

Financial Statements and Related Announcement::Second Quarter and/ or Half Yearly Results


Issuer & Securities

Issuer/ Manager	HONG LEONG FINANCE LIMITED
Securities	HONG LEONG FINANCE LIMITED - SG1M04001939 - S41
Stapled Security	No

Announcement Details

Announcement Title	Financial Statements and Related Announcement
Date & Time of Broadcast	08-Aug-2017 18:51:50
Status	New
Announcement Sub Title	Second Quarter and/ or Half Yearly Results
Announcement Reference	SG170808OTHRW8YF
Submitted By (Co./ Ind. Name)	Yeo Swee Gim, Joanne
Designation	Company Secretary
Description (Please provide a detailed description of the event in the box below - Refer to the Online help for the format)	Please refer to the attached Second Quarter and Half-Year Financial Statements and Related Announcement.

Additional Details

For Financial Period Ended	30/06/2017
Attachments	 HLF 2Q17 Results.pdf Total size =3536K



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 2017. These figures have not been audited.

1(a). Unaudited Group Statements of Comprehensive Income For The Quarter And Half Year Ended 30 June 2017

	2nd Qtr 2017	2nd Qtr 2016	+ / (-)	1st Half 2017	1st Half 2016	+ / (-)
	\$'000	\$'000	%	\$'000	\$'000	%
Profit and loss account:						
Interest on loans	54,793	60,927	(10.1)	108,316	124,482	(13.0)
Hiring charges	11,917	9,320	27.9	23,159	18,242	27.0
Other interest income	6,950	8,204	(15.3)	14,286	17,179	(16.8)
Interest income/hiring charges	73,660	78,451	(6.1)	145,761	159,903	(8.8)
Less: Interest expense	31,018	44,429	(30.2)	66,836	88,350	(24.4)
Net interest income/hiring charges	42,642	34,022	25.3	78,925	71,553	10.3
Fee and commission income	4,066	3,108	30.8	7,717	5,339	44.5
Other operating income	54	56	(3.6)	84	96	(12.5)
Income before operating expenses	46,762	37,186	25.8	86,726	76,988	12.6
Less: Staff costs	14,821	15,839	(6.4)	30,219	32,363	(6.6)
Depreciation of property, plant and equipment	963	1,021	(5.7)	1,892	2,100	(9.9)
Other operating expenses	5,197	5,081	2.3	9,933	10,588	(6.2)
Profit from operations before allowances/provision	25,781	15,245	69.1	44,682	31,937	39.9
Add/(Less): (Allowances for)/reversal or recovery of doubtful debts and provision for settlements and costs relating to distribution of wealth management products	(678)	(1,906)	(64.4)	242	(1,053)	(123.0)
Profit before tax	25,103	13,339	88.2	44,924	30,884	45.5
Less: Income tax expense	4,235	2,301	84.1	7,593	5,300	43.3
Profit for the period/Comprehensive income attributable to owners of the Company	20,868	11,038	89.1	37,331	25,584	45.9
Annualised earnings per share (cents)						
- Basic	18.78	9.95		16.81	11.53	
- Diluted	18.74	9.95		16.78	11.53	

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

Other operating income includes:

- loss on disposal of plant and equipment amounting to \$Nil (30 June 2016: \$2,000) and \$1,000 (30 June 2016: \$1,000) for the quarter and half year ended 30 June 2017 respectively; and
- loss on disposal of Singapore Government securities close to their maturity amounting to \$Nil (30 June 2016: \$Nil) and \$7,000 (30 June 2016: \$Nil) for the quarter and half year ended 30 June 2017 respectively.

2(a). Summarised Statements of Financial Position

	Group		Company	
	30 Jun 2017	31 Dec 2016	30 Jun 2017	31 Dec 2016
Number of shares in issue	444,682,833	443,784,033	444,682,833	443,784,033
	\$'000	\$'000	\$'000	\$'000
Share capital	881,627	879,279	881,627	879,279
Reserves	642,499	642,622	642,499	642,622
Accumulated profits	185,876	175,207	182,698	172,072
Equity attributable to owners of the Company	1,710,002	1,697,108	1,706,824	1,693,973
Liabilities				
Deposits and balances of customers	10,175,046	10,441,758	10,179,109	10,445,816
Trade and other payables	134,393	162,075	133,104	160,765
Current tax payable	14,376	12,159	14,373	12,155
Total liabilities	10,323,815	10,615,992	10,326,586	10,618,736
Total equity and liabilities	12,033,817	12,313,100	12,033,410	12,312,709
Assets				
Cash at banks and in hand	942,311	1,207,113	941,369	1,206,188
Statutory deposit with the Monetary Authority of Singapore	275,318	278,099	275,318	278,099
Singapore Government securities	1,218,340	1,258,398	1,218,340	1,258,398
Hire purchase receivables	1,624,948	1,545,273	1,624,948	1,545,273
Loans, advances and factoring receivables	8,042,642	8,080,517	8,042,642	8,080,517
	9,667,590	9,625,790	9,667,590	9,625,790
Allowances for doubtful debts	(110,432)	(110,863)	(110,432)	(110,863)
	9,557,158	9,514,927	9,557,158	9,514,927
Other receivables, deposits and prepayments	16,466	29,161	16,466	29,160
Subsidiaries and long term investments	546	546	1,081	1,081
Property, plant and equipment	23,081	24,530	23,081	24,530
Deferred tax assets	597	326	597	326
Total assets	12,033,817	12,313,100	12,033,410	12,312,709
Acceptances, guarantees and other obligations on behalf of customers	27,848	15,645	27,848	15,645

2(b). Net Asset Value

Net asset value per share (\$)	3.85	3.82	3.84	3.82
--------------------------------	-------------	------	-------------	------

2(c). There are no outstanding borrowings and debt securities as at 30 June 2017 (31 December 2016: \$Nil) for the Group and the Company.

3. Consolidated Statement of Cash Flows

	2nd Qtr 2017 \$'000	2nd Qtr 2016 \$'000	1st Half 2017 \$'000	1st Half 2016 \$'000
Operating activities				
Profit for the period	20,868	11,038	37,331	25,584
Adjustments for:				
Impact of accrual of interest income	(1,280)	(921)	(53)	99
Impact of accrual of interest expense	(5,453)	13,504	(27,939)	11,888
Allowances for doubtful debts	1,063	3,071	539	4,691
Depreciation of property, plant and equipment	963	1,021	1,892	2,100
Loss on disposal of property, plant and equipment	-	2	1	1
Value of employee services received for issue of share options	48	65	97	131
Income tax expense	4,235	2,301	7,593	5,300
	20,444	30,081	19,461	49,794
Changes in working capital:				
Loans, advances and receivables	(49,752)	(113,412)	(42,770)	48,949
Other receivables, deposits and prepayments	(1,902)	3,203	12,748	21,753
Singapore Government securities	39,031	4,053	40,058	8,114
Deposits and balances of customers	(167,488)	(108,281)	(266,712)	(460,273)
Trade and other payables	(10,028)	327	257	(1,234)
Cash used in operations	(169,695)	(184,029)	(236,958)	(332,897)
Income taxes paid	(3,388)	(4,023)	(5,647)	(6,704)
Cash flows used in operating activities	(173,083)	(188,052)	(242,605)	(339,601)
Investing activities				
Purchase of property, plant and equipment	(64)	(123)	(444)	(170)
Proceeds from disposal of property, plant and equipment	-	-	-	2
Cash flows used in investing activities	(64)	(123)	(444)	(168)
Financing activities				
Proceeds from exercise of share options	1,129	-	2,143	-
Dividends paid	(26,677)	(31,065)	(26,677)	(31,065)
Cash flows used in financing activities	(25,548)	(31,065)	(24,534)	(31,065)
Net decrease in cash and cash equivalents	(198,695)	(219,240)	(267,583)	(370,834)
Cash and cash equivalents at beginning of period	1,416,324	1,644,391	1,485,212	1,795,985
Cash and cash equivalents at end of period	1,217,629	1,425,151	1,217,629	1,425,151

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

	30 Jun 2017 \$'000	30 Jun 2016 \$'000
Cash at banks and in hand	942,311	1,127,133
Statutory deposit with the Monetary Authority of Singapore	275,318	298,018
Cash and cash equivalents	1,217,629	1,425,151

In addition to the cash and cash equivalents above, marketable Singapore Government securities amounted to \$1,218,340,000 (30 June 2016: \$1,325,091,000) 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 2017	879,279	633,291	2,307	7,024	175,207	1,697,108
Issue of shares under share option scheme	1,014					1,014
Value of employee services received for issue of share options				49		49
Value of employee services transferred for share options exercised or lapsed	98			(113)	15	-
Comprehensive income for the period					16,463	16,463
At 31 March 2017	880,391	633,291	2,307	6,960	191,685	1,714,634
Issue of shares under share option scheme	1,129					1,129
Value of employee services received for issue of share options				48		48
Value of employee services transferred for share options exercised or lapsed	107			(107)		-
Final dividend paid of 6 cents per share (tax exempt one-tier) in respect of year 2016					(26,677)	(26,677)
Comprehensive income for the period					20,868	20,868
At 30 June 2017	881,627	633,291	2,307	6,901	185,876	1,710,002
At 1 January 2016	879,279	620,024	2,307	7,490	179,011	1,688,111
Value of employee services received for issue of share options				66		66
Value of employee services transferred for share options exercised or lapsed				(244)	244	-
Comprehensive income for the period					14,546	14,546
At 31 March 2016	879,279	620,024	2,307	7,312	193,801	1,702,723
Value of employee services received for issue of share options				65		65
Value of employee services transferred for share options exercised or lapsed				(153)	153	-
Final dividend paid of 7 cents per share (tax exempt one-tier) in respect of year 2015					(31,065)	(31,065)
Comprehensive income for the period					11,038	11,038
At 30 June 2016	879,279	620,024	2,307	7,224	173,927	1,682,761

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 2017	879,279	633,291	2,307	7,024	172,072	1,693,973
Issue of shares under share option scheme	1,014					1,014
Value of employee services received for issue of share options				49		49
Value of employee services transferred for share options exercised or lapsed	98			(113)	15	-
Comprehensive income for the period					16,449	16,449
At 31 March 2017	880,391	633,291	2,307	6,960	188,536	1,711,485
Issue of shares under share option scheme	1,129					1,129
Value of employee services received for issue of share options				48		48
Value of employee services transferred for share options exercised or lapsed	107			(107)		-
Final dividend paid of 6 cents per share (tax exempt one-tier) in respect of year 2016					(26,677)	(26,677)
Comprehensive income for the period					20,839	20,839
At 30 June 2017	881,627	633,291	2,307	6,901	182,698	1,706,824
At 1 January 2016	879,279	620,024	2,307	7,490	175,979	1,685,079
Value of employee services received for issue of share options				66		66
Value of employee services transferred for share options exercised or lapsed				(244)	244	-
Comprehensive income for the period					14,530	14,530
At 31 March 2016	879,279	620,024	2,307	7,312	190,753	1,699,675
Value of employee services received for issue of share options				65		65
Value of employee services transferred for share options exercised or lapsed				(153)	153	-
Final dividend paid of 7 cents per share (tax exempt one-tier) in respect of year 2015					(31,065)	(31,065)
Comprehensive income for the period					10,999	10,999
At 30 June 2016	879,279	620,024	2,307	7,224	170,840	1,679,674

5. Review Of The Performance Of The Group

Net loan assets including hire purchase receivables (net of allowances) stood at \$9,557 million at the end of the period under review. This was an increase of 0.4% or \$42 million over the previous year's base of \$9,515 million as at 31 December 2016, but a decrease of 4.8% or \$480 million over the figure of \$10,037 million as at 30 June 2016.

In line with lower funding requirements, deposits and balances of customers closed at \$10,175 million as at 30 June 2017. This was a decrease of 2.6% or \$267 million over the previous year's base of \$10,442 million as at 31 December 2016, and a decrease of 7.4% or \$809 million over the base of \$10,984 million as at 30 June 2016. Cash and cash equivalents (including balances with the Monetary Authority of Singapore) together with Singapore Government securities held as liquid assets amounted to \$2,436 million as at 30 June 2017 (30 June 2016: \$2,750 million).

The Group recorded profit from operations before allowances/provision of \$25.8 million for the quarter under review, an increase of 69.1% from \$15.2 million for the previous corresponding quarter, due mainly to decreases in interest expense. For the half year ended 30 June 2017, the increase in profit from operations before allowances/provision was 39.9% from \$31.9 million to \$44.7 million. Group profit before tax for the quarter and the half year ended 30 June 2017 were arrived at after topping up provision (net of write back of provision/recoveries) amounting to \$0.7 million (30 June 2016: \$1.9 million), and writing back provision/recoveries of \$0.2 million (30 June 2016: additional net allowance of \$1.1 million) respectively. Accordingly, Group profit after tax for the quarter under review amounted to \$20.8 million, an increase of \$9.8 million or 89.1% over the previous corresponding quarter, whilst that for the half year ended 30 June 2017 showed an increase of \$11.7 million or 45.9% over the previous corresponding period to \$37.3 million. The Group continues to maintain adequate individual and collective provisions in respect of its loan portfolio in line with the practice in prior years.

Total interest income/hiring charges for the quarter under review decreased by 6.1% mainly due to a lower loan base, whilst that for the half year ended 30 June 2017 decreased by 8.8% due to the decrease in loan base and a lower loan yield. Interest expense for the quarter registered a decrease of \$13.4 million or 30.2% over the previous corresponding quarter, whilst that for the half year ended 30 June 2017 showed a decrease of \$21.5 million or 24.4% over the previous corresponding period. The decreases resulted from a combination of a lower deposits base and lower applicable interest rates. Accordingly, net interest income/hiring charges for the quarter and half year under review increased 25.3% and 10.3% respectively from the previous corresponding period.

Fee and commission income for the quarter and half year under review increased by 30.8% and 44.5% to \$4.1 million and \$7.7 million respectively, with higher fee income from both lending and non-lending products. Staff costs for the quarter and half year under review decreased by 6.4% and 6.6% respectively mainly due to lower provision for bonus. Lower depreciation on renovation accounted for the slight decrease in depreciation of property, plant and equipment for both the periods under review. Other operating expenses were controlled.

Group shareholders' funds as at 30 June 2017 totalled \$1,710 million (31 December 2016: \$1,697 million) amounting to \$3.85 per share (31 December 2016: \$3.82 per share).

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 manufacturing and services sectors helped Singapore's economy to grow by 2.5% in the second quarter matching the growth rate in the previous quarter according to advance estimates released by the Ministry of Trade and Industry ("MTI"). On a quarter-on-quarter seasonally-adjusted annualised basis, the Singapore economy expanded by 0.4%, in contrast to the 1.9% contraction in the first quarter.

The second quarter growth was anchored by the manufacturing sector which expanded by 8.0% on a year-on-year basis in the second quarter, having recorded a 8.5% growth in the first quarter. The services sector also grew by 1.7% on a year-on-year basis in the second quarter, faster than the 1.4% growth in the first quarter. The construction sector however continued its decline. Following a 6.1% decline in the first quarter, the sector declined by 5.6% on a year-on-year basis in the second quarter. MTI has maintained its growth forecast for 2017 at a range of 1.0% to 3.0%.

The uncertainties and volatility which prevailed in 2016 continued into the first half of 2017. Other than risks both economic and political coming from the UK leaving the European Union, the economic policies of the new US administration and the slowdown of the Chinese economy, new risks have arisen in the Middle East and the Korean Peninsula. Against this background, the Singapore economy is expected to grow slowly and within the MTI projections.

In view of these developments, Hong Leong Finance ("HLF") continues to be very risk and customer focused. With the possibility of interest rates rising further following recent indications by the US Federal Reserve Bank, emphasis has also been placed on our liquidity management. We continue to support our deposit customers with attractive deposit campaigns. At the same time, new and innovative SME loan programmes have been rolled out to help our SMEs in their cash-flow management. Some of these packages are structured with SPRING support. We also have competitive packages for our HDB customers both HDB home owners as well as HDB shop operators. This is to build our relevancy to customers and enhance the customer experience with us.

At the present time, HLF is looking out for the implementation of the changes to the Finance Company regulations which the regulator announced in first quarter 2017. It is anticipated that the forthcoming relaxation of constraints currently in place will provide HLF with avenues to further support local SMEs.

While growth in the economy is slow, pace of change in the financial industry has quickened. Financial Technology or FinTechs have entered the financial ecosystem such that traditional financial institutions will have a simple imperative to respond quickly and effectively to the evolving needs of customers. Profit margins are squeezed in nearly all industries including ours and FinTechs can help through innovation to improve processes and reduce operating costs. HLF is seeking ways to collaborate with FinTechs to bring about process simplification and improvement while at the same time enabling us to meet the aspirations of the younger generation who demand a more technologically driven customer experience.

7. Dividend

An interim dividend of 4 cents per share (tax exempt one-tier) (2016: 3 cents per share, tax exempt one-tier) has been declared in respect of the year ending 31 December 2017. The interim dividend will be paid on 12 September 2017.

	Latest Period	Previous Period
Name of Dividend	Interim	Interim (paid on 16 September 2016)
Dividend Type	Cash	Cash
Dividend Rate	4 cents per share	3 cents per share
Total Dividend	\$17,787,000*	\$13,314,000
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 29,300 shares at an exercise price of \$2.28 per share, 103,000 shares at an exercise price of \$2.45 per share, 71,000 shares at an exercise price of \$2.56 per share, 38,500 shares at an exercise price of \$2.66 per share and 225,000 shares at an exercise price of \$2.34 per share upon exercise of options under the Share Option Scheme; and
- (ii) no options lapsed under the Share Option Scheme.

As at the end of the period, unissued shares of the Company under option amounted to 20,602,585 shares (30 June 2016: 21,311,390 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 period.

9. Accounting Policies

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

The adoption of the new/revised/amendments to FRSs/interpretations of FRSs which came into effect from 1 January 2017 does not have a material impact on the financial statements of the Group and the Company for the period under review.

The accounting policies and methods of computation used in the financial statements for the period under review are consistent with those applied in the audited financial statements for the year ended 31 December 2016.

10. Closure of Books

Notice is hereby given that the Share Transfer Books and Register of Members of the Company will be closed on 25 August 2017. 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 24 August 2017 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 8th day of August 2017

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 2017 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

8 August 2017