
Al Safwa Mubasher Financial
Services PrJSC

Consolidated financial statements
For the year ended 31 December 2016

Al Safwa Mubasher Financial Services PrJSC

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DIRECTORS' REPORT

The Directors have pleasure in presenting their report together with the audited financial statements of Al Safwa Mubasher Financial Services PrJSC and its subsidiary (the "Group") for the year ended 31st December 2016.

Financial Results

The Group recorded a net income of AED 17,939,355 for the year ended 31st December 2016, and a net loss of AED 600,415.

The total shareholders' equity in the Group amounted to AED 199,393,371 and the total assets of the Group amounted to AED 359,624,439 as at 31st December 2016.

Merger

Pursuant to a merger agreement between Safwa and MFS dated 21 January 2016 and shareholder resolutions of respective entities, Ministerial Resolution number (499)/2016 issued by Ministry of Economy on 19 September 2016, and Emirates Securities and Commodities Authority ("ESCA") approval dated 11 October 2016 approving the merger, the Company commenced operations and trade activities as a combined entity under Al Safwa Mubasher Financial Services PrJSC with effect from 8 December 2016, on completion of the formalities with the Exchanges. As a result of the merger, through the issue of new shares in the Company, MFS shareholders acquired 77% of the Company. The merger is accounted for as a reverse acquisition under IFRS 3 – 'Business Combinations' considering, amongst other facts of the transaction, that MFS acquired a controlling stake in the Company. As such, for accounting purposes, Safwa is treated as the 'accounting acquiree' and MFS is treated as the 'accounting acquirer'.

Consequently, the consolidated financial statements of the Company are shown as a continuation of the financial statements of MFS with an adjustment to reflect the legal share capital and statutory reserves of Safwa with corresponding adjustment reflected in a merger reserve. The comparative information in these consolidated financial statements are those of MFS except for the statutory reserves and share capital which are of Safwa.

Auditors

KPMG, being eligible for re-appointment, were re-appointed as auditors of the Group.

On behalf of the Board


Chairman

Dubai, UAE

Date: 12 MAR 2017



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Independent Auditors' Report

To the Shareholders of Al Safwa Mubasher Financial Services PrJSC

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Al Safwa Mubasher Financial Services PrJSC ("the Company") and its subsidiary ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Business combination

Refer to note 4 and accounting policies in note 3a – 3c of the consolidated financial statements.

Al Safwa Islamic Financial Services PrJSC ("Safwa") and Mubasher Financial Services LLC ("MFS") decided to merge during the prior year and initiated the necessary regulatory formalities for this purpose. During the year, both entities received regulatory approvals required to effect the business combination on 11 October 2016.

IFRS 3 Business Combinations requires the Group to identify the acquirer, determine the date of acquisition, identify and measure the consideration transferred, identify and recognise the identifiable assets, liabilities and contingent liabilities at fair value at the date of acquisition, with the excess of the acquisition cost over the identified fair values recognised as goodwill. IFRS 3 provides a practical expedient of one year from the date of acquisition to complete and finalise the acquisition accounting. The Group has accounted for the acquisition in the consolidated financial statements on a provisional basis.

Accounting of business combinations under IFRS 3 requires a significant amount of management estimation and judgment in relation to identifying the acquirer, determining the date of acquisition, identifying and measuring fair value of the consideration transferred, identification and valuation of the assets and liabilities and in particular identification and valuation of intangible assets and assignment of their useful lives. The provisional goodwill recognised as at 31 December 2016 amounted to AED 42,131,241 million.

Due to the significance of the transaction to the consolidated financial statements together with the judgments involved in the accounting of business combination, this is considered as a key audit matter.

Our response

Our audit procedures include:

- We read the merger contract between the parties to understand the terms of the business combination and to assess management's identification of the acquirer and the acquisition date;
- We assessed the valuation and accounting of the purchase consideration and checked the issuance of the new shares to the regulatory notices;



Key Audit Matters (continued)

Our response (continued)

- We have reviewed the shareholder approvals and statutory approvals from the Ministry of Economy and Emirates Securities and Commodities Authority ("ESCA") on the merger of Safwa and MFS;
- We have reviewed the revised Memorandum of Articles and Association of Articles of the Company;
- We have reviewed the management analysis and conclusion of the reverse acquisition and determination that MFS is the accounting acquirer and Safwa is the accounting acquiree;

- We noted that the Group's management performed a provisional purchase price allocation (PPA) in accordance with IFRS 3 Business Combinations as at 31 December 2016. We reviewed this provisional assessment for identification and fair valuation of the assets and liabilities the Group acquired including any fair value adjustments, evaluated and challenged the assumptions used in such calculations. A final PPA exercise will be conducted within 12 months of the acquisition date;
- We have reviewed the calculation and accounting of the merger reserve resulting from the reverse acquisition accounting; and
- We assessed the adequacy of the disclosures related to the business combination in the consolidated financial statements.

Other Information

Management is responsible for the other information. Other information consists of the Board of Directors report as set out on page 1 of the consolidated financial statements.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs and their preparation in compliance with the applicable provisions of the UAE Federal Law No. (2) of 2015, and for such internal control as management determines is



Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements (continued)

necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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 consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern.



*Auditor's Responsibilities for the Audit of the Consolidated Financial Statements
(Continued)*

- If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Further, as required by the UAE Federal Law No. (2) of 2015, we report that:

- i) we have obtained all the information and explanations we considered necessary for the purposes of our audit;



Report on Other Legal and Regulatory Requirements (continued)

- ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
 - iii) the Group has maintained proper books of account;
 - iv) the financial information included in the Board of Directors' report, in so far as it relates to these consolidated financial statements, is consistent with the books of account of the Group;
 - v) the Group has not purchased any shares during the year ended 31 December 2016;
-
- vi) note 10 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted;
 - vii) based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2016 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or in respect of the Group, its Articles of Associations, which would materially affect its activities or its consolidated financial position as at 31 December 2016; and
 - viii) the Group has not made any social contributions during the year ended 31 December 2016.

Further, as required by the UAE Union Law No. (10) of 1980, as amended, we report that we have obtained all the information and explanations we considered necessary for the purposes of our audit.

KPMG Lower Gulf Limited

Vijendra Nath Malhotra
Registration No.: 48
Dubai, United Arab Emirates
Date: **12 MAR 2017**

Al Safwa Mubasher Financial Services PrJSC

Consolidated statement of financial position

as at 31 December 2016

	Note	2016 AED	2015 AED
Assets			
Non-current assets			
Goodwill and other intangible assets	4	52,631,241	-
Property and equipment	6	11,421,395	9,331,561
Investment properties	7	13,127,486	-
Investment securities – available for sale	8	8,962,494	2,352,010
Total non-current assets		86,142,616	11,683,571
Current assets			
Short term deposit under lien		42,123,742	29,065,714
Prepayments and other receivables	9	26,600,034	18,525,647
Amount due from related parties	10	55,735,916	42,302,889
Cash and bank balances	11	149,022,131	141,205,069
Total current assets		273,481,823	231,099,319
Total assets		359,624,439	242,782,890
Equity and liabilities			
Equity			
Share capital	12	563,841,748	129,841,748
Treasury shares	12	(2,000,000)	(2,000,000)
Legal reserve	13	3,631,718	3,631,718
Fair value reserve		420,686	382,442
Retained earnings		23,909,899	24,510,314
Merger reserves	12	(390,410,680)	(86,252,428)
Total equity		199,393,371	70,113,794
Non-current liabilities			
Bank borrowings	14	7,150,971	18,109,518
Employee end of service benefits	15	2,844,243	1,386,423
Total non-current liabilities		9,995,214	19,495,941
Current liabilities			
Trade and other payables	16	134,704,219	143,572,972
Bank borrowings	14	782,451	1,714,608
Due to related parties	10	-	7,885,575
Bank overdraft	11	14,749,184	-
Total current liabilities		150,235,854	153,173,155
Total liabilities		160,231,068	172,669,096
Total equity and liabilities		359,624,439	242,782,890

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 12 MAR 2017 and signed on their behalf by:


Chairman

The notes on pages 12 to 40 are an integral part of these consolidated financial statements. The Independent Auditors' report is set out on page 2 to 7.

Al Safwa Mubasher Financial Services PrJSC
 Consolidated statement of profit or loss and other comprehensive income
 for the year ended 31 December 2016

	<i>Note</i>	2016 AED	2015 AED
Income			
Commission income		17,193,768	24,895,335
Finance income		344,443	364,768
Other income		401,144	56,560
Gain on sale of property and equipment		-	9,503,485
Total income		<u>17,939,355</u>	<u>34,820,148</u>
Expenses			
Administrative and general expenses	19	(17,202,616)	(17,673,264)
Finance charges		(1,337,154)	(1,747,754)
Total expenses		<u>(18,539,770)</u>	<u>(19,421,018)</u>
(Loss) /profit for the year		<u>(600,415)</u>	<u>15,399,130</u>
Other comprehensive income/(loss)			
<i>Items that may be reclassified to profit or loss</i>			
Net increase/(decrease) in fair value of available for sale investments		38,244	(1,491,518)
Total comprehensive (loss)/income for the year		<u>(562,171)</u>	<u>13,907,612</u>
Basic and diluted earnings per share (AED per share)			
		<u>(0.00)</u>	<u>0.12</u>

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The Independent Auditors' Report is set out on page 2 to 7.

Al Safwa Mubasher Financial Services PrJSC

Consolidated statement of changes in equity
for the year ended 31 December 2016

	Share Capital AED	Legal reserve AED	Treasury shares AED	Merger reserve AED	Fair value reserve AED	Retained earnings AED	Total AED
At 1 January 2015	129,841,748	3,631,718	(2,000,000)	(87,792,341)	1,873,960	10,651,097	56,206,182
Total comprehensive income for the year							
Profit for the year	-	-	-	-	-	15,399,130	15,399,130
Other comprehensive loss							
Net change in fair value reserve	-	-	-	-	(1,491,518)	-	(1,491,518)
Total comprehensive income for the year							
Transfer towards statutory reserve (note 12)	-	-	-	1,539,913	(1,491,518)	(1,539,913)	-
At 31 December 2015	129,841,748	3,631,718	(2,000,000)	(86,252,428)	382,442	24,510,314	70,113,794
At 1 January 2016	129,841,748	3,631,718	(2,000,000)	(86,252,428)	382,442	24,510,314	70,113,794
Issue of share capital	434,000,000	-	-	(434,000,000)	-	-	-
Purchase consideration in business combination (note 4)	-	-	-	129,841,748	-	-	129,841,748
Total comprehensive loss for the year							
Loss for the year	-	-	-	-	-	(600,415)	(600,415)
Other comprehensive income for the year							
Net change in fair value reserve	-	-	-	-	38,244	-	38,244
Total comprehensive loss for the year							
At 31 December 2016	563,841,748	3,631,718	(2,000,000)	(390,410,680)	420,686	23,909,899	199,393,371

The notes on pages 12 to 40 are an integral part of these consolidated financial statements.
The Independent Auditors' Report is set out on page 2 to 7.

Al Safwa Mubasher Financial Services PrJSC

Consolidated statement of cash flows

for the year ended 31 December 2016

	2016 AED	2015 AED
Cash flows from operating activities		
(Loss)/profit for the year	(600,415)	15,399,130
<i>Adjustments for non-cash and other items:</i>		
Depreciation	1,147,140	2,066,288
Gain on disposal of asset	-	(9,503,485)
Interest on bank borrowings	575,077	572,008
Interest income on deposits	(344,443)	(364,768)
	<u>777,359</u>	<u>8,898,709</u>
Change in short-term deposit under lien	16,941,972	635,841
Change in prepayments and other receivables	7,686,736	(9,763,571)
Change in due from related parties	(7,253,132)	(10,568,409)
Change in due to related parties	(8,125,575)	(45,968,780)
Change in trade and other payables	(19,395,712)	71,388,337
Change in employee end of service benefits	922,948	99,806
	<u>(8,445,404)</u>	<u>14,721,933</u>
<i>Interest received on deposits</i>	344,443	364,768
	<u>(8,100,961)</u>	<u>14,357,165</u>
Cash flows from investing activities		
Purchase of property and equipment	(74,089)	(460,034)
Proceeds from sale of assets	-	-
	<u>(74,089)</u>	<u>(460,034)</u>
Cash flows from financing activities		
Repayment of bank borrowings	(11,890,704)	(1,714,611)
Interest paid on bank borrowings	(575,077)	(572,008)
Cash equivalents acquired in business combination	10,404,536	-
Proceeds from bank borrowings - vehicle loan	-	65,879
	<u>(2,061,245)</u>	<u>(2,220,740)</u>
Net (decrease)/increase in cash and cash equivalents	<u>(10,236,295)</u>	<u>11,676,391</u>
Cash and cash equivalents at 1 January	<u>20,052,130</u>	<u>8,375,739</u>
Cash and cash equivalents at 31 December	<u>9,815,835</u>	<u>20,052,130</u>
Cash and cash equivalent comprises of:		
Cash and bank balances (note 11)	149,022,131	141,205,069
Customer deposits (note 11)	(124,457,112)	(121,152,939)
Bank overdraft	(14,749,184)	-
	<u>9,815,835</u>	<u>20,052,130</u>

The notes on pages 12 to 40 form an integral part of these consolidated financial statements.

The Independent Auditors' Report is set out on page 2 to 7.

Al Safwa Mubasher Financial Services PrJSC

Notes to the consolidated financial statements

for the year ended 31 December 2016

1 Legal status and principal activities

Al Safwa Mubasher Financial Services PrJSC ("the Company"), formerly known as Al Safwa Islamic Financial Services (PrJSC) ("Safwa"), was incorporated on 11 March 2006 in accordance with the provisions of UAE Federal Law No. 2 of 2015.

On 26 November 2015, Safwa was listed on the Dubai Financial Market ("DFM") as a Private Joint Stock Company (PrJSC).

As further explained in note 4, on 8 December 2016, the operations of Mubasher Financial Services LLC ("MFS") merged with Safwa and the combined entity was renamed as Al Safwa Mubasher Financial Services PrJSC. The Company continues to be listed on the DFM as a Private Joint Stock Company. Following the merger, the shareholders of MFS own 77% of the shares in the Company.

The Parent Company of the Group is Mubasher Financial Service, Bahrain which owns 76.2% of the shares of the Company. The ultimate parent of the Group is National Technology Group (the "Ultimate Parent Company") which is incorporated in the Kingdom of Saudi Arabia.

On 14 July 2009, Safwa established a subsidiary by subscribing to 10,000,000 shares of AED 1 each representing 100% equity share in Al Safwa Capital LLC (the "subsidiary") incorporated in the Emirates of Sharjah in accordance with the provision of the UAE Federal Companies Law no. 2 of 2015. The principal activity of the subsidiary is to hold investment properties and investment securities.

The consolidated financial statements comprise the Company and its wholly owned subsidiary, Al Safwa Capital LLC (collectively referred to as the "Group")

The principal activity of the Company is to act as an intermediary in dealings in shares, stocks, debentures and other securities including margin trading.

The registered office of the Company is P.O. Box 185085, Dubai, United Arab Emirates.

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("IASB"), and applicable laws of UAE. UAE Federal Law No 2 of 2015 ("UAE Companies Law of 2015") was issued on 1 April 2015 and has come into force on 1 July 2015. Companies are allowed to ensure compliance with the UAE Companies Law of 2015 by 30 June 2017 as per the transitional provisions contained therein. The Group is currently in the process of implementing all changes required by the UAE Companies Law of 2015.

Al Safwa Mubasher Financial Services PrJSC

Notes to the consolidated financial statements

for the year ended 31 December 2016

2 Basis of preparation (continued)

(b) Basis of measurement

The consolidated financial statements are prepared under the historical cost convention except for available for sale investments which are measured at fair value.

(c) Comparative information

These consolidated financial statements include comparative information as required by IFRS. As further explained in note 4, on 8 December 2016, the operations of MFS merged with Safwa. Following the merger, MFS shareholders hold 77% of the shares in the Company. The merger is accounted for as a reverse acquisition under IFRS 3 – ‘Business Combinations’ considering, amongst other facts of the transaction, that MFS acquired a controlling stake in the Company. Consequently, Safwa is treated as the ‘accounting acquiree’ and MFS is treated as the ‘accounting acquirer’ for accounting purposes. As a result, the financial statements of the Company are shown as a continuation of the financial statements of MFS with an adjustment to reflect the legal share capital and statutory reserve of Safwa with corresponding adjustment reflected in a merger reserve (note 12).

(d) Functional and presentation currency

These consolidated financial statements are presented in United Arab Emirates Dirham (“AED”), which is the Company’s functional currency.

(e) Use of estimates and judgments

The preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The critical areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to these consolidated financial statements are included in the relevant accounting policies.

(f) Changes in accounting policy

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2016. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior periods but may affect the accounting for future transactions or arrangements.

- Amendments to IAS 19 Defined Benefit Plans: Employee Contribution;
- Amendments to IFRS 3 Business Combinations – amendments relating to classification and measurement of contingent considerations and scope exclusion for the formation of joint arrangements;
- Amendments to IFRS 13 Fair Value Measurement – amendments relating to measurement of short-term receivables and payables and scope of portfolio exception;

Al Safwa Mubasher Financial Services PrJSC

Notes to the consolidated financial statements

for the year ended 31 December 2016

2 Basis of preparation (continued)

(f) Changes in accounting policy (continued)

- Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets – amendments relating to restatement of accumulated depreciation (amortisation) on revaluation;
- Amendments to IAS 24 Related Party Disclosures – amendments relating to definition of a related party; and
- Amendments to IAS 40 Investment Property – amendments relating to inter-relationships of IFRS 3 and IAS 40.

3 Summary of significant accounting policies

Except as disclosed in note 2 f), the Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

a) Business combination

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

b) Subsidiary

A subsidiary is an investee controlled by the Group. The Group controls an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of a subsidiary are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Transactions eliminated on consolidation

Inter Group balances and transactions, and any unrealised income and expenses arising from intra group transactions, are eliminated. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Al Safwa Mubasher Financial Services PrJSC

Notes to the consolidated financial statements

for the year ended 31 December 2016

3 Summary of significant accounting policies (continued)

c) Intangible assets and Goodwill

i) *Recognition and measurement*

Goodwill

Goodwill that arises on business combination is presented with intangible assets. Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses.

Other intangible assets

Other intangible assets, including customer relationships, patents and trademarks that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

ii) *Subsequent expenditure*

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

iii) *Amortisation*

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Goodwill is not amortised.

The estimated useful lives are as follows:

Patents and trademarks:	2-5 years
Customer relationships	4-5 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

d) **Property and equipment**

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any. Capital work in progress is stated at cost including borrowing cost. When the Group commences its use, the capital work in progress is transferred to the appropriate category of property and equipment and is depreciated in accordance with the Group's policy.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Borrowing cost related to the acquisition, construction or production of qualifying assets is capitalised as part of cost of that item as property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the net proceeds from disposal with the carrying amount of property and equipment and are recognised in profit or loss.

Al Safwa Mubasher Financial Services PrJSC

Notes to the consolidated financial statements

for the year ended 31 December 2016

3 Summary of significant accounting policies (continued)

d) Property and equipment (continued)

Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful life of each component. The estimated useful lives are as follows:

	Years
Office equipment	6-7
Furniture and fixtures	8
Computer hardware and related software	4
Machinery and Equipment	4
Building	15

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

e) Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured at cost less accumulated depreciation and impairment loss, if any. Depreciation on investment in buildings is charged on a straight-line basis over 25 years. No depreciation is charged on land and investment properties under construction.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of profit or loss in the period in which the property is derecognised.

Transfers to investment properties are made when, and only when there is change in use evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development.

f) Financial instruments

Non-derivative financial assets

The Group initially recognises trade and other receivables on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group 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 in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Al Safwa Mubasher Financial Services PrJSC

Notes to the consolidated financial statements

for the year ended 31 December 2016

3 Summary of significant accounting policies (continued)

f) Financial instruments (continued)

Non-derivative financial assets (continued)

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

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

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, trade and other receivables, cash and cash equivalents and available for sale financial assets

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sales decisions based on their fair value in accordance with the Group's documented risk management or investment strategy.

Attributable transaction costs are recognised in the profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes in fair value, which take into account dividend income, are recognised in profit or loss.

Trade and other receivables

Trade and other receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, trade and other receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash on hand, Group's bank balances excluding customer deposits and short term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts, if any.

Available for sale financial assets

Available for sale financial assets are non-derivative financial assets that are designated as available-for-sale and are not classified in any of the above categories of financial assets. Available for sale financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available for sale debt instruments, are recognised in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognised, the gain or loss accumulated in equity is reclassified to profit or loss. Financial liabilities are recognised initially on the trade date, which is the date the Group becomes a party to the contractual provision of the instrument. The Group derecognises a financial liability

Al Safwa Mubasher Financial Services PrJSC

Notes to the consolidated financial statements

for the year ended 31 December 2016

3 Summary of significant accounting policies (continued)

f) Financial instruments (continued)

Available for sale financial assets (continued)

when its contractual obligations are discharged, cancelled or expired. The Group's non-derivative financial liabilities comprise of trade and other payables.

Such financial liabilities are recognised initially at fair value minus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using effective interest method.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of the ordinary shares are recognised as a deduction from equity.

Fair value

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability not based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are

Al Safwa Mubasher Financial Services PrJSC

Notes to the consolidated financial statements

for the year ended 31 December 2016

3 Summary of significant accounting policies (continued)

f) Financial instruments (continued)

Fair value (continued)

allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

g) Impairment

Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates a loss event has occurred after the initial recognition of the asset, and that the loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security classified as available for sale ("AFS"), a significant or prolonged decline in its fair value below its cost is considered as an objective evidence of impairment.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate and also taking into consideration the financial standing of the customers and the value of the securities held in the customer's account which cannot be disposed of without the Group's consent. Losses are recognised in profit or loss and reflected in an allowance account against trade and other receivables. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Available for sale financial assets

Impairment losses on available for sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in cumulative impairment losses attributable to the application of the effective interest rate method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was

Al Safwa Mubasher Financial Services PrJSC

Notes to the consolidated financial statements

for the year ended 31 December 2016

3 Summary of significant accounting policies (continued)

g) Impairment (continued)

Available for sale financial assets (continued)

recognised, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflow of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

h) Employees' end of service benefits

With respect to its national employees, the Group makes contributions to a pension fund established by the General Pension and Social Security Authority calculated as a percentage of employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

The Group provides end of service benefits to its expatriate employees. The entitlement to these benefits is usually based upon the employees' length of service and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment and are not less than the liability arising under UAE Labour Laws.

i) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by

Al Safwa Mubasher Financial Services PrJSC

Notes to the consolidated financial statements

for the year ended 31 December 2016

3 Summary of significant accounting policies (continued)

i) Provisions (continued)

discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability.

j) Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. ~~The foreign currency gain or loss on monetary items is the difference between~~ amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

k) Commission income

The Group earns commission income on those transactions in which it acts as an agent. Commission income is recognised on an accrual basis when the services are performed and right to receive income is established.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due and associated costs.

l) Interest income and expense

Interest income and expense for all interest bearing financial instruments except for those classified as held for trading or designated at fair value are recognised in 'Finance income' and 'Finance expense' in the profit or loss on time proportionate basis using the effective interest rate method.

The effective interest rate is the rate that discounts the estimated future cash receipts and payments earned or paid on a financial asset or a liability through its expected life or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

m) Dividend income

Dividend income is recognised when the Group's right to receive such income is established.

n) Lease payments

Payments made under operating leases are recognised in the profit or loss on a straight-line basis over the term of the lease. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Al Safwa Mubasher Financial Services PrJSC

Notes to the consolidated financial statements

for the year ended 31 December 2016

3 Significant accounting policies (continued)

o) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position only when the Group has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis or to realise the asset and settle the liability simultaneously.

Income and expense are presented on a net basis only when permitted by IFRS.

p) Operating segments

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group has one segment as its primary activity is to act as an intermediary in dealings in shares, stocks, debentures and other securities in the UAE.

q) New standards and interpretations not yet effective

A number of new standards, amendments to standards and interpretation are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

Standards	Description	Effective for periods beginning
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16	Leases	1 January 2019
IAS 17	Statement of Cash Flows- Amendment	1 January 2017

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs.

Al Safwa Mubasher Financial Services PrJSC

Notes to the consolidated financial statements

for the year ended 31 December 2016

3 Significant accounting policies (continued)

q) New standards and interpretations not yet effective (continued)

IFRS 16 specifies how an entity will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

The amendments to IAS 7 Statement of Cash Flows are to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The Group is currently reviewing the impact of the above mentioned standards.

4 Business Combination

Pursuant to a merger agreement between Safwa and MFS and shareholder resolutions of respective entities dated 21 January 2016, Ministerial Resolution number (499)/2016 issued by Ministry of Economy on 19 September 2016, and Emirates Securities and Commodities Authority ("ESCA") approval dated 11 October 2016 approving the merger, the Company commenced operations and traded as a combined entity under the revised name of Al Safwa Mubasher Financial Services PrJSC with effect from 8 December 2016, on completion of the formalities of the UAE exchanges. As a result of the merger, through the issue of new shares in the Company, MFS shareholders acquired 77% of the Company for a total consideration of AED 129,841,748. The merger is accounted for as a reverse acquisition under IFRS 3 – 'Business Combinations' considering, amongst other facts of the transaction, that MFS acquired a controlling stake in the Company. As such, for accounting purposes, Safwa is treated as the 'accounting acquiree' and MFS is treated as the 'accounting acquirer'.

Consequently, the consolidated financial statements of the Company are shown as a continuation of the financial statements of MFS with an adjustment to reflect the legal share capital and statutory reserves of Safwa with corresponding adjustment reflected in a merger reserve (note 12). The comparative information in these consolidated financial statements are those of MFS except for the statutory reserves and share capital which are of Safwa.

The process of evaluating the fair value of the identifiable net assets acquired as part of the acquisition in Safwa is currently ongoing. In the meantime the Group has undertaken a preliminary assessment of the fair value of all the net assets of Safwa assumed at 8 December 2016, which is as follows:

Al Safwa Mubasher Financial Services PrJSC

Notes to the consolidated financial statements

for the year ended 31 December 2016

4 Business Combination (continued)

	<u>Provisional Fair value recognised on acquisition</u>	<u>Carrying value immediately prior to acquisition</u>
	<u>AED</u>	<u>AED</u>
Intangible assets - client relationships	10,100,000	-
Intangible assets - Safwa brand	400,000	-
	<u>10,500,000</u>	<u>-</u>
Property and equipment	2,971,269	2,971,269
Investment properties	13,127,486	13,127,486
Investment securities-available for sale	6,572,240	3,923,864
Short term deposit under lien	30,000,000	30,000,000
Prepayments and other receivables	15,761,122	20,619,921
Amount due from related parties	6,179,894	6,179,894
Cash and bank balances	24,024,201	24,024,202
Employee end of service benefits	(534,872)	(534,872)
Trade and other payables	(20,650,833)	(20,650,833)
Due to related parties	(240,000)	(240,000)
	<u>87,710,507</u>	<u>79,420,931</u>
Total identifiable net assets	87,710,507	79,420,931
Total consideration transferred (note 4.1)	129,841,748	
Goodwill arising on acquisition	42,131,241	

Total intangible assets acquired as part of the business combination stand at AED 52,631,241 comprising of goodwill of AED 42,131,241, client relationships valued at AED 10,100,000 and Safwa Brand valued at AED 400,000.

4.1 Purchase consideration

As per the requirements of IFRS 3 for reverse acquisitions, the consideration for MFS acquisition of Safwa is the fair value of the equivalent number of shares that MFS would have to issue to Safwa shareholders that would give MFS shareholders and Safwa shareholders the same percentage of equity ownership of 77% and 23% respectively, in the Group.

Al Safwa Mubasher Financial Services PrJSC

Notes to the consolidated financial statements

for the year ended 31 December 2016

5 Financial risk management

Overview

The Group has exposure to the following risks from its use of financial instruments and operations:

- Credit risk;
- Liquidity risk; and
- Market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board has the overall responsibility for the establishment and oversight of the Group's risk management framework. The Director, along with a Risk and Compliance Department, is responsible for day-to-day monitoring of the Group's exposure to each of the credit, liquidity and market risks.

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each counterparty.

The Group's financial assets which are potentially subject to concentration of credit risk consist of balances with bank, amount due from related parties, trade and other receivables. Credit risk is managed by placing funds with banks having good reputation. Credit risk on amounts due from related parties and other receivables and deposits are considered minimal. The Group has a policy in place under which each new customer is analysed individually for creditworthiness before the Group allows these to customers to open a trading account with the Group.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is set out below:

	2016	2015
	AED	AED
Short term deposits under lien	42,123,742	29,065,714
Trade receivables (refer note 9)	17,526,714	18,272
Other receivables and deposits (excluding prepayments)	7,268,215	17,689,752
Amounts due from related parties	55,735,916	42,302,889
Bank balances	148,986,717	141,202,768
	<u>277,852,418</u>	<u>230,279,395</u>

Al Safwa Mubasher Financial Services PrJSC

Notes to the consolidated financial statements

for the year ended 31 December 2016

5 Financial risk management (continued)

(a) Credit risk (continued)

Impairment

The Group's other receivables and deposits are neither past due nor impaired. The balances due from related parties are neither past due nor impaired with the exception of a balance due from a shareholder amounting to AED 6,211,114 which is past due for more than 90 days. The balance is fully secured by collateral and is considered to be fully recoverable. The ageing of trade receivables are as are as follows:

	2016	2015
	AED	AED
Past due 0-30 days	15,358,129	-
Past due 31-90 days	115,143	426
More than 90 days	8,082,343	17,846
	-----	-----
	23,555,615	18,272
Less: Allowance for impairment losses	(6,028,901)	-
	-----	-----
	<u>17,526,714</u>	<u>18,272</u>

Receivables considered doubtful have been fully provided. The remaining receivables are covered by adequate security.

Concentration risk:

The Group's cash at bank, trade receivables, other receivables and deposits, cash at bank and short term deposits under lien are located in the UAE. (2015: The Group's cash at bank, trade receivables, other receivables and deposits, cash at bank and short term deposits under lien are located in the UAE). The Group's due from related parties are 100% concentrated in the Gulf Cooperation Council ("GCC") region (2015: 100% concentrated in the GCC region).

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Al Safwa Mubasher Financial Services PrJSC

Notes to the consolidated financial statements

for the year ended 31 December 2016

5 Financial risk management (continued)

(b) Liquidity risk (continued)

As part of liquidity management, the Group has availed bank borrowing facility from a commercial bank (note 14).

The following are the estimated undiscounted contractual cash flows and maturities of non-derivative financial liabilities excluding the impact of netting arrangement:

2016	Carrying amount	Contractual cash flows	Up to 3 months	3 months to 1 year	1 to 5 years	Over 5 years
	AED	AED	AED	AED	AED	AED
Trade payables	134,704,219	134,704,219	134,704,219	-	-	-
Bank borrowing	7,933,422	9,935,268	195,613	586,838	3,625,055	3,525,916
Bank overdraft	14,749,184	15,007,294	15,007,294	-	-	-
Total	157,386,825	159,646,781	149,907,126	586,838	3,625,055	3,525,916
2015	Carrying amount	Contractual cash flows	Up to 3 months	3 months to 1 year	1 to 5 years	Over 5 years
	AED	AED	AED	AED	AED	AED
Trade payables	143,572,972	143,572,972	143,572,972	-	-	-
Bank borrowing	19,824,126	23,440,685	567,686	1,678,471	8,308,825	12,885,703
Total	163,397,098	167,013,657	144,140,658	1,678,471	8,308,825	12,885,703

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Group's income or the value of its investments in financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

i. Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group is not significantly exposed to currency risk because substantial transactions are denominated in the functional currency of the Company. Transactions denominated in United States Dollar ("USD") do not carry significant currency since the AED is pegged to the USD.

Al Safwa Mubasher Financial Services PrJSC

Notes to the consolidated financial statements

for the year ended 31 December 2016

5 Financial risk management (continued)

(c) Market risk (continued)

ii. Interest rate risk

Interest rate risk arises from interest bearing financial instruments and reflects the possibility that changes in interest rates will adversely affect the value of the financial instruments and the related income. The Group manages the risk principally through monitoring interest rates prevailing in the market. The Group is exposed to interest rate risk on balances and borrowings with banks.

At the reporting date, the interest rate profile of the Group's interest bearing financial instruments was:

	2016 AED	2015 AED
Financial assets		
- Fixed rate instruments	42,123,742	29,065,714
- Variable rate instruments	31,952,404	-
	<u>74,076,146</u>	<u>29,065,714</u>
Financial liabilities		
- Fixed rate instrument	-	-
- Variable rate instruments	22,682,606	19,824,126
	<u>22,682,606</u>	<u>19,824,126</u>

Cash flow sensitivity analysis for variable rate instruments

Change of 100 basis points in interest rates at the reporting date would have increased/decreased equity and profit or loss by the amounts shown below. The analysis below excludes interest capitalised and assumes that all other variables remain constant.

	Effect on profit or loss 100 basis points increase AED	100 basis points decrease AED
Financial assets		
2016		
Variable rate instruments	319,524	(319,524)
	<u>319,524</u>	<u>(319,524)</u>
2015		
Variable rate instruments	-	-
	<u>-</u>	<u>-</u>
Financial liabilities		
2016		
Variable rate instruments	(79,334)	79,334
	<u>(79,334)</u>	<u>79,334</u>
2015		
Variable rate instruments	(198,241)	198,241
	<u>(198,241)</u>	<u>198,241</u>

Al Safwa Mubasher Financial Services PrJSC

Notes to the consolidated financial statements
for the year ended 31 December 2016

5 Financial risk management (continued)

iii. Equity price risk

All investment securities are subject to price risk, the risk that future changes in market conditions may make an instrument less valuable. The Group's investments are recognised at fair value. Exposure to price risk is monitored by senior management on an ongoing basis to assess the impact of changes in market conditions.

Sensitivity

An increase of 10% in price as at the reporting date would have increased equity by AED 896,249 (2015: AED 235,201); an equal change in the opposite direction would have decreased equity by AED 896,249 (2015: AED 235,201).

(d) Fair values

Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the reporting date without any deduction for transaction costs. If a quoted market price is not available, the fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, discounted cash flow methods and comparison to similar instruments for which market observable prices exist. In all other cases the instrument is measured at acquisition cost, including transaction costs, less impairment losses, if any. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate at the balance sheet date for an instrument with similar terms and conditions.

Fair value hierarchy

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, pricing service or regulatory agency, and those prices represent actual and regularly recurring market transactions on an arm's length basis.
- Level 2: Valuation techniques based on observable input, either directly (i.e., market input) or indirectly (i.e., derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for similar instruments; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Al Safwa Mubasher Financial Services PrJSC

Notes to the consolidated financial statements

for the year ended 31 December 2016

5 Financial risk management (continued)

d) Fair values (continued)

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1 AED	Level 2 AED	Level 3 AED	Total AED
31 December 2016				
Investment securities				
- Available-for-sale	2,390,254	-	6,572,240	8,962,494
Total	2,390,254	-	6,572,240	8,962,494
31 December 2015				
Investment securities				
- Available-for-sale	2,352,010	-	-	2,352,010
Total	2,352,010	-	-	2,352,010

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in level 3 of the fair value hierarchy.

	2016 AED	2015 AED
Balance at 1 January	-	-
Transfer as a result of business combination (note 4)	6,572,240	-
Closing balance	6,572,240	-

During the year, there were no transfers between Level 1 & 2 and Level 3 of the fair value hierarchy above. Further, there has been no change in the valuation techniques in relation to valuation of financial instruments during the year.

The table below presents sensitivity analysis of Group's investment measured under level 3 of fair value hierarchy as at 31 December 2016.

Description	Fair value at 31 December 2016 AED	Valuation techniques (%)	Sensitivity +/- (absolute value/%)	Change in valuation +/- AED
Available for sale investment	6,572,240	Market trading comparables	5%	328,612

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5 Financial risk management (continued)

d) Fair values (continued)

Financial instruments not measured at fair value

The fair values of financial instruments not recorded at fair value include deposit held under lien, trade and other receivables, cash and bank balances, trade and other payables and due from/ to related parties that are categorised as level two based on market observable inputs. The fair values of financial instruments not recorded at fair value are not materially different to their carrying values.

(e) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. There were no changes in the Group's approach to capital management during the year.

Regulatory capital

The Group's lead regulator, ESCA, sets and monitors the regulatory capital requirements of the Group. As per the recent amendment to the regulations, the Group's regulatory capital set by ESCA is AED 10 million for trading and clearing member license. There were no changes in the Group's approach to the capital management during the year. The Group has complied with all externally imposed capital requirements throughout the year.

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6 Property and equipment

	Furniture & fixture	Computer equipment	Machinery & equipment	Office equipment	Vehicles	Building	Capital work in progress	Total
	AED	AED	AED	AED	AED	AED	AED	AED
Cost								
At 1 January 2015	1,003,599	3,869,665	2,824,042	1,542,676	228,774	31,347,066	542,450	41,358,272
Additions	107,360	26,174	212,679	34,390	79,431	-	-	460,034
Disposals	-	-	-	-	-	(17,954,104)	(310,689)	(18,264,793)
At 31 December 2015	1,110,959	3,895,839	3,036,721	1,577,066	308,205	13,392,962	231,761	23,553,513
Acquired in business combination (note 4)	613,464	3,759,234	-	-	-	6,015,000	191,616	10,579,314
Additions	4,300	36,679	26,935	6,175	-	-	-	74,089
At 31 December 2016	1,728,723	7,691,752	3,063,656	1,583,241	308,205	19,407,962	423,377	34,206,916
Depreciation/ impairment								
At 1 January 2015	722,839	3,600,364	2,377,285	1,256,749	57,193	11,717,066	-	19,731,496
Charge for the year	58,696	85,634	212,675	122,231	77,052	1,510,000	-	2,066,288
Disposals	-	-	-	-	-	(7,575,832)	-	(7,575,832)
At 31 December 2015	781,535	3,685,998	2,589,960	1,378,980	134,245	5,651,234	-	14,221,952
Acquired in business combination (note 4)	613,464	3,725,702	-	-	-	3,077,263	-	7,416,429
Charge for the year	62,779	119,030	200,585	38,394	77,054	649,298	-	1,147,140
At 31 December 2016	1,457,778	7,530,730	2,790,545	1,417,374	211,299	9,377,795	-	22,785,521
Net book value								
At 31 December 2016	270,945	161,022	273,111	165,867	96,906	10,030,167	423,377	11,421,395
Net book value	329,424	209,841	446,761	198,086	173,960	7,741,728	231,761	9,331,561

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7 Investment properties

	Land	Property under construction	Total
Cost	AED	AED	AED
At 1 January 2016	-	-	-
Transfers as a result of business combination	10,939,590	2,187,896	13,127,486
At 31 December 2016	<u>10,939,590</u>	<u>2,187,896</u>	<u>13,127,486</u>
At 31 December 2015	-	-	-
Accumulated depreciation			
At 31 December 2016	-	-	-
At 31 December 2015	-	-	-

The legal title of land classified as investment property, having a book value of AED 3.4 million, is held by one of the shareholder of the Group for the beneficial interest of the Group.

The fair value of the Group's investment properties as at 31 December 2016 is AED 13.1 million based on unobservable market inputs (i.e. level 3).

8 Investment securities – available-for-sale

	2016 AED	2015 AED
Investment in Dubai Financial Market shares (note 8.1)	2,390,254	2,352,010
Investment in National Mass Holding Company (note 8.2)	6,572,240	-
	<u>8,962,494</u>	<u>2,352,010</u>

8.1 This investment represents 1,912,203 shares of the Dubai Financial Market (DFM) held by the Group. These shares were allocated to the Group as part of DFM's Initial Public Offering at a cost of AED 1,969,568. The market value of these shares as at 31 December 2016 was AED 2,390,254 (31 December 2015: AED 2,352,010).

8.2 This investment represents 4.2% of interest held in National Mass Holding Company ("NMHC"), a private joint stock company incorporated in the sultanate of Oman and primarily involved in real estate development. The investment was acquired through the business combination (refer note 4).

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9 Prepayments and other receivables

	2016 AED	2015 AED
Receivable from customers (Note 9.1)	23,555,615	18,272
Provision for doubtful debt (note 9.2)	(6,028,901)	-
	<u>17,526,714</u>	<u>18,272</u>
Prepayments	1,805,105	817,623
<i>Other receivables:</i>		
Net settlement due from:		
Dubai Financial Market	-	15,048,314
- Abu Dhabi Securities Exchange	-	182,515
Deposits	6,319,869	949,491
Others	948,346	1,509,432
	<u>26,600,034</u>	<u>18,525,647</u>

9.1 As at 31 December 2016, market value of securities held as collateral amounted to AED 18.9 million against those receivables.

9.2 Movement in allowance for impairment of receivables:

	2016 AED	2015 AED
Opening balance	-	-
Transfer as a result of business combination (note 4)	6,028,901	-
Charge for the year, net	-	-
Closing balance	<u>6,028,901</u>	<u>-</u>

10 Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include associates, joint ventures, parent, subsidiaries, key management personnel or his close family members.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director, executive or otherwise, of the Group. Transactions with related parties are conducted on terms agreed mutually between the parties.

Details of the balances with related parties at 31 December 2016 and the significant transactions with related parties during the year are as follows:

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10 Related parties (continued)

Transactions during the year

	2016 AED	2015 AED
Expenses incurred by related parties on behalf of the Group and recharged to the Group	<u>3,042,754</u>	<u>4,557,490</u>
Expenses incurred by the Group on behalf of related parties recharged to related parties	<u>45,114,198</u>	<u>26,970,463</u>
The salary and benefits provided to key management Personnel	<u>1,912,882</u>	<u>1,724,400</u>
Commission income earned from Parent Company for trades executed on behalf of its customers.	<u>3,702,006</u>	<u>6,511,499</u>

Balances with related parties as at 31 December 2016 are as follows:

	2016 AED	2015 AED
Amount due from related parties		
Direct FN Limited (note 10.1)	13,038,265	3,930,483
Arabic Computer Systems Ltd. (note 10.1)	3,312,016	3,690,998
Mubasher for Securities – Egypt (note 10.1)	78,560	52,600
Direct Broker Co. KSA (note 10.1)	3,540,980	5,080,845
Mubasher Financial Services BSC (note 10.1)	5,293,380	-
Mubasher Holding Ltd. DIFC (note 10.1)	52,313	-
Direct Broker International (note 10.1)	16,105,005	24,533,284
Amount receivable from Parent Company for balances receivable from the clients referred by them (note 10.2)	8,104,283	5,014,679
Amount receivable from a shareholder (note 10.3)	6,211,114	-
	<u>55,735,916</u>	<u>42,302,889</u>
Amount due to related parties		
Mubasher Financial Services BSC	-	7,885,575

- 10.1 The receivable balances represents expenses paid on behalf of and recharged to related parties.
- 10.2 These balances are receivable from the Parent Company for trades executed and settled on behalf of the Parent Company's customers. The balances are neither past due nor impaired and were settled subsequent to the reporting date.
- 10.3 The balance is receivable from a shareholder for trades executed and settled on his behalf by the Group. The receivable balance is past due for more than 90 days, however the balance is fully secured by shares held in DFM and ADX and is considered fully recoverable.

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11 Cash and bank balances

	2016	2015
	AED	AED
Cash at bank		
- Group's deposits	24,529,605	20,049,829
- Cash in hand	35,414	2,301
- Customers' deposits (note 11.1)	124,457,112	121,152,939
	<u>149,022,131</u>	<u>141,205,069</u>
Cash at bank	149,022,131	141,205,069
Bank overdraft (note 11.2)	(14,749,184)	-
Customer deposits	<u>(124,457,112)</u>	<u>(121,152,939)</u>
Cash and cash equivalents	<u>9,815,835</u>	<u>20,052,130</u>

11.1 In accordance with the regulations issued by the Emirates Securities and Commodities Authority ("ESCA"), the Group maintains separate bank accounts for amounts received from its customers ("customer deposits") which is not available to the Group other than to settle transactions executed on behalf of such customers.

11.2 The overdraft facility availed by the Group carries an interest rate of 1 month EIBOR plus 5.5% subject to a minimum rate of 7.5%.

12 Share capital

	2016	2015
	Number of shares	Number of shares
In issue at 1 January	129,841,748	129,841,748
Issued to effect business combination	434,000,000	-
	<u>563,841,748</u>	<u>129,841,748</u>
In issue at 31 December	563,841,748	129,841,748
Total paid in capital (AED)	563,841,748	129,841,748

Treasury shares

The treasury shares represent 2,000,000 shares of the Group held by Al Safwa Capital LLC, which is a 100% subsidiary of the Company.

Merger reserve

The amount recognised as issued equity instruments in the consolidated financial statements is determined by adding the issued equity of the legal acquiree (MFS) outstanding immediately before the business combination to the fair value of the legal acquirer (Safwa). However, the equity structure (i.e. the number and type of equity instruments issued) reflects the equity structure of Safwa, including the ordinary shares issued by Safwa to effect the merger. The difference between the share capital and statutory reserve of Safwa and the equity value of the Group as per IFRS 3 is transferred to a merger reserve.

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12 Share capital (continued)

The calculation for balances outstanding on the merger reserve as at 31 December 2016, 31 December 2015 and 1 January 2015 is shown in the table below.

	As at 31 December 2016 AED	As at 31 December 2015 AED	As at 1 January 2015 AED
Share capital of MFS transferred to merger reserve	31,000,000	31,000,000	31,000,000
Less: share capital of Safwa outstanding	(129,841,748)	(129,841,748)	(129,841,748)
Add: statutory reserve of MFS	14,221,038	14,221,038	12,681,125
Less statutory reserve of Safwa	(3,631,718)	(3,631,718)	(3,631,718)
Less: increase in share capital of Safwa	(434,000,000)	-	-
Add: Purchase consideration in business combination	129,841,748	-	-
Add: treasury shares of Safwa	2,000,000	2,000,000	2,000,000
Total	<u>(390,410,680)</u>	<u>(86,252,428)</u>	<u>(87,792,341)</u>

The movement in the merger reserve for the year ended 31 December 2016 is disclosed in the consolidated statement of changes in equity.

13 Statutory reserve

As mentioned in 2 c), the statutory reserve of the current and comparative years are those of Safwa, which is the legal acquiree. In accordance with UAE Federal Law, a minimum of 10% of the annual profit is to be transferred to this non-distributable statutory reserve. Such transfers may cease when the statutory reserve becomes equal to half of the paid up share capital. No transfers were made during the year on account of losses incurred by the Group.

14 Bank borrowings

In 2008, the Group was granted a forward Ijarah facility from an Islamic Bank to purchase an office space in the Emirate of Dubai. On 8 November 2012, the Group obtained the possession of office premises and the Ijarah facility of AED 24,051,620 was rescheduled to be repayable in 180 equal monthly instalments commencing from 8 December 2012. The Ijarah facility bears a profit rate of EIBOR plus 3% p.a. and is secured by a first degree registered mortgage over the property. During the year, a part of the loan amounting to AED 10.4 million was settled to the Bank by a related party on behalf of the Group.

As at 31 December 2016 the outstanding balance amounts to AED 7,828,729 (2015: AED 19,654,117). Non-current outstanding amount as at 31 December 2016 is AED 7,111,594 (2015: AED 18,004,825) and current outstanding amount as at 31 December 2016 is AED 717,136 (2015: AED 1,649,292).

In 2014 the Group was granted a vehicle loan of AED 221,589 repayable in 48 monthly instalments. Non-current outstanding amount as at 31 December 2016 is AED 13,029 (2015:

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14 Bank borrowings (continued)

AED 65,169) and current outstanding amount as at 31 December 2016 is AED 52,139 (2015: AED 52,140).

In 2015, the Group was granted a vehicle loan of AED 65,879 repayable in 60 monthly instalments. Non-current outstanding amount as at 31 December 2016 is AED 26,348 (2015: AED 39,524) and current outstanding amount as at 31 December 2016 is AED 13,176 (2015: AED 13,176).

15 Employees' end of service benefits

The movement in end of service benefits is as follows:

	2016 AED	2015 AED
Provision at the beginning of the year	1,386,423	1,286,617
Acquired through business combination	534,872	-
Charge for the year	1,184,790	517,708
Pay outs	(261,842)	(417,902)
Provision at the end of the year	<u>2,844,243</u>	<u>1,386,423</u>

16 Trade and other payables

	2016 AED	2015 AED
Trade payables (note 16.1)	123,712,188	139,905,710
Net settlement due to:		
- Dubai Financial Market	5,974,173	-
- Abu Dhabi Securities Exchange	2,457,326	-
- Nasdaq Dubai	64,189	1,485,005
Other payables and accruals	2,496,343	2,182,257
	<u>134,704,219</u>	<u>143,572,972</u>

16.1 Trade payables mainly represent deposits from customers for the purpose of trading by the Group on their behalf.

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17 Contingent liabilities

The Group has arranged the following bank guarantees to:

	2016 AED	2015 AED
Abu Dhabi Securities Exchange (ADX)	45,000,000	25,000,000
Dubai Financial Markets (DFM)	59,000,000	25,000,000
NASDAQ Dubai Limited (NASDAQ)	-	5,505,000
	<u>104,000,000</u>	<u>55,505,000</u>

The guarantees issued are secured by fixed deposits of AED 42,123,742 (2015: AED 29,065,714), pledge of office premises in Sharjah having a carrying amount of AED 2.9 million and investment properties having a carrying amount of AED 3.4 million.

18 Commitments

Capital commitments

	2016 AED	2015 AED
Development expenditure on investment property assumed as a result of business combination (note 18.1)	1,038,196	-
Other capital commitment (note 18.2)	2,695,000	-
	<u>3,733,196</u>	<u>-</u>

18.1 The Group has a commitment of development expenditure on investment properties amounting to AED 1,038,196. The Group has signed an agreement with a contractor on 2 February 2014 to construct six sheds on land which is classified as investment property in the Group's consolidated financial statements. The total value of the contract is AED 2.6 million and as at the reporting date the Group has paid AED 1.57 million as per the agreement.

18.2 On 1 December 2016, the Group entered into an agreement with a third party to pay AED 2,695,000 for fit out work on the office premises purchased in Dubai.

Lease commitments

At 31 December 2016, the annual commitments under non-cancellable operating leases were as follows:

	2016 AED	2015 AED
Less than one year	<u>270,117</u>	<u>212,625</u>

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19 Administrative and general expenses

	2016 AED	2015 AED
Staff cost	9,239,137	9,926,595
Trading expenses	3,769,719	1,905,881
Depreciation	1,147,140	2,066,288
Rent	601,694	620,476
Sales and marketing expenses	17,397	88,623
Legal and professional expenses	264,130	520,944
Registration and license fees	574,314	661,166
Communication	416,409	282,089
Travelling expenses	263,827	320,674
Other expenses	908,849	1,280,528
	<u>17,202,616</u>	<u>17,673,264</u>

20. Earnings per share

Basic earnings per share are calculated by dividing the profit or loss for the year attributable to owners of the Company by the weighted average number of shares outstanding during the year as follows:

	2016 AED	2015 AED
(Loss)/profit during the year	(600,415)	15,399,130
Weighted average number of shares	157,189,693	129,841,748
Basic and diluted earnings per share (AED per share)	<u>(0.00)</u>	<u>0.12</u>