

ALJAZIRA JAPANESE EQUITIES FUND
Open-Ended Mutual Fund
(Managed by Aljazira Capital Company)
Financial Statements
Together with the
Independent Auditor's Report
For the year ended 31 December 2023

ALJAZIRA JAPANESE EQUITIES FUND
Open-Ended Mutual Fund
(Managed by Aljazira Capital Company)

Financial statements for the year ended 31 December 2023

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INDEPENDENT AUDITOR'S REPORT

TO THE UNITHOLDERS OF ALJAZIRA JAPANESE EQUITIES FUND
[MANAGED BY ALJAZIRA CAPITAL COMPANY]

(1 /3)

RIYADH, KINGDOM OF SAUDI ARABIA
REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the AlJazira Japanese Equities Fund (the "Fund") managed by AlJazira capital company (the "Fund Manager") as at 31 December 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Chartered and Professional Accountants (SOCPA).

We have audited the financial statements of the Fund, which comprise of the following:

- The statement of financial position as at 31 December 2023;
- The statement of comprehensive income / (loss) for the year then ended;
- The statement of Changes in net assets (Equity) attributable to the unitsholders for the year then ended;
- The statement of cash flows for the year then ended, and;
- The notes to the financial statements, comprising summary of material accounting policies.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the code of professional conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the Fund's financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA and the Fund's Term's and conditions and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations or has no realistic alternative but to do so.

Those charged with governance, are responsible for overseeing the Fund's financial reporting process.

INDEPENDENT AUDITOR'S REPORT

TO THE UNITHOLDERS OF ALJAZIRA JAPANESE EQUITIES FUND
[MANAGED BY ALJAZIRA CAPITAL COMPANY]

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RIYADH, KINGDOM OF SAUDI ARABIA
REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's 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 International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia 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 International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risk of material misstatement of the financial statements, 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 Fund's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures by the management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists, related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that the material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern; and
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

INDEPENDENT AUDITOR'S REPORT

TO THE UNITHOLDERS OF ALJAZIRA JAPANESE EQUITIES FUND
[MANAGED BY ALJAZIRA CAPITAL COMPANY]

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RIYADH, KINGDOM OF SAUDI ARABIA
REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (continued)

We communicate with those charged with governance 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.

For Al-Bassam & Co.



Ahmed A. Mohandis
Certified Public Accountant
License No. 477
Riyadh: 14 Ramadan 1445 H
Corresponding to: 24 March 2024 G

RIYADH

Tel. +966 11 206 5333 | P.O Box 69658
Fax +966 11 206 5444 | Riyadh 11557

JEDDAH

Tel. +966 12 652 5333 | P.O Box 15651
Fax +966 12 652 2894 | Jeddah 21454

AL KHOBAR

Tel. +966 13 893 3378 | P.O Box 4636
Fax +966 13 893 3349 | Al Khobar 31952

ALJAZIRA JAPANESE EQUITIES FUND

Open-Ended Mutual Fund

(Managed by Aljazira Capital Company)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

(Amounts in United States Dollars)

	Notes	31 December 2023	31 December 2022
<u>ASSETS</u>			
Cash and cash equivalents	5	1,164,625	1,044,445
Investments carried at fair value through profit or loss (FVTPL)	6	50,547,316	45,165,600
Receivable against sale of investments		-	114,658
Dividend receivable		40,656	26,874
TOTAL ASSETS		51,752,597	46,351,577
<u>LIABILITIES</u>			
Management fee payable	7	211,696	396,826
Payable to Unitholders on account of redemption		28,409	-
Accrued expenses and other liabilities		185,604	116,612
TOTAL LIABILITIES		425,709	513,438
NET ASSETS (EQUITY) ATTRIBUTABLE TO THE UNITHOLDERS		51,326,888	45,838,139
Units in issue (in numbers)	8	249,529	268,619
Net Asset (Equity) Value per unit		205.70	170.64

The accompanying notes 1 to 15 form an integral part of these financial statements.

ALJAZIRA JAPANESE EQUITIES FUND

Open-Ended Mutual Fund

(Managed by Aljazira Capital Company)

STATEMENT OF COMPREHENSIVE INCOME / (LOSS)

For the year ended 31 December 2023

(Amounts in United States Dollars)

	<u>Notes</u>	<u>31 December 2023</u>	<u>31 December 2022</u>
<u>Income / (loss)</u>			
Net gain / (loss) from investments carried at FVTPL	9	10,134,526	(22,221,686)
Dividend income		645,264	697,763
Other income		-	19,260
		<u>10,779,790</u>	<u>(21,504,663)</u>
<u>Expenses</u>			
Management fees	7	856,680	922,269
Performance fee		713,054	-
Custody fees		13,873	14,982
Other expenses		52,613	378,523
		<u>1,636,220</u>	<u>1,315,774</u>
Net income / loss for the year		<u>9,143,570</u>	<u>(22,820,437)</u>
Other comprehensive income for the year		-	-
Total comprehensive income / (loss) for the year		<u>9,143,570</u>	<u>(22,820,437)</u>

The accompanying notes 1 to 15 form an integral part of these financial statements.

ALJAZIRA JAPANESE EQUITIES FUND

Open-Ended Mutual Fund

(Managed by Aljazira Capital Company)

STATEMENT OF CHANGES IN NET ASSETS (EQUITY) ATTRIBUTABLE TO THE UNITHOLDERS

For the year ended 31 December 2023

(Amounts in United States Dollars)

	31 December 2023	31 December 2022
Net assets (Equity) attributable to the Unitholders at beginning of the year	45,838,139	83,013,910
Total comprehensive income / (loss) for the year	9,143,570	(22,820,437)
Contributions and redemptions by the Unitholders		
Issuance of units	3,218,171	4,650,526
Redemption of units	(6,872,992)	(19,005,860)
Net changes from unit transactions	(3,654,821)	(14,355,334)
Net assets (Equity) attributable to the Unitholders at end of the year	51,326,888	45,838,139

The accompanying notes 1 to 15 form an integral part of these financial statements.

ALJAZIRA JAPANESE EQUITIES FUND

Open-Ended Mutual Fund

(Managed by Aljazira Capital Company)

STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

(Amounts in United States Dollars)

	<u>Notes</u>	<u>31 December 2023</u>	<u>31 December 2022</u>
<u>Cash flows from operating activities:</u>			
Net income / (loss) for the year		9,143,570	(22,820,437)
Adjustments for:			
- Unrealized (gain) / loss from investments carried at FVTPL	9	(7,762,268)	25,596,767
		<u>1,381,302</u>	<u>2,776,330</u>
<u>Net changes in operating assets and liabilities:</u>			
Investments carried at FVTPL		2,380,552	10,704,300
Receivable against sale of investments		114,658	181,007
Dividend receivable		(13,782)	(26,874)
Management fee payable		(185,130)	18,569
Accrued expenses and other liabilities		68,992	(49,807)
Net cash generated from operating activities		<u>3,746,592</u>	<u>13,603,525</u>
<u>Cash flows from financing activities:</u>			
Proceeds from issuance of units		3,218,171	4,650,526
Redemption of units, net off redemption payable *		(6,844,583)	(19,005,860)
Net cash used in financing activities		<u>(3,626,412)</u>	<u>(14,355,334)</u>
Net increase / (decrease) in cash and cash equivalents		120,180	(751,809)
Cash and cash equivalents at beginning of the year	5	<u>1,044,445</u>	<u>1,796,254</u>
Cash and cash equivalents at end of the year	5	<u>1,164,625</u>	<u>1,044,445</u>

* Supplementary information

Redemption payable 28,409

The accompanying notes 1 to 15 form an integral part of these financial statements.

ALJAZIRA JAPANESE EQUITIES FUND

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

(Amounts in United States Dollars)

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Aljazira Japanese Equities Fund (the “Fund”) is an open-ended, Japanese investment fund established and managed through an agreement between Aljazira Capital Company - a Saudi Closed Joint Stock Company (the “Fund Manager”) and the investors (the “Unitholders”). The Fund Manager is a wholly owned subsidiary of Bank Aljazira (the “Bank”). The Capital Market Authority (“CMA”) approval to continue issuing units to public was granted through its letter no 7720/5 dated 12 Muharram 1431H (corresponding to 29 December 2009). The Fund commenced its operations on 17 April 2000.

The Fund operates under the terms and conditions contained in its prospectus with the prime objective of providing the investors with the opportunities to invest in Shariah compliant equities, issued and traded in Japan and invest in other Funds. The Fund’s net income is re-invested in the Fund, which is reflected in the net assets attributable to each unit.

The Fund is administered by Northern Trust (the “Administrator”). The Fund’s assets are held in the custody of Northern Trust Securities (the “Custodian”). Nomura Islamic Asset Management SDN BHD act as a Sub Manager to the Fund. Fee paid to the Sub Manager is borne by the Fund Manager.

The Fund is governed by the Investment Fund Regulations (the “Regulations”) published by CMA on 3 Dhul Hijja 1427H (corresponding to 24 December 2006) thereafter amended on 16 Sha’ban 1437H (corresponding to 23 May 2016). The regulation was further amended (the “Amended Regulations”) on 17 Rajab 1442H (corresponding to 1 March 2021) detailing requirements for all funds within the Kingdom of Saudi Arabia. The Amended Regulations have effective dates starting from 19 Ramadan 1442H (corresponding to 1 May 2021).

SUBSCRIPTION / REDEMPTION

Subscription / redemption requests are accepted on all days on which Tadawul is open. The value of the Fund’s portfolio is determined on each business day in the Kingdom of Saudi Arabia. The net asset value of the Fund for the purpose of purchase or sale of units is determined by dividing the net assets of the Fund by the total number of outstanding Fund units.

2 BASIS OF PREPARATION

The principal accounting policies applied in the preparation of these financial statements are set out below.

2.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Chartered and Professional Accountants (“SOCPA”).

2.2 Basis of measurement

These financial statements have been prepared on a historical cost basis, except for investments that are measured at fair value.

The Fund does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, assets and liabilities are presented in the order of liquidity.

2.3 Functional and presentation currency

These financial statements are presented in United States Dollar (USD) which is the Fund’s functional and presentation currency.

ALJAZIRA JAPANESE EQUITIES FUND

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

(Amounts in United States Dollars)

2 BASIS OF PREPARATION (CONTINUED)

2.3 Functional and presentation currency (continued)

Transactions and balances

Foreign currency transactions are translated into USD using the exchange rates prevailing at the date of transactions. Foreign currency assets and liabilities are translated into USD using the exchange rates prevailing at date of the statement of financial position. Foreign exchange gains and losses, if any, arising from translation are included in the statement of comprehensive income.

3 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of these financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

In the process of applying the Fund's accounting policies, management has made the following estimates and judgments which are significant to these financial statements:

A. Judgement

3.1 Going concern

The Fund's management has made an assessment of the Fund's ability to continue as a going concern and is satisfied that the Fund has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt on the Fund's ability to continue as a going concern. Accordingly, these financial statements have been prepared on a going concern basis.

4 SUMMARY OF MATERIAL ACCOUNTING POLICIES

4.1 New standards, amendments to standards and interpretations

The accounting policies used in the preparation of these financial statements are consistent with those used and disclosed in the annual financial statements of the Fund for the year ended 31 December 2022. There are new standards, amendments and interpretations apply for the first time in 2023, but do not have an impact on the financial statements of the Fund.

There are several other amendments and interpretations that are issued, but not yet effective, up to the date of issuance of the Fund's financial statements. In the opinion of the Fund's Board, these will have no significant impact on the financial statements of the Fund. The Fund intends to adopt those amendments and interpretations, if applicable.

ALJAZIRA JAPANESE EQUITIES FUND

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

(Amounts in United States Dollars)

4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

4.1 New standards, amendments to standards and interpretations (continued)

4.1.1 New amendments to standards issued and applied effective 1 January 2023

Amendments

A number of new amendments to standards, enlisted below, are effective this year but they do not have a material effect on the Fund's financial statements, except for where referenced below.

Amendments to standard	Description	Effective for annual years beginning on or after	Summary of the amendment
IFRS (Amendments to IFRS 4)	Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)	January 1, 2023	The amendment changes the fixed expiry date for the temporary exemption in IFRS 4 Insurance Contracts from applying IFRS 9 Financial Instruments, so that entities would be required to apply IFRS 9 for annual periods beginning on or after 1 January 2023.
IFRS 17	Insurance Contracts and its amendments	January 1, 2023	This is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation, and disclosure. Once effective, IFRS 17 (along with its subsequent amendments) will replace IFRS 4 Insurance Contracts (IFRS 4) which was issued in 2005.
IAS 1 and IFRS Practice Statement 2	Disclosure of accounting policies	January 1, 2023	This amendment deals with assisting entities to decide which accounting policies to disclose in their financial statements.
IAS 8	Amendment to the definition of accounting estimate	January 1, 2023	These amendments regarding the definition of accounting estimates help entities to distinguish between accounting policies and accounting estimates.
IAS 12	Deferred tax related to assets and liabilities arising from a single transaction	January 1, 2023	These amendments require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences
IAS 12	International tax reform (pillar two model rules)	January 1, 2023	These amendments give companies temporary relief from accounting for deferred taxes arising from the Organization for Economic Co-operation and Development's (OECD) international tax reform. The amendments also introduce targeted disclosure requirements for affected companies.

ALJAZIRA JAPANESE EQUITIES FUND

Open-Ended Mutual Fund

(Managed by Aljazira Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

(Amounts in United States Dollars)

4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

4.1 New standards, amendments to standards and interpretations (continued)

4.1.2 New standards, amendments and revised IFRS issued but not yet effective

The Fund has not applied the following new and revised IFRSs and amendments to IFRS that have been issued but are not yet effective.

Amendments to standard	Description	Effective for annual years beginning on or after	Summary of the amendment
IAS 1	Classification of liabilities as current or non-current	January 1, 2024	The amendment has clarified what is meant by a right to defer settlement, that a right to defer must exist at the end of the reporting period, that classification is unaffected by the likelihood that an entity will exercise its deferral right, and that only if an embedded derivative in a convertible liability is itself an equity instrument the terms of liability would not impact its classification..
IFRS 16	Leases on sale and leaseback	January 1, 2024	These amendments include requirements for sale and leaseback transactions in IFRS 16 to explain how an entity accounts for a sale and leaseback after the date of the transaction. Sale and leaseback transactions where some or all the lease payments are variable lease payments that do not depend on an index or rate are most likely to be impacted.
IAS 7 and IFRS 7	Supplier finance arrangements	January 1, 2024	These amendments require to add disclosure requirements to enhance transparency of supplier finance arrangements, and 'signposts' within existing disclosure requirements, that ask entities to provide qualitative and quantitative information about supplier finance arrangements.
IAS 21	Lack of Exchangeability	January 1, 2025	The amendments contain guidance to specify when a currency is exchangeable and how to determine the exchange rate when it is not.

Management anticipates that these new standards interpretations and amendments will be adopted in the Fund's financial statements as and when they are applicable and adoption of these interpretations and amendments may have no material impact on the financial statements of the Fund in the period of initial application.

ALJAZIRA JAPANESE EQUITIES FUND

Open-Ended Mutual Fund

(Managed by Aljazira Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

(Amounts in United States Dollars)

4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

4.2 Cash and cash equivalents

Cash and cash equivalents of the Fund comprise balances held with a bank. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

4.3 Financial instruments

4.3.1 Initial recognition and measurement

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument.

At initial recognition, the Fund measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in the statement of comprehensive income.

4.3.2 Classification and measurement of financial assets

The Fund classifies its financial assets either as subsequently measured at amortized cost or measured at fair value through profit or loss.

The Fund classifies its financial assets at amortized cost. The classification requirements for debt instruments are described below:

Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and profit (SPPI), and that are not designated at FVTPL, are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured. Profit earned from these financial assets is recognized in the statement of comprehensive income using the effective profit rate method.

Fair value through profit or loss (FVTPL): If financial asset's cash flows do not represent solely SPPI or if it not held within the held to collect or the held to collect and sell business model, or then it is measured at FVTPL. A gain or loss on a debt investment measured at FVTPL is recognized in the statement of comprehensive income, within "Net gain / (loss) in investments mandatorily measured at FVTPL", in the period in which it arises. A gain or loss from debt instruments that were designated at fair value or which are not held for trading are presented separately from debt investments that are mandatorily measured at fair value through profit or loss, within "Net gain / (loss) in investments designated at FVTPL". Profit earned from these financial assets is recognized in the statement of comprehensive income using the effective profit rate method.

ALJAZIRA JAPANESE EQUITIES FUND

Open-Ended Mutual Fund

(Managed by Aljazira Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

(Amounts in United States Dollars)

4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

4.3 Financial instruments (continued)

4.3.2 Classification and measurement of financial assets (continued)

Business model: The business model reflects how the Fund manages the assets in order to generate cash flows. That is, whether the Fund's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g., financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by the Fund in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is internally evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in 'other' business model and measured at FVTPL.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Fund assesses whether the financial instruments' cash flows represent solely payment of principal and profit (the "SPPI" test). In making this assessment, the Fund considers whether the contractual cash flows are consistent with a basic lending arrangement i.e., profit includes only consideration for the time value of resources, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The Fund classifies its financial assets at fair value through profit or loss (FVTPL). The Fund subsequently measures all equity investments at fair value through profit or loss, except where the Fund Manager has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Fund's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to trade. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to the statement of comprehensive income, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in the statement of comprehensive income when the Fund's right to receive payments is established.

ALJAZIRA JAPANESE EQUITIES FUND

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

(Amounts in United States Dollars)

4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

4.3 Financial instruments (continued)

4.3.3 Derecognition

A financial asset (or, where applicable, a part of a financial asset or a part of a group of similar financial assets) is derecognized where the rights to receive cash flows from the asset have expired, or the Fund has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement and the Fund has:

- (a) Transferred substantially all of the risks and rewards of the asset or
- (b) Neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Fund has transferred its right to receive cash flows from an asset (or has entered into a pass-through arrangement), and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Fund's continuing involvement in the asset. In that case, the Fund also recognized an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Fund has retained. The Fund recognized a financial liability when the obligation under the liability is discharged, cancelled or expired.

4.3.4 Financial liabilities

The Fund classifies its financial liabilities at amortized cost unless it has designated liabilities at FVTPL.

4.3.5 Impairment of financial assets

The Fund assesses on a forward-looking basis the expected credit loss ("ECL") associated with its financial instrument assets carried at amortized cost. The Fund recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of resources; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

4.3.6 Trade date accounting

A regular way purchases and sales of financial assets are recognized / derecognized on the trade date (i.e., the date that the Fund commits to purchase or sell the assets). Regular way purchases or sales are purchase or sales of financial assets that require settlement of assets within the time frame generally established by regulation or convention in the marketplace.

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

This is generally not the case with master netting agreements unless one party to the agreement defaults and the related assets and liabilities are presented gross in the statement of financial position.

ALJAZIRA JAPANESE EQUITIES FUND

Open-Ended Mutual Fund

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

(Amounts in United States Dollars)

4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

4.3 Financial instruments (continued)

4.3.7 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is generally not the case with master netting agreements unless one party to the agreement defaults and the related assets and liabilities are presented gross in the statement of financial position.

4.4 Other receivables

Other receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using effective profit rate method. Loss allowance for receivables is always measured at an amount equal to lifetime expected credit losses.

4.5 Redeemable units

Redeemable units are classified as equity instruments when:

- The redeemable units entitle the holder to a pro rata share of the Fund's net assets (equity) in the event of the Fund's liquidation.
- The redeemable units are in the class of instruments that is subordinate to all other classes of instruments.
- All redeemable units in the class of instruments that is subordinate to all other classes of instruments have identical features.
- The redeemable units do not include any contractual obligation to deliver cash or another financial asset other than the holder's rights to a pro rata share of the Fund's net assets (equity).
- The total expected cash flows attributable to the redeemable units over the life of the instrument are based substantially on the profit or loss, the change in the recognized net assets (equity) or the change in the fair value of the recognized and unrecognized net assets (equity) of the Fund over the life of the instrument.

In addition to the redeemable units having all of the above features, the Fund must have no other financial instrument or contract that has:

- Total cash flows based substantially on the profit or loss, the change in the recognized net assets (equity) or the change in the fair value of the recognized and unrecognized net assets (equity) of the Fund
- The effect of substantially restricting or fixing the residual return to the redeemable shareholders

The Fund continuously assesses the classification of the redeemable units. If the redeemable units cease to have all the features, or meet all the conditions set out, to be classified as equity, the Fund will reclassify them as financial liabilities and measure them at fair value at the date of reclassification, with any differences from the previous carrying amount recognized in equity. If the redeemable units subsequently have all the features and meet the conditions to be classified as equity, the Fund will reclassify them as equity instruments and measure them at the carrying amount of the liabilities at the date of the reclassification.

The issuance, acquisition and cancellation of redeemable units are accounted for as equity transactions.

- No gain or loss is recognized in the statement of comprehensive income / (loss) on the purchase, issuance or cancellation of the Fund's own equity instruments.

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4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

4.6 Accrued expenses and other liabilities

Accrued expenses and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective commission rate method.

4.7 Net gain or loss on financial assets at Fair Value through Profit or Loss (“FVTPL”)

Net gains or losses on financial assets at FVTPL are changes in the fair value of financial assets held for trading or designated upon initial recognition as at FVTPL and exclude interest and dividend income and expenses.

Unrealized gains and losses comprise changes in the fair value of financial instruments for the year and from reversal of the prior period’s unrealized gains and losses for financial instruments which were realized in the reporting period. Realized gains and losses on disposals of financial instruments classified as at FVTPL are calculated using the weighted average cost method. They represent the difference between an instrument’s initial carrying amount and disposal amount, or cash payments or receipts made on derivative contracts (excluding payments or receipts on collateral margin accounts for such instruments)

4.8 Income recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured, regardless of when payment is being made. Revenue is measured at the fair value of the consideration received, excluding discounts, taxes and rebates.

4.9 Dividend income

Dividend income, if any is recognized in the statement of comprehensive income on the date on which the right to receive the payment for dividend is established. For quoted equity securities, this is usually the ex-dividend date. Dividend income from equity securities designated as at FVTPL, is recognized in the statement of comprehensive income in a separate line item.

4.10 Transaction costs

Transaction costs are costs incurred to acquire financial assets or liabilities at fair value through profit or loss. They include fees and commissions paid to agents, advisers, brokers and dealers. Transaction costs, when incurred, are immediately recognized in profit or loss as an expense.

4.11 Management fees

Management fee is calculated and payable on the basis as mentioned in terms and conditions of the Fund.

4.12 Other expenses

Other expenses are charged at rates / amounts within limits mentioned in terms and conditions.

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4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

4.13 Zakat

According to the zakat regulations for investment funds, investment funds are not subject to the collection of zakat in accordance with the rules for zakat collection from investors in investment funds, provided that they do not carry out economic activities or investment activities that are not stipulated in the terms and conditions of those investment funds. Zakat will be collected from the fund's unit holders.

The fund manager must submit an information declaration to the Authority within a period not exceeding 120 days from the end of the fiscal year. The fund manager has registered the fund and will submit the annual zakat information return to the Authority.

4.14 Net assets value

The net assets value per unit disclosed in the financial statements is calculated by dividing the net assets of the Equity Fund by the number of units in issue at the year-end.

4.15 Dividend distribution

Dividend distribution to the Fund's units holders is recognized as a liability in the Fund's financial statements in the period in which the right to make the payment for dividend is established.

4.16 Provisions

Provisions are recognized when the Fund has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provision is not recognized for future operating loss.

5 CASH AND CASH EQUIVALENTS

		As at 31 December	
	Notes	2023	2022
Cash with Custodian	5.1	<u>1,164,625</u>	<u>1,044,445</u>
		<u>1,164,625</u>	<u>1,044,445</u>

5.1 Cash in investment account are held in investment account with Northern Trust. The Fund does not earn does not earn profit on these investment accounts.

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6 INVESTMENTS CARRIED AT FVTPL

These investment portfolios of the fund comprise of the following:

Industry sector	As at 31 December 2023			
	Country	Cost	Fair Value	%
Semiconductors	Japan	5,049,485	9,639,328	19.07%
Pharmaceuticals		3,943,099	6,065,383	12.00%
Chemicals		3,355,308	5,516,919	10.91%
Retail		3,005,671	4,460,990	8.83%
Electric and electronics		3,520,270	3,982,740	7.88%
Commercial services		1,486,854	3,011,531	5.96%
Building materials		2,041,371	2,865,668	5.67%
Auto parts and equipment		2,820,168	2,569,922	5.08%
Machinery diversified		1,415,474	2,386,451	4.72%
Others		9,804,559	10,048,384	19.88%
Total			36,442,259	50,547,316

Industry sector	As at 31 December 2022				
	Country	Cost	Fair value	%	
Pharmaceuticals	Japan	4,961,417	6,793,234	15.04	
Retail		4,439,658	5,501,272	12.18	
Semiconductors		3,689,580	5,360,480	11.87	
Chemicals		3,761,032	4,161,696	9.21	
Electric and electronics		4,387,839	3,522,674	7.80	
Auto parts and equipment		3,310,221	2,407,308	5.33	
Machinery diversified		1,624,554	2,407,082	5.33	
Commercial services		1,256,001	2,105,178	4.66	
Leisure time		1,964,745	1,981,670	4.39	
Healthcare products		2,241,596	1,975,940	4.37	
Building materials		1,147,963	1,883,430	4.17	
Hand / machine tools		1,309,177	1,718,784	3.81	
Software		1,160,483	1,712,874	3.79	
Apparel		784,531	963,471	2.13	
Environmental control		448,590	704,665	1.56	
Distribution/Wholesale		732,569	696,918	1.54	
Others		1,602,854	1,268,924	2.81	
Total			38,822,810	45,165,600	100%

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7 RELATED PARTIES TRANSACTIONS AND BALANCES

Management fee and other expenses

For management services, the Fund pays quarterly, the management fees at an annual rate of 1.5% of the net assets (equity) of the Fund attributable to Unitholders, calculated on daily basis, as set out in the Fund's terms and conditions.

The Fund pays performance fees at a rate of 20% on the specified benchmark criteria as per the Fund's terms and conditions.

The Fund Manager recovers from the Fund any other expenses incurred on behalf of the Fund such as board compensation, Shariah supervisory board compensation and other similar charges. These expenses are not expected to exceed an annual rate of 0.25% of the value of Fund's net assets (equity) calculated on daily basis.

Transactions with related parties

During the period, the Fund entered into the following significant transactions with related parties in the ordinary course of business. These transactions were carried out on the basis of approved terms and conditions of the Fund.

Related parties	Nature of relationship	Nature of transaction	2023	2022
Aljazira Capital Company	Fund Manager	Management fees	(856,680)	(922,269)
		Performance fees	(706,163)	-
Bank Aljazira	Affiliate	Bank charges	-	(660)
Fund's Board	Key executive	Board remuneration	(26)	(4,255)
Aljazira Takaful Taawuni Company	Funds managed by the Fund Manager	Cash inflows from Subscription of Units	3,102,543	3,322,218
		Proceeds paid from Redemption of Units	(6,621,954)	(6,315,409)

Certain units of the Fund are subscribed by an affiliate of the Fund Manager and the Funds managed and administered by the Fund Manager, the details of which are as follows:

Name of related parties	31 December 2023	31 December 2022
	<i>(Unit in numbers)</i>	
Affiliate		
Aljazira Takaful Taawuni Company	232,596	250,975

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7 RELATED PARTIES TRANSACTIONS AND BALANCES

Balances with related parties

Related parties	Nature of relationship	Nature of transaction	31 December 2023	31 December 2022
Aljazira Capital Company	Fund	Management fee payable	(211,696)	(396,826)
	Manager	Performance fee payable*	(223,348)	(11,652)
Fund's Board	Key executive	Remuneration payable*	(4,267)	(12,776)
Aljazira Takaful Taawuni Company	Funds managed by the Fund Manager	Share in net assets	47,844,997	42,826,374

* These amounts are included in accrued expenses and other liabilities.

8 UNIT TRANSACTIONS

Transactions in units for the year are summarized as follows:

	31 December 2023	31 December 2022
	<i>(Unit in numbers)</i>	
Units at beginning of the year	268,619	344,624
Units issued during the year	16,932	24,447
Units redeemed during the year	(36,022)	(100,452)
Net change in units	(19,090)	(76,005)
Units at end of the year	249,529	268,619

9 NET GAIN / (LOSS) FROM INVESTMENTS CARRIED AT FVTPL

	31 December 2023	31 December 2022
Unrealized gain / (loss) on revaluation of investments	7,762,268	(25,596,767)
Realised gain on disposal of investments	2,372,258	3,375,081
	10,134,526	(22,221,686)

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10 FINANCIAL INSTRUMENTS BY CATEGORY

<u>As at 31 December 2023</u>	<u>Amortized cost</u>	<u>FVTPL</u>
Assets as per statement of financial position		
Cash and cash equivalents	1,164,625	-
Investments carried at FVTPL	-	50,547,316
Dividend receivable	40,656	-
Total	1,205,281	50,547,316
<u>As at 31 December 2022</u>	<u>Amortized cost</u>	<u>FVTPL</u>
Assets as per statement of financial position		
Cash and cash equivalents	1,044,445	-
Investments carried at FVTPL	-	45,165,600
Receivable against sale of investments	114,658	-
Dividend receivable	26,874	-
Total	1,185,977	45,165,600

All financial liabilities 31 December 2023 and 31 December 2022 were classified as financial liabilities at amortized cost.

11 RISK MANAGEMENT

11.1 Financial risk factors

The objective of the Funds is to safeguard the Fund's ability to continue as a going concern so that it can continue to provide optimum returns to its Unitholders and to ensure reasonable safety to the Unitholders.

The Fund's activities expose it to a variety of financial risks: market risk, credit risk, liquidity risk and operational risk.

The Fund Manager is responsible for identifying and controlling risks. The Fund Board supervises the Fund Manager and is ultimately responsible for the overall management of the Fund.

Monitoring and controlling risks is primarily set up to be performed based on the limits established by the Fund Board. The Fund has its Terms and Conditions document that set out its overall business strategies, its tolerance of risks and its general risk management philosophy and is obliged to take actions to rebalance the portfolio in line with the investment guidelines.

The Fund uses different methods to measure and manage the various types of risk to which it is exposed; these methods are explained below.

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11 RISK MANAGEMENT (CONTINUED)

11.1 Financial risk factors (continued)

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk is the risk that the value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in foreign currency.

The Fund's investments in equity instruments carried at fair value through profit or loss are exposed to the foreign exchange risk in following currencies:

Currency	Country	31 December 2023		31 December 2022	
		Fair Value	%	Fair value	%
YEN	Japan	50,547,316	100%	45,165,600	100%
		50,547,316	100%	45,165,600	100%

The effect on the net assets (equity) value (as a result of the change in the fair value of investments as at 31 December 2023 and 31 December 2022) due to a reasonably possible change in foreign exchange rate, with all other variables held constant is as follows:

Currency	Country	31 December 2023		31 December 2022	
		Potential reasonable change %	Effect on NAV	Potential reasonable change %	Effect on NAV
YEN	Japan	+/- 1%	505,473	+/- 1%	451,656

(ii) Commission rate risk

Commission rate risk is the risk that the value of the future cash flows of a financial instrument or fair values of fixed coupon financial instruments will fluctuate due to changes in market commission rates.

The Fund does not have significant cash flow commission rate risk as it does not have any significant amount of variable rate financial instruments.

The Fund is not exposed to commission rate risk as the Fund do not hold any special commission rate bearing financial instruments.

(iii) Price risk

Price risk is the risk that the value of the Fund's financial instruments will fluctuate as a result of changes in market prices caused by factors other than foreign currency and commission rate movements.

The price risk arises primarily from uncertainty about the future prices of financial instruments that the Fund holds. The Fund closely monitors the price movement of its investments in financial instruments. As of the statement of financial position date, Fund has equity investments in listed equity securities.

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11 RISK MANAGEMENT (CONTINUED)

11.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Price risk (continued)

The effect on the net assets (equity) value (as a result of the change in the fair value of investments as at 31 December 2023 and 31 December 2022) due to a reasonably possible change in equity indices based on the industry concentration, with all other variables held constants is as follows:

	31 December 2023		31 December 2022	
	Potential reasonable change %	Effect on NAV	Potential reasonable change %	Effect on NAV
Semiconductors	+/- 1%	96,393	+/- 1%	53,604
Pharmaceuticals	+/- 1%	60,654	+/- 1%	67,932
Chemicals	+/- 1%	55,169	+/- 1%	41,616
Retail	+/- 1%	44,610	+/- 1%	55,012
Electric and electronics	+/- 1%	39,827	+/- 1%	35,226
Commercial services	+/- 1%	30,115	+/- 1%	21,051
Building materials	+/- 1%	28,657	+/- 1%	18,834
Auto parts and equipment	+/- 1%	25,699	+/- 1%	24,073
Machinery diversified	+/- 1%	23,865	+/- 1%	24,070
Leisure time	+/- 1%	-	+/- 1%	19,816
Healthcare products	+/- 1%	-	+/- 1%	19,759
Hand / Machine tools	+/- 1%	-	+/- 1%	17,187
Software	+/- 1%	-	+/- 1%	17,128
Apparel	+/- 1%	-	+/- 1%	9,634
Environmental control	+/- 1%	-	+/- 1%	7,046
Distribution/Wholesale	+/- 1%	-	+/- 1%	6,969
Others	+/- 1%	100,484	+/- 1%	12,689

(b) Credit risk

The Fund is exposed to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Its Fund's policy to enter into financial instrument contracts with reputable counterparties. The Fund seeks to limit its credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties. The Fund is exposed to credit risk for its cash and cash equivalents, dividend receivable, receivable against sale of investments. Cash at bank balances are placed with reputable financial institutions; hence the credit risk is minimal. For other assets, credit risk is also low.

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11 RISK MANAGEMENT (CONTINUED)

11.1 Financial risk factors (continued)

(b) Credit risk (continued)

Credit ratings

The credit quality of the Fund's cash at bank balance is assessed with reference to external credit ratings which, in all cases, are above investment-grade rating. The bank balances along with credit ratings are tabulated below:

Rating of Financial Institution	31 December 2023	31 December 2022
Cash and cash equivalents		
Unrated	1,164,625	1,044,445

(c) Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Fund's terms and conditions provide for subscription and redemption of units on every valuation day and it is, therefore, exposed to the liquidity risk of meeting Unitholder redemptions. The Fund's financial liabilities primarily consist of payables which are expected to be settled within one month from the statement of financial position date.

The Fund Manager monitors liquidity requirements by ensuring that sufficient Funds are available to meet any commitments as they arise, either through new subscriptions, liquidation of the investment portfolio or by taking short term loans from the Fund Manager.

The contractual and expected maturity of all liabilities outstanding at the reporting date are within 12 months (2022: due within 12 months).

11.2 Operational Risk

Operational risk is the risk of direct or indirect loss arising from a variety of causes associated with the processes, technology and infrastructure supporting the Fund's activities either internally or externally at the Fund's service provider and from external factors other than credit, liquidity, currency and market risks such as those arising from the legal and regulatory requirements.

The Fund's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its investment objective of generating returns to Unitholders.

11.3 Capital risk Management

The capital of the Fund is represented by the equity attributable to holders of redeemable units. The amount of equity attributable to holders of redeemable units can change significantly on each Valuation Day, as the Fund is subject to subscriptions and redemptions at the discretion of unitholders on every Valuation Day, as well as changes resulting from the Fund's performance. The Fund's objective when managing capital is to safeguard the Fund's ability to continue as a going concern in order to provide returns for unitholders, provide benefits for other unitholders and maintain a strong capital base to support the development of the investment activities of the Fund.

The Fund Manager monitor capital on the basis of the value of equity attributable to unitholders.

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12 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value for financial instruments traded in active markets is based on quoted market prices at the close of trading on the financial reporting date. Instruments for which no sales were reported on the valuation day are valued at the most recent bid price.

An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The carrying value less impairment provision, if any, of financial instrument carried at amortized cost are assumed to approximate their fair values.

The fair value hierarchy has the following levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Investments whose values are based on quoted market prices in active markets, and are therefore classified within Level 1, include active listed equity instruments. The Fund does not adjust the quoted price for these instruments.

Fund classifies all of its financial assets, except for those carried at amortized cost, at fair value as level 1.

31 December 2023	Fair value Level			Total
	1	2	3	
FINANCIAL ASSET				
Investments carried at fair value through profit or loss (FVTPL)	50,547,316	-	-	50,547,316
31 December 2022				
FINANCIAL ASSET				
Investments carried at fair value through profit or loss (FVTPL)	45,165,600	-	-	45,165,600

For assets and liabilities that are measured at fair value on a recurring basis, the Fund identifies transfers between levels in the hierarchy by re-assessing the categorization (based on the lowest level input that is significant to the fair value measurement as a whole), and deems transfers to have occurred at the end of the reporting period during which the change has occurred. During the period, there was no transfer in fair value hierarchy for the financial assets held at fair value through profit or loss.

Other financial instrument such as, cash at bank balances, this is short-term financial asset whose carrying amount approximate its fair value, because of its short-term nature and the high credit quality of counterparty. For all other financial assets and liabilities, the carrying value is an approximation of fair value.

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13 SUBSEQUENT EVENTS

As of the date of approval of these financial statements, there have been no significant subsequent events requiring disclosure to or adjustment in these financial statements.

14 LAST VALUATION DAY

The last valuation day for the purpose of preparation of these financial statements was 31 December 2023 (2022: 29 December 2022).

15 APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved and authorized for issue by the Fund's Board on 09 Ramadan 1445H corresponding to 19 March 2024G.