



Securities Investors Association (Singapore)

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UEN No: S99SS0111B

GST Reg No: M90367530Y

Issuer: Hong Leong Finance Limited

Security: Hong Leong Finance Limited

Meeting details:

Date: 25 April 2019

Time: 2.30 p.m.

Venue: M Hotel Singapore, Banquet Suite, Level 10, 81 Anson Road, Singapore 079908

Company Description

Hong Leong Finance Limited provides various financial services for business enterprises and retail customers in Singapore. The company accepts savings and business current accounts, as well as fixed deposits. It also offers new and used car, home, and private housing loans, as well as share financing services; and mortgage equity services. In addition, the company provides commercial and industrial property, property development, HDB SME, SME equipment and factory, SME micro, SME working capital, and working capital term loans; internationalization finance and loan insurance schemes; equipment financing, accounts receivable financing, term loan/credit line, and supplier's invoice financing/letters of credit; and medical and dental equipment loans, and medical property loans. Further, it offers corporate advisory services comprising initial public offers, reverse takeovers, rights issues and private placements, capital restructuring, project and investment evaluation, financial modeling, and mergers and acquisitions. It operates through a network of 28 branches and 10 SME Centers. The company was incorporated in 1961 and is based in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=S41)

1. In the section titled “Operating and financial review” (pages 68 to 77 of the annual report), the company gave a comprehensive overview of the business, including its strategies, key financial ratios and a detailed analysis of its loan portfolio.

In addition, from the chairman’s statement, it can be seen that the group is focused strongly on the Small and Medium Enterprises (“SMEs”) segment, with its new marketing campaign titled “Hong Leong Finance Empowers Me” (page 7). The group also showed its innovation with its Mortgage Equity@50 product to serve retirees.

- (i) Loan/deposit ratio:** As at 31 December 2018, the load/deposit ratio slipped from 93% to 91% as the deposit base grew at a faster rate (6.4%) compare to the increase in loans (4.1%), as at 31 December 2018. **Can management help shareholders understand what is the optimal loan/deposit ratio?**
- (ii) Net interest margin:** Net interest margin has increased from 1.4% to 1.7%. **Would the group be able to maintain and/or increase the net interest margin?**
- (iii) Cost/income ratio:** With the business activities increasing at a much faster pace than expenses, the group’s cost/income ratio improved to 38.7%. In fact, the number of employees stands at just 634, an increase in headcount of 6 from the preceding year. **What are the factors that led to the increase in productivity?**
- (iv) Exposure:** As seen from the analysis of customer loans by product group (page 75), 80% of the total loan portfolio is property related loans. **Does the board consider this level of exposure to the property-sector healthy? What are the plans to increase its non-property related loans?**
- (v) Material issues:** On pages 44 to 67 of the annual report, the company has identified the 5 key material issues that are integral to the group. These include business ethics and integrity, customer privacy and data security and risk management (page 48). **Could the board elaborate further on how the company addresses these material issues in its strategy?**

2. The group is Singapore’s largest finance company with a network of 28 branches and 11 SME Centres island-wide.

- (i) Would management help shareholders understand the difference between a branch and a SME Centre?**

With the company embarking on its own digital transformation, it has also explored strategic partnerships with Financial Technology (“FinTech”) to “fill the gaps of knowledge, technology and skills required in the digital environment for some projects” (page 8). In today’s society consumers are going cashless and are faced with a myriad of e-solutions, including e-wallets, crowdfunding, peer-to-peer lending etc.

- (ii) What is the group doing to reach out to younger customers?**

(iii) Has management analysed its customer base? Is there a risk that its customer base is greying?

3. At the 59th Annual general meeting scheduled to be held on 25 April 2019, two independent directors, namely Mr Cheng Shao Shiong @ Bertie Cheng and Mr Po'ad bin Shaik Abu Bakar Mattar, are retiring in accordance with company's constitution and would be offering themselves for re-election.

The two independent directors, together with Mr Chng Beng Hua, were first appointed to the board more than nine years ago. Mr Chng, Mr Cheng and Mr Mattar were first appointed on 1 July 2000, 23 April 2004 and 24 April 2009 respectively and would have served on the board for nearly 19 years, 15 years and 10 years respectively.

In August 2018, the Monetary Authority of Singapore issued a revised Code of Corporate Governance ("2018 CG Code"). As a consequence of the revised 2018 CG Code, the Singapore Exchange has made amendments to its Listing Rules which came into effect on 1 January 2019, except for the rules on the 9-year tenure for independent directors and the requirement for independent directors to comprise one-third of the board which come into effect on 1 January 2022. Under the revised Listing Rules, the term of an independent director will be limited to nine years after which the long tenured directors will be subject to a two-tier vote by shareholders.

In fact, the other two independent directors were appointed in September 2010 and March 2012. All 5 independent directors would exceed the nine year limit when the new rules come into effect in 2022.

- (i) Has the company evaluated the impact of the 2018 CG Code and the amendments to the Listing Rules on the board?**
- (ii) Has the nominating committee reviewed the overall desired competency matrix of the board and identified any gaps in skills or competencies that could be addressed in future director appointments, especially as the group moves into new businesses such as unsecured lending?**

On page 28, the nominating committee has stated the following:

Searches for and selection of candidates to be considered for appointment as Directors are facilitated through recommendations from the Directors and various other sources. Where necessary, the [Nominating committee] NC may consider the use of external search firms to find appropriate candidates.

- (iii) Has the nominating committee evaluated how it might increase the diversity and possibly the quality of its candidate pool by leveraging a professional external search firm?**
- (iv) What are the company's other near term plans to refresh the membership of the board to comply with the new 2018 Code in good time?** Reconstituting the board early to comply with the new 2018 Code would avoid undue



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disruption and help to maintain institutional knowledge and continuity in the board.

