Issuer & Securities

Issuer/ Manager

HONG LEONG FINANCE LIMITED

Securities

HONG LEONG FINANCE LIMITED - SG1M04001939 - S41

Stapled Security

No

Announcement Details

FINANCIAL STATEMENTS AND RELATED ANNOUNCEMENT::FULL YEARLY RESULTS

Date &Time of Broadcast

25-Feb-2021 19:38:43

Status

New

Announcement Sub Title

Full Yearly Results

Announcement Reference

SG210225OTHRZLWA

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 Full Year Financial Statements and Related Announcement, and Chairman's Statement.

Additional Details

For Financial Period Ended

31/12/2020

Attachments

HLF_FYresultsAnno_Dec20_FINAL.pdf

HLF_ChairmanStatement.pdf

Total size =739K MB

Hong Leong Finance Limited
Registration No. 196100003D
Head Office: 16 Raffles Quay #01-05 Hong Leong Building Singapore 048581
Telephone 6415 9433 Facsimile 6224 6773

HONG LEONG FINANCE

Full Year Financial Statements And Related Announcement

Full year financial statements on consolidated results for the year ended 31 December 2020. 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 2020

	2020	2019	+/(-)
	$'000	$'000	%
Profit and loss account:			
Interest on loans	**230,360**	292,664	(21.3)
Hiring charges	**52,086**	57,200	(8.9)
Other interest income	**28,339**	46,492	(39.0)
Interest income/hiring charges	**310,785**	396,356	(21.6)
Less: Interest expense	**163,937**	194,652	(15.8)
Net interest income/hiring charges	**146,848**	201,704	(27.2)
Fee and commission income	**10,229**	13,714	(25.4)
Other operating income	**1,714**	324	429.0
Income before operating expenses	**158,791**	215,742	(26.4)
Less: Staff costs	**54,678**	67,675	(19.2)
Depreciation of property, plant and equipment	**7,922**	8,071	(1.8)
Other operating expenses	**13,739**	14,460	(5.0)
Total operating expenses	**76,339**	90,206	(15.4)
Profit from operations before allowances	**82,452**	125,536	(34.3)
Less: Allowances for doubtful debts and other financial assets net of reversal or recovery of doubtful debts	**7,733**	1,578	390.1
Profit before tax	**74,719**	123,958	(39.7)
Less: Income tax expense	**10,810**	20,873	(48.2)
Profit for the year/Comprehensive income attributable to owners of the Company	**63,909**	103,085	(38.0)
Earnings per share (cents)			
- Basic	**14.28**	23.09	
- Diluted	**14.28**	23.05	

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

(i) Profit after tax

	2020	2019	+/(-)
	$'000	$'000	%
- first half year	**36,519**	52,524	(30.5)
- second half year	**27,390**	50,561	(45.8)

The decrease in the profit after tax for the second half of 2020 as compared to the same period in 2019 was primarily attributed to the dip in net interest income, driven by the compressed net interest margin arising from the impact of falling interest rate from March 2020 due to Covid-19 outbreak.

(ii) Interest expense includes interest on borrowings from bank and MAS SGD Facility amounting to $49,000 (31 December 2019: $Nil) for the year ended 31 December 2020.

(iii) Other operating income includes gain on disposal of plant and equipment amounting to $1,357,000 (31 December 2019: $62,000) for the year ended 31 December 2020.

(iv) Total operating expenses includes the offset of Jobs Support Scheme, Covid-19 support grant and rebates from budget relief measures amounting to $10,390,000 (31 December 2019: $98,000) for the year ended 31 December 2020. Excluding the offset from budget relief measures totalling $10.4 million, total operating expenses reduced by 4.0%.

(v) The effective tax rate for 2020 is lower at 14.5% (2019: 16.8%) mainly due to tax effect of exempt income not taxable for tax purposes including Jobs Support Scheme.

(vi) The majority of the revenue for the Group is from the same business segment. Its principal activities relate to financing business augmented by secondary non-lending activities such as provision of corporate advisory services and provision of nominee services. All activities are carried out in the Republic of Singapore.

2(a). Summarised Statements of Financial Position

	Group		Company	
	31 Dec 2020	31 Dec 2019	**31 Dec 2020**	31 Dec 2019
Number of shares in issue	**447,552,473**	447,526,473	**447,552,473**	447,526,473
	$'000	$'000	**$'000**	$'000
Share capital	**889,117**	889,051	**889,117**	889,051
Reserves	**756,941**	749,914	**756,941**	749,914
Accumulated profits	**272,055**	275,278	**268,612**	271,899
Equity attributable to owners of the Company	**1,918,113**	1,914,243	**1,914,670**	1,910,864
Liabilities				
Deposits and balances of customers	**11,194,359**	12,307,049	**11,198,668**	12,311,282
Trade and other payables	**232,213**	215,866	**230,874**	214,549
Current tax payable	**19,480**	21,828	**19,474**	21,823
Deferred tax liabilities	**897**	1,794	**897**	1,794
Total liabilities	**11,446,949**	12,546,537	**11,449,913**	12,549,448
Total equity and liabilities	**13,365,062**	14,460,780	**13,364,583**	14,460,312
Assets				
Cash at banks and in hand	**613,775**	947,430	**612,762**	946,428
Statutory deposit with the Monetary Authority of Singapore ("MAS")	**317,621**	338,393	**317,621**	338,393
Singapore Government debt securities and MAS Bills	**1,405,434**	1,531,763	**1,405,434**	1,531,763
Hire purchase receivables	**1,584,613**	1,764,978	**1,584,613**	1,764,978
Loans, advances and factoring receivables	**9,390,068**	9,808,646	**9,390,068**	9,808,646
	10,974,681	11,573,624	**10,974,681**	11,573,624
Allowances for doubtful debts	**(26,772)**	(19,322)	**(26,772)**	(19,322)
	10,947,909	11,554,302	**10,947,909**	11,554,302
Other receivables, deposits and prepayments	**19,070**	22,160	**19,069**	22,159
Subsidiaries and long-term investments	**-**	-	**535**	535
Property, plant and equipment	**61,253**	66,732	**61,253**	66,732
Total assets	**13,365,062**	14,460,780	**13,364,583**	14,460,312
Acceptances, guarantees and other obligations on behalf of customers	**4,054**	3,804	**4,054**	3,804

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

For the Group and the Company, trade and other payables at 31 December 2020 includes borrowings from MAS SGD Facility amounting to $42,914,000 (31 December 2019: $Nil) secured by assignment of eligible loan agreements as collaterals under Enterprise Singapore's Enhanced Enterprise Financing Scheme, repayable after two years. There are no bank borrowings as at 31 December 2020 (31 December 2019: $Nil).

2(c). Net Asset Value

Net asset value per share ($)	**4.29**	4.28	**4.28**	4.27

2(d). There are no outstanding debt securities issuance as at 31 December 2020 (31 December 2019: $Nil) for the Group and the Company.

3. Consolidated Statement of Cash Flows

	2020	2019
	$'000	$'000
Operating activities		
Profit for the year	**63,909**	103,085
Adjustments for:		
Impact of accrual of interest income	**4,414**	200
Impact of accrual of interest expense	**(68,726)**	45,495
Allowances for doubtful debts	**8,219**	2,811
Interest expense on lease liabilities	**633**	776
Depreciation of property, plant and equipment	**7,922**	8,071
Gain on disposal of property, plant and equipment	**(1,357)**	(62)
Value of employee services received for issue of share options	**319**	277
Income tax expense	**10,810**	20,873
	26,143	181,526
Changes in working capital:		
Loans, advances and receivables	**598,174**	(1,279,450)
Other receivables, deposits and prepayments	**(1,324)**	(1,142)
Singapore Government debt securities and MAS Bills	**126,329**	(209,437)
Deposits and balances of customers	**(1,112,690)**	969,229
Trade and other payables	**45,409**	(4,286)
Cash used in operations	**(317,959)**	(343,560)
Income taxes paid	**(14,055)**	(36,379)
Cash flows used in operating activities	**(332,014)**	(379,939)
Investing activities		
Purchase of property, plant and equipment	**(349)**	(4,775)
Proceeds from disposal of property, plant and equipment	**1,750**	71
Cash flows from/(used in) investing activities	**1,401**	(4,704)
Financing activities		
Payment for lease liabilities	**(6,370)**	(6,689)
Proceeds from exercise of share options	**62**	4,137
Proceeds from borrowings	**42,914**	-
Dividends paid	**(60,420)**	(66,954)
Cash flows used in financing activities	**(23,814)**	(69,506)
Net decrease in cash and cash equivalents	**(354,427)**	(454,149)
Cash and cash equivalents at beginning of year	**1,285,823**	1,739,972
Cash and cash equivalents at end of year	**931,396**	1,285,823

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

	31 Dec 2020	31 Dec 2019
	$'000	$'000
Cash at banks and in hand	**613,775**	947,430
Statutory deposit with the Monetary Authority of Singapore ("MAS")	**317,621**	338,393
Cash and cash equivalents	**931,396**	1,285,823

In addition to the cash and cash equivalents above, marketable Singapore Government debt securities and MAS Bills amounted to $1,405,434,000 (31 December 2019: $1,531,763,000) 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	884,440	702,994	2,307	4,755	16,544	262,658	1,873,698
Issue of shares under share option scheme	4,137						4,137
Value of employee services received for issue of share options				277			277
Value of employee services transferred for share options exercised or lapsed	474			(1,753)		1,279	-
Final dividend of 10 cents per share (tax exempt one-tier) paid in respect of year 2018						(44,630)	(44,630)
Interim dividend of 5 cents per share (tax exempt one-tier) paid in respect of year 2019						(22,324)	(22,324)
Adjustment under MAS 811					(982)	982	-
Comprehensive income for the year						103,085	103,085
Transfer to Statutory reserve		25,772				(25,772)	-
At 31 December 2019	889,051	728,766	2,307	3,279	15,562	275,278	1,914,243
At 1 January 2020	**889,051**	**728,766**	**2,307**	**3,279**	**15,562**	**275,278**	**1,914,243**
Issue of shares under share option scheme	**62**						**62**
Value of employee services received for issue of share options				**319**			**319**
Value of employee services transferred for share options exercised or lapsed	**4**			**(1,201)**		**1,197**	**-**
Final dividend of 10 cents per share (tax exempt one-tier) paid in respect of year 2019						**(44,756)**	**(44,756)**
Interim dividend of 3.5 cents per share (tax exempt one-tier) paid in respect of year 2020						**(15,664)**	**(15,664)**
Adjustment under MAS 811					**(8,069)**	**8,069**	**-**
Comprehensive income for the year						**63,909**	**63,909**
Transfer to Statutory reserve		**15,978**				**(15,978)**	**-**
At 31 December 2020	**889,117**	**744,744**	**2,307**	**2,397**	**7,493**	**272,055**	**1,918,113**

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	884,440	702,994	2,307	4,755	16,544	259,367	1,870,407
Issue of shares under share option scheme	4,137						4,137
Value of employee services received for issue of share options				277			277
Value of employee services transferred for share options exercised or lapsed	474			(1,753)		1,279	-
Final dividend of 10 cents per share (tax exempt one-tier) paid in respect of year 2018						(44,630)	(44,630)
Interim dividend of 5 cents per share (tax exempt one-tier) paid in respect of year 2019						(22,324)	(22,324)
Adjustment under MAS 811					(982)	982	-
Comprehensive income for the year						102,997	102,997
Transfer to Statutory reserve		25,772				(25,772)	-
At 31 December 2019	889,051	728,766	2,307	3,279	15,562	271,899	1,910,864
At 1 January 2020	**889,051**	**728,766**	**2,307**	**3,279**	**15,562**	**271,899**	**1,910,864**
Issue of shares under share option scheme	**62**						**62**
Value of employee services received for issue of share options				**319**			**319**
Value of employee services transferred for share options exercised or lapsed	**4**			**(1,201)**		**1,197**	**-**
Final dividend of 10 cents per share (tax exempt one-tier) paid in respect of year 2019						**(44,756)**	**(44,756)**
Interim dividend of 3.5 cents per share (tax exempt one-tier) paid in respect of year 2020						**(15,664)**	**(15,664)**
Adjustment under MAS 811					**(8,069)**	**8,069**	**-**
Comprehensive income for the year						**63,845**	**63,845**
Transfer to Statutory reserve		**15,978**				**(15,978)**	**-**
At 31 December 2020	**889,117**	**744,744**	**2,307**	**2,397**	**7,493**	**268,612**	**1,914,670**

5. Review of the Performance of the Group

The Group reported profit from operations before allowances of $82.4 million for the year ended 31 December 2020, declined by 34.3% from $125.5 million in the previous year on the back of a Covid-19 pandemic-induced economic recession. The net attributable profit was $63.9 million in 2020, 38.0% down from $103.1 million a year ago. In line with industry practice, higher general loan loss allowances was set aside against inherent credit risk amid uncertainties arising from Covid-19 pandemic.

The net interest income for 2020 fell 27.2% to $146.8 million, driven by compressed net interest margin as the dip in interest yields outweighed the saving in lower cost of fund amid falling interest rate. In the light of sustained low interest rate environment, we will moderate our loan growth and pare down our deposit base to manage the downside pressure on interest margin and stay vigilant in managing the credit portfolio. We will also calibrate on our lending and funding strategies to enhance our earnings.

Fee and commission income decreased by 25.4% to $10.2 million with lower fee income earned from both lending and non-lending activities in 2020.

Total operating expenses including the budget relief measures from Singapore Government totalling $76.3 million declined by 15.4% from a year ago. Excluding the offset from Jobs Support Scheme, Covid-19 support grant and rebates totalling $10.4 million, total operating expenses reduced by 4.0% as staff compensation and discretionary expenses were tightly managed.

Arising from the conservative build-up of general allowances for non credit-impaired loans to recognise the possible downside risks inherent in the current economic conditions and higher credit loss allowances for credit-impaired loans, net allowances for loans and other financial assets for 2020 rose to $7.7 million (2019: $1.6 million). Our exposure to riskier sectors significantly impacted by Covid-19 remain low and our overall portfolios are largely collateralised. The Group continues to monitor its asset quality and maintains adequate loss allowances, taking into account the impact of on-going Covid-19 pandemic.

Net loan assets stood at $10,948 million as at 31 December 2020, down 5.2% or $606 million over the previous year's base of $11,554 million as at 31 December 2019, on the backdrop of slower business momentum triggered by the global lockdown and restriction.

In tandem with the lower loan balances, deposits and balances of customers were pared down to $11,194 million as at 31 December 2020, decreased 9.0% or $1,113 million over the previous year's base of $12,307 million as at 31 December 2019. 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 $2,337 million as at 31 December 2020 (31 December 2019: $2,818 million). The Group continues to maintain strong levels of capital, funding and liquidity and remains well-positioned to ride through current market uncertainties.

Group shareholders' funds as at 31 December 2020 totalled $1,918 million (31 December 2019: $1,914 million) with net asset value at $4.29 per share (31 December 2019: $4.28 per share).

There has been no forecast or prospect statement previously disclosed to shareholders in respect of the year ended 31 December 2020.

6. Commentary on Significant Trends and Competitive Conditions in the Industry

The Ministry of Trade and Industry reported that the Singapore economy contracted by 2.4% on a year-on-year basis in the fourth quarter of 2020, an improvement from the 5.8% contraction recorded in the third quarter. On a quarter-on-quarter seasonally-adjusted basis, the economy grew by 3.8%, following the 9.0% expansion in the previous quarter. For the whole of 2020, the Singapore economy contracted by 5.4%, a reversal from the 1.3% growth recorded in 2019.

The manufacturing sector expanded by 10.3% year-on-year in the fourth quarter, extending the 11.0% growth in the preceding quarter. Output expansions in the electronics, biomedical manufacturing and precision engineering clusters outweighed output declines in transport and general engineering clusters. Quarter-to-quarter, the manufacturing sector shrank by 1.4%, pulling back from the 9.7% expansion in the third quarter.

The construction sector shrank by 27.4% on a year-on-year basis in the fourth quarter, improving from the 52.5% decline in the previous quarter. Resumption of more construction activities in the fourth quarter was the main reason for the improved performance. On a quarter-on-quarter seasonally-adjusted basis, the sector grew by 55.6%, extending the 37.5% growth in the preceding quarter.

Year-on-year, the services producing industries contracted by 4.7% in the fourth quarter, improving from 8.3% contraction in the preceding quarter. The industries were primarily weighed down by sluggish global demand from trade related segments, as well as global travel restrictions and weak travel demand from the air transport segment, due to ongoing Covid-19 pandemic. Within the industries, finance and insurance, information and communications and wholesale trade sectors posted positive growth of 4.9%, 2.6% and 1.8% respectively. The accommodation segment continued to shrink as a result of weak tourism demand, while the food, entertainment and other services segments were weighed down by safe management measures. Quarter-to-quarter, the industries expanded by 4.1%, softening from the 5.5% growth in the third quarter.

Going into 2021, economists expect the domestic manufacturing sector to remain a key driver of Singapore's growth. The services sector, which has borne the brunt of the pandemic, is expected to show a gradual improvement although the pace of recovery is expected to be uneven across various service segments. The economy will continue to be on the mend, but growth momentum will remain tepid and uneven. On the upside, Singapore is gradually emerging from the transition to Phase 3 re-opening since end-2020, with Covid vaccinations underway and expectations of fiscal stimulus remain intact to support recovery. Taking into account the developments in the domestic and global economic environment, the GDP growth forecast for 2021 is maintained at 4.0 to 6.0%.

In the first Federal Open Market Committee meeting of the year 2021, the Federal Reserve has left key policy rate unchanged and maintained its pledge to keep the target range for the federal funds rate at 0.0 - 0.25% and reiterated its commitment to provide massive support for the US economy through the use of policy tools. As SGD interest rate tends to track USD Federal Fund rate closely, the market expects the SGD interest rates to be anchored around the current level through 2021.

COVID-19 pandemic has triggered tremendous human and economic disruptions across Singapore and around the world. While the pace of the local recovery in economic activity and employment has moderated in recent months, with weakness concentrated in the sectors most adversely affected by the pandemic, the outlook of the economy will depend significantly on the course of the virus and the global progression on vaccinations to achieve herd immunity.

Despite challenging business environment, Hong Leong Finance's (HLF) strong Capital has made it again to the TOP 100 ASEAN Banks 2020 and we are ranked as Top 100 Singaporean Brand 2020 for three consecutive years. HLF continues to be recognised as the ASEAN Finance Company of the Year and has once again secured its position on the prestigious The Banker's Top 1000 World Banks Ranking 2020, rising by 27 spots from last year to its current 640th placing in the 2020 ranking.

Amid virus concerns and acceleration of digital drive locally, HLF continues to leverage on digital transformation to enhance customer engagement, sustain business growth and achieve higher operational efficiencies. To ramp up our digitalisation efforts, we have rolled out an online platform for vehicle hire-purchase application in collaboration with our distribution partners. We have launched alternate digital channels including PayNow and online instruction platform to enable contactless transactions. We have invested in system technology to strengthen our compliance risk management. Moving forward, we are exploring new opportunities with fintech companies to identify and develop innovative digital and value-added solutions to support customer needs.

While local liquidity is expected to remain ample with modest increase in inflation, the outlook for business environment remains challenging in 2021. HLF is supportive of Singapore Government's debts relief program and remains committed to supporting local small and medium enterprises ("SMEs") businesses and retail customers in their cash flow and funding needs during this difficult time, in line with our mission to build lifelong relationship with our customers. We also believe in engaging our staff to support their well-being. We will continue to stay vigilant and proactive in our risk management as we transit to a new norm.

7. Dividends

A Final Dividend of 5.5 cents per share (tax exempt one-tier) is recommended by the directors for approval by shareholders in respect of the year ended 31 December 2020. Subject to shareholders' approval at the Annual General Meeting to be held on 29 April 2021, the dividend will be payable on 25 May 2021.

Latest Year

(i)	Name of Dividend	Final (Proposed)
	Dividend Type	Cash
	Dividend Rate	5.5 cents per share
	Total Dividend	$24,615,000*
	Tax Rate	Tax exempt one-tier
(ii)	Name of Dividend	Interim (Paid on 9 September 2020)
	Dividend Type	Cash
	Dividend Rate	3.5 cents per share
	Total Dividend	$15,664,000
	Tax Rate	Tax exempt one-tier

Previous Year

(i)	Name of Dividend	Final (Paid on 16 July 2020)
	Dividend Type	Cash
	Dividend Rate	10 cents per share
	Total Dividend	$44,756,000
	Tax Rate	Tax exempt one-tier
(ii)	Name of Dividend	Interim (Paid on 11 September 2019)
	Dividend Type	Cash
	Dividend Rate	5 cents per share
	Total Dividend	$22,324,000
	Tax Rate	Tax exempt one-tier

* The amount of dividend is computed on the shares in issue as at 31 December 2020. 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 31 December 2020 and the last day for exercise of options to determine shareholders' entitlement to the dividend.

The Group adopted dividend restriction as recommended by Monetary Authority of Singapore ("MAS") and will continue to maintain strong capital and liquidity positions to support lending activities.

8. Shares Issued and Outstanding Convertibles

Since the end of the previous half year,

(i) pursuant to the Hong Leong Finance Share Option Scheme 2001 ("Share Option Scheme"), market price options to subscribe for 3,005,500 shares at an exercise price of $2.31 per share were granted on 23 September 2020;

(ii) options to 193,500 shares under the Share Option Scheme to subscribe for shares granted on 23 September 2020 were not accepted;

(iii) options to 220,200 shares under the Share Option Scheme lapsed upon cessation of employment of participants; and

(iv) options to 2,301,600 shares granted prior to 23 September 2020 under the Share Option Scheme lapsed upon expiry of options.

As at the end of the year, unissued shares of the Company under options amounted to 15,235,950 shares (31 December 2019: 15,075,650 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 31 December 2020 and 31 December 2019. There were also no shares held as subsidiary holdings as at 31 December 2020 and 31 December 2019.

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 2020 does not have a material impact on the financial statements of the Group and the Company for the year ended 31 December 2020.

Other than the above, the accounting policies and methods of computation adopted in the audited financial statements for the year ended 31 December 2020 are consistent with those applied in the audited financial statements for the year ended 31 December 2019.

10. Closure of Books

Notice is hereby given that, subject to shareholders’ approval of the payment of a final dividend of 5.5 cents per share in respect of the year ended 31 December 2020 at the Annual General Meeting to be held on 29 April 2021, the Share Transfer Books and Register of Members of the Company will be closed from 5.00 pm on 10 May 2021 up to (and including) 11 May 2021. 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 10 May 2021 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	80	Cousin of Mr Kwek Leng Peck and Mr Kwek Leng Kee; and uncle of Mr Kevin Hangchi.	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 25th day of February 2021

KPMG LLP
16 Raffles Quay #22-00
Hong Leong Building
Singapore 048581

Telephone +65 6213 3388
Fax +65 6225 0984
Internet www.kpmg.com.sg

Independent auditors' report

Members of the Company
Hong Leong Finance Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Hong Leong Finance Limited (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2020, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 14 to 70.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards (International) ("SFRS(I)s") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2020 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the year ended on that date.

Basis for opinion

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). Our responsibilities under those standards are further described in the *"Auditors' responsibilities for the audit of the financial statements"* section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of loans, advances and receivables

(Refer to Note 11 to the financial statements)

The key audit matter

The Group's loans, advances and receivables to customers represent 82% of its total assets.

SFRS(I) 9 "Financial Instruments" requires the Group to determine the probability weighted estimate of the expected credit loss ("ECL") of loans, advances and receivables to customers.

The Group has developed models to calculate the ECL allowances for non credit-impaired exposures. Significant judgement and assumptions are required in the development of the model parameters, including the probability of default, loss given default and exposure at default.

The ECL allowances for credit-impaired exposures are highly subjective due to the judgement applied by management in estimating the future cash flows, including the realisable value of collaterals, if relevant, and consequently the ECL.

Given the magnitude of loans, advances and receivables and coupled with the estimation uncertainty over ECL allowances, the impairment of loans, advances and receivables is considered a key audit risk.

In 2020, the resulting economic uncertainty from the Covid-19 pandemic has added further complexity to the level of judgement required by the Group in calculating the ECL.

How the matter was addressed in our audit

We tested the design, implementation and operating effectiveness of the key controls in place over the credit approval and review process. We performed sample checks of credit reviews on loans and advances to critically assess the appropriateness of the credit grading and any objective evidence of impairment. We also considered the modifications made by management to the ECL model to account for the effects of Covid-19.

In respect of non credit-impaired exposures, we assessed the appropriateness of the model methodology and parameters for compliance with SFRS(I) 9 requirements. We tested the accuracy and integrity of the inputs used to compute the ECL allowances.

For a sample of non credit-impaired exposures, we re-calculated the ECL allowance using the modelled attributes to test the mathematical accuracy of the calculations produced by the ECL model.

In respect of credit-impaired exposures, we assessed the controls over the determination of ECL allowances for credit-impaired exposures. For a sample of credit-impaired exposures, we critically assessed the expected recoveries from realisable values of collaterals and other possible sources of repayment. This includes checking the valuation of collaterals, where possible, to externally derived evidence, such as real estate valuations.

We found that the methodology and management's assumptions used in the ECL model were appropriate and the ECL allowances computation was consistent with the ECL model.

Other information

Management is responsible for the other information contained in the annual report. Other information is defined as all information in the annual report other than the financial statements and our auditors' report thereon.

We have obtained all other information prior to the date of this auditors' report except for the analysis of shareholdings ("the Report") which is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate actions in accordance with SSAs.

Responsibilities of management and directors 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 Act and SFRS(I)s, 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 financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal controls relevant to the audit 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 Group's internal controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless the law or regulations preclude public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

The engagement partner on the audit resulting in this independent auditors' report is Ian Hong Cho Hor.

KPMG LLP
Public Accountants and
Chartered Accountants

Singapore

25 February 2021

Hong Leong Finance Limited
Registration No. 196100003D
Head Office: 16 Raffles Quay #01-05 Hong Leong Building Singapore 048581
Telephone 6415 9433 Facsimile 6224 6773

HONG LEONG FINANCE

Chairman's Statement

OPERATING PERFORMANCE

2020 was an unprecedented year with the global Covid-19 pandemic creating upheavals in everyone's daily life. Businesses and individuals were deeply affected as countries impose stringent controls including economy lockdown and border restrictions to curb the spread of coronavirus. Many companies' operations were disrupted and the impact was extended to staff and their families.

Making Your Well-Being Our Top Priority

At Hong Leong Finance (HLF), we put the well-being of our customers and staff as our top priority in the pandemic environment. In line with the Singapore government's efforts to promote social distancing, we temporarily closed some branches and SME Centres to enable a part of our staff force to work from home.

Our open branches observed the mandatory safe management measures. We also dedicated priority branch hours to serve the vulnerable customers, including those who are pregnant and aged.

Opening New Convenient Transaction Channels

Amidst a time of rapid change and disruption, HLF remains adaptable. We worked hard to roll out new transaction channels to continue serving our customers to meet their financial needs while encouraging them to stay at home and reduce branch visits.

We introduced online application for customers seeking for loan relief during this challenging time, accepted online instructions for deposit transactions including Fixed Deposit renewal, took in funds transfer via PayNow for deposit placement and made e-payments for funds withdrawals. These convenient contactless transaction channels have proven popular with our customers and many have become the new "normal" channels.

Staying True as a Financier

The impact of Covid-19 pandemic had caused many companies to suffer a dip in earnings and individuals to lose jobs and take pay cut. As a committed and prudent financier with robust risk management controls in place, HLF acted swiftly and responsibly by implementing loan relief schemes, such as mortgage loan moratoriums and loan period extensions, to tide our customers through the economic difficulties. We continue to provide assistance to some who needed further help to restart their loan repayments in 2021 under Extended Support Scheme.

Collateral-free loans at competitive interest rates with processing fee waived were also offered to small and medium-sized enterprises (SMEs) with viable business models and potential to grow. We ran a digital outreach campaign to create awareness of the support we provide. We believe that rendering support to SMEs and individuals to weather the pandemic shock is crucial to our core business.

Embracing Resilience through Collaboration

To address the increasingly complex challenges and opportunities that constitute a new "climate for business", our resilience planning involved multiple parties with varying interests, issues and goals.

We collaborated with business, government agencies and the community to be more resilient against systemic risks. Having strong networks of partners and agreed action plans are crucial. With the escalated growth of digital adoption partly driven by Covid-19 pandemic, together with our strategic partners like Inchcape and Porsche Financial Services Group (PFS), we launched a hassle-free car loan end-to-end digitalised secured platform that leveraged on SingPass authentication for loan application, approval and agreement delivery. Govtech's MyInfo for efficient retrieval of consented applicant's personal data and automated rules engine for expedient underwriting were tapped on. The new loan platform was well-adopted by customers and we are looking forward to on-boarding more new partnerships onto it while we continue to fortify our relationships with the existing partners like PFS, which we won Porsche Financial Services' Global Top Contributor Award for three years running.

Retaining Personal Touch in Digital Transformation

We differentiate on service with our personal touch and it is important that we retain our brand's competitive edge. While we believe the acceleration in the adoption of digital services will become a long-term shift in customer behavior, resulting in more of them turning to digital solutions and services, we are purposeful in our digital transformation about how we interact with customers in order to make the most of every interaction meaningful.

Customers value personal touch and want to be served as individuals especially when they are making important financial decisions, such as taking up their first loan for a house or factory or opening a first deposit account. They want to do it right the first time and so finding a trusted service is crucial. To this end, we believe that our staff are the ones who make the difference for us and digitalisation is an essential complementary service.

Innovating to Stay Relevant

Serving the current moment by adapting and innovating is paramount to stay relevant and ahead of the curve. Hence we keep an eye on the emerging market trends and anticipate customer needs so that we can serve them effectively.

Given the uncertainty in economic recovery, we reckon that keeping cash at hand matters more to customers than before. Many prefer to leave their aspirations, such as business expansion and asset acquisitions, unspoken. To address their concerns sustainably, we created innovative financing solutions based on the market dynamics. New flexible first-year-interest-payment-only Hire Purchase schemes for medical equipment and selected car makes were introduced. Customers were appreciative of the cash they could retain for not having to make principal repayment in the loan's first year. It is relevant schemes like these that have further boosted our base of connected customers.

In recognition of our outstanding performance, responsiveness to challenges and success in introducing meaningful and innovative initiatives to the fast-transforming financial industry, HLF was honoured ASEAN Best Finance Company Award for the seventh consecutive year by Asian Banking & Retail Banking. We are also humbled to be bestowed Top 100 Singaporean Brand Award for a third year by Brand Finance for being a strong and trustworthy brand.

Managing Risk and Compliance

While we drive towards success, continual assessment of our business and processes is vital to properly safeguard the interests of the Company and our customers and to comply with the stringent regulatory requirements.

To deal with heightened risks from contactless transactions and rising sophistication in cyberattacks, confidentiality issues, frauds and scams, we strengthened our risk management and control environment as well as our operational resilience. The scope included enhancement in non-face-to-face verifications, anti-money laundering and countering financing of terrorism transaction monitoring, enterprise-wide risk assessment and continuous staff education and awareness reinforcement of best practices and guidelines relating to data management.

We also maintained robust capital and healthy liquidity positions at all times to overcome potential stress arising from volatility, uncertainty, complexity and ambiguity attributable to changes in the operating environment such as the pandemic situation. HLF was named Top 1000 World Bank and Top 100 ASEAN Bank for three successive years by The Banker, a testament of our strong Tier 1 Capital.

OUTLOOK

2020 had been an extremely eventful and challenging year. We are cautiously optimistic that the operating environment for 2021 will improve with the containment of the pandemic both globally and domestically, mainly because of promising vaccine developments.

As we all try to respond to the pandemic, it is more apparent than ever that we are all responsible for one another. We will reach out wide and deep to build a more resilient organisation, supported by customers, partners, staff and communities, to create new value by fostering development and innovation and promoting financial inclusion.

The financial industry's operating environment is undergoing drastic changes, driven by the rapid digital transformation and the pandemic. We are paying close attention to the commercial risks and are positioned for growth when the economic rebound and consumers and business regain confidence for post-Covid-19 recovery.

APPRECIATION

I am sincerely grateful to all our valued customers, shareholders and business partners for their continued support, trust and confidence in us.

I would also like to express my appreciation and thanks to my fellow Directors for their invaluable advice and guidance during the year and to the management and staff for their commitment and efforts in 2020.

On behalf of the Board of Directors, I wish to extend once again a warm welcome to Mr Christian Gautier de Charnace, who joined the Board on 5 August 2020 as Independent Non-Executive Director. I am sure the Company will benefit from his contributions from his management and professional experience and am confident that he will provide further diversity to the core competencies of the Board and allow for fresh perspectives on the Company's strategies and business. I would also like to express our heartfelt gratitude to Mr Chng Beng Hua, Mr Cheng Shao Shiong @ Bertie Cheng, Mr Po'ad bin Shaik Abu Bakar Mattar and Mr Raymond Lim Kiang Keat for their invaluable contributions to HLF since their appointment to the Board in July 2000, April 2004, April 2009 and March 2012 respectively. They will be stepping down from the Board upon the conclusion of the Company's annual general meeting to be held in April 2021.

KWEK LENG BENG
Chairman
25 February 2021