



KWAP
Kumpulan Wang Persaraan (Diperbadankan)
RETIREMENT FUND INCORPORATED

Menjamin Persaraan Anda

Assuring Your Pension

Laporan Tahunan | 2007
Annual Report



**Rationale of the Concept**

This year's Annual Report cover reflects the calmness, confidence and financial security that pensioner can enjoy once they reach their golden years and beyond. As assurance goes beyond financial considerations, it encompasses all aspects which contribute towards a better quality of life, so that Pensioner can look forward to a future that is both prosperous and enjoyable.

Financial Highlights 2007

Fund Size As At 1 Mar 2007 **RM41.94 billion**

Fund Size As At 31 Dec 2007 **RM48.13 billion**

Gross Income **RM3.77 billion**

Net Income **RM3.72 billion**

Gross Investment Income **RM3.75 billion**

Rate of Return (ROI) (10 months) **8.37%**

Total Expenditure **RM48.06 million**

Total Contributions Received **RM2.47 billion**

Total Number of Contributing Employers **475**

Total Number of Members **104,081**

Total Number of KWAP's Employees **93**

Income Per Employee **RM40.51 million**

Ratio of Expenditure to Gross Income **1.28%**

Ratio of Expenditure to Average Fund **0.11%**



Contents

Corporate Information

Board of Directors	71
Investment Panel	73
Audit Committee and Risk Management Committee	75
Organisation Chart	76

Chairman's Statement

77

CEO's Statement

79

Review of Operations	79
Financial Highlights	80

Statement of Corporate Governance

84

Financial Statements

87

Board of Directors

Dato' Sri Dr. Wan Abdul Aziz Bin Wan Abdullah

SECRETARY GENERAL OF TREASURY

CHAIRMAN

Dato' Sri Dr. Wan Abdul Aziz Bin Wan Abdullah was appointed to the Board and Investment Panel as Chairman on 1 March 2007. He is currently the Secretary General of Treasury, Ministry of Finance and also a Board Member of Employees Provident Fund, Federal Land Development Authority, Malaysian International Shipping Corporation Berhad, Inland Revenue Board, Malaysian Airline System Berhad, Petroliaam Nasional Berhad, Malaysian Industry-Government Group for High Technology, Malaysia Venture Capital Development Council, Multimedia Development Corporation Sdn. Bhd., Syarikat Bekalan Air Selangor Sdn. Bhd., Pembinaan BLT Sdn. Bhd., Cyberview Sdn. Bhd., Kuala Lumpur International Airport Berhad, Syarikat Tanah & Harta Sdn. Bhd., Piramid Pertama Sdn. Bhd., Aroma Teraju Sdn. Bhd, Lembaga Pengurusan Aset Air Berhad, Pelaburan Hartanah Bumiputera Berhad, Pembinaan PFI Sdn. Bhd. and Bank Negara Malaysia. He obtained his Degree in B. Econs (Hons) - Applied Economics from University of Malaya in 1975, Masters in Philosophy (Development Studies) from University of Sussex, United Kingdom in 1984 and Ph.D (Business Economics) from University of Leeds, United Kingdom in 1995.

Tan Sri Ismail Bin Adam

DIRECTOR GENERAL OF PUBLIC SERVICES

FEDERAL GOVERNMENT REPRESENTATIVE

Tan Sri Ismail Bin Adam was appointed as a member of the Board on 1 March 2007. He is currently the Director General of Public Services Malaysia. He is also a Board Member of Inland Revenue Board, Employees Provident Fund (EPF), Kumpulan Wang Pencen Balu dan Anak Yatim (Sabah & Sarawak) and Dewan Bahasa dan Pustaka. He graduated with B.A. (Honours) in Economics from University Malaya and obtained his Masters in Economics from Venderbilt University, USA.

Dato' Mohd. Salleh Bin Mahmud

ACCOUNTANT GENERAL OF MALAYSIA

FEDERAL GOVERNMENT REPRESENTATIVE

Dato' Mohd. Salleh Bin Mahmud was appointed as a member of the Board on 1 March 2007. He started his career in 1976 in the Foreign Investment Committee, Economic Planning Unit of Prime Minister's Department and was made a Director of Pensions Division, Public Services Department in 1991. He was promoted to the post of Deputy Accountant General in 1996. He has been holding the post of Accountant-General of Malaysia since March 2005. He graduated from University of Malaya, with Honours in Accounting in 1976 and obtained his Masters in Business Administration in 1991.

Datuk Idrus Bin Harun

SOLICITOR GENERAL OF MALAYSIA

FEDERAL GOVERNMENT REPRESENTATIVE

Datuk Idrus Bin Harun was appointed as a Board member on 1 March 2007. Currently, he is holding the post as the sixteenth Solicitor General of Malaysia. He was appointed as Solicitor General on 27 April 2006. He joined the Judicial and Legal Service on 3 April 1980 as Assistant Parliamentary Draftsman. While in service, he had served on various posts and capacities which includes the post as Senior Assistant Registrar at Kuala Lumpur High Court, Sessions Court Judge at Kota Kinabalu Sessions Court, Deputy Public Prosecutor of Royal Customs & Excise Department, Prosecution Division at Federal Territory Branch, Senior Federal Counsel of the Election Commission, Deputy Public Prosecutor of the Anti-Corruption Agency and Registrar of Companies of Malaysia. He had also served as State Legal Advisor for Terengganu and Head of Advisory and International Division of the Attorney General's Chambers. Currently, he is serving as a member of Companies Commission of Malaysia, the Malaysia-Thailand Joint Authority and Perbadanan Tabung Pendidikan Tinggi Nasional. He obtained his Bachelor of Laws (LL.B) with Honours from University of Malaya.

Board of Directors

Dato' Ibrahim Mahaludin Bin Puteh

DEPUTY SECRETARY GENERAL TREASURY (POLICY)
FEDERAL GOVERNMENT REPRESENTATIVE

Dato' Ibrahim Mahaludin Bin Puteh was appointed as a member of our Board on 1 March 2007. He is currently the Deputy Secretary General of Treasury (Policy), Ministry of Finance and he is also a director in Lembaga Tabung Haji, Employees Provident Fund, Syarikat Prasarana Negara Berhad, Malaysia Venture Capital Development Council and Pos Malaysia Berhad. He graduated with a Bachelor of Arts (Hons) from University of Malaya and Masters in Business Administration from the University of Manchester, United Kingdom.

Dato' V. Danapalan

PRIVATE SECTOR REPRESENTATIVE

Dato' V. Danapalan was appointed to KWAP's Board on 1 March 2007. He is currently a member of several Boards namely; Knowledge Worker Exchange Sdn. Bhd., Telekom Malaysia Berhad, Smartcomputing Sdn. Bhd., SIRIM QAS International Sdn. Bhd., Affin Trust Management Berhad, Malaysian-American Commission on Educational Exchange, Tun Sambanthan Scholarship Fund and also as the Board of Trustee of the Malaysia University of Science & Technology Foundation. He graduated with a Bachelor's Degree with Honours from University Malaya in 1965 and Masters in Public Administration from The Pennsylvania State University, USA in 1977.

Dato' Siow Kim Lun

PRIVATE SECTOR REPRESENTATIVE

Dato' Siow Kim Lun was appointed as a member of our Board on 1 March 2007. He currently holds directorships in Citibank Berhad, Mainstreet Advisers Sdn. Bhd. and Weng Zheng Resources Berhad. He is also a member of the Listing Committee for Bursa Malaysia Securities Berhad. He obtained his Bachelor's Degree (Hons) in Economics from University Kebangsaan Malaysia, Masters in Business Administration from the Catholic University of Leuven, Belgium and attended the Advanced Management Program in Harvard Business School.

Dato' Mohd. Izzaddin Bin Idris

PRIVATE SECTOR REPRESENTATIVE

Dato' Mohd. Izzaddin Bin Idris was appointed as a member of our Board on 1 March 2007. He is a Certified Public Accountant (Australia) and a member of Malaysian Institute of Accountants. He is currently the Chief Financial Officer of Tenaga Nasional Berhad, a position which he has held since 2004. He was formerly the Senior Vice President (Corporate Finance) of Southern Bank Berhad, Chief Financial Officer of Ranhil Berhad and Chief Operating Officer of Malaysian Resources Corporation Berhad. He holds a Bachelor of Commerce Degree in Finance (First Class Honours) from the University of New South Wales, Australia.

Dato' Muhammad Bin Ibrahim

CENTRAL BANK OF MALAYSIA REPRESENTATIVE

Dato' Muhammad Bin Ibrahim was appointed as a member of our Board on 15 May, 2007. He is currently Assistant Governor, Bank Negara Malaysia. Prior to the current post, he was the Managing Director of Danamodal Nasional Berhad. He is also a Senior Associate of Institute of Bankers Malaysia and Malaysian Institute of Accountants. He holds a Bachelor's Degree in Accounting from University of Malaya and Masters in Accounting from Harvard University, United States.

Tuan Haji Omar Bin Haji Osman

CONTRIBUTOR REPRESENTATIVE

Tuan Haji Omar Bin Haji Osman was appointed as a member of our Board on 1 March 2007. He is currently the President of CUEPACS and Kesatuan Kakitangan Am Universiti Putra Malaysia and the Chairman of Gabungan Presiden/Setiausaha Kehormat Kesatuan-Kesatuan Universiti. Apart from that, he is also Deputy Chairman of National Council for Science & Technology and a representative of CUEPACS in the National Labor Advisory Council, Ministry of Human Resources.

Puan Azian Binti Mohd Noh

CHIEF EXECUTIVE OFFICER

Puan Azian Binti Mohd Noh was appointed as the Chief Executive Officer and ex-officio member of our Board on 1 March 2007. She is also the Chairman of the Board for i-VCAP Management Sdn. Bhd. She holds directorships in Valuecap Sdn. Bhd., Malakoff Corporation Berhad, Rashid Hussain Berhad and TIME dotCom Berhad. She is also a member of the Investment Panel of Valuecap Sdn. Bhd. She obtained her Bachelors Degree in Economics (Hons) majoring in Accounting from University Malaya and obtained Masters in Business Administration from Universiti Kebangsaan Malaysia. She is a member of Malaysian Institute of Accountants.

Investment Panel

Dato' Sri Dr. Wan Abdul Aziz Bin Wan Abdullah

SECRETARY GENERAL OF TREASURY

CHAIRMAN

Dato' Sri Dr. Wan Abdul Aziz Bin Wan Abdullah was appointed to our Investment Panel as Chairman on 21 March 2007.

Cik Che Zakiah Binti Che Din

CENTRAL BANK OF MALAYSIA REPRESENTATIVE

Cik Che Zakiah Binti Che Din was appointed as a member of KWAP's Investment Panel on 15 May 2007. She is currently the Director of Financial Conglomerates Supervision Department, Bank Negara Malaysia. Prior to this, she was the Director of Development for Financial Institution Regulations Department. She holds a Bachelors Degree in Economics (Hons) from University of Malaya.

Puan Komalam a/p R. Kesawan

MINISTRY OF FINANCE REPRESENTATIVE

Puan Komalam a/p R. Kesawan was appointed as a member of KWAP's Investment Panel on 21 March 2007. She has also served as Board Member of Kumpulan Modal Perdana Sdn. Bhd., Intellectual Property Corporation of Malaysia and Johor Port Berhad. She retired from the government service on 30 August 2007 and has been appointed as Special Project Officer in the Ministry of Finance. Prior to her retirement, she held the portfolio of Deputy Secretary in the Loans Management and Financial Market & Actuary Division, Ministry of Finance. She has served in various capacities at the Economic Planning Unit of Prime Minister's Department, Finance Division & Economics Division of Ministry of Finance and Ministry of Culture, Arts and Tourism. She holds a Bachelor Degree in Economics with Honours from University Malaya and Master of Arts in Economic Policy, Boston University, USA.

Investment Panel

Datuk Amirsham Bin Abdul Aziz

PRIVATE SECTOR REPRESENTATIVE

Datuk Amirsham Bin Abdul Aziz was appointed as a member of our Investment Panel on 21 March 2007. He is a Certified Public Accountant and currently the President/Chief Executive Officer of Malayan Banking Berhad. He also serves on the Boards of Maybank Berhad, Aseambankers Malaysia Berhad, Credit Guarantee Corporation Malaysia Berhad, Cagamas Berhad, Permodalan Usahawan Nasional Berhad, Bursa Malaysia Depository Sdn. Bhd., AFC Merchant Bank, International Financial Institute, Malaysia National Insurance Berhad and Asian Pacific Bankers Club. He is also the Alternate Chairman of Association of Merchant Banks in Malaysia and Vice President of Institut Perbankan Malaysia. He holds a Bachelor's Degree in Economics (Hons) from University of Malaya.

Y.M. Tengku Dato' Azmil Zahrudin Bin

Raja Dato' Seri Abdul Aziz

PRIVATE SECTOR REPRESENTATIVE

Y.M. Tengku Dato' Azmil Zahrudin Bin Raja Dato' Seri Abdul Aziz was appointed as a member of our Investment Panel on 21 March 2007. He is a Chartered Accountant and an associate member of the Malaysian Institute of Accountants, the Institute of Chartered Accountants (England and Wales) and also an associate of the Association of Corporate Treasurers (United Kingdom). He currently holds the post of Executive Director and Chief Financial Officer of Malaysian Airline System Berhad. He graduated from the University of Cambridge, United Kingdom with double first class honours in Economics.

Encik Cheah Tek Kuang

PRIVATE SECTOR REPRESENTATIVE

Encik Cheah Tek Kuang was appointed as a member of our Investment Panel on 21 March 2007. He is currently the Group Managing Director of AMMB Holdings Berhad and sits on the Boards of various banking subsidiaries and stock broking companies of AMMB Holdings Berhad. His other directorships include Employees Provident Fund and Bursa Malaysia Berhad. He also serves as Alternate Chairman of the Association of Merchant Banks in Malaysia. He holds a Bachelor's Degree in Economics from University of Malaya.

Puan Azian Binti Mohd Noh

CHIEF EXECUTIVE OFFICER

(SECRETARY FOR INVESTMENT PANEL)

Puan Azian Binti Mohd Noh was appointed as a member of the Investment Panel of KWAP on 21 March 2007.

Audit Committee

Tan Sri Ismail Bin Adam

CHAIRMAN

Dato' Mohd. Salleh Bin Mahmud

MEMBER

Datuk Idrus Bin Harun

MEMBER

Dato' Ibrahim Mahaludin Bin Puteh

MEMBER

Dato' Mohd. Izzaddin Bin Idris

MEMBER

Risk Management Committee

Dato' Muhammad Bin Ibrahim

CHAIRMAN

Dato' V. Danapalan

MEMBER

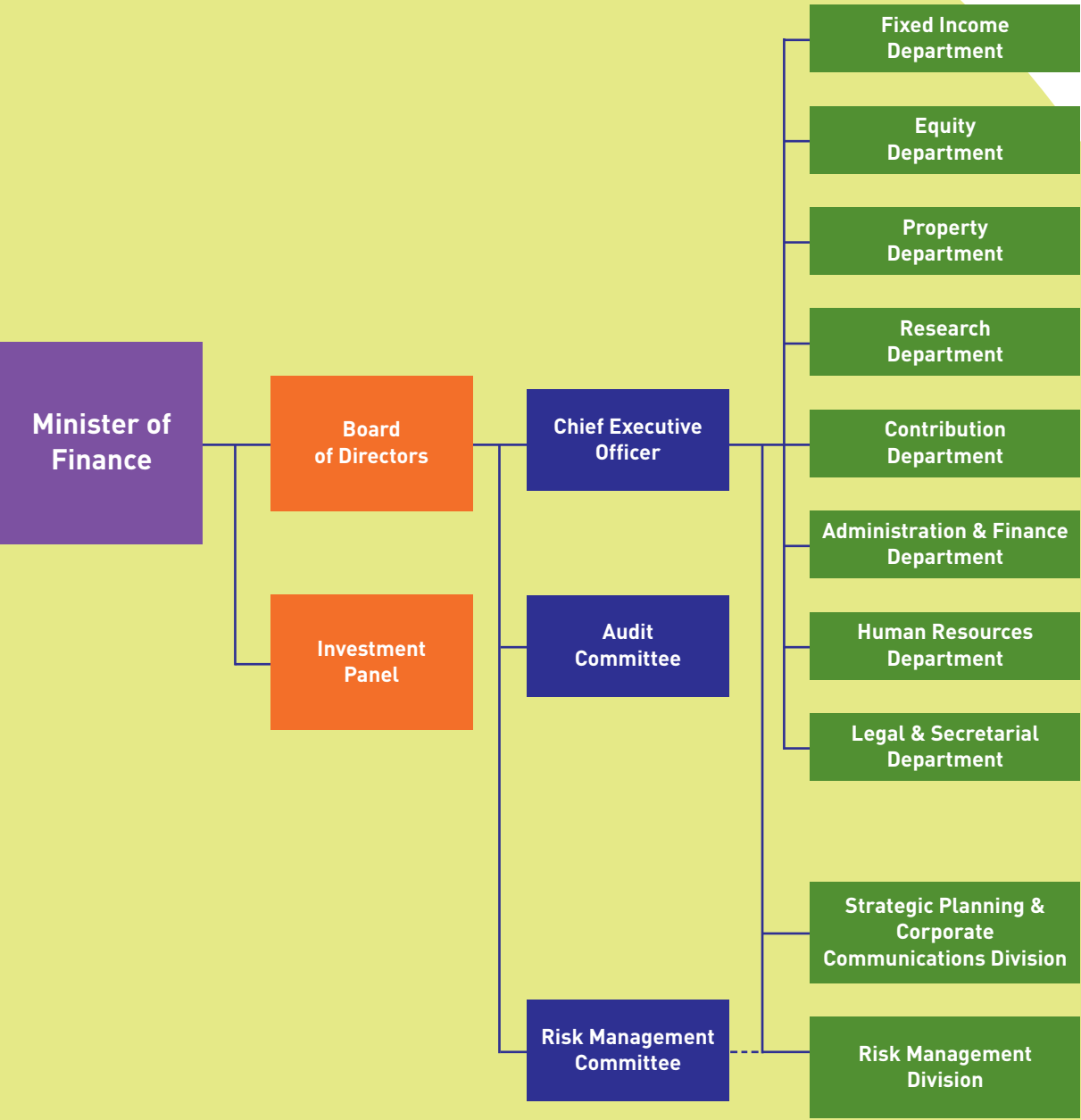
Dato' Siow Kim Lun

MEMBER

Puan Azian Binti Mohd Noh

MEMBER

Organisation Chart



Chairman's Statement

On behalf of the Board of Directors, I am pleased to present our maiden Annual Report for the 10-month financial period ending 31 December 2007 following KWAP's incorporation as a statutory body on 1 March 2007 with the coming into effect of the Retirement Fund Act 2007 (Act 662).

The journey to corporatization began when the Prime Minister announced in the 2006 National Budget speech that the Pensions Trust Fund will be corporatized into a statutory body with the same functions and objectives. The new corporate body would self finance and implement its own human resource management with the flexibility to determine its own remuneration and manpower requirements so as to enable it to be responsive and dynamic in facing new challenges from both the domestic and foreign financial markets.

KWAP received RM27.0 million from the Federal Government in the form of a launching grant to assist KWAP in its first year of operations including the setting up of its infrastructure and furnishing its new premise at Menara Yayasan Tun Razak, Jalan Bukit Bintang, Kuala Lumpur.

The Malaysian economy remained resilient throughout 2007, amidst rising crude oil prices and prolonged investors' concerns over the US subprime markets. Domestic demand provided sufficient buffer to Malaysia's overall economic performance, underpinned by strong government and consumer spending. On the supply side, the services and construction sectors showed satisfactory growth while Malaysia's inflation remained largely subdued at 2.0% compared to 3.6% the year before. The year 2007 also saw the Malaysian Ringgit appreciate steadily against the USD to settle at RM3.3065 by the end of the year. For the year 2007, the Malaysian economy grew at 6.3% compared to 5.9% the year earlier.

Despite persistent fears of a recession in the US, the Malaysian stock market performed commendably in 2007 in line with the other regional markets. The Kuala Lumpur Composite Index (KLCI) performance was respectable as the benchmark index rose from 1,196.45 points as at 1 March 2007 to 1,447.04 points at the end of 2007. The gains were attributed to rising commodity prices, roll out of the 9th Malaysian Plan (9MP), launching of key economic corridors and the strengthening of the Malaysian Ringgit. The local bond market also experienced bullish sentiment in the early part of 2007 buoyed by the weakening of US Dollar against the Malaysian Ringgit. However, profit taking activities coupled with negative inflationary sentiments and withdrawal of funds by foreign investors contributed to the rising yield curve by the end of 2007.

For the 10-month financial period ending 31 December 2007, I am pleased to report that KWAP had performed commendably. KWAP's fund increased from RM41.94 billion as at 1 March 2007 to RM48.13 billion on 31 December 2007, an increase of 14.75%. The RM6.18 billion increase in our fund size was made up of RM3.72 billion net income from investments, RM1.18 billion from Government contribution and RM1.28 billion from pension contributions and refund of Government share of EPF contributions. Return on investment for the 10 month period was at 8.37% or 10.04% on an annualized basis.

For the 10-month period ending 31 December 2007, our revenue per employee stood at RM40.51 million, ratio of operating expense over revenue at 1.28% and ratio of operating expense over average fund at 0.11%. These key performance indicators show that our organisation is an effective and efficient organisation thereby allowing more initiatives in investments.

Chairman's Statement

In 2008, the Malaysian economy is expected to register a slower growth with forecast ranging between 5% and 6% due to uncertainties in the global financial & economic environment. The domestic bond market is also expected to be well supported by excess liquidity in contrast to the credit crunch experienced by developed countries' credit market especially in US. Inflationary pressures arising from higher energy prices, remain a threat that could potentially drive yields upwards in the bond market. Nevertheless, global economic slowdown particularly in US will likely mitigate the threat of inflation. Domestically, the Overnight Policy Rate (OPR) is expected to be maintained at current level as the Government continues to adopt an accommodative monetary policy.

The year 2008 is expected to be a challenging year due to the global economic slowdown. Despite the current uncertain economic environment, KWAP would strive to maintain sustainable returns from its investments. Therefore, KWAP's strategy has to be agile enough to weather these challenges. Our strategic asset allocation must be aligned towards asset classes that are least vulnerable to such volatilities.

For the coming years, it is the aspiration of our Board and Investment Panel for KWAP to be a high performing organization. We will ensure that KWAP operates under the right business model. Efforts are underway to engage consultants to study and propose a business model incorporating organizational structure, strategic planning and risk management for KWAP. We will emphasise on integrating risk management in our investment processes to ensure consistent performance. KWAP would adopt the best practices and policies recommended by the Government for Government Linked Companies (GLCs) and Government Linked Investment Companies (GLICs).

In addition, we will focus on capability building with planned initiatives for 2008 as follows:

- Implementation of an integrated investment management system
- Implementation of intranet and knowledge portal
- Formulation and implementation of disaster recovery plan and disaster recovery centre

I am confident that with the commitment of the Board, Investment Panel and all staff members, we will achieve our aspiration to alleviate KWAP into a high performing organisation that we shall be proud of.

On behalf of the Board, I would like to thank the senior management team and all employees of KWAP for their contribution, dedication and commitment. I am confident KWAP will continuously strive to realise its vision in becoming a high performing organisation assuring sustainable pension benefits.

I am pleased to present Kumpulan Wang Persaraan (Diperbadankan) [KWAP]'s first performance report for the financial year commencing 1 March 2007 till 31 December 2007.

The year 2007 marked the year when KWAP was incorporated. During the ten month period, the fund size grew commendably by 14.75% from RM41.94 billion to RM48.13 billion. Sound investment strategies, aided by favorable economic climate and equity markets resulted in a return on investment (ROI) of 8.37% or 10.04% on an annualized basis for the period of 10 months.

As this was the first year that KWAP was in operation, among the first steps we undertook included reviewing and improving the existing processes, updating its Investment Policy & Guidelines, Financial Procedures and Risk Management Framework. The review and improvement process is an ongoing process that will continue throughout 2008.

KWAP relocated from Putrajaya to our new office at Menara Yayasan Tun Razak in Kuala Lumpur on 27 June 2007. The new premise allows us to accommodate the growing number of employees and provide space for our future growth. We are in the process of adopting a new accounting system, and are currently in the midst of procuring a new Integrated Fund Investment Management System (IFIMS) and Human Resource Management System in order to streamline processes and increase operational efficiency.

The following section describes management's analysis on the factors that contributed to the performance of the organization during the period.

Review of Operations

Administration

With the corporatisation of KWAP on 1 March 2007, KWAP had set up its own administrative, financial and ICT infrastructure to support its overall operations. The relocation of KWAP's office on 27 June 2007 from Putrajaya to its new premise necessitated the coordinated efforts of all to ensure that office renovation work is completed and all office equipment and facilities are in place before we commence operations.

KWAP started its operations using Integrated Accounting System that it inherited from Kumpulan Wang Amanah Pencen. We are now in the process of migrating to the new Standard Accounting For Government Agencies (SAGA) System with the assistance of the Accountant General's Department.

Human Resource

Since KWAP's incorporation, the recruitment of manpower has been one of the major activities conducted throughout 2007 that saw KWAP's staff strength grow from 26 to 93 employees as at 31 Dec 2007. It is essential for KWAP to recruit and retain employees with the relevant knowledge and experience in line with KWAP's requirements. As one of our corporate values is continuous learning, we place high importance on implementing training and development programs to enhance the capabilities and competencies of our employees.

To forge teamwork among employees, various activities were undertaken throughout 2007. Among the activities organized include public speaking, poem recital and fitness programs.

To realise the Government's aspiration to create a performance driven culture amongst all Government Linked Investment Companies (GLICs), we introduced the Balanced Scorecard as a measure to evaluate performance of management and implementation of strategies to ensure KWAP's resources are utilised optimally towards achieving its objectives.

CEO's Statement

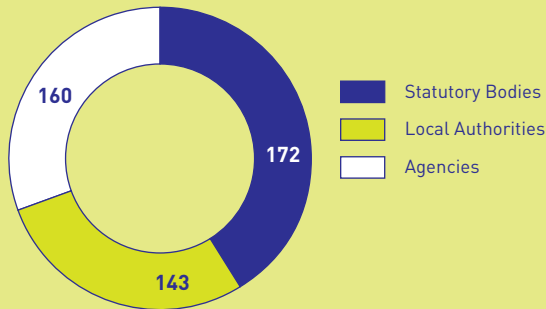
Key Performance Indicators (KPIs) were assessed based on four main perspectives namely Stakeholders, Financial, Operational and Learning & Growth to ensure that all employees' objectives are aligned with the overall organizational goals and objectives. Competency assessment on knowledge, skills and attitude was also undertaken in 2007 in order to identify and close competency gaps among employees.

Financial Highlights

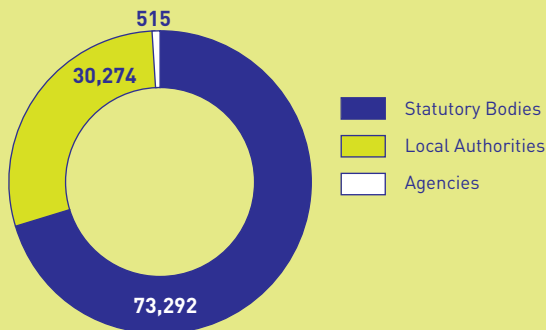
Pension Contributions

In accordance with the Statutory and Local Authorities Pensions Act 1980 (Act 239), it is mandatory for Statutory Bodies, Local Authorities and Agencies to contribute for their employees who have opted for the pensionable scheme, at the rate of 17.5% of the employees' monthly salary to KWAP. There were 475 employers contributing for 104,081 members to KWAP as at 31 December 2007.

Receipt of Contributions for the year 2007

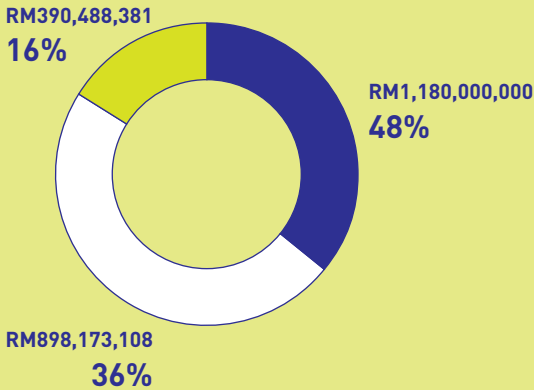


Total Employers as at 31 December 2007



Total members as at 31 December 2007

In 2007, KWAP received a total of RM2.47 billion representing annual contributions from the Government, Statutory Bodies, Local Authorities & Agencies and receipt of Government's share mainly from Employees' Provident Fund (EPF), Lembaga Tabung Angkatan Tentera (LTAT) and Teachers' Provident Fund (TPF).



Breakdown of Contributions for the year 2007

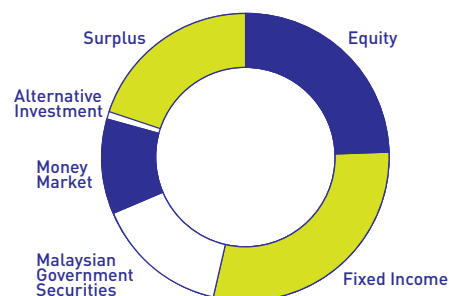
- Government Allocation
- Pension Contribution
- Refund of Government's Share

In the year 2007, the Contribution Department carried out compliance and enforcement visits to twenty (20) employers in the states of Sabah, Perak and Kelantan to ensure employers comply with the provisions of the Statutory and Local Authorities Pensions Act 1980 (Act 239).

Investment Performance

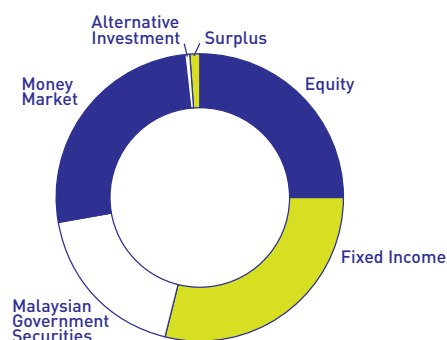
Investment Fund Size

KWAP's investment fund at cost grew by 12.61% from RM42.11 billion as at 1 March 2007 to RM47.42 billion as at 31 December 2007.



Asset Allocation as at 1 March 2007 (at cost)

	RM Million	%
Equity	10,869.16	25.81
Fixed Income	12,864.97	30.55
Malaysian Government Securities	6,392.01	15.18
Money Market	4,976.00	11.82
Alternative Investment	37.29	0.09
Surplus	6,968.87	16.55
Total	42,108.30	100.00



Asset Allocation as at 31 December 2007 (at cost)

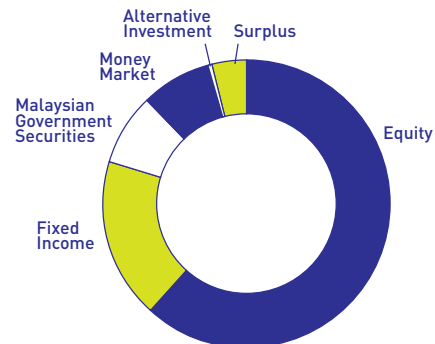
	RM Million	%
Equity	11,963.97	25.23
Fixed Income	13,655.74	28.80
Malaysian Government Securities	8,741.11	18.43
Money Market	12,482.00	26.32
Alternative Investment	60.23	0.13
Surplus	516.11	1.09
Total	47,419.16	100.00

Source of Fund

The total asset size increased from RM41.94 billion as at 1 March 2007 to RM48.13 billion as at 31 December 2007, an increase of 14.75%. The sources of fund for the period were from Government Contributions RM1.18 billion or 19.10%, Pension Contributions of RM1.28 billion or 20.70% and Net Income of RM3.72 billion or 60.20% of the total increase in fund size.

Gross Investment Income

During the ten-month (10) period between 1 March 2007 and 31 December 2007, KWAP achieved a gross investment income of RM3.75 billion. Return on Investment based on average cost was 8.37% or 10.04% on an annualized basis. A significant 58.78% of the income was a result of income realization from investments in quoted shares. Another 30.42% was derived from fixed income investments that include income from loans 9.92%, Malaysian Government Securities 7.34%, Money Market 7.26% and bonds 5.90%.



Gross Investment Income from 1 March 2007 to 31 December 2007

	RM Million	%
Equity	2,472.79	65.96
Fixed Income	592.99	15.82
Malaysian Government Securities	275.09	7.34
Money Market	272.20	7.26
Alternative Investment	5.58	0.15
Surplus	130.14	3.47
Total	3,748.79	100.00

CEO's Statement

Equity

As at 31 December 2007, KWAP's total equity exposure stood at RM11.96 billion or 25.22% of the total fund size of RM47.42 billion at cost. The fund remained domestic centric with 96.5% of equity exposure in quoted shares and the balance in unquoted shares. The equity portfolio performed commendably in 2007 due to the favorable domestic equity market. Total equity income for the period amounted to RM2.47 billion or 65.96% of KWAP's total gross income of RM3.75 billion.

- Quoted Shares

Investment in quoted shares at cost rose by 6.39% from RM10.85 billion to RM11.55 billion at the end of 2007.

Income from quoted shares for the period amounted to RM2.45 billion or 65.30% of the total income.

- Unquoted Shares

Investment in unquoted shares at cost increased from RM16.67 million at the beginning of the 10 month period to RM418.21 million by the end of 2007. Dividend income received from unquoted shares was RM22.67 million.

Fixed Income

- Bonds

As at end of 2007, KWAP's investment in bonds at cost comprised of RM2.46 billion in Private Debt Securities (PDS), RM3.25 billion in Islamic Debt Securities (IDS) and RM500.00 million in External Fund Managers. In 2007, total gross income derived from Bonds was RM221.25 million.

- Loans

On the loan portfolio, KWAP has disbursed a net total of RM261.8 million to Federal and State Governments, RM5.38 billion to Public Authorities and Corporations and RM1.80 billion to Corporate Entities. As at the end of 2007, the loan portfolio stood at RM7.44 billion contributing a gross income of RM371.74 million.

- Government Securities (MGS & GII)

During the period, KWAP invested a net total of RM2.35 billion at cost in Malaysian Government Securities (MGS) and Government Investment Issues (GII), bringing the total holdings in Government papers to RM8.74 billion at cost as at 31 December 2007. Gross investment income from MGS and GII amounted to RM275.09 million. The high holding of Government papers is in tandem with the total new issuance of MGS and GII in the primary market totalling RM53.0 billion in 2007.

- Money Market Instruments

As at 31 December 2007, KWAP's total investment in money market instruments comprising of Fixed Deposits, Short Term Placements, Bankers Acceptances (BA), Negotiable Instruments of Deposits (NID) and Negotiable Islamic Debt Certificates (NIDC) was RM12.48 billion. Total gross income derived from investments in money market instruments was RM272.20 million.

Alternative Investments

Private Equity Investments

KWAP has approved investments totalling RM214.50 million for domestic and foreign private equity investment funds, RM60.23 million of the total investments has been drawn down till 31 December 2007. The tenure of the funds ranges between 8 to 11 years with an option to extend for an additional 2 to 3 years.

For 2007, KWAP has invested RM26.33 million to four private equity investment funds. KWAP received distributions in the form of capital gains amounting to RM3.53 million, repayment of capital RM3.39 million and dividends of RM1.77 million.

Exchange Traded Fund

In 2007, KWAP invested in an Exchange Traded Fund and realized a profit of RM275,577.

Improvement Initiatives

Throughout the year 2007, several improvement initiatives were introduced by us towards creating a high performance organization as follows:

- Board Charter

Subsequent to the incorporation of KWAP on 1 March 2007, the Board approved KWAP's new Board Charter, revised Financial Procedures and Investment Policy & Guidelines. The Board Charter sets out the key corporate governance principles, including roles and responsibilities to be used as a guide by members of the Board, Investment Panel and Board's committee members of KWAP respectively.

- Financial Procedures

The Financial Procedures lay the procedures to be followed by our employees in carrying out their duties pertaining to the financial activities of KWAP.

- Investment Policy & Guidelines

The Investment Policy & Guidelines provide guidelines to our employees in handling matters pertaining to all investment activities of KWAP. An annual review of the Policy & Guidelines was conducted to ensure its relevance and updates were properly documented.

- Business Model

By the end of 2007, efforts were undertaken to engage consultants to study and propose a Business Model with the objective of charting the path to enable us to fulfill KWAP's objectives and also the Government's aspiration for KWAP.

- Balanced Scorecard

The Balanced Scorecard concept was introduced in 2007 as a performance measurement tool in determining the efficiency of resource utilisation towards achieving targets set as Key Performance Indicators (KPI).

Aspiration for 2008

The year 2008 is expected to be a more challenging year for us in achieving our income targets. Nevertheless, we shall continue to review our investment strategies in order to maintain sustainable returns on investments. In addition, we also plan to initiate further improvements internally in order to enhance the efficiency of our organization.

In line with KWAP's aspiration to become a socially responsible organisation, plans are afoot to develop and implement Corporate Social Responsibility (CSR) programs and activities.

I would like to take this opportunity to thank all staff members for their team work and dedication towards achieving KWAP's goal. I would also like to extend my appreciation to the Chairman, members of the Board and the Investment Panel for their guidance and effort in making 2007 a successful year for KWAP.

Statement of Corporate Governance

The Board of KWAP recognizes that the exercise of good corporate governance in conducting the affairs of KWAP with integrity, transparency and professionalism is a key component contributing to the organization's continued progress and success as this would not only safeguard and enhance stakeholder's investments and value but ensure the smooth running of its business.

KWAP acknowledges the important roles played by the Board members, the Investment Panel members, and the Management to formulate and determine KWAP's direction and operations. KWAP is led and managed by experienced and skillful Board members with varied background from the Government, Private Sector, Central Bank and Contributors' Representative, which are important for the overall strategic achievement of KWAP.

The Board

The Retirement Fund Act 2007 (Act 662) ("The Act"), stipulates that KWAP shall have a Board that shall be responsible for the administration and management of the organization whereby the Board shall have the power to perform its duties as imposed by the Act and to do all acts which may be exercised or done by KWAP.

The Board shall consist of the following members who shall be appointed by the Minister of Finance:-

- i) a Chairman who shall be the Secretary General of the Ministry of Finance;
- ii) a representative from the Central Bank of Malaysia;
- iii) a representative from the Ministry of Finance;
- iv) the Chief Executive Officer who shall be an ex-officio member;
- v) three (3) representatives of the Government of Malaysia;
- vi) three (3) other persons from the private sector with experience and expertise in business or finance; and
- vii) a person who, in the opinion of the Minister of Finance, shall fairly represent the contributors to the Fund other than the representatives of the Government of Malaysia.

The Chief Executive Officer of KWAP, as duly appointed by the Board with the approval of the Minister of Finance, shall be responsible for the day to day administration and management of the affairs of KWAP, the administrative control of the employees, including the implementation of the decisions made by the Board and the investment decisions made by the Investment Panel in accordance with the KWAP Act.

Main Duties and Responsibilities of the Board

The Board is established to administer and manage KWAP in such a manner as would further enhance the respective interests of the contributors as well as the stakeholders. The function of the Board is to formulate administration and management policies and procedure and to ensure that KWAP achieves its objectives with success and excellence.

The Board assumes a number of specific tasks such as overseeing the proper conduct of operations, identifying principle risk areas and ensuring the proper implementation of appropriate systems to manage these risks as well as reviewing the adequacy and integrity of the internal control systems as specified in the Act and the Board Charter.

Board's Accountabilities

The scope of the Board's accountabilities shall include making regulations as may be necessary and expedient for giving effect to the provisions in the Act, inter-alia:-

- i) to establish procedures with respect to financial and accounting matters, including keeping, closing and auditing of the accounts of KWAP and the creation of its own financial and accounting procedures;
- ii) to prescribe the responsibilities of the employees of KWAP including matters in respect of remuneration, terms and conditions of service, period of service and leave of its employees;
- iii) to establish appropriate disciplinary authorities with respect to the conduct and discipline of the employees of KWAP;

- iv) to establish committees and procedure of such committees;
- v) to regulate its internal procedures including procedures relating to operational matters;
- vi) to prescribe the manner in which documents, cheques and instruments of any description shall be signed or executed on behalf of KWAP;
- vii) to prescribe the circumstances of emergency as envisaged in the Act; and
- viii) to regulate its own procedures with respect to unclaimed moneys as prescribed in the Act.

The Investment Panel

The Retirement Fund Act 2007 (Act 662) also requires the establishment of an Investment Panel to provide strategic directions on investment matters. It determines and approves investment policy & guidelines, policies on risk management, asset allocation and strategic directions on investment.

The Investment Panel shall consist of the following members who shall be appointed by the Minister of Finance:-

- i) a Chairman who shall be the Chairman of the Board or such other person as may be appointed by the Minister of Finance;
- ii) a representative from the Central Bank of Malaysia;
- iii) a representative from the Ministry of Finance;
- iv) the Chief Executive Officer of KWAP who shall be the secretary; and
- v) three (3) other persons from the private sector with experience and expertise in business or finance.

Main Duties and Responsibilities of the Investment Panel

The Investment Panel is generally responsible to set out the investment policies and guidelines of KWAP to be approved by the Board. The Investment Panel is authorized to formulate the investment strategies in line with section 14 (1) of the Act. In executing its function, the Investment Panel shall report to the Board and shall act in accordance with the general policy that may be issued by the Board and approved by the Minister of Finance.

Appointment and Remuneration

Appointments of members to the Board and the Investment Panel are for a period not exceeding three years, and on the expiry thereof, be eligible for reappointment.

Subject to the approval of the Minister of Finance, the members of the Board and the Investment Panel shall be paid such remuneration as the Board may determine from time to time.

The Board and Investment Panel Meetings

The Retirement Fund Act 2007 (Act 662) requires the Board to meet quarterly to deliberate, review, evaluate policies and strategies, and monitor the performance of the Management. The Board met ten (10) times throughout 2007, including one (1) Special Board Meeting.

The Board considered and approved proposals pertaining to the administration and operations, policies, current and strategic issues, employment and approval of KWAP's financial statements.

All Board members are provided with the necessary information prior to every meeting to enable them to make sound judgment and right decision on proposals.

Members of the Board and the Investment Panel must declare any conflicts of interest by himself, a member of his family or his associate, facts and nature of his interest related to proposals tabled before the Board or Investment Panel as soon as possible and shall be recorded in the minutes of the meeting at which the declaration was made. The member shall not be present or take part in any discussion or vote upon any resolution or question relating to transactions where he has interest on which he has declared. The Investment Panel met once a month to deliberate and approve proposals with regard to investment. During the year 2007, nine (9) Investments Panel meetings were held.

Statement of Corporate Governance

The Investment Panel may invite any person not being a member of the Investment Panel to attend any of the meetings or deliberations for the purpose of advising the Investment Panel on any matter under discussion but that person shall have no right to vote at the said meeting or deliberation.

In circumstances where there is an immediate decision needed, and the secretary of the Board and Investment Panel is unable to convene a meeting, approval may be sought via circularization to all members of the Board or Investment Panel. However, decision via circularisation to all members requires unanimous approval which will be forwarded during the next Board or Investment Panel meeting for ratification.

A resolution in writing signed by all members of the Board or Investment Panel shall be valid and effectual as if it has been passed at the meeting of the Board or Investment Panel duly convened and held.

Details of members' attendance at meetings are as follows:

Board Meeting

Attendance of Board Members

Total number of meetings held was ten (10) inclusive of one (1) Special Board Meeting.

Name	Attendance
1. Y.Bhg. Dato' Sri Dr. Wan Abdul Aziz bin Wan Abdullah CHAIRMAN	10/10
Government Representatives	
2. Y.Bhg. Tan Sri Ismail bin Adam	5/10
3. Y.Bhg. Dato' Mohd Salleh bin Mahmud	6/10
4. Y.Bhg. Datuk Idrus bin Harun	8/10

Name	Attendance
------	------------

Ministry of Finance Representative

5. Y.Bhg. Dato' Ibrahim Mahaludin bin Puteh	9/10
---	------

Central Bank Representative

6. Y.Bhg. Dato' Muhammad bin Ibrahim (appointed w.e.f 15.5.2007)	6/7
---	-----

Private Sector Representative

7. Y.Bhg. Dato' V. Danapalan	9/10
8. Y.Bhg. Dato' Siow Kim Lun	10/10
9. Y.Bhg. Dato' Mohd Izzaddin bin Idris	5/10

Representative from Contributories to the Fund

10. Tuan Haji Omar bin Haji Osman EX-OFFICIO	9/10
11. Puan Azian binti Mohd Noh	10/10

Investment Panel Meeting

Attendance of Investment Panel Members

Total number of meetings held was nine (9) inclusive of one (1) Special Investment Panel Meeting.

Name	Attendance
------	------------

1. Y.Bhg. Dato' Sri Dr. Wan Abd Aziz bin Wan Abdullah CHAIRMAN	9/9
2. Y.Bhg. Datuk Amirsham bin A Aziz	5/9
3. Encik Cheah Tek Kuang	7/9
4. Cik Che Zakiah binti Che Din (appointed w.e.f 15.5.2007)	5/7
5. Y.M Tengku Dato' Azmil Zahrudin bin Raja Dato' Seri Abd Aziz	5/9
6. Puan Komalam a/p R. Kesawan (retired/complete term of service 30/11/2007)	8/8
7. Puan Azian Mohd Noh SECRETARY	9/9

Financial Statement

Auditor General Certification on Retirement Fund (Incorporated) Financial Statements for the Year Ended 31 December 2007	88
Statement by the Chairman and a Member of the Board of Directors of Retirement Fund (Incorporated)	89
Declaration by the Officer Primarily Responsible for the Financial Management of Retirement Fund (Incorporated)	90
Balance Sheet	91
Income Statement	92
Statement of Changes in Reserves	92
Cash Flow Statement	93
Notes to the Financial Statements	95



AUDITOR GENERAL CERTIFICATION ON
RETIREMENT FUND (INCORPORATED)
FINANCIAL STATEMENTS FOR
THE YEAR ENDED 31 DECEMBER 2007

Our representatives have audited the Retirement Fund (Incorporated) Financial Statements for the year ended 31 December 2007. These Financial Statements are the responsibility of the management. My responsibility is to express an opinion on these Financial Statements based on the audit conducted.

2. The audit has been conducted in accordance with Audit Act 1957 and pursuant to approved auditing standards. The standards require that the audit be planned and performed to obtain reasonable assurance, about whether the Financial Statements are free of material misstatement or loss. An audit includes examining records on a test basis, evidence supporting the amount and assuring adequate disclosure in the Financial Statements. It also includes assesment of accounting principles used, and the overall Financial Statements presentations.

3. In my opinion, the Financial Statements give a true and fair view of financial affairs of the Retirement Fund (Incorporated) as at 31 December 2007, its opening results and cash flow for the year based on approved accounting standards.

Signed

(TAN SRI DATO' SETIA HAJI AMBRIN BIN BUANG)
AUDITOR-GENERAL
MALAYSIA

PUTRAJAYA
26 MARCH 2008



Statement by the Chairman and a Member of the Board of Directors of Retirement Fund (Incorporated)

We, **Dato' Sri Wan Abdul Aziz Bin Wan Abdullah** and **Tan Sri Ismail Bin Adam** who are the Chairman and one of the members of the Board of Directors of Retirement Fund (Incorporated), respectively, hereby state that, in the opinion of the Board of Directors, the Financial Statements, which consists of the following Balance Sheet, Income Statement, Statement of Changes in Reserve and Cash Flow Statement together with the notes to Financial Statements therein, were prepared to give a true and fair view of the state of affairs of Retirement Fund (Incorporated) as at 31 December 2007 and of its operations results and the changes of its financial position for the period of ten months ended on the date.

On behalf of the Board,



Name : **Dato' Sri Wan Abdul Aziz Bin Wan Abdullah**

Position : Chairman of the Board

Date : 20 Feb 2008

Place : Putrajaya

On behalf of the Board,



Name : **Tan Sri Ismail Bin Adam**

Position : Member of the Board

Date : 20 Feb 2008

Place : Putrajaya

Declaration by the Officer Primarily Responsible for the Financial Management of Retirement Fund (Incorporated) 2007

I, **Azian Binti Mohd Noh**, the officer who is primarily responsible for the management of financial and accounting records of Retirement Fund (Incorporated), hereby solemnly declare that the following Financial Statements, which consists of the Balance Sheet, Income Statement, Statement of Changes in Reserve and Cash Flow Statement together with the notes to Financial Statements therein are, in my best knowledge and I conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly
declared by the abovenamed
at Kuala Lumpur
on 20 Feb 2008



.....
In front of me,



.....
COMMISSIONER FOR OATHS

Balance Sheet

as at 31 December 2007

	Note	2007 (RM)
Assets		
Property, plant and equipment	3	8,177,085
Investments	4	33,963,069,900
		33,971,246,985
Current Assets		
Trade debtors	5	814,592,233
Other debtors	6	352,608,260
Deposits & prepayments	7	1,102,960
Short term investments	8	5,576,004,282
Fixed deposits	9	6,906,000,000
Cash and bank balances	10	516,116,939
		14,166,424,674
Current Liabilities		
Trade creditors	11	2,572,477
Other creditors	12	1,682,210
Accrued expenditure	13	6,616,458
Finance creditors	14	26,693
		10,897,838
Net Current Assets		14,155,526,836
		48,126,773,821
Financed by:		
Contributions from Federal Government	15	14,356,944,312
Pensions contribution	16	22,322,188,237
Reserves		11,438,690,101
		48,117,822,650
Long Term Liabilities		
Finance creditors	14	774,086
Deferred income	17	8,177,085
		48,126,773,821

The notes on pages 95 to 108 form an integral part of these financial statements.

Income Statement

for the period from 1 March 2007 to 31 December 2007

	Note	01 Mar 2007 - 31 Dec 2007 (RM)
Income	19	3,767,663,558
		3,767,663,558
Emoluments	20	(6,824,505)
Services and supplies	20	(10,927,656)
Depreciation / Amortisation of investments	20	(29,445,415)
Allowance for diminution in value of investments	20	(866,604)
Surplus on income before taxation		3,719,599,378
Taxation	2.7	-
Net surplus for current year after taxation		3,719,599,378
Accumulated surplus brought forward		7,719,090,723
Accumulated surplus carried forward		11,438,690,101

Statement of Changes in Reserves

for the period from 1 March 2007 to 31 December 2007

	Accumulated Surplus 01 Mar 2007 - 31 Dec 2007 (RM)
Accumulated surplus brought forward	7,719,090,723
Net surplus for the current year after taxation	3,719,599,378
Accumulated Surplus Carried Forward	11,438,690,101

The notes on pages 95 to 108 form an integral part of these financial statements.

Cash Flow Statement

for the period from 1 March 2007 to 31 December 2007

	Note	2007 (RM)
Cash Flow from Operating Activities		
Receipt of Launching Grant		12,000,000
Cash Receipts from Customers & Employees		2,406,538
Cash Payment to Suppliers & Employees		(11,925,311)
Net Cash from Operating Activities		2,481,227
Cash Flow from Investment Activities		
Receipts:		
Gain from Stock Market		1,350,673,071
Stock Market Dividends		404,625,969
Tax Claim on Dividends		542,813
Interest from Loans		378,664,100
Gain on Disposal of Bonds		1,545,800
Bond Interests		153,634,559
Bond Dividends		12,958,400
Fixed Deposit Interests		168,760,834
Short Term Money Market Interests		63,693,825
Malaysian Government Securities Interests		203,040,721
Money Market Current Account Interests		129,952,822
Bank's Current Accounts Interests		84,994
Infrastructure Fund Income		4,294,835
CMREF 1 Fund Income		999,875
Lombard Fund Income		5,002
Others		2
Payments:		
Quoted Shares		(508,986,491)
Unquoted Shares		(401,536,030)
Fund Managers		(550,000,000)
Loans		879,927,144
Malaysian Government Securities		(2,349,099,000)
Bonds		(1,320,698,966)
Malaysian Government Securities Advances		(981,332)
Private Equity Funds		(22,938,734)
Acquisition of Fixed Assets		(6,533,607)
Net Cash from Investment Activities		(1,407,369,394)

The notes on pages 95 to 108 form an integral part of these financial statements.

Cash Flow Statement
for the period from 1 March 2007 to 31 December 2007

cont'd

	Note	2007 (RM)
Cash Flow from Financing Activities		
Receipt of Federal Government Contributions		1,180,000,000
Receipt of Pension Contribution		1,278,140,644
Net Cash from Financing Activities		2,458,140,644
Net Increase in Cash		
		1,053,252,477
Cash and Cash Equivalents at Beginning of the period		11,944,868,744
Cash and Cash Equivalents at end of the period	18	12,998,121,221

The notes on pages 95 to 108 form an integral part of these financial statements.

Notes to the Financial Statements

31 December 2007

1 PRINCIPAL ACTIVITY

The Retirement Fund (Incorporated) [KWAP] was established on 1 March 2007 under the Retirement Fund Act 2007 (Act 662) with a launching grant of RM27 million from the Federal Government. KWAP is responsible for managing funds received from three main sources i.e. contributions from the Federal Government, contributions from statutory bodies and local governments, and investment income. In order to generate income, funds were invested in shares, loans, bonds, money market instruments, real estate and other investments approved by the Investment Panel. KWAP's objective is to manage the funds to achieve optimum returns on investments so as to assist the Federal Government to meet the increasing pension liabilities.

2 ACCOUNTING POLICIES

2.1 BASIS OF ACCOUNTING

Financial statements of KWAP were prepared in compliance with:

- (i) Historical cost convention, except otherwise stated in other accounting policies.
- (ii) Accounting standards currently in force.

2.2 PROPERTY, PLANT & EQUIPMENT AND DEPRECIATION

Property, plant and equipment are stated at cost less provisions for depreciation using the straight line method and based on the estimated useful lives of the assets.

Depreciation rates for property, plant and equipment are as follows:

(i) Building Renovation	16.67%
(ii) Furniture	15%
(iii) Office Equipment	15%
(iv) Computers	20%
(v) Computer Software	20%
(vi) Vehicles	20%

Net residual value and life span of assets in use are revised and adjusted if necessary at the Balance Sheet date. At each Balance Sheet date, KWAP has to evaluate for any indication of impairment. If there is any indication of impairment, KWAP has to analyse to determine if the carrying value of the assets are fully recovered. Loss from impairment is provided if the carrying value exceeds the recoverable value as stated in Note 2.3.

2.3 IMPAIRMENT OF ASSETS

Assets with indefinite useful life are not subject to amortisation but tested for impairment annually. Assets subjected to amortisation will be revised for impairment when events or changes in circumstances show that the carrying value is unlikely to be recoverable.

Loss from impairment is recognized when carrying value of the assets exceeds the recoverable value. Recoverable value is the higher of fair value of the assets less sales costs or value in use.

2 ACCOUNTING POLICIES cont'd

2.3 IMPAIRMENT OF ASSETS cont'd

For the purpose of evaluating impairment, assets are grouped at the lowest level where cash flow is identifiable separately.

Loss from impairment is charged to Income Statement. For other assets, if there is any increment in the amount of recoverable value, it will be recognized in the income statement, unless there is reversible loss from impairment over asset revaluation where it will be accounted for in the Revaluation Surplus.

2.4 INVESTMENTS

Allowance for diminution in value for investments in quoted shares, except for fund manager portfolios are as follows:

(i) Disclosure of the Value of Investments in Quoted Shares in Financial Statements

Investments in quoted shares must be disclosed in Financial Statements at the lower of cost or market value, based on individual counters at each financial year end on 31 December. Cost value is determined based on net purchase value of shares. Market value on the other hand is based on the closing price of shares as at Balance Sheet date, i.e 31 December.

(ii) Determination of Allowance for Diminution in Value

Unrealized allowance for diminution in value on individual counters is determined and provided at 100% each year over the unrealized amount of loss at the date of the financial year end. If the market price of investments in quoted shares is lower than the cost of investments in the quoted shares, unrealized loss is measured as the difference between the cost and the closing market price of the share at each year end on 31 December.

Book value of quoted shares will be written down through allowance for diminution in value accounts. The unrealizable loss will be fully charged to Income Statement for the year.

If in the following year the shares are sold or the market price of the share is higher than cost, the unrealized loss will be adjusted as income. Amount of readjustment as income is limited to the balance of diminution in value allowance provided (write-back to Income Statement).

(iii) Accounting for Sale of Investments in Quoted Share

The difference between net disposal proceeds and the carrying amount of the investment in Financial Statements is charged / credited to the Income Statement for the year.

2 ACCOUNTING POLICIES cont'd

2.5 PENSION CONTRIBUTIONS

Pension contributions are accounted for when the contributions are received.

2.6 RECOGNITION OF INCOME

Income is accounted for based on the accrual principle.

2.7 TAXATION

KWAP is exempted from income tax as provided under section 127(3A) Income Tax Act 1967.

2.8 FINANCIAL LEASE

Assets acquired under financial lease agreements are capitalised at purchase cost and depreciated on the same basis as owned assets. Total outstanding amount under the financial lease agreements is accounted for as financial lease creditors.

2.9 CASH AND CASH EQUIVALENTS

Cash equivalents are short term and highly liquid items with maturity of within 1 year from the date of holding and readily convertible into cash with low risks of changes in value.

Cash and cash equivalents comprise of cash balance in hand and in banks, as well as deposits with licensed financial institutions which are not used as collaterals.

2.10 EMPLOYEE BENEFITS

Short term benefits

Wages, salaries, bonuses and social security contributions are accounted for as expenditure in the year in which employee services are rendered. Short term accumulating compensated absences such as paid annual leave will be accounted for when employees render services that increase their entitlement to future compensated absences in the future. Short term non accumulating compensated absences such as sick leave will be accounted for when the absences occur.

Defined contribution plans

As required by law, KWAP made contributions to Employees Provident Fund (EPF) and Social Security Organisation (SOCSO).

2 ACCOUNTING POLICIES cont'd

2.11 OBJECTIVES AND POLICIES OF FINANCIAL RISK MANAGEMENT

KWAP is exposed to various financial risks including credit risks, liquidity risks and cash flow risks. Generally, the objectives and policies of financial risk management are aimed at maximizing returns to KWAP.

Financial Risks

Financial risk management is carried out by reviewing the risks, internal control systems and compliance to financial management. Board of Directors are continuously reviewing and monitoring these risks.

Credit Risks

KWAP ensures credit risks are under control by continuously monitoring the financial position and credit performance of counter parties.

Liquidity and Cash Flow Risks

KWAP manages its liquidity and cash flow risks by ensuring that cash is sufficient at all times and providing sufficient funds to meet the projected commitment for the operating expenses and financial liabilities.

2.12 GOVERNMENT GRANT

Government grant related to purchase of assets is classified under non current liabilities as deferred income and will be credited to the Financial Statements on the straight line method based on estimated useful life of the assets.

3 PROPERTY, PLANT AND EQUIPMENT

	As at 01 Mar 2007 (RM)	Additions (RM)	Disposals (RM)	As at 31 Dec 2007 (RM)
Cost				
Building Renovation	–	4,342,874	–	4,342,874
Furniture	–	1,409,855	–	1,409,855
Office Equipment	–	570,148	–	570,148
Computers	–	2,075,399	–	2,075,399
Computer Software	–	207,652	–	207,652
Vehicles	–	146,808	–	146,808
	–	8,752,736	–	8,752,736

3 PROPERTY, PLANT AND EQUIPMENT cont'd

	As at 01 Mar 2007 (RM)	Additions (RM)	Disposals (RM)	As at 31 Dec 2007 (RM)
Accumulated Depreciation				
Building Renovation	–	322,966	–	322,966
Furniture	–	117,361	–	117,361
Office Equipment	–	17,450	–	17,450
Computers	–	96,486	–	96,486
Computer Software	–	2,386	–	2,386
Vehicles	–	19,002	–	19,002
	–	575,651	–	575,651
Net Book Value	–	8,177,085	–	8,177,085

Net book value of property, plant and equipment under the financial lease amounts to RM825,692 as at 31 December 2007.

4 INVESTMENTS

Summary of KWAP's Investments is as follows:

2007

	Cost (RM)	Net Book Value (RM)
4.1 Quoted Shares (Shares Quoted on Bursa Malaysia)	10,131,075,712	9,594,645,624
4.2 Unquoted Shares	418,205,830	418,205,830
4.3 Malaysian Government Securities	8,741,112,171	8,676,503,618
4.4 Fund Managers - Equity	1,414,686,027	1,414,686,027
4.5 Fund Managers - Bond	500,000,000	500,000,000
4.6 Participation in Private Equity Fund	60,225,004	60,225,004
4.7 Loans	7,443,048,363	7,443,048,363
4.8 Corporate Bonds	5,712,690,230	5,855,755,434
	34,421,043,337	33,963,069,900

4 INVESTMENTS cont'd**4.1 Quoted Shares (Shares Quoted on Bursa Malaysia)**

Investments by KWAP in quoted shares are categorized by the following portfolios:

2007

	Cost (RM)	Market Value (RM)	Impairment Allowances (RM)	Net Book Value (RM)
(i) Pegangan Khas	3,322,975,681	3,296,886,955	462,440,526	2,860,535,155
(ii) Utama	6,741,176,829	8,735,936,031	73,122,958	6,668,053,871
(iii) Trading KWAP	66,923,202	67,126,857	866,604	66,056,598
Total	10,131,075,712	12,099,949,843	536,430,088	9,594,645,624

4.2 Unquoted Share

Investments in ordinary shares are as follows:

2007

Company Name	Cost (RM)	Net Book Value (RM)
ValueCap Sdn Bhd	16,669,800	16,669,800
Malakoff	401,536,030	401,536,030
Total	418,205,830	418,205,830

4.3 Malaysian Government Securities

Investments by KWAP in Malaysian Government Securities (MGS) are as follows:

2007

	Cost (RM)	Market Value (RM)	Accretion of Discount & Attrition of Premium (RM)	Net Book Value (RM)
MGS	8,741,112,171	8,880,272,586	[64,608,553]	8,676,503,618
Total	8,741,112,171	8,880,272,586	[64,608,553]	8,676,503,618

4 INVESTMENTS cont'd**4.4 Fund Managers - Equity**

KWAP has appointed six (6) fund management companies to manage its investment portfolios. The total investment cost and market value are as follows:

2007

	Cost (RM)	Market Value (RM)
Fund Managers - Equity	1,414,686,027	1,944,487,833

4.5 Fund Managers - Bond

KWAP has appointed two (2) fund management companies to manage its investment portfolios. The total investment cost and market value are as follows:

2007

	Cost (RM)	Market Value (RM)
Fund Managers - Bond	500,000,000	512,738,691

4.6 Participation in Private Equity Fund

The investments are as follows:

2007

	Commitment (RM)	Investment (Cost) (RM)
IDB Fund	24,500,000	17,747,187
CMREF 1 Fund	50,000,000	18,749,875
Actis ASEAN Fund LP	35,000,000	11,594,717
Lombard Asia III Fund	105,000,000	12,133,225
Total	214,500,000	60,225,004

4 INVESTMENTS cont'd**4.7 Loans**

KWAP has extended loans to Government agencies and the corporate sector. Total loans given are as follows:

	2007 (RM)
(i) Local Authorities & Public Corporations	5,381,161,459
(ii) State Governments	261,886,904
(iii) Corporate Loans	1,800,000,000
Total	7,443,048,363

4.8 Corporate Bonds

KWAP has subscribed to the following corporate bonds:

2007

	Cost (RM)	Market Value (RM)	Accretion of Discount & Attrition of Premium (RM)	Net Book Value (RM)
Corporate Bonds	5,712,690,230	5,934,656,824	143,065,204	5,855,755,434
Total	5,712,690,230	5,934,656,824	143,065,204	5,855,755,434

5 TRADE DEBTORS

Receivable accounts as at 31 December 2007 are as follows:

	2007 (RM)
Interest on Fixed Deposit	118,515,934
Interest on Malaysian Government Securities	121,047,209
Interest on Short Term Money Market	10,374,949
Interest on Loans	90,504,884
Interest on Corporate Bonds	58,066,254
Income from Equity Fund Managers	313,114,572
Income from Bond Fund Managers	15,841,465
Income from Disposal of Shares	48,492,184
Dividend Income	31,380,732
Meridian Asset Management Sdn Bhd	7,254,050
Total	814,592,233

6 OTHER DEBTORS

	2007 (RM)
Income Tax Receivable	342,218,844
Launching Grant Receivable	10,000,000
Miscellaneous	389,416
Total	352,608,260

7 DEPOSITS, PREPAYMENTS AND ADVANCES

	2007 (RM)
Interests on Malaysian Government Securities	981,332
Other Advances	5,260
Other Deposits	61,032
Other Prepayments	55,336
Total	1,102,960

The maturity structure of Deposits, Prepayments and Advances are as follows:

	2007 (RM)
Matures within 12 months	1,102,960
Matures in 12 months and above	–
	1,102,960

8 SHORT TERM INVESTMENTS

KWAP made placements in short term deposits with maturity periods of not more than 12 months as follows:

	2007 (RM)
Stated at Cost	5,576,004,282
Market Value	5,576,004,282

9 FIXED DEPOSITS

Investments in fixed deposits in financial institutions approved by the Treasury of Malaysia with maturity periods of not more than 12 months are as follows:

	2007 (RM)
Stated at Cost	6,906,000,000
Market Value	6,906,000,000

10 CASH AND BANK BALANCES

	2007 (RM)
Cash and Bank Balances	48,826,164
Money Market Accounts – Bank Negara Malaysia	467,290,775
Total	516,116,939

11 TRADE CREDITORS

	2007 (RM)
Fund Managers' Fees	977,978
Stock Brokers	1,594,499
Total	2,572,477

12 OTHER CREDITORS

	2007 (RM)
Suppliers	1,653,363
Employees	5,871
Board of Directors & Investments Panel Allowances	22,000
Employer Contribution Repayment Claims	976
Total	1,682,210

13 ACCRUED EXPENDITURE

	2007 (RM)
Provision for Bonus	2,314,686
Provision for Sports & Recreational Club (KWAP)	21,474
Provision for Employer's EPF Contribution	405,070
Provision for Services	103,500
Repayment to JANM	163,962
Provision for Fund Managers' Fees	3,607,766
Total	6,616,458

14 FINANCIAL CREDITORS

	2007 (RM)
Short term creditors	26,693
Long term creditors	774,086
Total	800,779

15 GOVERNMENT ALLOCATION

In accordance with Section 13, Retirement Fund Act 2007 (Act 662), The Federal Government provides an annual allocation to KWAP. Amount of allocation received is as follows:

	2007 (RM)
Balance At Beginning of Year	13,176,944,312
Add:	
Allocation for Current Year	1,180,000,000
Balance At End of Year	14,356,944,312

16 PENSION CONTRIBUTIONS

- (i) KWAP receives a monthly pension contributions for permanent employees with pensionable status from their respective employers such as Statutory Bodies, Local Authorities and agencies where the officers are seconded. Contributions made are based on 17.5% of their fixed monthly salary of the employees.

	Accumulated Contribution 01 Mar 2007 (RM)	Receipts 2007 (RM)	Balance 31 Dec 2007 (RM)
Statutory Bodies	3,489,207,048	311,161,685	3,800,368,733
Local Authorities	923,945,905	76,219,405	1,000,165,310
Seconded Officers	48,241,339	3,107,291	51,348,630
	4,461,394,292	390,488,381	4,851,882,673
Less:			
Repayment of Claims	(1,906,945)	(91,240)	(1,998,185)
Total	4,459,487,347	390,397,141	4,849,884,488

- (ii) Contributions of Government's share, gratuities and other deductions submitted to KWAP when retired public officers make withdrawals under the Withdrawal Scheme for Pensionable Employees and Pension Withdrawal Scheme are as follows:

	Accumulated Contribution 01 Mar 2007 (RM)	Receipts 2007 (RM)	Balance 31 Dec 2007 (RM)
KWSP	12,971,409,103	695,960,982	13,667,370,085
KWSG	142,402,294	2,365,024	144,767,318
KWSG - Sabah	12,479,365	–	12,479,365
LTAT	2,840,092,343	146,526,207	2,986,618,550
SESCO	45,309,082	–	45,309,082
JPA - Gratuities	591,940,487	39,699,073	631,639,560
Others	12,849,492	13,621,822	26,471,314
	16,616,482,166	898,173,108	17,514,655,274
Less:			
Repayment of Claims	(32,886,632)	(9,464,893)	(42,351,525)
Total	16,583,595,534	888,708,215	17,472,303,749

17 DEFERRED INCOME
GOVERNMENT GRANT RELATING TO ASSETS

	2007 (RM)
Deferred Income	8,752,736
Less: Amortisation of Deferred Income	575,651
Deferred Income after Amortisation	8,177,085

Launching grant approved by the Treasury was RM27,000,000 and was used for the following purposes:

	2007 (RM)
Acquisition of Fixed Assets	8,752,736
Operating Expenditure	18,247,264
Total	27,000,000

18 CASH AND CASH EQUIVALENTS

Cash and cash equivalents accounted for in the Cash Flow Statement are inclusive of items and amounts reported in balance sheet as follows:

	Note	2007 (RM)
Short Term Investments with Financial Institutions	8	5,576,004,282
Fixed Deposits with Financial Institutions	9	6,906,000,000
Cash and Bank Balances	10	516,116,939
Total		12,998,121,221

19 INCOME

Income comprises revenue from operating and investment activities and write back of diminution in value allowance on investments and proceeds of penalties imposed on borrowers and employers who were late in remitting their contribution payments. Income received for the period from 1 March 2007 until 31 March 2007 is as follows:

	01 Mar 2007 - 31 Dec 2007 (RM)
Interest of Deposits	272,199,126
Interest on Bank Balances	130,037,816
Interest on Loan	369,484,301
Interest on Malaysia Government Securities	274,993,532
Write Back of Diminution in Value Allowances	233,143,673
Accretion of Investment Discount	22,006,454
Interest and Dividends on Bonds	189,506,081
Profit on Sale of Bonds	151,357
Gain on Disposal of Shares	1,381,854,621
Share Dividends	436,006,700
Income from Fund Managers	297,747,608
Tax Claim on Dividends	134,003,122
Income / Capital Gain from Private Equity Fund Investment	5,299,712
Amortisation of Deferred Income	575,651
Launching Grant	18,247,264
Other Income	2,406,540
Total	3,767,663,558

20 EXPENDITURE

Expenditure comprise of service expenses, management of KWAP's investments and funds. Expenditure for the period from 1 March 2007 until 31 December 2007 is as follows:

	01 Mar 2007 - 31 Dec 2007 (RM)
Emoluments	6,824,505
Supply and Services	10,927,656
Depreciation and Amortisation of Investments	29,445,415
Allowance for Diminution in Value of Investments	866,604
Total	48,064,180

Total number of KWAP's employees stood at 93 in 2007.

21 COMPARATIVE INFORMATION

Comparative information is not provided as this is KWAP's first Annual Report.

Kumpulan Wang Persaraan (Diperbadankan)

Level 6, Menara Yayasan Tun Razak
200 Jalan Bukit Bintang
55100 Kuala Lumpur
Malaysia
T 603 - 2174 8000
F 603 - 2163 2050