

Affin Hwang

Absolute Return Fund III

Annual Report
30 June 2022

Out **think.** Out **perform.**



AFFIN HWANG
CAPITAL

MANAGER
Affin Hwang Asset Management Berhad
199701014290 (429786-T)

TRUSTEE
TMF Trustees Malaysia Berhad
(200301008392 [610812-W])

AFFIN HWANG ABSOLUTE RETURN FUND III

Annual Report and Audited Financial Statements For the Financial Year Ended 30 June 2022

Contents	Page
FUND INFORMATION	III
FUND PERFORMANCE DATA	IV
MANAGER'S REPORT	VI
TRUSTEE'S REPORT	XI
FINANCIAL STATEMENT	
DIRECTORY OF SALES OFFICE	

FUND INFORMATION

Fund Name	Affin Hwang Absolute Return Fund III
Fund Type	Growth
Fund Category	Mixed Asset (Wholesale)
Investment Objective	The Fund seeks to provide Unit Holders with long-term capital appreciation
Benchmark	8.0% per annum
Distribution Policy	The Fund is not expected to make distribution. However, incidental distribution may be declared whenever is appropriate.

FUND PERFORMANCE DATA

Category	As at 30 Jun 2022 (%)	As at 30 Jun 2021 (%)	As at 30 Jun 2020 (%)
Portfolio composition			
Quoted equities – local			
- Consumer discretionary	0.46	-	-
- Consumer products & services	-	-	0.56
- Industrial	4.97	-	-
- Energy	-	3.59	7.65
- Health care	-	1.92	-
- Technology	-	3.44	10.39
- Warrant	0.20	0.34	-
Total quoted equities – local	5.63	9.29	18.60
Quoted equities – foreign			
- Basic Materials	0.35	-	-
- Consumer services	-	-	17.54
- Consumer Discretionary	11.72	15.44	-
- Consumer Staples	6.58	4.60	-
- Energy	0.89	-	-
- Financial services	6.68	-	19.28
- Health care	3.44	3.79	-
- Industrial	-	4.08	-
- Real estate	9.65	12.63	-
- Technology	13.23	27.22	28.76
- Warrant	0.01	-	-
Total quoted equities – foreign	52.55	67.76	65.58
Unquoted fixed income securities – foreign	-	-	0.79
Collective investment scheme – local	9.89	-	-
Collective investment scheme – foreign	0.69	0.46	0.63
Exchange-traded fund – local	0.83	1.16	1.27
Exchange-traded fund – foreign	3.44	-	-
Cash & cash equivalent	26.97	21.33	13.13
Total	100.00	100.00	100.00
Total NAV (RM'million)	95.668	136.418	101.998
NAV per Unit (RM)	0.6761	0.8450	0.7277
Unit in Circulation (million)	141.498	161.450	140.156
Highest NAV	0.8465	0.9075	0.7621
Lowest NAV	0.6491	0.7340	0.6541
Return of the Fund (%)	-19.99	16.12	3.03
- Capital Growth (%)	-19.99	16.12	3.03
- Income Distribution (%)	Nil	Nil	Nil
Gross Distribution per Unit (sen)	Nil	Nil	Nil
Net Distribution per Unit (sen)	Nil	Nil	Nil
Total Expense Ratio (%) ¹	1.12	1.11	1.15
Portfolio Turnover Ratio (times) ²	1.38	1.32	1.20

¹The TER was higher than previous year due to a higher average NAV of the Fund for the financial year.

²The PTR of the Fund was higher than previous year as the Manager had increased trading activities for the financial year.

Basis of calculation and assumption made in calculating the returns:-

The performance figures are a comparison of the growth/decline in NAV for the stipulated period taking into account all the distribution payable (if any) during the stipulated period.

An illustration of the above would be as follow:-

Capital return	= NAV per Unit end / NAV per Unit begin – 1
Income return	= Income distribution per Unit / NAV per Unit ex-date
Total return	= (1+Capital return) x (1+Income return) – 1

MANAGER'S REPORT

Income Distribution / Unit Split

No income distribution or unit split were declared for the financial year ended 30 June 2022.

Performance Review

For the period 1 July 2021 to 30 June 2022, the Fund has registered a return of -19.99% as compared to the benchmark return of 8.00%. The Fund thus underperformed the benchmark by 27.99%. The Net Asset Value (NAV) per unit of the Fund as at 30 June 2022 was RM 0.6761 while the NAV per unit on 30 June 2021 was RM 0.8450.

Since commencement, the Fund has underperformed the benchmark by 43.77% with returns of 35.22% compared to the benchmark return of 78.99%.

Table 1: Performance of the Fund

	1 Year (1/7/21 - 30/6/22)	3 Years (1/7/19 - 30/6/22)	5 Years (1/7/17 - 30/6/22)	Since Commencement (9/12/14 - 30/6/22)
Fund	(19.99%)	(4.28%)	4.59%	35.22%
Benchmark	8.00%	26.00%	46.96%	78.99%
Outperformance	(27.99%)	(30.28%)	(42.37%)	(43.77%)

Table 2: Average Total Return

	1 Year (1/7/21 - 30/6/22)	3 Years (1/7/19 - 30/6/22)	5 Years (1/7/17 - 30/6/22)	Since Commencement (9/12/14 - 30/6/22)
Fund	(19.99%)	(1.44%)	0.90%	4.07%
Benchmark	8.00%	8.00%	8.00%	8.00%
Outperformance	(27.99%)	(9.44%)	(7.10%)	(3.93%)

Table 3: Annual Total Return

	FYE 2022 (1/7/21 - 30/6/22)	FYE 2021 (1/7/20 - 30/6/21)	FYE 2020 (1/7/19 - 30/6/20)	FYE 2019 (1/7/18 - 30/6/19)	FYE 2018 (1/7/17 - 30/6/18)
Fund	(19.99%)	16.12%	3.03%	9.52%	(0.23%)
Benchmark	8.00%	8.00%	8.02%	8.00%	8.00%
Outperformance	(27.99%)	8.12%	(4.99%)	1.52%	(8.23%)

Figure 1: Movement of the Fund versus the Benchmark since commencement.



"This information is prepared by Affin Hwang Asset Management Berhad (AFFINHWANGAM) for information purposes only. Past earnings or the fund's distribution record is not a guarantee or reflection of the fund's future earnings/future distributions. Investors are advised that unit prices, distributions payable and investment returns may go down as well as up."
 Benchmark: 8% per annum

Past performance is not necessarily indicative of future performance and that Unit prices and investment returns may go down, as well as up.

Asset Allocation

For a snapshot of the Fund's asset mix during the period under review, please refer to Fund Performance Data.

As at 30 June 2022, the asset allocation of the Fund stood at 58.18% in equities, 10.58% in collective investment schemes, 4.27% in exchanged-traded fund and 26.97% in cash and cash equivalent.

During the period under review, the Fund's exposure in domestic equities were decreased to 5.63% as with foreign equities exposure which decreased to 52.55% from the previous year's 67.76%. The cash was increased to 26.97%.

Strategies Employed

With the extreme volatility in markets, we raised our cash holdings and went into a defensive stance in our allocation. We continue to keep close monitor on market development amidst the rare double whammy of global pandemic and political uncertainty.

Market Review

Uncertainty has been an ongoing theme in economies and markets. At the start of the year, investment markets started to take seriously the potential implications of a change in monetary policy direction as inflationary pressures showed little signs of abating. Market volatility then spiked further after US Federal Reserve (Fed) Chairmen Powell's testimony suggested that asset price deflation would not be a reason to ease off rate normalisation. The 75 basis points (bps) rate hike in June by the Fed was a clear indication that

Central Bank priorities have shifted to addressing inflationary pressures. Whilst some factors driving inflation could be temporary as a result of supply chain issues or the Ukraine conflict, there is also a recognition that the period of loose monetary policy to stimulate the economy during the pandemic has created a foundation for higher inflation.

Although global equities started 2022 on a strong note due to policy easing, equity markets saw notable retracement, potentially heading towards a bear market by the second half of the year. With decreasing optimism over the growth outlook, more defensive business models are being valued, as both Healthcare and Consumer Staples outperformed during both June and the second quarter of 2022. However, the global equity markets in general saw a selloff in June with the Morgan Stanley Capital International All Country World Index (MSCI AC World) declining 8.6% in June.

Real Gross Domestic Product (GDP) growth for US in the first quarter was weaker than expected, falling 1.4% on an annualized basis. The weakness can be largely attributed to a decline in the real trade deficit, lower government spending and a decrease in fiscal stimulus that was initiated to improve spending during the pandemic. Economic data showed sign of weakening while inflationary pressures continued to prompt the Federal Reserve into a more aggressive stance on interest rate hikes. However, domestic demand continues to be resilient, with personal consumption expenditures up 2.7% on an annualised basis.

In the Eurozone, equities continue to decline in the second quarter as the conflict between Ukraine and Russia persist, further placing upward pressure on inflation – annual eurozone inflation reached 8.6% in June, an increase from 8.1% in May. The sectors that performed best included energy due to continued strong demand and communication services given their defensive profile. Information technology, consumer discretionary and real estate fared weaker as these sectors tend to be affected by supply chain disruptions and concerns over consumer confidence the most.

China went through a sharp slowdown in April and May this year due to strict lockdown in major cities in the country. However, as Covid-19 restrictions relaxed, economic data reflected a positive picture due to economic stimulus from tax and government fee reductions in addition to increasing local government bond issuance with the aim to fund spending. Given the low valuation, Chinese equities was only one of the few markets ending the month of June on a positive return, with the CSI300 up 9.6% in the month and outperforming the Standard & Poor's 500 (S&P 500) by 10 percentage points. The Chinese Yuan also experienced some sharp depreciation during the first quarter of 2022 as the 2-year US Treasury yield rose above its Chinese equivalent. It has however recovered slightly as we head into the second half of the year.

Asia equities registered a negative return in the second quarter. Investors were increasingly downbeat as rising global inflation and supply chain issues could tip the economy into a recession. Expectations of higher interest rates and the still ongoing conflict between Russia and Ukraine also weakened investor sentiment. Taiwan performed worst in terms of index market as major electronics manufacturers and chip slumped due to concerns that rising inflation and soaring energy prices will continue to weaken investor sentiment toward the market.

Bond yields continued to rise in June 2022 as central bank hawkishness increased, resulting in further negative returns in an environment of continued high inflation and expectations of significant interest rate hikes. US consumer price inflation accelerated to 9.1% year on year in June. Corporate bonds garnered negative total returns and underperformed government bonds in general.

Over the first half of the year, we saw energy prices continue to outperform the broader market. However, investors have become increasingly concerned over the impact rising commodity prices will have on consumer spending and economic activity in general. The concerns were warranted as the Materials and Energy sector experienced notable corrections, though Energy remained the best performing sector over the second quarter.

On the domestic front, the KLCI fell by 8.02% in June, its sharpest monthly decline since the start of the pandemic in March 2020. The decline can be attributed to pessimistic global market sentiment over concerns of inflation and tightening monetary policies potentially coaxing the economy into a recession. In terms of trade, Malaysia continued to see a strong performance through June 2022 with a value of RM270.4 billion, a 43.4% growth from a year ago. Exports expanded 38.8% while imports grew 49.3%.

Investment Outlook

2022 is set to be a year of transition for markets as investors continue to contend with normalisation of growth rates and monetary policy tightening. Both equities and bonds are down year-to-date as uncertain policy outlooks, an energy shock and weak growth outlook in China continue to stir markets. With the most impactful effects of the pandemic likely behind us, peak policy support and with its peak GDP growth during the pandemic era also likely realized in 2021. We expect to see a lot of crosswinds and periods of transition especially with regards to policy.

The Russia-Ukraine tension is also weighing on sentiments. With continued disruptions to supply chains, the conflict is contributing to inflationary pressures and it is no surprise that commodities are on track to outperform equities for the second consecutive year. However, history suggest that market impact from geopolitical events tend to be short. We expect markets to shift the focus back to tighter monetary conditions and slowing growth moving forward.

The inversion of the US yield curve and whether it is an accurate predictor of a recession has been widely discussed as of late. Whilst a recession is not inevitable in our view, we are increasingly of the opinion that economic growth will likely slow materially in the coming months as consumers adjust to rapidly rising costs. Although the default response to decelerating growth in recent years by central banks is to increase liquidity, this is much less likely this time as battling inflation is seen as a more pressing matter.

Back home, we believe that it will be a stock picker's market for local investors as Bursa languishes behind other regional peers. With foreign shareholding at an all-time low, much of the exuberance have faded especially on the back of a strong US dollar environment which makes emerging markets like Malaysia unattractive. Though, we view that domestic market will not be susceptible to sudden foreign outflows and that the direction of the market will be influenced more by local players that have grown massively in size and are looking for opportunities to deploy.

Against a volatile backdrop, we are cautiously positioned for 2022. On inflection points, we see retreating inflation and an easing of Russia-Ukraine tension as potential turnarounds for the market to improve.

State of Affairs of the Fund

There is neither any significant change to the state affairs of the Fund nor any circumstances that materially affect any interests of the unit holders during the period under review.

Soft Commissions received from Brokers

As per the requirements of the Securities Commission's Guidelines On Unlisted Capital Market Products Under The Lodge And Launch Framework and Guidelines on Compliance Function for Fund Management Companies, soft commissions received from brokers/dealers may be retained by the management company only if the :-

- (i) goods and services provided are of demonstrable benefit to Unit holders of the Fund; and
- (ii) goods and services are in the form of research and advisory services that assists in the decision making process.

During the financial period under review, the Fund has received soft commissions from brokers/dealers who have also executed trades for other funds managed by Affin Hwang Asset Management. The soft commissions were utilised for goods and services in the form of research materials, data and quotation services, investment-related publications, market data feed, industry benchmarking agencies and investment-related publications to assist the Manager in the investment decision-making process. The soft commission received were for the benefit of the fund and there were no churning of trades.

Cross Trade

No cross trade transactions have been carried out during the reported period.

Securities Financing Transactions

The Fund has not undertaken any securities lending or repurchase transactions during the financial year under review.

Changes Made To the Fund's Information Memorandum

There were no changes made to the Fund's information memorandum during the financial year under review.

TRUSTEE'S REPORT

TO THE UNIT HOLDERS OF AFFIN HWANG ABSOLUTE RETURN FUND III ("Fund")

We have acted as Trustee of the Fund for the financial year ended 30 June 2022 and we hereby confirm to the best of our knowledge, after having made all reasonable enquiries, Affin Hwang Asset Management Berhad has operated and managed the Fund during the year covered by these financial statements in accordance with the following:

1. Limitations imposed on the investment powers of the Management Company under the Deed, securities laws and the Guidelines Unlisted Capital Market Products under the Lodge and Launch Framework;
2. Valuation and pricing is carried out in accordance with the Deed; and
3. Any creation and cancellation of units are carried out in accordance with the Deed and any regulatory requirement

For TMF Trustees Malaysia Berhad
(Company No.: (200301008392 [610812-W])

Norhayati Binti Azit
Director – Fund Services

Kuala Lumpur
Date: 16 August 2022

AFFIN HWANG ABSOLUTE RETURN FUND III

FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

AFFIN HWANG ABSOLUTE RETURN FUND III

FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

CONTENTS	PAGE(S)
STATEMENT OF COMPREHENSIVE INCOME	1 - 2
STATEMENT OF FINANCIAL POSITION	3
STATEMENT OF CHANGES IN EQUITY	4
STATEMENT OF CASH FLOWS	5
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	6 - 13
NOTES TO THE FINANCIAL STATEMENTS	14 - 47
STATEMENT BY THE MANAGER	48
INDEPENDENT AUDITORS' REPORT	49 – 52

AFFIN HWANG ABSOLUTE RETURN FUND III

STATEMENT OF COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

	<u>Note</u>	<u>2022</u> RM	<u>2021</u> RM
INVESTMENT (LOSS)/INCOME			
Dividend income		1,404,434	1,797,339
Interest income from financial assets at amortised cost		21,423	87,430
Interest income from financial assets at fair value through profit or loss		-	12,222
Net gain/(loss) on foreign currency exchange		770,141	(832,263)
Net gain on futures contracts at fair value through profit or loss		779,510	-
Net (loss)/gain on financial assets at fair value through profit or loss	9	(26,549,039)	21,231,197
Other income		-	155,385
		<u>(23,573,531)</u>	<u>22,451,310</u>
EXPENSES			
Management fee	4	(1,116,961)	(1,280,028)
Trustee fee	5	(61,449)	(70,438)
Performance fee	6	-	(2,609,784)
Fund accounting fee	7	(12,000)	(12,000)
Auditors' remuneration		(9,000)	(9,000)
Tax agent's fee		(7,885)	(6,543)
Transaction costs		(699,743)	(840,042)
Other expenses		(148,056)	(198,402)
		<u>(2,055,094)</u>	<u>(5,026,237)</u>
NET (LOSS)/PROFIT BEFORE TAXATION		(25,628,625)	17,425,073
Taxation	8	(29,644)	(6,587)
NET (LOSS)/PROFIT AFTER TAXATION AND TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE FINANCIAL YEAR		<u>(25,658,269)</u>	<u>17,418,486</u>

AFFIN HWANG ABSOLUTE RETURN FUND III

STATEMENT OF COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022 (CONTINUED)

	<u>Note</u>	<u>2022</u> RM	<u>2021</u> RM
Net (loss)/profit after taxation is made up of the following:			
Realised amount		(14,251,397)	21,788,412
Unrealised amount		(11,406,872)	(4,369,926)
		<u>(25,658,269)</u>	<u>17,418,486</u>

The accompanying summary of significant accounting policies and notes to the financial statements form an integral part of these financial statements.

AFFIN HWANG ABSOLUTE RETURN FUND III

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2022

	<u>Note</u>	<u>2022</u> RM	<u>2021</u> RM
ASSETS			
Cash and cash equivalents	10	24,127,342	31,726,694
Margin accounts	11	2,051,982	-
Amount due from Manager			
- management fee rebate receivable		8,557	473
Dividends receivable		28,728	139,098
Financial assets at fair value through profit or loss	9	69,855,929	107,311,079
TOTAL ASSETS		<u>96,072,538</u>	<u>139,177,344</u>
LIABILITIES			
Amount due to Manager			
- management fee		79,193	112,148
- cancellation of units		291,901	-
Amount due to Trustee		4,355	6,168
Performance fee payable		-	2,609,784
Auditors' remuneration		9,000	9,000
Tax agent's fee		4,516	4,516
Tax payable		3,563	6,587
Other payables and accruals		12,384	11,465
TOTAL LIABILITIES		<u>404,912</u>	<u>2,759,668</u>
NET ASSET VALUE OF THE FUND		<u>95,667,626</u>	<u>136,417,676</u>
EQUITY			
Unitholders' capital		81,610,793	96,702,574
Retained earnings		14,056,833	39,715,102
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		<u>95,667,626</u>	<u>136,417,676</u>
NUMBER OF UNITS IN CIRCULATION	12	<u>141,498,000</u>	<u>161,450,000</u>
NET ASSET VALUE PER UNIT (RM)		<u>0.6761</u>	<u>0.8450</u>

The accompanying summary of significant accounting policies and notes to the financial statements form an integral part of these financial statements.

AFFIN HWANG ABSOLUTE RETURN FUND III

STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

	Unitholders' <u>capital</u> RM	Retained <u>earnings</u> RM	<u>Total</u> RM
Balance as at 1 July 2021	96,702,574	39,715,102	136,417,676
Total comprehensive loss for the financial year	-	(25,658,269)	(25,658,269)
Movement in unitholders' capital:			
Creation of units arising from applications	670,208	-	670,208
Cancellation of units	(15,761,989)	-	(15,761,989)
Balance as at 30 June 2022	<u>81,610,793</u>	<u>14,056,833</u>	<u>95,667,626</u>
Balance as at 1 July 2020	79,701,483	22,296,616	101,998,099
Total comprehensive income for the financial year	-	17,418,486	17,418,486
Movement in unitholders' capital:			
Creation of units arising from applications	30,807,187	-	30,807,187
Cancellation of units	(13,806,096)	-	(13,806,096)
Balance as at 30 June 2021	<u>96,702,574</u>	<u>39,715,102</u>	<u>136,417,676</u>

The accompanying summary of significant accounting policies and notes to the financial statements form an integral part of these financial statements.

AFFIN HWANG ABSOLUTE RETURN FUND III

STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

	<u>Note</u>	<u>2022</u> RM	<u>2021</u> RM
CASH FLOWS FROM OPERATING ACTIVITIES			
Proceeds from sale of investments		152,583,590	182,363,523
Purchase of investments		(142,478,659)	(180,700,018)
Payout to margin accounts		(2,051,982)	-
Dividends received		1,414,291	1,528,830
Interest received		21,423	113,360
Other income received		-	155,385
Management fee rebate received		101,436	18,071
Management fee paid		(1,158,000)	(1,249,268)
Trustee fee paid		(63,262)	(68,746)
Fund accounting fee paid		(12,000)	(12,000)
Performance fee paid		(2,609,784)	-
Payment for other fees and expenses		(63,508)	(61,778)
Realised gain on futures contracts		779,510	-
Net realised loss on foreign currency exchange		(52,907)	(831,870)
Tax paid		(32,668)	-
		<hr/>	<hr/>
Net cash flows generated from operating activities		6,377,480	1,255,489
		<hr/>	<hr/>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from creation of units		670,208	30,807,187
Payments for cancellation of units		(15,470,088)	(13,816,224)
		<hr/>	<hr/>
Net cash flows (used in)/generated from financing activities		(14,799,880)	16,990,963
		<hr/>	<hr/>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(8,422,400)	18,246,452
EFFECTS OF FOREIGN CURRENCY EXCHANGE			
		823,048	(393)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR			
		31,726,694	13,480,635
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	10	24,127,342	31,726,694
		<hr/> <hr/>	<hr/> <hr/>

The accompanying summary of significant accounting policies and notes to the financial statements form an integral part of these financial statements.

AFFIN HWANG ABSOLUTE RETURN FUND III

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

The following accounting policies have been used in dealing with items which are considered material in relation to the financial statements.

A BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements have been prepared under the historical cost convention, except as disclosed in the summary of significant accounting policies and comply with Malaysian Financial Reporting Standards (“MFRS”) and International Financial Reporting Standards (“IFRS”).

The preparation of financial statements in conformity with MFRS and IFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reported financial year. It also requires the Manager to exercise their judgment in the process of applying the Fund’s accounting policies. Although these estimates and judgment are based on the Manager’s best knowledge of current events and actions, actual results may differ.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note K.

(a) Standards, amendments to published standards and interpretations that are effective:

- Amendments to MFRS 9, MFRS 139, MFRS 7, MFRS 4 and MFRS 16 ‘Interest Rate Benchmark (IBOR) Reform – Phase 2’ (effective 1 January 2021) provide practical expedient allowing Fund to update the effective interest rate to account for any required changes in contractual cash flows that is a direct consequence of IBOR reform. This results in no immediate gain or loss recognised in profit or loss.

The amendments require entities to update the hedge documentation to reflect the changes required by the IBOR replacement. The amendments also provide reliefs that enable and require entities to continue hedge accounting in circumstances when changes in hedged items and hedging instruments are solely due to IBOR reform.

The adoption of the above standards, amendments to standards or interpretations did not have a material effect on the financial statements of the Fund.

(b) Standards and amendments that have been issued but not yet effective:

- Amendments to MFRS 3 ‘Reference to Conceptual Framework’ (effective 1 January 2022) replace the reference to Framework for Preparation and Presentation of Financial Statements with 2018 Conceptual Framework.
- Annual Improvements to MFRSs 2018 – 2020 Cycle (effective for annual periods beginning on or after 1 January 2022).
- Amendments to MFRS 137 ‘onerous contracts—cost of fulfilling a contract’ (effective 1 January 2022) clarify that direct costs of fulfilling a contract include both the incremental cost of fulfilling the contract as well as an allocation of other costs directly related to fulfilling contracts.

AFFIN HWANG ABSOLUTE RETURN FUND III

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022 (CONTINUED)

A BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

(b) Standards and amendments that have been issued but not yet effective: (continued)

- Amendments to MFRS 101 'Classification of liabilities as current or non-current (effective 1 January 2023) clarify that a liability is classified as non-current if an entity has a substantive right at the end of the reporting period to defer settlement for at least 12 months after the reporting period. A liability is classified as current if a condition is breached at or before the reporting date and a waiver is obtained after the reporting date.

The adoption of the above standards, amendments to standards or interpretations is not expected to have a material effect on the financial statements of the Fund.

B INCOME RECOGNITION

Dividend income

Dividend income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income as part of gross dividend income on the ex-dividend date, when the right to receive the dividend has been established.

Interest income

Interest income from short-term deposits with licensed financial institutions are recognised based on effective interest rate method on an accrual basis.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Realised gain and loss on sale of investments

For quoted equities, collective investment schemes ("CIS") and exchange-traded funds ("ETF"), realised gains and losses on sale of investments are accounted for as the difference between the net disposal proceeds and the carrying amount of investments, determined on a weighted average cost basis.

AFFIN HWANG ABSOLUTE RETURN FUND III

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022 (CONTINUED)

C TRANSACTION COSTS

Transaction costs are costs incurred to acquire financial assets or liabilities at fair value through profit or loss. They include the bid-ask spread, fees and commissions paid to agents, advisors, brokers and dealers. Transaction costs, when incurred, are immediately recognised in the statement of comprehensive income as expenses.

D TAXATION

Current tax expense is determined according to the Malaysian tax laws at the current rate based upon the taxable profits earned during the financial year.

Tax on investment income from foreign investments is based on the tax regime of the respective countries that the Fund invests in.

Withholding taxes on investment income from foreign investments are based on tax regime of the respective countries that the Fund invests in. Such withholding taxes are not “income tax” in nature and are recognised and measured based on the requirements of MFRS 137. They are presented within other expenses line in the statement of comprehensive income.

E FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the financial statements of the Fund are measured using the currency of the primary economic environment in which the Fund operates (the “functional currency”). The financial statements are presented in Ringgit Malaysia (“RM”), which is the Fund’s functional and presentation currency.

F FOREIGN CURRENCY TRANSLATION

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income, except when deferred in other comprehensive income as qualifying cash flow hedges.

G FINANCIAL ASSETS AND FINANCIAL LIABILITIES

(i) Classification

The Fund classifies its financial assets in the following measurement categories:

- those to be measured at fair value through profit or loss, and
- those to be measured at amortised cost.

AFFIN HWANG ABSOLUTE RETURN FUND III

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022 (CONTINUED)

G FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

(i) Classification (continued)

The Fund classifies its investments based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The portfolio of financial assets is managed and performance is evaluated on a fair value basis. The Fund is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions. The Fund has not taken the option to irrevocably designate any equity securities as fair value through other comprehensive income.

The contractual cash flows of the Fund's debt securities are solely payments of principal and interest ("SPPI"). However, these securities are neither held for the purpose of collecting contractual cash flows nor held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the Fund's business model's objective. Consequently, all investments and derivatives not designated as hedging instruments are measured at fair value through profit or loss.

Investments in CIS have contractual cash flows that do not represent SPPI, and therefore are classified as fair value through profit or loss.

The Fund classifies cash and cash equivalents, margin accounts, amount due from Manager and dividends receivable as financial assets at amortised cost as these financial assets are held to collect contractual cash flows that represent SPPI.

The Fund classifies amount due to Manager, amount due to Trustee, auditors' remuneration, tax agent's fee, performance fee payable and other payables and accruals as financial liabilities measured at amortised cost.

(ii) Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Fund commits to purchase or sell the asset. Investments are initially recognised at fair value. Transaction costs are expensed in the statement of comprehensive income.

Financial liabilities, within the scope of MFRS 9, are recognised in the statement of financial position when, and only when, the Fund becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Fund has transferred substantially all risks and rewards of ownership.

Financial liabilities are derecognised when it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expired.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category including the effects of foreign currency transactions are presented in the statement of comprehensive income within "net gain/(loss) on financial assets at fair value through profit and loss" in the period which they arise.

AFFIN HWANG ABSOLUTE RETURN FUND III

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022 (CONTINUED)

G FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

(ii) Recognition and measurement (continued)

The fair value of financial assets traded in active markets (such as trading securities) are based on quoted market prices at the close of trading on the financial year end date. The Fund utilises the last traded market price for financial assets where the last traded price falls within the bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager will determine the point within the bid-ask spread that is most representative of the fair value.

If a valuation based on the market price does not represent the fair value of the securities, for example during abnormal market conditions or when no market price is available, including in the event of a suspension in the quotation of the securities for a period exceeding 14 days, or such shorter period as agreed by the Trustee, then the securities are valued as determined in good faith by the Manager, based on the methods or basis approved by the Trustee after appropriate technical consultation.

Investments in CIS are valued at the last published net asset value (“NAV”) per unit at the date of the statement of financial position.

Financial assets at amortised cost and other financial liabilities are subsequently carried at amortised cost using the effective interest method.

(iii) Impairment

The Fund’s financial assets measured at amortised cost are subject to expected credit losses. The Fund measures credit risk and expected credit losses using probability of default, exposure at default and loss given default. Management considers both historical analysis and forward-looking information in determining any expected credit loss. Management considers the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on 12-month expected credit losses as any such impairment would be wholly insignificant to the Fund.

Significant increase in credit risk

A significant increase in credit risk is defined by management as any contractual payment which is more than 30 days past due.

AFFIN HWANG ABSOLUTE RETURN FUND III

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022 (CONTINUED)

G FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

(iii) Impairment (continued)

Definition of default and credit-impaired financial assets

The Fund defines a financial instrument as default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria:

Any contractual payment which is more than 90 days past due is considered credit-impaired.

Qualitative criteria:

The debtor meets unlikeliness to pay criteria, which indicates the debtor is in significant financial difficulty. The Fund considers the following instances:

- the debtor is in breach of financial covenants
- concessions have been made by the lender relating to the debtor's financial difficulty
- it is becoming probable that the debtor will enter bankruptcy or other financial reorganisation
- the debtor is insolvent

Financial instruments that are credit-impaired are assessed on individual basis.

Write-off

The Fund writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. The assessment of no reasonable expectation of recovery is based on unavailability of debtor's sources of income or assets to generate sufficient future cash flows to repay the amount.

The Fund may write off financial assets that are still subject to enforcement activity. Subsequent recoveries of amounts previously written off will result in bad debt recoveries. There are no write-offs/recoveries during the financial year.

H CASH AND CASH EQUIVALENTS

For the purpose of statement of cash flows, cash and cash equivalents comprise cash and bank balances and deposit held in highly liquid investment with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

AFFIN HWANG ABSOLUTE RETURN FUND III

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022 (CONTINUED)

I DERIVATIVE FINANCIAL INSTRUMENTS

A derivative financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity.

The Fund's derivative financial instruments comprise forward foreign currency contracts and futures. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Financial derivative positions will be "marked to market" at the close of each valuation day. Foreign exchange gains and losses on the derivative financial instrument are recognised in profit or loss when settled or at the date of the statement of financial position at which time they are included in the measurement of the derivative financial instrument. Derivative instruments that have a positive fair value and negative fair value are presented as financial assets as fair value through profit or loss and financial liabilities as fair value through profit or loss, respectively.

Futures are contractual obligations to buy or sell financial instruments on a future date at a specified price established in an organised market. The futures contracts are collateralised by cash or marketable securities.

The fair value of forward foreign currency contracts is determined using forward exchange rates at the statements of financial position, with the resulting value discounted back to present value.

The fair value of the Fund's futures is obtained from the relevant stock exchanges where the futures are listed on the financial year end date.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and the nature of the item being hedged. Derivatives that do not qualify for hedge accounting are classified as financial assets/liabilities at fair value through profit or loss.

J UNITHOLDERS' CAPITAL

The unitholders' contributions to the Fund meet the criteria to be classified as equity instruments under MFRS 132 "Financial Instruments: Presentation". Those criteria include:

- the units entitle the holder to a proportionate share of the Fund's net assets value;
- the units are the most subordinated class and class features are identical;
- there is no contractual obligations to deliver cash or another financial asset other than the obligation on the Fund to repurchase; and
- the total expected cash flows from the units over its life are based substantially on the profit or loss of the Fund.

The outstanding units are carried at the redemption amount that is payable at each financial year if a unitholder exercises the right to put the unit back to the Fund.

Units are created and cancelled at prices based on the Fund's net asset value per unit at the time of creation or cancellation. The Fund's net asset value per unit is calculated by dividing the net assets attributable to unitholders with the total number of outstanding units.

AFFIN HWANG ABSOLUTE RETURN FUND III

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022 (CONTINUED)

K CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The Fund makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. To enhance the information contents of the estimates, certain key variables that are anticipated to have material impacts to the Fund's results and financial position are tested for sensitivity to changes in the underlying parameters.

Estimates and judgments are continually evaluated by the Manager and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

However, the Manager is of the opinion that there are no accounting policies which require significant judgment to be exercised.

In undertaking any of the Fund's investment, the Manager will ensure that all assets of the Fund under management will be valued appropriately, that is at fair value and in compliance with the SC's Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework.

L REALISED AND UNREALISED PORTIONS OF PROFIT OR LOSS AFTER TAX

The analysis of realised and unrealised profit or loss after tax as presented on the statement of comprehensive income is prepared in accordance with SC's Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework.

AFFIN HWANG ABSOLUTE RETURN FUND III

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

1 INFORMATION ON THE FUND

The Wholesale Fund was constituted under the name Affin Hwang Absolute Return Fund III (the "Fund") pursuant to the execution of a Deed dated 7 November 2014, First Supplemental Deed dated 3 August 2016, and Second Supplemental Deed dated 14 June 2017 ("the Deeds") entered into between Affin Hwang Asset Management Berhad (the "Manager") and TMF Trustees Malaysia Berhad (the "Trustee").

The Fund commenced operations on 18 November 2014 and will continue its operations until terminated by the Trustee as provided under Clause 12.1 of the Deed.

The Fund may invest in any of the following investments:

- (a) Equities listed or traded on the recognised Malaysian stock exchange or any other foreign exchanges;
- (b) Unlisted equities;
- (c) Fixed income securities listed or traded on the recognised Malaysian stock exchange or any other foreign exchanges;
- (d) Unlisted fixed income securities
- (e) Money market instruments;
- (f) Debt securities which are sovereign issued, sovereign backed or sovereign guaranteed;
- (g) Derivatives;
- (h) Placement of fixed deposits with Financial Institutions;
- (i) Units/shares in collective investment schemes, both local and foreign; and
- (j) Any other form of investments as may be determined by the Manager from time to time that is in line with the Fund's objectives.

All investments will be subjected to the SC's Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework, the Deeds and the objective of the Fund.

The main objective of the Fund is to provide unitholders with long term capital appreciation.

The Manager is a company incorporated in Malaysia. The principal activities of the Manager are establishment and management of unit trust funds, exchange-traded funds and private retirement schemes as well as providing fund management services to private clients.

The financial statements were authorised for issue by the Manager on 16 August 2022.

AFFIN HWANG ABSOLUTE RETURN FUND III

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022 (CONTINUED)

2 FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial instruments are as follows:

	<u>Note</u>	At amortised <u>cost</u> RM	At fair value through profit <u>or loss</u> RM	<u>Total</u> RM
<u>2022</u>				
<u>Financial assets</u>				
Cash and cash equivalents	10	24,127,342	-	24,127,342
Margin accounts	11	2,051,982	-	2,051,982
Amount due from Manager				
- management fee rebate receivable		8,557	-	8,557
Dividends receivable		28,728	-	28,728
Quoted equities	9	-	55,648,752	55,648,752
Collective investment scheme	9	-	10,122,934	10,122,934
Exchange-traded funds	9	-	4,084,243	4,084,243
Total		<u>26,216,609</u>	<u>69,855,929</u>	<u>96,072,538</u>
<u>Financial liabilities</u>				
Amount due to Manager				
- management fee		79,193	-	79,193
- cancellation of units		291,901	-	291,901
Amount due to Trustee		4,355	-	4,355
Auditors' remuneration		9,000	-	9,000
Tax agent's fee		4,516	-	4,516
Other payables and accruals		12,384	-	12,384
Total		<u>401,349</u>	<u>-</u>	<u>401,349</u>

AFFIN HWANG ABSOLUTE RETURN FUND III

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022 (CONTINUED)

2 FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Financial instruments are as follows: (continued)

	Note	At amortised cost RM	At fair value through profit or loss RM	Total RM
<u>2021</u>				
<u>Financial assets</u>				
Cash and cash equivalents	10	31,726,694	-	31,726,694
Amount due from Manager				
- management fee rebate receivable		473	-	473
Dividends receivable		139,098	-	139,098
Quoted equities	9	-	105,103,657	105,103,657
Collective investment scheme	9	-	622,200	622,200
Exchange-traded funds	9	-	1,585,222	1,585,222
Total		<u>31,866,265</u>	<u>107,311,079</u>	<u>139,177,344</u>
<u>Financial liabilities</u>				
Amount due to Manager				
- management fee		112,148	-	112,148
Amount due to Trustee		6,168	-	6,168
Performance fee payable		2,609,784	-	2,609,784
Auditors' remuneration		9,000	-	9,000
Tax agent's fee		4,516	-	4,516
Other payables and accruals		11,465	-	11,465
Total		<u>2,753,081</u>	<u>-</u>	<u>2,753,081</u>

The Fund is exposed to a variety of risks which include market risk (including price risk, interest rate risk and currency risk), credit risk, liquidity risk and capital risk.

Financial risk management is carried out through internal control processes adopted by the Manager and adherence to the investment restrictions as stipulated by the SC's Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework.

AFFIN HWANG ABSOLUTE RETURN FUND III

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022 (CONTINUED)

2 FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Market risk

(a) Price risk

Price risk arises mainly from the uncertainty about future prices of investments. It represents the potential loss the Fund might suffer through holding market positions in the face of price movements. The Manager manages the risk of unfavourable changes in prices by continuous monitoring of the performance and risk profile of the investment portfolio.

The Fund's overall exposure to price risk was as follows:

	<u>2022</u> RM	<u>2021</u> RM
Quoted investments		
Quoted equities	55,648,752	105,103,657
Exchange-traded funds	4,084,243	1,585,222
	<u>59,732,995</u>	<u>106,688,879</u>
Unquoted investments		
Collective investment scheme	<u>10,122,934</u>	<u>622,200</u>

The following table summarises the sensitivity of the Fund's (loss)/profit after taxation and net asset value to price risk movement. The analysis is based on the assumptions that the market price increased by 2% (2021: 7.5%) and decreased by 2% (2021: 7.5%) with all other variables held constant. This represents management's best estimate of a reasonable possible shift in the quoted securities, having regard to the historical volatility of the prices.

<u>% Change in price</u>	<u>Market value</u> RM	Impact on loss after <u>tax/NAV</u> RM
<u>2022</u>		
-2%	68,458,810	(1,397,119)
0%	69,855,929	-
+2%	<u>71,253,048</u>	<u>1,397,119</u>

AFFIN HWANG ABSOLUTE RETURN FUND III

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022 (CONTINUED)

2 FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Market risk (continued)

(a) Price risk (continued)

<u>% Change in price</u>	<u>Market value</u> RM	Impact on profit after <u>tax/NAV</u> RM
<u>2021</u>		
-7.5%	99,262,748	(8,048,331)
0%	107,311,079	-
+7.5%	115,359,410	8,048,331
	<u> </u>	<u> </u>

(b) Interest rate risk

Interest rate risk arises from the effects of fluctuations in the prevailing levels of market interest rates on the fair value of financial assets and liabilities and future cash flows.

The Fund's exposure to the interest rate risk is mainly confined to short-term placement with a financial institution. The Manager overcomes this exposure by way of maintaining deposits on short-term basis.

The Fund's exposure to interest rate risk associated with deposit with licensed financial institutions is not material as the deposits are held on a short-term basis.

(c) Currency risk

Currency risk is associated with investments denominated in foreign currencies. When the foreign currencies fluctuate in an unfavourable movement against Ringgit Malaysia, the investments will face currency losses in addition to the capital gain/(loss). The Manager will evaluate the likely directions of the foreign currency versus Ringgit Malaysia based on considerations of economic fundamentals such as interest rate differentials, balance of payments position, debt levels and technical chart considerations.

AFFIN HWANG ABSOLUTE RETURN FUND III

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022 (CONTINUED)

2 FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Market risk (continued)

(c) Currency risk (continued)

The following table sets out the foreign currency risk concentrations and counterparties of the Fund:

	<u>Quoted equities</u> RM	<u>Collective investment scheme</u> RM	<u>Exchange-traded funds</u> RM	<u>Cash and cash equivalents</u> RM	<u>Margin accounts</u>	<u>Other assets*</u> RM	<u>Total</u> RM
<u>2022</u>							
Australian Dollar	3,003,566	-	-	3,351,289	-	-	6,354,855
Chinese Yuan	-	-	-	4,715,162	-	10,473	4,725,635
Euro	-	-	-	45,049	-	-	45,049
Hong Kong Dollar	24,178,377	-	-	573,637	-	-	24,752,014
Indonesian Rupiah	1,415,184	-	-	-	-	-	1,415,184
Philippine Peso	-	-	-	374	-	-	374
Singapore Dollar	6,639,605	-	-	5,189,118	-	-	11,828,723
United States Dollar	15,032,309	661,125	3,287,138	8,947,571	2,051,982	26,812	30,006,937
	<u>50,269,041</u>	<u>661,125</u>	<u>3,287,138</u>	<u>22,822,200</u>	<u>2,051,982</u>	<u>37,285</u>	<u>79,128,771</u>

AFFIN HWANG ABSOLUTE RETURN FUND III

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022 (CONTINUED)

2 FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Market risk (continued)

(c) Currency risk (continued)

	<u>Quoted equities</u> RM	<u>Collective investment scheme</u> RM	<u>Exchange- traded funds#</u> RM	<u>Cash and cash equivalents</u> RM	<u>Other assets*</u> RM	<u>Total</u> RM
<u>2021</u>						
Chinese Yuan	3,450,025	-	-	160,022	71,388	3,681,435
Hong Kong Dollar	47,400,299	-	-	9,638,013	67,710	57,106,022
Philippine Peso	-	-	-	397	-	397
Singapore Dollar	7,829,439	-	-	194,551	-	8,023,990
Thai Baht	2,838,808	-	-	-	-	2,838,808
United States Dollar	30,903,909	622,200	1,169,222	15,495,707	473	48,191,511
	<u>92,422,480</u>	<u>622,200</u>	<u>1,169,222</u>	<u>25,488,690</u>	<u>139,571</u>	<u>119,842,163</u>

* Other assets consist of amount due from Manager and dividends receivable.

Relates to exchange-traded funds – local with units denominated in United States Dollar.

AFFIN HWANG ABSOLUTE RETURN FUND III

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022 (CONTINUED)

2 FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Market risk (continued)

(c) Currency risk (continued)

The table below summarises the sensitivity of the Fund's (loss)/profit after tax and net asset value to changes in foreign exchange movements. The analysis is based on the assumption that the foreign exchange rate changes by each currency's respective historical volatility, with all other variables held constant. This represents management's best estimate of a reasonable possible shift in the foreign exchange rate, having regard to historical volatility of this rate. Any increase/(decrease) in foreign exchange rate will result in a corresponding (decrease)/increase in the net assets attributable to unitholders by each currency's respective historical volatility. Disclosures below are shown in absolute terms, changes and impacts could be positive or negative.

	Change <u>in rate</u> %	Impact on (loss)/profit after <u>tax/NAV</u> RM
<u>2022</u>		
Australian Dollar	+/- 8.76	+/- 556,389
Chinese Yuan	+/- 3.47	+/- 164,157
Euro	+/- 6.11	+/- 2,752
Hong Kong Dollar	+/- 3.29	+/- 814,954
Indonesian Rupiah	+/- 4.23	+/- 59,802
Philippine Peso	+/- 5.70	+/- 21
Singapore Dollar	+/- 2.94	+/- 347,574
United States Dollar	+/- 3.39	<u>+/- 1,018,133</u>
<u>2021</u>		
Chinese Yuan	+/- 3.53	+/- 129,880
Hong Kong Dollar	+/- 3.23	+/- 1,844,915
Philippine Peso	+/- 3.70	+/- 15
Singapore Dollar	+/- 2.80	+/- 224,436
Thai Baht	+/- 4.17	+/- 118,380
United States Dollar	+/- 3.29	<u>+/- 1,587,698</u>

AFFIN HWANG ABSOLUTE RETURN FUND III

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022 (CONTINUED)

2 FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk

Credit risk refers to the ability of an issuer or counterparty to make timely payments of interest, principals and proceeds from realisation of investments. The Manager manages the credit risk by undertaking credit evaluation to minimise such risk.

Credit risk arising from cash and bank balances is managed by ensuring that they are held by parties with credit rating of AA or higher.

Credit risk arising from placements of deposits in licensed financial institutions is managed by ensuring that the Fund will only place deposits in reputable licensed financial institutions.

The settlement terms of the proceeds from the creation of units receivable from the Manager are governed by the SC's Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework.

The following table sets out the credit risk concentrations of the Fund:

	<u>Cash and cash equivalents</u> RM	<u>Margin accounts</u> RM	<u>Other assets*</u> RM	<u>Total</u> RM
<u>2022</u>				
Basic Materials				
- NR	-	-	891	891
Consumer Discretionary				
- NR	-	-	9,582	9,582
Financial Services				
- AAA	24,127,342	2,051,982	-	26,179,324
Technology				
- NR	-	-	11,032	11,032
Others				
- NR	-	-	15,780	15,780
	<u>24,127,342</u>	<u>2,051,982</u>	<u>37,285</u>	<u>26,216,609</u>

AFFIN HWANG ABSOLUTE RETURN FUND III

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022 (CONTINUED)

2 FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (continued)

The following table sets out the credit risk concentrations of the Fund: (continued)

	<u>Cash and cash equivalents</u> RM	<u>Other assets*</u> RM	<u>Total</u> RM
<u>2021</u>			
Financial Services			
- AAA	31,726,694	-	31,726,694
Real Estate			
- NR	-	139,098	139,098
Others			
- NR	-	473	473
	<u>31,726,694</u>	<u>139,571</u>	<u>31,866,265</u>

* Other assets consist of amount due from Manager and dividends receivable.

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting its financial obligations. The Manager manages this risk by maintaining sufficient level of liquid assets to meet anticipated payments and cancellation of units by unitholders. Liquid assets comprise bank balances, deposit with a licensed financial institution and other instruments, which are capable of being converted into cash within 7 days.

The table below analyses the Fund's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date.

AFFIN HWANG ABSOLUTE RETURN FUND III

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022 (CONTINUED)

2 FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (continued)

The amounts in the table below are the contractual undiscounted cash flows:

	<u>Within one month</u> RM	<u>Between one month to one year</u> RM	<u>Total</u> RM
<u>2022</u>			
Amount due to Manager			
- management fee	79,193	-	79,193
- cancellation of units	291,901	-	291,901
Amount due to Trustee	4,355	-	4,355
Auditors' remuneration	-	9,000	9,000
Tax agent's fee	-	4,516	4,516
Other payables and accruals	-	12,384	12,384
	<u>375,449</u>	<u>25,900</u>	<u>401,349</u>
<u>2021</u>			
Amount due to Manager			
- management fee	112,148	-	112,148
Amount due to Trustee	6,168	-	6,168
Performance fee payable	2,609,784	-	2,609,784
Auditors' remuneration	-	9,000	9,000
Tax agent's fee	-	4,516	4,516
Other payables and accruals	-	11,465	11,465
	<u>2,728,100</u>	<u>24,981</u>	<u>2,753,081</u>

AFFIN HWANG ABSOLUTE RETURN FUND III

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022 (CONTINUED)

2 FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital risk

The capital of the Fund is represented by equity consisting of unitholders' capital and retained earnings. The amount of equity can change significantly on a daily basis as the Fund is subject to daily subscriptions and redemptions at the discretion of unitholders. The Fund's objective when managing capital is to safeguard the Fund's ability to continue as a going concern in order to provide returns for unitholders and benefits for other stakeholders and to maintain a strong capital base to support the development of the investment activities of the Fund.

3 FAIR VALUE ESTIMATION

Financial instruments comprise financial assets and financial liabilities. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of financial assets traded in active market (such as trading securities) is based on quoted market prices at the close of trading on the financial year end date. The Fund utilises the current bid price for financial assets which fall within the bid-ask spread.

An active market is a market in which transactions for the asset take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

The fair value of financial assets and financial liabilities that are not traded in an active market is determined by using valuation techniques.

(i) Fair value hierarchy

The table below analyses financial instruments carried at fair value. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active market for identical assets or liabilities (Level 1)
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2)
- Inputs for the asset and liability that are not based on observable market data (that is, unobservable inputs) (Level 3)

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

AFFIN HWANG ABSOLUTE RETURN FUND III

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022 (CONTINUED)

3 FAIR VALUE ESTIMATION (CONTINUED)

(i) Fair value hierarchy (continued)

The determination of what constitutes 'observable' requires significant judgment by the Fund. The Fund considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary and provided by independent sources that are actively involved in the relevant market.

The following table analyses within the fair value hierarchy the Fund's financial assets (by class) measured at fair value:

	<u>Level 1</u> RM	<u>Level 2</u> RM	<u>Level 3</u> RM	<u>Total</u> RM
<u>2022</u>				
Financial assets at fair value through profit or loss				
- quoted equities	55,648,752	-	-	55,648,752
- collective investment scheme	9,461,809	-	661,125	10,122,934
- exchange-traded funds	4,084,243	-	-	4,084,243
	<u>69,194,804</u>	<u>-</u>	<u>661,125</u>	<u>69,855,929</u>
<u>2021</u>				
Financial assets at fair value through profit or loss				
- quoted equities	105,103,657	-	-	105,103,657
- collective investment scheme	-	-	622,200	622,200
- exchange-traded funds	1,585,222	-	-	1,585,222
	<u>106,688,879</u>	<u>-</u>	<u>622,200</u>	<u>107,311,079</u>

Investments whose values are based on quoted and published market prices in active markets, and are therefore classified within Level 1, include active listed equities, CIS and ETF. The Fund does not adjust the quoted and published prices for these instruments.

AFFIN HWANG ABSOLUTE RETURN FUND III

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022 (CONTINUED)

3 FAIR VALUE ESTIMATION (CONTINUED)

(i) Fair value hierarchy (continued)

Level 3 instruments

Investment classified within Level 3 make use of significant unobservable inputs in deriving fair value, as they trade infrequently. As observable prices are not available for these securities, the Fund has used valuation techniques to derive the fair value.

In assessing fair value of Sotella Fund Redeemable Preference Shares ("RPS"), the valuation assessments are performed by Camelot Trust Pte Ltd, the Sotella fund administrator who reports to the Manager on a weekly basis.

As at 30 June 2022 and 2021, the fair value of Sotella Fund RPS are measured at fair value equivalent to the aggregate cost which are essentially asset-backed private debt. In this case, the assets underlying the debt comprises land assets.

As with most fixed-income-like securities, the fair value of Sotella Fund RPS may be calculated using the discounted value of its cash flows, and which is largely predicated on the discount rate used. As a manner of approach and prudence, any calculated gains above par are not captured as unrealised gains.

In addition, an annual market value check is undertaken on the underlying asset through an independent third-party assessment for the land pieces held in lien by Sotella Fund. The assessed and third-party verified value has historically and to-date represent an over-collateralisation of the principal investment by Sotella Fund.

With the above, the Manager is in the view that the fair value of Sotella Fund RPS is equivalent to the aggregate cost.

(ii) The carrying values of cash and cash equivalents, margin accounts, amount due from Manager, dividend receivables and all current liabilities are a reasonable approximation of the fair values due to their short-term nature.

4 MANAGEMENT FEE

In accordance with the Deeds, the Manager is entitled to a management fee at a rate not exceeding 5.00% per annum on the NAV of the Fund, calculated on a daily basis.

For the financial year ended 30 June 2022, the management fee is recognised at a rate of 1.00% per annum (2021: 1.00%) on the NAV of the Fund, calculated on a daily basis.

There will be no further liability to the Manager in respect of management fee other than the amounts recognised above.

AFFIN HWANG ABSOLUTE RETURN FUND III

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022 (CONTINUED)

5 TRUSTEE FEE

In accordance with the Deeds, the Trustee is entitled to an annual fee at a rate not exceeding 0.10% per annum on the NAV of the Fund, exclusive of foreign custodian fees.

For the financial year ended 30 June 2022, the Trustee fee is recognised at a rate of 0.055% (2021: 0.055%) per annum on the NAV of the Fund, calculated on a daily basis, exclusive of foreign custodian fees as stated in the Information Memorandum.

There will be no further liability to the Trustee in respect of Trustee fee other than the amount recognised above.

6 PERFORMANCE FEE

In accordance with the Information Memorandum, the Manager is entitled to a performance fee at a rate of 20% on the appreciation in the NAV per unit over and above the Hurdle Value during the financial year. The Hurdle Value is the High-Water Mark (“HWM”) plus 8.0%, while the HWM is the closing NAV per unit on the last business day of the financial year or the HWM of the previous financial year, whichever is higher.

The performance fee is calculated on a daily basis, but it is only payable to the Manager at the end of the financial year, if the NAV per unit is higher than the Hurdle Value on the last business day of the financial year.

Performance fee is derived from the following calculation:

$$\text{Performance fee} = (A - B) \times 20\% \times C$$

A = NAV per unit (before performance fee)

B = Hurdle Value

C = Total number of units in circulation of the Fund

Performance fee for the financial year ended 30 June 2022 is RMNil (2021: RM2,609,784).

7 FUND ACCOUNTING FEE

The fund valuation and accounting fee for the Fund is RM12,000 (2021: RM12,000) per annum.

AFFIN HWANG ABSOLUTE RETURN FUND III

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022 (CONTINUED)

8 TAXATION

	<u>2022</u> RM	<u>2021</u> RM
Current taxation	29,464	6,587
Underprovision of taxation in prior year	180	-
	<u>29,644</u>	<u>6,587</u>

The numerical reconciliation between net (loss)/profit before taxation multiplied by the Malaysian statutory tax rate and tax expense of the Fund is as follows:

	<u>2022</u> RM	<u>2021</u> RM
Net (loss)/profit before taxation	<u>(25,628,625)</u>	<u>17,425,073</u>
Tax at Malaysian statutory tax rate of 24% (2021: 24%)	(6,150,870)	4,182,018
Tax effects of:		
Investment loss not brought to tax/(Investment income not subject to tax)	5,657,647	(5,350,767)
Expenses not deductible for tax purposes	222,752	896,690
Restrictions on tax deductible expenses for Wholesale Funds	270,471	278,646
Income subject to different tax rate	29,464	-
Underprovision of taxation in prior year	180	-
Tax expense	<u>29,644</u>	<u>6,587</u>

AFFIN HWANG ABSOLUTE RETURN FUND III

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022 (CONTINUED)

9 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>2022</u> RM	<u>2021</u> RM
Financial assets at fair value through profit or loss:		
- quoted equities – local	5,379,711	12,681,177
- quoted equities – foreign	50,269,041	92,422,480
- collective investment scheme – local	9,461,809	-
- collective investment scheme – foreign	661,125	622,200
- exchange-traded funds – local	797,105	1,585,222
- exchange-traded funds – foreign	3,287,138	-
	<u>69,855,929</u>	<u>107,311,079</u>
Net (loss)/gain on financial assets at fair value through profit or loss:		
- realised (loss)/gain on sale of investments	(14,420,555)	25,582,575
- unrealised loss on changes in fair value	(12,229,920)	(4,369,533)
- management fee rebate on exchange-traded funds and collective investment schemes #	101,436	18,155
	<u>(26,549,039)</u>	<u>21,231,197</u>

In arriving at the fair value of exchange-traded funds and collective investment schemes, the management fee initially paid to the Manager of exchange-traded funds and collective investment schemes have been considered as part of its net asset value. In order to prevent the double charging of management fee which is not permissible under SC's Guidelines, management fee charged on the Fund's investments in exchange-traded funds and collective investment schemes have been fully refunded to the Fund. Accordingly, any rebate of management fee received from the Manager of exchange-traded funds and collective investment schemes is reflected as an increase in the net asset value of the exchange-traded funds and collective investment schemes.

AFFIN HWANG ABSOLUTE RETURN FUND III

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022 (CONTINUED)

9 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

(a) Quoted equities – local

(i) Quoted equities – local as at 30 June 2022 are as follows:

<u>Name of counters</u>	<u>Quantity</u>	<u>Aggregate cost RM</u>	<u>Fair value RM</u>	<u>Percentage of NAV %</u>
<u>Consumer Discretionary</u>				
AwanBiru Technology Berhad	1,131,933	685,969	435,794	0.46
<u>Industrials</u>				
Yinson Holdings Berhad	2,390,600	4,678,564	4,757,294	4.97
<u>Warrant</u>				
AwanBiru Technology Berhad - Warrant	400,033	-	74,006	0.08
Yinson Holdings Berhad - Warrant	336,171	-	112,617	0.12
	736,204	-	186,623	0.20
Total quoted equities – local	4,258,737	5,364,533	5,379,711	5.63
Accumulated unrealised gain on quoted equities – local		15,178		
Total quoted equities – local		5,379,711		

AFFIN HWANG ABSOLUTE RETURN FUND III

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022 (CONTINUED)

9 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

(a) Quoted equities – local (continued)

(ii) Quoted equities – local as at 30 June 2021 are as follows:

<u>Name of counters</u>	<u>Quantity</u>	<u>Aggregate cost RM</u>	<u>Fair value RM</u>	<u>Percentage of NAV %</u>
<u>Energy</u>				
Yinson Holdings Bhd	980,500	4,266,927	4,902,500	3.59
<u>Health Care</u>				
Hartalega Holdings Bhd	357,200	4,014,910	2,625,420	1.92
<u>Technology</u>				
AwanBiru Technology Bhd	5,859,633	3,478,846	4,687,706	3.44
<u>Warrant</u>				
AwanBiru Technology Bhd - Warrant	990,533	-	465,551	0.34
Total quoted equities – local	8,187,866	11,760,683	12,681,177	9.29
Accumulated unrealised gain on quoted equities – local		920,494		
Total quoted equities – local		12,681,177		

AFFIN HWANG ABSOLUTE RETURN FUND III

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022 (CONTINUED)

9 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

(b) Quoted equities – foreign

(i) Quoted equities - foreign as at 30 June 2022 are as follows:

<u>Name of counters</u>	<u>Quantity</u>	<u>Aggregate cost RM</u>	<u>Fair value RM</u>	<u>Percentage of NAV %</u>
<u>Australia</u>				
<u>Consumer Staples</u>				
Bega Cheese Ltd	73,558	1,224,082	850,689	0.89
<u>Energy</u>				
Santos Ltd	37,857	868,917	851,492	0.89
<u>Health Care</u>				
Sonic Healthcare Ltd	12,992	1,481,813	1,301,385	1.36
<u>Hong Kong</u>				
<u>Basic Materials</u>				
Ganfeng Lithium Co Ltd	7,000	311,934	339,580	0.35
<u>Consumer Discretionary</u>				
Alibaba Group Holding Ltd	53,400	3,368,845	3,357,013	3.51
JD.com Inc	21,100	3,493,741	2,996,686	3.13
Li Ning Company Limited	31,700	1,147,064	1,293,828	1.35
Topsports International Hld	245,300	1,229,302	979,826	1.02
	351,500	9,238,952	8,627,353	9.01
<u>Consumer Staples</u>				
Budweiser Brewing Company APAC	157,800	1,929,497	2,083,323	2.18
China Mengniu Dairy Co Ltd	88,100	2,064,836	1,937,713	2.03
	245,900	3,994,333	4,021,036	4.21
<u>Financial Services</u>				
AIA Group Ltd	68,700	3,278,388	3,280,631	3.43
China Merchant Bank Co Ltd	53,900	1,460,155	1,588,240	1.66

AFFIN HWANG ABSOLUTE RETURN FUND III

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022 (CONTINUED)

9 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

(b) Quoted equities – foreign (continued)

(i) Quoted equities - foreign as at 30 June 2022 are as follows: (continued)

<u>Name of counters</u>	<u>Quantity</u>	<u>Aggregate cost RM</u>	<u>Fair value RM</u>	<u>Percentage of NAV %</u>
<u>Hong Kong (continued)</u>				
<u>Financial Services (continued)</u>				
Hong Kong Exchange & Clearing	4,500	902,021	975,847	1.02
	<u>127,100</u>	<u>5,640,564</u>	<u>5,844,718</u>	<u>6.11</u>
<u>Technology</u>				
Baidu Inc	17,300	1,394,827	1,443,292	1.51
Tencent Holdings Ltd	19,600	4,512,135	3,902,398	4.08
	<u>36,900</u>	<u>5,906,962</u>	<u>5,345,690</u>	<u>5.59</u>
<u>Indonesia</u>				
<u>Consumer Staples</u>				
Cisarua Mountain Dairy PT TBK	1,159,200	1,049,322	1,415,184	1.48
	<u>1,159,200</u>	<u>1,049,322</u>	<u>1,415,184</u>	<u>1.48</u>
<u>Singapore</u>				
<u>Financials</u>				
Vertex Technology Acquisition Corporation Ltd	36,300	558,584	540,646	0.57
	<u>36,300</u>	<u>558,584</u>	<u>540,646</u>	<u>0.57</u>
<u>Real Estate</u>				
CapitaLand Integrated Commercial Trust	438,000	2,930,437	2,998,033	3.13
Keppel Pacific Oak US REIT	333,398	1,037,415	1,028,616	1.08
Mapletree North Asia Commercial Trust	813,643	2,554,849	3,094,024	3.23
Prime US REIT	714,614	2,644,877	2,110,273	2.21
	<u>2,299,655</u>	<u>9,167,578</u>	<u>9,230,946</u>	<u>9.65</u>

AFFIN HWANG ABSOLUTE RETURN FUND III

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022 (CONTINUED)

9 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

(b) Quoted equities – foreign (continued)

(i) Quoted equities - foreign as at 30 June 2022 are as follows: (continued)

<u>Name of counters</u>	<u>Quantity</u>	<u>Aggregate cost RM</u>	<u>Fair value RM</u>	<u>Percentage of NAV %</u>
<u>Singapore (continued)</u>				
<u>Warrant</u>				
Vertex Technology Acquisition Corporation Ltd - Warrant	10,890	-	6,902	0.01
<u>Taiwan</u>				
<u>Technology</u>				
Taiwan Semiconductor Manufacturing Co Ltd	6,780	3,403,404	2,445,314	2.56
<u>United States</u>				
<u>Consumer Discretionary</u>				
LVMH Moet Hennessy LV SE	2,650	1,708,924	1,427,514	1.49
Yum China Holdings Inc	5,474	1,104,155	1,171,108	1.22
	8,124	2,813,079	2,598,622	2.71
<u>Health Care</u>				
Syneos Health Inc	6,309	2,445,359	1,993,200	2.08

AFFIN HWANG ABSOLUTE RETURN FUND III

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022 (CONTINUED)

9 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

(b) Quoted equities – foreign (continued)

(i) Quoted equities - foreign as at 30 June 2022 are as follows: (continued)

<u>Name of counters</u>	<u>Quantity</u>	<u>Aggregate cost RM</u>	<u>Fair value RM</u>	<u>Percentage of NAV %</u>
<u>United States (continued)</u>				
<u>Technology</u>				
Alphabet Inc - Class C	206	2,453,216	1,986,384	2.08
Microsoft Corporation	2,535	1,357,707	2,869,900	3.00
	<u>2,741</u>	<u>3,810,923</u>	<u>4,856,284</u>	<u>5.08</u>
Total quoted equities – foreign	<u>4,422,806</u>	51,915,806	<u>50,269,041</u>	<u>52.55</u>
Accumulated unrealised loss on quoted equities – foreign		<u>(1,646,765)</u>		
Total quoted equities – foreign		<u>50,269,041</u>		

(b) Quoted equities – foreign (continued)

(ii) Quoted equities - foreign as at 30 June 2021 are as follows:

<u>Name of counters</u>	<u>Quantity</u>	<u>Aggregate cost RM</u>	<u>Fair value RM</u>	<u>Percentage of NAV %</u>
<u>China</u>				
<u>Consumer Discretionary</u>				
China Tourism Group Duty Free Corporation Ltd	17,900	3,626,105	3,450,025	2.53
<u>Hong Kong</u>				
<u>Consumer Discretionary</u>				
Alibaba Group Holding Ltd	92,000	12,393,796	10,812,208	7.93

AFFIN HWANG ABSOLUTE RETURN FUND III

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022 (CONTINUED)

9 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

(b) Quoted equities – foreign (continued)

(ii) Quoted equities - foreign as at 30 June 2021 are as follows: (continued)

<u>Name of counters</u>	<u>Quantity</u>	<u>Aggregate cost RM</u>	<u>Fair value RM</u>	<u>Percentage of NAV %</u>
<u>Hong Kong (continued)</u>				
<u>Consumer Staples</u>				
China Feihe Ltd	384,000	4,202,214	3,433,923	2.52
<u>Health Care</u>				
Alibaba Health Information Technology Ltd	562,000	5,851,213	5,163,791	3.79
<u>Real Estate</u>				
A-Living Smart City Services Co Ltd	118,800	2,259,117	2,436,978	1.79
Link REIT	85,446	3,132,839	3,434,805	2.52
	204,246	5,391,956	5,871,783	4.31
<u>Technology</u>				
Baidu Inc	45,000	4,809,336	4,790,973	3.51
Netjoy Holdings Ltd	726,000	2,649,785	2,571,308	1.88
Tencent Holdings Ltd	47,300	11,031,162	14,756,313	10.82
	818,300	18,490,283	22,118,594	16.21
<u>Singapore</u>				
<u>Real Estate</u>				
CapitaLand Integrated Commercial Trust	438,000	2,930,437	2,825,718	2.07
Keppel Pacific Oak US REIT	333,398	1,037,415	1,078,689	0.79

AFFIN HWANG ABSOLUTE RETURN FUND III

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022 (CONTINUED)

9 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

(b) Quoted equities – foreign (continued)

(ii) Quoted equities – foreign as at 30 June 2021 are as follows: (continued)

<u>Name of counters</u>	<u>Quantity</u>	<u>Aggregate cost RM</u>	<u>Fair value RM</u>	<u>Percentage of NAV %</u>
<u>Singapore (continued)</u>				
<u>Real Estate (continued)</u>				
Mapletree North Asia Commercial Trust	1,573,792	4,950,987	5,003,721	3.67
Prime US REIT	686,400	2,545,394	2,448,581	1.79
	<u>3,031,590</u>	<u>11,464,233</u>	<u>11,356,709</u>	<u>8.32</u>
<u>Thailand</u>				
<u>Consumer Staples</u>				
CP ALL PCL	367,400	3,119,405	2,838,808	2.08
<u>United States</u>				
<u>Consumer Discretionary</u>				
Airbnb Inc - Class A	6,120	3,591,729	3,884,529	2.85
Alibaba Group Holding Ltd	3,085	1,926,268	2,902,008	2.13
	<u>9,205</u>	<u>5,517,997</u>	<u>6,786,537</u>	<u>4.98</u>
<u>Industrials</u>				
Visa Inc	5,740	4,745,098	5,570,713	4.08
<u>Technology</u>				
Apple Inc	12,240	6,709,643	6,951,637	5.10
Microsoft Corporation	7,181	3,846,032	8,067,752	5.91
	<u>19,421</u>	<u>10,555,675</u>	<u>15,019,389</u>	<u>11.01</u>
Total quoted equities – foreign	<u>5,511,802</u>	<u>85,357,975</u>	<u>92,422,480</u>	<u>67.76</u>
Accumulated unrealised gain on quoted equities – foreign		<u>7,064,505</u>		
Total quoted equities – foreign		<u>92,422,480</u>		

AFFIN HWANG ABSOLUTE RETURN FUND III

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022 (CONTINUED)

9 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

(c) Collective investment scheme – local

(i) Collective investment scheme – local as at 30 June 2022 are as follows:

	<u>Quantity</u>	Aggregate <u>cost</u> RM	Fair <u>value</u> RM	Percentage <u>of NAV</u> %
Affin Hwang INR Flexi Fund	3,915,000	5,312,655	4,870,260	5.09
Affin Hwang TWD Flexi Fund	2,173,000	5,786,482	4,591,549	4.80
	<hr/>	<hr/>	<hr/>	<hr/>
Total collective investment scheme – local	6,088,000	11,099,137	9,461,809	9.89
	<hr/> <hr/>		<hr/> <hr/>	<hr/> <hr/>
Accumulated unrealised loss on collective investment scheme – local		(1,637,328)		
		<hr/>		
Total collective investment scheme – local		9,461,809		
		<hr/> <hr/>		

(ii) There is no investment in collective investment scheme – local as at 30 June 2021.

(d) Collective investment scheme – foreign

(i) Collective investment scheme – foreign as at 30 June 2022 are as follows:

	<u>Quantity</u>	Aggregate <u>cost</u> RM	Fair <u>value</u> RM	Percentage <u>of NAV</u> %
Sotella Fund Pte. Ltd Class A1 -USD	3	665,550	661,125	0.69
	<hr/>	<hr/>	<hr/>	<hr/>
Total collective investment scheme – foreign	3	665,550	661,125	0.69
	<hr/> <hr/>		<hr/> <hr/>	<hr/> <hr/>
Accumulated unrealised loss on collective investment scheme – foreign		(4,425)		
		<hr/>		
Total collective investment scheme – foreign		661,125		
		<hr/> <hr/>		

AFFIN HWANG ABSOLUTE RETURN FUND III

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022 (CONTINUED)

9 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

(d) Collective investment scheme – foreign (continued)

(ii) Collective investment scheme – foreign as at 30 June 2021 are as follows:

	<u>Quantity</u>	Aggregate <u>cost</u> RM	Fair <u>value</u> RM	Percentage <u>of NAV</u> %
Sotella Fund	3	665,550	622,200	0.46
Total collective investment scheme – foreign	<u>3</u>	<u>665,550</u>	<u>622,200</u>	<u>0.46</u>
Accumulated unrealised loss on collective investment scheme – foreign		<u>(43,350)</u>		
Total collective investment scheme – foreign		<u>622,200</u>		

(e) Exchange-traded funds – local

(i) Exchange-traded funds – local as at 30 June 2022 are as follows:

	<u>Quantity</u>	Aggregate <u>cost</u> RM	Fair <u>value</u> RM	Percentage <u>of NAV</u> %
TradePlus S&P New China Tracker	140,000	771,453	797,105	0.83
Total exchange-traded funds – local	<u>140,000</u>	<u>771,453</u>	<u>797,105</u>	<u>0.83</u>
Accumulated unrealised gain on exchange-traded funds – local		<u>25,652</u>		
Total exchange-traded funds – local		<u>797,105</u>		

AFFIN HWANG ABSOLUTE RETURN FUND III

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022 (CONTINUED)

9 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

(e) Exchange-traded funds – local (continued)

(ii) Exchange-traded funds – local as at 30 June 2021 are as follows:

	<u>Quantity</u>	Aggregate <u>cost</u> RM	Fair <u>value</u> RM	Percentage <u>of NAV</u> %
TradePlus S&P New China Tracker – MYR	50,000	268,500	416,000	0.30
TradePlus S&P New China Tracker – USD	140,000	771,453	1,169,222	0.86
Total exchange-traded funds – local	<u>190,000</u>	<u>1,039,953</u>	<u>1,585,222</u>	<u>1.16</u>
Accumulated unrealised gain on exchange-traded funds – local		<u>545,269</u>		
Total exchange-traded funds – local		<u>1,585,222</u>		

(f) Exchange-traded funds – foreign

(i) Exchange-traded funds – foreign as at 30 June 2022 are as follows:

	<u>Quantity</u>	Aggregate <u>cost</u> RM	Fair <u>value</u> RM	Percentage <u>of NAV</u> %
Global X Uranium ETF	15,889	1,863,033	1,300,471	1.36
iShares 20+ Year Treasury Bond ETF	3,925	1,919,420	1,986,667	2.08
Total exchange-traded funds – foreign	<u>19,814</u>	<u>3,782,453</u>	<u>3,287,138</u>	<u>3.44</u>
Accumulated unrealised loss on exchange-traded funds – foreign		<u>(495,315)</u>		
Total exchange-traded funds – foreign		<u>3,287,138</u>		

(ii) There is no investment in exchange-traded funds – foreign as at 30 June 2021.

AFFIN HWANG ABSOLUTE RETURN FUND III

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022 (CONTINUED)

10 CASH AND CASH EQUIVALENTS

	<u>2022</u> RM	<u>2021</u> RM
Cash and bank balances	22,847,138	25,518,395
Deposit with a licensed financial institution	1,280,204	6,208,299
	<u>24,127,342</u>	<u>31,726,694</u>

Weighted average effective interest rates per annum of deposit with a licensed financial institution are as follows:

	<u>2022</u> %	<u>2021</u> %
Deposit with a licensed financial institution	<u>2.00</u>	<u>1.75</u>

Deposit with a licensed financial institution has an average day to maturity of 1 day (2021: 1 day).

11 MARGIN ACCOUNTS

Margin accounts represent margin deposits held in respect of open exchange-traded futures contracts.

12 NUMBER OF UNITS IN CIRCULATION

	<u>2022</u> No. of units	<u>2021</u> No. of units
At the beginning of the financial year	161,450,000	140,156,000
Creation of units arising from applications	845,000	37,739,000
Cancellation of units	<u>(20,797,000)</u>	<u>(16,445,000)</u>
At the end of the financial year	<u>141,498,000</u>	<u>161,450,000</u>

AFFIN HWANG ABSOLUTE RETURN FUND III

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022 (CONTINUED)

13 TRANSACTIONS WITH BROKERS/DEALERS

- (i) Details of transactions with the top 10 brokers and dealers for the financial year ended 30 June 2022 are as follows:

<u>Name of brokers/dealers</u>	<u>Value of trade</u> RM	<u>Percentage of total trade</u> %	<u>Brokerage fees</u> RM	<u>Percentage of total brokerage</u> %
Robert W. Baird & Co.	62,564,310	21.30	9,682	1.94
CLSA Ltd	26,909,040	9.16	37,530	7.52
China International Capital Corp HK Securities Ltd	22,036,552	7.50	55,091	11.05
Bank of America Merrill Lynch	16,643,339	5.66	79,279	15.89
Jefferies International Ltd	14,779,979	5.03	12,770	2.56
Affin Hwang Asset Management Berhad *	12,918,649	4.40	-	-
Alliance Bernstein (Singapore) Ltd	12,599,600	4.29	16,130	3.24
JP Morgan Securities (Asia Pacific) Ltd	12,075,123	4.11	26,431	5.30
Credit Suisse (Hong Kong) Ltd	11,090,075	3.77	29,242	5.86
Citigroup Global Markets Inc	10,504,778	3.58	21,010	4.21
Others*	91,675,809	31.20	211,647	42.43
	<u>293,797,254</u>	<u>100.00</u>	<u>498,812</u>	<u>100.00</u>

AFFIN HWANG ABSOLUTE RETURN FUND III

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022 (CONTINUED)

13 TRANSACTIONS WITH BROKERS/DEALERS (CONTINUED)

(ii) Details of transactions with the top 10 brokers and dealers for the financial year ended 30 June 2021 are as follows:

<u>Name of brokers/dealers</u>	<u>Value of trade</u> RM	<u>Percentage of total trade</u> %	<u>Brokerage fees</u> RM	<u>Percentage of total brokerage</u> %
Robert W. Baird & Co.	53,992,481	14.93	10,728	1.75
Affin Hwang Investment Bank Bhd *	40,316,503	11.15	62,632	10.22
CLSA Ltd	38,467,940	10.64	77,882	12.71
China International Capital Corp				
HK Securities Ltd	28,252,791	7.82	52,111	8.51
Citigroup Global Markets Inc	26,915,215	7.44	74,767	12.20
Jefferies International Ltd	17,393,526	4.81	15,898	2.59
DBS Vickers Securities (S) Pte Ltd	16,544,847	4.58	61,236	10.01
Macquarie Securities Korea Ltd	15,802,781	4.37	31,886	5.20
Bank of America Merrill Lynch	12,193,059	3.37	19,953	3.26
Alliance Bernstein (Singapore) Ltd	10,591,363	2.93	14,824	2.42
Others*	101,081,971	27.96	190,747	31.13
	<u>361,552,477</u>	<u>100.00</u>	<u>612,664</u>	<u>100.00</u>

* Included in transactions with brokers and dealers are trades in the stockbroking industry with Affin Hwang Investment Bank Bhd, holding company of the Manager, and the Manager amounting to RM6,237,098 and RM12,918,649 (2021: RM40,316,503 and RMNil), respectively. The Manager is of the opinion that all transactions with the holding company of the Manager and the Manager have been entered in the normal course of business at agreed terms between the related parties.

AFFIN HWANG ABSOLUTE RETURN FUND III

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022 (CONTINUED)

14 UNITS HELD BY THE MANAGER AND PARTIES RELATED TO THE MANAGER

The related parties of and their relationship with the Fund are as follows:

<u>Related parties</u>	<u>Relationships</u>
Lembaga Tabung Angkatan Tentera (“LTAT”)	Ultimate holding corporate body of the Manager
Affin Bank Berhad (“ABB”)	Penultimate holding company of the Manager
Affin Hwang Investment Bank Berhad	Holding company of the Manager
Affin Hwang Asset Management Berhad	The Manager
Subsidiaries and associated companies of ABB as disclosed in its financial statements	Subsidiary and associated companies of the penultimate holding company of the Manager as disclosed in its financial statements
Directors of Affin Hwang Asset Management Berhad	Directors of the Manager

The number of units held by the Manager as at the end of the financial year are as follows :

	<u>2022</u>		<u>2021</u>	
	<u>No. of units</u>	<u>RM</u>	<u>No. of units</u>	<u>RM</u>
<u>The Manager:</u>				
Affin Hwang Asset Management Berhad (The units are held legally for booking purposes)	<u>2,662</u>	<u>1,800</u>	<u>3,289</u>	<u>2,779</u>

Other than the above, there were no units held by the Director or parties related to the Manager.

AFFIN HWANG ABSOLUTE RETURN FUND III

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022 (CONTINUED)

15 TOTAL EXPENSE RATIO (“TER”)

(a) TER excluding performance fee:

	<u>2022</u> %	<u>2021</u> %
TER	1.12	1.11

TER is derived from the following calculation:

$$\text{TER} = \frac{(A + B + C + D + E + F + G) \times 100}{H}$$

- A = Management fee, excluding management fee rebate
- B = Trustee fee
- C = Fund accounting fee
- D = Auditors’ remuneration
- E = Tax agent’s fee
- F = Other expenses, excluding sales and service tax on transaction costs and withholding tax
- G = Average NAV of Fund calculated on a daily basis

(b) TER including performance fee:

	<u>2022</u> %	<u>2021</u> %
TER	1.12	3.15

TER is derived from the following calculation:

$$\text{TER} = \frac{(A + B + C + D + E + F + G) \times 100}{H}$$

- A = Management fee, excluding management fee rebate
- B = Trustee fee
- C = Fund accounting fee
- D = Performance fee
- E = Auditors’ remuneration
- F = Tax agent’s fee
- G = Other expenses, excluding sales and service tax on transaction costs and withholding tax
- H = Average NAV of Fund calculated on a daily basis

The average NAV of the Fund for the financial year calculated on a daily basis is RM111,725,175 (2021: RM128,054,648).

AFFIN HWANG ABSOLUTE RETURN FUND III

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022 (CONTINUED)

16 PORTFOLIO TURNOVER RATIO (“PTR”)

	<u>2022</u>	<u>2021</u>
PTR (times)	1.38	1.32

PTR is derived from the following calculation:

$$\frac{(\text{Total acquisition for the financial year} + \text{total disposal for the financial year}) \div 2}{\text{Average NAV of the Fund for the financial year calculated on a daily basis}}$$

where: total acquisition for the financial year = RM141,034,602 (2021: RM180,266,665)
total disposal for the financial year = RM167,365,834 (2021: RM157,201,423)

17 SUBSEQUENT EVENT

Change in corporate shareholding of Affin Hwang Asset Management Berhad

On 28 January 2022, Affin Bank Berhad announced that funds advised by CVC Capital Partners, a leading global private equity and investment advisory firm with approximately US\$125 billion of assets under management, has agreed to acquire approximately 68% of the equity interest in Affin Hwang Asset Management Berhad.

The Acquisition has been approved by Securities Commissions Malaysia on 1 July 2022, and upon completion of the Acquisition on 29 July 2022, Affin Hwang Asset Management Berhad has ceased to be a subsidiary of Affin Hwang Investment Bank Berhad.

AFFIN HWANG ABSOLUTE RETURN FUND III

STATEMENT BY THE MANAGER

I, Dato' Teng Chee Wai, for and on behalf of the board of directors of the Manager, **Affin Hwang Asset Management Berhad**, do hereby state that in the opinion of the Manager, the financial statements set out on pages 1 to 47 are drawn up in accordance with the provisions of the Deeds and give a true and fair view of the financial position of the Fund as at 30 June 2022 and of its financial performance, changes in equity and cash flows for the financial year ended 30 June 2022 in accordance with the Malaysian Financial Reporting Standards and International Financial Reporting Standards.

For and on behalf of the Manager,
AFFIN HWANG ASSET MANAGEMENT BERHAD

DATO' TENG CHEE WAI
EXECUTIVE DIRECTOR/MANAGING DIRECTOR

Kuala Lumpur
16 August 2022

INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF AFFIN HWANG ABSOLUTE RETURN FUND III

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of Affin Hwang Absolute Return Fund III (“the Fund”) give a true and fair view of the financial position of the Fund as at 30 June 2022, and of its financial performance and its cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

What we have audited

We have audited the financial statements of the Fund, which comprise the statement of financial position as at 30 June 2022, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 1 to 47.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the “Auditors’ responsibilities for the audit of the financial statements” section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and other ethical responsibilities

We are independent of the Fund in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants (“By-Laws”) and the International Ethics Standards Board for Accountants’ International Code of Ethics for Professional Accountants (including International Independence Standards) (“IESBA Code”), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Information other than the financial statements and auditors’ report thereon

The Manager of the Fund is responsible for the other information. The other information comprises Manager’s Report, but does not include the financial statements of the Fund and our auditors’ report thereon.

INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF AFFIN HWANG ABSOLUTE RETURN FUND III (CONTINUED)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

If, based on the work we have performed, 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.

Responsibilities of the Manager for the financial statements

The Manager of the Fund is responsible for the preparation of the financial statements of the Fund that give a true and fair view in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards. The Manager is also responsible for such internal control as the Manager determines is necessary to enable the preparation of financial statements of the Fund that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Fund, the Manager is responsible for assessing the Fund'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 the Manager either intends to liquidate the Fund or to terminate the Fund, or has no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Fund 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 approved standards on auditing in Malaysia and International Standards on Auditing 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 approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF
AFFIN HWANG ABSOLUTE RETURN FUND III (CONTINUED)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements (continued)

- (a) Identify and assess the risks of material misstatement of the financial statements of the Fund, 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 control.
- (b) Obtain an understanding of internal control 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 Fund's internal control.
- (c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager.
- (d) Conclude on the appropriateness of the Manager'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 Funds'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 of the Fund 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 Fund to cease to continue as a going concern.
- (e) Evaluate the overall presentation, structure and content of the financial statements of the Fund, including the disclosures, and whether the financial statements of the Fund represent the underlying transactions and events in a manner that achieves fair presentation.

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

**INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF
AFFIN HWANG ABSOLUTE RETURN FUND III (CONTINUED)**

OTHER MATTERS

This report is made solely to the unitholders of the Fund, and for no other purpose. We do not assume responsibility to any other person for the content of this report.

**PRICEWATERHOUSECOOPERS PLT
LLP0014401-LCA & AF 1146
Chartered Accountants**

**Kuala Lumpur
16 August 2022**

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