



**KAF FIRST FUND**

**ANNUAL REPORT**

**31 DECEMBER 2016**

# MANAGER'S REPORT

We are pleased to present the Manager's Report for the financial year ended 31 December 2016 ("the period").

## **1. Launch Date**

The KAF First Fund ("KFF") commenced operations on 16 January 1996 and will continue its operations until terminated according to the Deed dated 22 December 1995, 2nd Supplemental Deed dated 8 January 1999, 3rd Supplemental Deed dated 27 July 2001, 4th Supplemental Deed dated 9 January 2014 and 5th Supplemental Deed dated 12 March 2015.

## **2. Type of Fund**

Income & Growth Fund

## **3. Category of Fund**

Balanced Fund.

## **4. Fund's Objective, Benchmark and Distribution Policy**

KFF seeks to provide medium-to-long term investors with a reasonable level of income and capital growth by investing in both equities and fixed-income securities.

Diversification of investments across equities, fixed-income securities and money market instruments is a strategy used to reduce the investment risks. The equity portion is expected to contribute both capital and income returns. Investors will benefit from the stability arising from investments in fixed-income securities, which are expected to offer a steady flow of income and lower volatility.

KFF's asset allocation is subject to a maximum 60% exposure in equities and a minimum 40% in fixed-income securities and other liquid assets.

## MANAGER'S REPORT

The benchmark used to measure KFF's performance is a weighted index derived by taking 60% from the returns of the FTSE Bursa Malaysia Kuala Lumpur Composite Index (FBM-KLCI) and 40% of Maybank's monthly average 12-month fixed deposit rate. The weighted benchmark index is designed to replicate KFF's investment policy of investing up to a maximum 60% of the net asset value (NAV) in equities.

Income distribution (if any) is incidental.

### 5. Review of Fund Operations and Performance

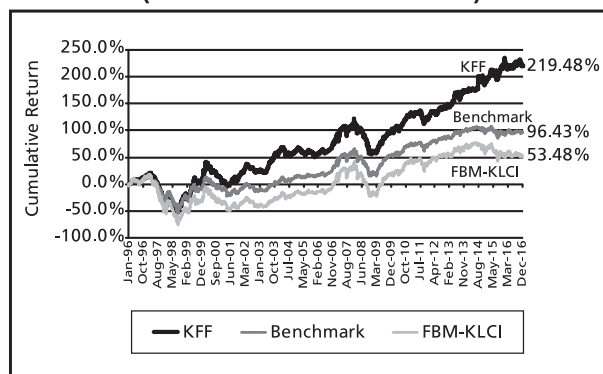
For the financial period under review, the Fund based on its NAV per unit, recorded a negative return of -1.26%, compared with the benchmark which declined -0.48%. The Fund's underperformance was attributed negative stock performance during the period. Bonds returns were steady attributed to prudent allocation in credit and curve positioning.

The Fund maintained a high equity exposure for most of the period with stock selection made up of a combination mid to large cap stocks. KFF's objective remains in place which is to grow the value of investments and providing medium to long-term capital growth.

Since inception, based on its net asset value (NAV), KFF recorded a return of 219.48% compared to its benchmark, composite FTSE Bursa Malaysia KLCI Index and the Maybank 1-month GIA rate (Balanced FBMS Index), which rose by 96.43%. **As such, the fund met its objective by providing reasonable level of income and capital growth.**

## MANAGER'S REPORT

**Performance Chart since Inception  
(16 Jan 1996 to 31 December 2016)**



Source: Novagni Analytics and Advisory Sdn Bhd, an independent source

**Past performance is not necessary indication of future performance.**

### Fund Performance as ranked by Lipper Asia Limited

Period	KFF		Mean of Industry: Non-Islamic Mixed Asset Balanced
	% change	Rank	% change
<b>6 months</b> 06/07/2016 – 06/01/2017	2.47%	8/25	0.94%
<b>1 year</b> 06/01/2016 – 06/01/2017	-1.19%	19/24	0.10%
<b>3 years</b> 06/01/2014 – 06/01/2017	17.91%	4/23	6.91%
<b>5 years</b> 06/01/2012 – 06/01/2017	43.55%	3/17	30.62%

Source: The Edge, January 16, 2017 issue, Edge-Lipper Fund Table, an independent source

For the financial year ended 31 December 2016, net realised income amounted to RM2.54 million from the disposal of shares and bonds, income earned from dividends and interest.

## MANAGER'S REPORT

As at end of the period, the unrealised losses for the Fund stood at RM0.17 million. The Fund's NAV decreased to RM32.70 million (ex-dividend distribution) as at 31 December 2016 from RM36.20 million as at 31 December 2015.

Returns	RM'000
<b>Realised gains</b>	
Equities securities	277.85
Fixed-income securities	52.64
<b>Dividend earned</b>	860.34
<b>Interest income</b>	1,348.91
<b>Unrealised Losses</b>	
Equities securities	(150.19)
Fixed-income securities	(17.39)

**Past performance is not necessary indication of future performance.**

Based on the above, we are pleased to declare a gross and net distribution of 4.50 sen per unit for this financial year. The distribution represents a yield of 8.44% based on the Fund's latest closing NAV per unit of RM0.5331.

The NAV per unit decreased from RM0.5399 (ex-dividend distribution) as at 31 December 2015 to RM0.5331 as 31 December 2016 (cum-dividend distribution). The impact on NAV arising from the distribution is as follows:

	RM/unit
NAV before distribution	0.5331
Less: Net distribution of 4.50 sen	(0.0450)
NAV after distribution	0.4881

### 6. Asset Allocation and Investment Strategies Employed

We maintained our equity exposure at close to the maximum allowed level for most periods of the year. Equity selections were focused mainly in large caps and a mixture of mid to small cap stocks whilst bond holdings were largely held in high grade papers with short to mid duration positioning.

## MANAGER'S REPORT

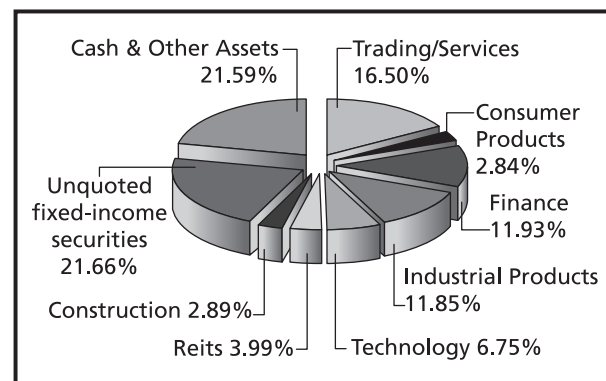
The designated Fund Manager does not employ any other investment strategy apart from the investment strategy stated in the Master Prospectus dated 15 January 2017.

There were no significant changes in the Fund's state of affairs during the period. Also, there were no circumstances which could materially affect any of the unit holders.

### Asset Allocation

Asset Class	Percentage of NAV as at		Changes in Exposure over Period (%)
	31/12/2015	31/12/2016	
Equity & derivative securities	49.33%	56.75%	7.42%
Unquoted fixed-income securities	47.70%	21.66%	-26.04%
Cash & Other Assets	2.97%	21.59%	18.62%

### Portfolio of Investments and Other Assets as at 31 December 2016



**7. Review of the Stock Market****a) Equity**

The 2016 equity market started off with a tumultuous footing, where the benchmark index close in the red on the first trading day, down 2.3% on concerns of China's decelerating economic growth outlook. This volatility continue as China stock index plunged 7% over the early week of January. The FTSE Bursa Malaysia KLCI (FBM-KLCI) continue to remain under pressure when Moody's downgraded Malaysia's sovereign rating outlook to stable from positive. The FBM-KLCI found a firm footing in February and March as oil price rebound to USD40/barrel and China kick started the global rally by implementing monetary easing measures. The European Central Bank (ECB) cut interest rates and the US Federal reserve slashed its projected interest rate hike for the year. During the middle of 2016, Brexit in June caused some knee jerk sell off in the stock market while political noises concerning 1MDB in July made investors stay at the sideline. At the end of the year, markets were also caught off guard by Donald Trump's victory and Asian global markets led a sharp sell off as investors flocked to safe haven assets such as bonds and gold. Malaysia together with other emerging markets suffered as a result of global investors rebalancing their portfolios. Foreign outflows from foreign funds totaled RM3.6b for 2016. The ringgit took a dive to RM4.4862 against the greenback following negative market sentiment. During the period under review, the FBM-KLCI fell -3.00%.

**b) Fixed-Income Securities**

2016 was volatile year for the Malaysia bond market as investors chose between yield hunting and risk aversion. The year had a good start as market recovered post December 2015 Fed Fund rate hike which alleviated earlier uncertainties. US Treasuries continued to rally in anticipation of slower trajectory of rate hikes. Accommodative monetary policy theme continue to dominate as central banks globally expected to stabilize macro financial condition. Government bond yields continued to remain low particularly in United States, Europe and Japan. Continued loose monetary policy continue to bode well for Emerging Market including Malaysia as reflected by bond market rally and currency. The United Kingdom referendum in June impacted all the asset classes where bond yields collapse in developed market as investor sought for safe haven assets. Malaysian

government bond yields fell to levels last seen prior to the sell-off in June 2013 as Bank Negara Malaysia's dovish stance is expected to continue in line with monetary easing by the Federal Reserve, Bank of England, Bank of Japan and European Central Bank. Notably, foreign holdings in local sovereign bonds experience continuous of inflows from first quarter to August 2016. Volatile month in September and October as concerns grew on inflation expectation and shift in sentiment toward monetary policies limitations. Donald Trump's victory led to wider steeper US treasury curve on the expectation of more expansionary fiscal policy and consequentially inflation expectation. Malaysian government bonds saw the largest net outflow to date in November 2016 amounting to RM19.9b. Malaysian government bonds bear flattened as result of unwinding of carry trades. The ringgit was not spared as result of the Emerging Market risk off sentiment despite the steadiness of the oil price.

**8. Market outlook and Strategy**

In 2016, Malaysia's real gross domestic product (GDP) is projected to increase to around 4.5% in 2017 based on data according to the International Monetary Fund (IMF). Real GDP growth is projected at 4.2% for 2016, underpinned by resilient domestic demand. The global economy is gaining momentum and this would likely benefit Malaysia as an exporter country. Domestically, steady income growth, a slower but still resilient labour market and fiscal measures will support private consumption. A revival in commodity prices and external demand will help to boost gross fixed capital formation in 2017. Investment and construction activity is further underpinned by a steady stream of infrastructure projects. Fiscal policy settings are tight in order to meet the budget deficit target of 3% of GDP. The local stock market is expected to recover on the back of improvement in corporate earnings. The companies which are exporters of commodities and manufactured products will be more competitive and will gain from currency effects and overseas ventures. Meanwhile, the construction sector would remain in favor as large scale infrastructure roll outs shift into higher gear for the 2nd year of the implementation of 11th Malaysia Plan. We envisage a barbell strategy for the portfolio where growth and dividend yield will remain the anchor for portfolio outperformance.

## MANAGER'S REPORT

### 9. Analysis of Unit holders

Size of Holdings	No. of Unit holders	No. of Units held
5,000 and below	566	1,199,905
5,001 to 10,000	359	2,625,511
10,001 to 50,000	629	14,375,009
50,001 to 500,000	240	29,766,933
500,001 and above	6	19,011,489
	1,800	66,978,847

Note: The above is excluding Manager's stock.

### 10. Policy on Stockbroking Rebates and Soft Commission

The Securities Commission's (SC) guidelines states that a management company, a trustee or its delegate should not retain any rebate from or otherwise share in any commission with any broker/dealer in consideration for directing dealings in a fund's property. Any rebate or shared commission should be directed to the account of the fund concerned. Hence, the Manager will credit all stockbroking rebates to KFF's account.

The SC's guidelines further states that goods and services ("soft commissions") provided by any broker/dealer may be retained by a management company or its delegate, but only if the goods and services are of demonstrable benefit to unit holders.

During the financial period under review, the management company had received soft commissions in the form of financial wire services and a stock quotation system incidental to the investment management of the Fund.

## KEY PERFORMANCE DATA

Portfolio Composition	As at 31 December		
	2016	2015	2014
	(Percentage of NAV)		
	%	%	%
<b>Quoted Equities</b>			
Industrial Products	11.85	15.99	-
Construction	2.89	-	3.90
Consumer Products	2.84	23.97	5.01
Finance	11.93	3.23	7.12
Industrial Manufacturing	-	-	3.90
Plantation & Timber	-	-	3.56
Properties	-	-	12.50
REITs	3.99	-	-
Technology	6.75	2.53	-
Telecommunication	-	-	3.84
Trading/Services	16.50	3.61	6.35
Utilities	-	-	-
<b>Total Quoted Equities</b>	<b>56.75</b>	<b>49.33</b>	<b>46.18</b>
<b>Fixed Income Securities</b>			
Unquoted Bonds	21.66	47.70	50.89
	21.66	47.70	50.89
<b>Liquid and other assets</b>	21.59	2.97	2.93
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>
<b>Total return for the year (RM'000)</b>			
Capital growth	(1,995)	1,546	(2,238)
Income Distribution	1,506	2,686	4,294

Performance	Income Return	Capital Return	Annual Total Return	
			KFF	Benchmark
<b>Financial year ended</b>				
31.12.2016	9.22%	-9.59%	-1.26%	-0.48%
31.12.2015	8.33%	3.35%	11.96%	-0.94%
31.12.2014	8.61%	-3.35%	4.98%	-2.13%
31.12.2013	8.33%	3.23%	11.82%	7.62%
31.12.2012	8.59%	-0.08%	8.51%	7.50%

	Average Annual Return	
	KFF	Benchmark
One (1) year	-1.26%	-0.48%
Three (3) years	5.35%	-1.17%
Five (5) years	8.16%	2.32%

**Note:** Basis of calculation is in line with the compilation method used by Novagni Analytics and Advisory Sdn Bhd, an independent source

## KEY PERFORMANCE DATA

NAV Units in Circulation	As at 31 December		
	2016	2015	2014
Total NAV (RM'000)	32,703	36,199	33,708
Units in Circulation (in '000)	67,002	67,052	64,527
NAV per unit (RM) (ex-distribution)	0.4881	0.5399	0.5224
<b>Unit Prices for the year (RM per unit)</b>			
NAV (year high)	0.5579	0.5872	0.5949
NAV (year low)	0.5223	0.5224	0.5224
NAV (year high, ex-distribution)	0.4881	0.5399	0.5224
NAV (year low, ex-distribution)	0.4881	0.5399	0.5224
NAV, ex-distribution	0.4881	0.5399	0.5224
<b>Distributions and Unit Split</b>			
Final - gross (sen per unit)	4.5000	4.5000	4.5000
Final - net (sen per unit)	4.5000	4.5000	4.5000
Payment date	10-Jan-17	11-Jan-16	7-Jan-15
Unit Split	Nil	Nil	Nil
<b>Management Expense Ratio (MER)</b>	1.82	1.79	1.71
<b>Portfolio Turnover Ratio (PTR)</b>	1.88	1.80	3.13

**Note:** Management Expense Ratio (MER) is calculated by taking the total fees and recovered expenses incurred by the Fund divided by the average Fund size. Portfolio Turnover Ratio (PTR) is calculated by taking the average of the acquisition and disposal of the Fund divided by the average Fund size.

The MER was higher than the previous year due to decrease in average NAV (refer to Note 15).

The PTR was higher than the previous year due to increase in portfolio rebalancing activities undertaken by the Fund (refer to Note 16).

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

## TRUSTEE'S REPORT

TO THE UNIT HOLDERS OF  
**KAF FIRST FUND**

We, **Universal Trustee (Malaysia) Berhad (the Trustee)** being the Trustee of **KAF First Fund (KFF)** are of the opinion that **KAF Investment Funds Berhad** (the Manager), acting in the capacity of Manager of **KFF**, have fulfilled their duties in the following manner for the financial year ended 31 December 2016.

- (a) **KFF** is being managed in accordance with the limitations imposed on the investment powers of the Manager and the Trustee under the Deed, other provisions of the Deed, the Securities Commission's Guidelines on the Unit Trust Funds, the Capital Markets and Services (Amendment) Act 2012 and other applicable laws;
- (b) Valuation/pricing is carried out in accordance with the Deed and any regulatory requirement;
- (c) Creation and cancellation of units are carried out in accordance with the deed and any regulatory requirement; and
- (d) The distribution of 4.50 sen (gross) per unit for the financial year ended 31 December 2016 is consistent with the objective of the KFF.

For and on behalf of the Trustee  
**Universal Trustee (Malaysia) Berhad**

**Ong Tee Vann**  
Chief Executive Officer

Kuala Lumpur, Malaysia  
20 February 2017

## STATEMENT BY THE MANAGER

TO THE UNIT HOLDERS OF  
**KAF FIRST FUND**

We, **Tan Sri Abu Talib Othman** and **Datuk Khatijah Ahmad**, two of the Directors of **KAF Investment Funds Berhad**, do hereby state that, in the opinion of the Manager, the financial statements set out on pages 18 to 68 are drawn up in accordance with the provisions of the Deed and give a true and fair view of the Fund as at 31 December 2016 and of its financial performance, changes in equity and cash flows of the Fund for the financial year ended on that date in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

For and on behalf of the Manager  
**KAF Investment Funds Berhad**

**Tan Sri Abu Talib Othman**  
Director

**Datuk Khatijah Ahmad**  
Director

Kuala Lumpur, Malaysia  
20 February 2017

## INDEPENDENT AUDITORS' REPORT

TO THE UNIT HOLDERS OF  
**KAF FIRST FUND**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Our opinion**

In our opinion, the financial statements of **KAF First Fund** ("the Fund") give a true and fair view of the financial position of the Fund as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

#### **What we have audited**

We have audited the financial statements of the Fund, which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 18 to 68.

#### **Basis for opinion**

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

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

#### **Independence and other ethical responsibilities**

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



## INDEPENDENT AUDITORS' REPORT

TO THE UNIT HOLDERS OF  
**KAF FIRST FUND**

### REPORT ON THE FINANCIAL STATEMENTS (CONT'D)

#### **Information other than the financial statements and auditors' report thereon**

The Manager of the Fund are responsible for the other information. The other information comprises:

- Manager's report;
- Statement by Manager;
- Trustee's report;

(but does not include the financial statements of the Fund and our auditors' report thereon).

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### **Responsibilities of the Manager for the financial statements**

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

## INDEPENDENT AUDITORS' REPORT

TO THE UNIT HOLDERS OF  
**KAF FIRST FUND**

### REPORT ON THE FINANCIAL STATEMENTS (CONT'D)

#### **Responsibilities of the Manager for the financial statements (cont'd)**

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 intend to liquidate the Fund or have no realistic alternative but to do so.

#### **Auditors' responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements of the Fund as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- (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.

## INDEPENDENT AUDITORS' REPORT

TO THE UNIT HOLDERS OF  
**KAF FIRST FUND**

### REPORT ON THE FINANCIAL STATEMENTS (CONT'D)

#### Auditors' responsibilities for the audit of the financial statements (cont'd)

- (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 Company'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.

## INDEPENDENT AUDITORS' REPORT

TO THE UNIT HOLDERS OF  
**KAF FIRST FUND**

### REPORT ON THE FINANCIAL STATEMENTS (CONT'D)

#### Auditors' responsibilities for the audit of the financial statements (cont'd)

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

#### OTHER MATTERS

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

**PRICEWATERHOUSECOOPERS**  
(No. AF: 1146)  
Chartered Accountants

**ONG CHING CHUAN**  
(No. 2907/11/17 (J))  
Chartered Accountant

Kuala Lumpur  
20 February 2017

**STATEMENT OF COMPREHENSIVE INCOME**  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Note	2016 RM	2015 RM
<b>INCOME</b>			
Gross dividend income		860,339	622,629
Interest income		1,348,909	813,521
Net (loss)/gain on financial assets at fair value through profit or loss	6	(1,664,411)	3,863,490
		<u>544,837</u>	<u>5,299,640</u>
<b>EXPENSES</b>			
Manager's fee	3	(587,324)	(586,722)
Trustee's fee	4	(21,692)	(21,648)
Transaction costs		(357,612)	(396,430)
Audit fee		(7,700)	(7,000)
Custodian fee		(31,800)	(31,800)
Tax agent's fee		(7,600)	(6,200)
Other expenses		(18,402)	(16,655)
		<u>(1,032,130)</u>	<u>(1,066,455)</u>
<b>NET (LOSS)/PROFIT BEFORE TAXATION</b>		(487,293)	4,233,185
<b>TAXATION</b>	5	(1,999)	(827)
<b>NET (LOSS)/PROFIT AFTER TAXATION AND TOTAL COMPREHENSIVE (LOSS)/INCOME</b>		<u>(489,292)</u>	<u>4,232,358</u>
Net (loss)/profit after taxation is made up of the following:			
Realised amount		1,505,607	2,685,747
Unrealised amount		(1,994,899)	1,546,611
		<u>(489,292)</u>	<u>4,232,358</u>

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

**STATEMENT OF FINANCIAL POSITION**  
AS AT 31 DECEMBER 2016

	Note	2016 RM	2015 RM
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Financial assets at fair value through profit or loss	6	25,643,922	35,128,809
Deposits with licensed financial institutions	7	7,984,501	3,084,809
Amount due from brokers	8	3,757,966	4,331,035
Other receivables	9	51,580	20,808
Tax recoverable		-	3,056
Cash at bank	7	12,889	2,491,028
<b>TOTAL ASSETS</b>		<u>37,450,858</u>	<u>45,059,545</u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Amount due to brokers	8	1,618,412	4,403,165
Amount due to Manager - Manager's fees		46,676	52,211
Amount due to Manager - cancellation of units		-	29,315
Amount due to Trustee		1,729	1,920
Tax payable		12,012	-
Other payables	10	53,883	1,356,387
Distribution payable		3,015,090	3,017,340
<b>TOTAL LIABILITIES</b>		<u>4,747,802</u>	<u>8,860,338</u>
<b>NAV OF THE FUND</b>		<u>32,703,056</u>	<u>36,199,207</u>
<b>EQUITY</b>			
Unit holders' capital		25,681,997	25,673,766
Retained earnings		7,021,059	10,525,441
<b>TOTAL NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS</b>		<u>32,703,056</u>	<u>36,199,207</u>
<b>NUMBER OF UNITS IN CIRCULATION</b>	11	67,002,000	67,052,000
<b>NAV PER UNIT, EX-DISTRIBUTION</b>		<u>0.4881</u>	<u>0.5399</u>

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

## STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Note	Unit holders' capital RM	Retained earnings RM	Total RM
<b>BALANCE AS AT 1 JANUARY 2016</b>		25,673,766	10,525,441	36,199,207
<b>Movement in unit holders' capital:</b>				
Creation of units arising from application		360,029	-	360,029
Creation of units arising from distribution		2,389,792	-	2,389,792
Cancellation of units		(2,741,590)	-	(2,741,590)
		<u>8,231</u>	<u>-</u>	<u>8,231</u>
Total comprehensive loss for the financial year		-	(489,292)	(489,292)
Distribution	12	-	(3,015,090)	(3,015,090)
		-	<u>(3,504,382)</u>	<u>(3,504,382)</u>
<b>BALANCE AS AT 31 DECEMBER 2016</b>		<u>25,681,997</u>	<u>7,021,059</u>	<u>32,703,056</u>
<b>BALANCE AS AT 1 JANUARY 2015</b>		24,397,675	9,310,423	33,708,098
<b>Movement in unit holders' capital:</b>				
Creation of units arising from application		495,211	-	495,211
Creation of units arising from distribution		2,256,695	-	2,256,695
Cancellation of units		(1,475,815)	-	(1,475,815)
		<u>1,276,091</u>	<u>-</u>	<u>1,276,091</u>
Total comprehensive income for the financial year		-	4,232,358	4,232,358
Distribution	12	-	(3,017,340)	(3,017,340)
		-	<u>1,215,018</u>	<u>1,215,018</u>
<b>BALANCE AS AT 31 DECEMBER 2015</b>		<u>25,673,766</u>	<u>10,525,441</u>	<u>36,199,207</u>

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

## STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

Note	2016 RM	2015 RM
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Proceeds from sale of investments	74,072,528	64,349,325
Redemption of investments	-	77,897
Purchase of investments	(69,015,369)	(63,202,365)
Dividends received	830,134	606,903
Interest received	1,542,930	719,281
Manager's fee paid	(592,858)	(584,774)
Tax refund	15,068	-
Trustee's fee paid	(21,883)	(21,583)
(Payment)/Receipt from impending litigation- Pesaka Bond	(1,303,567)	42,656
Payment of other fees and expenses	(67,006)	(61,874)
<b>Net cash generated from operating activities</b>	<u>5,459,977</u>	<u>1,925,466</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from creation of units	2,749,821	2,751,906
Payments for cancellation of units	(2,770,905)	(1,446,501)
Distribution paid	(3,017,340)	(2,903,715)
<b>Net cash used in financing activities</b>	<u>(3,038,424)</u>	<u>(1,598,310)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>2,421,553</u>	<u>327,156</u>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR</b>	<u>5,575,837</u>	<u>5,248,681</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR</b>	<u>7,997,390</u>	<u>5,575,837</u>
<b>ANALYSIS OF CASH AND CASH EQUIVALENTS</b>		
Deposits with licensed financial institutions	7,984,501	3,084,809
Cash at bank	12,889	2,491,028
	<u>7,997,390</u>	<u>5,575,837</u>

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

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

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 in accordance with the provisions of the Malaysian Financial Reporting Standards (MFRS) and International Financial Reporting Standards (IFRS).

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss.

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

Estimates and judgement 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.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

### A BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONT'D)

- (i) **The new standards, amendments and interpretations to published standards have been adopted by the Fund for the first time for the financial year beginning on or after 1 January 2016:**

#### **Amendments to MFRS 101 'Presentation of Financial Statements – Disclosure Initiative'**

The amendments to MFRS 101 Presentation of Financial Statements are made in the context of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. The amendments provide clarifications on a number of issues, including:

- Materiality – an entity should not aggregate or disaggregate information in a manner that obscures useful information. Where items are material, sufficient information must be provided to explain the impact on the financial position or performance.
- Disaggregation and subtotals—line items specified in MFRS 101 may need to be disaggregated where this is relevant to an understanding of the entity's financial position or performance. There is also new guidance on the use of subtotals.
- Notes – confirmation that the notes do not need to be presented in a particular order.
- OCI arising from investments accounted for under the equity method – the share of OCI rising from equity-accounted investments is grouped based on whether the items will or will not subsequently be reclassified to profit or loss. Each group should then be presented as a single line item in the statement of other comprehensive income.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

### A BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONT'D)

- (i) **The new standards, amendments and interpretations to published standards have been adopted by the Fund for the first time for the financial year beginning on or after 1 January 2016: (cont'd)**

#### **Annual improvements 2012 - 2014**

MFRS 7 'Financial instruments: Disclosures' introduces two amendments:

**Servicing contracts:** If an entity transfers a financial asset to a third party under conditions which allow the transferor to derecognise the asset, MFRS 7 requires disclosure of all types of continuing involvement that the entity might still have in the transferred assets. The standard provides guidance about what is meant by continuing involvement. The amendment is prospective with an option to apply retrospectively. There is a consequential amendment to MFRS 1 to give the same relief to first time adopters.

**Interim financial statements:** The amendment clarifies that the additional disclosure required by the amendments to MFRS 7 'Disclosure – Offsetting financial assets and financial liabilities' is not specifically required for all interim periods unless required by MFRS 134. This amendment is retrospective.

- (ii) **The new standards, amendments and interpretations to published standards which are relevant to the Fund but not yet effective and have not been early adopted are as follows:**

#### **a) Financial year beginning on/after 1 January 2017:**

Amendments to MFRS 107 'Statement of Cash Flows – Disclosure Initiative' (effective from 1 January 2017) introduce an additional disclosure on changes in liabilities arising from financing activities. This includes changes arising from cash flows (eg drawdowns and repayments of borrowings) and non-cash changes such as acquisitions, disposals, accretion of interest and unrealised exchange differences.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

### A BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONT'D)

- (ii) **The new standards, amendments and interpretations to published standards which are relevant to the Fund but not yet effective and have not been early adopted are as follows: (cont'd)**

#### **b) Financial year beginning on/after 1 January 2018:**

MFRS 9 'Financial Instruments' (effective from 1 January 2018) will replace MFRS 139 "Financial Instruments: Recognition and Measurement".

MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income ("OCI"). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with an irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.

For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

### A BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONT'D)

(ii) The new standards, amendments and interpretations to published standards which are relevant to the Fund but not yet effective and have not been early adopted are as follows: (cont'd)

#### b) Financial year beginning on/after 1 January 2018: (cont'd)

MFRS 9 introduces an expected credit loss model on impairment that replaces the incurred loss impairment model used in MFRS 139. The expected credit loss model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

MFRS 15 'Revenue from contracts with customers' (effective from 1 January 2018) replaces MFRS 118 'Revenue' and MFRS 111 'Construction contracts' and related interpretations. The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Revenue is recognised when a customer obtains control of goods or services, i.e. when the customer has the ability to direct the use of and obtain the benefits from the goods or services.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

### A BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONT'D)

(ii) The new standards, amendments and interpretations to published standards which are relevant to the Fund but not yet effective and have not been early adopted are as follows: (cont'd)

#### b) Financial year beginning on/after 1 January 2018: (cont'd)

A new five-step process is applied before revenue can be recognised:

- Identify contracts with customers;
- Identify the separate performance obligations;
- Determine the transaction price of the contract;
- Allocate the transaction price to each of the separate performance obligations; and
- Recognise the revenue as each performance obligation is satisfied.

Key provisions of the new standard are as follows:

- Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.
- If the consideration varies (such as for incentives, rebates, performance fees, royalties, success of an outcome etc), minimum amounts of revenue must be recognised if they are not at significant risk of reversal.
- The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

### A BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONT'D)

(ii) The new standards, amendments and interpretations to published standards which are relevant to the Fund but not yet effective and have not been early adopted are as follows: (cont'd)

b) Financial year beginning on/after 1 January 2018: (cont'd)

- There are new specific rules on licenses, warranties, non-refundable upfront fees, and consignment arrangements, to name a few.
- As with any new standard, there are also increased disclosures.

Unless otherwise disclosed, the above standards, amendments to published standards and interpretations to existing standards are not anticipated to have any significant impact on the financial statements of the Fund in the year of initial application.

### B INCOME RECOGNITION

Dividend income is recognised on the ex-dividend date, when the right to receive the dividend has been established.

Interest income is recognised using effective interest method on an accrual basis.

Realised gains or losses on sale of investments are accounted for as the difference between the net disposal proceeds and the carrying amount of the investments, which is determined on a weighted average cost basis.

### C DISTRIBUTION

A distribution to the Fund's unit holders is accounted for as a deduction from realised reserve. A proposed distribution is recognised as a liability in the financial year in which it is approved by the Trustee.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

### 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.

### E FUNCTIONAL AND PRESENTATION CURRENCY

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

### F FINANCIAL ASSETS AND FINANCIAL LIABILITIES

#### (i) Classification

The Fund designates its investment in quoted securities and unquoted fixed-income securities as financial assets at fair value through profit or loss at inception.

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

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and have been included in current assets. The Fund's receivables comprise cash and cash equivalents, amount due from brokers and dividend receivables which are all due within 12 months.

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

The Fund classifies amount due to Manager, amount due to brokers, amount due to Trustee, other payables and distribution payable as other financial liabilities.



**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

**F FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONT'D)**

**(ii) Recognition and measurement**

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

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

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

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

Dividend income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income as part of gross dividend income when the Fund's right to receive payments is established.

In accordance to the Deeds, quoted investments in Malaysia are valued at the last done market price quoted on the Bursa Malaysia Securities Berhad ("Bursa Securities") at the date of the statement of financial position. In circumstances where the last traded market price is not within the bid-ask spread, the Manager will determine the point within the bid-ask spread that is most representative of the fair value.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

**F FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONT'D)**

**(ii) Recognition and measurement (cont'd)**

Unquoted fixed-income securities are revalued to reflect its fair value on a daily basis based on fair value prices quoted by a bond pricing agency ("BPA") registered with the Securities Commission ("SC") as per the SC's Guidelines on Unit Trust Funds. Where such quotations are not available or where the Manager is of the view that the price quoted by the BPA for a specific unquoted fixed-income securities differs from the market price by more than 20 basis points, the Manager may use the market price, provided that the Manager:

- (i) records its basis for using a non-BPA price;
- (ii) obtains necessary internal approvals to use the non-BPA price; and
- (iii) keeps as audit trail of all decisions and basis for adopting the market yield.

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

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

**(iii) Impairment for assets carried at amortised cost**

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

**F FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONT'D)**

**(iii) Impairment for assets carried at amortised cost (cont'd)**

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

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

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

**G CASH AND CASH EQUIVALENTS**

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

**H AMOUNT DUE FROM/(TO) BROKERS**

Amounts due from/(to) brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet settled or delivered on the statement of financial position date respectively.

These amounts are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment for amounts due from brokers. A provision for impairment of amounts due from brokers is established when there is objective evidence that the Fund will not be able to collect all amounts due from the relevant broker.

Significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganisation, and default in payments are considered indicators that the amount due from brokers is impaired. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

### I TRANSACTION COSTS

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

### J CREATION AND CANCELLATION OF UNITS

The Fund issues cancellable units, which are cancelled at the unit holder's option and are classified as equity. Cancellable units can be put back to the Fund at any time for cash equal to a proportionate share of the Fund's net asset value ("NAV"). The outstanding units are carried at the redemption amount that is payable as at the date of the statement of financial position if the unit holder exercises the right to put the units back to the Fund.

Units are created and cancelled at the unit holder's option 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 is calculated by dividing the net assets attributable to unit holders with the total number of outstanding units.

### K UNIT HOLDERS' CAPITAL

The unit holders' capital to the Fund meets the definition of puttable instruments 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 NAV;
- 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 in the Fund over its life are based substantially on the profit or loss of the Fund.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

### K UNIT HOLDERS' CAPITAL (CONT'D)

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

### L SEGMENTAL INFORMATION

Operating segments are reported in a manner consistent with the internal reporting used by the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the investment team of the Manager that makes strategic decisions for the Fund.

### M CRITICAL ACCOUNTING ESTIMATES AND JUDGMENT IN APPLYING ACCOUNTING POLICIES

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

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

There are no areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

### 1. THE FUND, THE MANAGER AND THEIR PRINCIPAL ACTIVITIES

KAF First Fund (the "Fund") was constituted pursuant to a Deed dated 22 December 1995 between KAF Investment Funds Berhad (the "Manager") and Universal Trustee (Malaysia) Berhad (the "Trustee"). The name of the Fund has been changed via a Fourth Supplemental Trust Deed dated 9 January 2014 from Alliance First Fund to KAF First Fund.

The principal activity of the Fund is to invest in "Permitted Investments" as defined under Article 7 of the Deed, which includes stocks and shares of companies quoted on Bursa Securities, foreign investments, fixed-income securities and short term investments. The Fund commenced operations on 16 January 1996 and will continue its operations until terminated according to the conditions in the Deed.

The Manager, KAF Investment Funds Berhad, is incorporated in Malaysia. Its principal activities are the management of unit trust funds, provision of fund management and investment advisory services.

The principal place of business of the Manager is located at Level 11, Chulan Tower, No. 3 Jalan Conlay, 50450 Kuala Lumpur.

All investment will be subject to SC's Guidelines, the Deeds, except where exemptions and variations have been approved by the SC, internal policies and procedures and the Fund's objective.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

### 2. FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial instruments of the Fund as at year end are as follows:

Financial instruments at fair value through profit or loss	Other financial instruments carried at amortised cost	Total
RM	RM	RM

#### 2016

Financial assets designated at fair value through profit or loss	25,643,922	-	25,643,922
Deposits with licensed financial institutions	-	7,984,501	7,984,501
Amount due from brokers	-	3,757,966	3,757,966
Cash at bank	-	12,889	12,889
Other assets	-	51,580	51,580
	<u>25,643,922</u>	<u>11,806,936</u>	<u>37,450,858</u>
Amount due to brokers	-	1,618,412	1,618,412
Amount due to Manager - Manager's fee	-	46,676	46,676
Amount due to Trustee	-	1,729	1,729
Other payables	-	53,883	53,883
Distribution payable	-	3,015,090	3,015,090
	-	<u>4,735,790</u>	<u>4,735,790</u>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

### 2. FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

Financial instruments of the Fund as at year end are as follows: (cont'd)

	Financial instruments at fair value through profit or loss	Other financial instruments carried at amortised cost	Total
	RM	RM	RM

#### 2015

Financial assets designated at fair value through profit or loss	35,128,809	-	35,128,809
Deposits with licensed financial institutions	-	3,084,809	3,084,809
Amount due from brokers	-	4,331,035	4,331,035
Cash at bank	-	2,491,028	2,491,028
Other assets	-	20,808	20,808
	<u>35,128,809</u>	<u>9,927,680</u>	<u>45,056,489</u>

Amount due to brokers	-	4,403,165	4,403,165
Amount due to Manager - Manager's fee	-	52,211	52,211
Amount due to Manager - cancellation of units	-	29,315	29,315
Amount due to Trustee	-	1,920	1,920
Other payables	-	1,356,387	1,356,387
Distribution payable	-	3,017,340	3,017,340
	<u>-</u>	<u>8,860,338</u>	<u>8,860,338</u>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

### 2. FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

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

#### Market risk

##### (a) Price risk

The Fund is exposed to equity securities price risk because of investments held by the Fund and classified as fair value through profit or loss. Price risk is the risk that the fair value of an investment will fluctuate because of changes in market prices (other than those arising from interest rate risk). Such fluctuation may cause the Fund's NAV and price of units to fall as well as rise, and income produced by the Fund may also fluctuate. The price risk is managed through diversification and selection of securities and other financial instruments within specified limits according to the Deed.

The table below shows the assets of the Fund as at 31 December which are exposed to price risk.

	2016 RM	2015 RM
<b>Quoted Investments</b>		
Local equities designated at fair value	<u>18,560,660</u>	<u>17,859,939</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

**2. FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)**

**Market risk (cont'd)**

**(a) Price risk (cont'd)**

The following table summarises the sensitivity of the Fund's investments to price risk movements as at 31 December. The analysis is based on the assumptions that the market price increased and decreased by 5% (2015: 5%) with all other variables held constant and that fair value of the Fund's investments moved according to the historical correlation of the index. Disclosures below are shown in absolute terms, changes and impacts could be positive or negative.

	Changes in price %	Impact on profit before tax/ NAV RM
<b>2016</b>		
Local equities designated at fair value	5	928,033
<b>2015</b>		
Local equities designated at fair value	5	892,997

**(b) Interest rate risk**

Interest rate risk is the risk that the value of the Fund will fluctuate because of changes in market interest rates.

The Fund's exposure to the interest rate risk is mainly confined to unquoted fixed-income securities and deposits with financial institutions. Interest rate risk is actively managed by duration targeting based on the interest rate outlook. The Manager overcomes the exposure of short-term deposits by way of maintaining deposits on a short-term basis.

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

**2. FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)**

**Market risk (cont'd)**

**(b) Interest rate risk (cont'd)**

The table below summarises the sensitivity of the Fund's NAV to movements in prices of unquoted fixed-income securities held by the Fund as at 31 December as a result of movement in interest rate. The analysis is based on the assumptions that the interest rate increased and decreased by 5% (2015: 5%) with all other variables held constant. This represents management's best estimate of a reasonable possible shift in the interest rate, having regard to the historical volatility of the interest rate.

	2016 (Decrease)/ Increase in profit before tax/ NAV		2015 (Decrease)/ Increase in profit before tax/ NAV	
	+5% RM	-5% RM	+5% RM	-5% RM
Local unquoted fixed-income securities	(67,531)	68,317	(48,073)	48,278

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

### 2. FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

#### Market risk (cont'd)

#### (b) Interest rate risk (cont'd)

The effective weighted average interest rate of return per annum and average remaining maturities of unquoted fixed-income securities and deposit placements with licensed financial institution as at the date of the statement of financial position is as follows:

	Weighted Average Interest Rates		Average Remaining Maturities	
	2016 %	2015 %	2016 Days	2015 Days
Local unquoted fixed-income securities	4.29	4.27	1,733	1,083
Deposits with licensed financial institutions	3.20	3.32	4	7

#### Liquidity risk

Liquidity risk is the risk that the Fund will encounter in meeting its financial obligations. The Manager manages this risk by maintaining sufficient level of liquid assets to meet anticipated payment and cancellations of unit by unit holders. 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. The amounts in the table below are the contractual undiscounted cashflows.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

### 2. FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

#### Liquidity risk (cont'd)

	Within 1 month RM	More than 1 month RM	Total RM
<b>As at 31 December 2016</b>			
Amount due to brokers	1,618,412	-	1,618,412
Amount due to Manager - Manager's fees	46,676	-	46,676
Amount due to Trustee	1,729	-	1,729
Other payables Distribution payable	-	53,883	53,883
	3,015,090	-	3,015,090
<b>Contractual cash out flows</b>	<b>4,681,907</b>	<b>53,883</b>	<b>4,735,790</b>
<b>As at 31 December 2015</b>			
Amount due to brokers	4,403,165	-	4,403,165
Amount due to Manager - Manager's fees	52,211	-	52,211
Amount due to Manager - cancellation of units	29,315	-	29,315
Amount due to Trustee	1,920	-	1,920
Other payables Distribution payable	-	1,356,387	1,356,387
	3,017,340	-	3,017,340
<b>Contractual cash out flows</b>	<b>7,503,951</b>	<b>1,356,387</b>	<b>8,860,338</b>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

### 2. FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

#### Credit risk

Credit risk refers to the inability 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 unquoted fixed-income securities can be managed by performing continuous fundamental credit research and analysis to ascertain the creditworthiness of its issuer. In addition, the Manager imposes a minimum rating requirement as rated by either local and/or foreign rating agencies and manages the duration of the investment in accordance with the objective of the Fund.

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 settlement terms of the proceeds from the creation of units receivable from the Manager are governed by the Securities Commission's Guidelines on Unit Trust Funds.

The maximum exposure to credit risk before any credit enhancements is the carrying amount of the financial assets as set out below.

	2016 RM	2015 RM
Financial assets at fair value through profit or loss	7,083,262	17,268,870
Cash and cash equivalents	7,997,390	5,575,837
Other assets	3,809,546	4,351,843
	<u>18,890,198</u>	<u>27,196,550</u>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

### 2. FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

#### Credit risk (cont'd)

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

	Unquoted fixed- income securities	Cash and cash equivalents	Other assets*	Total
	RM	RM	RM	RM

#### As at 31 December 2016

Finance				
- AA-	-	4,017,851	-	4,017,851
- NR	-	3,979,539	-	3,979,539
Private debt securities				
- AA1	5,087,695	-	-	5,087,695
- AAA	1,995,567	-	-	1,995,567
Others-not rated	-	3,809,546	3,809,546	3,809,546
	<u>7,083,262</u>	<u>7,997,390</u>	<u>3,809,546</u>	<u>18,890,198</u>

#### As at 31 December 2015

Finance				
- AA-	-	2,262,269	-	2,262,269
- NR	-	3,313,568	-	3,313,568
Private debt securities				
- AA+	2,040,622	-	-	2,040,622
- AA1	5,086,481	-	-	5,086,481
- AA3	5,069,122	-	-	5,069,122
- AAA	5,072,645	-	-	5,072,645
Others-not rated	-	4,351,843	4,351,843	4,351,843
	<u>17,268,870</u>	<u>5,575,837</u>	<u>4,351,843</u>	<u>27,196,550</u>

\* Other assets include amount due from brokers and other receivables.

None of these financial assets are past due or impaired.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

### 2. FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

#### Capital risk

The capital of the Fund is represented by equity consisting of unit holders' 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 unit holders. 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 unit holders and benefits for other stakeholders and to maintain a strong capital base to support the development of the investment activities of the Fund.

#### 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 (i.e. exit price).

The fair value of financial assets traded in active markets (such as trading securities) are based on quoted market prices at the close of trading on the year end date.

The Fund utilises the last traded price for financial assets where the last traded price falls within the bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager will determine the point within the bid-ask spread that is most representative of the fair value.

An active market is a market in which transactions for the assets 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.

The carrying values of cash and cash equivalents, other receivables, amount due from brokers and all current liabilities are a reasonable approximation of their fair values due to their short-term nature.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

### 2. FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

#### Fair value estimation (cont'd)

#### Fair value hierarchy

The Fund classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- 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.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

### 2. FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

#### Fair value estimation (cont'd)

#### Fair value hierarchy (cont'd)

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

	Level 1	Level 2	Level 3	Total
	RM	RM	RM	RM
<b>At 31 December 2016</b>				
Financial assets at fair value through profit or loss				
- Quoted equities	18,560,660	-	-	18,560,660
- Unquoted fixed-income securities	-	7,083,262	-	7,083,262
	<u>18,560,660</u>	<u>7,083,262</u>	<u>-</u>	<u>25,643,922</u>

#### At 31 December 2015

Financial assets at fair value through profit or loss

- Quoted equities	17,859,939	-	-	17,859,939
- Unquoted fixed-income securities	-	17,268,870	-	17,268,870
	<u>17,859,939</u>	<u>17,268,870</u>	<u>-</u>	<u>35,128,809</u>

Investments whose values are based on quoted market prices in active markets, and are therefore classified within Level 1, include active listed equities.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

### 2. FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

#### Fair value estimation (cont'd)

#### Fair value hierarchy (cont'd)

Financial instruments that trade in markets that are considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2. These include investment-grade corporate bonds and commercial papers. As Level 2 instruments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

The Fund's policies on valuation of these financial assets are stated in Note F.

### 3. MANAGER'S FEE

Clause 14.1.2 of the Deed provides that the Manager is entitled to an annual management fee at a rate not exceeding 1.5% per annum based on the Fund's net asset value before deducting the Manager's and Trustee's fee for that particular day. The Manager's fee provided in the financial statements is computed on this basis at 1.5% per annum.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

**4. TRUSTEE'S FEE**

Clause 14.2.2 of the Deed provides that the Trustee is entitled to a fee not exceeding the following sums:

Size of Fund	Fee
First RM20 million	RM12,000
Next RM20 million	RM10,000
Next RM20 million	RM 8,000
Next RM20 million	RM 6,000
Next RM20 million	RM 4,000
Any amount above RM100 million	RM15,000

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

**5. TAXATION**

	2016 RM	2015 RM
Current taxation		
- Malaysia taxation	2,567	827
Over provision in prior financial year	(568)	-
	<u>1,999</u>	<u>827</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

**5. TAXATION (CONT'D)**

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

	2016 RM	2015 RM
Net (loss)/income before taxation	(487,293)	4,233,185
Taxation at Malaysian statutory rate of 24% (2015: 25%)	(116,950)	1,058,296
Tax effects of:		
Investment income not subject to tax	(124,601)	(1,307,639)
Expenses not deductible for tax purposes	101,525	114,581
Restriction on tax deductible expenses for unit trust funds	146,187	136,829
Income subject to different tax rate	(3,594)	(1,240)
Over provision in prior financial year	(568)	-
Tax expense	<u>1,999</u>	<u>827</u>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

### 6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016 RM	2015 RM
Net (loss)/gain on financial assets at fair value through profit or loss		
- realised gain on sale of investments	330,488	2,316,879
- unrealised (loss)/gain	(1,994,899)	1,546,611
	<u>(1,664,411)</u>	<u>3,863,490</u>
Designated at fair value through profit or loss at inception:		
- Quoted investments	18,560,660	17,859,939
- Unquoted fixed-income securities *	7,083,262	17,268,870
	<u>25,643,922</u>	<u>35,128,809</u>

\*includes interest receivable of RM96,072 (2015: RM210,707).

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

### 6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Details of quoted investments as at 31 December 2016 are set out as follows:

Name of Counter	Quantity Units	Aggregate cost 31/12/2016 RM	Fair value as at 31/12/2016 expressed as Fair value percentage as at of NAV of Fund	
			RM	%
<b>Trading/ Services</b>				
AWC Bhd	1,550,000	1,300,595	1,464,750	4.48
DKSH Holdings (M) Bhd	265,000	1,452,804	1,184,550	3.62
Genting Bhd - Warrants	1,288,000	1,833,542	1,790,320	5.47
Scicom (MSC) Bhd	450,000	1,025,410	958,500	2.93
	<u>3,553,000</u>	<u>5,612,351</u>	<u>5,398,120</u>	<u>16.50</u>
<b>Consumer Products</b>				
Prolexus Bhd	606,000	957,374	824,160	2.52
Prolexus Bhd - Warrants	202,000	-	106,050	0.32
	<u>808,000</u>	<u>957,374</u>	<u>930,210</u>	<u>2.84</u>
<b>Finance</b>				
Syarikat Takaful Malaysia Bhd	275,000	1,068,979	1,138,500	3.48
AEON Credit Service (M) Bhd	100,000	1,297,783	1,436,000	4.39
Bursa Malaysia Bhd	150,000	1,324,650	1,327,500	4.06
	<u>525,000</u>	<u>3,691,412</u>	<u>3,902,000</u>	<u>11.93</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

**6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

Details of quoted investments as at 31 December 2016 are set out as follows: (cont'd)

Name of Counter	Quantity	Aggregate cost	Fair value as at 31/12/2016 expressed as	
			as at 31/12/2016	Fair value percentage of NAV of Fund
	Units	RM	RM	%
<b>Industrial Products</b>				
BP Plastics Holding Bhd	600,000	959,580	840,000	2.57
Can-One Bhd	300,000	1,112,020	996,000	3.05
Goodway Integrated Industries Bhd	800,000	541,920	500,000	1.53
Yinson Holdings Bhd	532,000	1,661,755	1,537,480	4.70
	<u>2,232,000</u>	<u>4,275,275</u>	<u>3,873,480</u>	<u>11.85</u>
<b>REITs</b>				
Pavillion Real Estate Investment Trust	687,000	1,189,960	1,305,300	3.99
<b>Construction</b>				
OKA Corporation Bhd	800,000	859,376	944,000	2.89

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

**6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

Details of quoted investments as at 31 December 2016 are set out as follows: (cont'd)

Name of Counter	Quantity	Aggregate cost	Fair value as at 31/12/2016 expressed as	
			as at 31/12/2016	Fair value percentage of NAV of Fund
	Units	RM	RM	%
<b>Technology</b>				
Inari Amertron Bhd	300,000	981,150	996,000	3.05
KESM Industries Bhd	123,000	1,143,952	1,211,550	3.70
	<u>423,000</u>	<u>2,125,102</u>	<u>2,207,550</u>	<u>6.75</u>
<b>TOTAL QUOTED INVESTMENTS</b>	<u>9,028,000</u>	<u>18,710,850</u>	<u>18,560,660</u>	<u>56.75</u>
<b>NET UNREALISED LOSSES ON QUOTED INVESTMENTS</b>		<u>(150,190)</u>		
<b>FAIR VALUE OF TOTAL QUOTED INVESTMENTS</b>			<u>18,560,660</u>	

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

### 6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONT'D)

Details of quoted investments as at 31 December 2015 are set out as follows:

Name of Counter	Quantity	Aggregate cost	Fair value as at 31/12/2015 expressed as	
			as at 31/12/2015	Fair value percentage of NAV of Fund
	Units	RM	RM	%
<b>Trading/ Services</b>				
Only World Group				
Holdings Bhd	150,000	460,500	463,500	1.28
Solution Engineering Holdings	1,000,000	398,800	410,000	1.13
Oceancash Pacific Bhd	1,000,000	418,400	435,000	1.20
	<u>2,150,000</u>	<u>1,277,700</u>	<u>1,308,500</u>	<u>3.61</u>
<b>Consumer Products</b>				
Hong Leong Industries Bhd	130,000	787,625	770,900	2.13
Cocoaland Holdings Bhd	376,666	690,930	783,465	2.16
Karex Bhd	248,300	616,250	1,025,479	2.83
Magni-Tech Industries Bhd	479,500	1,397,347	2,148,160	5.93
Prolexus Bhd	504,000	942,348	1,290,240	3.56
Y.S.P. Southeast Asia Holding Bhd	246,000	703,381	610,080	1.69
Lii Hen Industries Bhd	400,000	1,163,820	1,064,000	2.94
Oriental Food Industries Bhd	400,000	879,050	988,000	2.73
	<u>2,784,466</u>	<u>7,180,751</u>	<u>8,680,324</u>	<u>23.97</u>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

### 6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONT'D)

Details of quoted investments as at 31 December 2015 are set out as follows: (cont'd)

Name of Counter	Quantity	Aggregate cost	Fair value as at 31/12/2015 expressed as	
			as at 31/12/2015	Fair value percentage of NAV of Fund
	Units	RM	RM	%
<b>Finance</b>				
Syarikat Takaful Malaysia Bhd	300,000	1,150,880	1,170,000	3.23
<b>Industrial Products</b>				
Muda Holdings Bhd	400,000	775,480	860,000	2.38
OKA Corporation Bhd	823,000	776,215	761,275	2.10
Focus Lumber Bhd	300,000	859,750	864,000	2.39
Heveaboard Bhd	700,000	1,155,000	1,134,000	3.13
Superlon Holdings Bhd	368,000	693,021	783,840	2.17
Wellcall Holdings Bhd	200,000	521,440	522,000	1.44
Sarawak Cable Bhd	500,000	871,800	860,000	2.38
	<u>3,291,000</u>	<u>5,652,706</u>	<u>5,785,115</u>	<u>15.99</u>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

### 6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONT'D)

Details of quoted investments as at 31 December 2015 are set out as follows: (cont'd)

Name of Counter	Quantity Units	Aggregate cost RM	Fair value as at 31/12/2015 expressed as	
			as at 31/12/2015 RM	Fair value percentage of NAV of Fund %
<b>Technology</b>				
Inari Amertron Bhd	200,000	781,893	916,000	2.53
<b>TOTAL QUOTED INVESTMENTS</b>	<b>8,725,466</b>	<b>16,043,930</b>	<b>17,859,939</b>	<b>49.33</b>
<b>NET UNREALISED GAINS ON QUOTED INVESTMENTS</b>		<u>1,816,009</u>		
<b>FAIR VALUE OF TOTAL QUOTED INVESTMENTS</b>		<u>17,859,939</u>		

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

### 6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONT'D)

Details of unquoted fixed-income securities as at 31 December 2016 are set out as follows:

Name of Counter	Quantity Units	Aggregate cost RM	Fair value as at 31/12/2016 expressed as	
			as at 31/12/2016 RM	Fair value percentage of NAV of Fund %
<b>Unquoted Redeemable Non-Convertible Bonds &amp; CP</b>				
Manjung Island Energy Bhd				
Bhd	2,000,000	2,013,972	1,995,567	6.10
Public Bank Berhad	5,000,000	5,086,679	5,087,695	15.56
<b>TOTAL UNQUOTED FIXED-INCOME SECURITIES</b>	<b>7,000,000</b>	<b>7,100,651</b>	<b>7,083,262</b>	<b>21.66</b>
<b>NET UNREALISED LOSSES ON UNQUOTED FIXED-INCOME SECURITIES</b>			<u>(17,389)</u>	
<b>FAIR VALUE OF TOTAL UNQUOTED FIXED-INCOME SECURITIES</b>			<u>7,083,262</u>	

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

### 6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONT'D)

Details of unquoted fixed-income securities as at 31 December 2015 are set out as follows:

Name of Counter	Quantity Units	Aggregate cost RM	Fair value as at 31/12/2015 expressed as		Fair value percentage as at 31/12/2015 of NAV of Fund %
			RM	RM	
<b>Unquoted Redeemable Non-Convertible Bonds &amp; CP</b>					
AMMB Holdings Bhd	5,000,000	5,050,322	5,069,122		14.00
Kapar Energy Ventures Sdn Bhd	2,000,000	2,042,882	2,040,622		5.64
Hyundai Capital Services Inc.	5,000,000	5,077,324	5,072,645		14.01
Public Bank Berhad	5,000,000	5,087,031	5,086,481		14.05
Pesaka Astana (M) Sdn Bhd - 04/06*	4,800,000	-	-		-
<b>TOTAL UNQUOTED FIXED-INCOME SECURITIES</b>	<b>21,800,000</b>	<b>17,257,559</b>	<b>17,268,870</b>		<b>47.70</b>
<b>NET UNREALISED GAINS ON UNQUOTED FIXED-INCOME SECURITIES</b>			<b>11,311</b>		
<b>FAIR VALUE OF TOTAL UNQUOTED FIXED-INCOME SECURITIES</b>			<b>17,268,870</b>		

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

### 6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONT'D)

\* Following the decision by the Federal Court, the Pesaka Astana (M) Sdn Bhd defaulted bonds case has been resolved, save for cost and interest to be awarded to KAF Investment Bank ("KIB"). The amounts recovered, net of provision for estimated cost and interest payable to KIB, has been written back and accounted as income amounting to RM2,950,000 in 2014.

The weighted average interest rates and the remaining maturities of unquoted fixed-income securities are shown in Note 2.

### 7. CASH AND CASH EQUIVALENTS

	2016 RM	2015 RM
Cash at bank	12,889	2,491,028
Deposits with licensed financial institutions*	7,984,501	3,084,809
	<b>7,997,390</b>	<b>5,575,837</b>

\* A total of RM4,017,851 (2015: RM2,262,269) of short-term deposits are placed with KAF Investment Bank Bhd, a related company to the Manager.

The weighted average interest rates and the remaining maturities of deposits with licensed financial institutions are shown in Note 2.

### 8. AMOUNT DUE FROM/(TO) BROKERS

The amount due from/(to) brokers which relates to sale/(purchase) of investment securities and instruments are unsecured, interest-free and receivable/(payable) according to the settlement rules of the applicable stock exchange.



**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

**9. OTHER RECEIVABLES**

	2016 RM	2015 RM
Dividend receivables	51,580	20,808

**10. OTHER PAYABLES**

	2016 RM	2015 RM
Sundry accruals	39,300	39,800
Audit and tax fees	14,583	13,020
Provision for impending litigation-Pesaka Bond	-	1,303,567
	<u>53,883</u>	<u>1,356,387</u>

**11. NUMBER OF UNITS IN CIRCULATION**

	2016 Number of units	2015 Number of units
At the beginning of the financial year	67,052,000	64,527,000
Creation of units arising from application	672,149	885,140
Creation of units arising from distribution	4,397,851	4,319,860
Cancellation of units	<u>(5,120,000)</u>	<u>(2,680,000)</u>
At the end of the financial year	<u>67,002,000</u>	<u>67,052,000</u>

In accordance with Clause 6.1.1 of the Deed and SC's approval letter dated 7 December 2000, the maximum number of units that can be issued out for circulation is 400,000,000 units. This maximum number was raised further to 800,000,000 units by the SC vide its approval letter dated 19 November 2003. As at 31 December 2016, the number not yet issued is 732,998,000 units (2015: 732,948,000).

**12. DISTRIBUTION**

	2016 RM	2015 RM
Distribution to unit holders is from the following sources:		
Previous year's realised gains	4,047,220	3,687,365
Gross realised income	4,047,220	3,687,365
Less:		
Expenses	(1,032,130)	(670,025)
Distribution for the year	<u>3,015,090</u>	<u>3,017,340</u>
Gross distribution per unit (sen)	4.50	4.50
Net distribution per unit (sen)	4.50	4.50

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 distributions for the financial year is an amount of RM4,047,220 (2015: RM3,687,365) made from previous year's realised income.

The distribution for the financial year was declared on 31 December 2016 and paid on 10 January 2017. Distribution for the financial year ended 31 December 2015 was declared on 31 December 2015 and paid on 11 January 2016.

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

**13. TRANSACTIONS WITH BROKERS/DEALERS**

Details of transactions with the top 10 brokers/dealers for the financial year ended 31 December 2016 are as follows:

Name of brokers/ dealers	Percentage		Percentage	
	Value of trades RM	of total trades %	Brokerage fees RM	of total brokerage %
<b>2016</b>				
KAF				
Seagroatt & Campbell Securities Sdn Bhd *	64,092,742	46.21	144,209	56.14
KAF				
Investment Bank Bhd *	28,116,900	20.28	-	-
Maybank Investment Bank Bhd	19,290,595	13.91	48,226	18.78
RHB				
Investment Bank Bhd	14,070,534	10.15	31,659	12.33
CIMB				
Investment Bank Bhd	13,103,395	9.45	32,758	12.75
	<u>138,674,166</u>	<u>100.00</u>	<u>256,852</u>	<u>100.00</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

**13. TRANSACTIONS WITH BROKERS/DEALERS (CONT'D)**

Details of transactions with the top 10 brokers/dealers for the financial year ended 31 December 2015 are as follows:

Name of brokers/ dealers	Percentage		Percentage	
	Value of trades RM	of total trades %	Brokerage fees RM	of total brokerage %
<b>2015</b>				
KAF				
Seagroatt & Campbell Securities Sdn Bhd *	63,889,596	47.03	143,787	48.56
Maybank				
Investment Bank Bhd	26,464,684	19.48	67,193	22.70
CIMB				
Investment Bank Bhd	19,498,963	14.35	48,794	16.48
RHB				
Investment Bank Bhd	16,008,783	11.78	36,309	12.26
KAF				
Investment Bank Bhd*	9,994,500	7.36	-	-
	<u>135,856,526</u>	<u>100.00</u>	<u>296,083</u>	<u>100.00</u>

\* A related company to the Manager

The Manager is of the opinion that all the transactions with the related companies have been entered into in the normal course of business and have been established on terms and conditions that have been agreed upon by the parties involved.

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

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

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

Related parties	Relationship
KAF Investment Funds Berhad	The Manager
KAF Seagroatt & Campbell Bhd	Immediate holding company of the Manager
AKKA Sdn Bhd	Ultimate holding company of the Manager
Subsidiaries and associates of the ultimate holding company of the Manager as disclosed in its financial statements	Subsidiaries and associated companies of the ultimate holding company of the Manager

Significant related party transactions and balances that are not already disclosed in other notes to the financial statements are set out below:

	2016		2015	
	No. of units	RM	No. of units	RM
KAF Investment Funds Berhad	23,153	11,301	35,061	18,929

The above units were transacted at the prevailing market price.

The units are held legally by the Manager for booking purposes. Other than the above, there were no units held by Directors or parties related to the Manager.

**15. MANAGEMENT EXPENSE RATIO ("MER")**

	2016	2015
MER	1.82%	1.79%

MER is derived from the following calculation:

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

- A = Manager's fee
- B = Trustee's and custodian fees
- C = Audit fee
- D = Tax agent's fee
- E = Other expenses
- F = Average NAV of the Fund calculated on a daily basis

The average NAV of the Fund for the financial year calculated on a daily basis was RM37,036,193 (2015: RM37,409,066).

**16. PORTFOLIO TURNOVER RATIO ("PTR")**

	2016	2015
PTR	1.88 times	1.80 times

PTR is derived from the following calculation:

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

- where: total acquisition for the financial year = RM66,046,279 (2015: RM67,605,531)
- total disposal for the financial year = RM73,349,360 (2015: RM66,815,199)

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

**17. SEGMENTAL REPORTING**

The internal reporting provided to the Chief Executive Officer ("CEO") for the Fund's assets, liabilities and performance is prepared on a consistent basis with the measurement and recognition principles of MFRS. The CEO is responsible for the performance of the Fund and considers the business to have a single operating segment.

The reportable operating segment derives its income by seeking investments to achieve targeted returns commensurate with an acceptable level of risk within the portfolio. These returns consist of interest income, dividend and gains on the appreciation in the value of investments and are derived from quoted equities and unquoted fixed-income securities in Malaysia.

**CORPORATE INFORMATION**

**Manager**

KAF Investment Funds Berhad (334195-K)

**Registered Office**

Level 14, Chulan Tower  
No. 3 Jalan Conlay  
50450 Kuala Lumpur

**Business Office**

Level 11, Chulan Tower  
No. 3 Jalan Conlay  
50450 Kuala Lumpur  
Tel: 03-2171 0559 Fax: 03-2171 0583  
Customer Service Hotline: 1-800-88-3065  
Website: www.kaf.com.my

**Board of Directors**

Tan Sri Abu Talib Othman  
Datuk Khatijah binti Ahmad  
Chan Hwang Hsiung

**Secretary**

Siti Nurmazita binti Mustapha (LS 0009160)

**Trustee**

Universal Trustee (Malaysia) Berhad

**Auditor & Reporting Accountant**

PricewaterhouseCoopers

**Tax Adviser**

PricewaterhouseCoopers Taxation Services Sdn Bhd

**Banker**

Alliance Bank Malaysia Berhad

**KAF Investment Funds Berhad** (334195-K)  
Level 11, Chulan Tower  
No. 3, Jalan Conlay, 50450 Kuala Lumpur  
Tel: 03-2171 0559 Fax: 03-2171 0583

For more information,  
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