

Affin Hwang

18M Enhanced Income Fund 2

Annual Report
24 August 2021

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



AFFIN HWANG
CAPITAL

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

TRUSTEE
TMF Trustees Malaysia Berhad (610812-W)

AFFIN HWANG 18M ENHANCED INCOME FUND 2

Annual Report and Audited Financial Statements For The Financial Period From 1 March 2021 To 24 August 2021 (Date of Maturity)

Contents	Page
FUND INFORMATION	III
FUND PERFORMANCE DATA.....	IV
MANAGER'S REPORT	V
TRUSTEE'S REPORT	IX
FINANCIAL STATEMENTS	
DIRECTORY OF SALES OFFICE	

FUND INFORMATION

Fund Name	Affin Hwang 18M Enhanced Income Fund 2
Fund Type	Income
Fund Category	Fixed Income (Wholesale)
Investment Objective	The Fund aims to provide income whilst maintaining capital preservation
Duration of the Fund	Eighteen (18) months close-ended Fund
Termination Date	24 August 2021
Benchmark	12-Month Malayan Banking Berhad Fixed Deposit Rate as at Investment Date
Distribution Policy	Subject to the availability of income, the Fund will provide distribution on the Maturity Date

BREAKDOWN OF UNITHOLDERS BY SIZE AS AT 24 AUGUST 2021

Size of holdings (units)	No. of unitholders	No. of units held * ('000)
5,000 and below	0	0
5,001 to 10,000	0	0
10,001 to 50,000	0	0
50,001 to 500,000	0	0
500,001 and above	0	0
Total	0	0

* Note: Excluding Manager's stock

FUND PERFORMANCE DATA

Category	As at 24 Aug 2021 (%)	As at 28 Feb 2021 (%)
Portfolio composition		
Unquoted derivatives – option	-	4.03
Cash & cash equivalent	100.00	95.97
Total	100.00	100.00
Total NAV (RM'million)	114.988	119.826
NAV per Unit (RM)	1.0000	1.0421
Unit in Circulation (million)	114.988	114.988
Highest NAV	1.0816	1.0531
Lowest NAV	1.0000	0.9695
Return of the Fund (%) ⁱⁱⁱ	3.79	4.21
- Capital Growth (%) ⁱ	-4.04	4.21
- Income Distribution (%) ⁱⁱ	8.16	Nil
Gross Distribution per Unit (sen)	8.1582	Nil
Net Distribution per Unit (sen)	8.1582	Nil
Management Expense Ratio (%) ¹	0.04	0.04
Portfolio Turnover Ratio (times) ²	0.02	0.02

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 MER of the Fund remain unchanged during the financial year.

²The PTR of the Fund remain unchanged during the financial year.

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)
23-Aug-21	24-Aug-21	1.0814	8.1582	1.0000

No unit split were declared for the financial year ended 24 August 2021.

Performance Review

For the period 22 February 2020 to 24 August 2021, the Fund registered a return of 8.16%. During the period under review, the Fund has declared a total gross income distribution of RM0.081582 per unit. The Net Asset Value (NAV) per unit of the Fund as at 24 August 2021 was RM1.0000 after the income distribution. The Benchmark for the period registered a return of 3.01%. The Fund outperformed the Benchmark by 5.15%. The Fund has met its investment objective.

Fund Performance

Table 1: Performance of the Fund

	Since Commencement (22/2/20 - 24/8/21)
Fund	8.16%
Benchmark	3.01%
Outperformance	5.15%

Source of Benchmark: Bloomberg

Table 2: Average Total Return

	Since Commencement (22/2/20 - 24/8/21)
Fund	5.34%
Benchmark	1.99%
Outperformance	3.35%

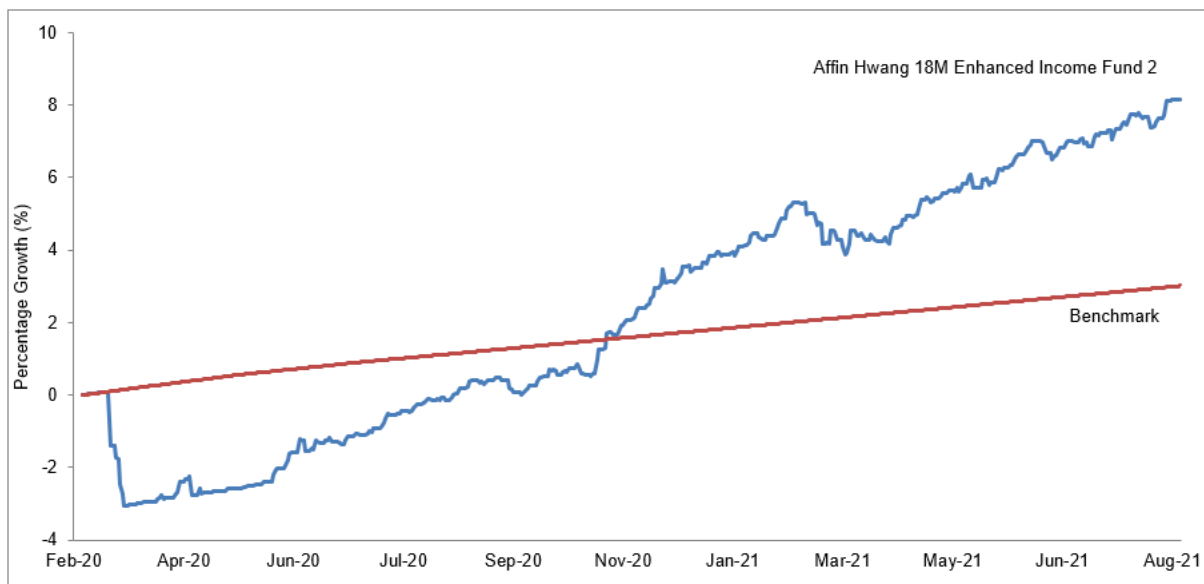
Source of Benchmark: Bloomberg

Table 3: Annual Total Return

	FYE 2021 (22/2/20 - 24/8/21)
Fund	8.16%
Benchmark	3.01%
Outperformance	5.15%

Source of Benchmark: Bloomberg

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 Bloomberg."

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

The Fund liquidated all of its assets as it matures on 24 August 2021.

Strategies Employed

Over the period under review, the Manager maintained its strategy of investing into derivative that tracks the performance of the underlying fund – PIMCO GIS Income Fund.

Market Review

Global equities started 2021 on a strong note as policy easing, and global vaccine rollouts went underway. At the start of January, US markets saw strong optimism. The storming of the US Capitol in early January had little effect over the broader market. However, a black swan event at the end of the month saw retail investors selectively targeting underperforming stocks (e.g. GME and AMC) that resulted in a short squeeze and pushing their share prices to new highs.

US equity markets ended the month of February with modest gains though sentiment was tested as surging bond yields and inflation fears took precedence. Whilst equities and bonds tend to move in opposite directions, the reality is that equity outperformance in the past year has largely come from growth-centric stocks and "stay at home" trades, which were facing short-term squeezes on their profit margins from rising rates. Another factor is the shift from growth to value, with value stocks performing better over the period.

Global equities endured a mixed session in March as US-China tensions boiled over dampening sentiment. With recovery still in a fragile state, global central banks including the Fed are expected to keep monetary policy accommodative to nurse the economy through the pandemic. Meanwhile, rising bond yields continue to unsettle markets. Banks are enjoying higher trading fees and lower provision costs as the economy gradually regains its footing.

Global markets shrugged off inflation fears to climb higher in June as investors start to buy-in to the Fed's dovish testimony. The S&P 500 and Nasdaq index rose, buoyed by stimulus optimism after early indication of bipartisan support of the proposed US\$1.2 trillion infrastructure bill in the US Congress. US Fed Chair, Jerome Powell testified in the House of Representatives to reiterate the central bank's view that inflation is transitory and that the FOMC will not rush to hike rates. The yield on the 10-year Treasury note tumbled as the Fed affirmed that it would not pre-emptively hike rates before signs of a recovery.

In Asia, the MSCI Asia ex-Japan index was marginally weaker in June as sentiment was dampened on geopolitical tensions and consolidation seen in China's economy. The Group of Seven ("G7") nations and North Atlantic Treaty Organisation ("NATO") held its annual summit with political leaders from US and Europe vowing to toughen its stance on China.

China had also reported weaker than expected retail sales and industrial production data. Industrial production grew 8.8% y-o-y in May, which came below consensus expectations of 9.2%. Weaker upstream production as well as a power shortage in the Yunan province which is an aluminium production hub led to lower factory output. May retail sales which rose 12.4% y-o-y also fell market expectations of 14.0%. However, weaker economic data could push back any chance of further tightening in China as policymakers look to sustain growth.

Asia was dragged by the weakness in the Chinese market in July. Once again, China saw regulators cracking down on businesses, this time targeting the education sector. Authorities had banned the provision of holiday and weekend tutoring, and further said that they will no longer approve the establishment of new tuition centres. Instead, tutoring companies are being asked to register as non-profit institutions.

The local equity market's performance was muted relative to regional peers. In the February result season, the tech sector was largely reporting earnings that beat expectations on the back of robust demand. Meanwhile, Finance Minister clarified in an interview that the government is not looking to impose capital gains tax on stocks. The government was mulling new taxes to widen its revenue base once the economy is on a more stable footing.

The Malaysian bond market saw an unwinding of "rate cut" bets at the end of January following BNM's announcement to keep interest rates unchanged at 1.75% highlighting that recovery of the local economy was underway. The shorter-end of the MGS curve saw yields rose whilst longer-tenured papers remained resilient that month.

Yields trended higher in tandem with US treasury movement in the quarter. Undoubtedly, the performance of the local bond market has been subpar since the start of the year; especially given the volatility in US Treasury yields, as well as the lack of support from EPF due to its ongoing commitment to the i-Sinar and i-Lestari programme. However, demand was seen returning in March, as more investors – including insurance players and asset managers – are seen nibbling into the market given the more attractive yield levels.

Fiscal deficit is expected to breach above the government's target of 6.0%. With the unveiled PEMULIH stimulus package, we could see the debt ceiling be raised to 65.0% from 60.0%. This could translate to more government bond supplies, which may put further pressure on Malaysia's sovereign rating.

On the monetary policy side, Bank Negara Malaysia ("BNM") kept Overnight Policy Rates ("OPR") at 1.75% in its monetary policy meeting in July. The central bank remained slightly optimistic on Malaysia's growth outlook on the back of various support measures in place, vaccine rollouts, as well as stronger export numbers.

Political risks abated slightly with the appointment of Datuk Seri Ismail Sabri Yaakob as the 9th Prime Minister after securing the majority support of 114 MPs. The next Parliament sitting is slated in September which Datuk Seri Ismail Sabri will face a test of majority support through a vote of confidence. With political stability expected until the next General Election (GE) due by 2023, the local market could see further support on the back of continued vaccination roll-outs. The gradual reopening of more economic sectors also point to economic growth improving in the coming quarters.

During its quarterly GDP briefing, BNM said that Malaysia's GDP grew 16.1% y-o-y in the 2Q'21, although it contracted 2% on a q-o-q basis. The central bank also revised its full-year GDP growth forecast for Malaysia to between 3% and 4%, from the previous forecast of between 6% and 7.5% for 2021.

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. Recovery plays will be the most obvious theme for the year of improving macroeconomic conditions and the inevitable rollout of vaccines has everyone looking to the future and letting go of 2020's miseries. We have already seen the rotation from growth to value take place in the start of 2021.

Earnings momentum will continue in 2021 with earnings growth projected to rise in Asia ex-Japan. 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. Liquidity conditions remain positive and with earnings visibility from Asian companies that are riding along a China-led economic recovery, Asia continues to be an ocean of growth potential as the region continues to grow. Selected Chinese consumer names which are less likely to be pressured by regulatory headwinds were deemed more favourable.

Back home, economic recovery continues to be delayed by Covid-19 as cases surge throughout the country. From a bottom-up perspective, the domestic focus will be on the recovery beneficiaries and exporters in the technology and EMS segment which have strong earnings visibility in the near term as well increasing demand. Weights in politically sensitive stocks have also been trimmed as the situation remains fluid.

ESG funds have also been gathering plenty of interest and we will expect this investor shift to ESG-focused funds to be more commonplace across the industry. The Biden administration's foray into building stronger climate change initiatives also signals a shift for the investment industry as this will generate more opportunities across asset classes. The wider implications of this on the economy will take time to materialise, but will continue to be observed.

State of Affairs of the Fund

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

Soft Commissions received from Brokers

As per the requirements of the Securities Commission's Guidelines on 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 18M ENHANCED INCOME FUND 2

We have acted as Trustee of Affin Hwang 18M Enhanced Income Fund 2 for financial period from 1 March 2021 to 24 August 2021 (Date of Maturity). To the best of our knowledge, **Affin Hwang Asset Management Berhad**, the Manager, has managed the Fund in accordance with the limitations imposed on the investment powers of the management company and the trustee under the Deed, other provisions of the Deed, the Capital Markets and Services Act 2007, the Securities Commission's Guidelines on Unlisted Capital Market Product under the Lodge and Launch Framework and other applicable laws during the period then ended.

We have also ensured the following:

- (a) the procedures and processes employed by **Affin Hwang Asset Management Berhad** to value and/or price the units of the Fund are adequate and that such valuation/pricing is carried out in accordance with the Deed of the Fund and other regulatory requirements; and
- (b) the creation and cancellation of units have been carried out in accordance with the Deed and relevant regulatory requirements.

During this financial period, a distribution of 8.1582 sen per unit (net) has been distributed to unit holders of the Fund. We are of the view that the distribution is not inconsistent with the objective of the Fund.

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

NORHAYATI BINTI AZIT
DIRECTOR – FUND SERVICES

Kuala Lumpur
13 September 2021

AFFIN HWANG 18M ENHANCED INCOME FUND 2

FINANCIAL STATEMENTS

**FOR THE FINANCIAL PERIOD FROM 1 MARCH 2021
TO 24 AUGUST 2021 (DATE OF MATURITY)**

AFFIN HWANG 18M ENHANCED INCOME FUND 2

FINANCIAL STATEMENTS

**FOR THE FINANCIAL PERIOD FROM 1 MARCH 2021
TO 24 AUGUST 2021 (DATE OF MATURITY)**

CONTENTS	PAGE (S)
STATEMENT OF COMPREHENSIVE INCOME	1
STATEMENT OF FINANCIAL POSITION	2
STATEMENT OF CHANGES IN EQUITY	3
STATEMENT OF CASH FLOWS	4
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	5 - 11
NOTES TO THE FINANCIAL STATEMENTS	12 - 28
STATEMENT BY THE MANAGER	29
INDEPENDENT AUDITORS' REPORT	30 - 33

AFFIN HWANG 18M ENHANCED INCOME FUND 2

STATEMENT OF COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD FROM 1 MARCH 2021 TO 24 AUGUST 2021 (DATE OF MATURITY)

	Note	Financial period from 1.3.2021 to 24.8.2021 (date of maturity) RM	Financial period from 20.1.2020 (date of launch) to 28.2.2021 RM
INVESTMENT INCOME			
Interest income from financial assets at amortised cost		1,777,658	3,789,737
Net gain on foreign currency exchange		-	441
Net gain on financial asset at fair value through profit or loss	10	2,809,084	1,099,772
		<u>4,586,742</u>	<u>4,889,950</u>
EXPENSES			
Trustee fee	5	(11,836)	(23,768)
Fund accounting fee	6	(6,000)	(11,000)
Auditors' remuneration		(9,500)	(10,000)
Tax agent's fee		(3,500)	(4,000)
Other expenses		(13,424)	(2,698)
		<u>(44,260)</u>	<u>(51,466)</u>
NET PROFIT BEFORE TAXATION		4,542,482	4,838,484
Taxation	7	-	-
NET PROFIT AFTER TAXATION AND TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD		<u>4,542,482</u>	<u>4,838,484</u>
Net profit after taxation is made up of the following:			
Realised amount		5,642,254	3,786,757
Unrealised amount		(1,099,772)	1,051,727
		<u>4,542,482</u>	<u>4,838,484</u>

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

AFFIN HWANG 18M ENHANCED INCOME FUND 2

STATEMENT OF FINANCIAL POSITION AS AT 24 AUGUST 2021 (DATE OF MATURITY)

	Note	As at 24.8.2021 (date of maturity) RM	As at 28.2.2021 RM
ASSETS			
Cash and cash equivalents		124,401,249	59,009
Deposits with licensed financial institutions	9	-	114,960,415
Financial asset at fair value through profit or loss	10	-	4,824,791
TOTAL ASSETS		<u>124,401,249</u>	<u>119,844,215</u>
LIABILITIES			
Amount due to Trustee		1,630	1,851
Distribution payable		9,380,951	-
Auditors' remuneration		9,500	10,000
Tax agent's fee		7,500	4,000
Other payables and accruals		13,653	1,880
TOTAL LIABILITIES		<u>9,413,234</u>	<u>17,731</u>
NET ASSET VALUE OF THE FUND		<u>114,988,015</u>	<u>119,826,484</u>
EQUITY			
Unitholders' capital		114,988,000	114,988,000
Retained earnings		15	4,838,484
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		<u>114,988,015</u>	<u>119,826,484</u>
NUMBER OF UNITS IN CIRCULATION	11	<u>114,988,000</u>	<u>114,988,000</u>
NET ASSET VALUE PER UNIT (RM)		<u>1.0000</u>	<u>1.0421</u>

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

AFFIN HWANG 18M ENHANCED INCOME FUND 2

STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD FROM 1 MARCH 2021 TO 24 AUGUST 2021 (DATE OF MATURITY)

	Unitholders' <u>capital</u> RM	Retained <u>earnings</u> RM	<u>Total</u> RM
Balance as at 1 March 2021	114,988,000	4,838,484	119,826,484
Total comprehensive income for the financial period	-	4,542,482	4,542,482
Distribution (Note 8)	-	(9,380,951)	(9,380,951)
Balance as at 24 August 2021 (date of maturity)	<u>114,988,000</u>	<u>15</u>	<u>114,988,015</u>
Balance as at 20 January 2020 (date of launch)	-	-	-
Total comprehensive income for the financial period	-	4,838,484	4,838,484
Movement in unitholders' capital:			
Creation of units arising from applications	<u>114,988,000</u>	<u>-</u>	<u>114,988,000</u>
Balance as at 28 February 2021	<u>114,988,000</u>	<u>4,838,484</u>	<u>119,826,484</u>

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

AFFIN HWANG 18M ENHANCED INCOME FUND 2

STATEMENT OF CASH FLOWS FOR THE FINANCIAL PERIOD FROM 1 MARCH 2021 TO 24 AUGUST 2021 (DATE OF MATURITY)

	Financial period from 1.3.2021 to 24.8.2021 (date of maturity) RM	Financial period from 20.1.2020 (date of launch) to 28.2.2021 RM
CASH FLOWS FROM OPERATING ACTIVITIES		
Proceeds from maturity of deposits with licensed financial institutions	111,200,000	224,920,388
Placements of deposits with licensed financial institutions	-	(336,120,388)
Purchase of investments	-	(3,725,019)
Proceeds from sale of investments	7,623,737	-
Interest received	5,538,073	29,322
Trustee fee paid	(12,057)	(21,917)
Fund accounting fee paid	(6,000)	(11,000)
Payment for other fees and expenses	(11,651)	(818)
Net realised gain on foreign exchange	10,138	48,486
Net cash flows generated from/(used in) operating activities	124,342,240	(114,880,946)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from creation of units	-	114,988,000
Net cash flows generated from financing activities	-	114,988,000
NET INCREASE IN CASH AND CASH EQUIVALENTS	124,342,240	107,054
EFFECTS OF FOREIGN CURRENCY EXCHANGE	-	(48,045)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL PERIOD/ DATE OF LAUNCH	59,009	-
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL PERIOD	124,401,249	59,009

Cash and cash equivalents as at 24 August 2021 (date of maturity) and 28 February 2021 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 18M ENHANCED INCOME FUND 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL PERIOD FROM 1 MARCH 2021 TO 24 AUGUST 2021 (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. 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.

The Fund commenced operations on 24 February 2020 and was terminated on 24 August 2021. 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 25 August 2021 according to the number of units held in the Fund as at 24 August 2021. The Manager and the Trustee of the Fund hereby authorised the termination of the trust in respect of the Fund on 24 August 2021.

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

- The Conceptual Framework for Financial Reporting (Revised 2018)
- Amendments to MFRS 101 and MFRS 108 'Definition of Material'

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

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

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

AFFIN HWANG 18M ENHANCED INCOME FUND 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL PERIOD FROM 1 MARCH 2021 TO 24 AUGUST 2021 (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 (continued)

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

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

B INCOME RECOGNITION

Interest income

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

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

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 period.

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

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

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.

AFFIN HWANG 18M ENHANCED INCOME FUND 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL PERIOD FROM 1 MARCH 2021 TO 24 AUGUST 2021 (DATE OF MATURITY) (CONTINUED)

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

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

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 that represent SPPI.

The Fund classifies amount due to Trustee, distribution payable, auditors' remuneration, tax agent's fee, 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 18M ENHANCED INCOME FUND 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL PERIOD FROM 1 MARCH 2021 TO 24 AUGUST 2021 (DATE OF MATURITY) (CONTINUED)

F 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.

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

(iii) Impairment

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

Significant increase in credit risk

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

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 unlikelihood 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.

AFFIN HWANG 18M ENHANCED INCOME FUND 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL PERIOD FROM 1 MARCH 2021 TO 24 AUGUST 2021 (DATE OF MATURITY) (CONTINUED)

F FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

(iii) Impairment (continued)

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.

G CASH AND CASH EQUIVALENTS

For the purpose of statement of cash flows, cash and cash equivalents comprise cash and bank balances that is readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

H 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 period if a unitholder exercises the right to put the unit back to the Fund.

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

AFFIN HWANG 18M ENHANCED INCOME FUND 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL PERIOD FROM 1 MARCH 2021 TO 24 AUGUST 2021 (DATE OF MATURITY) (CONTINUED)

I DERIVATIVE FINANCIAL INSTRUMENTS

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.

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

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 financial period which they arise.

The Fund's investment in unquoted derivative – option is valued on a daily basis using valuation techniques by Societe Generale (the "Option Seller"). Refer to Note 3 for further explanation.

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 impacts to the Fund's results and financial position are tested for sensitivity to changes in the underlying parameters.

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

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

AFFIN HWANG 18M ENHANCED INCOME FUND 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL PERIOD FROM 1 MARCH 2021 TO 24 AUGUST 2021 (DATE OF MATURITY) (CONTINUED)

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

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 will result in material changes to the fair value of the unquoted derivative – option.

K REALISED AND UNREALISED PORTIONS OF PROFIT OR LOSS AFTER TAX

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

AFFIN HWANG 18M ENHANCED INCOME FUND 2

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 1 MARCH 2021 TO 24 AUGUST 2021 (DATE OF MATURITY)

1 INFORMATION ON THE FUND

The Wholesale Fund was constituted under the name Affin Hwang 18M Enhanced Income Fund 2 (the “Fund”) pursuant to the execution of a Deed dated 7 January 2020 (the “Deed”) entered into between Affin Hwang Asset Management Berhad (the “Manager”) and TMF Trustees Malaysia Berhad (the “Trustee”).

The Fund commenced operations on 24 February 2020 and was terminated on 24 August 2021. 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 25 August 2021 according to the number of units held in the Fund as at 24 August 2021. The Manager and the Trustee of the Fund hereby authorised the termination of the trust in respect of the Fund on 24 August 2021.

The Fund may invest in any of the following investments:

- (a) Money market instruments;
- (b) Deposits;
- (c) Options;
- (d) Structured warrants; and
- (e) Any other form of investments permitted by the SC from time to time which is in line with the objective of the Fund.

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 main objective of the Fund is to provide income 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 13 September 2021.

AFFIN HWANG 18M ENHANCED INCOME FUND 2

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 1 MARCH 2021 TO 24 AUGUST 2021 (DATE OF MATURITY) (CONTINUED)

2 FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial instruments are as follows:

	Note	At amortised cost RM	At fair value through profit or loss RM	Total RM
<u>As at 24.8.2021</u> (date of maturity)				
<u>Financial assets</u>				
Cash and cash equivalents		124,401,249	-	124,401,249
Total		124,401,249	-	124,401,249
<u>Financial liabilities</u>				
Amount due to Trustee		1,630	-	1,630
Distribution payable		9,380,951	-	9,380,951
Auditors' remuneration		9,500	-	9,500
Tax agent's fee		7,500	-	7,500
Other payables and accruals		13,653	-	13,653
Total		9,413,234	-	9,413,234
<u>As at 28.2.2021</u>				
<u>Financial assets</u>				
Cash and cash equivalents		59,009	-	59,009
Deposits with licensed financial institutions	8	114,960,415	-	114,960,415
Unquoted derivative – option	9	-	4,824,791	4,824,791
Total		115,019,424	4,824,791	119,844,215
<u>Financial liabilities</u>				
Amount due to Trustee		1,851	-	1,851
Auditors' remuneration		10,000	-	10,000
Tax agent's fee		4,000	-	4,000
Other payables and accruals		1,880	-	1,880
Total		17,731	-	17,731

AFFIN HWANG 18M ENHANCED INCOME FUND 2

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 1 MARCH 2021 TO 24 AUGUST 2021 (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 has no financial instruments exposed to price risk as at 24 August 2021 (date of maturity).

(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.

As at 24 August 2021, the Fund is not exposed to any interest rate risk.

(c) Currency risk

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

The Fund has no financial instruments denominated in foreign currencies as at 24 August 2021 (date of maturity).

AFFIN HWANG 18M ENHANCED INCOME FUND 2

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 1 MARCH 2021 TO 24 AUGUST 2021 (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:

	Unquoted derivative – option RM	Cash and cash equivalents RM	Total RM
<u>As at 28.2.2021</u>			
<u>Financial assets</u>			
United States Dollar	4,824,791	1	4,824,792

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

	Change in price %	Impact on profit after tax/NAV RM
<u>As at 28.2.2021</u>		
United States Dollar	+/- 7.41	+/- 357,517

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 investment. The Manager manages the credit risk by undertaking credit evaluation to minimise such risk.

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

AFFIN HWANG 18M ENHANCED INCOME FUND 2

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 1 MARCH 2021 TO 24 AUGUST 2021 (DATE OF MATURITY) (CONTINUED)

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

Credit risk (continued)

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.

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

	Cash and cash equivalents RM	Deposits with licensed financial institutions RM	Unquoted derivative – option RM	Total RM
<u>As at 24.8.2021</u> (date of maturity)				
Financial services				
- AAA	124,401,249	-	-	124,401,249
<u>As at 28.2.2021</u>				
Financial services				
- AAA	59,009	-	-	59,009
- AA2	-	83,923,648	-	83,923,648
- AA3	-	31,036,767	-	31,036,767
- A1	-	-	4,824,791	4,824,791
	59,009	114,960,415	4,824,791	119,844,215

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.

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

AFFIN HWANG 18M ENHANCED INCOME FUND 2

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 1 MARCH 2021 TO 24 AUGUST 2021 (DATE OF MATURITY) (CONTINUED)

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

Liquidity risk (continued)

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

	Within one month RM	Between one month to one year RM	Total RM
<u>As at 24.8.2021</u> (date of maturity)			
Amount due to Trustee	1,630	-	1,630
Distribution payable	9,380,951	-	9,380,951
Auditors' remuneration	-	9,500	9,500
Tax agent's fee	-	7,500	7,500
Other payables and accruals	-	13,653	13,653
	<u>9,382,581</u>	<u>30,653</u>	<u>9,413,234</u>
<u>As at 28.2.2021</u>			
Amount due to Trustee	1,851	-	1,851
Auditors' remuneration	-	10,000	10,000
Tax agent's fee	-	4,000	4,000
Other payables and accruals	-	1,880	1,880
	<u>1,851</u>	<u>15,880</u>	<u>17,731</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 stakeholders and to maintain a strong capital base to support the development of the investment activities of the Fund.

AFFIN HWANG 18M ENHANCED INCOME FUND 2

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 1 MARCH 2021 TO 24 AUGUST 2021 (DATE OF MATURITY) (CONTINUED)

3 FAIR VALUE ESTIMATION

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

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

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

The fair value of financial assets 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.

The Fund does not hold any financial instruments at fair value through profit or loss as at 24 August 2021 (date of maturity).

AFFIN HWANG 18M ENHANCED INCOME FUND 2

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 1 MARCH 2021 TO 24 AUGUST 2021 (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:

	<u>Level 1</u> RM	<u>Level 2</u> RM	<u>Level 3</u> RM	<u>Total</u> RM
<u>As at 28.2.2021</u>				
Financial asset at fair value through profit or loss				
- unquoted derivative				
- option	-	-	4,824,791	4,824,791

Level 3 instrument

The Fund invests in an option issued by the Option Seller and is valued on a daily 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.

The valuation of the option will correspond to the valuation of a European call option with the following parameters:

- 1) Time to Maturity: The yearly fraction from valuation date to expiry
- 2) Spot: Latest net asset value of the underlying Fund
- 3) Strike: Net asset value of the fund as of strike date
- 4) Volatility: The implied volatility from valuation date to expiry
- 5) Rates: The swap rate of the fund currency at expiry

The valuation is computed on Societe Generale risk model according to formula inspired from Black and Scholes.

Parameters 1 to 3 as well as 5 are observable on the market through Bloomberg or the Asset Manager website. However parameter 4 is non observable. The level of implied volatility represent the risk appetite of Societe Generale to offer volatility of the mutual fund share class given the fund strategy and the current conditions.

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 18M ENHANCED INCOME FUND 2

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 1 MARCH 2021 TO 24 AUGUST 2021 (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 PIMCO GIS Income 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 USD Libor 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 PIMCO GIS Income 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:

	Financial period from 1.3.2021 to 24.8.2021 (date of maturity) RM	Financial period from 20.1.2020 (date of launch) to 28.2.2021 RM
Opening balance	4,824,791	-
(Maturity)/Purchase	(7,633,875)	3,725,019
Gain recognised in statement of comprehensive income	2,809,084	-
Net change in fair value on financial asset at fair value through profit or loss	-	1,099,772
	<u>-</u>	<u>4,824,791</u>

The option was settled on 23 August 2021.

AFFIN HWANG 18M ENHANCED INCOME FUND 2

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 1 MARCH 2021 TO 24 AUGUST 2021 (DATE OF MATURITY) (CONTINUED)

3 FAIR VALUE ESTIMATION (CONTINUED)

(i) Fair value hierarchy (continued)

Level 3 instrument (continued)

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, deposits with licensed financial institutions and all current liabilities are reasonable approximation of the fair values due to their short-term nature.

4 MANAGEMENT FEE

The Manager did not impose any management fee in respect of this Fund for the financial period from 20 January 2020 (date of launch) to 28 February 2021 and 1 March 2021 to 24 August 2021 (date of maturity) respectively.

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, exclusive of foreign custodian fees.

For the financial period from 1 March 2021 to 24 August 2021 (date of maturity), the Trustee fee is recognised at a rate of 0.02% (from 20 January 2020 (date of launch) to 28 February 2021: 0.02%) per annum on the NAV of the Fund, exclusive of foreign custodian fees and charges, 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

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

AFFIN HWANG 18M ENHANCED INCOME FUND 2

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 1 MARCH 2021 TO 24 AUGUST 2021 (DATE OF MATURITY) (CONTINUED)

7 TAXATION

	Financial period from 1.3.2021 to 24.8.2021 (date of maturity) RM	Financial period from 20.1.2020 (date of launch) to 28.2.2021 RM
Current taxation	-	-

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 1.3.2021 to 24.8.2021 (date of maturity) RM	Financial period from 20.1.2020 (date of launch) to 28.2.2021 RM
Net profit before taxation	4,542,482	4,838,484
Tax at Malaysian statutory rate of 24% (28.2.2021: 24%)	1,090,196	1,161,236
Tax effects of:		
Investment income not brought to tax	(1,100,818)	(1,173,588)
Expenses not deductible for tax purposes	7,622	9,472
Restriction on tax deductible expenses for Wholesale Funds	3,000	2,880
Tax expense	-	-

AFFIN HWANG 18M ENHANCED INCOME FUND 2

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 1 MARCH 2021 TO 24 AUGUST 2021 (DATE OF MATURITY) (CONTINUED)

8 DISTRIBUTION

	Financial period from 1.3.2021 to 24.8.2021 (date of maturity) RM	Financial period from 20.1.2020 (date of launch) to 28.2.2021 RM
Distributions to unitholders is from the following sources:		
Interest income	1,776,474	-
Net realised gain on sale of investments	3,860,514	-
Previous financial years' realised income	3,786,757	-
Gross realised income	9,423,745	-
Less: Expenses	(42,794)	-
Net distribution amount	9,380,951	-
Gross/Net distribution per unit (sen)	8.1582	-
Ex-date	24.8.2021	-

Gross distribution per unit is derived from gross realised income less expenses divided by the number of units in circulation, while net distribution per unit is derived from gross realised income less expenses and taxation divided by the number of units in circulation.

Included in distribution for the financial period is an amount of RM3,786,757 (28.2.2021: RM Nil) made from previous financial years' realised income.

The distribution declared on 24 August 2021 of RM9,380,951 was settled on 30 August 2021.

AFFIN HWANG 18M ENHANCED INCOME FUND 2

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 1 MARCH 2021 TO 24 AUGUST 2021 (DATE OF MATURITY) (CONTINUED)

9 DEPOSITS WITH LICENSED FINANCIAL INSTITUTIONS

	As at 24.8.2021 (date of maturity) RM	As at 28.2.2021 RM
Deposits with licensed financial institutions*#	-	114,960,415

*Includes interest receivable of RM Nil (28.2.2021: RM3,760,415).

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

	As at 24.8.2021 (date of maturity) %	As at 28.2.2021 %
Deposits with licensed financial institutions	-	3.34%

Deposits with licensed financial institutions have an average maturity of Nil day (28.2.2021: 177 days).

Included in deposits with licensed financial institutions are deposit with Affin Hwang Investment Bank Berhad which are related to the Manager amounting to RM Nil (28.2.2021: RM30,000,000). The Manager is of the opinion that all transactions with the related companies have been entered into in the normal course of business at agreed terms between the related parties.

10 FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

The Fund invests in an 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 RM Nil (28.2.2021: RM112,204,447). The Fund's investment in unquoted derivative – option is set out below:

AFFIN HWANG 18M ENHANCED INCOME FUND 2

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 1 MARCH 2021 TO 24 AUGUST 2021 (DATE OF MATURITY) (CONTINUED)

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

	As at 24.8.2021 (date of maturity) RM	As at 28.2.2021 RM
Financial asset at fair value through profit or loss:		
- unquoted derivative – option	-	4,824,791
	Financial period from 1.3.2021 to 24.8.2021 (date of maturity) RM	Financial period from 20.1.2020 (date of launch) to 28.2.2021 RM
Net gain on financial asset at fair value through profit or loss:		
- realised gain on sale of investments	2,809,084	-
- unrealised gain on changes in fair value	-	1,099,772
	2,809,084	1,099,772

(a) Unquoted derivative – option

- (i) There is no investment in unquoted derivative – option as at 24 August 2021 (date of maturity).
- (ii) Unquoted derivative – option as at 28 February 2021 are as follows:

	Number of warrants RM	Adjusted cost RM	Fair value RM	Percentage of NAV %
18M USD Warrant Call on PIMCO GIS Income Fund	10,000	3,725,019	4,824,791	4.03
Total unquoted derivative – option	10,000	3,725,019	4,824,791	4.03
Accumulated unrealised gain on unquoted derivative – option		1,099,772		
Total unquoted derivative – option		4,824,791		

The unquoted derivative – option expired on 17 August 2021.

AFFIN HWANG 18M ENHANCED INCOME FUND 2

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 1 MARCH 2021 TO 24 AUGUST 2021 (DATE OF MATURITY) (CONTINUED)

11 NUMBER OF UNITS IN CIRCULATION

	As at 24.8.2021 <u>(date of maturity)</u> No. of units	As at 28.2.2021 <u>No. of units</u>
At the beginning of the financial period/date of launch	114,988,000	-
Creation of units arising from applications	-	114,988,000
At the end of the financial period	<u>114,988,000</u>	<u>114,988,000</u>

The Fund has matured on 24 August 2021 and all the units in circulation were subsequently cancelled on 25 August 2021 at RM1.00 per unit.

12 TRANSACTIONS WITH DEALER

- (i) Details of transactions with the top dealer for the financial period from 1 March 2021 to 24 August 2021 (date of maturity) are as follows:

<u>Name of dealer</u>	Value of trade RM	Percentage of total trade %
Societe Generale	<u>7,633,875</u>	<u>100.00</u>

- (ii) Details of transactions with the top dealer for the financial period from 20 January 2020 (date of launch) to 28 February 2021 are as follows:

<u>Name of dealer</u>	Value of trade RM	Percentage of total trade %
Societe Generale	<u>3,725,019</u>	<u>100.00</u>

AFFIN HWANG 18M ENHANCED INCOME FUND 2

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 1 MARCH 2021 TO 24 AUGUST 2021 (DATE OF MATURITY) (CONTINUED)

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

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

	<u>As at 24.8.2021 (date of maturity)</u>		<u>As at 28.2.2021</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)	200,554	200,554	200,554	208,997

AFFIN HWANG 18M ENHANCED INCOME FUND 2

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 1 MARCH 2021 TO 24 AUGUST 2021 (DATE OF MATURITY) (CONTINUED)

14 MANAGEMENT EXPENSE RATIO ("MER")

	Financial period from 1.3.2021 to 24.8.2021 (date of maturity) %	Financial period from 20.1.2020 (date of launch) to 28.2.2021 %
MER	0.04	0.04

MER is derived from the following calculation:

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

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

The average NAV of the Fund for the financial period calculated on a daily basis is RM121,987,704 (28.2.2021: RM106,842,670).

15 PORTFOLIO TURNOVER RATIO ("PTR")

	Financial period from 1.3.2021 to 24.8.2021 (date of maturity)	Financial period from 20.1.2020 (date of launch) to 28.2.2021
PTR (times)	0.02	0.02

PTR is derived from the following calculation:

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

where: total acquisition for the financial period = RMNil (28.2.2021: RM3,725,019)
total disposal for the financial period = RM3,725,019 (28.2.2021: RM Nil)

AFFIN HWANG 18M ENHANCED INCOME FUND 2

STATEMENT BY THE MANAGER

I, Dato' Teng Chee Wai, for and on behalf of the board of directors of the Manager, **Affin Hwang Asset Management Berhad**, do hereby state that in the opinion of the Manager, the financial statements set out on pages 1 to 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 24 August 2021 (date of maturity) and of its financial performance, changes in equity and cash flows for the financial period from 1 March 2021 to 24 August 2021 (date of maturity) in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards.

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

DATO' TENG CHEE WAI
EXECUTIVE DIRECTOR/MANAGING DIRECTOR

Kuala Lumpur
13 September 2021

INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF AFFIN HWANG 18M ENHANCED INCOME FUND 2

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of Affin Hwang 18M Enhanced Income Fund 2 ("the Fund") give a true and fair view of the financial position of the Fund as at 24 August 2021 (date of maturity), and of its financial performance and its cash flows for the financial period from 1 March 2020 to 24 August 2021 (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 24 August 2021 (date of maturity), and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial period then ended, 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 refers to the Fund's maturity subsequent to the balance sheet date, in accordance with the Deed. These financial statements have therefore been prepared using a liquidation basis of accounting. Our opinion is not modified 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' International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF AFFIN HWANG 18M ENHANCED INCOME FUND 2 (CONTINUED)

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, 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 18M ENHANCED INCOME FUND 2 (CONTINUED)

REPORT ON THE AUDIT OF 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. 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.

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 18M ENHANCED INCOME FUND 2 (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
13 September 2021

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