



Lotus Capital

HALAL INVESTMENTS

# LOTUS CAPITAL HALAL INVESTMENT FUND ANNUAL REPORT AND ACCOUNTS, 2010

The Lotus Capital Halal Investment Fund is managed by:  
**Lotus Capital Limited**

## Lotus Capital Halal Investment Fund

Managed by:



# LOTUS CAPITAL LIMITED FINANCIAL STATEMENTS

for the year ended  
31ST DECEMBER, 2010

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## **NOTICE OF ANNUAL GENERAL MEETING**

**NOTICE IS HEREBY GIVEN** that the 2nd Annual General Meeting of the Lotus Capital Halal Investment Fund will be held at Lagos Airport Hotel located at No. 111, Obafemi Awolowo Way, Ikeja, Lagos on Wednesday 2nd November, 2011 at 9:00am to transact the following business:

### **ORDINARY BUSINESS**

1. To receive the Audited Financial Statements for the year ended 31st December, 2010 and the Reports of the Trustees, Manager and Auditors.
2. To declare a distribution.
3. To consider and if thought fit authorize the Manager to fix the remuneration payable to such Auditors for the ensuing year.

### **SPECIAL BUSINESS**

To consider and if thought fit, pass the following as special resolutions:

1. That the Trust Deed dated 31st January, 2008 (“Trust Deed”) between Lotus Capital Limited (as Manager) and First Trustees Nigeria Limited (as Trustee), as amended by the First Supplemental Trust Deed dated August 25, 2010, be supplemented and amended in the manner described below and that a second supplemental deed to the Trust Deed be prepared and executed to record these amendments.

#### **I. Amendment to Clause 7.1 - 7.2**

Clauses 7.1 and 7.2 are hereby amended to read as follows:

- 7.1 The Deposited Property shall be in the name of the Trustees and the Fund upon trust for all the Holders. The Trust shall be held as a single common fund and no Unit shall confer any interest or share in any particular part of the Deposited Property.
- 7.2 With effect from the 2nd of November, 2011, all the Fund's property including cash which ought to in accordance with the provisions of this Deed, form part of the Deposited Property shall forthwith after receipt by the Manager be in the custody of the Fund Custodian duly appointed by the Manager with the approval of the Trustee (“the Custodian”), such approval not to be unreasonably withheld. The terms and provisions including but not limited to the appointment, removal, remuneration and duties of the Custodian shall be as stipulated in a separate written agreement (“the Custodian Agreement”) which is hereby incorporated by reference as if set forth herein in its entirety. The appointed Custodian shall at all times retain in its possession, in safe custody, all the investments and shall be responsible for the administration of securities and other financial instruments on behalf of the Fund and shall provide services incidental thereto.

**II. Insertion of a new Clause 7.4**

A new clause 7.4 of the Original Trust Deed is hereby included as follows:

7.4 Notwithstanding the preceding clauses, the title documents of investments shall be held/retained by the Trustees.

**III. Amendment to Clause 8**

Clause 8.4.4 is hereby amended to read as follows:

“The asset allocation policy of the Fund shall be invested at the discretion of the Manager in investments which are Shari’ah Compliant and authorized for purchase in the proportions specified below:

<b>ASSET CLASS</b>	<b>RANGE</b>
8.4.4 Cash and Cash Equivalent	- 0% - 40%”

**IV. Amendment to Clause 27**

A proviso shall be inserted as follows at the end of Clause 27.5 of the Original Trust Deed

“Notwithstanding the above, the annual management fee plus other expenses shall not exceed 5% of the net asset value of the Fund.”

**V. Amendment to Clause 27**

A new Clause 27.6 is hereby inserted to read:

“The Management Fee shall accrue on a daily basis and shall be charged on a quarterly basis.”

**NOTES:**

**Proxy**

- 1. Only Unitholders are entitled to be represented at the meeting. A Unitholder entitled to attend and vote may appoint a proxy to attend and vote instead of him/her/itself. A proxy need not be a Unitholder of the Fund.**
- 2. To be valid, the proxy form attached to this Notice must be stamped to the value of ₦50 as duty thereon and should be deposited at the office of The Registrar, Unity Registrars at Unity Bank Building, 94, Agege Motor Road, Idi Oro, Lagos not later than 48 (Forty - eight) hours before the time fixed for the meeting.**

## **DISTRIBUTION**

If the distribution proposed by the Fund Manager is approved at the Meeting, distribution will be made to unit holders whose names appear on the Register of Unit holders at the close of business on October 17, 2011. Distribution shall be posted on November 4, 2011 to Unit holders. Where a Unit holder has indicated his/her/its intention to receive the distributorship to which he/she/it is entitled via the issuance of new direct Investment Units of the Fund, Units will be purchased on his/her/its behalf at the prevailing Offer Price on the date specified for payment of the distribution. A Unit holder whose address in the Register is located outside Nigeria, will in the absence of a contrary instruction, be presumed to have elected that his/her/its distribution should be used to purchase direct investment.

Dated this 3rd day of October, 2011

**BY ORDER OF THE MANAGER  
LOTUS CAPITAL LIMITED**



**TAIWO PETERS  
COMPANY SECRETARY  
1B UDI STREET  
OSBORNE FORESHORE ESTATE  
IKOYI, LAGOS**

## **CORPORATE INFORMATION**

***Fund Manager***

Lotus Capital Limited  
1b Udi Street  
Osborne Foreshore Estate  
Osborne Road  
Lagos

***Directors of the Fund Manager***

Mr. Fola Adeola  
Mrs. Hajara Adeola  
Mrs. Lateefah Okunnu  
Mrs. Amina Oyagbola  
Mr. Nuruddeen Lemu

***Registered office  
(Fund Manager)***

1b Udi Street  
Osborne Foreshore Estate  
Osborne Road  
Lagos

***Trustees to the Fund***

First Trustees Nigeria Limited  
AG Leventis Building  
2nd Floor, 42/43 Marina  
Lagos

***Auditors to the Fund***

Horwath Dafinone  
Chartered Accountants

***Bankers***

Guaranty Trust Bank Plc  
Zenith Bank Plc

***Registrar to the Fund***

Unity Registrars Limited  
Unity Bank Building  
94, Agege Motor Road  
Idi Oro, Lagos

## REPORT OF THE TRUSTEES

The Trustees present their report on the affairs of the Lotus Capital Halal Investment Fund together with the audited financial statements for the year ended 31st December, 2010.

### ***Principal activity***

The principal activity of the Lotus Capital Halal Investment Fund is the pooling of funds from individual members of the public and companies and the investment of such funds in equities listed on the Nigerian Stock Exchange and other sharia compliant investments.

### ***Results***

The results for the year are set out on page 17.

### ***Distribution***

While the Trust Deed constituting the Fund, empowers the Fund to distribute any part of its income to its members, such distribution has to be approved by the Trustee on the recommendation of the Fund Manager.

### ***Directors***

The Directors of the Fund Manager who served on the board of the Fund Manager during the year under review and up to the date of approving these financial statements were:

Mr. Fola Adeola (Chairman)  
Mrs. Hajara Adeola (Managing Director/ Chief Executive Officer)  
Mrs. Lateefah Okunnu  
Mrs. Amina Oyagbola  
Mr. Nuruddeen Lemu

### ***Directors' and related parties Interest in the units of the Fund***

The Directors of Lotus Capital Limited who held direct and indirect beneficial interest in the units of the Fund as at 31st December, 2010 are:

**REPORT OF THE TRUSTEES (Continued)**

Units held as at  
31st December, 2010

Mr. Fola Adeola	5,000,000
Mrs. Hajara Adeola	2,500,000
Mr. Nuruddeen Lemu	1,145,000
Mrs. Lateefah Okunnu	10,181,239
Lotus Capital Limited	100,000,000
	=====

None of the Directors of First Trustees Nigeria Limited has any direct or indirect beneficial interest in the units of the fund.

***Responsibilities of the Fund Manager***

The Investment and Securities Act, 2007 requires the Fund Manager to keep proper books of account and prepare annual financial statements which give a true and fair view of the state of affairs of the unit trust scheme during the year covered by the financial statements.

In preparing the financial statements, the Fund Manager:

- selected suitable accounting policies and applied them consistently;
- made judgments and estimates that were reasonable and prudent;
- ensured that the applicable accounting standards have been followed, and in the case of any material departure, that it was fully disclosed and explained in the financial statements;
- prepared the financial statements on a going concern basis, since it was appropriate to assume that the Fund shall continue to exist.

## REPORT OF THE TRUSTEES *(Continued)*

The Fund Manager was responsible for keeping proper accounting records, which disclose with reasonable accuracy, at any point in time, the financial position of the Fund, and enable the Fund Manager to ensure that the financial statements comply with the Trustees Investment Act, CAP T22 LFN, 2004, the Investments and Securities Act, 2007, the provisions of the Trust Deed, together with the rules and regulations set out by the regulatory bodies established pursuant to the legislation referred to within this paragraph.

The Fund Manager is also responsible for safeguarding the assets of the Fund, and therefore for taking any reasonable steps for the prevention and detection of fraud and other irregularities.

### ***Responsibilities of the Trustees***

The responsibilities of the trustees as provided by the Securities and Exchange Commission, Rules and Regulations made pursuant to the Investments and Securities Act, 2007 are as stated below:

- Monitoring of the activities of the Fund Manager on behalf of and in the interest of the Unit Holders.
- Maintaining custody of the funds and the documents relating to the investments by the fund.
- Monitoring the Register of Unit Holders.
- Ascertaining the profitability rationale for the investment decision making of the Fund Manager.
- Ascertaining compliance with the Applicable Regulations.

## **REPORT OF THE TRUSTEES** *(Continued)*

- Ascertaining that the monthly and other periodic returns/reports relating to the Fund are sent by the Fund Manager to the Commission.

### **Charitable donations**

The Fund did not make any charitable donations during the year. (2009: nil)

### **Auditors**

Messrs Horwath Dafinone, Chartered Accountants, having indicated their willingness to continue in office, shall do so in accordance with Section 169(1) of the Investments and Securities Act, 2007.

*By Order of the Trustees*



*Lagos, Nigeria*  
*12<sup>th</sup> August, 2011*

## FUND MANAGER'S REPORT

Dear Investor,

This report provides an overview of the performance of the Lotus Capital Halal Investment Fund from January 1, 2010 to the financial year ended December 31, 2010.

### INVESTMENT OBJECTIVES

The primary objective of the Fund is to optimize total returns of investors (i.e. dividend and investment profits as well as capital appreciation on assets held) by seeking high quality investments whilst adhering to the strictest code of ethics in line with our Islamic finance investment philosophy.

### MACROECONOMIC REVIEW

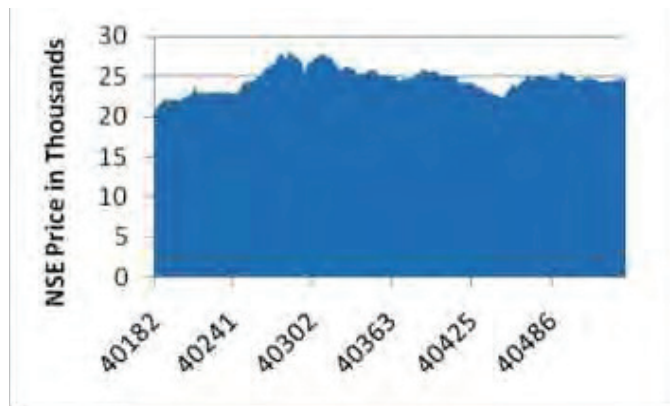
The Nigerian economy recorded overall growth evidenced by an estimated 7.85% growth rate in Gross Domestic Product ("GDP") compared with 6.96% recorded in 2009. The growth was largely attributed to the non-oil sector, as the economy witnessed improved activities in the wholesale and retail trade sectors. In addition, the oil sector also contributed to the economy's positive growth trend due to improved crude oil production and trading at higher than budgeted oil prices. The Nigerian banking sector stabilized in 2010, after the financial turmoil witnessed in 2009 due to the high level of non-performing loans estimated to be over ₦2.1 trillion which resulted in the significant erosion of the capital base of some banks. In addition to several public intervention processes initiated by the Central Bank of Nigeria ("CBN") since the banking crisis began in 2008, the most significant change in the industry during the period was the establishment of the Asset Management Company of Nigeria ("AMCON") in July, 2010. As at 31 December 2010, AMCON had initiated the first phase of its operations with the purchase of ₦1 trillion worth of bad loans from the banks for conversion into consideration bonds. The operations of AMCON are expected to improve the liquidity of the affected banks, improve investor confidence and essentially positively impact the Nigerian economy.

Further changes in the banking sector during the year include the suspension of the Universal Banking regime. Consequently, banks will be issued new licenses which will define the category of businesses they are licensed to conduct including non-interest banking. The CBN managed to stabilize the naira within the ₦150/\$1 range. This stability has however, not been without its cost to the country's foreign reserves, which depleted by 23.71% from US\$42.4bn to US\$32.3bn as at year ended December, 2010.

## FUND MANAGER'S REPORT *(Continued)*

As a result of the financial crisis, there were operational restructuring exercises by some banks and financial institutions resulting in the retrenchment of over 10,000 employees in some cases and a salary reduction of 40% in others. This created uncertainty in the economy as the disposable income of over 70% of the middle class population declined significantly. Consequently, Lotus Capital adopted a very conservative and risk - averse approach in appraising investments and the main concern in the economic downturn shifted to preserving investors' funds.

### NIGERIAN CAPITAL MARKET REVIEW



From January, 2010, the Nigerian Stock Exchange (“NSE”) All Share Index (NSE ASI) started on a positive note and rallied up to its highest points in April, 2010 (up 34.5%). However, the market experienced several defining moments between July and December, 2010, which significantly affected the performance of the market due to investor caution and scepticism. Some of these defining moments include the removal of the erstwhile Director General

of the NSE and the renewed pressure on banks to meet the September 1st deadline set by the CBN for all the banks to recover an estimated ₦1 trillion worth of non-performing margin loans in their books. Nevertheless, with an opening value of 20,827.17 in January and 24,770.52 in December, 2010, the market closed the year on a positive note, with a Year to Date return of 18.93% for the year. Much of this 18.93% was driven by a rally in the bank stocks, which the Halal Fund does not hold as part of its investment policy.

### HALAL FUND ASSET ALLOCATION

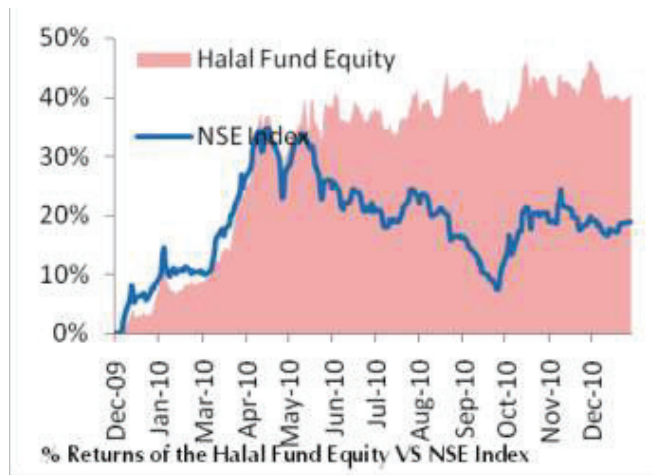


Typically, asset class allocation i.e. the investment decision to distribute investors' funds amongst equities, asset-backed investments, real estate or cash, tend to have a greater impact on the returns over the long term than the selection of individual securities. Accordingly, for the best return to our investors, we constantly review the proportion of the

## FUND MANAGER'S REPORT *(Continued)*

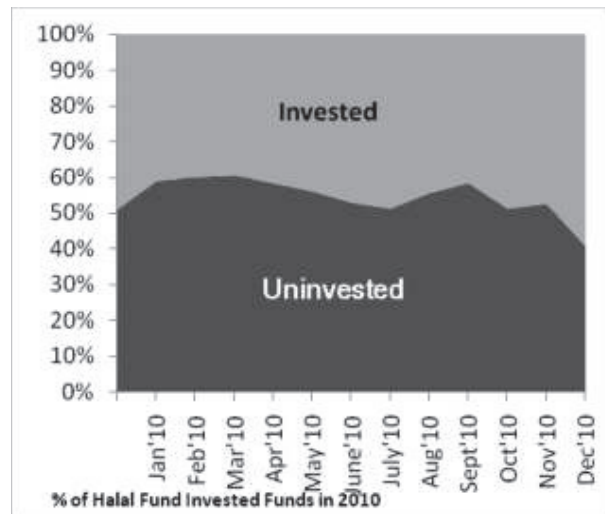
types of assets that offer the best value at any time, and monitor these on an ongoing basis. As at December 31, 2010, 41% of the value of the Fund was invested in equities, 18% in Asset-Backed Investments and 41% in cash and other liquid assets.

### HALAL FUND PERFORMANCE



In compliance with the Trust Deed, the Halal Fund transacted in asset backed investments, real estate and shari'ah compliant equities in the period under review. The fund opened the year at ₦0.80 in January, 2010, rose as high as ₦0.86 at the end of June and eventually closed at ₦0.81 by December, reflecting an appreciation of 1.25%. The equity portion of the Halal Fund portfolio however returned an impressive 40.89%, outperforming the NSE All share index (18.93%).

In order to safe-guard investors' funds, in the light of the recent challenges stemming from the credit worthiness of most borrowers i.e. the willingness/ability to repay obligations as at when due, we adopted a stricter and more conservative approach to our transaction appraisal system. We opted to preserve the funds of investors by choosing to retain our liquid funds rather than invest in some projects. The fund performance was largely impaired by provisions made on certain asset backed investments, in line with prudential guidelines. Nevertheless, the Fund Manager is taking necessary actions to facilitate the recovery of such investments and we expect that the provisions made, will be written back in future months. Furthermore, our risk management system has been strengthened in order to improve the quality of our investments. We believe these steps would improve returns in the short term.



## FUND MANAGER'S REPORT *(Continued)*

### 2011 OUTLOOK

The outlook for the Nigerian economy in 2011 largely depends on the strength of the global economic recovery. The persisting effect of the sovereign debt crisis on European countries, if not adequately contained, may likely temper global demand for commodities, which may have an adverse impact on commodity-exporting economies like Nigeria.

In 2011, we expect the CBN to provide regulatory guidelines and commence licensing of non-interest banks. The existence of these banks would improve depth in the Nigerian banking industry while significantly expanding our investment universe to include non-interest/Shari'ah compliant asset management and financial instruments.

We have taken strategic steps in our equity portfolio and remain committed to taking positions in undervalued equities while exploiting the stock market trends. We have also devoted considerable resources to strengthening our operational capabilities by adopting a robust risk management system and investment selection process which would enhance the quality of our equities and asset backed investments going forward. Whilst cognisant of our risk appetite, the Fund Manager has adopted various strategies which will translate to sustainable earnings in the short term. We intend to take advantage of the real estate and construction sectors as we believe the current drive, by the state and federal government, to bridge the infrastructural gap in the country will positively impact these industries.

We thank you for your support and assure you that our focus is a stellar performance in 2011.

**REPORT OF THE AUDITORS TO THE MEMBERS OF LOTUS CAPITAL HALAL INVESTMENT FUND**

We have audited the financial statements set out on pages 16 to 31 for the year ended 31<sup>st</sup> December, 2010 which have been prepared using the accounting policies set out on pages 22 to 24.

**Respective responsibilities of the Trustees, Fund Manager and the Auditors**

The Trustees are responsible for monitoring the actions of the Fund Manager and ascertaining compliance with the provisions of the Trust Deed and other relevant laws, while the Directors of the Fund Manager are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit and report our opinion to the members of the Fund.

**Basis of opinion**

We conducted our audit in accordance with the Nigerian and International Standards on Auditing. These standards require that we comply with the ethical requirements and plan and perform the audit in such a manner as to obtain reasonable assurances as to whether or not, the financial statements are free of any material misstatement. The audit included the examination on a test basis, of the evidence supporting the amounts and disclosures within these financial statements. The audit also included the assessment of the various accounting policies used and the significant estimates made by the management, as well as the evaluation of the overall presentation of the information contained within the financial statements.

We obtained all the information and explanations that were required for the purpose of our audit. The financial statements are in agreement with the books of account which have been properly kept.

We believe that this audit provides a reasonable basis for our opinion.

**Opinion**

In our opinion, these financial statements give a true and fair view of the funds affairs as at 31<sup>st</sup> December, 2010 and of its loss and cash flows for the year ended on that date and have been properly prepared in accordance with the requirements of the Trustees Investment Act, CAP I22 LFN, 2004, Section 169(1) of the Investments and Securities Act, 2007, the applicable Statements of Accounting Standards issued by the Nigerian Accounting Standards Board and the provisions set out in the Trust Deed of the Fund.

Lagos, Nigeria  
12<sup>th</sup> August, 2011

  
Horwath Dafinone  
Chartered Accountants



**BALANCE SHEET AS AT 31ST DECEMBER, 2010**

	Note	2010 N	2009 N
<b>Current assets</b>			
Quoted equity securities	2	713,721,933	572,858,337
Unquoted equity securities	3	216,479,277	-
Other investments	4	212,890,076	184,147,985
Debtors	5	229,205,880	224,563,864
Bank balances		938,741,783	1,509,175,009
		<u>2,311,038,949</u>	<u>2,490,745,195</u>
<b>Current liabilities</b>			
Creditors: Amounts falling due within one year	6	(13,779,418)	(11,011,051)
Net assets		<u>2,297,259,531</u> =====	<u>2,479,734,144</u> =====
<b>Financed by</b>			
Members' capital	7	2,815,124,163	3,078,275,369
Capital appreciation reserve	8	71,648,479	2,968,577
Accumulated deficit	9	(589,513,111)	(601,509,802)
		<u>2,297,259,531</u> =====	<u>2,479,734,144</u> =====
Net asset per unit	10	<u>0.81</u> =====	<u>0.80</u> =====

 Trustee  
 Fund Manager  
 12<sup>th</sup> August, 2011

The statement of the principal accounting policies set out on pages 22 to 24 and the notes on pages 25 to 29 form integral parts of the financial statements.

**PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31ST DECEMBER, 2010**

	<b>Note</b>	<b>Year ended 31st December 2010 N</b>	<b>18 months ended 31st December 2009 N</b>
Gross income	11	54,850,092	130,977,310
Operating expenses	12	(78,663,433)	(27,178,668)
Quoted securities trading	13	34,891,793	(109,555,242)
Operating profit/(loss)	14	11,078,452	(5,756,600)
Exceptional items	15	(46,986,254)	(627,771,240)
Loss after exceptional items		(35,907,802)	(633,527,840)
Taxation	16	(2,576,520)	(3,517,066)
Loss for the year after taxation		(38,484,322)	(637,044,906)
Gain on redemption	17	50,481,013	35,535,104
Profit/(loss) for the year/period		11,996,691	(601,509,802)
Loss per unit	18	0.01	0.21

The statement of the principal accounting policies set out on pages 22 to 24 and the notes on pages 25 to 29 form integral parts of the financial statements.

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31ST DECEMBER, 2010**

	<b>Year ended 31st December 2010 N</b>	<b>18 months ended 31st December 2009 N</b>
<b>Cash flow from operating activities</b>		
Operating loss	(35,907,802)	(633,527,840)
<b>Adjustments for those items not involving the movement of funds</b>		
(Profit)/loss on sale of quoted securities (Provision no longer required)/ Provision for net realisable value of investment	(34,891,793) (129,687,339)	109,555,242 501,405,979
	<u>(200,486,934)</u>	<u>(22,566,619)</u>
<b>Movement in working capital:</b>		
Increase in debtors Increase in creditors	(4,642,016) 2,768,367	(224,563,864) 11,011,051
	<u>(202,360,583)</u>	<u>(236,119,432)</u>
Net cash outflow from operations Tax deducted at source	(202,360,583) (2,576,520)	(236,119,432) (3,517,066)
	<u>(204,937,103)</u>	<u>(239,636,498)</u>
<b>Cash flow from investing activities</b>		
Acquisition of quoted investments Acquisition of unquoted investments Proceeds from the sale of quoted securities Net acquisition of asset backed investment	(149,527,144) (172,103,528) 197,546,832 (28,742,090)	(1,283,275,116) - 102,424,135 (184,147,985)
	<u>(152,825,930)</u>	<u>(1,364,998,966)</u>
<b>Net cash outflow from investing activities</b>	<u>(152,825,930)</u>	<u>(1,364,998,966)</u>

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31ST DECEMBER, 2010** *(Continued)*

	<b>Year ended 31st December 2010 N</b>	<b>18 months ended 31st December 2009 N</b>
<b>Cash flow from financing activities</b>		
Funds received into the members' capital account	53,290,354	3,382,730,594
Payment on redemption of units	(265,960,547)	(268,920,121)
	-----	-----
<b>Net cash (outflow)/ inflow from financing activities</b>	(212,670,193)	3,113,810,473
	-----	-----
<b>Net cash (outflow)/ inflow for the year</b>	(570,433,226)	1,509,175,009
Cash and cash equivalent at 1st January	1,509,175,009	-
	-----	-----
Cash and cash equivalent at 31st December	938,741,783 =====	1,509,175,009 =====

**STATEMENT OF TOTAL RETURNS  
FOR THE YEAR ENDED 31ST DECEMBER, 2010**

	Year ended 31st December 2010 N	18 months ended 31st December 2009 N
Assets backed investment income	29,664,285	95,806,652
Dividend received	25,185,807	35,170,658
	<hr/>	<hr/>
	54,850,092	130,977,310
Operating expenses - Auditors' fees	(3,200,000)	(3,200,000)
- Management Remuneration	(63,551,561)	-
- Management fees	-	(191,973)
- Trustees fees	(2,250,254)	(3,756,177)
- Initial public offer expenses	-	(95,509,114)
- Other expenses	(9,661,618)	(20,030,518)
Provision for doubtful receivables	(176,673,593)	(30,856,147)
	<hr/>	<hr/>
	(200,486,934)	(22,566,619)
Tax charge	(2,576,520)	(3,517,066)
	<hr/>	<hr/>
	(203,063,454)	(26,083,685)
	<hr/>	<hr/>
<b>Net investment income</b>		
Unrealised appreciation on quoted Investments	24,304,153	2,968,577
Unrealised appreciation on unquoted investments	44,375,749	-
Net realised gain/(loss) from quoted investments	34,891,793	(109,555,242)
Unrealised losses from quoted investments	129,687,339	(501,405,979)
	<hr/>	<hr/>
Net profit/(loss) from investment activity	233,259,034	(607,992,644)
	<hr/>	<hr/>
Net gains/(loss) from operations	30,195,580	(634,076,329)
	<hr/>	<hr/>
	=====	=====

**STATEMENT OF CHANGES IN NET ASSETS  
FOR THE YEAR ENDED 31ST DECEMBER, 2010**

	<b>Year ended 31st December 2010 N</b>	<b>18 months ended 31st December 2009 N</b>
Net gains/(loss) from operations	30,195,580	(634,076,329)
Contributions from units issued	53,290,354	3,382,730,594
Cost of redemptions during the year	(265,960,547)	(268,920,121)
	_____	_____
(Decrease)increase/ in unit holders' fund	(182,474,613)	2,479,734,144
Net assets as at 1st January	2,479,734,144	-
	_____	_____
Net assets as at 31st December	2,297,259,531	2,479,734,144
	=====	=====

## PRINCIPAL ACCOUNTING POLICIES

### (a) Accounting convention

These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets investments.

### (b) Income

- (i) Dividend income is recognised upon the receipt of the dividend warrant or the declaration of the dividend.
- (ii) Income from Murabahah and Ijarah which are fixed investment income are recognised on an accrual basis.
- (iii) Income from Mudarabah and Musharakah are recognised upon the receipt of the profit share or the declaration of the profit.

### (c) Expenses

Expenses, which include management fees, subscription fees, bank charges and transfer fees, are recognised on an accrual basis.

### (d) Investments

#### Quoted Equity

These are recorded at the historical cost incurred by the fund as at the date of acquisition. At the balance sheet date, the market value is ascertained for all of the quoted securities and the excess over the historical cost is taken to the revaluation reserve. Where the market value is lower, the necessary provision is charged through the profit and loss account for any shortfall that may have arisen.

Investments held, where there is no intention of resale within the foreseeable future, are classified as fixed asset investments. Investments whose realisation may be expected to occur within the next twelve months are classified as current assets.

The gain or loss on the sale of quoted securities is treated through the profit and loss account in the period of sale. Such gain or loss is computed as the difference between the sales proceeds net of expenses and its carrying amount.

## **PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

### **Asset backed Investments**

#### **Murabahah**

This is an arrangement in which the Fund enters into an agreement to sell to a customer a commodity which the Fund has purchased and acquired based on a promise received from customer to buy the item purchased according to specific terms and conditions. The selling price comprises the cost of the commodity plus an agreed profit margin.

#### **Mudarabah**

This is an agreement between the Fund and a customer wherein the Fund invests in a specific enterprise or activity, managed by the customer for a specific share in the profit. The customer would only bear the loss in case of its default, negligence or violation of any of the terms and conditions of the Mudarabah agreement.

#### **Musharakah**

This represents an agreement between the Fund and a customer to contribute to a certain investment enterprise, whether existing or new, or the ownership of a certain property, either permanently or according to a diminishing arrangement ending with the acquisition by the customer of the full ownership. The profit is shared as per the agreement set out between both parties while the loss is shared in the proportion of their shares of capital or the enterprise.

#### **Ijarah**

This is an arrangement that involves agreement between the Fund whereby the Fund (lessor) purchases or leases an asset according to the customer's requirements (lessee) based on his promise to lease the assets for a specific period and against certain rental payments. Ijarah could end by transferring the ownership of the asset to the lessee or not.

These investments are stated at their contractual value less repayments that are due within the financial period

### **(e) Debtors**

Debtors including asset backed investment due for repayments are stated at their contractual value, net of any provision that may be required for the risk of realisation. Provision is made for doubtful receivables as follows:

## PRINCIPAL ACCOUNTING POLICIES (Continued)

Period overdue	Provision required
91 - 180 days	10%
181 - 360 days	50%
Above 360 days	100%

**(f) Taxation**

The withholding tax borne by the fund in respect of dividend income is treated as the final tax and recognised as a tax charge in the profit and loss account in the year the income is recognised.

**(g) Members accounts**

The redemption of members' accounts where the value of the units at redemption is in excess of the original subscription cost is treated by accounting for the excess as a capital distribution in the period in which the redemption occurs. Where it is redeemed at value lower than the original value, the gain on redemption is treated as a gain thus arising and is credited to the profit and loss account as a contribution to reserves.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2010

### 1. Legal form

The Lotus Capital Halal Fund was established by a trust deed that was registered with the Securities and Exchange Commission on January, 2008. The Trustees to the fund are First Trustees Limited and the Fund Manager is Lotus Capital Limited.

### 2. Quoted equity securities

	2010 N	2009 N
Investment at cost at the beginning of the year	1,071,295,739	-
Acquisitions	149,527,144	1,283,275,116
Disposals (note 13)	(162,655,039)	(211,979,377)
	<hr/>	<hr/>
Investment at cost as at the end of the year/period	1,058,167,844	1,071,295,739
Capital appreciation	27,272,730	2,968,577
Provision for diminution in value	(371,718,641)	(501,405,979)
	<hr/>	<hr/>
As at the end of the year/period	713,721,933	572,858,337
	<hr/> <hr/>	<hr/> <hr/>

### 3. Unquoted equity securities

Acquisitions	172,103,528	-
Capital appreciation	44,375,749	-
	<hr/>	<hr/>
	216,479,277	-
	<hr/> <hr/>	<hr/> <hr/>

### 4. Other investments: Asset backed investments

Ijara	38,881,699	149,483,161
Murabaha	31,765,834	34,664,824
Mudaraba	131,942,543	-
Musharaka	10,300,000	-
	<hr/>	<hr/>
	212,890,076	184,147,985
	<hr/> <hr/>	<hr/> <hr/>

### 5. Debtors

Asset backed investment receivable	474,353,448	252,969,531
Less: Provision for doubtful receivables	(207,529,741)	(30,856,147)
Asset backed investment margin suspense	(43,134,370)	-
	<hr/>	<hr/>
	223,689,337	222,113,384
Dividend receivable	5,516,543	2,450,480
	<hr/>	<hr/>
	229,205,880	224,563,864
	<hr/> <hr/>	<hr/> <hr/>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER, 2010 (Continued)**

	2010 N	2009 N
<b>6. Creditors: amounts falling due within one year</b>		
Due to the stockbrokers	546,250	-
Accrued expenses	5,819,120	5,684,589
Other creditors	2,609,694	882,402
Uninvested funds	4,804,354	4,444,060
	<u>13,779,418</u>	<u>11,011,051</u>
	=====	=====
<b>7. Members' capital</b>		
Balance as at 1st January	3,078,275,369	-
Contribution during the year/period	53,290,354	3,382,730,594
Payment on redemption during the year/period	(265,960,547)	(268,920,121)
Capital gain on redemption (note 17)	(50,481,013)	(35,535,104)
	<u>2,815,124,163</u>	<u>3,078,275,369</u>
	=====	=====
<b>8. Capital appreciation reserve</b>		
Quoted equity securities	27,272,730	2,968,577
Unquoted equity securities	44,375,749	-
	<u>71,648,479</u>	<u>2,968,577</u>
	=====	=====

Equity securities are stated at the market values as at the balance sheet date. Any surplus arising from the revaluation of these securities over the cost of acquisition at the balance sheet date is retained in the capital appreciation reserve. Any diminution in value is dealt with through the profit and loss account.

	2010 N	2009 N
<b>9. Accumulated deficit</b>		
As at 1st January	(601,509,802)	-
Transfer from profit and loss account	11,996,691	(601,509,802)
As at 31st December	<u>(589,513,111)</u>	<u>(601,509,802)</u>
	=====	=====
<b>10. Net assets per unit</b>	0.81	0.80
	====	====

The net assets per unit is computed using the net asset value as at the balance sheet date divided by the 2,835,560,562 units (2009: 3,094,975,121 units) in existence as at that date.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER, 2010 (Continued)**

	Year ended 31st December 2010 N	18 months ended 31st December 2009 N
<b>11. Gross income</b>		
Franked investment income	25,185,807	35,170,658
Asset Backed Investment income (note (i))	29,664,285	95,806,652
	<u>54,850,092</u>	<u>130,977,310</u>
	=====	=====
<b>(i) Asset backed investment income</b>		
Income from Ijarah	9,756,508	56,853,968
Income from Mudarabah	12,856,110	31,480,175
Income from Murabahah	1,331,667	7,472,509
Income from Musharakah	5,720,000	-
	<u>29,664,285</u>	<u>95,806,652</u>
	=====	=====
<b>12. Operating expenses</b>		
Management remuneration	63,551,561	-
Management fees (note 19)	-	191,973
Trustees fees (note 20)	2,250,254	3,756,177
Audit fees	3,200,000	3,200,000
Other expenses	9,661,618	20,030,518
	<u>78,663,433</u>	<u>27,178,668</u>
	=====	=====
<b>13. Quoted securities trading</b>		
Proceeds on securities trading	197,546,832	102,424,135
Cost of securities disposed	(162,655,039)	(211,979,377)
	<u>34,891,793</u>	<u>(109,555,242)</u>
	=====	=====
<b>14. Operating profit/( loss) for the year/period</b>	<u>11,078,452</u>	<u>(5,756,600)</u>
	=====	=====
This is stated after charging:		
Audit fees	3,200,000	3,200,000
Management remuneration (note 19)	63,551,561	-
Management fees (note 19)	-	191,973
Trustees' fees (note 20)	2,250,254	3,756,177
	<u>69,001,815</u>	<u>7,148,150</u>
	=====	=====

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER, 2010 (Continued)**

	2010 N	2009 N
<b>15. Exceptional items</b>		
Provision no longer required/ (Provision for diminution in value) of quoted investments	129,687,339	(501,405,979)
Provision for doubtful receivables	(176,673,593)	(30,856,147)
Initial public offer expenses	-	(95,509,114)
	-----	-----
	(46,986,254)	(627,771,240)
	=====	=====
<b>16. Taxation</b>		
Tax withheld on franked investment income	2,576,520	3,517,066
	=====	=====
<b>17. Gain on redemption</b>		
Gain on redemption	50,481,013	35,535,104
	=====	=====

In accordance with the provisions of the unit trust scheme, the members' capital account is shown at cost. The redemption of the unit, arising upon the sale of the unit by the holder, is carried out by the scheme. The discount thus arising to the unit holders has been recognised as a revenue reserve. The amount of N50,481,013, (2009: N35,535,104) which arose as a gain to the Fund from the redemption of the units by members during the year has been recognised as a revenue reserve and treated accordingly.

	2010 N	2009 N
<b>18. Loss per unit</b>		
Loss per unit	0.01	0.21
	=====	=====

The loss per unit is computed using the loss for the period divided by the 2,835,560,562 units (2009: 3,094,975,121 units) in existence as at the year end date.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER, 2010 (Continued)**

**19. Management remuneration and fees**

The manager's remuneration for the year amounted to ~~N~~63.55 million (2009: nil) representing 30% of the total returns in the first and second quarters of the year.

No management fee was charged for the year ended 31st December, 2010 (2009: ~~N~~191,973). Management fee is based on 1.5% of the net asset value of the Fund for the year. However, the Fund Manager has waived its right to the total fee due to the loss made during the year.

The Fund Manager's fee and other operating expenses for the year amounted to ~~N~~78.66 million (2009: ~~N~~27.18 million), which is within the allowable limit of 5% of the Fund's net asset value.

**20. Trustees fees**

The trustees' fees for the year ended 31st December, 2010, which is based on 0.1% of the Fund's net asset value as at the balance sheet date amounted to ~~N~~2,250,254.

**STATEMENT OF VALUE ADDED  
FOR THE TEAR ENDED 31ST DECEMBER, 2010**

	Year ended 31st December 2010		18 months ended 31st December 2009	
	N	%	N	%
Gross income	54,850,092		130,977,310	
Income from quoted investments	34,891,793		-	
Less: Bought in materials and services	(125,649,687)		(764,505,150)	
Value lost	(35,907,802)	(100)	(633,527,840)	(100)
	=====	=====	=====	=====
Applied in the following ways:				
<b>To pay the providers of capital:</b>				
Capital gain on redemption	(50,481,013)	(140)	(35,535,104)	(6)
<b>To pay the government:</b>				
Taxation	2,576,520	7	3,517,066	1
<b>To provide for the maintenance of the capital:</b>				
Movement on revenue reserve	11,996,691	33	(601,509,802)	(95)
	(35,907,802)	(100)	(633,527,840)	(100)
	=====	=====	=====	=====

**PROXY FORM AND ADMISSION CARD**

**PROXY FORM FOR 2nd ANNUAL GENERAL MEETING OF LOTUS CAPITAL HALAL INVESTMENT FUND TO BE HELD ON WEDNESDAY THE 2ND DAY OF NOVEMBER, 2011**

I/We \* \_\_\_\_\_ of \_\_\_\_\_  
being a holder/holders of Units in the Lotus Capital Halal Investment Fund, hereby appoint: -

\*\* \_\_\_\_\_ or failing him/her, the  
Chairman of the meeting as my/our proxy to act and vote for me/us on my/our behalf as he/she deems fit at the Annual General Meeting of the Fund to be held on Wednesday the 2nd day of November, 2011 at Lagos Airport Hotel located at No. 111, Obafemi Awolowo Way, Ikeja at 9:00am and at any adjournment thereof:

To be valid, the Proxy Form must be stamped by the Commissioner for Stamp Duties. The Proxy Form should not be completed if you are attending the meeting. If you are unable to attend the meeting, please read the following instruction:

1. Write your name in Block letters in the portion of the Proxy Form marked \*
2. Write the name of your proxy where marked \*\* and ensure that the Proxy Form is signed and dated by you. The common seal must be affixed on the Proxy Form if executed by a corporation.

Please note that the Proxy Form must reach the office of the Registrar (Messrs Unity Registrars) at Unity Bank Building, 94, Agege Motor Road, Idi Oro, Lagos not later than 48 (Forty - eight) hours before the time of the meeting.

\_\_\_\_\_ Dated \_\_\_\_\_ day of \_\_\_\_\_ 2011.  
**SIGNATURE**

RESOLUTIONS	FOR	AGAINST
1. "That the report of the Fund Manager and the audited financial statements for the year ended 31st December, 2010 now submitted be and are hereby received."	<input type="checkbox"/>	<input type="checkbox"/>
2. "That a distribution equivalent to (₦0.004) per unit of the Fund recommended be and is hereby declared payable on November 2nd, 2011 to Unitholders whose names appear in the Register of Unitholders as at the close of business on October 17, 2011"	<input type="checkbox"/>	<input type="checkbox"/>
3. "That the Fund Manager be and is hereby authorized to fix the remuneration payable to the Auditors for the ensuing year."	<input type="checkbox"/>	<input type="checkbox"/>

**SPECIAL RESOLUTIONS**

- |      |   |                      |                      |
|------|---|----------------------|----------------------|
| 1.   | “That the Trust Deed dated 31st January, 2008 (“Trust Deed”) between Lotus Capital Limited (as Manager) and First Trustees Nigeria Limited (as Trustee), as amended by the First Supplemental Trust Deed dated August 25, 2010, be supplemented and amended in the manner described below.” | <input type="text"/> | <input type="text"/> |
| 2.   | “That the the Trust Deed between the Manager and Trustee be supplemented and amended in the manner described below.”  | <input type="text"/> | <input type="text"/> |
| I.   | By the insertion of new Clauses 7.1 - 7.2 on the custody of the deposited property.   | <input type="text"/> | <input type="text"/> |
| II.  | By the insertion of a new clause 7.4 on the custody of title documents of investment  | <input type="text"/> | <input type="text"/> |
| III. | “That the Fund Manager be and is hereby authorized to amend the Asset classes and proportions in the asset allocation policy of the Fund specified in clause 8.4.4 of the Trust Deed.”  | <input type="text"/> | <input type="text"/> |
| IV.  | By the insertion of a new proviso at the end of Clause 27.5 of the Original Trust Deed on the annual management fee and other expenses of the Fund.   | <input type="text"/> | <input type="text"/> |
| V.   | By the insertion of a new Clause 27.6 of the Original Trust Deed on the accrual and basis of charging the annual management fee by the Fund Manager.  | <input type="text"/> | <input type="text"/> |

**PROXY FORM AND ADMISSION CARD**

**THE LOTUS CAPITAL HALAL FUND UNITHOLDER'S ADMISSION CARD**

Please admit the Unitholder or his/her/its duly appointed proxy to the 2nd Annual General Meeting of the Lotus Capital Halal Investment Fund to be held at No. 111, Obafemi Awolowo Way, Ikeja, Lagos on Wednesday, November 2, 2011 at 9:00am.

NAME OF PERSON ATTENDING: .....

UNITHOLDER

PROXY

Signature: .....

**IMPORTANT:**

- A. This admission card must be produced by the Unitholder or his/her/its proxy in order to obtain admittance to the venue of the Annual General Meeting.
- B. Unitholders or their proxies are requested to sign this admission card before they seek admittance to the meeting. The common seal must be affixed on the Proxy Form if executed by a corporation.