

ANNUAL REPORT

TA RAINBOW INCOME FUND 7

For the financial year ended
31 May 2022



TA INVESTMENT
A MEMBER OF THE TA GROUP

199501011387 (340588-T)

TA Rainbow Income Fund 7

(For the financial year ended 31 May 2022)

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Key Performance Data

| | Year Ended 31/05/2022 | Year Ended 31/05/2021 | Since the Fund Launch 06/08/19 to 31/05/20 |
|---|--------------------------|--------------------------|--|
| PORTFOLIO COMPOSITION (% OF NAV) | | | |
| Fixed Income Instruments (ZNIDs and Bond) | 64.22 | 93.29 | 95.71 |
| Structured Product | - | 1.92 | 0.03 |
| Cash (Net of Liabilities) | 35.78 | 4.79 | 4.26 |
| Total Investment | 100.00 | 100.00 | 100.00 |

| | | | |
|---|--------|--------|--------|
| Total Net Asset Value (RM'000) | 49,876 | 49,906 | 48,130 |
| Units In Circulation (Units '000) | 47,522 | 48,031 | 48,670 |
| Net Asset Value Per Unit (RM) | 1.0494 | 1.0390 | 0.9889 |
| Total Expense Ratio (TER) (%) * | 0.08 | 0.08 | 0.06 |
| Portfolio Turnover Ratio (PTR) (times) ** | NIL | 0.02 | 0.65 |

* The TER for the current financial year has remained consistent with that of the previous financial year.

** The PTR for the current financial year has registered a decrease as compared to the previous financial year due to decrease in total transaction value of the Fund.

UNIT PRICES

| | | | |
|--|--------|--------|--------|
| NAV Per Unit (RM) | 1.0494 | 1.0390 | 0.9889 |
| Highest NAV Per Unit for the Period (RM) | 1.0589 | 1.0395 | 1.0129 |
| Lowest NAV Per Unit for the Period (RM) | 1.0379 | 0.9887 | 0.9731 |

DISTRIBUTION/UNIT SPLIT

| | | | |
|-----------------------------------|------------|-----|-----|
| Gross Distribution Per Unit (sen) | 2.17 | Nil | Nil |
| Net Distribution Per Unit (sen) | 2.17 | Nil | Nil |
| Date of Distribution | 14/10/2021 | Nil | Nil |

TOTAL RETURN (%)

| | | | |
|--|------|------|-------|
| Capital Return | 1.01 | 5.08 | -1.13 |
| Income Return | 2.11 | - | - |
| Total Return of Fund | 3.12 | 5.08 | -1.13 |
| Total Return of the Benchmark | 1.86 | 1.88 | 2.35 |
| - Maybank 12 Months Fixed Deposit Rate | | | |

AVERAGE TOTAL RETURN (%)

| Period | Fund | Benchmark |
|--|------|-----------|
| 1 Year (31/05/2021 - 31/05/2022) | 3.12 | 1.86 |
| Since Inception (06/08/2019 to 31/05/2022) | 2.47 | 2.16 |

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(For the financial year ended 31 May 2022)

ANNUAL TOTAL RETURN (%)

| Period | Fund | Benchmark |
|--|-------|-----------|
| 31/05/2021 - 31/05/2022 | 3.12 | 1.86 |
| 31/05/2020 - 31/05/2021 | 5.08 | 1.88 |
| Since Inception (06/08/2019 to 31/05/2020) | -1.13 | 2.35 |

Source : Lipper for Investment Management

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

The basis of calculating and assumption made in calculating the returns:

$$\text{Percentage Growth} = \frac{N^1 - N^2}{N^2} \times 100$$

N¹ = NAV on the end of the period

N² = NAV on the beginning of the period

$$\text{* Average Total Return} = \frac{\text{Total Sub Period Returns}}{\text{Number of Sub Periods}}$$

$$\text{** Annual Total Return} = (1 + \text{Cumulative Return})^{N^3 / N^4} - 1$$

N³ = Number of periods per year

N⁴ = Total number of periods

Factor in for unit splits and distributions paid out (if any during the period)

TA Rainbow Income Fund 7

(For the financial year ended 31 May 2022)

Manager's Report

TA Rainbow Income Fund 7

| | |
|--|---|
| Fund Category/Type | Fixed Income (Close-ended) / Income |
| Fund Objective | <p>The Fund aims to provide income* whilst preserving capital** on Maturity Date.</p> <p><i>*The Fund will invest in options and/or structured warrants to provide potential annual returns. Income distribution will be paid to you by way of cash deposit to a bank account held in your own name.</i></p> <p><i>**Investors are advised that this Fund is neither a capital guaranteed nor a capital protected fund. The capital will be preserved by investments in Fixed Income Instruments. Consequently, the return of capital is SUBJECT TO the credit and default risk of the issuers of the Fixed Income Instruments.</i></p> |
| Performance Benchmark | Maybank 12 months fixed deposit rate as at the Commencement Date of the Fund. |
| Tenure | 3 Years (Close-ended) |
| Maturity Date | 30 September 2022 |
| Fund's Distribution Policy | Subject to the availability of income, distribution will be made once a year. |
| Fund's Performance and Investment Strategies Employed | <p>TA Rainbow Income Fund 7 ("TARAIF 7" or "the Fund") was managed within its investment objective. For the financial year under review as of 31 May 2022, the Fund's total return was 3.12%, outperforming the benchmark which returned 1.86% over the same period.</p> <p>The Fund invested in options and/or structured warrants linked to the performance of the Rainbow Basket to provide potential returns to the Fund issued by Société Générale, which are:</p> <ul style="list-style-type: none">• Amiral Gestion Sextant Grand Large• Invesco Pan European High Income Fund• PIMCO GIS Global Investment Grade Credit Fund <p>TA Rainbow Income Fund 7's pay-out shall be based on a weightage (45-30-25) which will be assigned to each of the Underlying Assets in the Rainbow Basket with dynamic performance-based allocation, based on the observation dates. The next observation date and the maturity date is on 30 September 2022.</p> |

TA Rainbow Income Fund 7

(For the financial year ended 31 May 2022)

Securities Lending/ Repurchase Transaction

The Fund has not undertaken any securities lending or repurchase transaction (collectively referred to as “securities financing transactions”).

Cross Trade

There is no cross trade transaction during the financial period under review.

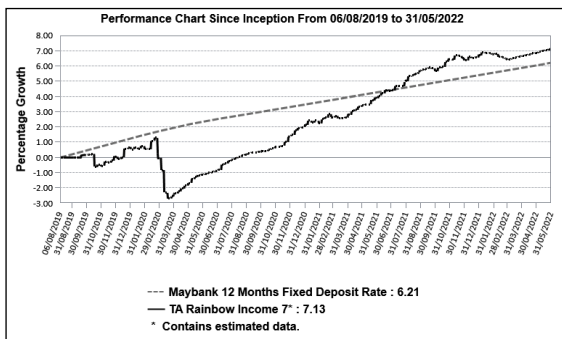
Analysis of Fund's Performance

| | 31/05/22 | 31/05/21 | % Change |
|--------------------|--------------------------------|-----------------------------|-------------------------|
| NAV/unit (RM) | 1.0494 | 1.0390 | 1.00 |
| Total NAV (RM'000) | 49,876 | 49,906 | -0.06 |
| | Income Distribution (%) | Capital Return # (%) | Total Return (%) |
| | 2.11 | 1.01 | 3.12 |

Capital Return components:

- ❖ Fixed Income Instruments (ZNIDs and Bond)
- ❖ Structured Product
- ❖ Cash

Performance Chart



Source: Lipper Investment Management

Past performance is not necessarily indicative of future performance.

Distribution/Unit Split

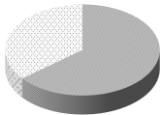
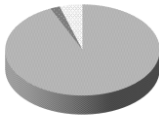
During the financial year, the Fund declared a gross distribution of 2.17 sen per unit on 14 October 2021.

The effect on NAV arising from the distribution for the financial year ended 31 May 2022 is as follows:

| | |
|------------------------------|------------------------|
| Date | 14 October 2021 |
| NAV Before Distribution (RM) | 1.0596 |

TA Rainbow Income Fund 7

(For the financial year ended 31 May 2022)

| | Gross Distribution (RM) | 2.17 sen |
|------------------------------|--|---|
| | NAV After Distribution (RM) | 1.0379 |
| Asset Allocation | 31/05/22 | 31/05/21 |
| | <p>Cash (Net of Liabilities) 35.78%</p>  <p>Fixed Income Instruments (ZNIDs and Bond) 64.22%</p> | <p>Structured Product 1.92% Cash (Net of Liabilities) 4.79%</p>  <p>Fixed Income Instruments (ZNIDs and Bond) 93.29%</p> |
| | <p>The Fund is mainly invested in fixed income instruments as defined under its investment objective, with the remainder allocated in structured product and cash.</p> | |
| Top Investment | As at 31/05/22 | % NAV |
| | Fixed Income Instruments (ZNIDs and Bond) | 64.22 |
| | As at 31/05/21 | % NAV |
| | Fixed Income Instruments (ZNIDs and Bond) | 93.29 |
| | Structured Product | 1.92 |
| State of Affairs of the Fund | <p>There has been neither significant changes to the state of affair of the Fund nor any circumstances that materially affect any interests of the unitholders during the period under review.</p> | |

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

TA Rainbow Income Fund 7

(For the financial year ended 31 May 2022)

Market Review

Markets remained volatile across 2021 driven by a sell-off in China following crackdowns by Chinese authorities on the education, gaming and technology sectors as Asian bourses were further rattled by uncertainties surround the Evergrande crisis. In the United States (US), markets remain buoyed by President Biden's spending deal and optimism over sufficiently high vaccination rates worldwide. Inflation fears also weighed on sentiment, as analysts retired the 'transitory' term as the US Federal Reserve began dialling-back asset purchases towards the end of 2021.

2022 saw stocks gyrating wildly as the Fed's meeting marked a major shift from its zero-rates policy and it announced that rates would start to rise starting in March 2022, causing investors to reassess valuations across the entire stock market. This was exacerbated by geopolitical tensions as Russia invaded Ukraine on 24th February 2022, unexpectedly interrupting global recovery from the Coronavirus Disease of 2019 (COVID-19) pandemic. It further aggravated the shortages and supply chain issues in certain critical goods and key commodities such as crude oil & gas, aluminium, wheat, corn and fertilizers. The escalation of sanctions has put further strain on already burdened shipping, logistic and supply chains. Markets slipped further across April 2022, plagued by rising interest rates, monetary tightening by the US Federal Reserve, inflation worries and the Ukraine war. Despite the solid overall US first quarter 2022 earnings announcements so far, the positive results look to be getting overshadowed by some of the broader concerns mentioned.

The volatile market saw the Fund's underlying assets pare down some earlier gains due to the significant Developed Markets (particularly Europe and the US) equity exposures. Despite market volatility, the Fund continued to benefit from its 100% Capital Preservation³ feature which successfully safeguarded investors' capital across its three-year tenure, and was able to capture additional returns from its Underlying Assets over the year.

The performance of the underlying assets of the Fund are as follows:-

TA Rainbow Income Fund 7 Underlying Simulation

| Underlying | Quote | Initial Price as at 30/09/2019 | Q1 Price at 30/12/2021 | Q2 Price at 30/03/2022 | Q3 Price at 30/06/2022 | Price as at 31/05/2022 | Average Quarterly Price Level | % Change | % Weightage (45-30-25) | Total Return |
|--|------------|-----------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|----------------------------------|-------------|-------------------------------|--------------|
| Amiral Gestion Sextant Grand Large | AMSEGLA:FP | 443.6700 | 456.26 | 460.38 | | 453.93 | 456.86 | 2.972 | 0.30 | 0.8917 |
| Invesco Pan European High Income Fund | INVCRE:IX | 21.06 | 22.76 | 21.80 | | 21.35 | 21.97 | 4.321 | 0.45 | 1.9444 |
| PIMCO GIS Global Investment Grade Credit Fund | PIMGIIA:ID | 19.92 | 20.33 | 18.58 | | 17.80 | 18.90 | -5.104 | 0.25 | -1.2759 |
| | | | | | | | | | | 1.5602 |
| Next Observation: 30/09/2021 | | | | | | | | | | |
| Currency Conversion Factor on Investment Start Date (USD/MYR): | | | | | | | 4.1860 | | | |
| Currency Rate (USD/MYR) BNM: | | | | | | | 4.381 | As at | 31/05/2022 | |
| Currency Appreciated (%): | | | | | | | -4.7% | | | |
| Potential returns (%): | | | | | | | 1.49 | Over | 2 year(s) 8 month(s) 1 day(s) | |
| Payout for First Observation 30/09/2020 (%): | | | | | | | 0.00 | | | |
| Potential Payout for Second Observation 30/09/2021 (%): | | | | | | | 2.12 | | | |
| Potential Payout for Third Observation 30/09/2022 (%): | | | | | | | 0.50 | | | |
| Target Bonus Coupon Rate is 3.0% | | | | | | | | | | |

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(For the financial year ended 31 May 2022)

The market review of the Underlying Assets in the Rainbow Basket are as follows:-

Amiral Gestion Sextant Grand Large

The Amiral Gestion fund declined by -2.8% over the one-year period as of 31 May 2022. The fund strived to reduce fundamental risks through diversifying its sub portfolios without any index reference. The fund's contrarian stance implies moderate exposure to equities, as valuations of the main indices remain very high after a euphoric year in 2021. Moreover, the spread between valuations of fashionable stocks and (to a lesser extent) those that bolstered the performance of the main indices versus the neglected stocks that we favour has narrowed, but from historically high levels.

Allocation of the equity portion was primarily in Developed Markets (France at 35.6%, US at 14.4% and Germany at 12.3%) while the largest sectors by equity holdings were Media / Internet (14.8%), Finance (13.2%) and Business Services (11.4%). As such, the net equity exposure stood at 32.3%, while bonds comprised 19.8% of the portfolio, with cash, money and arbitration at 29.5%. The fixed income portion consisted of 54.2% unrated, 38.0% in high yield and 7.8% in investment grade.

For the fund, net exposure to equities varies with cyclically-adjusted market valuations. As share prices rise, exposure is reduced and vice versa, irrespective of any macroeconomic or stockmarket scenarios. Current equity valuations would justify even lower exposure as multiples remain high. However, we take into account market polarisation, with some segments still reasonably valued, such as European and Asian small and mid-caps.

The performance of the fund's bond holdings was handicapped in the first quarter of 2022 by the fall in the valuation of the Casino 3.992% perpetual bond. This stemmed from the publication of disappointing Fiscal Year 2021 by the group, which outweighed management's confidence in its capacity to monetise asset in the coming quarters. On the other hand, the Voyageurs du Monde convertible bond performed strongly on the back of a recovery by the underlying share, thanks to an improved environment for tourism in early 2021. Our position in the SME Credit SME Credit Realisation also made a positive contribution to the fund's first quarter 2022 performance, having been acquired at a discount to its portfolio value and paid out dividends.

(Source: Amiral Gestion S.A. as of 31 May 2022)

Invesco Pan European High Income Fund

Over the one-year period as of 31 May 2022, the Invesco fund fell by -4.41%. At least 50% of the fund's Net Asset Value (NAV) will be invested in debt securities. The fund's exposure is biased towards the higher yielding parts of the bond market, with 20.5%, 31.2% and 14.0% exposure to BBB, BB and B rated bonds respectively for an average rating of BB. The fund's asset breakdown is 48.5% in High Yield and 29.0% in Investment Grade. To increase opportunities for income, the fund also holds an allocation to European equities. As at 31 May 2021, the equity portion represented 20.4% of the fund. The fund's cash holding is 1.0%.

The Invesco fund is a flexible fund that is focused on generating high level of income together with long-term capital growth from bonds and equities. Within the bond portion,

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(For the financial year ended 31 May 2022)

the bias is towards investing in higher-yielding bonds across a broad range of sectors, particularly financials. To increase the opportunities for dividend income and potential capital growth, the fund also holds an allocation to European equities. The fund managers also use cash and government bonds to manage downside risk.

(Source: Invesco Ltd. as of 31 May 2022)

PIMCO GIS Global Investment Grade Credit Fund

The PIMCO fund returned -12.6% over the one-year period as of 31 May 2022. The fund saw contributions through its security selection within emerging markets external debt, as well as through its use of macro strategies. However, the fund saw more detractor from its overweight to the gaming sector, its overweight to and security selection within Real Estate Investment Trusts (REITs) as well as its security selection within the transportation sector.

We continue to like Financials given better starting fundamentals and among the sectors most affected by the pandemic, such as the Travel and Leisure sector, we remain selective. The widening in spreads since the beginning of the year has led to an improvement in valuations, with most sectors now trading meaningfully wider than post pandemic tight and above their long-term historical averages. In particular, COVID-19-impacted sectors, select BBBs, new issues, sectors that benefit from rising rates, and potential rising stars offer further upside, while ongoing macro volatility may lead to downside risk in lower quality credits. We remain underweight to tighter trading non-cyclical issuers with limited upside and re-leveraging risk in sectors such as Pharma and Food & Beverage.

The fund trimmed exposure to several sectors, including issuers in the specialty finance sector, in banking, and in the consumer products sector. Conversely, the Fund selectively added exposure to automotive and to food & beverage issuers, including a European auto parts supplier operating in a fast growing segment as well as a United Kingdom (UK) supermarket chain.

(Source: Pacific Investment Management Company, LLC as of 31 May 2022)

Economic Outlook

At the start of May 2022, the Federal Reserve hiked interest rates by 50 basis points in a bid to tamp down generationally hot inflation. The hike was the largest since 2000 and followed the first hike of 25 basis points (bps) in March 2022. Recession worries have risen as market participants fear the Federal Reserve's aggressive policy tightening will trigger an economic slowdown. Disappointing quarterly reports in May 2022 from retail giants like Walmart showed inflation hurting American consumers and shedding corporate profits. The US housing data showed signs of weakening in the housing market as new home sales and pending home sales in April 2022 declined faster than consensus expectation. On the other hand, economic data released during the month showed US headline and core Consumer Price Index (CPI) in April 2022 at 8.3% Year-on-Year (YoY),

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0.3% Month-on-Month (MoM) and 6.6% YoY/0.6% MoM respectively, above consensus estimates.

Other worries which weighed on the markets include the continuing war in Ukraine and COVID-19 outbreaks in China, raising concerns about rising global commodity prices and supply chain challenges. Sentiment improved slightly after US President Joe Biden said he was considering reducing tariffs on some products imported from China. In China, the official National Bureau of Statistics (NBS) Manufacturing Purchasing Managers' Index (PMI) rose to 49.6 in May of 2022 from April 2022's 26-month low of 47.4, amid an easing of COVID-19 curbs in major key cities, including Shanghai and Beijing. Whilst, May 2022's PMI marked the third straight month of contraction in factory activity, output, new orders and new export orders were all falling at slower rates. Delivery time improved following a sharp deterioration a month earlier and input cost rose the least in four months. Overall, business sentiment strengthened slightly (53.9 vs 53.3).

Market Outlook And Investment Strategy

Markets continue to be volatile, with the Fund's underlying asset seeing some paring down of their gains across 2021. The underlyings portfolio still shows partial gains and pay-outs are still possible for the third and final observation date on 30th September 2022.

On the fixed income portion, the May 2022 Monetary Policy Committee (MPC) meeting saw Bank Negara Malaysia (BNM) surprise the market with a 25-basis point increase in the overnight policy rate (OPR), marking the first hike in this latest tightening cycle. In arriving at the policy decision, the central bank showed its optimism on the domestic economic growth prospect, supported by sustained re-opening of global economy and international borders. It expects Malaysia core Consumer Price Index (CPI) to average 2.0%-3.0% in 2022.

The policy surprise triggered a short-lived reaction from the Malaysian Government Securities (MGS) market where 3-year MGS yield spiked >15 basis points immediately after the announcement, only to retreat to pre-OPR hike level in the following day.

In the MYR corporate bonds space, primary pipelines remained active with ongoing investors engagement sessions by both existing and new potential issuers. While year-to-date spike in bond yields seems to delay some planned issuances, corporate issuers still seek to tap the bond market before further policy tightening by the BNM.

As at end of May 2022, credit spreads have widened with the upward repricing of corporate bond yields, which is in line with our expectation. For the remainder of the quarter, we expect some tightening bias in credit spreads. Upward pressure on MGS/Government Investment Issues (GII) yields may potentially persist due to United States Treasuries (UST) market spillover; while onshore appetite for incoming corporate bonds supply remains strong. We recommend neutral duration positioning, while acknowledging trading opportunity at times of market dislocation (for instance, when the 7 to 10-year segment of MGS curve briefly inverted). We continue to like credits which benefit from the ongoing economic re-opening, but will be more selective and increase exposure to defensive names amidst weakening macroeconomic prospect.

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(For the financial year ended 31 May 2022)

Soft Commission

The Manager retains soft commissions received from brokers only if the goods and services are of demonstrable benefits to the unitholders as allowed under the Securities Commission's Guidelines on Unit Trust Funds. The soft commission received include research and advisory services which are used to support the investment decision making process and are of demonstrable benefit to Unitholders of the Fund.

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TRUSTEE'S REPORT

TO THE UNIT HOLDERS OF TA RAINBOW INCOME FUND 7 ("Fund")

We have acted as Trustee of the Fund for the financial year ended 31 May 2022 and we hereby confirm to the best of our knowledge, after having made all reasonable enquiries, **TA Investment Management Berhad** has operated and managed the Fund during the year covered by these financial statements in accordance with the following:

- (a) Limitations imposed on the investment powers of the management company under the deed, securities laws and the Guidelines on Unit Trust Funds;
- (b) Valuation and pricing is carried out in accordance with the deed; and
- (c) Any creation and cancellation of units are carried out in accordance with the deed and any regulatory requirement.

We are of the opinion that the distribution of income by the Fund is appropriate and reflects the investment objective of the Fund.

For and on behalf of
CIMB Commerce Trustee Berhad

Ezreen Eliza Zulkiplee
Chief Executive Officer

Kuala Lumpur, Malaysia

29 July 2022

TA Rainbow Income Fund 7

(For the financial year ended 31 May 2022)

STATEMENT BY THE MANAGER

We, CHOO SWEE KEE and MOHAMMED A'REEFF BIN ABDUL KHALID, being two of the Directors of TA INVESTMENT MANAGEMENT BERHAD, do hereby state that, in the opinion of the Manager, the accompanying financial statements set out on pages 17 to 53, are drawn up so as to give a true and fair view of the financial position of TA RAINBOW INCOME FUND 7 as at 31 May 2022 and of its financial performance and cash flows for the financial year ended on that date in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

On behalf of the Manager,

CHOO SWEE KEE

MOHAMMED A'REEFF BIN ABDUL KHALID

Kuala Lumpur, Malaysia

29 July 2022

TA Rainbow Income Fund 7

(For the financial year ended 31 May 2022)

INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF TA RAINBOW INCOME FUND 7

(Incorporated in Malaysia)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of TA Rainbow Income Fund 7 (hereinafter referred to as "the Fund"), which comprise the statement of financial position as at 31 May 2022, and the statement of comprehensive income, statement of changes in net asset value 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 17 to 53.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 May 2022, 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

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

Emphasis of Matter - Departure from the Going Concern Basis of Accounting

We draw attention to Note 2.1(b) of the financial statements, which describes that the realisation basis of preparing the financial statements has been used as the Fund is a close-ended fund maturing on 30 September 2022. Our opinion is not modified in respect of this matter.

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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 the information included in the Annual Report of the Fund, 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 the other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Manager and Trustee for the Financial Statements

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

In preparing the financial statements of the Fund, the Manager is responsible for assessing the ability of the Fund to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Manager either intends to liquidate the Fund or to cease operations, 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:

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Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- 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.
- 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 internal control of the Fund.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager.
- 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 ability of the Fund 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.
- Evaluate the overall presentation, structure and content of the financial statements of the Fund, including the disclosures, and whether the financial statements of the Fund represent the underlying transactions and events in a manner that gives a true and fair view.

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 Matter

This report is made solely to the unitholders of the Fund, as a body, and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG PLT
(LLP0010081-LCA & AF 0758)
Chartered Accountants

Petaling Jaya
29 July 2022

Chong Dee Shiang
Approval Number: 02782/09/2022 J
Chartered Accountant

TA Rainbow Income Fund 7

(For the financial year ended 31 May 2022)

STATEMENT OF COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 31 MAY 2022

| | Note | 2022 RM | 2021 RM |
|---|------|------------------|------------------|
| INCOME | | | |
| Interest income | | 1,720,494 | 1,729,419 |
| Other income | | 15,937 | 20,941 |
| Net (loss)/gain on financial assets at fair value through profit or loss ("FVTPL") | 7 | (155,433) | 716,185 |
| | | <u>1,580,998</u> | <u>2,466,545</u> |
| EXPENSES | | | |
| Trustee's fee | 4 | 20,006 | 19,696 |
| Auditors' remuneration | | 9,000 | 9,000 |
| Tax agent's fee | | 3,250 | 3,250 |
| Administrative fees and expenses | | 6,052 | 4,845 |
| | | <u>38,308</u> | <u>36,791</u> |
| Net income before tax | | 1,542,690 | 2,429,754 |
| Income tax expense | 6 | - | (3,727) |
| Net income after tax, representing total comprehensive income for the financial year | | <u>1,542,690</u> | <u>2,426,027</u> |
| Net income after tax is made up of the following: | | | |
| Net realised income | | 2,311,101 | 1,248,550 |
| Net unrealised (loss)/income | | (768,411) | 1,177,477 |
| | | <u>1,542,690</u> | <u>2,426,027</u> |
| Distribution for the financial year: | | | |
| Net distribution | 9 | 1,040,792 | - |
| Gross/Net distribution per unit (sen) | 9 | <u>2.1700</u> | <u>-</u> |

The accompanying notes form an integral part of the financial statements.

TA Rainbow Income Fund 7

(For the financial year ended 31 May 2022)

STATEMENT OF FINANCIAL POSITION AS AT 31 MAY 2022

| | Note | 2022 RM | 2021 RM |
|---------------------------------------|-----------|-------------------|-------------------|
| ASSETS | | | |
| Investments | 7 | 32,025,248 | 47,520,651 |
| Deposit with a financial institution | 8 | 17,260,276 | 1,756,075 |
| Interest receivable | | 544,975 | 581,005 |
| Tax recoverable | | 6,100 | 6,100 |
| Cash at bank | | 53,749 | 55,850 |
| TOTAL ASSETS | | 49,890,348 | 49,919,681 |
| LIABILITIES | | | |
| Amount due to Trustee | | 1,692 | 1,693 |
| Other payables and accruals | | 12,250 | 12,250 |
| TOTAL LIABILITIES | | 13,942 | 13,943 |
| NET ASSET VALUE ("NAV") | | | |
| Unitholders' capital | 10(a) | 47,489,187 | 48,021,684 |
| Retained earnings | 10(b),(c) | 2,387,219 | 1,884,054 |
| NET ASSET VALUE ("NAV") | | | |
| ATTRIBUTABLE TO UNITHOLDERS | | 49,876,406 | 49,905,738 |
| TOTAL NAV AND LIABILITIES | | 49,890,348 | 49,919,681 |
| NUMBER OF UNITS IN CIRCULATION | 10(a) | 47,521,983 | 48,030,721 |
| NAV PER UNIT | | 1.0495 | 1.0390 |

The accompanying notes form an integral part of the financial statements.

TA Rainbow Income Fund 7

(For the financial year ended 31 May 2022)

STATEMENT OF CHANGES IN NET ASSET VALUE ("NAV") FOR THE FINANCIAL YEAR ENDED 31 MAY 2022

| | Unitholders' capital Note 10(a) RM | Retained earnings Note 10(b) and (c) RM | Total NAV RM |
|--|---|---|--------------------|
| At 1 June 2020 | 48,671,706 | (541,973) | 48,129,733 |
| Total comprehensive income for the financial year | - | 2,426,027 | 2,426,027 |
| Cancellation of units | (650,022) | - | (650,022) |
| At 31 May 2021 | <u>48,021,684</u> | <u>1,884,054</u> | <u>49,905,738</u> |
| At 1 June 2021 | 48,021,684 | 1,884,054 | 49,905,738 |
| Total comprehensive income for the financial year | - | 1,542,690 | 1,542,690 |
| Cancellation of units | (531,230) | - | (531,230) |
| Distribution | (1,267) | (1,039,525) | (1,040,792) |
| At 31 May 2022 | <u>47,489,187</u> | <u>2,387,219</u> | <u>49,876,406</u> |

The accompanying notes form an integral part of the financial statements.

TA Rainbow Income Fund 7

(For the financial year ended 31 May 2022)

STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 MAY 2022

| | 2022 RM | 2021 RM |
|--|--------------------|------------------|
| CASH FLOWS FROM OPERATING AND INVESTING ACTIVITIES | | |
| Proceeds from sales of investments | 317,850 | - |
| Purchases of investments | 15,027,254 | (1,015,929) |
| Interest income received | 1,756,524 | 2,001,269 |
| Other income received | 15,937 | 20,941 |
| Trustee's fee paid | (20,007) | (19,527) |
| Payments for other fees and expenses | (23,436) | (16,770) |
| Tax paid | - | (9,827) |
| Net cash generated from operating and investing activities | <u>17,074,122</u> | <u>960,157</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Cash paid on units cancelled | (531,230) | (698,017) |
| Cash distribution paid | (1,040,792) | - |
| Net cash used in financing activities | <u>(1,572,022)</u> | <u>(698,017)</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 15,502,100 | 262,140 |
| CASH AND CASH EQUIVALENTS AT THE BEGINING OF THE FINANCIAL YEAR | <u>1,811,925</u> | <u>1,549,785</u> |
| CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR | <u>17,314,025</u> | <u>1,811,925</u> |
| CASH AND CASH EQUIVALENTS COMPRISE: | | |
| Cash at bank | 53,749 | 55,850 |
| Deposit with a financial institution | 17,260,276 | 1,756,075 |
| Cash and cash equivalents | <u>17,314,025</u> | <u>1,811,925</u> |

The accompanying notes form an integral part of the financial statements.

TA Rainbow Income Fund 7

(For the financial year ended 31 May 2022)

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 MAY 2022

1. THE FUND, THE MANAGER AND THEIR PRINCIPAL ACTIVITIES

TA Rainbow Income Fund 7 ("the Fund") was constituted pursuant to the execution of a Deed of Trust ("the Deed") dated 17 June 2019 between the Manager, TA Investment Management Berhad and the Trustee, CIMB Commerce Trustee Berhad.

The principal activity of the Fund is to invest in "Permitted Investments" as defined under Clause 7 of the Deed, which include derivative product, bonds, Negotiable Instrument and money market instruments. The Fund commenced its operations on 6 August 2019 and will continue its operations until terminated by the Trustee as provided under Clause 12 of the Deed. The Fund is a close-ended fund maturing on the third (3rd) anniversary of the Commencement Date. The Fund will be maturing on 30 September 2022.

The Manager, TA Investment Management Berhad, a company incorporated in Malaysia, is a wholly-owned subsidiary of TA Securities Holdings Berhad. Its ultimate holding company is TA Enterprise Berhad. Its principal activities are the establishment and management of unit trust funds and fund management. The Manager is licensed to carry out dealings in securities and fund management activities under the Capital Markets and Services Act 2007.

The financial statements were authorised for issue by the Board of Directors of the Manager in accordance with a resolution on 29 July 2022.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

(a) Statement of Compliance

The financial statements of the Fund have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs") and International Financial Reporting Standards ("IFRS"), collectively known as the "Standards".

The following are accounting standards, interpretations and amendments of the MFRSs framework that have been issued by the Malaysian Accounting Standards Board ("MASB") but have not been adopted by the Fund:

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2022

- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2018–2020)*
- Amendments to MFRS 3, *Business Combinations – Reference to the Conceptual Framework*
- Amendments to MFRS 9, *Financial Instruments (Annual Improvements to MFRS Standards 2018–2020)*

TA Rainbow Income Fund 7

(For the financial year ended 31 May 2022)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.1 Basis of Preparation (contd.)

(a) Statement of Compliance (contd.)

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2022 (contd.)

- Amendments to Illustrative Examples accompanying MFRS 16, *Leases (Annual Improvements to MFRS Standards 2018–2020)*
- Amendments to MFRS 116, *Property, Plant and Equipment – Proceeds before Intended Use*
- Amendments to MFRS 137, *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract*
- Amendments to MFRS 141, *Agriculture (Annual Improvements to MFRS Standards 2018–2020)*

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2023

- MFRS 17, *Insurance Contracts*
- Amendments to MFRS17, *Insurance Contracts – Initial application of MFRS 17 and MFRS 9 – Comparative Information*
- Amendments to MFRS 101, *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current and Disclosures of Accounting Policies*
- Amendments to MFRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates*
- Amendments to MFRS 112, *Income Taxes – Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

MFRSs, interpretations and amendments effective for annual periods beginning on or after a date yet to be confirmed

- Amendments to MFRS 10, *Consolidated Financial Statements* and MFRS 128, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

TA Rainbow Income Fund 7

(For the financial year ended 31 May 2022)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.1 Basis of Preparation (contd.)

(a) Statement of Compliance (contd.)

The Fund plans to adopt the abovementioned accounting standards, interpretations and amendments from the annual period beginning on 1 June 2022 for those amendments that are effective for annual periods beginning on or after 1 June 2022 and 1 January 2023, except for amendments to MFRS 1, MFRS 3, MFRS 16, MFRS 116 and MFRS 141 which are not applicable to the Fund.

The Fund is a close-ended fund maturing on 30 September 2022, therefore the accounting standards, interpretations or amendments that are effective for annual periods beginning on or after 1 January 2023 are not applicable to the Fund.

The initial application of the abovementioned accounting standards, interpretations or amendments is not expected to have any material impact to the financial statements of the Fund.

(b) Basis of measurement

The financial statements of the Fund have been prepared on a realisation basis as the Fund is a close-ended Fund maturing on 30 September 2022. The comparatives were prepared on a realisation basis.

(c) Functional and presentation currency

The financial statements are presented in Ringgit Malaysia ("RM"), which is the Fund's functional currency.

TA Rainbow Income Fund 7

(For the financial year ended 31 May 2022)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Significant Accounting Policies

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, unless otherwise stated.

(a) Financial Instruments

(i) Recognition and initial measurement

A financial asset (unless it is a trade receivable without significant financing component) or a financial liability is recognised in the statement of financial position when, and only when, the Fund becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without significant financing component) or a financial liability is initially measured at fair value plus or minus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issuance. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Financial instrument categories and subsequent measurement

Financial assets

The Fund determines the classification of its financial assets at initial recognition, and the categories include financial assets at FVTPL and amortised cost.

(a) Amortised cost

Amortised cost category comprises financial assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The financial assets are not designated as fair value through profit or loss. Subsequent to initial recognition, these financial assets are measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Interest income is recognised by applying effective interest rate to the gross carrying amount except for credit impaired financial assets (see Note 2.2(b)) where the effective interest rate is applied to the amortised cost.

TA Rainbow Income Fund 7

(For the financial year ended 31 May 2022)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Significant Accounting Policies (contd.)

(a) Financial Instruments (contd.)

(ii) Financial instrument categories and subsequent measurement (contd.)

Financial assets (contd.)

(b) Fair value through profit or loss

All financial assets not measured at amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss. This includes derivative financial assets (except for a derivative that is a designated and effective hedging instrument).

On initial recognition, the Fund may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at fair value through other comprehensive income as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets categorised as fair value through profit or loss are subsequently measured at their fair value. Net gains or losses, including any interest or dividend income, are recognised in profit or loss.

All financial assets, except for those measured at fair value through profit or loss are subject to impairment assessment (see Note 2.2(b)).

Financial Liabilities

Amortised cost

Financial liabilities are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Interest expense and foreign exchange gains and losses are recognised in the profit or loss. Any gains or losses on derecognition are also recognised in the profit or loss.

(iii) Derecognition

A financial asset is derecognised when the asset is disposed and the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received is recognised in profit or loss.

TA Rainbow Income Fund 7

(For the financial year ended 31 May 2022)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Significant Accounting Policies (contd.)

(a) Financial Instruments (contd.)

(iii) Derecognition (contd.)

A financial liability or part of it is derecognised when, and only when, the obligation specified in the contract is discharged, cancelled or expires. A financial liability is also derecognised when its terms are modified and the cash flows of the modified liability are substantially different, in which case, a new financial liability based on modified terms is recognised at fair value. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the financial statement when there is a legally enforceable right to set off the recognised amounts and there is an intention either to settle them on a net basis or to realise the asset and liability simultaneously.

(b) Impairment

Financial assets

The Fund recognises loss allowances for expected credit losses on financial assets measured at amortised cost.

The Fund measures loss allowances at an amount equal to lifetime expected credit loss, except for debt securities, if any, that are determined to have low credit risk at the reporting date, cash and bank balance and other debt securities for which credit risk has not increased significantly since initial recognition, which are measured at 12-month expected credit loss.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit loss, the Fund considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Fund's historical experience and informed credit assessment and including forward-looking information, where available.

TA Rainbow Income Fund 7

(For the financial year ended 31 May 2022)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Significant Accounting Policies (contd.)

(b) Impairment (contd.)

Financial assets (contd.)

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of the asset, while 12-month expected credit losses are the portion of expected credit losses that result from default events that are possible within the 12 months after the reporting date. The maximum period considered when estimating expected credit losses is the maximum contractual period over which the Fund is exposed to credit risk.

An impairment loss in respect of financial assets measured at amortised cost is recognised in profit or loss and the carrying amount of the asset is reduced through the use of an allowance account.

The gross carrying amount of a financial asset is written off (either partially or fully) to the extent that there is no realistic prospect of recovery. This is generally the case when the Fund determines that the obligor does not have assets or sources of income that could generate sufficient cash flows to pay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Fund's procedures for recovery of amounts due.

(c) Classification of Realised and Unrealised Gains and Losses

Unrealised gains and losses comprise changes in the fair value of financial instruments for the financial year and from reversal of prior year's unrealised gains and losses for financial instruments which were realised (i.e. sold, redeemed or matured) during the financial year.

The realised gain/(loss) on sale of investments is measured as the difference between the net disposal proceeds and the carrying amount of the investments. The carrying amount for determining the realised gain/(loss) on sale of investments is based on the weighted average cost method.

(d) Foreign Currency Transactions

Transactions in foreign currencies are translated to the functional currency of the Fund at exchange rates at the dates of the transactions.

TA Rainbow Income Fund 7

(For the financial year ended 31 May 2022)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Significant Accounting Policies (contd.)

(d) Foreign Currency Transactions (contd.)

Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting date except for those that are measured at fair value which are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of equity instrument where they are measured at fair value through other comprehensive income or a financial instrument designated as a hedge of currency risk, which are recognised in other comprehensive income.

(e) Unitholders' Capital

The unitholders' capital of the Fund is classified as an equity instrument.

Distribution equalisation represents the average distributable amount included in the creation and cancellation prices of units. This amount is either refunded to unitholders by way of distribution and/or adjusted accordingly when units are cancelled.

(f) Distribution

Distribution is at the discretion of the Fund. A distribution to the Fund's unitholders is accounted for as a deduction from realised reserves except where distribution is sourced out of distribution equalisation which is accounted for as a deduction from unitholders' capital. A proposed distribution is recognised as a liability in the period in which it is approved.

(g) Cash and Cash Equivalents

Cash and cash equivalents comprise cash at banks and short-term deposits with financial institutions that are readily convertible to known amount of cash which have an insignificant risk of changes in fair value with original maturities of more than three months or less, and are used by the Fund in the management of its short-term commitments.

TA Rainbow Income Fund 7

(For the financial year ended 31 May 2022)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Significant Accounting Policies (contd.)

(h) Income Recognition

Income is recognised to the extent that it is probable that the economic benefits will flow to the Fund and the income can be reliably measured. Income is measured at the fair value of consideration received or receivable.

Interest income is recognised using the effective interest rate method.

(i) Income Tax

Current tax assets or liabilities position as at reporting date are measured at the net amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the tax expense for the financial period are those that are enacted or substantively enacted by the reporting date.

Current taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity.

Deferred tax is provided for, using the liability method, on taxable temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that future taxable profits will be available against which the unutilised tax incentive can be utilised.

(j) Segment Reporting

For management purposes, the Fund is managed under two main portfolios, namely "unquoted structured products and unquoted bonds" and "unquoted Zero-coupon Negotiable Instruments of Deposits ("ZNIDs") and money market instruments". Each segment engages in separate investing activities and the operating results are regularly reviewed by the Investment Manager and Investment Committee. The Investment Committee assumes the role of chief operating decision maker, for performance assessment purposes and to make decisions about resources allocated to each investment segment.

TA Rainbow Income Fund 7

(For the financial year ended 31 May 2022)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Significant Accounting Policies (contd.)

(k) Significant Accounting Estimates and Judgments

The preparation of the Fund's financial statements requires the Manager to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability in the future.

No major judgments have been made by the Manager in applying the Fund's accounting policies. There are no key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities.

3. MANAGER'S FEE

No manager's fee is imposed on this Fund.

4. TRUSTEE'S FEE

Trustee's fee is computed on a daily basis at 0.04% (2021:0.04%) per annum of the NAV of the Fund, subject to minimum of RM6,000 (2021: RM6,000) per annum.

5. REDEMPTION CHARGE (EXIT FEE)

A charge of 3% of the NAV of the Fund for early redemption by unitholders before the Fund's maturity date.

6. INCOME TAX EXPENSE

Domestic income tax expense for the year is calculated at the Malaysian statutory tax rate of 24% of the estimated assessable profit for the financial period. Foreign source income is subject to tax after 1 January 2022 and a transitional tax rate of 3% is accorded on the gross amount remitted from 1 January 2022 to 30 June 2022.

In accordance with Schedule 6 of the Income Tax Act 1967, interest income earned by the Fund is exempted from Malaysian tax, except for interest paid or credited to a unit trust that is a wholesale fund which is a money market fund.

TA Rainbow Income Fund 7

(For the financial year ended 31 May 2022)

6. INCOME TAX EXPENSE (CONTD.)

A reconciliation of income tax expense applicable to net income before tax at the statutory income tax rate to income tax expense at the effective income tax rate of the Fund is as follows:

| | 2022 RM | 2021 RM |
|---|------------|------------|
| Net income before tax | 1,542,690 | 2,429,754 |
| Taxation at Malaysian statutory rate of 24% | 370,246 | 583,141 |
| Effects of interest and other income not subject to tax | (379,440) | (838,974) |
| Effects of expenses not deductible for tax purposes | 7,034 | 256,540 |
| Restriction on tax deductible expenses for unit trust funds | 2,160 | 2,160 |
| Underprovision of taxation | - | 860 |
| Income tax expense for the financial year | - | 3,727 |

7. INVESTMENTS

| | Note | 2022 RM | 2021 RM |
|--|------|------------|------------|
| Financial assets at FVTPL: | | | |
| Unquoted structured product outside Malaysia | (a) | - | 960,783 |
| Unquoted bonds in Malaysia | (b) | 27,036,570 | 41,692,030 |
| Unquoted Zero-coupon negotiable instrument of deposit ("ZNID") in Malaysia | (c) | 4,988,678 | 4,867,838 |
| | | 32,025,248 | 47,520,651 |
| Net (loss)/gain on financial assets at FVTPL comprises: | | | |
| Net realised loss on maturity of unquoted structured product | | (724,539) | (754,013) |
| Net realised gain on maturity of unquoted bonds | | 1,042,389 | - |
| Net unrealised (loss)/gain on changes in fair value | | (468,149) | 1,473,586 |
| Net unrealised loss on foreign exchange | | (5,134) | (3,388) |
| | | (155,433) | 716,185 |

TA Rainbow Income Fund 7

(For the financial year ended 31 May 2022)

7. INVESTMENTS (CONTD.)

Financial assets at FVTPL as at 31 May 2022 are as below:

(a) Unquoted structured product outside Malaysia

| Issuer Name | Quantity Units | Cost RM | Fair Value RM | % of NAV % |
|---|-------------------|----------------|---------------------|---------------|
| Societe Generale - Maturity 30/09/2022 | 11,732,511 | 717,125 | - | - |
| Total unquoted structured product outside Malaysia | 11,732,511 | 717,125 | - | - |

(b) Unquoted bonds in Malaysia

| Issuer Bank | Quantity Units | Cost RM | Fair Value RM | % of NAV % |
|---|-------------------|-------------------|---------------------|---------------|
| BEWG (M) Sdn Bhd IMTN 5.30% 19/07/2022 | 5,000,000 | 5,174,000 | 5,015,200 | 10.06 |
| CYPARK Ref Sdn Bhd IMTN 4.60% 30/06/2022 | 1,000,000 | 1,021,000 | 1,000,920 | 2.01 |
| Genting Capital Berhad MTN 4.42% 08/06/2022 | 7,000,000 | 7,086,800 | 7,001,190 | 14.04 |
| SPR Energy Sdn Bhd IMTN 4.85% 15/07/2022 | 9,000,000 | 9,207,900 | 9,017,910 | 18.08 |
| YTL Power International Bhd MTN 4.55% 10/06/2022 | 5,000,000 | 5,099,500 | 5,001,350 | 10.03 |
| Total unquoted bonds in Malaysia | 27,000,000 | 27,589,200 | 27,036,570 | 54.22 |

TA Rainbow Income Fund 7

(For the financial year ended 31 May 2022)

7. INVESTMENTS (CONTD.)

(c) Unquoted Zero-coupon Negotiable Instrument of Deposit ("ZNID") in Malaysia

| Issuer Bank | Notional Amount RM | Cost RM | Fair Value RM | % of NAV % |
|--|--------------------------|-------------------|---------------------|---------------|
| Affin Bank Bhd - Maturity 30/09/2022 | 5,035,000 | 4,564,102 | 4,988,678 | 10.00 |
| Total unquoted ZNID in Malaysia | 5,035,000 | 4,564,102 | 4,988,678 | 10.00 |
| TOTAL FINANCIAL ASSETS AT FVTPL | | 32,870,427 | 32,025,248 | 64.22 |
| EXCESS OF COST OVER FAIR VALUE | | | 845,179 | |

Financial assets at FVTPL as at 31 May 2021 are as below:

(a) Unquoted structured products outside Malaysia

| Issuer Name | Quantity Units | Cost RM | Fair Value RM | % of NAV % |
|--|-------------------|------------------|---------------------|---------------|
| Societe Generale - Maturity 30/09/2021 | 11,827,506 | 722,931 | 580,371 | 1.16 |
| Societe Generale - Maturity 30/09/2022 | 11,827,506 | 722,932 | 380,412 | 0.76 |
| Total unquoted structured products outside Malaysia | 23,655,012 | 1,445,863 | 960,783 | 1.92 |

TA Rainbow Income Fund 7

(For the financial year ended 31 May 2022)

7. INVESTMENTS (CONTD.)

(b) Unquoted bonds in Malaysia

| Issuer Bank | Quantity Units | Cost RM | Fair Value RM | % of NAV % |
|---|-------------------|-------------------|---------------------|---------------|
| BEWG (M) Sdn Bhd IMTN 5.30% 19/07/2022 | 5,000,000 | 5,174,000 | 5,136,550 | 10.29 |
| Cahaya Mata Sarawak Bhd IMTN 4.80% 05/05/2022 Series No 1 | 1,000,000 | 1,024,700 | 1,019,690 | 2.04 |
| Cahaya Mata Sarawak Bhd IMTN 4.80% 05/05/2022 Series No 1 | 4,000,000 | 4,121,400 | 4,078,760 | 8.17 |
| CYPARK Ref Sdn Bhd IMTN 4.60% 30/06/2022 | 1,000,000 | 1,021,000 | 1,014,260 | 2.03 |
| Genting Capital Berhad MTN 4.42% 08/06/2022 | 7,000,000 | 7,086,800 | 7,039,760 | 14.11 |
| Sabah Development Bank Bhd 5.30% 11/05/2022 | 5,000,000 | 5,194,500 | 5,064,050 | 10.15 |
| Sabah Development Bank Bhd 5.30% 11/05/2022 | 4,000,000 | 4,154,000 | 4,051,240 | 8.12 |
| SPR Energy Sdn Bhd IMTN 4.85% 15/07/2022 | 9,000,000 | 9,207,900 | 9,202,320 | 18.44 |
| YTL Power International Bhd MTN 4.55% 10/06/2022 | 5,000,000 | 5,099,500 | 5,085,400 | 10.19 |
| Total unquoted bonds in Malaysia | 41,000,000 | 42,083,800 | 41,692,030 | 83.54 |

(c) Unquoted Zero-coupon Negotiable Instrument of Deposit ("ZNID") in Malaysia

| Issuer Bank | Notional Amount RM | Cost RM | Fair Value RM | % of NAV % |
|--|--------------------------|-------------------|---------------------|---------------|
| Affin Bank Bhd - Maturity 30/09/2022 | 5,035,000 | 4,832,090 | 4,867,838 | 9.75 |
| Total unquoted ZNID in Malaysia | 5,035,000 | 4,832,090 | 4,867,838 | 9.75 |
| TOTAL FINANCIAL ASSETS AT FVTPL | | 48,361,753 | 47,520,651 | 95.21 |
| EXCESS OF COST OVER FAIR VALUE | | | 841,102 | |

TA Rainbow Income Fund 7

(For the financial year ended 31 May 2022)

8. DEPOSIT WITH A FINANCIAL INSTITUTION

| | 2022 RM | 2021 RM |
|--------------------------------|------------|------------|
| Placement with a licensed bank | 17,260,276 | 1,756,075 |

The weighted average effective interest rate ("WAEIR") per annum ("p.a.") and average maturity of deposit with a financial institution as at the reporting date are as follows:

| | WAEIR (% p.a.) | | Average Remaining Maturity (Days) | |
|----------------------|-------------------|------|---|------|
| | 2022 | 2021 | 2022 | 2021 |
| Short-term placement | 2.18 | 1.70 | 18.61 | 1 |

9. DISTRIBUTION

Distributions paid to unitholders during the financial year are as follows:

| Declaration Dates | Unit In Circulation | Gross Distribution Per Unit (Sen) | Net Distribution Per Unit (Sen) | Distribution Amount (RM) |
|-------------------|------------------------|--|--|--------------------------------|
| 14.10.2021 | 47,962,760 | 2.17 | 2.17 | 1,040,792 |

Distributions to unitholders were made from the following sources:

| | 2022 RM |
|---|------------|
| Dividend income | 351,705 |
| Interest income | 1,334,335 |
| Net realised loss on sale of investment | (616,377) |
| | 1,069,663 |
| Less: Expenses | (30,138) |
| Distribution out of realised reserve | 1,039,525 |
| Distribution equalisation | 1,267 |
| Distribution for the financial year | 1,040,792 |
| Analysed as: | |
| Cash distribution | 1,040,792 |
| Reinvestment of units | - |
| | 1,040,792 |
| <u>Final distribution:</u> | |
| Gross/net distribution per unit (sen) | 2.1700 |

TA Rainbow Income Fund 7

(For the financial year ended 31 May 2022)

10. NET ASSET VALUE ATTRIBUTABLE TO UNITHOLDERS

| | Note | 2022 RM | 2021 RM |
|----------------------|------|-------------------|-------------------|
| Unitholders' capital | (a) | 47,489,187 | 48,021,684 |
| Retained earnings | | | |
| - Realised reserve | (b) | 3,732,133 | 2,460,557 |
| - Unrealised reserve | (c) | (1,344,914) | (576,503) |
| | | <u>49,876,406</u> | <u>49,905,738</u> |

(a) Unitholders' capital

| | 2022 | | 2021 | |
|------------------------------------|-------------------|-------------------|-------------------|-------------------|
| | No of units | RM | No of units | RM |
| At beginning of the financial year | 48,030,721 | 48,021,684 | 48,670,333 | 48,671,706 |
| Cancellation of units | (508,738) | (531,230) | (639,612) | (650,022) |
| | <u>47,521,983</u> | <u>47,490,454</u> | <u>48,030,721</u> | <u>48,021,684</u> |
| Distribution (Note 9) | - | (1,267) | - | - |
| At end of the financial year | <u>47,521,983</u> | <u>47,489,187</u> | <u>48,030,721</u> | <u>48,021,684</u> |

(b) Realised reserve

| | 2022 RM | 2021 RM |
|---|------------------|------------------|
| At beginning of the financial year | 2,460,557 | 1,212,007 |
| Net realised income for the financial year | 2,311,101 | 1,248,550 |
| Distribution out of realised reserve (Note 9) | (1,039,525) | - |
| Net increase in realised reserve for the financial year | <u>1,271,576</u> | <u>1,248,550</u> |
| At end of the financial year | <u>3,732,133</u> | <u>2,460,557</u> |

(c) Unrealised reserve

| | 2022 RM | 2021 RM |
|---|--------------------|------------------|
| At beginning of the financial year | (576,503) | (1,753,980) |
| Net unrealised (loss)/income for the financial year | (768,411) | 1,177,477 |
| At end of the financial year | <u>(1,344,914)</u> | <u>(576,503)</u> |

TA Rainbow Income Fund 7

(For the financial year ended 31 May 2022)

11. TRANSACTIONS WITH INVESTMENT BANK/BROKER

Details of transactions with the investment bank/broker during the financial year are as follows:

| Name of investment bank/broker | 2022 | | 2021 | |
|--|-------------------------|--|-------------------------|--|
| | Value of trade RM | Percentage to total value of trade % | Value of trade RM | Percentage to total value of trade % |
| Malayan Banking Bhd | - | - | 1,022,890 | 100.00 |
| Societe Generale Corporate & Investment Banking | 7,276 | - | - | - |
| | <u>7,276</u> | <u>-</u> | <u>1,022,890</u> | <u>100.00</u> |

The above transactions do not involve any fees and commission payable to the investment bank/broker.

12. TOTAL EXPENSE AND PORTFOLIO TURNOVER RATIOS

(a) Total Expense Ratio

The total expense ratio for the financial year ended 31 May 2022 was 0.08% (2021: 0.08%). This ratio represents total expenses expressed as an annualised percentage of the Fund's average NAV, calculated on a daily basis.

(b) Portfolio Turnover Ratio

The portfolio turnover ratio for the financial year ended 31 May 2022 was NIL (2021: 0.02 times). This ratio represents the average of the total acquisitions and disposals of the Fund for the period over the average NAV of the Fund for the financial year calculated on a daily basis.

TA Rainbow Income Fund 7

(For the financial year ended 31 May 2022)

13. SEGMENT INFORMATION

The Manager and the Investment Committee of the Fund are responsible for allocating resources available to the Fund in accordance with the overall investment strategies as set out in the Investment Guidelines of the Fund. The Fund is managed under two segments:

- A portfolio of unquoted structured products and unquoted bonds; and
- A portfolio of unquoted ZNID and money market instruments.

The investment objective is to provide potential annual returns over the medium-term of the underlying investment instruments.

The segment information is presented as below:

| | Unquoted structured products and unquoted bonds portfolio RM | Unquoted ZNIDs and money market instruments portfolio RM | Total RM |
|---|---|---|-------------|
| 2022 | | | |
| Interest income | 1,658,735 | 61,759 | 1,720,494 |
| Net loss on financial assets at FVTPL | (155,433) | - | (155,433) |
| Total segment operating profit for the financial year | 1,503,302 | 61,759 | 1,565,061 |
| Investments | 27,036,570 | 4,988,678 | 32,025,248 |
| Deposit with a financial institution | - | 17,260,276 | 17,260,276 |
| Interest receivable | 533,335 | 11,640 | 544,975 |
| Total segment assets | 27,569,905 | 22,260,594 | 49,830,499 |
| Other liabilities | - | - | - |
| Total segment liabilities | - | - | - |

TA Rainbow Income Fund 7

(For the financial year ended 31 May 2022)

13. SEGMENT INFORMATION (CONTD.)

| 2021 | Unquoted structured products and unquoted bonds portfolio RM | Unquoted ZNID and money market instruments portfolio RM | Total RM |
|---|---|--|-----------------|
| Interest income | 1,543,964 | 185,455 | 1,729,419 |
| Net gain on financial assets at FVTPL | 716,185 | - | 716,185 |
| Total segment operating profit for the financial period | 2,260,149 | 185,455 | 2,445,604 |
| Investments | 42,652,813 | 4,867,838 | 47,520,651 |
| Deposit with a financial institution | - | 1,756,075 | 1,756,075 |
| Other assets | 580,923 | 82 | 581,005 |
| Total segment assets | 43,233,736 | 6,623,995 | 49,857,731 |
| Other liabilities | - | - | - |
| Total segment liabilities | - | - | - |

There was no transaction between operating segments during the financial year.

Expenses of the Fund are not considered part of the performance of any operating segment. The following table provides a reconciliation between the net reportable segment income and operating income:

| | 2022 | 2021 |
|---|-------------|-------------|
| Net reportable segment operating profit | 1,565,061 | 2,445,604 |
| Other non-reportable segment operating income | 15,937 | 20,941 |
| Expenses | (38,308) | (36,791) |
| Net income before tax | 1,542,690 | 2,429,754 |
| Income tax expense | - | (3,727) |
| Net income after tax | 1,542,690 | 2,426,027 |

TA Rainbow Income Fund 7

(For the financial year ended 31 May 2022)

13. SEGMENT INFORMATION (CONTD.)

In addition, certain assets and liabilities are not considered to be part of the total assets or liabilities of the operating segments. The following table provides a reconciliation between the reportable total segment assets and total segment liabilities and total assets and total liabilities of the Fund:

| | 2022 RM | 2021 RM |
|-------------------------------|-------------------|-------------------|
| Total segment assets | 49,830,499 | 49,857,731 |
| Tax recoverable | 6,100 | 6,100 |
| Cash at bank | 53,749 | 55,850 |
| Total assets of the Fund | <u>49,890,348</u> | <u>49,919,681</u> |
| Amount due to Trustee | 1,692 | 1,693 |
| Other payables and accruals | 12,250 | 12,250 |
| Total liabilities of the Fund | <u>13,942</u> | <u>13,943</u> |

14. FINANCIAL INSTRUMENTS

(a) Classification of financial instruments

The Fund's financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost based on their respective classification. The significant accounting policies in Note 2.2 describe how the classes of financial instrument are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the financial assets and financial liabilities of the Fund in the statement of financial position as at the end of reporting period by the class of financial instrument to which they are assigned, and therefore by the measurement basis.

| 2022 | Financial assets at FVTPL RM | Financial assets at amortised cost RM | Financial liabilities at amortised cost RM | Total RM |
|---|---------------------------------------|---|--|-------------------|
| Assets | | | | |
| Investments | 32,025,248 | - | - | 32,025,248 |
| Deposit with a financial institution | - | 17,260,276 | - | 17,260,276 |
| Interest receivable | - | 544,975 | - | 544,975 |
| Cash at bank | - | 53,749 | - | 53,749 |
| Total financial assets | <u>32,025,248</u> | <u>17,859,000</u> | <u>-</u> | <u>49,884,248</u> |

TA Rainbow Income Fund 7

(For the financial year ended 31 May 2022)

14. FINANCIAL INSTRUMENTS (CONTD.)

(a) Classification of financial instruments (contd.)

| 2022 (contd.) | Financial assets at FVTPL RM | Financial assets at amortised cost RM | Financial liabilities at amortised cost RM | Total RM |
|---|---------------------------------------|---|--|-------------|
| Liabilities | | | | |
| Amount due to Trustee | - | - | 1,692 | 1,692 |
| Other payables and accruals | - | - | 12,250 | 12,250 |
| Total financial liabilities | - | - | 13,942 | 13,942 |
| Income, expenses, gains and losses | | | | |
| Interest income | 1,658,735 | 61,759 | - | 1,720,494 |
| Other income | - | 15,937 | - | 15,937 |
| Net gain on financial assets at FVTPL | (155,433) | - | - | (155,433) |
| 2021 | | | | |
| Assets | | | | |
| Investments | 47,520,651 | - | - | 47,520,651 |
| Deposit with a financial institution | - | 1,756,075 | - | 1,756,075 |
| Interest receivable | - | 581,005 | - | 581,005 |
| Cash at bank | - | 55,850 | - | 55,850 |
| Total financial assets | 47,520,651 | 2,392,930 | - | 49,913,581 |
| Liabilities | | | | |
| Amount due to Trustee | - | - | 1,693 | 1,693 |
| Other payables and accruals | - | - | 12,250 | 12,250 |
| Total financial liabilities | - | - | 13,943 | 13,943 |
| Income, expenses, gains and losses | | | | |
| Interest income | 1,706,595 | 22,824 | - | 1,729,419 |
| Other income | - | 20,941 | - | 20,941 |
| Net loss on financial assets at FVTPL | 716,185 | - | - | 716,185 |

TA Rainbow Income Fund 7

(For the financial year ended 31 May 2022)

14. FINANCIAL INSTRUMENTS (CONTD.)

(b) Financial instruments that are carried at fair value

The Fund's financial assets at FVTPL are carried at fair value.

Unquoted structured products outside Malaysia

For unquoted structured products, the fair value was determined by reference to their Net Present Value (NPV) of nominal amount derived from Monte Carlo Model, at the end of the reporting period obtained from the issuer of the investment.

Unquoted Zero-coupon Negotiable Instrument of Deposit ("ZNID") in Malaysia

For unquoted ZNID, the values were determined by reference to the indicative price obtained from the issuer of the investment.

Unquoted bonds in Malaysia

Fair values was determined directly by reference to their marked to market price at the financial position date, quoted by Bond Pricing Agency Malaysia.

(c) Financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

The following are classes of financial instruments that are not carried at fair value and whose carrying amounts approximate the fair values due to their short term nature:

- Deposit with a financial institution
- Interest receivable
- Cash at bank
- Amount due to Trustee
- Other payables and accruals

TA Rainbow Income Fund 7

(For the financial year ended 31 May 2022)

14. FINANCIAL INSTRUMENTS (CONTD.)

(d) Fair value hierarchy

The Fund uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted prices (unadjusted) in active markets 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 (i.e. prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| Financial assets at FVTPL: | Level 1 RM | Level 2 RM | Level 3 RM | Total RM |
|--|---------------|---------------|---------------|-------------|
| 2022 | | | | |
| Unquoted bonds in Malaysia | - | 27,036,570 | - | 27,036,570 |
| Unquoted Zero-coupon negotiable instrument of deposit in Malaysia | - | 4,988,678 | - | 4,988,678 |
| | - | 32,025,248 | - | 32,025,248 |

| Financial assets at FVTPL: | Level 1 RM | Level 2 RM | Level 3 RM | Total RM |
|--|---------------|---------------|---------------|-------------|
| 2021 | | | | |
| Unquoted structured products outside Malaysia | - | - | 960,783 | 960,783 |
| Unquoted bonds in Malaysia | - | 41,692,030 | - | 41,692,030 |
| Unquoted Zero-coupon negotiable instrument of deposit in Malaysia | - | 4,867,838 | - | 4,867,838 |
| | - | 46,559,868 | 960,783 | 47,520,651 |

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(For the financial year ended 31 May 2022)

14. FINANCIAL INSTRUMENTS (CONTD.)

(e) Level 3 fair value

| Type | Description of technique and input used | Significant unobservable inputs | Inter-relationship between significant unobservable inputs and fair value measurement |
|------------------------------|---|---|---|
| Unquoted structured products | The fair value of the unquoted structured products is derived based on the Monte Carlo model. | <ul style="list-style-type: none"> • Equity correlation • Equity volatility | <ul style="list-style-type: none"> • The estimated fair value would increase/(decrease) if the equity correlation were higher/(lower). • The estimated fair value would increase/(decrease) if the equity volatility were higher/(lower). |

Sensitivity analysis

Management believes that the changing in one or more of the unobservable inputs would not be material. The sensitivity of the fair value measurements to changes in unobservable inputs are therefore not presented.

15. FINANCIAL RISK AND MANAGEMENT OBJECTIVES AND POLICIES

(a) Introduction

The Fund maintains investment portfolio in a variety of financial instruments as dictated by its Trust Deed and investment management strategy.

The Fund is exposed to a variety of risks including market risk (which includes interest rate risk), credit risk/counterparty risk and liquidity risk. Whilst these are the most important types of financial risks inherent in each type of financial instruments, the Manager and the Trustee would like to highlight that the list does not purport to constitute an exhaustive list of all the risks inherent in an investment in the Fund.

The Fund's objective in managing risks is the creation and protection of unitholders' value. Risk is inherent in the Fund's activities, but it is managed through a process of ongoing identification, measurement and monitoring of risk. Financial risk management is also carried out through sound internal control systems and adherence to the investments restrictions as stipulated in the Deed, the Securities Commission's Guidelines on Unit Trust Funds and the Capital Markets and Services Act 2007.

(b) Risk management structure

The Fund's Manager is responsible for identifying and managing risks. The Board of Directors of the Manager are ultimately responsible for the overall risk management approach within the Fund.

TA Rainbow Income Fund 7

(For the financial year ended 31 May 2022)

15. FINANCIAL RISK AND MANAGEMENT OBJECTIVES AND POLICIES (CONTD.)

(c) Risk measurement and reporting system

Risk monitoring and controlling mechanism are primarily set up and to be performed based on limits established by the Manager and the Trustee. These limits reflect the investment strategy and market environment of the Fund as well as the level of the risk that the Fund is willing to accept. In addition, the Fund monitors and measures the overall risk bearing capacity in relation to aggregated risk exposures across all risks type and activities.

(d) Risk mitigation

The Fund has investment guidelines that set out its overall business strategies, its tolerance for risk and its general risk management philosophy. The Manager also has a Compliance Department to ensure that the Fund complies with the various regulations and guidelines as stipulated in its Deed, the Securities Commission's Guidelines on Unit Trust Funds and the Capital Markets and Services Act 2007.

(e) Excessive risk concentration

Risk concentration indicates the relative exposure of the Fund's performance to developments affecting a particular industry or geographical location. Concentration of risk arises when a number of financial instruments or contracts are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their abilities to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentration of foreign exchange risk may arise if the Fund has a significant net position in a single foreign currency, or aggregate net position in several currencies that tend to move together.

In order to avoid excessive concentration of risk, the Fund's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio in accordance with the Deed, investment management's guidelines and the Securities Commission's Guidelines on Unit Trust Funds. Portfolio diversification across a number of sectors and industries minimises the risk not only of any single company's securities becoming worthless but also all holdings suffering uniformly adverse business conditions. Specifically, the Deed and Securities Commission's Guidelines on Unit Trust Funds limit the Fund's exposure to a single entity/industry sector to a certain percentage of its NAV.

TA Rainbow Income Fund 7

(For the financial year ended 31 May 2022)

15. FINANCIAL RISK AND MANAGEMENT OBJECTIVES AND POLICIES (CONTD.)

(f) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rate, equity prices and foreign exchange rates. The maximum risk resulting from financial instruments equals their fair values at the reporting date.

(i) Price risk

Price risk arises mainly from the uncertainty about future prices of investments. The Manager manages the risk of unfavourable changes in prices by continuous monitoring of the performance and risk profile of the investment portfolio.

The Fund's overall exposure to price risk was as follows:

| | 2022 RM | 2021 RM |
|----------------------|------------|------------|
| Unquoted investments | 32,025,248 | 47,520,651 |

The following table summarises the sensitivity of the Fund's profit after tax and net asset value to price risk movements. The analysis is based on the assumptions that the market price increased by 5% and decreased by 5% with all other variables held constant. This represents management's best estimate of a reasonable possible shift in the unquoted securities, having regard to the historical volatility of the prices.

| | 2022 | | 2021 | |
|----------------------|-----------------|--------------------------------|-----------------|--------------------------------|
| | Change in price | Impact on profit after tax/NAV | Change in price | Impact on profit after tax/NAV |
| | % | RM | % | RM |
| Unquoted investments | -5 | -1,601,262 | -5 | -2,376,033 |
| | +5 | 1,601,262 | +5 | 2,376,033 |

TA Rainbow Income Fund 7

(For the financial year ended 31 May 2022)

15. FINANCIAL RISK AND MANAGEMENT OBJECTIVES AND POLICIES (CONTD.)

(f) Market risk (contd.)

(ii) Interest rate risk

In general, when interest rates rise, prices of unquoted fixed income securities will tend to fall or vice versa. Therefore, the NAV of the Fund may also tend to fall when interest rates rise or are expected to rise. However, investors should be aware that should the Fund hold an unquoted fixed income security until maturity, such price fluctuations would dissipate as it approaches maturity, and the NAV shall not be affected at maturity.

Interest rate risk sensitivity

The table below summarises the sensitivity of the Fund's net income after taxation and NAV to movements in prices of unquoted bonds and ZNID held by the Fund as a result of movement in interest rate. The analysis is based on the assumptions that the interest rate increase and decrease by 1% with all other variables held constant.

| | 2022 | | 2021 | |
|------------------|-------------------------------------|--|-------------------------------------|--|
| | Change in interest rates % | Impact on profit after tax/NAV RM | Change in interest rates % | Impact on profit after tax/NAV RM |
| Financial assets | -1 | -172,603 | -1 | -706,000 |
| at FVTPL | +1 | 172,603 | +1 | 706,000 |

The Fund's exposure to interest rate risk associated with deposit with a licensed financial institution is not material as the deposit is held on a short-term basis.

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(For the financial year ended 31 May 2022)

15. FINANCIAL RISK AND MANAGEMENT OBJECTIVES AND POLICIES (CONTD.)

(f) Market risk (contd.)

(ii) Interest rate risk (contd.)

Interest rate risk exposure

The following table analyses the Fund's interest rate risk exposure.

| | Interest bearing instruments RM | Non-interest bearing instruments RM | Total RM | WAEIR % |
|---|--|--|-------------|------------|
| 2022 | | | | |
| Assets | | | | |
| Investments | 27,036,570 | 4,988,678 | 32,025,248 | |
| Deposit with a financial institution | 17,260,276 | - | 17,260,276 | 2.18 |
| Interest receivable | - | 544,975 | 544,975 | |
| Tax recoverable | - | 6,100 | 6,100 | |
| Cash at bank | - | 53,749 | 53,749 | |
| Total assets | 44,296,846 | 5,593,502 | 49,890,348 | |
| Liabilities | | | | |
| Other liabilities | - | 13,942 | 13,942 | |
| Total liabilities | - | 13,942 | 13,942 | |
| Total interest rate sensitivity gap | 44,296,846 | 5,579,560 | 49,876,406 | |
| | Interest bearing instruments RM | Non-interest bearing instruments RM | Total RM | WAEIR % |
| 2021 | | | | |
| Assets | | | | |
| Investments | 41,692,030 | 5,828,621 | 47,520,651 | |
| Deposit with a financial institution | 1,756,075 | - | 1,756,075 | 1.70 |
| Other assets | - | 581,005 | 581,005 | |
| Tax recoverable | - | 6,100 | 6,100 | |
| Cash at bank | - | 55,850 | 55,850 | |
| Total assets | 43,448,105 | 6,471,576 | 49,919,681 | |
| Liabilities | | | | |
| Other liabilities | - | 13,943 | 13,943 | |
| Total liabilities | - | 13,943 | 13,943 | |
| Total interest rate sensitivity gap | 43,448,105 | 6,457,633 | 49,905,738 | |

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(For the financial year ended 31 May 2022)

15. FINANCIAL RISK AND MANAGEMENT OBJECTIVES AND POLICIES (CONTD.)

(g) Credit risk

Credit risk relates to creditworthiness of the issuers of fixed income instruments and its expected ability to make timely payments of interest and/or principal. Investing in non-investment grade and unrated fixed income instruments may result in the Fund being highly exposed to risk of non-payment or untimely payment of interest and/or principal that may cause greater volatility on the Fund's value.

Counterparty risk concerns the Fund's investment in unquoted bonds, unquoted Zero-coupon negotiable instrument of deposits and unquoted structured product. Counterparty risk is prevalent as the potential returns derived from unquoted bonds, unquoted Zero-coupon negotiable instrument of deposits and unquoted structured product are dependent on the ongoing ability and willingness of the issuer i.e. a financial institution to fulfill its financial commitments to the Fund in a timely manner. Bankruptcy, fraud or regulatory non-compliance arising out of and/or in connection with the issuer may impair the operations and/or the performance of the Fund.

Financial assets that are either past due or impaired

There are no financial assets that are either past due or impaired at the end of the reporting period.

Credit risk exposure

As at the end of the financial position date, the Fund's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the statement of financial position.

Credit quality of financial assets

| 2022 | Rating by Rating Agency of Malaysia P1 / A+ / AA2 RM | Unrated RM | Total RM |
|--|--|---------------|-------------|
| Credit rating of financial assets at FVTPL | | | |
| Financial assets at FVTPL | 32,025,248 | - | 32,025,248 |
| Short term credit rating of financial assets not at FVTPL | | | |
| Deposit with a financial institution | 17,260,276 | - | 17,260,276 |
| Interest receivable | 544,975 | - | 544,975 |
| Cash at bank | 53,749 | - | 53,749 |
| | 17,859,000 | - | 17,859,000 |

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(For the financial year ended 31 May 2022)

15. FINANCIAL RISK AND MANAGEMENT OBJECTIVES AND POLICIES (CONTD.)

(g) Credit risk (contd.)

| 2021 | Rating by Rating Agency of Malaysia | Unrated RM | Total RM |
|--|---|---------------|-------------|
| | P1 / A+ / AA2 RM | | |
| Short term credit rating of financial assets not at FVTPL | | | |
| Deposit with a financial institution | 1,756,075 | - | 1,756,075 |
| Interest receivable | 581,005 | - | 581,005 |
| Cash at bank | 55,850 | - | 55,850 |
| | 2,392,930 | - | 2,392,930 |

(h) Liquidity risk

Liquidity risk is defined as the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Exposure to liquidity risk arises because of the possibility that the Fund could be required to pay its liabilities or redeem its units earlier than expected. The Fund is exposed to the risk of cash redemption of its units on a regular basis. Units sold to unitholders by the Manager are redeemable at the unitholder's option based on the Fund's NAV per unit at the time of redemption calculated in accordance with the Deed.

It is the Fund's policy that the Manager monitors the Fund's liquidity position on a daily basis. The Fund also manages its obligation to pay for redemption of units when required to do so and its overall liquidity risk by requiring a 3-day notice period before redemption.

The Manager's policy is to always maintain a prudent and sufficient level of liquid assets so as to meet normal operating requirements and expected redemption requests by unitholders.

TA Rainbow Income Fund 7

(For the financial year ended 31 May 2022)

15. FINANCIAL RISK AND MANAGEMENT OBJECTIVES AND POLICIES (CONTD.)

(h) Liquidity risk (contd.)

The following table summarises the maturity profile of the Fund's unit in issue (classified as equity instruments) and financial liabilities. The table also analyses the maturity profile of the Fund's financial assets against the Fund's contractual commitments to provide an overview of the Fund's liquidity.

| 2022 | Less than 1 year RM | 1-2 years RM | Total RM |
|--|---------------------------|-----------------|-------------|
| Assets | | | |
| Investments | 32,025,248 | - | 32,025,248 |
| Deposit with a financial institution | 17,260,276 | - | 17,260,276 |
| Interest receivable | 544,975 | - | 544,975 |
| Tax recoverable | 6,100 | - | 6,100 |
| Cash at bank | 53,749 | - | 53,749 |
| Total undiscounted financial assets | 49,890,348 | - | 49,890,348 |
| Liabilities | | | |
| Other liabilities | 13,942 | - | 13,942 |
| Total undiscounted financial liabilities | 13,942 | - | 13,942 |
| Unitholders' total equity | 49,876,406 | - | 49,876,406 |
| Liquidity gap | - | - | - |
| | | | |
| 2021 | Less than 1 year RM | 1-2 years RM | Total RM |
| Assets | | | |
| Investments | 47,520,651 | - | 47,520,651 |
| Deposit with a financial institution | 1,756,075 | - | 1,756,075 |
| Other assets | 581,005 | - | 581,005 |
| Tax recoverable | 6,100 | - | 6,100 |
| Cash at bank | 55,850 | - | 55,850 |
| Total undiscounted financial assets | 49,919,681 | - | 49,919,681 |
| Liabilities | | | |
| Other liabilities | 13,943 | - | 13,943 |
| Total undiscounted financial liabilities | 13,943 | - | 13,943 |
| Unitholders' total equity | 49,905,738 | - | 49,905,738 |
| Liquidity gap | - | - | - |

TA Rainbow Income Fund 7

(For the financial year ended 31 May 2022)

15. FINANCIAL RISK AND MANAGEMENT OBJECTIVES AND POLICIES (CONTD.)

(h) Liquidity risk (contd.)

Notes:

(i) Financial assets

Analysis of financial assets at FVTPL into maturity groupings is based on the expected date on which these assets can be realised. The analysis into maturity grouping is based on the remaining period from the end of the reporting date to the contractual maturity date or if earlier, the expected date on which the assets will be realised.

(ii) Financial liabilities

The maturity grouping is based on the remaining period from the end of the reporting date to the contractual maturity date. When a counterparty has a choice of when the amount is to be paid, the liability is allocated to the earliest period in which the Fund can be expected to pay.

(iii) Equity

As unitholders can request for redemption on their units by giving the Manager a 3 days notice period, equity is categorised as having a maturity of "Less than 1 year". However, the Fund believes that it will be able to liquidate all its investments should the need arise to satisfy all the redemption requirements of the Fund.

(i) Structured product risk

This risk arises from investments in a structured product which is structured by a third party. The product is linked to the performance of its underlying investments, hence exposing the Fund to the risk of the underlying investment, for example, investments in a structured product which is linked to the performance of a collective investment scheme, will expose the Fund to the risk of the collective investment scheme. As such, the price of the structured product will be dependent on the price of its underlying, where a drop in the price of the collective investment scheme that the structured product is linked to, will also result in a drop in the price of the structured product. As the structured product is structured by a third party, the Fund will also be exposed to counterparty risk and default risk arising from the third party's inability to meet the agreed terms.

TA Rainbow Income Fund 7

(For the financial year ended 31 May 2022)

16. CAPITAL MANAGEMENT

The primary objective of the Fund's capital management is to ensure that it maximises unitholder's value by expanding its fund size to benefit from economies of scale and achieving growth in NAV from the performance of its investments.

The Fund manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Fund may issue new or bonus units, make distribution payments, or return capital to unitholder by way of redemption of units.

No changes were made in the objectives, policies or processes during the financial year ended 31 May 2022.

TA Rainbow Income Fund 7

(For the financial year ended 31 May 2022)

Corporate Information

| | |
|--|--|
| Manager | TA Investment Management Berhad (340588-T) |
| Registered Office | 34th Floor, Menara TA One 22 Jalan P. Ramlee 50250 Kuala Lumpur |
| Board of Directors | En. Mohammed A'reeff Bin Abdul Khalid (Non-Independent / Executive Director) Mr. Choo Swee Kee (Non-Independent / Executive Director) Puan Zainab Binti Ahmad (Non-Independent / Non-Executive Director) Puan Nor Asma Binti Mohamed (Non-Independent / Non-Executive Director) Mr. Chew Chin Guan (Independent / Non-Executive Director) Mr. Ngiam Kee Tong (Independent / Non-Executive Director) |
| Investment Committee Members | Kaladher A/L Govindan (Non-Independent) Dato' Tay Kian Chuan (Independent) Ngiam Kee Tong (Independent) |
| Trustee of the Fund | CIMB Commerce Trustee Berhad Level 13, Menara CIMB Jalan Stesen Sentral 2 Kuala Lumpur Sentral 50470 Kuala Lumpur |
| Auditor of the Manager and the Fund | KPMG PLT Chartered Accountants Level 10, KPMG Tower 8 First Avenue, Bandar Utama 47800 Petaling Jaya Selangor |
| Banker | Malayan Banking Bhd Ground Floor, Wisma Genting Jalan Sultan Ismail 50250 Kuala Lumpur |
| Secretaries | Khoo Poh Kim @ Kimmy (LS0010314) |

TA Rainbow Income Fund 7

(For the financial year ended 31 May 2022)

Corporate Information (cont'd)

| | | |
|-------------------------|---|---|
| Management Staff | Wong Mien Chief Executive Officer | Tee Ling Ling Head of Sales & Marketing |
| | Ch'ng Soon Kim Compliance Officer | Alicia Khor Head of Operations |
| Investment Team | Choo Swee Kee Chief Investment Officer | |
| | Jennifer Mak Fong Ching Fund Manager | Lam Chee Mun Fund Manager |
| Head Office | 23rd Floor, Menara TA One 22 Jalan P. Ramlee 50250 Kuala Lumpur Toll Free: 1-800-38-7147 Tel: (603) 2031 6603 Fax: (603) 2031 4479 Website: http://www.tainvest.com.my E-mail: investor.taim@ta.com.my | |

| | |
|----------------------------------|---|
| Head Office | TA Investment Management Berhad 23rd Floor, Menara TA One 22 Jalan P. Ramlee 50250 Kuala Lumpur Tel: 03-2031 6603 Fax: 03-2031 4479 |
| Melaka Business Centre | 57A, Jalan Merdeka Taman Melaka Raya 75000 Melaka Tel: 06-288 2687 |
| Penang Business Centre | 15-1-8, Bayan Point Medan Kampung Relau 11900 Pulau Pinang Tel: 04-645 9801 Fax: 04-611 9805 |
| Kota Kinabalu Business Centre | Unit 4-1-02, 1st Floor Block 4, Api-Api Centre Jalan Centre Point 88000 Kota Kinabalu, Sabah Tel: 088-268 023 Fax: 088-248 463 |
| Kuching Business Centre | 2nd Floor, Lot 13008, SL26, Block 16, KCLD, Gala City Commercial Centre, Jalan Tun Jugah, 93350 Kuching, Sarawak Tel: 082-265 979 |
| Miri Business Centre | Lot 1251, 1st Floor Centrepont Commercial Centre (Phase 1) Jalan Melayu 98000 Miri, Sarawak Tel: 085-430 415 |
| Ipoh Business Centre | 29A Jalan Niaga Simee Arena Niaga Simee 31400 Ipoh Perak Tel: 05-350 0399 |