



A member of Prudential plc (UK) 

EASTSPRING INVESTMENTS ISLAMIC INCOME FUND

ANNUAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017



Dear Valued Investor,

Greetings from Eastspring Investments Berhad!

First and foremost, we would like to take this opportunity to thank you for choosing to invest with Eastspring Investments Berhad.

We are pleased to enclose a copy of the Annual/Interim/Quarterly Fund Reports of Eastspring Investments Berhad's fund(s) for the reporting period ended 31 March 2017.

You may also download these reports from our website at www.eastspringinvestments.com.my

Should you require any assistance, please do not hesitate to contact our Client Services at 03-2332 1000.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Raymond Tang', written in a cursive style.

Raymond Tang Chee Kin

Non-Independent, Executive Director and Chief Executive Officer

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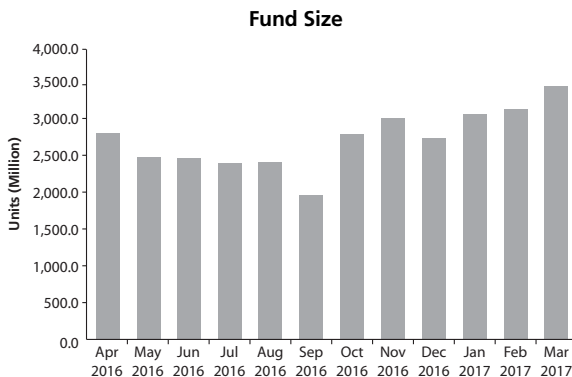
FUND INFORMATION

| | |
|--|---|
| Name of Fund | Eastspring Investments Islamic Income Fund (the "Fund") |
| Fund Category/ Type | Islamic money market/income |
| Fund Objective | <p>The Fund seeks to provide liquidity and a steady income* stream by investing in money market instruments and short-term debentures which are Shariah-compliant.</p> <p>* Income distributed to a Unit Holder will be reinvested into additional Units unless Unit Holder opts for the distribution to be paid out.</p> |
| Performance Benchmark | <p>Maybank Islamic overnight deposit rate</p> <p>Source: www.maybank2u.com.my</p> <p>Note: The risk profile of the Fund is different from the risk profile of the performance benchmark.</p> |
| Fund Income Distribution Policy | At least monthly, subject to the availability of income. |

FUND INFORMATION (CONTINUED)

Breakdown of Unit Holdings by Size

As at 31 March 2017, the size of Eastspring Investments Islamic Income fund stood at 3,434.184 million units.



Breakdown of Unit Holdings

| Unit Holdings | No. of Unit Holders | % | No of Units* ('000) | % |
|-------------------------|---------------------|---------------|---------------------|---------------|
| 5,000 units and below | 2 | 1.49 | 3 | - |
| 5,001 to 10,000 units | 2 | 1.49 | 15 | - |
| 10,001 to 50,000 units | 10 | 7.46 | 239 | 0.01 |
| 50,001 to 500,000 units | 20 | 14.93 | 2,966 | 0.09 |
| 500,001 units and above | 100 | 74.63 | 3,430,960 | 99.90 |
| Total | 134 | 100.00 | 3,434,183 | 100.00 |

* excludes units held by the Manager.

KEY PERFORMANCE DATA

FOR THE FINANCIAL YEAR ENDED

| Category | 31.3.2017 | 31.3.2016 | 31.3.2015 |
|---|---------------|---------------|---------------|
| | (%) | (%) | (%) |
| Cash and other assets | 100.00 | 100.00 | 100.00 |
| Total | 100.00 | 100.00 | 100.00 |
| Net Asset Value (NAV) (RM'000) | 1,786,642 | 1,421,279 | 973,746 |
| Units In Circulation (Units '000) | 3,434,184 | 2,731,176 | 1,870,900 |
| Net Asset Value Per Unit (RM) | 0.5203 | 0.5204 | 0.5205 |
| Highest Net Asset Value Per Unit (RM)# | 0.5203 | 0.5204 | 0.5205 |
| Lowest Net Asset Value Per Unit (RM)# | 0.5194 | 0.5195 | 0.5197 |
| Total Return (%) | | | |
| Capital Growth | (0.02) | (0.02) | 0.08 |
| Income Distribution | 3.72 | 3.84 | 3.40 |
| Total Return (%) | 3.70 | 3.82 | 3.48 |
| Gross Distribution Per Unit (RM) | 0.0190 | 0.0196 | 0.0174 |
| Net Distribution Per Unit (RM) | 0.0190 | 0.0196 | 0.0174 |
| Management Expense Ratio (MER) (%)* | 0.31 | 0.31 | 0.30 |
| Portfolio Turnover Ratio (PTR) (times)^ | 7.70 | 5.79 | 7.25 |

Figures shown as ex-distribution.

* There were no significant changes to the MER during the period under review.

^ There were no significant changes to the PTR during the period under review.

KEY PERFORMANCE DATA (CONTINUED)

| | 1 year 1.4.2016 to 31.3.2017 | 3 years 1.4.2014 to 31.3.2017 | 5 years 1.4.2012 to 31.3.2017 |
|----------------------|------------------------------------|-------------------------------------|-------------------------------------|
| | (%) | (%) | (%) |
| Average total return | 3.70 | 3.66 | 3.42 |

| Year ended | 1.4.2016 to 31.3.2017 | 1.4.2015 to 31.3.2016 | 1.4.2014 to 31.3.2015 | 1.4.2013 to 31.3.2014 | 1.4.2012 to 31.3.2013 |
|---------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | (%) | (%) | (%) | (%) | (%) |
| Annual total return | 3.70 | 3.82 | 3.48 | 3.08 | 3.05 |

Source: Lipper for Investment Management, as at 31 March 2017.

Bases of calculation and assumptions made in calculating returns:

$$\text{Percentage growth} = \frac{\text{NAV}_t - \text{NAV}_0}{\text{NAV}_0}$$

NAV_t = NAV at the end of the period

NAV_0 = NAV at the beginning of the period

$$\text{Performance annualised} = (1 + \text{Percentage Growth})^{1/n} - 1$$

n = Number of years

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

MANAGER'S REPORT

Fund Performance

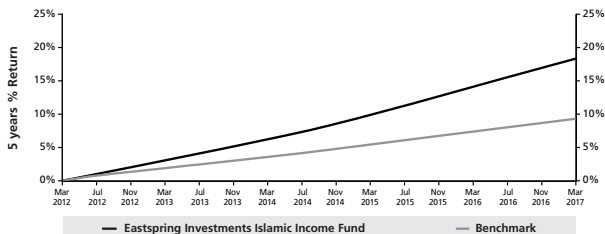
Over the 5-year period, the Fund recorded a positive return of 18.34%, outperforming its benchmark return of 9.31% by 9.03%.

For the period under review, the Fund registered a positive return of 3.70%, outperforming its benchmark return of 1.79% by 1.91%.

The outperformance of the Fund was contributed by investing in short-term Islamic deposits and Islamic money market placements of diversified maturities while maintaining its liquidity requirements.

The Fund met its investment objective of providing liquidity and a steady income stream by investing in Islamic money market placements and Islamic deposits.

**Eastspring Investments Islamic Income Fund -
5 Years Return Vs Benchmark**



The performance is calculated on NAV-to-NAV basis with gross income or dividend reinvested.

Benchmark: Maybank Islamic overnight deposit rate

Source: Lipper for Investment Management and www.maybank2u.com.my, as at 31 March 2017.

Past performance of the Fund is not necessarily indicative of its future performance.

MANAGER'S REPORT (CONTINUED)

Analysis
of Fund
Performance

For the financial year ended 31 March 2017:

| Income Return | Capital Return* | Total Return | Total Return of Benchmark |
|------------------|--------------------|-----------------|------------------------------|
| (%) | (%) | (%) | (%) |
| 3.72 | (0.02) | 3.70 | 1.79 |

* Capital return components (NAV per unit to NAV per unit)

Distribution/
Unit Split

| Ex-date | 15-Apr-16 | 16-May-16 | 15-Jun-16 |
|-----------------------|-----------|-----------|-----------|
| Distribution Per Unit | (RM) | (RM) | (RM) |
| Gross | 0.0017 | 0.0016 | 0.0017 |
| Net | 0.0017 | 0.0016 | 0.0017 |
| Ex-date | 15-Jul-16 | 15-Aug-16 | 15-Sep-16 |
| Distribution Per Unit | (RM) | (RM) | (RM) |
| Gross | 0.0016 | 0.0016 | 0.0016 |
| Net | 0.0016 | 0.0016 | 0.0016 |
| Ex-date | 17-Oct-16 | 15-Nov-16 | 15-Dec-16 |
| Distribution Per Unit | (RM) | (RM) | (RM) |
| Gross | 0.0016 | 0.0016 | 0.0014 |
| Net | 0.0016 | 0.0016 | 0.0014 |
| Ex-date | 16-Jan-17 | 15-Feb-17 | 15-Mar-17 |
| Distribution Per Unit | (RM) | (RM) | (RM) |
| Gross | 0.0015 | 0.0017 | 0.0014 |
| Net | 0.0015 | 0.0017 | 0.0014 |

MANAGER'S REPORT (CONTINUED)

**Distribution/
Unit Split
(continued)**

Impact on NAV arising from distribution for the financial year ended 31 March 2017.

| Ex-date | 15-Apr-16 | 16-May-16 | 15-Jun-16 |
|-------------------------------------|----------------------|----------------------|----------------------|
| | (RM per Unit) | (RM per Unit) | (RM per Unit) |
| Net Asset Value before distribution | 0.5212 | 0.5212 | 0.5212 |
| Less: distribution | (0.0017) | (0.0016) | (0.0017) |
| Net Asset Value after distribution | 0.5195 | 0.5196 | 0.5195 |

| Ex-date | 15-Jul-16 | 15-Aug-16 | 15-Sep-16 |
|-------------------------------------|----------------------|----------------------|----------------------|
| | (RM per Unit) | (RM per Unit) | (RM per Unit) |
| Net Asset Value before distribution | 0.5211 | 0.5212 | 0.5212 |
| Less: distribution | (0.0016) | (0.0016) | (0.0016) |
| Net Asset Value after distribution | 0.5195 | 0.5196 | 0.5196 |

| Ex-date | 17-Oct-16 | 15-Nov-16 | 15-Dec-16 |
|-------------------------------------|----------------------|----------------------|----------------------|
| | (RM per Unit) | (RM per Unit) | (RM per Unit) |
| Net Asset Value before distribution | 0.5212 | 0.5210 | 0.5209 |
| Less: distribution | (0.0016) | (0.0016) | (0.0014) |
| Net Asset Value after distribution | 0.5196 | 0.5194 | 0.5195 |

| Ex-date | 16-Jan-17 | 15-Feb-17 | 15-Mar-17 |
|-------------------------------------|----------------------|----------------------|----------------------|
| | (RM per Unit) | (RM per Unit) | (RM per Unit) |
| Net Asset Value before distribution | 0.5211 | 0.5211 | 0.5208 |
| Less: distribution | (0.0015) | (0.0017) | (0.0014) |
| Net Asset Value after distribution | 0.5196 | 0.5194 | 0.5194 |

No unit split were declared for the financial year ended 31 March 2017.

MANAGER'S REPORT (CONTINUED)

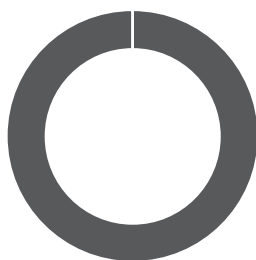
Investment Strategy During Period Under Review

For the period under review, the Fund invested in a portfolio of short-term Islamic deposits and Islamic money market instruments that would meet the investors' short-term liquidity management requirements.

Asset Allocation

| Asset Allocation | 31-Mar 2017 (%) | 31-Mar 2016 (%) | Changes (%) |
|-----------------------|-----------------|-----------------|-------------|
| Cash and other assets | 100.00 | 100.00 | 0.00 |

Asset Allocation as at 31 March 2017



Cash and other assets
100%

There were no significant changes in asset allocation of the Fund for the period under review.

MANAGER'S REPORT (CONTINUED)

State of Affairs of the Fund

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

However, in the Eastspring Investments First Supplementary Master Prospectus dated 24 November 2016, the information in relation to the auto reinvestment policy has been revised as set out in (a) below, while in the Eastspring Investments Second Supplementary Master Prospectus dated 15 March 2017, the information in relation to the income reinvestment policy has been revised as disclosed in (b) below:

a. Auto reinvestment policy

Any moneys payable to Unit Holder as a result of income distribution which remains unclaimed after six (6) months from the date of payment shall automatically be reinvested into additional Units of the Fund at the Net Asset Value ("NAV") per Unit on the closing of the fifteenth (15th) day after the said six (6) months period at no cost. In the event the fifteenth (15th) day falls on a non-Business Day, reinvestment will be made on the following Business Day.

b. Income Reinvestment Policy

Income distributed to a Unit Holder will automatically be reinvested into additional Units in the Fund at the NAV per Unit at the end of the Business Day of the income distribution date at no cost if the Unit Holder did not elect the mode of distribution in the master account opening form or provide any written instruction to the Manager.

Should a Unit Holder elect the mode of distribution in the master account opening form or provide any written instruction to the Manager, the income distribution proceeds will either be paid by cheque or credited into the bank account located in Malaysia via telegraphic or online transfer at the cost and expense of the Unit Holder.

The Manager reserves the right to reinvest income distribution without providing any reason if the instruction in the master account opening form or written instruction is incomplete.

MARKET REVIEW

For the period under review, Bank Negara Malaysia (“BNM”) had unexpectedly reduced the Overnight Policy Rate (“OPR”) by 25 basis points (“bps”) to 3.00% in July 2016, after holding it unchanged since July 2014. In the recent Monetary Policy Committee (MPC) meeting in March 2017, BNM maintained the OPR at 3.00%. BNM cited that economic activity in the advanced and emerging economies has continued to improve amid recovery in global trade. The Asian economies are benefited from stronger external demand and supported by sustained domestic activity. While the global economy is projected to expand at a slightly faster pace in 2017, there remain risks to global growth arising from risks of protectionism, geopolitical developments, heightened volatility of financial markets and negative developments in the prices of key commodities.

On the domestic front, the Malaysian economy expanded by 4.2% in 2016 despite the challenging global and domestic environment. Growth was underpinned by private sector activity amid improvement in exports. With the sustainable growth of domestic demand, any further positive contribution from the external sector will help improve the performance of the Malaysian economy. Headline inflation is projected to trend higher in 2017 on the back of higher global oil prices, however the relatively high headline inflation is likely to be moderated in the second half of 2017. The MPC viewed that at the current level of the OPR, the stance of monetary policy remained accommodative to ensure that the domestic economy continues on a steady growth path amid stable core inflation, supported by sustained healthy financial intermediation in the economy.

Following the 25bps cut in OPR from 3.25% to 3.00% on 13 July 2016, the interbank short-term rates were adjusted downwards and maintained their tight trading range thereafter amidst ample liquidity in the market. The overnight and 1-week rates fell from 3.20% - 3.25% at the beginning period to 2.98% - 3.06% respectively, while the 1-month rates dropped from 3.36% - 3.37% to 3.16% - 3.18%.

In the short-term Bills market, yields across all tenures traded higher by 73 – 75 bps on the back of weaker Ringgit. Both 1-month and 1-year yields ended the period at 3.09% and 3.24% respectively.

REBATES AND SOFT COMMISSIONS

During the period under review, the Manager and its delegates (if any) did not receive any soft commissions from stockbrokers.

EASTSPRING INVESTMENTS ISLAMIC INCOME FUND

FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017

TRUSTEE'S REPORT TO THE UNIT HOLDERS OF EASTSPRING INVESTMENTS ISLAMIC INCOME FUND

We have acted as Trustee for Eastspring Investments Islamic Income Fund (the "Fund") for financial year ended 31 March 2017. To the best of our knowledge, for the year under review, Eastspring Investments Berhad (the "Manager") has operated and managed the Fund in accordance with the following:

- a. limitations imposed on the investment powers of the Manager and Trustee under the Deed, the Securities Commission's Guidelines on Unit Trust Funds, the Capital Markets and Services Act 2007 and other applicable laws;
- b. the valuation/pricing for the Fund has been carried out in accordance with the Deed of the Fund and applicable regulatory requirements; and
- c. creation and cancellation of units for the Fund have been carried out in accordance with the Deed of the Fund and applicable regulatory requirements.

We are of the view that the distributions made during this financial year ended 31 March 2017 by the Manager are not inconsistent with the objectives of the Fund.

For Deutsche Trustees Malaysia Berhad

Soon Lai Ching
Senior Manager, Trustee Operations

Richard Lim Hock Seng
Chief Executive Officer

Kuala Lumpur
Date: 12 May 2017

SHARIAH ADVISER'S REPORT TO THE UNIT HOLDERS OF EASTSPRING INVESTMENTS ISLAMIC INCOME FUND

We have acted as the Shariah Adviser of Eastspring Investments Islamic Income Fund. Our responsibility is to ensure that the procedures and processes employed by Eastspring Investments Berhad are in accordance with Shariah principles.

In our opinion, Eastspring Investments Berhad has managed and administered Eastspring Investments Islamic Income Fund in accordance with Shariah principles and complied with applicable guidelines, rulings and decisions issued by the Securities Commission pertaining to Shariah matters for the financial year ended 31 March 2017.

In addition, we also confirm that the investment portfolio of Eastspring Investments Islamic Income Fund comprises securities which have been classified as Shariah-compliant by the Shariah Advisory Council of the Securities Commission ("SACSC"). As for the securities which are not certified by the SACSC, we have reviewed the said securities and opine that these securities are designated as Shariah-compliant.

For and on behalf of the Shariah Adviser
IBFIM

AHMAD ZAKIRULLAH BIN MOHAMED SHAARANI

Managing Advisor (Shariah)/Designated Person Responsible for Shariah Advisory

Kuala Lumpur
Date: 12 May 2017

INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS OF EASTSPRING INVESTMENTS ISLAMIC INCOME FUND

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of Eastspring Investments Islamic Income Fund ("the Fund") give a true and fair view of the financial position of the Fund as at 31 March 2017, and of its financial performance and its cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

What we have audited

We have audited the financial statements of the Fund, which comprise the statement of financial position as at 31 March 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 18 to 45.

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.

Information other than the financial statements and auditors' report thereon

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

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

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

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

Responsibilities of the Manager for the financial statements

The Manager of the Fund is responsible for the preparation of the financial statements of the Fund that give a true and fair view in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards. The Manager is also responsible for such internal control as the Manager 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.

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 judgement 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.

OTHER MATTERS

This report is made solely to the unit holder 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

Kuala Lumpur

Date: 12 May 2017

STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017

| | Note | 2017 | 2016 |
|---|------|--------------------|--------------------|
| | | RM | RM |
| INVESTMENT INCOME | | | |
| Profit income from Islamic deposits with licensed financial institutions | | 55,971,488 | 50,482,800 |
| EXPENSES | | | |
| Management fee | 3 | (3,561,444) | (3,101,226) |
| Trustee fee | 4 | (569,831) | (496,196) |
| Audit fee | | (7,000) | (7,000) |
| Tax agent fee | | (3,400) | (3,400) |
| Other expenses | | (25,096) | (24,427) |
| GST charges | | (248,695) | (216,197) |
| | | <u>(4,415,466)</u> | <u>(3,848,446)</u> |
| PROFIT BEFORE TAXATION | | 51,556,022 | 46,634,354 |
| TAXATION | 6 | - | - |
| PROFIT AFTER TAXATION AND TOTAL COMPREHENSIVE INCOME | | <u>51,556,022</u> | <u>46,634,354</u> |
| Profit after taxation is made up of the following: | | | |
| Realised amount | | <u>51,556,022</u> | <u>46,634,354</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 MARCH 2017

| | Note | 2017 | 2016 |
|--|------|----------------------|----------------------|
| | | RM | RM |
| ASSETS | | | |
| Cash and cash equivalents | | 365,148 | 117,796 |
| Financial assets at fair value through profit or loss | 7 | 1,789,985,582 | 1,421,557,772 |
| TOTAL ASSETS | | <u>1,790,350,730</u> | <u>1,421,675,568</u> |
| LIABILITIES | | | |
| Amount due to Manager | | 3,221,278 | - |
| Accrued management fee | | 371,841 | 301,207 |
| Amount due to Trustee | | 59,495 | 48,193 |
| Other payables and accruals | | 30,453 | 25,802 |
| GST charges payable | | 25,880 | 20,964 |
| TOTAL LIABILITIES | | <u>3,708,947</u> | <u>396,166</u> |
| NET ASSET VALUE OF THE FUND | | <u>1,786,641,783</u> | <u>1,421,279,402</u> |
| EQUITY | | | |
| Unit holders' capital | | 1,779,994,571 | 1,419,502,788 |
| Retained earnings | | 6,647,212 | 1,776,614 |
| NET ASSET ATTRIBUTABLE TO UNIT HOLDERS | | <u>1,786,641,783</u> | <u>1,421,279,402</u> |
| NUMBER OF UNITS IN CIRCULATION | 9 | <u>3,434,184,424</u> | <u>2,731,175,638</u> |
| NET ASSET VALUE PER UNIT (RM) (EX-DISTRIBUTION) | | <u>0.5203</u> | <u>0.5204</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 MARCH 2017

| | Note | Unit holders' capital | Retained earnings | Total |
|---|------|-----------------------|-------------------|----------------------|
| | | RM | RM | RM |
| Balance as at 1 April 2016 | | 1,419,502,788 | 1,776,614 | 1,421,279,402 |
| Movement in unit holders' contribution: | | | | |
| Creation of units from applications | | 2,460,088,570 | - | 2,460,088,570 |
| Creation of units from distributions | | 49,514,624 | - | 49,514,624 |
| Cancellation of units | | (2,143,652,034) | - | (2,143,652,034) |
| Distributions (Gross/Net : 1.90 sen per unit) | 5 | (5,459,377) | (46,685,424) | (52,144,801) |
| Total comprehensive income for the financial year | | - | 51,556,022 | 51,556,022 |
| Balance as at 31 March 2017 | | <u>1,779,994,571</u> | <u>6,647,212</u> | <u>1,786,641,783</u> |
| Balance as at 1 April 2015 | | 971,692,942 | 2,052,573 | 973,745,515 |
| Movement in unit holders' contribution: | | | | |
| Creation of units from applications | | 1,570,804,553 | - | 1,570,804,553 |
| Creation of units from distributions | | 46,910,313 | - | 46,910,313 |
| Cancellation of units | | (1,169,905,020) | - | (1,169,905,020) |
| Distributions (Gross/Net : 1.96 sen per unit) | 5 | - | (46,910,313) | (46,910,313) |
| Total comprehensive income for the financial year | | - | 46,634,354 | 46,634,354 |
| Balance as at 31 March 2016 | | <u>1,419,502,788</u> | <u>1,776,614</u> | <u>1,421,279,402</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 MARCH 2017

| | Note | 2017 | 2016 |
|---|------|----------------------|----------------------|
| | | RM | RM |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Proceeds from maturity of Islamic deposits with licensed financial institutions | | 10,786,004,190 | 6,960,019,121 |
| Placement of Islamic deposits with licensed financial institutions | | (11,154,432,000) | (7,407,580,000) |
| Profit income received from Islamic deposits with licensed financial institutions | | 55,971,488 | 50,482,800 |
| Management fee paid | | (3,490,810) | (3,003,990) |
| Trustee fee paid | | (558,529) | (480,638) |
| Payment for other fees and expenses | | (274,624) | (229,473) |
| Net cash used in operating activities | | <u>(316,780,285)</u> | <u>(400,792,180)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Cash proceeds from units created | | 2,509,603,194 | 1,617,714,866 |
| Payments for cancellation of units | | (2,140,430,756) | (1,169,905,020) |
| Distributions paid | | (52,144,801) | (46,910,313) |
| Net cash generated from financing activities | | <u>317,027,637</u> | <u>400,899,533</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | | |
| | | 247,352 | 107,353 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR | | | |
| | | <u>117,796</u> | <u>10,443</u> |
| CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR | | | |
| | | <u>365,148</u> | <u>117,796</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 MARCH 2017

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 in accordance with the Malaysian Financial Reporting Standards (“MFRS”) and International Financial Reporting Standards (“IFRS”), as modified by financial assets at fair value through profit or loss.

The preparation of financial statements in conformity with the 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 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.

The Fund has applied the following amendments for the first time for the financial year beginning 1 April 2016:

- Amendments to MFRS 101 “Presentation of financial statements” – Disclosure initiative
- Amendments to MFRS 10,12 & 128 “Investment entities – Applying the consolidation exception”
- Annual improvements to MFRSs 2012 – 2014 Cycle

There were no significant impact to other accounting policies of the Fund as a result of the above mentioned.

The new standards, amendments to published standards and interpretations to existing standards that are applicable to the Fund but not yet effective and have not been early adopted are as follows:

- a. Financial year beginning on/after 1 April 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.

The Fund will apply this standard when effective. This standard is not expected to have a significant impact on the Fund's financial statements.

b. Financial year beginning on/after 1 April 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 instruments¹ 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 instrument² is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest³.

For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives¹. 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.

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.

¹ For the purposes of the investments made by the Fund, equity instruments and derivatives refers to Shariah-compliant equity instruments and Shariah-compliant derivatives.

² For the purposes of the investments made by the Fund, debt instruments refers to sukuk.

³ For the purposes of this Fund, interest refers to profits earned from Shariah-compliant investments.

The Fund will apply this standard when effective. This standard is not expected to have a significant impact on the Fund's financial statements.

- 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 standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. 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.

The Fund will apply this standard when effective. This standard is not expected to have a significant impact on the Fund's financial statements.

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

- Identify contracts with customers;
- Identify the separate performance obligations;
- Determine the transactions 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 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.

- 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.

The Fund will apply this standard when effective. This standard is not expected to have a significant impact on the Fund's financial statements.

B. INCOME RECOGNITION

Profit income earned from Islamic deposits with licensed financial institutions is recognised on an accrual basis using the effective profit method.

C. TAXATION

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

D. PRESENTATION AND FUNCTIONAL 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 presentation and functional currency.

E. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

i. Classification

The Fund designates its Islamic deposits with licensed financial institutions 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 which are all due within 12 months.

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

The Fund's financial liabilities which include amount due to Manager, accrued management fee, amount due to Trustee, other payables and accruals and GST charges payable.

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. Shariah-compliant investments are initially recognised at fair value.

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

Financial liability, within the scope of MFRS 139, are recognised in the statement of financial position when, and only when, the Fund becomes a party to the contractual provisions of the financial instrument.

Financial liability are derecognised when the obligation under the liability is extinguished. i.e. when the obligation specified in the contract is discharged or cancelled or expired.

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

Receivables and other financial liabilities are subsequently carried at amortised cost using the effective profit rate method.

iii. Impairment for assets carried at amortised costs

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

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

F. CASH AND CASH EQUIVALENTS

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

G. UNIT HOLDERS' CAPITAL

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

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

The outstanding units are carried at the redemption amount that is payable at each financial year if unit holder 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 unit holders with the total number of outstanding units.

H. DISTRIBUTIONS

A distribution to the Fund's unit holders is accounted for as a deduction from realised reserves. A proposed distribution is recognised as a liability in the period in which it is approved by the Board of Directors of the Manager.

I. 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 Committee of the Fund's Manager that undertakes strategic decisions for the Fund.

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 content of the estimates, certain key variables that are anticipated to have material impact to the Funds' results and financial position are tested for sensitivity to changes in the underlying parameters.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017

1. INFORMATION ON THE FUND

Eastspring Investments Islamic Income Fund (the "Fund") was constituted pursuant to the execution of a Deed dated 10 January 2007 as modified by a Master Supplemental Deed dated 12 July 2007 and the Second Supplemental Master Deed dated 30 November 2009 between HSBC (Malaysia) Trustee Bhd ("HSBC Trustee") and Eastspring Investments Berhad (the "Manager"). The Fund replaced HSBC Trustee with Deutsche Trustees Malaysia Berhad (the "Trustee") effective 1 October 2010. A Supplemental Master Deed ("Deed") was entered into between the Manager and the Trustee on 30 July 2010 to effect the change of trustee from HSBC Trustee to the Trustee followed by a Second Supplemental Master Deed dated 28 January 2011, a Third Supplemental Master Deed dated 9 March 2011, a Fourth Supplemental Master Deed dated 20 January 2012, a Fifth Supplemental Master Deed dated 26 March 2014, a Sixth Supplemental Master Deed dated 2 January 2015, a Seventh Supplemental Master Deed dated 11 July 2016 and an Eighth Supplemental Master Deed dated 25 January 2017 (collectively referred to as the "Deed").

The Fund was launched on 8 February 2007 and will continue its operations until terminated as provided under Part 12 of the Deed.

The Fund invests in a portfolio of Shariah-compliant money market instruments and short-term sukuk approved by the Securities Commission ("SC") from time to time. All Shariah-compliant investments will be subjected to the SC Guideline on Unit Trust Funds, the Deed and the objective of the Fund.

The Fund seeks to provide liquidity and a steady income stream by investing in money market instruments and short-term debentures which are Shariah-compliant.

The Manager is a company incorporated in Malaysia, is related to Prudential Plc., a public listed company in the United Kingdom. The principal activity of the Manager is the establishment and management of unit trust funds and fund management services.

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Fund is exposed to a variety of risks, which include market risk (inclusive of exposure to interest rate risk), liquidity risk, credit/default risk, fund management risk, non-compliance 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 in the Deed.

Financial instruments of the Fund are as follows:

| | Note | Receivables | Financial assets at fair value through profit or loss | Total |
|---|------|----------------|---|----------------------|
| | | RM | RM | RM |
| <u>2017</u> | | | | |
| Islamic deposits with licensed financial institutions | 7 | - | 1,789,985,582 | 1,789,985,582 |
| Bank balance with a licensed bank | | 365,148 | - | 365,148 |
| | | <u>365,148</u> | <u>1,789,985,582</u> | <u>1,790,350,730</u> |
| <u>2016</u> | | | | |
| Islamic deposits with licensed financial institutions | 7 | - | 1,421,557,772 | 1,421,557,772 |
| Bank balance with a licensed bank | | 117,796 | - | 117,796 |
| | | <u>117,796</u> | <u>1,421,557,772</u> | <u>1,421,675,568</u> |

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

Market risk

a. Exposure to interest rate risk

Cash flow interest rate risks is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Fair value interest rate risks is the risk that the value of financial instrument will fluctuate due to changes in market interest rates.

Interest rate is a general economic indicator that will have an impact on the management of the Fund regardless whether it is a Shariah-compliant Unit Trust Fund or otherwise. It does not in any way suggest that the Fund will invest in conventional financial instruments. All the investments are carried out for the Fund are in accordance with Shariah requirements.

The Fund's investments in Islamic deposits with licensed financial institutions are short-term in nature. Therefore, exposure to interest rate fluctuations is minimal.

As at the date of the statement of financial position, all the financial assets and financial liabilities have no exposure to interest rate movement except for Islamic deposits with licensed financial institutions of RM1,789,985,582 (2016: RM1,421,557,772) which have maturities of less than 127 days (2016: 132 days).

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting its financial obligations.

Generally, all investments are subject to a certain degree of liquidity risk depending on the nature of the investment instruments, market, sector and other factors. For the purpose of the Fund, the Fund Manager will attempt to balance the entire portfolio by investing in a mix of assets with satisfactory trading volume and those that occasionally could encounter poor liquidity. This is expected to reduce the risks for the entire portfolio without limiting the Fund's growth potentials.

The Fund maintains sufficient level of Islamic liquid assets, after consultation with the Trustee, to meet anticipated payments and cancellations of units by unitholders.

Islamic liquid assets comprise bank balance, Islamic deposits with licensed financial institutions and other Shariah-compliant instruments which are capable of being converted into cash within 7 days.

The table below summarises the Fund's financial liabilities into relevant maturity groupings based on the remaining period as at the statement of financial position date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

| | Less than 1 month | Between 1 month to 1 year | Total |
|-----------------------------|------------------------------|--|------------------|
| | RM | RM | RM |
| <u>2017</u> | | | |
| Amount due to Manager | 3,221,278 | - | 3,221,278 |
| Accrued management fee | 371,841 | - | 371,841 |
| Amount due to Trustee | 59,495 | - | 59,495 |
| Other payables and accruals | - | 30,453 | 30,453 |
| GST charges payables | 25,880 | - | 25,880 |
| Contractual cash outflows | <u>3,678,494</u> | <u>30,453</u> | <u>3,708,947</u> |
| <u>2016</u> | | | |
| Accrued management fee | 301,207 | - | 301,207 |
| Amount due to Trustee | 48,193 | - | 48,193 |
| Other payables and accruals | - | 25,802 | 25,802 |
| GST charges payables | 20,964 | - | 20,964 |
| Contractual cash outflows | <u>370,364</u> | <u>25,802</u> | <u>396,166</u> |

Credit/default risk

Credit risk refers to the ability of an issuer or a counter party to make timely payments of profit, principals and proceeds from realisation of Shariah-compliant investments. The risk arising from placements of Islamic deposits with licensed financial institutions is managed by ensuring that the Fund will only place Islamic deposits with reputable licensed financial institutions.

The following table sets out the credit risk concentrations and counterparties of the Fund.

| | Financial assets at fair value through profit or loss | Cash and cash equivalents | Total |
|-------------|--|--|----------------------|
| | RM | RM | RM |
| <u>2017</u> | | | |
| Finance | | | |
| - AAA | 396,105,776 | - | 396,105,776 |
| - AA1 | 355,969,899 | 365,148 | 356,335,047 |
| - AA2 | 587,918,711 | - | 587,918,711 |
| - AA3 | 346,937,170 | - | 346,937,170 |
| - NR | 103,054,026 | - | 103,054,026 |
| | <u>1,789,985,582</u> | <u>365,148</u> | <u>1,790,350,730</u> |
| <u>2016</u> | | | |
| Finance | | | |
| - AAA | 496,192,436 | - | 496,192,436 |
| - AA1 | 105,388,417 | 117,796 | 105,506,213 |
| - AA2 | 417,678,355 | - | 417,678,355 |
| - AA3 | 240,517,194 | - | 240,517,194 |
| - NR | 161,781,370 | - | 161,781,370 |
| | <u>1,421,557,772</u> | <u>117,796</u> | <u>1,421,675,568</u> |

None of these financial assets are past due or impaired.

Fund management risk

There is the risk that the management company may not adhere to the investment mandate of the respective Fund. With close monitoring by the investment committee, back office system being incorporated with limits and controls, and regular reporting to the senior management team, the management company is able to manage such risk. The Trustee has an oversight function over management of the Fund by the management company to safeguard the interests of unit holder.

Non-compliance risk

Non-compliance risk arises when the Manager and others associated with the Fund do not comply to the rules set out in the Fund's constitution or the law that governs the Fund or applicable internal control procedures, or act fraudulently or dishonestly.

The non-compliance may expose the Fund to higher risks which may result in a fall in the value of the Fund which in turn may affect its investment goals. However, the risk can be mitigated by the internal controls and compliance monitoring undertaken by the Manager.

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 Shariah-compliant investment activities of the Fund.

Fair value estimation

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 participant at the measurement date (i.e. an exit price).

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

An active market is a market in which transactions for the asset or liability 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.

Fair value hierarchy

- i. The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:
- Level 1: Quoted prices (unadjusted) in active market for identical assets or liabilities.
 - Level 2: 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 3: Inputs for the asset and liability that are not based on observable market data (that is, unobservable inputs).

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 judgement, considering factors specific to the asset or liability.

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

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

| | Level 1 | Level 2 | Level 3 | Total |
|--|----------------|-----------------|-----------------|--------------|
| | RM | RM | RM | RM |
| <u>2017</u> | | | | |
| Financial assets at fair value through profit or loss: | | | | |
| Islamic deposits with licensed financial institutions | | - 1,789,985,582 | - 1,789,985,582 | |
| | | | | |
| <u>2016</u> | | | | |
| Financial assets at fair value through profit or loss: | | | | |
| Islamic deposits with licensed financial institutions | | - 1,421,557,772 | - 1,421,557,772 | |
| | | | | |

The financial assets are short term financial instruments for which the carrying amount approximates the fair values.

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 includes Islamic deposits in licensed financial institutions. 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 E to the financial statements.

- ii. The carrying value of cash and cash equivalents and all liabilities are a reasonable approximation of their fair values due to their short term nature.

3. MANAGEMENT FEE

In accordance with the Deed, the Manager is entitled to a management fee at a rate not exceeding 2.50% per annum on the net asset value of the Fund calculated on daily basis.

For the financial year ended 31 March 2017, the management fee is recognised at a rate of 0.25% (2016: 0.25%) per annum of the net asset value of the Fund, calculated at a daily basis.

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

4. TRUSTEE FEE

In accordance with the Deed, the Trustee is entitled to an annual fee, inclusive of local custodian fee, at a rate not exceeding 0.50% per annum on the net asset value of the Fund, subject to a minimum fee of RM18,000 per annum.

For the financial year ended 31 March 2017, the Trustee fee is recognised at a rate of 0.04% (2016: 0.04%) per annum on the net asset value of the Fund, calculated on daily basis.

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

5. DISTRIBUTIONS

| | 2017 | 2016 |
|--|-------------------|-------------------|
| | RM | RM |
| Distributions to unitholders are from the following sources: | | |
| Profit income earned from Islamic deposits | 50,631,809 | 41,630,002 |
| Distribution equalisation (Memorandum account) | 5,459,377 | 8,658,485 |
| Gross realised income | 56,091,186 | 50,288,487 |
| Less: Expenses | (3,946,385) | (3,378,174) |
| | <u>52,144,801</u> | <u>46,910,313</u> |

During the financial year, distributions were made as follows:

| | Gross/net distribution | |
|-------------------------|------------------------|---------------|
| | 2017/2016 | 2016/2015 |
| | RM/unit | RM/unit |
| 15 April | 0.0017 | 0.0018 |
| 16 May/15 May | 0.0016 | 0.0016 |
| 15 June | 0.0017 | 0.0015 |
| 15 July | 0.0016 | 0.0016 |
| 15 August/17 August | 0.0016 | 0.0017 |
| 15 September | 0.0016 | 0.0014 |
| 17 October/15 October | 0.0016 | 0.0017 |
| 15 November/16 November | 0.0016 | 0.0016 |
| 15 December | 0.0014 | 0.0016 |
| 16 January/15 January | 0.0015 | 0.0018 |
| 15 February | 0.0017 | 0.0016 |
| 15 March | 0.0014 | 0.0017 |
| | <u>0.0190</u> | <u>0.0196</u> |

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

Distribution equalisation represents the average amount of distributable income included in the creation and cancellation prices of units. It is computed as at each date of creation and cancellation of units. For the purpose of determining amount available for distribution, distribution equalisation is included in the computation of realised gains or income available for distribution.

6. TAXATION

| | 2017 | 2016 |
|------------------|------|------|
| | RM | RM |
| Current taxation | - | - |

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

| | 2017 | 2016 |
|--|--------------|--------------|
| | RM | RM |
| Profit before taxation | 51,556,022 | 46,634,354 |
| Tax at Malaysian statutory rate of 24% (2016: 24%) | 12,373,445 | 11,192,245 |
| Tax effects of: | | |
| Investment income exempt from tax | (13,433,157) | (12,115,872) |
| Expenses not deductible for tax purposes | 151,900 | 130,417 |
| Restriction on tax deductible expenses for Unit Trust Funds | 907,812 | 793,210 |
| Taxation | - | - |

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2017 | 2016 |
|--|---------------|---------------|
| | RM | RM |
| Designated at fair value through profit or loss: Islamic deposits with licensed financial institutions* | 1,789,985,582 | 1,421,557,772 |

* Includes profit receivable of RM16,795,582 (2016: RM16,537,772).

The effective weighted average rate of return of Islamic deposits placement with licensed financial institutions per annum as at the date of the statement of financial position are as follows:

| | 2017 | 2016 |
|---|------|------|
| | % | % |
| Islamic deposits with licensed financial institutions | 3.87 | 4.19 |

The Islamic deposits have an average maturity of 127 days (2016: 132 days).

The Fund's investments in Islamic deposits with licensed financial institutions are short term in nature. Therefore, the fair value of Islamic deposits with licensed financial institutions is taken to approximate its carrying values.

8. SHARIAH INFORMATION OF THE FUND

The Shariah Adviser confirmed that the investments portfolio of the Fund is Shariah-compliant, which comprises liquid assets in local market, which are placed in Shariah-compliant investments and/or instruments.

9. UNITS IN CIRCULATION

| | 2017 | 2016 |
|---|----------------------|----------------------|
| | No. of units | No. of units |
| At the beginning of the financial year | 2,731,175,638 | 1,870,899,619 |
| Creation of units during the financial year: | | |
| Arising from applications | 4,728,231,637 | 3,018,952,129 |
| Arising from distributions | 95,309,835 | 90,293,143 |
| Cancellation of units during the financial year | (4,120,532,686) | (2,248,969,253) |
| At the end of the financial year | <u>3,434,184,424</u> | <u>2,731,175,638</u> |

10. TRANSACTIONS WITH FINANCIAL INSTITUTIONS

Details of transactions with financial institutions are as follows:

| Name of financial institutions | Value of trades | Percentage of total trades |
|--|-----------------------|----------------------------|
| | RM | % |
| 2017 | | |
| CIMB Islamic Bank Berhad | 5,194,814,000 | 46.57 |
| Malayan Banking Berhad (Islamic Banking) | 1,493,540,000 | 13.39 |
| Hong Leong Islamic Bank Berhad | 1,199,150,000 | 10.75 |
| Bank Islam Malaysia Berhad | 866,330,000 | 7.77 |
| Public Islamic Bank Berhad | 743,580,000 | 6.67 |
| RHB Islamic Bank Berhad | 730,100,000 | 6.55 |
| Maybank Islamic Berhad | 414,820,000 | 3.71 |
| OCBC Al-Amin Bank Berhad | 269,238,000 | 2.41 |
| Amlslamic Bank Berhad | 242,860,000 | 2.18 |
| | 11,154,432,000 | 100.00 |
| 2016 | | |
| CIMB Islamic Bank Berhad | 2,515,510,000 | 33.96 |
| Bank Islam Malaysia Berhad | 2,049,890,000 | 27.67 |
| Maybank Islamic Berhad | 932,780,000 | 12.59 |
| RHB Islamic Bank Berhad | 746,630,000 | 10.08 |
| Hong Leong Islamic Bank Berhad | 582,720,000 | 7.87 |
| Amlslamic Bank Berhad | 341,030,000 | 4.60 |
| OCBC Al-Amin Bank Berhad | 189,490,000 | 2.56 |
| Public Islamic Bank Berhad | 49,530,000 | 0.67 |
| | 7,407,580,000 | 100.00 |

All financial institutions highlighted above are not related to the Manager.

There are only 9 financial institutions for the financial year ended 31 March 2017 (31 March 2016: 8 financial institutions).

11. MANAGEMENT EXPENSE RATIO ("MER")

| | 2017 | 2016 |
|-----|------|------|
| | % | % |
| MER | 0.31 | 0.31 |

MER is derived from the following calculation:

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

A = Management fee

B = Trustee fee

C = Audit fee

D = Tax agent fee

E = Other expenses (inclusive GST charges)

F = Average net asset value of the Fund calculated on a daily basis

The average net asset value of the Fund for the financial year calculated on a daily basis is RM1,424,565,738 (2016: RM1,239,953,041).

12. PORTFOLIO TURNOVER RATIO ("PTR")

| | 2017 | 2016 |
|-------------|------|------|
| PTR (times) | 7.70 | 5.79 |

PTR is derived from the following calculation:

$$\frac{(\text{Total acquisitions for the financial year} + \text{total disposals for the financial year}) \div 2}{\text{Average net asset value of the Fund for the financial year calculated on a daily basis}}$$

where:

total acquisitions for the financial year = RM11,154,432,000 (2016: RM7,407,580,000)

total disposals for the financial year = RM10,786,004,190 (2016: RM6,960,019,122)

13. UNITS HELD BY THE MANAGER

The related party of and its relationship with the Fund is as follows:

| Related party | Relationship | | | |
|-------------------------------|---------------------|-----------|---------------------|-----------|
| Eastspring Investments Berhad | The Manager | | | |
| | 2017 | | 2016 | |
| | No. of units | RM | No. of units | RM |
| Eastspring Investments Berhad | 1,207 | 628 | 1,164 | 606 |

The above units were transacted at the prevailing market price.

The units are held legally by the Manager and are within the prescribed limit allowed by SC Guidelines on Unit Trust Funds. Other than the above, there were no units held by the Directors or parties related to the Manager.

14. SEGMENTAL INFORMATION

The internal reporting provided to the chief operating decision-maker for the Fund's assets, liabilities and performance is prepared on a consistent basis with the measurement and recognition principles of MFRS and IFRS. The CEO, who is the chief operating decision-maker, is responsible for the performance of the Fund and considers the business to have a single operating segment located in Malaysia. Asset allocation decisions are based on a single, integrated investment strategy and the Fund's performance is evaluated on an overall basis.

The reportable operating segment derives its income by seeking investments to achieve targeted returns consummate with an acceptable level of risk within the portfolio. These returns consist of profit income earned from Islamic deposits with licensed financial institutions.

There were no changes in the reportable operating segments during the financial year.

15. APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue by the Manager on 12 May 2017.

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CORPORATE DIRECTORY

THE MANAGER

NAME

EASTSPRING INVESTMENTS BERHAD

COMPANY NO.

531241-U

REGISTERED OFFICE

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BOARD OF DIRECTORS OF THE MANAGER

Julian Christopher Vivian Pull

(Chairman, non-independent,

non-executive director)

Iskander bin Ismail Mohamed Ali

(Independent, non-executive director)

Khoo Chuan Keat

(Independent, non-executive director)

Michele Mi Kyung Bang

(Non-independent, non-executive director)

Raymond Tang Chee Kin

(Non-independent, executive director)

INVESTMENT COMMITTEE OF THE FUND

Ho Yik

(Independent member)

Robert Yap Yen Choon

(Independent member)

Abdul Khalil bin Abdul Hamid

(Independent member)

Dato' Saiful Bahri bin Zainuddin

(Independent member)

Raymond Tang Chee Kin

(Non-independent member)

AUDIT AND COMPLIANCE

COMMITTEE OF THE MANAGER

Iskander bin Ismail Mohamed Ali

(Independent)

Khoo Chuan Keat

(Independent)

Niall Dermot Grady

(Non-independent)

MANAGER'S DELEGATE - FUND VALUER

NAME

DEUTSCHE BANK (MALAYSIA) BERHAD

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312552-W

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**MANAGER'S DELEGATE -
REGISTRAR AND TRANSFER AGENT**

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1178655-U

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THE MANAGER**

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TRUSTEE'S DELEGATE - CUSTODIAN

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IBFIM

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ENQUIRIES

CLIENT SERVICES

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