Affin Hwang
Income Focus Fund 3

Annual Report
31 October 2019

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

AFFIN HWANG
CAPITAL

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

TRUSTEE
CIMB Commerce Trustee Berhad (313031-A)

AFFIN HWANG INCOME FOCUS FUND 3

Audited Annual Report and Financial Statements
For The Financial Year Ended 31 October 2019

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FUND INFORMATION

Fund Name	Affin Hwang Income Focus Fund 3
Fund Type	Income
Fund Category	Fixed Income (Wholesale)
Investment Objective	The Fund aims to provide income return whilst maintaining capital preservation
Duration of the Fund	Three (3) years close-ended Fund
Termination Date	21 December 2020
Benchmark	12-Month Malayan Banking Berhad Fixed Deposit Rate
Distribution Policy	Subject to the availability of income, the Fund will distribute income on an annual basis.

BREAKDOWN OF UNITHOLDERS BY SIZE AS AT 31 OCTOBER 2019

Size of holdings (units)	No. of unitholders	No. of units held * ('000)
5,000 and below	-	-
5,001 to 10,000	56	543
10,001 to 50,000	126	4,219
50,001 to 500,000	131	21,505
500,001 and above	34	102,101
Total	**347**	**128,368**

** Note: Excluding Manager's stock*

FUND PERFORMANCE DATA

Category	As at 31 Oct 2019 (%)	As at 31 Oct 2018 (%)
Portfolio composition		
Deposits with financial institutions	87.56	95.92
Derivatives	5.51	0.58
Cash & cash equivalent	6.93	3.50
Total	**100.00**	**100.00**
Total NAV (RM million)	134.791	123.506
NAV per Unit (RM)	1.0500	0.9591
Unit in Circulation (million)	128.371	128.769
Highest NAV	1.0634	1.0026
Lowest NAV	0.9585	0.9512
Return of the Fund (%)[iii]	9.48	-4.09
- Capital Growth (%)[i]	9.48	-4.09
- Income Distribution (%)[ii]	Nil	Nil
Gross Distribution per Unit (sen)	Nil	Nil
Net Distribution per Unit (sen)	Nil	Nil
Management Expense Ratio (%)[1]	0.04	0.05
Portfolio Turnover Ratio (times) [2]	-	4.74

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

Capital Return[i] = {NAV per Unit @ 31/10/19 ÷ NAV per Unit @ 31/10/18* – 1} x 100
= {1.0500 ÷ 0.9591 – 1} x 100
= **9.48%**

Total Income Return [ii] = {Income Return @ex-date x Income Return @ ex-date}-1x100
= Nil

Return of the Fund[iii] = [{(1 + Capital Return) x (1 + Income Return)} – 1] x 100
= [{(1 + 9.48%) x (1 + 0.00%)} – 1] x 100
= **9.48%**

** Source – CIMB Commerce Trustee Berhad*

[1]The Fund's MER remained relatively unchanged, albeit marginally lower than previous period under review.
[2] There was no acquisition and disposal during the financial year.

Table 1: Performance of the Fund

	1 Year (1/11/18 - 31/10/19)	Since Commencement (20/12/17 - 31/10/19)
Fund	**9.48%**	**5.00%**
Benchmark	**3.24%**	**6.20%**
Outperformance / (Underperformance)	**6.24%**	**(1.20%)**

Source of Benchmark: Maybank

Table 2: Average Total Return

	1 Year (1/11/18 - 31/10/19)	Since Commencement (20/12/17 - 31/10/19)
Fund	**9.48%**	**2.65%**
Benchmark	**3.24%**	**3.27%**
Outperformance / (Underperformance)	**6.24%**	**(0.62%)**

Source of Benchmark: Maybank

Table 3: Annual Total Return

	FYE 2019 (01/11/18 - 31/10/19)	FYE 2018 (20/12/17 - 31/10/18)
Fund	**9.48%**	**(4.09%)**
Benchmark	**3.24%**	**2.87%**
Outperformance / (Underperformance)	**6.24%**	**(6.96%)**

Source of Benchmark: Maybank

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

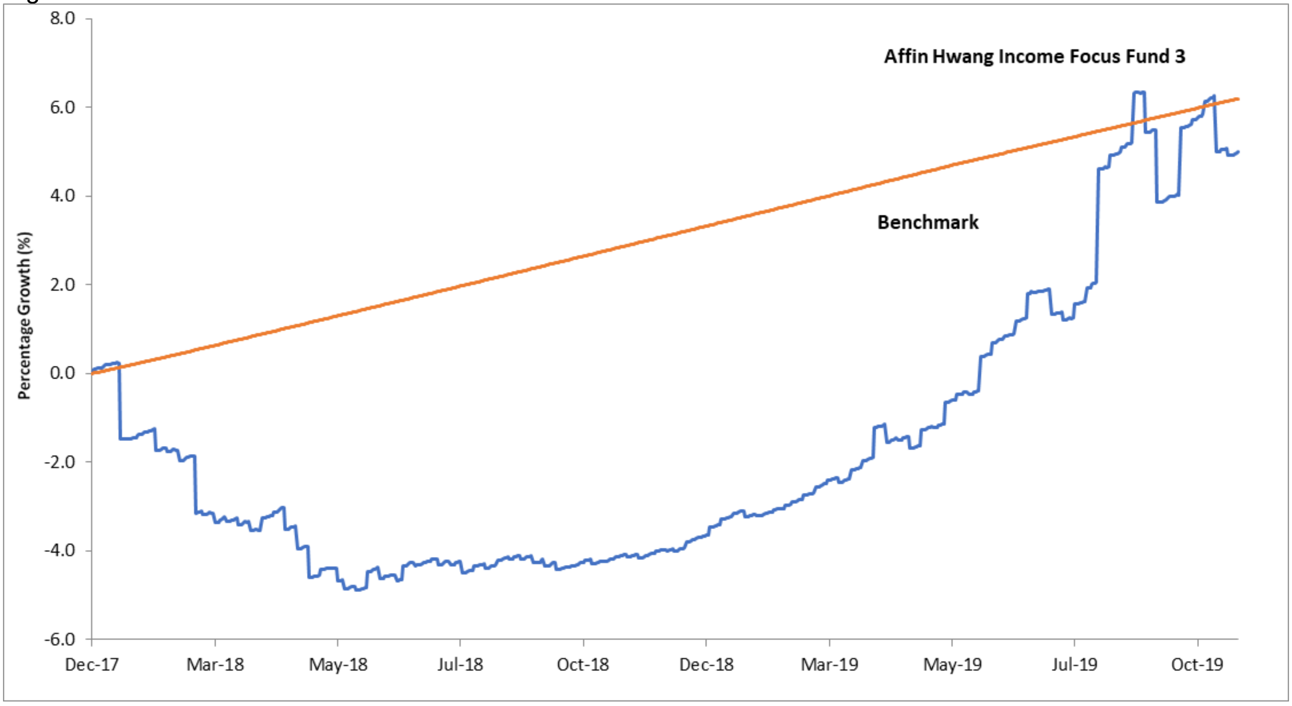
MANAGER'S REPORT

Performance Review

For the period 1 November 2018 to 31 October 2019, the Fund has registered a 9.48% return as compared to the benchmark return of 3.24%. The Fund outperformed the benchmark by 6.24 percentage points. The Net Asset Value (NAV) per unit as at 31 October 2019 was RM1.0500 while the NAV per unit 31 October 2018 was RM0.9591. (See Table 1 for performance of the Fund and Figure 1 for the movement of the Fund versus the Benchmark respectively).

During the period under review, the Fund recorded a positive return based on the change in its NAV per unit. In short term, the Fund has not met its objective of providing income return whilst maintaining capital preservation. Nevertheless, the Manager will strive to manage the Fund to fulfill its objective.

Figure 1: Movement of the Fund versus the Benchmark



"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: 12-Month Malayan Banking Berhad Fixed Deposit Rate

Income Distribution / Unit Split

No income distribution or unit split were declared for the financial year ended 31 October 2019.

Asset Allocation

For a snapshot of the Fund's asset mix during the period under review, please refer to Figure 2.

Figure 2: Asset Allocation of the Fund

	31 Oct 2019	**31 Oct 2018**
	(%)	**(%)**
Deposits with financial institutions	87.56	95.92
Derivatives	5.51	0.58
Cash & cash equivalent	6.93	3.50
Total	**100.00**	**100.00**

As at 31 October 2019, the Fund's asset allocation stood at 87.56% in deposits with financial institutions, 5.51% in derivatives, while the remaining was held in cash and cash equivalent.

Strategies Employed

Throughout the period under review, the Manager maintained a high level in cash and cash equivalent while the remaining at derivatives - i.e. warrants.

Market Review

Coming into 2019, "Sell in May and go away" has again proven to be a recurring theme this year after deteriorating trade relations between US and China wreaked further havoc across global financial markets in May. Trump raised the tariff on some US$200 billion worth of Chinese imports to 25.0% from 10.0% earlier that month in an extreme bid to speed up trade negotiations. While the tariff hike was initially downplayed, things took a swift turn on when Trump banned Huawei with a national security order; thus prompting US companies to sever all business ties with the Chinese smartphone and telecommunications giant.

For the first time in more than a decade, the US Federal Reserve ("Fed") reduced interest rates by 25bps in July; effectively lowering the benchmark rate to a new range of 2.00-2.25%. However, the Fed delivered another widely expected 25bps rate cut at its policy meeting in September and October before Fed Chair Jerome Powell stopped short from guiding expectations of further easing indicating that 'monetary policy was in a good place'. The FOMC also dropped the use of the phase 'act as appropriate' which markets took as a signal that the Fed would likely stay on hold for now.

Asian markets retreated in August as trade tensions flared up again after a surprise tariff announcement from US President Donald Trump. The Hong Kong Hang Seng index fell 7.4%, whilst the broader MSCI Asia ex-Japan index closed 4.6% lower as the prolonged trade row takes another turn for the worse. However things took a turn in October as markets were buoyed by positive trade developments and synchronised monetary easing by global central banks.

Meanwhile, Hong Kong continues to be plagued by protests which are starting to hurt businesses and dent economic growth. The unrest in Hong Kong started since early June when protesters took to the streets to oppose an extradition bill proposal. The demonstrations have shifted into a movement calling for more autonomy, full democracy and the ousting of Hong Kong's embattled leader Carrie Lam.

On a side note, BNM cut the Overnight Policy Rate by 25 bps to 3.00% on 7 May – likely a pre-emptive measure against a weakening external environment as well as slowing domestic growth. The announcement was largely priced in by investors, which saw the MGS market rallied strongly in the few weeks prior to the announcement, though the buying subsequently eased up amid the addition of risks on the global trade front.

Investment Outlook

The global economy is poised to continue to grow at an even keel albeit at a slower pace. We do not see major economic imbalances that would lead to a recession in the immediate term. That said, as we head into a late cycle, we are mindful that uncertainty will stay high from economic, policy and politics perspective.

Whilst the partial trade deal helped provide a lift in sentiment, the temporary trade truce could be easily upended as seen before. Structural issues and more challenging areas in negotiations such as intellectual property and technology transfer has not been addressed yet. The last mile negotiations in the trade talks would be the most critical to look out for. The overall macro environment remains weak as global economies are still showing weak data.

Going forward, we believe there is limited room for further monetary policy easing given already low interest rates. Central banks are more inclined to “save some bullets” for future, i.e. in the event whereby a recession materialises, as well as adopting a “wait-and-see” approach to assess impact post recent rate cuts. Therefore, expectations are that global interest rates are close to bottoming out in the near term. Having said that, we do not foresee central banks reverting to an interest rate hike cycle anytime soon. The biggest risks (both upside and downside) to my view would be ongoing trade negotiations and US inflation.

The Budget 2020 placed a lot more emphasis on job creation and shifted away from the outright disbursement of large cash handouts and subsidies as seen in prior budgets before. In terms of impact, the budget was market-neutral with no immediate catalysts that could drive Bursa higher for now.

However, the absence of any pump-priming measures or announcement of mega infrastructure projects came as a disappointment to the construction sector. The consumer sector could benefit incrementally over time as the trickle-down effects of job creation, allocation for subsidies and social subsidies to address high cost of living and low income levels spur consumption.

State of Affairs of the Fund

There is neither any significant change to the state of 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 Unit Trust Funds 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 management company had received on behalf of the Fund, soft commissions in the form of research materials, data and quotation services, investment-related publications, market data feed and industry benchmarking agencies which are of demonstrable benefit to Unitholders of the Fund.

TRUSTEE'S REPORT TO THE UNITHOLDERS OF AFFIN HWANG INCOME FOCUS FUND 3

We, **CIMB Commerce Trustee Berhad** being the trustee of **Affin Hwang Income Focus Fund 3** ("the Fund"), are of the opinion that **Affin Hwang Asset Management Berhad** ("the Manager"), acting in the capacity as Manager of the Fund, has fulfilled its duties in the following manner for the financial year ended 31 October 2019.

(a) The Fund has been managed in accordance with the limitations imposed on the investment powers of the Manager under the Deed, other provisions of the Deed, the Securities Commission Malaysia's Guidelines on Unlisted Capital Market Product under the Lodge and Launch Framework, the Capital Markets and Services Act, 2007 (as amended from time to time) and other applicable laws;

(b) Valuation and pricing for the Fund has been carried out in accordance with the Deed and relevant regulatory requirements; and

(c) The creation and cancellation of units have been carried out in accordance with the Deed and the relevant regulatory requirements.

For and on behalf of
CIMB Commerce Trustee Berhad

Lee Kooi Yoke
Chief Executive Officer

Kuala Lumpur, Malaysia
10 December 2019

AFFIN HWANG INCOME FOCUS FUND 3

STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 OCTOBER 2019

	Note	2019 RM	Financial period from 15.11.2017 (date of launch) to 31.10.2018 RM
INVESTMENT INCOME/(LOSS)			
Interest income from financial assets at amortised cost		5,009,536	4,461,067
Net loss on foreign currency exchange		-	(6,026)
Net gain/(loss) on financial asset at fair value through profit or loss	7	6,710,557	(9,680,856)
Exit fee income		19,760	22,080
		11,739,853	(5,203,735)
EXPENSES			
Trustee fee	4	(38,561)	(33,302)
Auditors' remuneration		(10,000)	(8,000)
Tax agent's fee		(3,500)	(4,900)
Other expenses		(2,255)	(8,037)
		(54,316)	(54,239)
NET PROFIT/(LOSS) BEFORE TAXATION		11,685,537	(5,257,974)
TAXATION	5	(4,478)	(5,011)
NET PROFIT/(LOSS) AFTER TAXATION AND TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE FINANCIAL YEAR/PERIOD		11,681,059	(5,262,985)

Net profit/(loss) after taxation is made up of the following:

Realised amount		4,970,502	4,417,871
Unrealised amount		6,710,557	(9,680,856)
		11,681,059	(5,262,985)

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

STATEMENT OF FINANCIAL POSITION
AS AT 31 OCTOBER 2019

	Note	2019 RM	2018 RM
ASSETS			
Cash and cash equivalents		15,339	17,007
Deposits with licensed financial institutions	6	127,367,978	122,790,871
Financial asset at fair value through profit or loss	7	7,424,143	713,586
Tax recoverable		6,621	5,164
TOTAL ASSETS		134,814,081	123,526,628
LIABILITIES			
Amount due to Trustee		3,451	3,143
Auditors' remuneration		10,000	8,000
Tax agent's fee		4,900	4,900
Other payables and accruals		4,475	4,570
TOTAL LIABILITIES		22,826	20,613
NET ASSET VALUE OF THE FUND		134,791,255	123,506,015
EQUITY			
Unitholders' capital		128,373,181	128,769,000
Retained earnings/(Accumulated losses)		6,418,074	(5,262,985)
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		134,791,255	123,506,015
NUMBER OF UNITS IN CIRCULATION	8	128,371,000	128,769,000
NET ASSET VALUE PER UNIT (RM)		1.0500	0.9591

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

AFFIN HWANG INCOME FOCUS FUND 3

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 OCTOBER 2019

	Unitholders' capital RM	Retained earnings/ (Accumulated losses) RM	Total RM
Balance as at 1 November 2018	128,769,000	(5,262,985)	123,506,015
Total comprehensive income for the financial year	-	11,681,059	11,681,059
Movement in unitholders' capital:			
Cancellation of units	(395,819)	-	(395,819)
Balance as at 31 October 2019	128,373,181	6,418,074	134,791,255
Balance as at 15 November 2017 (date of launch)	-	-	-
Total comprehensive loss for the financial period	-	(5,262,985)	(5,262,985)
Movement in unitholders' capital:			
Creation of units arising from applications	128,769,000	-	128,769,000
Balance as at 31 October 2018	128,769,000	(5,262,985)	123,506,015

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

AFFIN HWANG INCOME FOCUS FUND 3

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 OCTOBER 2019

	2019 RM	Financial period from 15.11.2017 (date of launch) to 31.10.2018 RM
CASH FLOWS FROM OPERATING ACTIVITIES		
Proceeds from maturity of deposits with licensed financial institutions	70,875,559	482,396,482
Placements of deposits with licensed financial institutions	(70,453,546)	(600,845,560)
Purchase of investment	-	(10,394,442)
Interest received	10,416	119,274
Exit fee income received	19,760	22,080
Trustee fee paid	(38,253)	(30,159)
Net realised foreign currency exchange loss	-	(6,026)
Payments for other fees and expenses	(13,850)	(3,467)
Tax paid	(5,935)	(10,175)
Net cash generated from/(used in) operating activities	394,151	(128,751,993)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from creation of units	-	128,769,000
Payments for cancellation of units	(395,819)	-
Net cash (used in)/generated from financing activities	(395,819)	128,769,000
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(1,668)	17,007
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF FINANCIAL YEAR/ DATE OF LAUNCH	17,007	-
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR/PERIOD	15,339	17,007

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL YEAR ENDED 31 OCTOBER 2019

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 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/period. 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 J.

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

The Fund has applied the following amendments for the first time for the financial year beginning on 1 November 2018:

- MFRS 9 'Financial Instruments' became effective for annual periods beginning on or after 1 January 2018. It addresses the classification, measurement and derecognition of financial assets and liabilities and replaces the multiple classification and measurement models in MFRS 139.

  Classification and measurement of debt assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortised cost if the objective of the business model is to hold the financial asset for the collection of the contractual cash flows and the contractual cash flows under the instrument solely represent payments of principal and interest ("SPPI"). A debt instrument is measured at fair value through other comprehensive income if the objective of the business model is to hold the financial asset both to collect contractual cash flows from SPPI and to sell. All other debt instruments must be recognised at fair value through profit or loss. An entity may however, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Derivative and equity instruments are measured at fair value through profit or loss unless, for equity instruments not held for trading, an irrevocable option is taken to measure at fair value through other comprehensive income. MFRS 9 also introduces a new expected credit loss ("ECL") impairment model.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL YEAR ENDED 31 OCTOBER 2019 (CONTINUED)

A BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

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

The Fund has applied the following amendments for the first time for the financial year beginning on 1 November 2018: (continued)

MFRS 9 has been applied retrospectively by the Fund and has resulted in the changes outlined in Note F.

The Fund's investment portfolio continues to be classified as fair value through profit or loss and other financial assets which are held for collection continue to be measured at amortised cost. There was no material impact on adoption from the application of the new impairment model.

There are no other standards, amendments to standards or interpretations that are effective for annual periods beginning on 1 January 2018 that have a material effect on the financial statements of the Fund.

(b) New standards, amendments and interpretations effective after 1 January 2019 and have not been early adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019, and have not been early adopted in preparing these financial statements. None of these are expected to have a material effect on the financial statements of the Fund.

B INCOME RECOGNITION

Interest income

Interest income from deposits with licensed financial institutions is recognised based on effective interest rate method on an accruals basis.

Up to 31 October 2018, when a loan and receivable is impaired, the Fund reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument and continue unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

From 1 November 2018, 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).

The change did not result in any material impact in the Fund.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 OCTOBER 2019 (CONTINUED)

B INCOME RECOGNITION (CONTINUED)

Exit fee income

Exit fee income is a redemption fee charged to unitholders on cancellation of units before the maturity date and is recognised upon cancellation of units.

C 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.

D 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.

E 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.

F FINANCIAL ASSETS AND FINANCIAL LIABILITIES

(i) Classification

Up to 31 October 2018, the Fund designates its investment in unquoted derivative as financial asset at fair value through profit or loss.

Financial assets are designated at fair value through profit or loss when they are managed and their performance evaluated on a fair value basis.

Derivatives are financial assets/liabilities at fair value through profit or loss categorised as held for trading unless they are designated hedges (Note G).

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and have been included in current assets. The Fund's loans and receivables comprise cash and cash equivalents and deposits with licensed financial institutions.

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

The Fund classifies amount due to Trustee, auditors' remuneration, tax agent's fee and other payables and accruals as other financial liabilities.

From 1 November 2018, the Fund classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("OCI") or through profit or loss), and
- those to be measured at amortised cost

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 contractual cash flows of the Fund's debt securities are solely principal and interest, 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.

The Fund classifies cash and cash equivalents and deposits with licensed financial institutions as financial assets at amortised cost as these financial assets are held to collect contractual cash flows consisting of the amount outstanding.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL YEAR ENDED 31 OCTOBER 2019 (CONTINUED)

F FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

(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.

Financial liabilities, within the scope of MFRS 139 up to 31 October 2018 and MFRS 9 from 1 November 2018, 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.

When the Fund purchases an option, an amount equal to fair value which is based on the premium paid is recorded as an asset. When options are closed, the difference between the premium and the amount paid, net of brokerage commissions, or the full amount of the premium if the option expires worthless, is recognised as a gain or loss and is presented in the statement of comprehensive income within ‘net gain/(loss) on financial asset at fair value through profit and loss’ in the period which they arise.

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

The Fund’s investment in unquoted derivative – option is valued on a weekly basis using valuation techniques by JP Morgan Chase Bank Bhd (the “Option Seller”). Refer to Note 3 for further details.

Deposits with licensed financial institutions are stated at cost plus accrued interest calculated on the effective interest method over the period from the date of placement to the date of maturity of the deposits.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 OCTOBER 2019 (CONTINUED)

F FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

(iii) Impairment

Up to 31 October 2018, for assets carried at amortised cost, the Fund assesses at the end of the reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognised in profit or loss. If 'loans and receivables' or a 'held-to-maturity investment' has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

As a practical expedient, the Fund may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in statement of comprehensive income.

When an asset is uncollectible, it is written off against the related allowance account. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

From 1 November 2018 onwards, 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 OCTOBER 2019 (CONTINUED)

F FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

(iii) Impairment (continued)

Definition of default and credit-impaired financial assets

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

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 impairment gains. There are no write-offs/recoveries during the financial year.

G DERIVATIVE FINANCIAL INSTRUMENT

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

A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset from another enterprise, a contractual right to exchange financial instruments with another enterprise under conditions that are potentially favourable, or an equity instrument of another enterprise.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another enterprise, or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable.

The Fund’s derivative financial instrument comprises unquoted derivative – option. 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.

The fair value of unquoted derivative – option is determined in accordance with the accounting policy set out in Note F.

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 held-for-trading and accounted for in accordance with the accounting policy set out in Note F.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 OCTOBER 2019 (CONTINUED)

H CASH AND CASH EQUIVALENTS

For the purpose of statement of cash flows, cash and cash equivalents comprises bank balances that is readily convertible to known amount of cash and which is subjected to an insignificant risk of change in value.

I 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 asset 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 unitholders exercise 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.

J 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 on the estimates, certain key variables that are anticipated to have material impact 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.

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 Security Commission's ("SC") Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 OCTOBER 2019 (CONTINUED)

J CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

(i) Fair value of unquoted derivative – option

The Fund invests in unquoted derivative – option that is not quoted in active markets. Fair value of such instrument are determined by using valuation techniques set out in Note 3 of the financial statements.

Models use observable data, to the extent practicable. However, unobservable input such as implied volatility and net cost of borrowing are based on assumptions that require management to make estimates. Changes in assumptions about this factor could affect the reported fair value of the unquoted derivative – option. The sensitivity to unobservable inputs is based on management's expectation of reasonable possible shift in these inputs, taking into consideration historical data and estimations of future market movements.

For the unquoted derivative – option, an increase in the implied volatility and the net cost of borrowing would lead to an increase in estimated value. The Manager is of the opinion that it is reasonably possible, based on existing knowledge, that there could be substantial shift in the unobservable inputs in Note 3 to the financial statements within the next financial period which could result in material changes to the fair value of the unquoted derivative – option.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 OCTOBER 2019

1 INFORMATION ON THE FUND

The Wholesale Fund was constituted under the name Affin Hwang Income Focus Fund 3 (the “Fund”) pursuant to the execution of a Deed dated 31 October 2017 (the “Deed”) entered into between Affin Hwang Asset Management Berhad (the “Manager”) and CIMB Commerce Trustee Berhad (the “Trustee”).

The Fund commenced operations on 20 December 2017 and will continue its operations until its termination on the third anniversary of the Fund or on the maturity of the Fund which falls on 21 December 2020.

Unless otherwise prohibited by the relevant authorities or any law or contract and provided always that there is no inconsistency with the objective of the Fund, the Fund may invest in the following permitted investments:

(i) Deposit with financial institutions;
(ii) Money market instruments with financial institutions;
(iii) Options;
(iv) Structured warrants; and
(v) Any other investments as may be permitted by the SC from time to time that is in line with the Fund’s objective.

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

The objective of the Fund is to provide income return whilst maintaining capital preservation.

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 10 December 2019.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 OCTOBER 2019 (CONTINUED)

2 FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial instruments of the Fund are as follows:

	Note	Financial assets at amortised cost	Financial asset at fair value through profit or loss	Total
		RM	RM	RM
2019				
Cash and cash equivalents		15,339	-	15,339
Deposits with licensed financial institutions	6	127,367,978	-	127,367,978
Unquoted derivative – option	7	-	7,424,143	7,424,143
Total		127,383,317	7,424,143	134,807,460

	Note	Loans and receivables	Financial asset at fair value through profit or loss	Total
		RM	RM	RM
2018				
Cash and cash equivalents		17,007	-	17,007
Deposits with licensed financial institutions	6	122,790,871	-	122,790,871
Unquoted derivative – option	7	-	713,586	713,586
Total		122,807,878	713,586	123,521,464

All current liabilities are financial liabilities which are carried at amortised cost.

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.

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.

(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 deposits with licensed financial institutions. The Manager overcomes this exposure by placing deposits with licensed financial institutions with fixed rates of interest and maturity.

(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 a 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.

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

	Unquoted derivative – option RM	Total RM
2019		
Euro	7,424,143	7,424,143
2018		
Euro	713,586	713,586

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 profit after tax and net asset value ("NAV") to changes in foreign exchange movements. The analysis is based on the assumption that the foreign exchange rate changes by 5%, 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 increase/(decrease) in the net assets attributable to unitholders by approximately 5%. Disclosures below are shown in absolute terms, changes and impacts could be positive or negative.

	Change in rate	Impact on profit/(loss) after tax/ NAV
	%	RM
2019		
Euro	+/- 5	+/- 371,207
2018		
Euro	+/- 5	+/- 35,679

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 placements on deposits in licensed financial institutions is managed by ensuring that the Fund will only place deposits in reputable licensed financial institutions.

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

Credit risk (continued)

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

	Cash and cash equivalents RM	Deposits with licensed financial institutions RM	Unquoted derivative – option RM	Total RM
2019				
Financials				
- AAA	15,339	127,367,978	-	127,383,317
- A1	-	-	7,424,143	7,424,143
Total	15,339	127,367,978	7,424,143	134,807,460
2018				
Financials				
- AAA	17,007	122,790,871	-	122,807,878
- A1	-	-	713,586	713,586
Total	17,007	122,790,871	713,586	123,521,464

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 cash, deposits with licensed financial institutions and other instruments, which are capable of being converted into cash within 7 days.

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

Liquidity risk (continued)

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.

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

	Within one month RM	Between one month to one year RM	Total RM
2019			
Amount due to Trustee	3,451	-	3,451
Auditors' remuneration	-	10,000	10,000
Tax agent's fee	-	4,900	4,900
Other payables and accruals	-	4,475	4,475
	3,451	19,375	22,826
2018			
Amount due to Trustee	3,143	-	3,143
Auditors' remuneration	-	8,000	8,000
Tax agent's fee	-	4,900	4,900
Other payables and accruals	-	4,570	4,570
	3,143	17,470	20,613

Capital risk

The capital of the Fund is represented by equity consisting of unitholders' capital and retained earnings/(accumulated losses). 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 unitholders 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 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 markets (such as trading securities) is based on quoted market prices at the close of trading on the financial year end date.

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 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.

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.

3 FAIR VALUE ESTIMATION (CONTINUED)

(i) Fair value hierarchy (continued)

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

	Level 1 RM	Level 2 RM	Level 3 RM	Total RM
2019				
Financial asset at fair value through profit or loss - unquoted derivative – option	-	-	7,424,143	7,424,143
2018				
Financial asset at fair value through profit or loss - unquoted derivative – option	-	-	713,586	713,586

Level 3 instrument

The Fund invests in an option issued by the Option Seller and is valued on a weekly basis. These investments classified within Level 3 have significant unobservable inputs, 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 determining the valuation, the Option Seller utilises risk management models based on probability testing. The model utilises market observable input factors such as interest rate levels and remaining time to maturity; and combine them with the Option Seller's own unobservable inputs such as Implied Volatility and Net Cost of Borrowing. These market observable quantitative inputs and in-house assumptions are then typically put through a random process and simulated multiple times to create a sufficiently large sample size whereby the Option Seller is able to arrive at a meaningful average level which is used as the mark to market valuation for the option.

3 FAIR VALUE ESTIMATION (CONTINUED)

(i) Fair value hierarchy (continued)

Level 3 instrument (continued)

The descriptions of unobservable inputs in the option valuation are:

- Implied Volatility: this is derived by the Option Seller from a number of parameters including but not limited to the Option Seller's assumptions, using proxies from correlated assets and derivation from observable inputs like realised volatility of the Jupiter JGF – Dynamic Bond Fund ("the underlying fund") and volatility quotes in the broker market.

- Net Cost of Borrowing: the net cost of borrowing for the Option Seller is expressed as a spread over Euribor rates. The valuation of the option is impacted by the cost of borrowing associated with the option seller having to buy units of the underlying Jupiter JGP – Dynamic Bond Fund net of rebates given by the mutual fund manager.

The sensitivity of fair value valuations for fund linked option to unobservable inputs are not static and can vary substantially depending on the Option Seller's assumptions.

The following table presents the movements in Level 3 instruments:

	2019 RM	2018 RM
Opening balance	713,586	-
Purchase	-	10,394,442
Net changes in fair value on financial asset at fair value through profit or loss	6,710,557	(9,680,859)
	7,424,143	713,586

In the specific case of the Fund's investment, the fair value of the investment will rise respectively when:

- Implied volatility increases;
- Net cost of borrowing increases;

and vice versa, the fair value of the investment will fall if each of the above factors move in the opposite direction.

(ii) The carrying values of cash and cash equivalents and all current liabilities are a reasonable approximation of the fair values due to their short term nature.

4 TRUSTEE FEE

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

For the financial year ended 31 October 2019, the Trustee fee is recognised at a rate of 0.03% (2018: 0.03%) per annum on the NAV of the Fund calculated on a daily basis as stated in the Fund's Information Memorandum.

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

5 TAXATION

	2019 RM	Financial period from 15.11.2017 (date of launch) to 31.10.2018 RM
Current taxation	4,478	5,011

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

	2019 RM	31.10.2018 RM
Net profit/(loss) before taxation	11,685,537	(5,257,974)
Tax at Malaysian statutory tax rate of 24% (2018: 24%)	2,804,529	(1,261,914)
Tax effects of:		
(Investment income not subject to tax)/ Investment loss disallowed from tax	(2,812,822)	1,254,196
Expenses not deductible for tax purposes	10,395	10,137
Restrictions on tax deductible expenses for Wholesale Funds	2,376	2,592
Tax expense	4,478	5,011

6 DEPOSITS WITH LICENSED FINANCIAL INSTITUTIONS

The weighted average interest rate per annum for deposits with licensed financial institutions that was effective as at balance sheet date was as follows:

	2019 %	2018 %
Deposits with licensed financial institutions	4.25	4.25

Deposits with licensed financial institutions have an average maturity of 416 days (2018: 779 days). The amount includes interest receivable of RM9,340,913 (2018: RM4,341,793).

7 FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

The Fund invests in unquoted derivative – option. An option is a contractual arrangement under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of securities or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of future securities price. The notional amount of the Fund's exposure to the unquoted derivative – option as at 31 October 2019 is RM128,369,564. The Fund's investment in unquoted derivative – option is set out below:

	2019 RM	2018 RM
Financial asset at fair value through profit or loss:		
- unquoted derivative - option	7,424,143	713,586
Net gain/(loss) on financial asset:		
at fair value through profit or loss		
- unrealised gain/(loss) on changes in fair value	6,710,557	(9,680,856)

7 FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

(a) Unquoted derivative – option

(i) Unquoted derivative – option as at 31 October 2019 are as follows:

	Quantity	Aggregate cost RM	Fair value RM	Percentage of NAV %
Option				
3Y European Call on Jupiter JGF - Dynamic Bond	27,535,890	10,394,442	7,424,143	5.51
Total unquoted derivative – option	27,535,890	10,394,442	7,424,143	5.51
Accumulated unrealised loss on unquoted derivative – option		(2,970,299)		
Total unquoted derivative – option		7,424,143		

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 OCTOBER 2019 (CONTINUED)

7 FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

(a) Unquoted derivative – option (continued)

(ii) Unquoted derivative – option as at 31 October 2018 are as follows:

	Quantity	Aggregate cost RM	Fair value RM	Percentage of NAV %
Option				
3Y European Call on Jupiter JGF - Dynamic Bond	27,535,890	10,394,442	713,586	0.58
Total unquoted derivative – option	27,535,890	10,394,442	713,586	0.58
Accumulated unrealised loss on unquoted derivative – option		(9,680,856)		
Total unquoted derivative – option		713,586		

The unquoted derivative – option expires on 14 December 2020.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 OCTOBER 2019 (CONTINUED)

8 NUMBER OF UNITS IN CIRCULATION

	2019 No. of units	2018 No. of units
At the beginning of the financial year/date of launch	128,769,000	-
Creation of units arising from applications	-	128,769,000
Cancellation of units	(398,000)	-
At the end of the financial year/period	128,371,000	128,769,000

9 TRANSACTION WITH DEALER

(i) There is no transaction with dealer for the financial year ended 31 October 2019.

(ii) Details of transaction with dealer for the financial period from 15 November 2017 (date of launch) to 31 October 2018 are as follows:

Name of dealer	Value of trade RM	Percentage of total trade %
JP Morgan Chase Bank Bhd	10,394,442	100.00

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 OCTOBER 2019 (CONTINUED)

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

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

Related parties	Relationships
Affin Hwang Asset Management Berhad	The Manager
Affin Hwang Investment Bank Berhad	Holding company of the Manager
Affin Bank Berhad ("ABB")	Ultimate holding company of the Manager

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

	2019		2018	
	No. of units	RM	No. of units	RM
The Manager:				
Affin Hwang Asset Management Berhad (The units are held legally for booking purposes)	2,496	2,621	3,133	3,005

11 MANAGEMENT EXPENSE RATIO ("MER")

	2019	Financial period from 15.11.2017 (date of launch) to 31.10.2018
	%	%
MER	0.04	0.05

MER is derived from the following calculation:

$$MER = \frac{(A + B + C + D) \times 100}{E}$$

A = Trustee fee
B = Auditors' remuneration
C = Tax agent's fee
D = Other expenses
E = Average NAV of the Fund calculated on a daily basis

The average NAV of the Fund for the financial year/period calculated on a daily basis was RM128,524,997 (2018: RM115,432,550).

12 PORTFOLIO TURNOVER RATIO ("PTR")

	2019	Financial period from 15.11.2017 (date of launch) to 31.10.2018
PTR (times)	-	0.05

PTR is derived from the following calculation:

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

where: total acquisition for the financial year/period = RM Nil (2018: RM10,394,442)
total disposal for the financial year/period = RM Nil (2018: RM Nil)

13 MFRS 9 FINANCIAL INSTRUMENTS

As disclosed in Note A, the Fund has adopted MFRS 9, which resulted in the following changes in accounting policies.

(a) Classification and measurement of financial assets

Up to 31 October 2018, financial assets were classified in the following categories: financial assets at fair value through profit or loss ("FVTPL") and loans and receivables. Note F sets out the details of accounting policies for classification and measurement of financial instruments under MFRS 139.

From 1 November 2018, the Fund applies the following MFRS 9's classification approach to all types of financial assets:

- Investments in equity instruments: These instruments are always measured at fair value with changes in fair value presented in profit or loss unless the Fund has made an irrevocable choice to present changes in fair value in other comprehensive income ("OCI") for investments that are not held for trading.

- Investments in debt instruments: There are 3 subsequent measurement categories: amortised cost, fair value with changes either recognised through other comprehensive income ("FVOCI") or through profit or loss ("FVTPL").

(b) Impairment

From 1 November 2018 onwards, 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.

<u>Significant increase in credit risk</u>

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

<u>Definition of default and credit-impaired financial assets</u>

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 OCTOBER 2019 (CONTINUED)

13 MFRS 9 FINANCIAL INSTRUMENTS (CONTINUED)

As disclosed above, the adoption of MFRS 9 in 2018 resulted in a change in measurement categories of certain financial assets and financial liabilities.

The measurement category and the carrying amount of financial assets and financial liabilities in accordance with MFRS 139 and MFRS 9 at 1 November 2018 are compared as follows

	Measurement category		**Carrying amount**			
	Original (MFRS 139)	New (MFRS 9)	Original (MFRS 139)	Reclassifi-cations	Remeasu-rements	New (MFRS 9)
			RM	**RM**	**RM**	**RM**
Assets						
Cash and cash equivalents	Loans and receivables	Amortised cost	17,007	-	-	17,007
Deposits with licensed financial institutions	FVTPL	FVTPL	122,790,871	-	-	122,790,871
Unquoted derivative – option	FVTPL	FVTPL	713,586	-	-	713,586
Tax recoverable	Loans and receivables	Amortised cost	5,164	-	-	5,164
Liabilities						
Amount due to Trustee	Amortised cost	Amortised cost	3,143	-	-	3,143
Auditors' remuneration	Amortised cost	Amortised cost	8,000	-	-	8,000
Tax agent's fee	Amortised cost	Amortised cost	4,900	-	-	4,900
Other payables and accruals	Amortised cost	Amortised cost	4,570	-	-	4,570

STATEMENT BY THE MANAGER

I, Teng Chee Wai, as the Director of **Affin Hwang Asset Management Berhad**, do hereby state that in my opinion as the Manager, the financial statements set out on pages 10 to 40 are drawn up in accordance with the provisions of the Deed and give a true and fair view of the financial position of the Fund as at 31 October 2019 and of its financial performance, changes in equity and cash flows for the financial year ended 31 October 2019 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

TENG CHEE WAI
EXECUTIVE DIRECTOR/MANAGING DIRECTOR

Kuala Lumpur
10 December 2019

INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF
AFFIN HWANG INCOME FOCUS FUND 3

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of Affin Hwang Income Focus Fund 3 ("the Fund") give a true and fair view of the financial position of the Fund as at 31 October 2019, and of its financial performance and its cash flows for the 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 31 October 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 10 to 40.

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' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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.

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 has no realistic alternative but to do so.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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:

(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 Fund'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 represent the underlying transactions and events in a manner that achieves fair presentation.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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.

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
10 December 2019

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