

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

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No

Announcement Details

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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

30/06/2019

Attachments

[2Q19%20HLF 8Aug2019.pdf](#)

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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 2019. These figures have not been audited.

1(a). Unaudited Group Statements of Comprehensive Income for the Quarter and Half Year Ended 30 June 2019

	2nd Qtr 2019	2nd Qtr 2018	+ / (-)	1st Half 2019	1st Half 2018	+ / (-)
	\$'000	\$'000	%	\$'000	\$'000	%
Profit and loss account:						
Interest on loans	71,897	65,268	10.2	140,641	124,949	12.6
Hiring charges	14,328	13,167	8.8	28,321	26,211	8.1
Other interest income	11,825	8,908	32.7	24,269	16,587	46.3
Interest income/hiring charges	98,050	87,343	12.3	193,231	167,747	15.2
Less: Interest expense	47,160	33,335	41.5	90,865	64,041	41.9
Net interest income/hiring charges	50,890	54,008	(5.8)	102,366	103,706	(1.3)
Fee and commission income	3,991	3,096	28.9	6,614	7,118	(7.1)
Other operating income	46	271	(83.0)	80	386	(79.3)
Income before operating expenses	54,927	57,375	(4.3)	109,060	111,210	(1.9)
Less: Staff costs	17,786	15,867	12.1	35,576	32,261	10.3
Depreciation of property, plant and equipment	2,043	445	359.1	3,997	1,133	252.8
Other operating expenses	3,885	4,799	(19.0)	7,098	9,734	(27.1)
Total operating expenses	23,714	21,111	12.3	46,671	43,128	8.2
Profit from operations before allowances	31,213	36,264	(13.9)	62,389	68,082	(8.4)
Add/(Less): (Allowances for)/reversal or recovery of doubtful debts and other financial assets	388	(808)	(148.0)	737	(1,621)	(145.5)
Profit before tax	31,601	35,456	(10.9)	63,126	66,461	(5.0)
Less: Income tax expense	5,316	5,895	(9.8)	10,602	11,045	(4.0)
Profit for the period/Comprehensive income attributable to owners of the Company	26,285	29,561	(11.1)	52,524	55,416	(5.2)
Annualised earnings per share (cents)						
- Basic	23.56	26.53		23.55	24.88	
- Diluted	23.52	26.49		23.51	24.83	

1(b). Other information in relation to the Group Statements of Comprehensive Income

- Interest expense includes interest on lease liabilities amounting to \$200,000 (30 June 2018: \$Nil) and \$336,000 (30 June 2018: \$Nil) for the quarter and half year ended 30 June 2019 respectively;
- Other operating income includes loss on disposal of plant and equipment amounting to \$4,000 (30 June 2018: gain on disposal of plant and equipment of \$220,000) and \$4,000 (30 June 2018: gain on disposal of plant and equipment of \$298,000) for the quarter and half year ended 30 June 2019 respectively;
- Depreciation of property, plant and equipment includes the depreciation charge of the right-of-use ("ROU") assets totalling \$1.6 million and \$3.2 million for the quarter and half year ended 30 June 2019 respectively. This arose from the adoption of the new lease accounting standard effective 1 January 2019, using the modified retrospective approach, which replaces the straight-line operating lease expense previously classified under "Other operating expenses" as described below; and
- Other operating expenses included rental expenses of \$1.7 million and \$3.6 million under operating lease for the quarter and half year ended 30 June 2018 respectively.

2(a). Summarised Statements of Financial Position

	Group		Company	
	30 Jun 2019	31 Dec 2018	30 Jun 2019	31 Dec 2018
Number of shares in issue	446,325,133	445,818,433	446,325,133	445,818,433
	\$'000	\$'000	\$'000	\$'000
Share capital	885,835	884,440	885,835	884,440
Reserves	727,464	726,600	727,464	726,600
Accumulated profits	269,662	263,311	266,326	260,020
Equity attributable to owners of the Company	1,882,961	1,874,351	1,879,625	1,871,060
Liabilities				
Deposits and balances of customers	11,936,947	11,337,820	11,941,118	11,341,986
Trade and other payables	193,849	129,822	192,567	128,507
Current tax payable	29,371	37,112	29,368	37,108
Deferred tax liabilities	2,147	2,150	2,147	2,150
Total liabilities	12,162,314	11,506,904	12,165,200	11,509,751
Total equity and liabilities	14,045,275	13,381,255	14,044,825	13,380,811
Assets				
Cash at banks and in hand	908,864	1,442,327	907,879	1,441,349
Statutory deposit with the Monetary Authority of Singapore ("MAS")	317,536	297,645	317,536	297,645
Singapore Government debt securities and MAS Bills	1,498,781	1,322,326	1,498,781	1,322,326
Hire purchase receivables	1,790,882	1,680,916	1,790,882	1,680,916
Loans, advances and factoring receivables	9,450,460	8,615,791	9,450,460	8,615,791
Allowances for doubtful debts	11,241,342 (17,582)	10,296,707 (19,044)	11,241,342 (17,582)	10,296,707 (19,044)
	11,223,760	10,277,663	11,223,760	10,277,663
Other receivables, deposits and prepayments	26,022	21,218	26,022	21,217
Subsidiaries and long-term investments	-	-	535	535
Property, plant and equipment	70,312	20,076	70,312	20,076
Total assets	14,045,275	13,381,255	14,044,825	13,380,811
Acceptances, guarantees and other obligations on behalf of customers	4,935	5,526	4,935	5,526

2(b). Other information in relation to the Summarised Statements of Financial Position

For the Group and the Company,

- (i) Trade and other payables includes lease liabilities amounting to \$47,732,000 (31 December 2018: \$Nil); and
- (ii) Property, plant and equipment includes right-of-use ("ROU") assets with a net book value amounting to \$46,782,000 (31 December 2018: \$Nil).

2(c). Net Asset Value

Net asset value per share (\$)	4.22	4.20	4.21	4.20
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- 2(d). There are no outstanding borrowings and debt securities issuance as at 30 June 2019 (31 December 2018: \$Nil) for the Group and the Company.

3. Consolidated Statement of Cash Flows

	2nd Qtr 2019 \$'000	2nd Qtr 2018 \$'000	1st Half 2019 \$'000	1st Half 2018 \$'000
Operating activities				
Profit for the period	26,285	29,561	52,524	55,416
Adjustments for:				
Impact of accrual of interest income	(1)	(3,529)	1,205	(1,174)
Impact of accrual of interest expense	13,970	15,504	13,685	11,622
Allowances for doubtful debts	77	1,658	182	2,585
Interest expense on lease liabilities	200	-	336	-
Depreciation of property, plant and equipment	2,043	445	3,997	1,133
Loss/(gain) on disposal of property, plant and equipment	4	(220)	4	(298)
Value of employee services received for issue of share options	54	56	108	112
Income tax expense	5,316	5,895	10,602	11,045
	47,948	49,370	82,643	80,441
Changes in working capital:				
Loans, advances and receivables	(781,800)	(167,163)	(946,279)	(633,450)
Other receivables, deposits and prepayments	(8,781)	5,903	(6,009)	1,783
Singapore Government debt securities and MAS Bills	(89,858)	(1,923)	(176,455)	(105,375)
Deposits and balances of customers	539,784	(32,927)	599,127	504,740
Trade and other payables	3,175	6,647	2,610	3,942
Cash used in operations	(289,532)	(140,093)	(444,363)	(147,919)
Income taxes paid	(10,929)	(5,309)	(18,213)	(8,855)
Cash flows used in operating activities	(300,461)	(145,402)	(462,576)	(156,774)
Investing activities				
Purchase of property, plant and equipment	(310)	(568)	(4,296)	(655)
Proceeds from disposal of property, plant and equipment	-	235	-	330
Cash flows used in investing activities	(310)	(333)	(4,296)	(325)
Financing activities				
Payment for lease liabilities	(1,669)	-	(3,331)	-
Proceeds from exercise of share options	1,170	669	1,261	1,299
Dividends paid	(44,630)	(40,110)	(44,630)	(40,110)
Cash flows used in financing activities	(45,129)	(39,441)	(46,700)	(38,811)
Net decrease in cash and cash equivalents	(345,900)	(185,176)	(513,572)	(195,910)
Cash and cash equivalents at beginning of period	1,572,300	1,363,615	1,739,972	1,374,349
Cash and cash equivalents at end of period	1,226,400	1,178,439	1,226,400	1,178,439

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

	30 Jun 2019 \$'000	30 Jun 2018 \$'000
Cash at banks and in hand	908,864	871,645
Statutory deposit with the Monetary Authority of Singapore ("MAS")	317,536	306,794
Cash and cash equivalents	1,226,400	1,178,439

In addition to the cash and cash equivalents above, marketable Singapore Government debt securities and MAS Bills amounted to \$1,498,781,000 (30 June 2018: \$1,354,225,000) for the Group.

4. Statements of Changes in Equity

	Share capital \$'000	Statutory reserve \$'000	Capital reserve \$'000	Share option reserve \$'000	Regulatory loss allowance reserve \$'000	Accumulated profits \$'000	Total \$'000
Group							
At 1 January 2019, as previously stated	884,440	702,994	2,307	4,755	16,544	263,311	1,874,351
Effect of initial adoption of SFRS(I) 16 (net of tax)						(653)	(653)
At 1 January 2019, as restated	884,440	702,994	2,307	4,755	16,544	262,658	1,873,698
Issue of shares under share option scheme	91						91
Value of employee services received for issue of share options				54			54
Value of employee services transferred for share options exercised or lapsed	6			(201)		195	-
Adjustment under MAS 811					910	(910)	-
Comprehensive income for the period						26,239	26,239
At 31 March 2019	884,537	702,994	2,307	4,608	17,454	288,182	1,900,082
Issue of shares under share option scheme	1,170						1,170
Value of employee services received for issue of share options				54			54
Value of employee services transferred for share options exercised or lapsed	128			(128)			-
Final dividend of 10 cents per share (tax exempt one-tier) paid in respect of year 2018						(44,630)	(44,630)
Adjustment under MAS 811					175	(175)	-
Comprehensive income for the period						26,285	26,285
At 30 June 2019	885,835	702,994	2,307	4,534	17,629	269,662	1,882,961
At 1 January 2018	882,829	673,408	2,307	5,554	16,932	235,601	1,816,631
Issue of shares under share option scheme	630						630
Value of employee services received for issue of share options				56			56
Value of employee services transferred for share options exercised or lapsed	52			(89)		37	-
Adjustment under MAS 811					(96)	96	-
Comprehensive income for the period						25,855	25,855
At 31 March 2018	883,511	673,408	2,307	5,521	16,836	261,589	1,843,172
Issue of shares under share option scheme	669						669
Value of employee services received for issue of share options				56			56
Value of employee services transferred for share options exercised or lapsed	54			(121)		67	-
Final dividend of 9 cents per share (tax exempt one-tier) paid in respect of year 2017						(40,110)	(40,110)
Adjustment under MAS 811					169	(169)	-
Comprehensive income for the period						29,561	29,561
At 30 June 2018	884,234	673,408	2,307	5,456	17,005	250,938	1,833,348

4. Statements of Changes in Equity (continued)

	Share capital \$'000	Statutory reserve \$'000	Capital reserve \$'000	Share option reserve \$'000	Regulatory loss allowance reserve \$'000	Accumulated profits \$'000	Total \$'000
Company							
At 1 January 2019, as previously stated	884,440	702,994	2,307	4,755	16,544	260,020	1,871,060
Effect of initial adoption of SFRS(I) 16 (net of tax)						(653)	(653)
At 1 January 2019, as restated	884,440	702,994	2,307	4,755	16,544	259,367	1,870,407
Issue of shares under share option scheme	91						91
Value of employee services received for issue of share options				54			54
Value of employee services transferred for share options exercised or lapsed	6			(201)		195	-
Adjustment under MAS 811					910	(910)	-
Comprehensive income for the period						26,222	26,222
At 31 March 2019	884,537	702,994	2,307	4,608	17,454	284,874	1,896,774
Issue of shares under share option scheme	1,170						1,170
Value of employee services received for issue of share options				54			54
Value of employee services transferred for share options exercised or lapsed	128			(128)			-
Final dividend of 10 cents per share (tax exempt one-tier) paid in respect of year 2018						(44,630)	(44,630)
Adjustment under MAS 811					175	(175)	-
Comprehensive income for the period						26,257	26,257
At 30 June 2019	885,835	702,994	2,307	4,534	17,629	266,326	1,879,625
At 1 January 2018	882,829	673,408	2,307	5,554	16,932	232,387	1,813,417
Issue of shares under share option scheme	630						630
Value of employee services received for issue of share options				56			56
Value of employee services transferred for share options exercised or lapsed	52			(89)		37	-
Adjustment under MAS 811					(96)	96	-
Comprehensive income for the period						25,845	25,845
At 31 March 2018	883,511	673,408	2,307	5,521	16,836	258,365	1,839,948
Issue of shares under share option scheme	669						669
Value of employee services received for issue of share options				56			56
Value of employee services transferred for share options exercised or lapsed	54			(121)		67	-
Final dividend of 9 cents per share (tax exempt one-tier) paid in respect of year 2017						(40,110)	(40,110)
Adjustment under MAS 811					169	(169)	-
Comprehensive income for the period						29,535	29,535
At 30 June 2018	884,234	673,408	2,307	5,456	17,005	247,688	1,830,098

5. Review of the Performance of the Group

The Group recorded net profit after tax of \$52.5 million for the first half of 2019, declined by \$2.9 million or 5.2% on the backdrop of high performance in first half of 2018. For second quarter 2019, the net profit after tax was \$26.3 million, down \$3.3 million or 11.1% over the previous corresponding period.

Comparing first half and second quarter 2018, the net interest income declined by 1.3% to \$102.4 million and 5.8% to \$50.9 million respectively, driven by higher cost of fund outpacing the improved loan yield amidst the competitive interest rate environment. The net interest margin was down by 9 and 14 basis points (bps) respectively.

For first half year 2019, fee and commission income declined by 7.1% to \$6.6 million with lower fee income from lending activities compared to one year ago. Fee and commission income for second quarter 2019 rose by 28.9% to \$4.0 million boosted by fee income from new lending and corporate finance business. The lower other operating income for half year and second quarter 2019 was due to the gain on disposal of plant and equipment recognised in the previous corresponding periods.

Total operating expenses edged up by 8.2% to \$46.7 million and 12.3% to \$23.7 million for half year and second quarter 2019 respectively, mainly attributed to higher staff cost, technology and other business expenses incurred to support new business initiatives and system enhancements.

Allowances for loans and other financial assets for half year and second quarter 2019 were net write back of \$737,000 and \$388,000 respectively from loan loss allowances. The Group continues to maintain adequate loss allowances in respect of its loan portfolio and other financial assets.

Net loan assets totalling \$11,224 million as at 30 June 2019, grew by 9.2% or \$946 million over the previous year's base of \$10,278 million as at 31 December 2018 and 5.9% or \$627 million over corresponding period as at 30 June 2018.

In tandem with the growth in loan balances, deposits and balances of customers amounted to \$11,937 million as at 30 June 2019, representing an increase of 5.3% or \$599 million over the previous year's base of \$11,338 million as at 31 December 2018, and 6.9% or \$773 million over corresponding period as at 30 June 2018. Cash and cash equivalents including statutory deposit with the Monetary Authority of Singapore ("MAS") together with Singapore Government debt securities and MAS Bills held as liquid assets amounted to \$2,725 million as at 30 June 2019. The Group continues to maintain sound liquidity positions.

Group shareholders' funds as at 30 June 2019 totalled \$1,883 million (31 December 2018: \$1,874 million) with higher net asset value at \$4.22 per share (31 December 2018: \$4.20 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

Based on the Ministry of Trade and Industry's ("MTI") advance estimates, the Singapore economy grew 0.1% on a year-on-year basis in the second quarter of this year. This is the slowest annual pace in a decade and is slower than the 1.1% growth in the first quarter. On a quarter-on-quarter seasonally-adjusted annualised basis, the economy shrank by 3.4%, after posting a growth of 3.8% in the preceding quarter and 3.1% for the full year 2018.

For the second quarter, the manufacturing sector contracted by 3.8% on a year-on-year basis. The first quarter decline was 0.4%. On a quarter-on-quarter seasonally-adjusted annualised basis, this sector shrank by 6.0% in the second quarter compared to the 6.4% contraction in the preceding quarter.

The construction sector grew by 2.2% on a year-on-year basis in the second quarter, extending the 2.7% expansion in the previous quarter. However on a quarter-on-quarter seasonally-adjusted annualised basis, the sector contracted by 7.6%, reversing the 13.3% growth in the first quarter.

The services producing industries continued to grow in the second quarter and expanded by 1.2% on a year-on-year basis, unchanged from the previous quarter. This growth came primarily from the finance and insurance and information and communications segments. On a quarter-on-quarter seasonally-adjusted annualised basis, the services producing industries shrank by 1.5%, following the 4.4% growth recorded in the first quarter of 2019.

Both the MTI and the MAS are reviewing the 1.5% to 2.5% forecast range for this year's GDP growth. The IMF has trimmed our economic growth for this year from 2.3% to 2.0%.

We are now in the throes of a trade and technology war and all the three engines of global growth - manufacturing, trade and investments, have all stalled. Together with Brexit, the Middle East tensions and the slowdown in China's economy, growth prospect in the second half of this year appears likely to be weaker.

Amidst these uncertainties, Hong Leong Finance ("HLF") will continue to be prudent in managing our business and at the same time reach out to more customers through our branch network and our SME Centres. We are glad to hear that the government is reinforcing the tripartite cooperation among employers, employees and government during this uncertain period. While our SMEs seek to go overseas, it is important to ensure that their Singapore operations remain strong and viable. In this connection, HLF continues to roll out very competitive packages aim at helping our SMEs in their cash flows. We are also active in our participation in the various government schemes to assist our SMEs during this difficult period. We have stepped up our lending to our HDB dwellers. While we had been building up our deposit base, this was affected by the volatility of market interest rates which resulted in higher cost of funds. With the U.S. Federal Fund rate cut by 25bps in July 2019, we will continue to monitor its future interest rate movements and its implications on Singapore's rates in order to package our deposits to suit our funding needs.

We are also studying the recent MAS announcement on digital banks and are exploring ways in which we can participate in this transformation journey while ensuring that we remain relevant to all our customers both individuals and SMEs.

7. Dividends

An interim dividend of 5 cents per share (tax exempt one-tier) (2018: 5 cents per share, tax exempt one-tier) has been declared in respect of the year ending 31 December 2019. The interim dividend will be paid on 11 September 2019.

	Latest Period	Previous Period
Name of Dividend	Interim	Interim (paid on 12 September 2018)
Dividend Type	Cash	Cash
Dividend Rate	5 cents per share	5 cents per share
Total Dividend	\$22,316,000*	\$22,289,000
Tax Rate	Tax exempt one-tier	Tax exempt one-tier

* The amount of dividend is computed on the shares in issue as at 30 June 2019. 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 30 June 2019 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 the following 468,200 shares upon exercise of options under the Share Option Scheme

Share price	Number of shares issued
\$2.74	56,500
\$2.28	39,700
\$2.45	60,000
\$2.56	65,000
\$2.66	67,000
\$2.34	75,000
\$2.23	44,500
\$2.61	60,500
Total	<u>468,200</u>

- (ii) options to 3,500 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 15,236,890 shares (30 June 2018: 16,901,265 shares).

Pursuant to the Finance Companies Act, Chapter 108, the Company does not hold treasury shares and accordingly, there were no treasury shares held as at 30 June 2019 and 30 June 2018. There were also no shares held as subsidiary holdings as at 30 June 2019 and 30 June 2018.

9. Accounting Policies

The financial statements are prepared in accordance with Singapore Financial Reporting Standards (International) ("SFRS(I)s").

As previously announced, the adoption of the new/revised/amendments to SFRS(I)s which came into effect from 1 January 2019 does not have a material impact on the financial statements of the Group and the Company for the six months ended 30 June 2019, except for SFRS(I) 16 Leases on first time adoption impact.

SFRS(I) 16 Leases introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a ROU asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The Group has applied SFRS(I) 16 initially on 1 January 2019 using the modified retrospective approach. The cumulative effect of adopting SFRS(I) 16 was recognised as an adjustment to the opening balance of accumulated profits at 1 January 2019, with no restatement of comparative information. At initial adoption on 1 January 2019, the Group accounted for \$39.9 million of ROU assets, \$40.7 million of lease liabilities, an increase of \$0.1 million deferred tax asset and a decrease in accumulated profits of \$0.7 million.

Except as described above, the accounting policies and methods of computation used in the financial statements for the six months ended 30 June 2019 are consistent with those applied in the audited financial statements for the year ended 31 December 2018.

10. Closure of Books

Notice is hereby given that the Share Transfer Books and Register of Members of the Company will be closed on 28 August 2019. 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 27 August 2019 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 2019

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 2019 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 2019