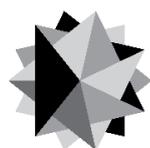


Affin Hwang

Income Focus Fund 3

Annual Report
21 December 2020

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 21 December 2020

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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 21 DECEMBER 2020

Size of holdings (units)	No. of unitholders	No. of units held * ('000)
5,000 and below	-	-
5,001 to 10,000	55	533
10,001 to 50,000	126	4,219
50,001 to 500,000	131	21,515
500,001 and above	33	102,004
Total	345	128,271

* Note: Excluding Manager's stock

FUND PERFORMANCE DATA

Category	As at 21 Dec 2020 (%)	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	100.00	6.93	3.50
Total	100.00	100.00	100.00
Total NAV (RM million)	128.274	134.791	123.506
NAV per Unit (RM)	1.0000	1.0500	0.9591
Unit in Circulation (million)	128.274	128.371	128.769
Highest NAV	1.1037	1.0634	1.0026
Lowest NAV	1.0000	0.9585	0.9512
Return of the Fund (%) ⁱⁱⁱ	-4.76	9.48	-4.09
- Capital Growth (%) ⁱ	8.82	9.48	-4.09
- Income Distribution (%) ⁱⁱ	14.26	Nil	Nil
Gross Distribution per Unit (sen)	13.9503	Nil	Nil
Net Distribution per Unit (sen)	13.9503	Nil	Nil
Management Expense Ratio (%) ¹	0.06	0.04	0.05
Portfolio Turnover Ratio (times) ²	0.03	-	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

¹The Fund's MER was higher than previous year due to higher expenses incurred during the financial period.

²The Fund's PTR was higher due to disposals during the financial period.

MANAGER'S REPORT

Income Distribution / Unit Split

The Net Asset Value per unit prior and subsequent to the distribution was as follows:-

Cum Date	Ex-Date	Cum-distribution (RM)	Distribution per Unit (RM)	Ex-distribution (RM)
26-Dec-19	27-Dec-19	1.0895	0.0356	1.0166
20-Dec-20	21-Dec-20	1.1037	0.103903	1.0000

No unit split were declared for the financial year ended 21 December 2020.

Performance Review

For the period under review from 1 November 2019 to 21 December 2020, the Fund registered an 8.82% return compared to the benchmark return of 2.69%. The Fund thus outperformed the Benchmark by 6.13%. The Net Asset Value ("NAV") of the Fund as at 21 December 2020 was RM237,435,292.30 (RM1.0000 per unit) while the NAV as at 31 October 2019 was RM134,791,255.27 (RM1.0500 per unit). During the period under review, the Fund has declared a total income distribution of RM0.1395 per unit.

Since commencement, the Fund has registered a return of 14.26% compared to the benchmark return of 9.06%, outperformed by 5.20%. We believe the Fund's objective to provide income return whilst maintaining capital preservation has been met.

Table 1: Performance of the Fund

	1 Year (22/12/19 - 21/12/20)	3 Years (22/12/17 - 21/12/20)	Since Commencement (20/12/17 - 21/12/20)
Fund	8.45%	14.14%	14.26%
Benchmark	2.26%	9.04%	9.06%
Outperformance	6.19%	5.10%	5.20%

Source of Benchmark: Maybank

Table 2: Average Total Return

	1 Year (22/12/19 - 21/12/20)	3 Years (22/12/17 - 21/12/20)	Since Commencement (20/12/17 - 21/12/20)
Fund	8.45%	4.50%	4.53%
Benchmark	2.26%	2.92%	2.92%
Outperformance	6.19%	1.58%	1.61%

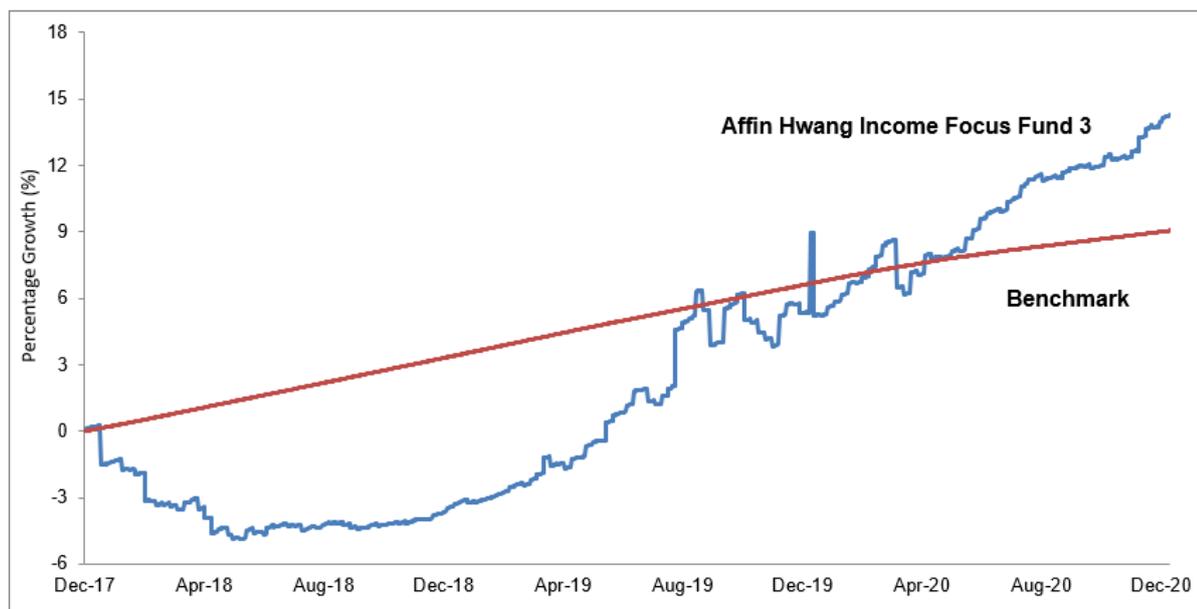
Source of Benchmark: Maybank

Table 3: Annual Total Return

	FYE 2020 (1/11/19 - 21/12/20)	FYE 2019 (1/11/18 - 31/10/19)	FYE 2018 (20/12/17 - 31/10/18)
Fund	8.82%	9.48%	(4.09%)
Benchmark	2.69%	3.24%	2.87%
Outperformance	6.13%	6.24%	(6.96%)

Source of Benchmark: Maybank

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. Source of Benchmark is from Maybank."

Benchmark: 12-Month Malayan Banking Berhad Fixed Deposit Rate

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 21 December 2020, the Fund's asset allocation stood at 100.00% cash and cash equivalent as the fund liquidated all of the assets upon maturity.

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

Global markets got off to a rocky start in 2020 as benchmark gauges reeled from contagion fears as a result of the coronavirus outbreak. The World Health Organization declared a global health emergency as soon as the coronavirus outbreak has claimed the lives of at least 300 people with rates of infection rapidly increasing. The global equities trended lower as risk assets continue to reel from the impact of the Covid-19 outbreak which sent chills to investors. The rapid spread of the infection outside of China with new cases springing in Italy, South Korea and Iran led to a rush towards safe haven assets with US Treasury yields dipping to record lows.

Coming into March, the global markets faced a washout, as few asset classes were spared from the selloff due to the pandemic fears as infection rates continue to escalate rapidly. The MSCI Asia ex-Japan index closed 12.2% lower in the month. In the US, the S&P 500 index closed 12.5% lower that month. In an attempt to stem the fallout from the coronavirus, major economies led by the US has introduced an unprecedented relief package to cushion its economy. The relief package comes as the US also reports the

greatest number of Covid-19 cases, making it the country with the largest outbreak in the world surpassing that of Italy and China.

However, global equities staged a rebound in April as markets looked past recent softness in economic data and were instead buoyed by stimulus optimism as well as encouraging developments on the COVID-19 front. The rally was fuelled by a volley of stimulus measures rolled out by major central banks including an expansion package by the US Federal Reserve and the European Union (EU). The S&P 500 index advanced since. By November, the S&P 500 index closed 10.8% higher from the previous month. This positive effect extended to Asia as well, with the Hang Seng Index and broader MSCI Asia ex Japan index rising 9.15% and 8.00% respective in the same period.

The US unveiled its Main Street Lending Program which is designed to provide support and ensure credit flow into SMEs that were in “good financial standing”. Similarly, the EU proposed a European Stability Mechanism (“ESM”) which offers a credit line of up to 240 billion Euros to EU members.

Tensions between the two global powerhouses rose recently after China ordered the US to close its Chengdu-based consulate. The order followed the US closure of the Chinese consulate in Houston. On the other hand, remarks by US President Donald Trump that he will move to ban Chinese-owned video app TikTok in the US also added fuel to this fire.

On commodities, crude oil prices slid by about 40% YTD as at end of October, after oil prices rebounded in June following a move by Organization of the Petroleum Exporting Countries (“OPEC”) and its oil-producing allies to extend the group’s historic production cut.

On the domestic front, the country plunged into political turmoil which ultimately culminated in the appointment of Tan Sri Muhyiddin Yassin as the eighth Prime Minister, from the Perikatan Nasional coalition (UMNO, PAS, Bersatu and a splinter faction of PKR). The appointment was announced by Istana Negara amidst shifting political allegiances and frantic horse-trading across the ruling and opposition coalitions.

Malaysia's economy posted a smaller contraction of 2.7 per cent in the third quarter (3Q) of 2020, surpassing consensus estimate of -4.6 per cent, as well as the Gross Domestic Product (GDP) contraction of 17.1 per cent in 2Q, supported by improvements in all sectors.

Prime Minister Tan Sri Muhyiddin Yassin unveiled a RM250 billion economic stimulus package to soften the economic blow due to the impact of Covid-19 with businesses shuttered due to the movement control order (MCO). Called the Pakej Rangsangan Ekonomi Prihatin Rakyat or Prihatin, the package comprises RM128 billion to protect the welfare of the people, RM100 billion to protect the welfare of small and medium enterprises (“SMEs”) and RM2 billion to strengthen the country’s economy according to The Edge. This was on top of the RM20 billion stimulus that was earlier announced on 27 February.

Whilst RM250 billion seems like a massive amount on the surface, the actual fiscal spending outlay amounts to 10.0% or RM25billion. The rest of the relief package comes in the form of loan guarantees, moratorium in loan repayments, EPF withdrawals, among others. In April, Prime Minister had announced an additional RM10billion package to help SMEs cope during the pandemic.

Malaysia Budget 2021 was announced in November, with an allocated RM 322.5 billion expenditure, with 26.5% of it coming from borrowings and use of government assets. 5.3% of this budget has been devoted to the Covid-19 fund. Targeted measures by this budget include extension of the Principal Hub incentive to Dec 2022, reduction of individual EPF contribution and review of income tax exemption on Green Sustainable and Responsible Investment Sukuk grant.

The Malaysia bond market saw foreign holdings increase by RM 2.7 billion in November making up 13.6% of total bonds outstanding, its highest since January 2020. Though foreign demand seems to be positive, overall yields still grew as selling concentrated on the lower end of the curve, as yields for the 15-year and 20-year MGS edged up 28 bps and 18 bps in the last week of November.

Investment Outlook

Global markets have rallied sharply from their lowest, supported by fiscal and monetary stimulus. The economy is still recovering, albeit at a slow pace, as consumers’ confidence return following the low death rates despite the rise in infections. With most markets recovering the year’s losses by November, coincided

with the release of Phase III clinical trial data for the vaccines, there is certainly light at the end of the tunnel for global markets.

Markets will be playing a “recovery theme” from December onwards and into 2021. Current estimates suggest global GDP to fall around 5% at the end of 2020, with an expected rebound of 5.4% in 2021 with the reopening of economies and growth returns. But as vaccines take time to produce even at current maximum production levels, we should expect this “recovery theme” to be a multi-year theme.

The worldwide Covid-19 death toll has since breached the 1 million mark, with US cases remaining stable at a high rate and Europe battling new waves. The shift in infections to younger age groups and more effective treatments however ensured Europe’s continuous recovery despite the increasing infection rates. It is also more exposed to global trade than US, thus will benefit from the rebound in Chinese demand. Europe’s exposure to financials, cyclical sectors such as energy and industrials, will potentially outperform in the second phase of recovery when economy continues to pick up as yield curve steepens. US dollar should weaken as economy recovers globally given its counter-cyclical behaviour, with more economically sensitive currencies appreciating instead, including euro and British sterling that are undervalued. However, British sterling faces higher volatility due to Brexit negotiations.

US-China trade tensions are likely to remain in the short-term. A Biden presidency could potentially uplift geopolitical risk with a steadier hand at the helm. Consistency in policy implementation is key alongside clarity on the nature of the two countries’ relationship with each other. A Biden win will set the stage for a post-election rally as investors warm to the idea. However, the issue of a divided Congress remains, with markets expecting a Republican-majority in control of the Senate.

In Malaysia, recent alarming increase in Covid-19 cases caused targeted lockdowns across the country, potentially delaying economic recovery although remaining positive on a full rebound by 2021. From a bottom-up perspective, markets are still focused on more export-oriented industries i.e. gloves, electromotive force and technology stocks. Politics pose as minor distraction seeing how the peak of political risk has passed after Sabah election results were released. However, the risk to policy continuity caused by uncertainty of a majority win could lead to potential loss on FDI opportunities to other emerging market countries.

Inflows into global equity funds surge past US\$100 billion in the last 3 weeks of November as investors continue to pile into equities with markets turning risk-on. Buoyed by a “Goldilocks” environment with a favourable US election outcome, low interest rates and positive developments on the vaccine front, we could see additional support for risk assets.

Earnings momentum is expected to continue into 2021 with earnings growth projected to rise by 38.0% in Asia ex-Japan (ex-Financials) according to estimates by some sell-side analysts. Key sectors leading the recovery include the energy, consumer discretionary and industrials. Though, this is tempered by moderately higher valuations which has crept up above historical averages.

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.

Cross Trade

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

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 period from 1 November 2019 to 21 December 2020 (date of maturity).

- (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;
- (c) Creation and cancellation of units have been carried out in accordance with the Deed and the relevant regulatory requirements; and
- (d) The distribution of income by the Fund are appropriate and reflect the investment objective of the Fund.

For and on behalf of
CIMB Commerce Trustee Berhad

Lee Kooi Yoke
Chief Executive Officer

Kuala Lumpur, Malaysia
15 January 2021

AFFIN HWANG INCOME FOCUS FUND 3

FINANCIAL STATEMENTS

FOR THE FINANCIAL PERIOD FROM 1 NOVEMBER 2019 TO 21 DECEMBER 2020 (DATE OF MATURITY)

AFFIN HWANG INCOME FOCUS FUND 3

FINANCIAL STATEMENTS

FOR THE FINANCIAL PERIOD FROM 1 NOVEMBER 2019 TO 21 DECEMBER 2020 (DATE OF MATURITY)

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AFFIN HWANG INCOME FOCUS FUND 3

STATEMENT OF COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD FROM 1 NOVEMBER 2019 TO 21 DECEMBER 2020 (DATE OF MATURITY)

	Note	Financial period from 1.11.2019 to 21.12.2020 (date of maturity) RM	31.10.2019 RM
INVESTMENT INCOME			
Interest income from financial assets at amortised cost		5,710,010	5,009,536
Interest income from financial asset at fair value through profit or loss		4,576,130	-
Net gain on foreign currency exchange		31,100	-
Net gain on financial asset at fair value through profit or loss	10	1,245,546	6,710,557
Exit fee income		5,181	19,760
		<u>11,567,967</u>	<u>11,739,853</u>
EXPENSES			
Trustee fee	5	(46,459)	(38,561)
Fund accounting fee	6	(12,000)	-
Auditors' remuneration		(10,000)	(10,000)
Tax agent's fee		(3,500)	(3,500)
Other expenses		(10,508)	(2,255)
		<u>(82,467)</u>	<u>(54,316)</u>
NET PROFIT BEFORE TAXATION		11,485,500	11,685,537
Taxation	8	(907)	(4,478)
NET PROFIT AFTER TAXATION AND TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD/YEAR		<u>11,484,593</u>	<u>11,681,059</u>

AFFIN HWANG INCOME FOCUS FUND 3

STATEMENT OF COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD FROM 1 NOVEMBER 2019 TO 21 DECEMBER 2020 (DATE OF MATURITY) (CONTINUED)

	<u>Note</u>	Financial period from 1.11.2019 to 21.12.2020 (date of maturity RM	<u>31.10.2019</u> RM
Net profit after taxation is made up of the following:			
Realised amount		11,484,593	4,970,502
Unrealised amount		-	6,710,557
		<u>11,484,593</u>	<u>11,681,059</u>

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 FINANCIAL POSITION AS AT 21 DECEMBER 2020 (DATE OF MATURITY)

	Note	21.12.2020 (date of maturity RM	31.10.2019 RM
ASSETS			
Cash and cash equivalents		141,624,361	15,339
Deposits with licensed financial institutions	9	-	127,367,978
Financial asset at fair value through profit or loss	10	-	7,424,143
Tax recoverable		5,714	6,621
TOTAL ASSETS		<u>141,630,075</u>	<u>134,814,081</u>
LIABILITIES			
Amount due to Trustee		2,432	3,451
Auditors' remuneration		10,000	10,000
Tax agent's fee		4,900	4,900
Distribution payable		13,328,053	-
Other payables and accruals		10,605	4,475
TOTAL LIABILITIES		<u>13,355,990</u>	<u>22,826</u>
NET ASSET VALUE OF THE FUND		<u>128,274,085</u>	<u>134,791,255</u>
EQUITY			
Unitholders' capital		128,269,479	128,373,181
Retained earnings		4,606	6,418,074
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		<u>128,274,085</u>	<u>134,791,255</u>
NUMBER OF UNITS IN CIRCULATION	11	<u>128,274,000</u>	<u>128,371,000</u>
NET ASSET VALUE PER UNIT (RM)		<u>1.0000</u>	<u>1.0500</u>

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 PERIOD FROM 1 NOVEMBER 2019 TO 21 DECEMBER 2020 (DATE OF MATURITY)

	<u>Unitholders' capital</u> RM	<u>Retained earnings</u> RM	<u>Total</u> RM
Balance as at 1 November 2019	128,373,181	6,418,074	134,791,255
Total comprehensive income for the financial period	-	11,484,593	11,484,593
Distributions (Note 7)	-	(17,898,061)	(17,898,061)
Movement in unitholders' capital:			
Cancellation of units	(103,702)	-	(103,702)
Balance as at 21 December 2020 (date of maturity)	<u>128,269,479</u>	<u>4,606</u>	<u>128,274,085</u>
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	<u>128,373,181</u>	<u>6,418,074</u>	<u>134,791,255</u>

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 PERIOD FROM 1 NOVEMBER 2019 TO 21 DECEMBER 2020 (DATE OF MATURITY)

	Financial period from 1.11.2019 to 21.12.2020 (date of maturity <u>RM</u>	<u>31.10.2019</u> RM
CASH FLOWS FROM OPERATING ACTIVITIES		
Proceeds from settlement of unquoted derivative – option	8,669,689	-
Proceeds from maturity of deposits with licensed financial institutions	156,520,201	70,875,559
Placements of deposits with licensed financial institutions	(38,493,136)	(70,453,546)
Interest received	19,627,053	10,416
Exit fee income received	5,181	19,760
Trustee fee paid	(47,478)	(38,253)
Net realised foreign currency exchange gain	31,100	-
Payments for other fees and expenses	(29,878)	(13,850)
Tax paid	-	(5,935)
	<u>146,282,732</u>	<u>394,151</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments for cancellation of units	(103,702)	(395,819)
Payments for distribution	(4,570,008)	-
	<u>(4,673,710)</u>	<u>(395,819)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	141,609,022	(1,668)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF FINANCIAL PERIOD/YEAR	<u>15,339</u>	<u>17,007</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL PERIOD/YEAR	<u><u>141,624,361</u></u>	<u><u>15,339</u></u>

Cash and cash equivalents as at 21 December 2020 and 31 October 2019 comprise of bank balances.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL PERIOD FROM 1 NOVEMBER 2019 TO 21 DECEMBER 2020 (DATE OF MATURITY)

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, International Financial Reporting Standards (“MFRS”).

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 period/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.

The Fund commenced operations on 20 December 2017 and was terminated on 21 December 2020. As such, the going concern assumption can no longer be used for the preparation of financial statements. The financial statements have therefore been prepared using a liquidation basis of accounting. The net proceeds have been distributed pro rata to unitholders on 22 December 2020 according to the number of units held in the Fund as at 21 December 2020. The Manager and the Trustee of the Fund hereby authorised the termination of the trust in respect of the Fund on 21 December 2020.

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

- IC Interpretation 23 ‘Uncertainty over Income Tax Treatments’ (effective 1 January 2019)
- Annual Improvements to MFRSs 2015 – 2017 Cycle (effective 1 January 2019)

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 ‘Definition of a Business’ (effective 1 January 2020) revise the definition of a business.
- 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.

AFFIN HWANG INCOME FOCUS FUND 3

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL PERIOD FROM 1 NOVEMBER 2019 TO 21 DECEMBER 2020 (DATE OF MATURITY) (CONTINUED)

A BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

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

There are no new standards, amendments to published standards and interpretations to existing standards that are applicable to the Fund but not yet effective and have not been early adopted as the Fund has matured on 21 December 2020.

B INCOME RECOGNITION

Interest income

Interest income from deposits with licensed financial institutions and unquoted derivative - option is recognised based on effective interest rate method on an accruals 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).

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 DISTRIBUTION

A distribution to the Fund's members is accounted for as a deduction from realised reserve. A proposed distribution is recognised as a liability in the period in which it is approved by the Trustee of the Fund.

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.

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.

AFFIN HWANG INCOME FOCUS FUND 3

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL PERIOD FROM 1 NOVEMBER 2019 TO 21 DECEMBER 2020 (DATE OF MATURITY) (CONTINUED)

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

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, distribution 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.

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.

AFFIN HWANG INCOME FOCUS FUND 3

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL PERIOD FROM 1 NOVEMBER 2019 TO 21 DECEMBER 2020 (DATE OF MATURITY) (CONTINUED)

G FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

(ii) Recognition and measurement (continued)

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 H and Note 3 of the financial statements.

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

(iii) Impairment

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 INCOME FOCUS FUND 3

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL PERIOD FROM 1 NOVEMBER 2019 TO 21 DECEMBER 2020 (DATE OF MATURITY) (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 period.

H 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 a 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.

AFFIN HWANG INCOME FOCUS FUND 3

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL PERIOD FROM 1 NOVEMBER 2019 TO 21 DECEMBER 2020 (DATE OF MATURITY) (CONTINUED)

H DERIVATIVE FINANCIAL INSTRUMENT (CONTINUED)

The Fund's derivative financial instruments comprise 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 3.

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 measured at fair value through profit or loss.

I 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.

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 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.

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 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.

AFFIN HWANG INCOME FOCUS FUND 3

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL PERIOD FROM 1 NOVEMBER 2019 TO 21 DECEMBER 2020 (DATE OF MATURITY) (CONTINUED)

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

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.

(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 and vice versa.

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 Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework.

AFFIN HWANG INCOME FOCUS FUND 3

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 1 NOVEMBER 2019 TO 21 DECEMBER 2020 (DATE OF MATURITY)

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 was terminated on 21 December 2020 under Clause 12.1 of the Deed. As such, the going concern assumption can no longer be used for the preparation of financial statements. The financial statements have therefore been prepared using a liquidation basis of accounting. The net proceeds have been distributed pro rata to unitholders on 22 December 2020 according to the number of units held in the Fund as at 21 December 2020. The Manager and the Trustee of the Fund hereby authorised the termination of the trust in respect of the Fund 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 15 January 2021.

AFFIN HWANG INCOME FOCUS FUND 3

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 1 NOVEMBER 2019 TO 21 DECEMBER 2020 (DATE OF MATURITY) (CONTINUED)

2 FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial instruments of the Fund are as follows:

	Note	At amortised cost RM	At fair value through profit or loss RM	Total RM
<u>21.12.2020 (date of maturity)</u>				
<u>Financial asset</u>				
Cash and cash equivalents		141,624,361	-	141,624,361
<u>Financial liabilities</u>				
Amount due to Trustee		2,432	-	2,432
Auditors' remuneration		10,000	-	10,000
Tax agent's fee		4,900	-	4,900
Distribution payable		13,328,053	-	13,328,053
Other payables and accruals		10,605	-	10,605
		13,355,990	-	13,355,990
<u>31.10.2019</u>				
<u>Financial assets</u>				
Cash and cash equivalents		15,339	-	15,339
Deposits with licensed financial institutions	9	127,367,978	-	127,367,978
Unquoted derivative – option	10	-	7,424,143	7,424,143
Total		127,383,317	7,424,143	134,807,460
<u>Financial liabilities</u>				
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
		22,826	-	22,826

AFFIN HWANG INCOME FOCUS FUND 3

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 1 NOVEMBER 2019 TO 21 DECEMBER 2020 (DATE OF MATURITY) (CONTINUED)

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

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.

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 is not exposed to any price risk as at 21 December 2020 (date of maturity) and 31 October 2019.

(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.

AFFIN HWANG INCOME FOCUS FUND 3

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 1 NOVEMBER 2019 TO 21 DECEMBER 2020 (DATE OF MATURITY) (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:

The Fund has no financial instruments denominated in foreign currencies as at 21 December 2020 (date of maturity).

	<u>Unquoted derivative – option</u> RM	<u>Total</u> RM
<u>31.10.2019</u>		
Euro	<u>7,424,143</u>	<u>7,424,143</u>

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.

	<u>Change in rate</u> %	Impact on profit/(loss) after tax/ <u>NAV</u> RM
<u>31.10.2019</u>		
Euro	+/- 5	<u>+/- 371,207</u>

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.

AFFIN HWANG INCOME FOCUS FUND 3

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 1 NOVEMBER 2019 TO 21 DECEMBER 2020 (DATE OF MATURITY) (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:

	<u>Cash and cash equivalents</u> RM	<u>Deposits with licensed financial institutions</u> RM	<u>Unquoted derivative – option</u> RM	<u>Total</u> RM
<u>21.12.2020 (date of maturity)</u>				
Financial services				
- AAA	141,624,361	-	-	141,624,361
<u>31.10.2019</u>				
Financial services				
- 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

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.

AFFIN HWANG INCOME FOCUS FUND 3

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 1 NOVEMBER 2019 TO 21 DECEMBER 2020 (DATE OF MATURITY) (CONTINUED)

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.

	<u>Within one month</u> RM	<u>Between one month to one year</u> RM	<u>Total</u> RM
<u>21.12.2020 (date of maturity)</u>			
Amount due to Trustee	2,432	-	2,432
Auditors' remuneration	-	10,000	10,000
Tax agent's fee	-	4,900	4,900
Distribution payable	13,328,053	-	13,328,053
Other payables and accruals	-	10,605	10,605
	<u>13,330,485</u>	<u>25,505</u>	<u>13,355,990</u>
<u>31.10.2019</u>			
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
	<u>3,451</u>	<u>19,375</u>	<u>22,826</u>

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 unitholders and to maintain a strong capital base to support the development of the investment activities of the Fund.

AFFIN HWANG INCOME FOCUS FUND 3

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 1 NOVEMBER 2019 TO 21 DECEMBER 2020 (DATE OF MATURITY) (CONTINUED)

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.

AFFIN HWANG INCOME FOCUS FUND 3

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 1 NOVEMBER 2019 TO 21 DECEMBER 2020 (DATE OF MATURITY) (CONTINUED)

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:

The Fund does not hold any financial instruments at fair value through profit or loss as at 21 December 2020 (date of maturity).

	<u>Level 1</u> RM	<u>Level 2</u> RM	<u>Level 3</u> RM	<u>Total</u> RM
<u>31.10.2019</u>				
Financial asset at fair value through profit or loss				
- unquoted derivative				
- option	-	-	7,424,143	7,424,143
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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.

AFFIN HWANG INCOME FOCUS FUND 3

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 1 NOVEMBER 2019 TO 21 DECEMBER 2020 (DATE OF MATURITY) (CONTINUED)

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:

	21.12.2020 (date of maturity) RM	31.10.2019 RM
At the beginning of the financial period/year	7,424,143	713,586
Maturity	(8,669,689)	-
Gain recognised in statement of comprehensive income	1,245,546	-
Net changes in fair value on financial asset at fair value through profit or loss	-	6,710,557
At the end of the financial period/year	<u>-</u>	<u>7,424,143</u>

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.

AFFIN HWANG INCOME FOCUS FUND 3

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 1 NOVEMBER 2019 TO 21 DECEMBER 2020 (DATE OF MATURITY) (CONTINUED)

4 MANAGEMENT FEE

The Manager did not impose any management fee on the Fund for the current period.

5 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 period from 1 November 2019 to 21.12.2020 (date of maturity), the Trustee fee is recognised at a rate of 0.03% (2019: 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.

6 FUND ACCOUNTING FEE

Effective 1 January 2020, the fund valuation and accounting fee for the Fund is RM12,000 per annum.

7 DISTRIBUTIONS

	Financial period from 1.11.2019 to 21.12.2020 (date of maturity) RM	31.10.2019 RM
Distributions to unitholders is from the following sources:		
Interest income	8,532,968	-
Previous financial years' realised income	9,366,493	-
	<hr/>	<hr/>
Gross realised income	17,899,461	-
Less: Expenses	(1,400)	-
	<hr/>	<hr/>
Net distribution amount	17,898,061	-
	<hr/> <hr/>	<hr/> <hr/>

AFFIN HWANG INCOME FOCUS FUND 3

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 1 NOVEMBER 2019 TO 21 DECEMBER 2020 (DATE OF MATURITY) (CONTINUED)

7 DISTRIBUTIONS (CONTINUED)

During the financial period from 1 November 2019 to 21 December 2020 (date of maturity), distributions were made as follows:

<u>21.12.2020 (date of maturity)</u>	<u>Gross/Net distribution per unit (sen)</u> RM
27.12.2019	3.5600
21.12.2020	10.3903
	<hr/>
	13.9503
	<hr/> <hr/>

There was no distribution made for the financial year ended 31 October 2019.

Included in distribution for the financial period is an amount of RM9,366,493 (31.10.2019: RM Nil) made from previous financial years' realised income.

The distribution declared on 21 December 2020 of RM13,328,053 was settled on 28 December 2020.

8 TAXATION

	Financial period from 1.11.2019 to 21.12.2020 (date of maturity)	<u>31.10.2019</u>
	RM	RM
Current taxation	907	4,478
	<hr/> <hr/>	<hr/> <hr/>

AFFIN HWANG INCOME FOCUS FUND 3

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 1 NOVEMBER 2019 TO 21 DECEMBER 2020 (DATE OF MATURITY) (CONTINUED)

8 TAXATION (CONTINUED)

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

	Financial period from 1.11.2019 to 21.12.2020 (date of maturity) RM	<u>31.10.2019</u> RM
Net profit before taxation	11,485,500	11,685,537
Tax at Malaysian statutory tax rate of 24% (31.10.2019: 24%)	2,756,520	2,804,529
Tax effects of:		
(Investment income not subject to tax)	(2,775,069)	(2,812,822)
Expenses not deductible for tax purposes	16,432	10,395
Restrictions on tax deductible expenses for Wholesale Funds	3,024	2,376
Tax expense	<u>907</u>	<u>4,478</u>

9 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:

	21.12.2020 (date of maturity) %	<u>31.10.2019</u> %
Deposits with licensed financial institutions	-	<u>4.25</u>

Deposits with licensed financial institutions as at 31 October 2019 have an average maturity of 416 days. The amount includes interest receivables of RM9,340,913.

AFFIN HWANG INCOME FOCUS FUND 3

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 1 NOVEMBER 2019 TO 21 DECEMBER 2020 (DATE OF MATURITY) (CONTINUED)

10 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:

	21.12.2020 (date of maturity) RM	31.10.2019 RM
Financial asset at fair value through profit or loss:		
- unquoted derivative - option	-	7,424,143
	<u> </u>	<u> </u>
Net gain on financial asset at fair value through profit or loss		
- realised gain on settlement of unquoted derivative – option	1,245,546	-
- unrealised gain on changes in fair value	-	6,710,557
	<u> </u>	<u> </u>
	<u>1,245,546</u>	<u>6,710,557</u>

AFFIN HWANG INCOME FOCUS FUND 3

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 1 NOVEMBER 2019 TO 21 DECEMBER 2020 (DATE OF MATURITY) (CONTINUED)

10 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:

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

The unquoted derivative – option was settled on 14 December 2020.

11 NUMBER OF UNITS IN CIRCULATION

	21.12.2020 (date of <u>maturity</u> No. of units	<u>31.10.2019</u> No. of units
At the beginning of the financial period/year	128,371,000	128,769,000
Cancellation of units	<u>(97,000)</u>	<u>(398,000)</u>
At the end of the financial period/year	<u>128,274,000</u>	<u>128,371,000</u>

The Fund has matured on 21 December 2020 and all the units in circulation were subsequently cancelled on 22 December 2020 at RM1.00 per unit.

AFFIN HWANG INCOME FOCUS FUND 3

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 1 NOVEMBER 2019 TO 21 DECEMBER 2020 (DATE OF MATURITY) (CONTINUED)

12 TRANSACTION WITH DEALER

- (i) Details of transaction with dealer for the financial period from 1 November 2019 to 21 December 2020 (date of maturity) are as follows:

<u>Name of dealer</u>	<u>Value of trade</u> RM	<u>Percentage of total trade</u> %
JP Morgan Chase Bank Bhd	8,669,689	100.00

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

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

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

<u>Related parties</u>	<u>Relationships</u>
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
Subsidiaries and associates of ABB as disclosed in its financial statements	Subsidiary and associated companies of the ultimate holding company of the Manager as disclosed in its financial statements

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

	<u>21.12.2020 (date of maturity)</u>		<u>31.10.2019</u>	
	No. of units	RM	No. of units	RM
<u>The Manager:</u>				
Affin Hwang Asset Management Berhad (The units are held legally for booking purposes)	2,414	2,414	2,496	2,621

AFFIN HWANG INCOME FOCUS FUND 3

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 1 NOVEMBER 2019 TO 21 DECEMBER 2020 (DATE OF MATURITY) (CONTINUED)

14 MANAGEMENT EXPENSE RATIO (“MER”)

	Financial period from 1.11.2019 to 21.12.2020 (date of maturity %)	<u>31.10.2019</u> %
MER	<u>0.06</u>	<u>0.04</u>

MER is derived from the following calculation:

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

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

The average NAV of the Fund for the financial period/year calculated on a daily basis was RM135,822,016 (2019: RM128,524,997).

15 PORTFOLIO TURNOVER RATIO (“PTR”)

	Financial period from 1.11.2019 to 21.12.2020 (date of maturity)	<u>31.10.2019</u>
PTR (times)	<u>0.03</u>	<u>-</u>

PTR is derived from the following calculation:

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

where: total acquisition for the financial period/year = RM Nil (2019: RM Nil)
total disposal for the financial period/year = RM 8,669,689 (2019: RM Nil)

AFFIN HWANG INCOME FOCUS FUND 3

STATEMENT BY THE MANAGER

I, 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 as the Manager, the financial statements set out on pages 1 to 28 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 21 December 2020 (date of maturity) and of its financial performance, changes in equity and cash flows for the financial period from 1 November 2019 to 21 December 2020 (date of maturity) 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
15 January 2021

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

REPORT ON 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 21 December 2020 (date of maturity), and of its financial performance and its cash flows for the financial period from 1 November 2019 to 21 December 2020 (date of maturity) in accordance with Malaysian Financial Reporting Standards, 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 21 December 2020 (date of maturity), and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial period from 1 November 2019 to 21 December 2020 (date of maturity), and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 1 to 28.

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.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note A, Basis of Preparation of the financial statements, which states that the Fund has matured on 21 December 2020. These financial statements have therefore been prepared using a liquidation basis of accounting. Our opinion is not qualified in respect of this matter.

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.

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

REPORT ON 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, 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.

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.

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

REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

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

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.
- (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.

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 INCOME FOCUS FUND 3 (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
15 January 2021

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