline in the motor vehicles lending market.

7. Dividend

An interim dividend of 4 cents per share (tax exempt one-tier) in respect of the current financial year declared in the previous quarter was paid on 9 September 2015.

As at the date of this report, the directors are not recommending the payment of a further interim dividend (30 September 2014 : Nil) in respect of the current financial year.

## 8. Shares Issued and Outstanding Convertibles

Since the end of the previous quarter,

- (i) pursuant to the Hong Leong Finance Share Option Scheme 2001 ("Share Option Scheme"), market price options to subscribe for 1,884,500 shares at an exercise price of \$2.34 per share were granted on 23 September 2015;
- (ii) the Company issued 2,000 shares at an exercise price of \$2.28 per share upon exercise of options under the Share Option Scheme;
- (iii) options to 139,100 shares under the Share Option Scheme lapsed upon cessation of employment of participants; and
- (iv) options to 1,940,030 shares under the Share Option Scheme lapsed upon expiry of options.

As at the end of the period, unissued shares of the Company under option amounted to 22,503,595 shares (30 September 2014 : 23,160,555 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 or after 1 July 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 2014.

## 10. 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 6<sup>th</sup> day of November 2015



### **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 nine months ended 30 September 2015 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**

6 November 2015