

***LOTUS HALAL EQUITY EXCHANGE TRADED FUND***

***Managed by***

***LOTUS CAPITAL LIMITED***

***FINANCIAL STATEMENTS***

***For the year ended***

***31<sup>ST</sup> DECEMBER, 2022***

# **LOTUS HALAL EQUITY EXCHANGE TRADED FUND**

***Audited financial statements for the year ended 31<sup>st</sup> December, 2022***

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## **LOTUS HALAL EQUITY EXCHANGE TRADED FUND**

### ***Corporate information***

#### ***Fund Manager***

Lotus Capital Limited

#### ***Directors of the Fund Manager***

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

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

Plot 1b, Udi Street  
Osborne Foreshore Estate  
Osborne Road, Ikoyi  
Lagos

#### ***Trustees to the Fund***

FBNQuest Trustees Limited  
10, Keffi Street  
off Awolowo Road, Ikoyi  
Lagos

#### ***Independent auditors to the Fund***

Crowe Dafinone  
Chartered Accountants  
15 Elsie Femi Pearse Street  
Off Kofo Abayomi  
Victoria Island  
Lagos

#### ***Custodian to the Fund***

Citibank Nigeria Limited  
27, Kofo Abayomi Street  
Victoria Island  
Lagos

#### ***Registrar to the Fund***

FBN Registrars and Investors Services Limited  
Plot 2, Abebe Village Road,  
Iganmu,  
Lagos.

# LOTUS HALAL EQUITY EXCHANGE TRADED FUND

## Report of the Trustees

The Trustees present their report on the affairs of the Lotus Halal Equity Exchange Traded Fund, together with the audited financial statements for the year ended 31<sup>st</sup> December, 2022.

**Principal activity:** The Lotus Halal Equity Exchange Traded Fund is an open-ended Fund that enable unitholders obtain market exposure to the constituents companies comprising NGX-Lotus Islamic Index in an easily tradable form as listed securities tradable on Nigeria Stock Exchange (NGX) (or any other Licensed exchange on which the Lotus Halal Equity Exchange Traded Fund may be listed) and replicate as much as possible, the price and yield performance of the NGX Lotus Islamic Index.

The investment objective of the ETF is to track the NGXLotus Islamic Index (LII). The NGX Lotus Islamic Index is an adjusted market capitalisation weighted index currently composing thirteen (13) Shari'ah compliant equity listed on the floor of the Nigeria Stock Exchange.

**Results:** The results for the year are set out on Page 13.

**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  
Mr. Moshood Babatunde

**Directors' and related parties interest in the units of the Fund:** The directors of the Fund Manager who held direct and indirect beneficial interest in the units of the Fund as at 31<sup>st</sup> December, 2022 are:

	2022 Units	2021 Units
Mr. Fola Adeola	6,343,846	6,489,846
Mrs. Hajara Adeola	521,893	751,141
Mrs. Lateefah Okunnu	376,123	376,123

None of the directors of FBNQuest Trustees Limited has any direct or indirect beneficial interest in the units of the Fund.

## **LOTUS HALAL EQUITY EXCHANGE TRADED FUND**

### ***Report of the Trustees (continued)***

#### ***Responsibilities of the Fund Manager:***

The Investments and Securities Act, 2007 requires the Fund Manager to keep proper books of accounts 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 our opinion, the Fund Manager has in preparing the financial statements:

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

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 Applicable Regulations.

The Fund Manager is also responsible for maintaining adequate financial resources to meet its commitments and to manage the risks to which the Fund is exposed.

#### ***Responsibilities of the Trustee:***

The responsibilities of the Trustee as provided by the Trust Deed and other Supplemental thereto, the Securities and Exchange Commission's Rules and Regulations made pursuant to the Investments and Securities Act, 2007 are as stated below:

- Monitoring of the activities of the Fund Manager and the custodian on behalf of and in the interest of the Unit Holders;
- Ensuring that the Custodian takes into custody all of the scheme's assets and hold it in trust for the holders in accordance with the Trust Deed and the Custodial Agreement;
- Monitoring the register of unit holders;
- Ascertaining the Fund Manager's compliance with the Applicable Regulations;
- Ascertaining that the monthly and other periodic returns/reports relating to the Fund are sent by the Fund Manager to the Commission;

## **LOTUS HALAL EQUITY EXCHANGE TRADED FUND**

### **Report of the Trustees (continued)**

#### **Responsibilities of the Trustee: (continued)**


- Exercising any right of voting conferred on it as the registered holder of any investment and/or forward to the Fund Manager within a reasonable time all notices of meetings, reports, circulars, proxy solicitations and any other document of a like nature for necessary action;
- Ensuring that fees and expenses of the fund is within the prescribed limits; and
- Acting at all times in the interest and for the benefit of unit holders of the scheme.

**Administration of the fund:** During the year under review, the Fund was administered in accordance with the applicable regulations, taking into cognisance prevailing market conditions as well as preserving and minimising possible losses to unit holders.

**Charitable donations:** The Fund did not make any charitable donations during the year. (2021: Nil)

**Independent auditors:** Messrs Crowe Dafinone Chartered Accountants, having indicated their willingness to continue in office, shall do so in accordance with Section 184(1) of the Investments and Securities Act, 2007.

**By Order of the Trustee**

  
**Adekunle Awojobi,**  
**FRC/ICAN/2013/00000002442**  
**Managing Director**  
**FBNQuest Trustees Limited**  
**Lagos, Nigeria.**  
**March 31, 2023**

# **LOTUS HALAL EQUITY EXCHANGE TRADED FUND**

## **Report of the Fund Manager**

Dear Investor,

This report provides an overview of the performance of the Lotus Halal Equity Exchange Traded Fund from January 1, 2022 to 31<sup>st</sup> December, 2022.

### **INVESTMENT OBJECTIVES**

The Lotus Halal Equity Exchange Traded Fund ('LHE ETF' or 'the Fund') is an open-ended fund designed to track the performance of the NGX Lotus Islamic Index ('the Index'). The Lotus Halal Equity ETF is designed to enable investors obtain exposure to the securities of the constituent companies of the NGX Lotus Islamic Index and to replicate the price and yield performance of the Index.

### **MARKET REVIEW**

Geopolitical tensions at a global scale had a notable impact on the pace of post-COVID economic recovery in 2022, particularly as a war erupted between Russia and Ukraine. As a result, there was significant disruption to global supply chain which caused commodity prices to rise considerably. By the end of December, Brent crude oil prices had risen by 10.45% over the year, eventually settling at \$85.91/barrel. The higher energy prices and other shocks drove inflation to unprecedented levels. To counteract the inflationary pressures, central banks resorted to interest rate hikes as part of their monetary policy efforts, causing economic growth to decelerate further. According to the World Bank, global economic growth in 2022 was estimated at 2.90%, representing a considerable deceleration from the 5.90% growth rate observed in 2021.

In 2022, the Nigerian economy experienced a growth rate of approximately 3.10%, down from the previous year's growth rate of 3.40%. During the period, the Central Bank of Nigeria (CBN) shifted its focus from stimulating economic growth to containing inflationary pressures, which prompted a 500-basis-point increase in the benchmark interest rates to 16.50%. This hike in interest rates led to an increase in yields on fixed income instruments. Notwithstanding, the local equities market sustained a positive performance, recording its third consecutive year of gains. At the close of the year, the NGX All-Share Index (ASI) was up by 19.98%.

Sector-wise, most sectors performed well with three out of five sectors ending the year in positive territory. The NGX Oil and Gas Index emerged as the best-performing index for the second consecutive year, returning 34.05% followed by the NGX Industrial Goods Index (+19.67%) and the NGX Banking Index (+2.81%). On the other hand, the NGX Insurance Index and the NGX Consumer Goods Index posted negative returns of -11.99% and -0.06%, respectively.

The significant exposure of the NGX Lotus Islamic Index to consumer and industrial goods sectors led to a gain of 7.69% in 2022.

### **INVESTMENT STRATEGY**

The Lotus Halal Equity ETF (LHE ETF) underwent semi-annual rebalancing to realign it with its tracking index - the NGX Lotus Islamic Index. During this exercise, the fund's exposure per industry was capped at 40%, while individual stock exposures were capped at 30%.

### **ASSET ALLOCATION**

As at 31<sup>st</sup> December, 2021, equities accounted for 95% of the portfolio, while the balance of 5% was held in near cash items to ensure that the LHE ETF had sufficient liquidity to cover expenses as they fall due.

## **LOTUS HALAL EQUITY EXCHANGE TRADED FUND**

### ***Report of the Fund Manager (continued)***

#### **FUND PERFORMANCE**

The Lotus Halal Equity Exchange Traded Fund (LHE ETF) closed the year with a Net Asset Value of ₦ 15.84/unit which corresponds to price return of 12.9% and a total return of 17.18%. The fund exceeded the price return of its tracking index by 5.21% after making a distribution of ₦ 0.60/unit in the final quarter of the year out of its dividend income.

#### **OUTLOOK FOR 2023**

With an upcoming national election coupled with the Federal Government's expenditure plan for 2023, we expect high private and public spending in the new year, which would be associated with increased borrowings. In addition, given the CBN's intent to maintain elevated lending rates, we anticipate an increase in fixed income yields. Under this scenario, investors may show higher preference for fixed income investments over equities which could dampen broad market sentiment. However, we expect that fundamentally strong stocks with good dividend yields would continue to outperform the broad market and would remain well suited for medium-long term equity investors.

The NGX Lotus Islamic Index is set to undergo its next rebalancing and reconstitution on January 1, 2023, with NAHCO Plc, Nascon Plc, and Presco Plc exiting the index after failing to meet the NGX Lotus Islamic Index's screening criteria at the end of 2022. CAP Plc, which recently met the index's screening criteria, will be rejoining the index. The Lotus Halal Equity ETF will also undergo a rebalancing process to reflect the changes in its tracking index. The fund will remain invested in Shariah-compliant stocks that we believe have strong fundamental value and provide diversification opportunities for investors. Among the top holdings of the Lotus Halal Equity ETF are MTN Nigeria Plc, Airtel Africa Plc, Dangote Cement Plc, BUA Cement Plc and Okumo Oil Plc which are the most capitalized in their respective industries.

We appreciate your continued patronage of the Lotus Halal Equity Exchange Traded Fund and wish you a prosperous 2023. For further information, please contact us at [info@lotuscapitallimited.com](mailto:info@lotuscapitallimited.com).

***Report of the Shariah Supervisory Board***

**Shariah Report for the fiscal year ended December 31, 2022**

**Lotus ETF**

In the name of Allah, the Most Beneficent, Most Merciful.

Alhamdu Lillahi Rabbi al Alamin, wa al Salatu wa al Salamu'ala Sayyidina  
Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

**To the unitholders of the Lotus Halal Equity Exchange Traded Fund**

Assalamu Alaikum Wa Rahmatu Allah Wa Barakatuh

We have reviewed the principles of investments made by Lotus Capital Limited (“the Fund Manager”) during the year under review. We have also received assurances from the Fund Manager that all investments made by the Fund were in screened and shariah-compliant equities listed on the Nigeria Stock Exchange. This allowed us to form an opinion as to whether the Fund Manager complied with Shariah Rules and Principles and with the rulings set by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). Accordingly, in our opinion, the investments made by the Fund Manager during the period under review were generally in compliance with Shariah Rules and Principles. The Shariah Supervisory Board will continue to work with the Fund Manager to always ensure its Shariah compliance.

The Fund Manager is responsible for ensuring that all investments made by the LHE ETF are in accordance with Islamic Rules and Principles. It is the Shariah Supervisory Board's responsibility to form an independent opinion on Shariah compliance based on its review of the operations and activities of the Fund. The Fund Manager has calculated the amount of non-permissible income per fund unit and communicated it to investors for payment to charity in accordance the rules of Shariah. The Fund Manager has not been given the authority to pay Zakah on behalf of unitholders. This is the responsibility of the unitholders themselves.

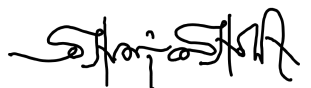
We ask Almighty Allah to grant us all wisdom to understand His religion and follow its teaching and to bestow on us success in this worldly life and in the life after.

Wassalamu Alaikum Wa Rahmat Allah Wa Barakatuh.

April 4, 2023



**Prof. Dr. Monzer Kahf**  
Chairman Shariah Board  
Lotus Capital Limited



**Dr. Marjan Binti Muhammad**  
Member Shariah Board  
Lotus Capital Limited

## **LOTUS HALAL EQUITY EXCHANGE TRADED FUND**

### **Report of the Shari'ah Supervisory Board (continued)**

#### **Shari'ah Supervisory Board**

The Shari'ah Supervisory Board is an independent body of specialist jurists in Islamic commercial jurisprudence. The Shari'ah Supervisory Board is entrusted with the duty of directing, reviewing and supervising the investment activities of Lotus Capital and its funds, ensuring that the fund's complies with the Shari'ah. The board is also entrusted with ensuring that any Shari'ah issues pertaining to the company are dealt with in a professional manner, in line with standards set by Islamic financial institutions.

The rulings and resolutions of the Shari'ah Supervisory Board are binding on the company and its products. It is the responsibility of the Shari'ah Supervisory Board to conduct regular audits of transactions and to form an independent opinion, based on reviews of operations. The fund's external Supervisory Board members comprise:

**Prof. Dr. Monzer Kahf** - Dr Kahf is a consultant and lecturer on Islamic Banking, Finance and Economics. He has aided the drafting and review of various Islamic finance agreements for Islamic financial institutions in the USA and also for lawyers, companies and individuals. He has lectured on Islamic Financial Laws and Regulations, and on Islamic Economic and Finance at conferences and community seminars within the USA and overseas. He was a Senior Research Economist at the Islamic Research and Training Institute of the Islamic Development Bank (IDB), Jeddah, Saudi Arabia for 15 years. He was also a Professor of Islamic Economics and Banking in the graduate program of Islamic Economics and Banking at Yarmouk University, Jordan. He is currently a professor of Islamic finance at the Qatar Faculty of Islamic Studies.

Dr Kahf holds a Ph.D. in Economics from the University of Utah, Salt Lake City, Utah, March 1975, a High Diploma in Social and Economic Planning, UN Institute of Planning, Damascus, Syria, 1967. He is also a Certified Public Accountant in Syria since 1968. His Shari'ah scholarship is a product of life-long training at the Ulama of Damascus, Syria and continuous research, study and teaching.

#### **Dr. Marjan Binti Muhammed**

Dr. Marjan is a member of the Shari'ah Board of Lotus. She attended the International Islamic University Malaysia where she obtained her B.Sc. (Hons) degree in Islamic Revealed Knowledge and Heritage (Fiqh and Usul-l-Fiqh) in 1998. She had her M.Sc. and Ph.D. also in Islamic Revealed Knowledge and Heritage (Fiqh and Usul-l-Fiqh) in 2001 and 2005 respectively.

She has worked at the International Shari'ah Research Academy for Islamic Finance from 2013 to date, where she has held several roles ranging from Head of Research Quality Assurance Office, Senior Researcher, and currently Director of Research. She has tutored at the Faculty of Law and Shari'ah at the Universiti Sains Islam Malaysia, with specialization in issues of Ijtihad (Intellectual Reasoning), Islamic Jurisprudence (Usul al-Fiqh), Islamic Laws of Transaction (Fiqh al-Muamalat) and Islamic Criminal Laws (Fiqh al-Jinayah). She has also served on different Shari'ah boards, including MBSB Bank Berhad, RHB Islamic Berhad, Maybank Islamic Berhad, SME Bank Berhad, and she is currently on the Shari'ah board of Bank Negara Malaysia. Dr. Marjan has published articles in both international and local journals and has produced several research papers on Islamic finance.

***REPORT OF THE INDEPENDENT AUDITORS TO THE UNIT HOLDERS OF  
LOTUS HALAL EQUITY EXCHANGE TRADED FUND***

***Opinion***

We have audited the financial statements of Lotus Halal Equity Exchange Traded Fund which comprises, the statement of financial position as at 31<sup>st</sup> December 2022, statement of profit or loss and other comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, the significant accounting policies, other explanatory notes, the statement of value added and the five year financial summary. These financial statements are set out on pages 12 to 40 and have been prepared using the significant accounting policies set out on page 23 to 29.

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31<sup>st</sup> December, 2022 and of its financial performance and its cash flows for the year ended on that date, and comply with the Investment and Securities Act, 2007, the applicable International Financial Reporting Standards in the manner required by the Financial Reporting Council of Nigeria Act 2011 and Securities and Exchange Commission requirement and the provision of Trust Deed.

***Basis for opinion***

We conducted our audit in accordance with International Standards on Auditing (ISAs) in the manner required by the Nigerian Standards on Auditing (NSAs). Our responsibilities under these standards are further described in the auditor's responsibilities for the financial statements.

We believe that the audit evidence we obtained is sufficient and appropriate so as to provide a reasonable basis for our audit opinion.

***Independence***

We are independent of the Fund in accordance with the rules and guidance set out in the International Ethics Standards Board for Accountants Code of Ethics for professional Accountants (the IESBA code). We have fulfilled all of our other ethical responsibilities in accordance with the IESBA code.

***Information other than the financial statements and auditors' report***

The Fund Manager, the Trustees report, Shari'ah Supervisory Board and other information contained therein are the responsibility of fund manager. Our opinion does not cover these reports and accordingly we do not express any form of assurance or conclusion thereon. It is our responsibility to read the other information and in doing so, consider whether the information is materially inconsistent with the financial statements or with the knowledge obtained in the audit, or otherwise appears to be materially misstated. If based on our work we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

**REPORT OF THE INDEPENDENT AUDITORS TO THE UNIT HOLDERS OF  
LOTUS HALAL EQUITY EXCHANGE TRADED FUND (continued)**

***Fund Manager, Trustees' and Shari'ah Supervisory Board responsibilities for the financial statements***

The Fund Manager, Trustees' and Shari'ah Supervisory Board are responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards in the manner required by the Financial Reporting Council of Nigeria Act 2011, and the requirements of the Investment and Securities Act, 2007, whilst the Trustee is responsible for ascertaining compliance with the provisions of the Trust Deed and other relevant laws. These responsibilities of the Fund Manager includes the designing, implementing and maintaining internal controls that are relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error as well as selecting and applying appropriate significant accounting policies and making accounting estimates that are reasonable in the circumstances.

***Auditors' responsibilities for the financial statements***

Our objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error and to issue an auditor's report that include 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 (ISA) 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 ISA, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:-

- Identify and assess the risks 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 significant accounting policies used and the reasonableness of accounting estimates and related disclosures made by fund manager.
- Conclude on the appropriateness of Fund Manager's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

**REPORT OF THE INDEPENDENT AUDITORS TO THE UNIT HOLDERS OF  
LOTUS HALAL EQUITY EXCHANGE TRADED FUND (continued)**

**Auditors' responsibilities for the financial statements (continued)**

- 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 the manner that achieves fair presentation.

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.

**Compliance with the relevant legislation and regulations**

In accordance with Section 169 (1) of the Investment and Securities Act, 2007. We confirm that the financial statements are in agreement with the accounting records, which have been properly kept.

In accordance with Section 169(3) of the Investment and Securities Act, 2007, we confirm that we received all of the information and explanation that were required for the purpose of the audit.

Lagos, Nigeria  
31<sup>st</sup> March, 2023

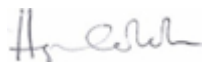
  
**Omolola Samuel**  
Engagement Partner  
FRC/2012/ICAN/00000000358  
For: Crowe Dafinone  
Chartered Accountants



# LOTUS HALAL EQUITY EXCHANGE TRADED FUND

## Statement of financial position as at 31<sup>st</sup> December, 2022

	Notes	2022 ₦	2021 ₦
<b>Assets</b>			
Cash and cash equivalents	7	25,721,373	13,824,961
Financial assets at fair value through profit or loss	8	511,747,183	465,065,169
Other receivables	9	587	587
<b>Total assets</b>		<b>537,469,143</b>	<b>478,890,717</b>
<b>Equity</b>			
Redeemable units		442,897,099	442,897,099
Accumulated surplus		86,026,446	25,796,754
<b>Total equity</b>		<b>528,923,545</b>	<b>468,693,853</b>
<b>Liabilities</b>			
Other payables	10	8,545,598	10,196,864
<b>Total liabilities</b>		<b>8,545,598</b>	<b>10,196,864</b>
<b>Total equity &amp; liabilities</b>		<b>537,469,143</b>	<b>478,890,717</b>
Net asset per unit	11 (a)	15.84 =====	14.03 =====



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**Hajara Adeola**  
**FRC/IODN/2013/00000002955**  
**Fund Manager**



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**Adekunle Awojobi**  
**FRC/ICAN/2013/00000002442**  
**Trustees**

**31st March 2023**

*The general information, the significant accounting policies and the notes set out on pages 16 to 38 form an integral part of these financial statements.*

## LOTUS HALAL EQUITY EXCHANGE TRADED FUND

### Statement of profit or loss and comprehensive income for the year ended 31<sup>st</sup> December, 2022

	Notes	2022 ₹	2021 ₹
Income from financial assets at amortised cost	12	1,277,432	707,540
Dividend income	13	27,505,399	30,323,238
<b>Total revenue</b>		<b>28,782,831</b>	<b>31,030,778</b>
Fair value gain/(loss) from financial assets at fair value through profit or loss	8 (b)	24,087,179	(31,911,060)
Profit on sale of quoted security	14	39,334,212	57,798,424
Other operating expenses	15	(10,255,152)	(9,712,332)
		<b>53,166,239</b>	<b>16,175,032</b>
<b>Profit before taxation</b>		<b>81,949,070</b>	<b>47,205,810</b>
Withholding tax expense	16	(1,679,378)	(1,827,367)
<b>Profit for the year</b>		<b>80,269,692</b>	<b>45,378,443</b>
Basic earnings per unit	11 (b)	2.40	1.36

*The general information, the significant accounting policies and the notes set out on pages 16 to 38 form an integral part of these financial statements.*

## LOTUS HALAL EQUITY EXCHANGE TRADED FUND

### Statement of changes in equity for the year ended 31st December, 2022

	Redeemable units ₹	Accumulated deficit ₹	Total equity ₹
As at 1 <sup>st</sup> January, 2022	442,897,099	25,796,754	468,693,853
Total comprehensive income for the year: Profit for the year	-	80,269,692	80,269,692
	<u>442,897,099</u>	<u>106,066,446</u>	<u>548,963,545</u>
<b>Transactions with unit holders, recognised directly in equity</b>			
Contributions, redemptions and distributions to unitholders			
Redemption of redeemable units	-	-	-
Fair value loss arising from redemption of units holding	-	-	-
Interim dividend paid out	-	(20,040,000)	(20,040,000)
<b>Total transactions with unit holders</b>	<u>-</u>	<u>(20,040,000)</u>	<u>(20,040,000)</u>
<b>As at 31<sup>st</sup> December, 2022</b>	<b><u>442,897,099</u></b> =====	<b><u>86,026,446</u></b> =====	<b><u>528,923,545</u></b> =====
	Redeemable units ₹	Accumulated deficit ₹	Total equity ₹
As at 1 <sup>st</sup> January, 2021	639,464,918	(175,273)	639,289,645
Total comprehensive income for the year: Profit for the year	-	45,378,443	45,378,443
	<u>639,464,918</u>	<u>45,203,170</u>	<u>684,668,088</u>
<b>Transactions with unit holders, recognised directly in equity</b>			
Contributions, redemptions and distributions to unitholders			
Redemption of redeemable units	(196,567,819)	-	(196,567,819)
Fair value loss arising from redemption of units holding	-	(7,048,416)	(7,048,416)
Interim dividend paid out	-	(12,358,000)	(12,358,000)
<b>Total transactions with unit holders</b>	<u>(196,567,819)</u>	<u>(19,406,416)</u>	<u>(215,974,235)</u>
<b>As at 31<sup>st</sup> December, 2021</b>	<b><u>442,897,099</u></b> =====	<b><u>25,796,754</u></b> =====	<b><u>468,693,853</u></b> =====

The general information, the significant accounting policies and the notes set out on pages 16 to 38 form an integral part of these financial statements.

**LOTUS HALAL EQUITY EXCHANGE TRADED FUND**

**Statement of cash flows for the year ended 31<sup>st</sup> December, 2022**

	Notes	2022 ₹	2021 ₹
<b>Cash flows from operating activities</b>			
Profit before taxation		81,949,070	47,205,810
<b>Adjustment for items not involving movement of cash</b>			
Fair value loss/(gain) on financial asset	8 (a)	(24,087,179)	31,911,060
(Gain)/loss on sales of financial assets at fair value through profit or loss	14	(39,334,212)	(57,798,424)
<b>Changes in working capital:</b>			
Increase in trade and other payables		(1,651,266)	3,035,322
Cash inflow from operations		16,876,413	24,353,768
Tax paid	16	(1,679,378)	(1,827,367)
<b>Net cash inflows from operating activities</b>		<b>15,197,035</b>	<b>22,526,401</b>
<b>Cash flows from investing activities</b>			
Proceeds from sales of financial assets at fair value through profit or loss		163,269,483	58,589,951
Purchase of financial assets at fair value through profit or loss	8 (a)	(146,530,106)	(73,449,363)
<b>Net cash inflows from investing activities</b>		<b>16,739,377</b>	<b>(14,859,412)</b>
<b>Cash flows from financing activities</b>			
Payment on redemption of redeemable units		-	(10,296,870)
Dividend paid		(20,040,000)	(12,358,000)
<b>Net cash outflows from financing activities</b>		<b>(20,040,000)</b>	<b>(22,654,870)</b>
Net increase in cash and cash equivalents		11,896,412	(14,987,881)
Cash at the beginning of the year		13,824,961	28,812,842
<b>Cash and cash equivalents at end of the year</b>	7	<b>25,721,373</b>	<b>13,824,961</b>

*The general information, the significant accounting policies and the notes set out on pages 16 to 38 form an integral part of these financial statements.*

# **LOTUS HALAL EQUITY EXCHANGE TRADED FUND**

## **Notes to the financial statements for the year ended 31<sup>st</sup> December, 2022**

### **1. General information**

Lotus Halal Equity Exchange Traded Fund (“the Fund”) is an open-ended Unit Trust Scheme authorised and registered by the Securities and Exchange Commission. The Fund’s principal office is located at Lotus Capital Limited, 1b Udi Street, Osborne Foreshore Estate, Ikoyi, Lagos, Nigeria.

Lotus Halal Equity ETF Securities (“LHE ETF”) are securities issued by Lotus Capital Limited (“the Fund Manager”). These securities are listed and traded on the Nigeria Exchange in much the same way as any listed share.

The Fund is managed by Lotus Capital Limited (“the Fund Manager”) and the trustees to the Fund are FBNQuest Trustees Limited (“the Trustees”).

The LHE ETF is benchmarked against the NGX-Lotus Islamic Index. This means that the price of the LHE ETF on the NGX should track the movements of the NGX-Lotus Islamic Index. In addition, a Unitholder ought to receive distributions equal *pro rata* to the distributions (i.e. yield return) less expenses, which would be earned if that Unitholder held the constituent shares comprising the NGX-Lotus Islamic Index directly.

#### **1.1 THE NGX-LOTUS ISLAMIC INDEX**

The NGX-Lotus Islamic Index (NGX-LII) is an equity index that tracks the performance of selected Shari’ah compliant equities listed on the floor of the Nigerian Stock Exchange. The NGX-LII is an adjusted market capitalization weighted index composed of 12 (2021: 13) screened equities with weights applied to component stocks and sub-sectors. The NGX LII is the first index created to track the performance of Shari’ah compliant equities on the Nigerian Stock Exchange and presently comprises stocks which have met the eligibility requirements of Shari’ah-based screening by Lotus Capital Limited.

#### **1.2 COMPOSITION OF THE NGX-LOTUS ISLAMIC INDEX**

The Composition of the NGX-Lotus Islamic Index is guided by the following rules:

- The Equity Universe is based on the stocks listed on the Nigerian Stock Exchange that meet the screening criteria:
  1. Qualitative Screening: i.e. exclusion of unethical sub-sectors;
  2. Quantitative Screening: i.e. use of financial ratios and factors certified by a Shari’ah Advisory Board; and
  3. Other Screening: Equity components in the index must rank top in terms of market capitalisation and average volume traded daily over the last six months. This is to ensure that only large cap, highly liquid, yet compliant stocks are selected
- No Sector should have a weighting of more than 40%;
- No individual listed equity can have a weighting of more than 30%.

The components of the Index are subjected to the above rules on a semi-annual basis and rebalanced accordingly. Also, the index is adjusted to account for Corporate Actions distributions from the Constituent Companies.

## **LOTUS HALAL EQUITY EXCHANGE TRADED FUND**

*Notes to the financial statements for the year ended 31<sup>st</sup> December, 2022 (continued)*

### **1. General information (continued)**

#### **1.2 COMPOSITION OF THE NGX-LOTUS ISLAMIC INDEX (continued)**

##### **A. METHODOLOGY OF THE NGX-LOTUS ISLAMIC INDEX**

In selecting eligible securities for the NGX Lotus Islamic Index, each company undergoes a 2-stage screening which must be passed.

- Qualitative screening: this stage eliminates any listed company that deals in alcoholic beverages, tobacco, conventional financial services such as banks and insurance companies, gambling and adult entertainment.
- Quantitative screening: the qualifying companies are then evaluated on the basis of Islamic Financial (quantitative) screens to eliminate those with unacceptable levels of debts, cash and interest income based on standards and criteria by the Accounting and Auditing Organisation for Islamic Financial Institution (AAOIFI).

In addition to the foregoing, the liquidity and market capitalisation of the companies are considered.

##### **LISTING OF THE LOTUS HALAL EQUITY ETF**

LHE ETF Securities is listed on the NGX in order to enable Holders to buy and sell Lotus Halal Equity ETF on a recognised stock exchange. .

- As all the units of the LHE ETF Securities are listed on the NGX, the securities are freely traded on the NGX on Trading Days during market trading hours. Investors can therefore acquire LHE ETF Securities on the secondary market by purchasing through a member of the NGX. There is no minimum trading value for trades made in the secondary market.

#### **1.4 PRICING OF LOTUS HALAL EQUITY ETF**

The price that would be paid or received for the Lotus Halal Equity ETF Securities will be determined by the prevailing market price on the NGX at the time of the trade. The Lotus Halal Equity ETF are priced so as to ensure that their NGX trading price remains equivalent to approximately 1/200th of the index level of the NGX-Lotus Islamic Index plus an amount which represents a *pro rata* portion of any accrued net income (income accruals less permissible expenses).

The actual market prices may be affected by supply and demand and other market variables. However, the ability of a holder to claim delivery of a block in terms of the agreements constituted by the Lotus Halal Equity ETF, should substantially avoid or minimise any differential which may otherwise arise between the price at which the Lotus Halal Equity ETF trade and the value of the underlying Basket of securities.

#### **1.5 SUBSCRIPTION AND REDEMPTION**

In addition to being able to purchase and sell Lotus Halal Equity ETF in the secondary market through a trade on the NGX (as described above), investors may directly subscribe or redeem units of the LHE ETF, subject to a minimum creation/redemption value threshold of a Block of ETF unit (i.e. 5,000,000 units of the Lotus Halal Equity ETF or 25 Baskets), as follows:

## **LOTUS HALAL EQUITY EXCHANGE TRADED FUND**

*Notes to the financial statements for the year ended 31<sup>st</sup> December, 2022 (continued)*

### **1. General information (continued)**

#### **1.5 SUBSCRIPTION AND REDEMPTION (continued)**

##### **Subscriptions:**

Investors will be able to acquire units of the LHE ETF Securities in the following ways:

##### **(i) In Specie subscription**

Any investor wishing to subscribe for units (one Block or more) of the LHE ETF Securities should contact the Authorised Dealer. Applicants subscribing for units of the LHE ETF Securities in-specie should follow the procedure set out in the Fund's Prospectus.

Furthermore, an investor will be required to deposit the cash component alongside the delivery of the Basket of the constituent securities of the NGX-LII. The cash component represents accrued dividends, accrued annual charges including management fees and residual cash in the Fund. In addition, the cash component will include transaction costs for creating Units. The cash component for creation will vary from time to time.

##### **(ii) Cash subscriptions**

Any investors willing to subscribe for one or more Blocks of the LHE ETF Securities in cash should contact the Authorised Dealer. The procedure for Cash Subscriptions shall be as specified by the Authorised Dealer and/or the Manager.

##### **Redemptions:**

In addition to being able to sell Lotus Halal Equity ETF in the secondary market through a trade on the NGX, Holders of one or more Blocks of Lotus Halal Equity ETF will be entitled to take delivery of the prescribed number of Baskets on any Trading Day.

For every Block of Lotus Halal Equity ETF in respect of which a Holder exercises the delivery rights, that Holder will be entitled to take delivery of twenty-five Baskets of Shares. In addition to the delivery of the Baskets of Shares, the Holder will be entitled to receive from LHE ETF Trust, an amount in cash representing a proportionate interest in any Distribution amount within the LHE ETF Trust which may be attributed to the Block(s) in respect of which the Holder is exercising its delivery rights. The Lotus Halal Equity ETF comprising the Block in respect of which the Holder exercises its delivery rights shall be cancelled against delivery of the prescribed number of Baskets (together with the appropriate cash amount) to that Holder. The delivery rights attaching to Lotus Halal Equity ETF may only be exercised in respect of one or more whole Blocks of Lotus Halal Equity ETF. A transaction fee will be payable by a Holder exercising its delivery rights under Lotus Halal Equity ETF. The fees may include transfer fees, stamp duty charges and or the relevant investor's broker's charges.

#### **1.6 REBALANCING OF THE PORTFOLIO OF SECURITIES HELD BY THE LHE ETF TRUST**

As the investment objective of the LHE ETF Trust is to track the price and yield performance of the NGX-Lotus Islamic Index, any change to the NGX-Lotus Islamic Index (for example a change in the composition of the NGX-Lotus Islamic Index and/or in the weighting of the securities within the NGX-Lotus Islamic Index) will require the LHE ETF Trust to make corresponding adjustments to its portfolio from time to time. The Portfolio Manager may adjust the composition and/or weighting of the securities held in the LHE ETF Trust's portfolio from time to time and shall, to the maximum extent practicable, immediately conform to changes in the composition and/or weighting of the securities within the NGX-Lotus Islamic Index.

## **LOTUS HALAL EQUITY EXCHANGE TRADED FUND**

### **Notes to the financial statements for the year ended 31<sup>st</sup> December, 2022 (continued)**

#### **1. General information (continued)**

##### **1.6 REBALANCING OF THE PORTFOLIO OF SECURITIES HELD BY THE LHE ETF TRUST (continued)**

LHE ETF Trust will be made when, for example, corporate events occur which result in a change in the composition and/or weighting of the NGX-LII.

Although the investment objective of the LHE ETF Trust is to provide investment results which track the performance of the NGX-Lotus Islamic Index, it will not always be efficient to replicate the composition and/or weighting of the NGX-Lotus Islamic Index precisely if the transaction costs incurred by the LHE ETF Trust in adjusting its portfolio would exceed the expected mis-weighting. Accordingly, minor mis-weightings will generally be permitted.

The Portfolio Manager will rely ultimately on the NGX for information as to the composition and/or weighting of the NGX-Lotus Islamic Index. If the Portfolio Manager is unable to obtain such information on any business day then the composition and/or weighting of the NGX-Lotus Islamic Index most recently published will be used for the purposes of all adjustments.

#### **DISTRIBUTIONS**

All distributions will be paid out of the LHE ETF Trust's income (whether in the form of dividends or otherwise) net of expenses. Distributions will be effected by the Registrar on behalf of the LHE ETF Trust. The costs of effecting distributions will be deducted from the gross income figure. Any distribution which is unclaimed for twelve (12) years from the date it became payable shall be forfeited and become the property of the LHE ETF Trust, and will be utilised to improve index-tracking within the LHE ETF Trust. Notwithstanding the foregoing, it should be noted that though Holders are beneficiaries of the LHE ETF Trust, there can be no guarantee that they will receive quarterly distributions.

##### **A. SHARI'AH ADVISERS FOR THE INDEX**

The NGX-LII is certified by an internationally recognized Shari'ah Advisory Board comprised of renowned Islamic Scholars.

##### **1.7 INVESTMENT OBJECTIVES**

Lotus Halal Equity ETF is designed to enable Unitholders to obtain market exposure to the Constituent Companies comprising NGX-Lotus Islamic Index in an easily tradable form as listed securities tradable on the NGX (or any other Licensed exchange on which Lotus Halal Equity ETF may be listed) and to replicate, so far as possible, the price and yield performance of the NGX-Lotus Islamic Index. This replication is referred to as "tracking".

#### **STRUCTURE**

Lotus Capital Limited is duly regulated and registered by the Securities & Exchange Commission ("SEC") to carry on business as a Fund/Portfolio Manager.

LHE ETF Trust is the entity with which the contracts comprising the Lotus Halal Equity ETF are concluded. Lotus Halal Equity ETF securities enable the Unitholders thereof to track the NGX-Lotus Islamic Index. The Underlying Portfolio in respect of the NGX-Lotus Islamic Index will be held within the LHE ETF Trust for the benefit of Unitholders. The trustee of the LHE ETF Trust, First Trustees Nigeria Limited, is an independent trustee appointed by the Directors of Lotus Capital Limited.

# LOTUS HALAL EQUITY EXCHANGE TRADED FUND

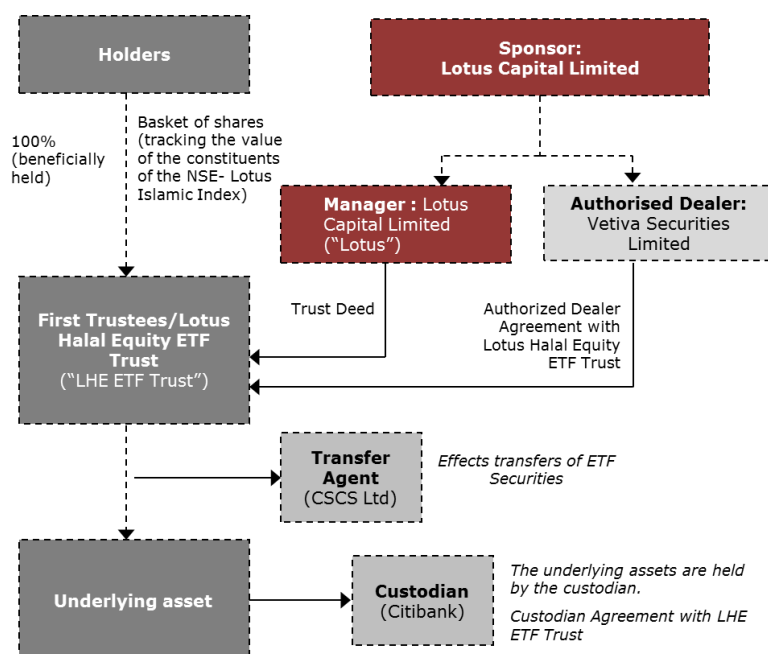
## Notes to the financial statements for the year ended 31<sup>st</sup> December, 2022 (continued)

### 1. General information (continued)

#### 1.7 INVESTMENT OBJECTIVES (continued)

##### STRUCTURE

The potential income beneficiaries of the LHE ETF Trust will comprise all Unit Holders of Lotus Halal Equity ETF securities. It is anticipated that the LHE ETF Trust will distribute quarterly any net income available for distribution within the LHE ETF Trust and that Unitholders will participate on a pro rata basis in such distributions. However, there can be no guarantee that Unitholders will receive quarterly distributions.



**The LHE ETF Trust will not be actively managed.** The traditional method of active management involves the buying and selling of securities based on economic, financial and market analysis and investing judgment. The investment objective and style of the LHE ETF Trust will be a full replication of the NGX-Lotus Islamic Index. As a result, the financial or other conditions of any Constituent Company will not result in the elimination of its securities from the LHE ETF Trust's portfolio unless the securities of that company are removed from the NGX-Lotus Islamic Index.

The Fund Manager is obliged to ensure tracking of the NGX-LII by purchasing and holding, in the requisite quantities, insofar as possible, the actual underlying shares comprising the NGX-LII. However the Fund Manager is entitled, in exceptional circumstances (for example to overcome liquidity problems in the market) and on a temporary basis only, to employ such other investment techniques and acquire such other instruments as will most efficiently give effect to the stated investment policies and objectives of the LHE ETF Trust.

The investment policy of both Lotus Capital Limited and the LHE ETF Trust will at all times be the establishment and maintenance of a "fully covered" position so far as possible, so that the LHE ETF Trust's assets should at all times at least equal the full extent of Lotus Halal Equity ETF's liabilities under the terms and conditions of the ETF. Regular returns as required by the regulators will be filed to confirm the "fully covered" status of the LHE ETF Trust's assets.

## **LOTUS HALAL EQUITY EXCHANGE TRADED FUND**

### **Notes to the financial statements for the year ended 31<sup>st</sup> December, 2022 (continued)**

#### **2. Basis of preparation**

##### **2.1 Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and Investment and Securities Act, 2007, Securities and Exchange Commission and were authorised for issue by the Trustees and Fund Manager on .....2023.

##### **2.2 Financial period**

These financial statements cover the financial year from 1<sup>st</sup> January, 2022 to 31<sup>st</sup> December, 2022 while the comparative period covers from 1<sup>st</sup> January, 2021 to 31<sup>st</sup> December, 2021.

##### **2.3 Functional and presentation currency**

These financial statements are presented in Nigerian Naira, which is the Fund's functional currency.

##### **2.4 Basis of measurement**

These financial statements are prepared on the historical cost basis except for the following:

- Financial instruments at fair value through profit or loss are measured at fair value;
- Financial assets at fair value through other comprehensive income;
- Loans and receivables, held to maturity financial assets and financial liabilities are measured at amortized cost.

##### **2.5 Use of estimates and judgments**

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised and in any future years affected.

Judgements made by the Fund Managers' in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustments are discussed in note 4.

## LOTUS HALAL EQUITY EXCHANGE TRADED FUND

### Notes to the financial statements for the year ended 31<sup>st</sup> December, 2022 (continued)

#### 3. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations, are not yet effective for the year ended 31<sup>st</sup> December, 2022, and have not been applied in preparing these financial statements.

Pronouncement	Nature of change	Effective date
<b><i>IFRS 17 Insurance contracts</i></b>	IFRS 17 was issued in May 2017 as replacement for IFRS 4 <i>Insurance Contracts</i> . It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of:	Annual period beginning 1 <sup>st</sup> January, 2023 on or after

- discounted probability-weighted cash flows
- an explicit risk adjustment, and
- a contractual service margin (“CSM”) representing the unearned profit of the contract which is recognised as revenue over the coverage period.

The standard allows a choice between recognising changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the ‘variable fee approach’ for certain contracts written by life insurers where policy holders share in the returns from underlying items. When applying the variable fee approach the entity’s share of the fair value changes of the underlying items is included in the contractual service margin. The results of insurers using this model are therefore likely to be less volatile than under the general model.

The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features

## LOTUS HALAL EQUITY EXCHANGE TRADED FUND

### Notes to the financial statements for the year ended 31<sup>st</sup> December, 2022 (continued)

#### 3. New standards and interpretations not yet adopted (continued)

A number of new standards, amendments to standards and interpretations, are not yet effective for the year ended 31<sup>st</sup> December, 2022, and have not been applied in preparing these financial statements.

Pronouncement	Nature of change	Effective date
<i>IAS 1 (Amendment on classification)</i>	The amendment provides a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangement in place at the reporting date.	Annual periods beginning on or after 1 <sup>st</sup> January 2023
<i>IAS 8 (Amendment of disclosure of accounting policies)</i>	In February 2021, the International Accounting Standards Board issued amendments to IAS, to help entities distinguish between accounting policies and accounting estimates.	Annual periods beginning on or after 1 <sup>st</sup> January, 2023

#### 4. Significant accounting policies

Significant accounting policies are defined as those that are reflective of significant judgements and uncertainties, and potentially give rise to different results under different assumptions and conditions. The significant accounting policies set out below have been consistently applied to all years presented in these financial statements.

##### 4.1 Foreign currency transactions

Transactions denominated in foreign currencies are recorded in Naira at the rate of exchange ruling at the date of each transaction. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included in the income statement.

Monetary assets and liabilities denominated in foreign currencies are translated using the exchange rate ruling at the reporting date; the resulting foreign exchange gain or loss is recognised in the income statement while those on non-monetary items are recognised in other comprehensive income. For non-monetary financial investments at amortised cost, unrealised exchange differences are recorded directly in equity until the asset is disposed or impaired.

##### 4.2 Income from financial assets at amortised cost

Income from financial assets at amortised cost such as Murabaha, is recognised in profit or loss. Income from financial assets at amortised cost (financial contracts) on a long term basis is recognised in profit or loss using effective return rate. The effective return rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective return rate, the Fund estimates future cash flows considering all contractual terms of the financial instruments but not future credit losses. The effective return rate is calculated on initial recognition of the financial asset and liability and is not revised subsequently.

## **LOTUS HALAL EQUITY EXCHANGE TRADED FUND**

### **Notes to the financial statements for the year ended 31<sup>st</sup> December, 2022 (continued)**

#### **4. Significant accounting policies (continued)**

##### **4.2 Income from financial assets at amortised cost**

The calculation of the effective return rate includes contractual fees and points paid or received transaction costs, and discounts or premiums that are an integral part of the effective return rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Income from financial assets at amortised cost presented in the statement of comprehensive income include returns on financial assets and liabilities measured at amortised cost calculated on an effective return rate basis.

Fair value changes on other financial assets and liabilities carried at fair value through profit or loss, are presented in net trading income from other financial instruments at fair value through profit and loss in the statement of comprehensive income.

##### **4.3 Net gain/(loss) from financial instruments at fair value through profit or loss**

Net gain/(loss) from financial instruments at fair value through profit or loss includes all realised and unrealised fair value changes and foreign exchange differences, but excludes finance and dividend income.

##### **4.4 Recognition of income**

Dividend income is recognised when the right to receive income is established. Dividend income from equity securities designated at fair value through profit or loss and amortised is recognised in the “dividend income” line in the statement of comprehensive income, fund placement and other income are recognised on a time proportion basis using the effective interest method.

##### **4.5 Fees, commission and other expenses**

Fees, commission and other expenses are recognised in the statement of comprehensive income on an accrual basis.

##### **4.6 Taxation**

Dividend income received by the Fund may be subject to withholding tax. Dividend income and income from financing and investing are therefore recorded gross of such taxes and the corresponding withholding tax is recognised as tax expense.

##### **(i) Recognition**

The Fund classifies its financial instruments into two categories: at fair value through profit or loss and amortised cost.

Fund manager determines the classification at initial recognition.

All financial instruments are initially recognised at fair value, which includes transaction costs for financial instruments except for financial instrument classified at fair value through profit or loss. Financial instruments are derecognised when the rights to receive cash flows from the financial instruments have expired or where the Fund has transferred substantially all risks and rewards of ownership.

## LOTUS HALAL EQUITY EXCHANGE TRADED FUND

Notes to the financial statements for the year ended 31<sup>st</sup> December, 2022 (continued)

### 4. Significant accounting policies (continued)

#### 4.7 Financial assets and liabilities

##### (ii) Subsequent measurement

Subsequent to initial measurement, financial instruments are measured either at fair value or amortised cost, depending on their classification:

Where assets are measured at fair value, gains and losses are either recognised entirely in profit or loss (fair value through profit or loss, FVTPL), or recognised in other comprehensive income (fair value through other comprehensive income, FVTOCI).

For debt instruments the FVTOCI classification is mandatory for certain assets unless the fair value option is elected. Whilst for equity investments, the FVTOCI classification is an election. Furthermore, the requirements for reclassifying gains or losses recognised in other comprehensive income are different for debt instruments and equity investments.

The classification of a financial asset is made at the time it is initially recognised, namely when the entity becomes a party to the contractual provisions of the instrument.

##### (iii) Fair value measurement

Fair value is the amount for which an asset could be exchanged, or liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. The best evidence of the fair value of a financial instrument on initial recognition is the transaction price, i.e. the fair value of the consideration paid or received, unless the fair value is evidenced by comparison with other observable current market transactions in the same instrument, without modification or repackaging, or based on discounted cash flow models and option pricing valuation techniques whose variables include only data from observable markets.

Subsequent to initial recognition, the fair values of financial instruments are based on quoted market prices or dealer price quotations for financial instruments traded in active markets. If the market for a financial asset is not active or the instrument is an unlisted instrument, the fair value is determined by using applicable valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analyses, pricing models and valuation techniques commonly used by market participants.

Where discounted cash flow analyses are used, estimated cash flows are based on the Fund Manager's best estimates and the discount rate is a market-related rate at the financial position date from a financial asset with similar terms and conditions. Where pricing models are used, inputs are based on observable market indicators at the financial position date and profits or losses are only recognised to the extent that they relate to changes in factors that market participants will consider in setting the price.

## **LOTUS HALAL EQUITY EXCHANGE TRADED FUND**

### **Notes to the financial statements for the year ended 31<sup>st</sup> December, 2022 (continued)**

#### **4. Significant accounting policies (continued)**

##### **4.7 Financial assets and liabilities (continued)**

###### **(iv) Impairment of financial assets**

The impairment model in IFRS 9 is based on the premise of providing for expected losses and the standard requires that the same impairment model apply to the financial assets measured at amortised cost; Financial assets mandatorily measured at FVTOCI; the financing and advances commitments when there is a present obligation to extend credit (except where these are measured at FVTPL);

Generally, the expected credit losses are required to be measured through a loss allowance at an amount equal to:

- The 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date); or
- Full lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument).

Then the expected credit losses on the financial instrument revert to being measured based on an amount equal to the 12-month expected credit losses.

A loss allowance for full lifetime expected credit losses is required for a financial instrument if the credit risk of that financial instrument has increased significantly since initial recognition, as well as to contract assets or trade receivables that do not constitute a financing transaction in accordance with IFRS 15.

For all other financial instruments, expected credit losses are measured at an amount equal to the 12-month expected credit losses.

###### **Significant increase in credit risk**

With the exception of purchased or originated credit-impaired financial assets, the loss allowance for financial instruments is measured at an amount equal to lifetime expected losses if the credit risk of a financial instrument has increased significantly since initial recognition, unless the credit risk of the financial instrument is low at the reporting date in which case it can be assumed that credit risk on the financial instrument has not increased significantly since initial recognition.

The fund considers credit risk low if there is a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The fund may consider the 'investment grade' rating as an indicator for a low credit risk.

The assessment of whether there has been a significant increase in credit risk is based on an increase in the probability of a default occurring since initial recognition. Also, whilst in principle the assessment of whether a loss allowance should be based on lifetime expected credit losses is to be made on an individual basis, some factors or indicators might not be available at an instrument level. In this case, the portfolio manager will perform the assessment on appropriate groups or portions of a portfolio of financial instruments.

## **LOTUS HALAL EQUITY EXCHANGE TRADED FUND**

*Notes to the financial statements for the year ended 31<sup>st</sup> December, 2022 (continued)*

### **4. Significant accounting policies (continued)**

#### **4.7 Financial assets and liabilities (continued)**

##### **Significant increase in credit risk (continued)**

The requirements also contain a rebuttable presumption that the credit risk has increased significantly when contractual payments are more than 30 days past due. If a significant increase in credit risk that had taken place since initial recognition and has reversed by a subsequent reporting period (i.e., cumulatively credit risk is not significantly higher than at initial recognition)

##### **(v) Offsetting financial instrument**

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Fund has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by accounting standards, or for gains and losses arising from a group of similar transactions such as in the Fund's trading activity.

##### **(vi) Derecognition of financial instruments**

The Fund derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or has assumed an obligation to pay those cash flows to one or more recipients, subject to certain criteria.

Any interest in transferred financial assets that is created or retained by the Fund is recognised as a separate asset or liability.

The Fund derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The Fund enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all risks or rewards of the transferred assets or a portion of them. If all or substantially all the risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. In transactions where the Fund neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

The Fund derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or has assumed an obligation to pay those cash flows to one or more recipients, subject to certain criteria.

Any interest in transferred financial assets that is created or retained by the Fund is recognised as a separate asset or liability.

The Fund derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The Fund enters into transactions whereby it transfers assets recognised on its balance sheet, but retains either all risks or rewards of the transferred assets or a portion of them. If all or substantially all the risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. In transactions where the Fund neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

## **LOTUS HALAL EQUITY EXCHANGE TRADED FUND**

### **Notes to the financial statements for the year ended 31<sup>st</sup> December, 2022 (continued)**

#### **4. Significant accounting policies (continued)**

##### **4.7 Financial assets and liabilities (continued)**

##### **(vi) Derecognition of financial instruments (continued)**

The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the Fund continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

##### **4.8 Cash and cash equivalents**

Cash and cash equivalents include notes and coins in hand, operating accounts with banks and highly liquid financial assets with original maturities of three months or less from the acquisition date, which are subject to insignificant risk of changes in their fair value, and are used by the Fund in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

##### **4.9 Provisions**

A provision is recognised if, as a result of a past event, the Fund has a present legal or constructive obligation that can be estimated reliably, and it is provable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Fund has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Fund from a contract are lower than the unavoidable cost of meeting the obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Fund recognises any impairment loss on the assets associated with that contract.

##### **4.10 Contingencies**

##### **(i) Contingent asset**

Contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

A contingent asset is disclosed when an inflow of economic benefit is probable. When the realisation of income is virtually certain, then the related asset is not a contingent and its recognition is appropriate. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements.

## **LOTUS HALAL EQUITY EXCHANGE TRADED FUND**

*Notes to the financial statements for the year ended 31<sup>st</sup> December, 2022 (continued)*

### **4. Significant accounting policies (continued)**

#### **4.10 Contingencies (continued)**

##### **(ii) Contingent liability**

Contingent liability is a possible obligation that arises from past event and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability.

Contingent liability is disclosed unless the probability of an outflow of resources embodying economic benefit is remote. A provision for the part of the obligation for which an outflow of resources embodying economic benefit is recognised; except in the extremely rare circumstances where no reliable estimate can be made.

Contingent liabilities are assessed continually to determine whether an outflow of economic benefit has become probable.

#### **4.11 Redeemable units**

The Fund classifies financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

The Fund has only one class of redeemable units in issue. The redeemable units provide investors with the right to require redemption for stock at a value proportionate to the investor's share in the Fund's net assets at the time of redemption and also in the event of the Fund's liquidation.

A puttable financial instrument that includes a contractual obligation for the Fund to repurchase or redeem that instrument for cash or another financial asset is classified as equity if it meets all the following conditions.

- It entitles the holder to a pro rata share of the Fund's net assets in the event of the Fund's liquidation;
- It is in the class of instruments that is subordinate to all other classes of instruments;
- All financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features;
  
- Apart from the contractual obligation for the Fund to repurchase or redeem the instrument for cash or another financial asset, the instrument does not include any other features that would require classification as a liability; and
- The total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the Fund over the life of the instrument.

The Fund's redeemable units meet these conditions and are classified as equity.

All transactions relating to the issue and redemption of redeemable units as well as distributions to holders of redeemable units are recognised in equity.

## **LOTUS HALAL EQUITY EXCHANGE TRADED FUND**

*Notes to the financial statements for the year ended 31<sup>st</sup> December, 2022 (continued)*

### **5. Financial risk management**

#### **Introduction and Overview**

##### **Investment objectives**

The Lotus Halal Equity Exchange Traded Fund has exposure to the following risks from financial instruments.

Market risk;  
Liquidity risk;  
Investment risk  
Index risk  
Secondary trading risk and  
Operational risk.

#### **(a) Market risk**

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Fund's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

##### **Management of market risk**

The Fund's strategy for the management of market risk is driven by the Fund's investment objectives and policy

#### **(b) Liquidity risk**

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations arising from its financial liabilities that are settled by delivering cash or another financial asset, or that such obligations will have to be settled in a manner disadvantageous to the Fund.

The Lotus Halal Equity Exchange Traded Fund's liquidity risk is managed on a daily basis by the Portfolio Manager in accordance with policies and procedures governing the fund management. Hence, liquidity is reviewed twice a week at the portfolio manager's meeting and at the investment committee meeting.

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations arising from its financial liabilities that are settled by delivering cash or another financial asset, or that such obligations will have to be settled in a manner disadvantageous to the Fund.

##### **Management of liquidity risk**

The Lotus Halal Equity Exchange Traded Fund's liquidity risk is managed on a daily basis by the Portfolio Manager in accordance with policies and procedures governing the fund management. Hence, liquidity is reviewed twice a week at the portfolio manager's meeting and at the investment committee meeting.

The asset allocations are carefully and appropriately structured to ensure that the Fund is liquid at all times and it has enough cash or cash equivalent that can be converted to cash immediately without any loss in the value when there is a new investment opportunity to exploit or an obligation to fulfil.

## **LOTUS HALAL EQUITY EXCHANGE TRADED FUND**

*Notes to the financial statements for the year ended 31<sup>st</sup> December, 2022 (continued)*

### **5. Financial risk management (continued)**

#### **Investment objectives (continued)**

#### **(b) Liquidity risk (continued)**

##### **Management of liquidity risk**

In order to achieve the above ultimate objective, the fund invests principally in highly liquid equities that are quoted on the Nigeria Stock Exchange such that the Fund can convert those equities into cash within four working days. The Fund maintains parts of its asset as cash equivalent by investing in short term Murabaha contracts that are adequately guaranteed by a reputable bank with good credit rating.

##### **Cash and cash equivalents**

The Portfolio Manager monitors the Fund's liquidity position with Citibank on a daily basis. Citibank is rated Aa+ by Agusto & Co.

However, the Fund, also maintains a certain portion of its assets in short term Mudaraba Term deposit. These contracts are fully guaranteed by bankers' acceptance from reputable banks. Due to the nature of this type of transaction and its maturity, the Investment is classified as cash equivalent.

#### **(c) Investment risk**

There can be no assurance that the LHE ETF Trust will achieve its investment objective (as set out in the section entitled "Investment objectives and policies").

The Net Asset Value of Lotus Halal Equity ETF will rise and fall as the capital value of the Underlying Portfolio held by the LHE ETF Trust fluctuates.

The total return achieved on Lotus Halal Equity ETF will be impacted upon by the total return achieved on the Underlying Portfolio held by the LHE ETF Trust and the return achievable on Lotus Halal Equity ETF can be expected to fluctuate in response to changes in the total return achieved by the Underlying Portfolio. The total return achieved will also be impacted upon by distributions, if any, that Holders may or may not receive. It is to be noted that the ambition of the structure is to provide Holders of Lotus Halal Equity ETF with a price and yield return substantially equal to the price and yield return on a *pro rata* portion of a Basket.

The LHE ETF Trust may not be able to replicate exactly the performance of the NGX-LII because the total return generated by the Underlying Portfolio held by the LHE ETF Trust will be reduced by certain costs and expenses incurred by the LHE ETF Trust. Such costs and expenses are not incurred in the calculation of the NGX-LII.

The LHE ETF Trust may also not fully replicate the performance of the NGX-Lotus Islamic Index owing to the temporary unavailability of certain securities in the secondary market or owing to other extraordinary circumstances and, accordingly, there may be a deviation from the precise weighting of the NGX-LII.

Where securities comprising the NGX-Lotus Islamic Index are suspended from trading or where other market disrupting events occur it may not be possible to immediately rebalance the portfolio of securities held by the LHE ETF Trust and this may lead to a tracking error.

## **LOTUS HALAL EQUITY EXCHANGE TRADED FUND**

*Notes to the financial statements for the year ended 31<sup>st</sup> December, 2022 (continued)*

### **5. Financial risk management (continued)**

#### **Investment objectives (continued)**

#### **(c) Investment risk (continued)**

There is a risk that the Fund Manager will exercise its right to place a temporary moratorium on the exercise by holders of the delivery rights attaching to Lotus Halal Equity ETF. In any given year the Fund Manager shall not suspend the delivery rights attaching to Lotus Halal Equity ETF for more than 90 Trading Days, in aggregate, provided that the approval of the Trustee and the Commission is obtained before any such suspension. The imposition of any such moratorium shall not affect the tradability of Lotus Halal Equity ETF on the NGX. A temporary moratorium may be placed if:

- pursuant to a request by an investor for delivery of one or more Baskets, the manager is unable to deliver any of the constituent securities to an investor due to the fact that trading in any one or more of the NGX-Lotus Halal Equity ETF Securities is restricted, terminated or suspended and/or assets are not at the manager's disposal as a result of a suspension or de-listing of any of the Index constituents or for any other reason (in which event, such security or securities shall be excluded from the portfolio and delivered to the investor after the suspension is lifted or after the de-listed securities become available, as the case may be); or
- the computer or other facilities of the NGX malfunctions, calculation of the NGX-Lotus Islamic Index Level may be delayed and trading in Lotus Halal Equity ETF may be suspended for a period of time.

A Block, in respect of Lotus Halal Equity ETF, means (at the date of this Prospectus) 5,000,000 units of Lotus Halal Equity ETF. Holders holding less than a Block of Lotus Halal Equity ETF may not demand delivery by the Fund Manager of the prescribed Basket(s) of shares and, if it is the intention of such Holders to reduce their holding of Lotus Halal Equity ETF they may have to do so by selling or otherwise disposing of such Lotus Halal Equity ETF in the secondary market.

- It is anticipated that the LHE-ETF Trust will distribute quarterly net income available for distribution within the LHE ETF Trust. However, there can be no guarantee that Holders will receive quarterly distributions and holders will have no right to require the Fund Manager or the Trustee of the LHE ETF Trust to effect quarterly distributions.

#### **(d) Index risk**

There is no assurance that the NGX-Lotus Islamic Index ("The Index") will continue to be calculated and published on the same or a similar basis indefinitely. The Index was created by a partnership arrangement between the NGX and Lotus Capital Limited, as a measure of market performance and not for the purpose of trading in Lotus Halal Equity ETF. Accordingly, the NGX, as proprietor of The Index may adjust or withdraw The Index without regard to the particular interests of Holders.

The past performance of The Index is not necessarily a guide to its future performance.

If for any reason The Index ceases to exist then if, in the reasonable opinion of the Directors, there is a successor Index composed and weighted according to substantially similar criteria as are applied with respect to The Index, the portfolio of securities held by the LHE ETF Trust shall be adjusted to track the agreed successor Index.

## **LOTUS HALAL EQUITY EXCHANGE TRADED FUND**

*Notes to the financial statements for the year ended 31<sup>st</sup> December, 2022 (continued)*

### **5. Financial risk management (continued)**

#### **Investment objectives (continued)**

#### **(d) Index risk (continued)**

If in the reasonable opinion of the directors there is not an appropriate successor to The Index, then the LHE ETF Trust will continue to hold the portfolio of securities which it held at close of trading on the last day on which The Index was in existence. Lotus Halal Equity ETF will thereafter track the price and yield performance of that particular portfolio, which portfolio will thereafter cease to be adjusted. Exercise of the delivery rights attaching to a Block of Lotus Halal Equity ETF will, in these circumstances, give rise to the right to claim delivery of a Basket as constituted on the last day on which The Index was in existence.

#### **(e) Operational risk**

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 investors.

The primary responsibility for the development and implementation of controls over operational risk rests with the Investment and Risk Management Committee. This responsibility is supported by the development of overall standards for the management of operational risk, which encompasses the controls and processes at the service providers and the establishment of service level agreements with the service providers, in the following areas:

- requirements for appropriate segregation of duties between various functions, roles and responsibilities.
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced and the adequacy of controls and procedures to address the risks identified
- contingency plans
- ethical and business standards
- risks mitigation, including insurance where this is effective.

The Investment Committee's assessment over the adequacy of the controls and processes in place at the service providers with respect to operational risks is carried out via regular [or ad-hoc] discussions with the service providers and a review of the service providers' reports on internal controls, where available.

#### **(f) Capital management**

At 31<sup>st</sup> December 2022 the Fund had ₦ 442,897,099 (2021: ₦ 442,897,099) of redeemable units classified as equity. The Fund's objective in managing the redeemable units is to ensure a stable and strong base to maximise returns to all investors, and to manage liquidity risk arising from redemptions.

The Fund utilises the following tools in the management of unit redemptions:

Maintaining large investments in highly liquid equities that are quoted on the Nigeria Stock Exchange. The Fund can convert those equities into cash within four working days.

There were no changes in the policies and procedures during the year with respect to the Fund's approach to its redeemable capital management. The Fund is not subject to any externally imposed capital requirements.

## LOTUS HALAL EQUITY EXCHANGE TRADED FUND

### Notes to the financial statements for the year ended 31<sup>st</sup> December, 2022 (continued)

#### 6. Financial assets and liabilities

Accounting classification, measurement basis and fair value.

The table below sets out the Fund's classification of each class of financial assets and liabilities, and their fair values.

31 <sup>st</sup> December 2022	Note	Fair value through profit or loss ₹	Financial assets ₹	Other assets ₹	Other financial liabilities ₹	Cost ₹	Fair value ₹
<b>Assets</b>							
Cash and cash equivalents	7	-	25,721,373	-	-	25,721,373	25,721,373
Financial assets at fair value through profit or loss	8	511,747,183	-	-	-	332,697,032	511,747,183
Other receivables	9	-	-	587	-	587	587
<b>Liabilities:</b>							
Other payables	10	-	-	-	(8,545,598)	(8,545,598)	(8,545,598)
<b>Net assets</b>		<b>511,747,183</b>	<b>25,721,373</b>	<b>587</b>	<b>(8,545,598)</b>	<b>349,873,394</b>	<b>528,923,545</b>
<b>31<sup>st</sup> December 2021</b>							
<b>Assets</b>							
Cash and cash equivalents	7	-	13,824,961	-	-	13,824,961	13,824,961
Financial assets at fair value through profit or loss	8	465,065,169	-	-	-	310,102,197	465,065,169
Other receivables	9	-	-	587	-	587	587
		<b>465,065,169</b>	<b>13,824,961</b>	<b>587</b>	<b>-</b>	<b>323,927,745</b>	<b>478,890,717</b>
<b>Liabilities:</b>							
Other payables	10	-	-	-	(10,196,864)	(10,196,864)	(10,196,864)
<b>Net assets</b>		<b>465,065,169</b>	<b>13,824,961</b>	<b>587</b>	<b>(10,196,864)</b>	<b>313,730,881</b>	<b>468,693,853</b>

The fair value of the Fund's financial instruments such as cash and cash equivalents, other receivables are not materially sensitive to shifts in market return rate because of the limited term to maturity of these instruments. As such, the carrying value of these financial assets and liabilities as at the reporting date approximate their fair values.

The fair values of other financial instruments are based on the following methodologies and assumptions:

Financial assets at fair value through profit or loss. The estimated fair values are generally based on quoted and observable market prices. Where there is no ready market in certain securities, fair values have been estimated by reference to market indicative yields or net tangible asset backing of the investee.

## LOTUS HALAL EQUITY EXCHANGE TRADED FUND

### Notes to the financial statements for the year ended 31<sup>st</sup> December, 2022 (continued)

#### 6. Financial assets and liabilities (continued)

Their fair value is estimated by discounting the estimated future cash flows using the prevailing market rates of financing with similar credit risks and maturities. The fair values are represented by their carrying value, net of impairment loss, being the recoverable amount.

	2022	2021
	₹	₹
<b>7. Cash and cash equivalents</b>		
Mudaraba Investment (note i)	22,638,943	12,381,077
Bank balances	3,082,430	1,443,884
	<u>25,721,373</u>	<u>13,824,961</u>
	=====	=====

#### (i) Mudaraba

Mudaraba investment means investment of deposited funds in a pool of highly liquid short term murabaha or any other shari'ah compliant transactions which are generally structured and backed by financial assets or commodities contracts dealing with the sales and purchase of goods undertaken by the Fund manager with the deposited funds. These investments are transacted with Jaiz Bank Plc.

	2022	2021
	₹	₹
<b>8. Financial assets at fair value through profit or loss</b>		
<b>Non-pledged</b>		
Quoted equity securities cost (a)	332,697,032	310,102,197
Fair value changes (b)	179,050,151	154,962,972
	<u>511,747,183</u>	<u>465,065,169</u>
	=====	=====
<b>(a) Fair value</b>		
As at 1 <sup>st</sup> January	465,065,169	617,637,758
Purchases	146,530,106	73,449,363
Disposals	(123,935,271)	(194,110,892)
	<u>487,660,004</u>	<u>496,976,229</u>
Fair value gain/(loss) on financial assets	24,087,179	(31,911,060)
	<u>511,747,183</u>	<u>465,065,169</u>
	=====	=====
<b>(b) Fair value changes</b>		
As at 1 <sup>st</sup> January	154,962,972	186,874,032
Fair value gain/(loss) on investment	24,087,179	(31,911,060)
	<u>179,050,151</u>	<u>154,962,972</u>
	=====	=====
<b>(c) Fair value as at 31<sup>st</sup> December</b>	511,747,183	465,065,169
	=====	=====

**LOTUS HALAL EQUITY EXCHANGE TRADED FUND**

**Notes to the financial statements for the year ended 31<sup>st</sup> December, 2022 (continued)**

	2022	2021
	RM	RM
<b>9. Other receivables</b>		
Dividend receivable	587	587
	====	====
Movement:		
As at 1 <sup>st</sup> January	587	587
Additions	20,040,000	28,495,871
Payment	(20,040,000)	(28,495,871)
Impairment	-	-
	-----	-----
	587	587
	====	====

**10. Other payables**

Other payables	8,545,598	10,196,864
	=====	=====

This represents fees payable to various parties of the Fund such as Fund Manager, Trustees, Custodian and statutory auditors.

**11 Net asset /basic earning per unit**

**(a) Net asset per unit**

The net asset per unit is computed using the net assets value as at the reporting date divided by the 33,400,000.units (2021: 33,400,000 units) in existence as at that date.

	2022	2021
	RM	RM
Net asset as at year end	528,923,545	468,693,853
	=====	=====
No of units in issue	33,400,000	33,400,000
	=====	=====
Net asset per unit	15.84	14.03
	=====	=====

**(b) Basic earnings**

The basic earnings per unit is computed using the profit for the year as at the statement of profit or loss divided by the 33,400,000. units (2021: 33,400,000 units) in existence as at that date.

	2022	2021
	RM	RM
Profit for the year	80,269,692	45,378,443
	=====	=====
No of units in issue	33,400,000	33,400,000
	=====	=====
Basic earnings per unit	2.40	1.36
	=====	=====

**12. Income from financial assets at amortised cost**

Income from financing and advances carried at amortised cost:

Income from Mudaraba deposits	1,277,432	707,540
	=====	=====

## LOTUS HALAL EQUITY EXCHANGE TRADED FUND

### Notes to the financial statements for the year ended 31<sup>st</sup> December, 2022 (continued)

	2022 ₦	2021 ₦
<b>13. Dividend income</b>		
Dividend income	27,505,399 =====	30,323,238 =====
<b>14. (Gain)/loss on sale of quoted security</b>		
Cost	123,935,271	194,110,892
Proceed from sale	(163,269,483)	(58,389,951)
Value of stocks redeemed in-specie	-	(193,319,365)
	----- (39,334,212) =====	----- (57,798,424) =====
<b>15. Other operating expense</b>		
Custodian fee	52,399	619,761
Trustees fees	487,515	628,275
Audit fees	1,612,500	1,140,824
Fund manager fee	3,143,934	3,769,650
Other expenses	4,958,804	3,553,822
	----- 10,255,152 =====	----- 9,712,332 =====

#### 16. Withholding tax expense

The Fund is exempt from income taxes under the Companies Income Tax Act, CAP C124.1(No 32), LFN 2004. However, certain dividend incomes received by the Fund are subject to withholding tax in Nigeria. During the year the average withholding tax rate suffered by the Fund was 10 percent.

#### 17. Related parties and other key contracts

##### (a) Related parties

###### *Fund Manager*

The Fund Manager fee for 2022 amounted to ₦ 3.14 million (2021: ₦ 3.77 million). Included in other payables as at 31st December, 2022 is Fund Manager's/Remuneration payable of ₦ 1.42 million (2021: ₦ 0.077 million).

Subject to the approval of Securities & Exchange Commission, the Fund Manager can retire or be removed at any time.

###### *Unit holding of related parties*

At 31st December 2022, the directors of the Fund Manager held ₦ 7.617 million (2021: ₦ 7.617 million) redeemable units of the Fund.

## **LOTUS HALAL EQUITY EXCHANGE TRADED FUND**

*Notes to the financial statements for the year ended 31<sup>st</sup> December, 2022 (continued)*

### **17. Related parties and other key contracts (continued)**

#### **(b) Other key contracts**

##### *Trustees*

The Fund appointed FBNQuest Trustees Limited, a trusteeship company in Nigeria, to provide administrative services to the Fund. Under the Fund Trust Deed, the Trustees receive a fee monthly in arrears at an annual rate of 0.1 percent of the net assets value attributable to holders of redeemable units on each valuation day as defined in the prospectus. Trustees fees for the year is ₦ 0.49 million (2021: ₦ 0.63 million). Included in other payables at 31<sup>st</sup> December 2022 is trustee's fees payable of ₦ 0.18 million (2021: ₦ 0.57 million). Subject to the approval of Securities & Exchange Commission, the Trustee can retire or be removed at any time.

### **18. Contingent liabilities – Litigations and claims**

The fund has no contingent liabilities as at the statement of financial position date. (2021: nil).

### **19. Statement on the calculation of Zakah**

The total Zakah of an investor (where applicable), should be based on his net worth. Lotus Capital has not calculated Zakah for any of its esteemed clients. However, Lotus may provide this service based on an Investor's request in writing.

**LOTUS HALAL EQUITY EXCHANGE TRADED FUND**  
**Information not required under International Financial Reporting Standard**

**Statement of value added for the year ended 31<sup>st</sup> December, 2022**

	2022		2021	
	RM '000	%	RM '000	%
Revenue	1,277		708	
Dividend income	27,505		30,323	
Gain from the sale of equity	39,334		57,798	
Unrealised gain on financial asset at fair value through profit or loss	24,087		(31,911)	
	<u>92,203</u>		<u>56,918</u>	
<b>Bought in material and services:</b>				
Local	9,783		2,645	
<b>Value added</b>	<u><b>101,986</b></u>	<u><b>100</b></u>	<u><b>59,563</b></u>	<u><b>100</b></u>
	=====	===	=====	===
<b>Applied as follows:</b>				
To pay fund manager and other related parties				
<b>To pay providers of capital:</b>				
Interim dividend paid out	20,040	19	12,358	21
<b>To pay government</b>				
Taxation	1,679	2	1,827	3
<b>Retained for future replacement of assets and expansion of business:</b>				
Profit for the year	80,267	79	45,378	76
	<u><b>101,986</b></u>	<u><b>100</b></u>	<u><b>59,563</b></u>	<u><b>100</b></u>
	=====	===	=====	===

“Value added” represents the added wealth which the fund has been able to create. The statement shows the allocation of that wealth between the providers of capital in form of dividend, government and that retained for the future creation of more wealth.

**LOTUS HALAL EQUITY EXCHANGE TRADED FUND**  
**Information not required under International Financial Reporting Standard**

**Five year financial summary**

	2022 ₹ '000	2021 ₹ '000	2020 ₹ '000	2019 ₹ '000	2018 ₹ '000
<b>Members' fund</b>					
Redeemable units	442,897	442,897	639,465	639,465	639,465
Surplus/(Accumulated deficit)	106,066	38,155	19,104	(193,348)	(116,961)
Dividend paid	(20,040)	(12,358)	(19,280)	(24,100)	(11,568)
Accumulated surplus/(deficit) carried forward	86,026	25,797	(176)	(217,448)	(128,529)
	528,923	468,694	639,289	422,017	510,936
	=====	=====	=====	=====	=====
<b>Assets</b>					
Total assets	537,469	478,890	646,451	429,052	518,355
Liabilities	(8,546)	(10,196)	(7,162)	(7,035)	(7,419)
Net assets	528,923	468,694	639,289	422,017	510,936
	=====	=====	=====	=====	=====
<b>Profit or loss account</b>					
Gross income	28,783	31,031	32,346	31,192	27,028
Profit/(Loss) for the year	80,270	45,378	236,552	(64,819)	(64,175)
Accumulated surplus/(deficit) brought forward (Net of dividend)	25,796	(176)	(217,448)	(128,529)	(52,786)
Fair value through unit holding	106,066	45,203	19,104	(193,348)	(116,961)
	-	(7,048)	-	-	-
Surplus/(Accumulated deficit)	106,066	38,155	19,104	(193,348)	(116,961)
	=====	=====	=====	=====	=====
Basic earnings/(loss) per units	2.40	1.35	4.91	(1.34)	(1.33)
	=====	=====	=====	=====	=====
Net assets per units	15.84	14.03	13.26	8.76	10.60
	=====	=====	=====	=====	=====