

**Al Safwa Islamic Financial  
Services (PJSC)**

**Condensed unconsolidated interim financial information**  
*30 September 2012*

# **Al Safwa Islamic Financial Services (PJSC)**

## **Condensed unconsolidated interim financial information (Reviewed)**

*For the nine-month period ended 30 September 2012*

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## **Independent auditors' report on review of condensed unconsolidated interim financial information**

**The shareholders  
Al Safwa Islamic Financial Services (PJSC)**

### ***Introduction***

We have reviewed the accompanying condensed unconsolidated interim statement of financial position of Al Safwa Islamic Financial Services (PJSC) ("the Company") as at 30 September 2012, the condensed unconsolidated interim statements of comprehensive income, changes in equity and cash flows for the nine-month period then ended, and notes to the condensed unconsolidated interim information ("the condensed unconsolidated interim financial information"). Management is responsible for the preparation and presentation of this condensed unconsolidated interim financial information in accordance with IAS 34, '*Interim Financial Reporting*'. Our responsibility is to express a conclusion on this condensed unconsolidated interim financial information based on our review.

### ***Scope of Review***

We conducted our review in accordance with the International Standard on Review Engagements 2410, '*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*'. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### ***Conclusion***

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed unconsolidated interim financial information as at 30 September 2012 is not prepared, in all material respects, in accordance with IAS 34, '*Interim Financial Reporting*'.

  
KPMG

Vijendranath Malhotra  
Registration No: 48 B

21 OCT 2012

# Al Safwa Islamic Financial Services (PJSC)

Condensed unconsolidated interim statement of financial position as at

		30 September 2012 AED (Reviewed)	31 December 2011 AED (Audited)
<b>Assets</b>	<i>Note</i>		
<b>Non-current assets</b>			
Property and equipment		5,472,047	5,191,452
Investment in subsidiary	3	-	-
<b>Total non-current assets</b>		<b>5,472,047</b>	<b>5,191,452</b>
<b>Current assets</b>			
Available for sale investment	4	3,923,865	3,923,865
Trade receivables, deposits, prepayments and other receivables	5	45,917,406	41,662,861
Amount due from related parties	6	23,966,703	20,044,203
Cash and bank balances	7	19,481,992	37,623,225
<b>Total current assets</b>		<b>93,289,966</b>	<b>103,254,154</b>
<b>Total Assets</b>		<b>98,762,013</b>	<b>108,445,606</b>
<b>Equity</b>			
Share capital		129,841,748	129,841,748
Statutory reserve		1,934,871	1,934,871
General reserve		1,934,871	1,934,871
Employees' performance share program		(2,000,000)	(2,000,000)
Accumulated losses		(46,994,372)	(42,669,288)
<b>Total equity</b>		<b>84,717,118</b>	<b>89,042,202</b>
<b>Non-current liabilities</b>			
Employees' end of service benefits	8	538,217	439,031
<b>Current liabilities</b>			
Trade and other payables	9	13,216,678	18,663,013
Amount due to related parties	6	290,000	301,360
<b>Total current liabilities</b>		<b>13,506,678</b>	<b>18,964,373</b>
<b>Total liabilities</b>		<b>14,044,895</b>	<b>19,403,404</b>
<b>Total equity and liabilities</b>		<b>98,762,013</b>	<b>108,445,606</b>

The notes on pages 6 to 12 are an integral part of the condensed unconsolidated interim financial information.

The condensed unconsolidated interim financial information were approved and authorised for issue by the Board of Directors on October 21<sup>st</sup> 2012 and signed on its behalf by:

  
Chairman

The review report of the Auditors is set out on page 1.

**Chairman**

The review report of the Auditors is set out on page 1.

**Al Safwa Islamic Financial Services (PJSC)**

**Condensed unconsolidated interim statement of comprehensive income**

*For the nine-month period ended 30 September 2012*

		9 months		3 months	
		30 September 2012 AED (Reviewed)	30 September 2011 AED (Reviewed)	30 September 2012 AED (Reviewed)	30 September 2011 AED (Reviewed)
Commission income		3,160,976	5,703,042	474,223	1,152,545
Other income		3,362	123,486	793	40,292
<b>Total income</b>		<b>3,164,338</b>	<b>5,826,528</b>	<b>475,016</b>	<b>1,192,837</b>
Staff salaries and benefits	10	(2,729,860)	(3,170,451)	(771,895)	(1,009,019)
Advertisement and business promotion		(99,089)	(62,792)	(32,091)	(965)
Administrative and general expenses	11	(3,458,253)	(3,257,552)	(792,270)	(899,937)
Impairment loss on receivables		-	(779,269)	-	(473,570)
<b>Net loss from brokerage operations</b>		<b>(3,122,864)</b>	<b>(1,443,536)</b>	<b>(1,121,240)</b>	<b>(1,190,654)</b>
Impairment on investment in subsidiary	3	-	(998,298)	-	-
Impairment on amount due from subsidiary	6	-	(7,831,410)	-	-
<b>Net loss for the period</b>		<b>(3,122,864)</b>	<b>(10,273,244)</b>	<b>(1,121,240)</b>	<b>(1,190,654)</b>
Other comprehensive income for the period		-	-	-	-
<b>Total comprehensive loss for the period</b>		<b>(3,122,864)</b>	<b>(10,273,244)</b>	<b>(1,121,240)</b>	<b>(1,190,654)</b>

The notes on pages 6 to 12 are an integral part of the condensed unconsolidated interim financial information.

The review report of the Auditors is set out on page 1.

## Al Safwa Islamic Financial Services (PJSC)

### Condensed unconsolidated interim statement of changes in equity

For the nine-month period ended 30 September 2012

	Share capital AED	Statutory reserve AED	General reserve AED	Employees' performance share program AED	Accumulated losses AED	Total AED
At 1 January 2011	129,841,748	1,934,871	1,934,871	(2,000,000)	(21,605,596)	110,105,894
Loss for the period	-	-	-	-	(10,273,244)	(10,273,244)
Other comprehensive income for the period	-	-	-	-	-	-
Total comprehensive loss for the period	-	-	-	-	(10,273,244)	(10,273,244)
At 30 September 2011 (Reviewed)	<u>129,841,748</u>	<u>1,934,871</u>	<u>1,934,871</u>	<u>(2,000,000)</u>	<u>(31,878,840)</u>	<u>99,832,650</u>
At 1 January 2012	129,841,748	1,934,871	1,934,871	(2,000,000)	(42,669,288)	89,042,202
Loss for the period	-	-	-	-	(3,122,864)	(3,122,864)
Other comprehensive income for the period	-	-	-	-	-	-
Total comprehensive loss for the period	-	-	-	-	(3,122,864)	(3,122,864)
<i>Transactions with owners, recorded directly in equity</i>						
Zakat (refer note 12)	-	-	-	-	(1,202,220)	(1,202,220)
Total transactions with owners, recorded directly in equity	-	-	-	-	(1,202,220)	(1,202,220)
At 30 September 2012 (Reviewed)	<u>129,841,748</u>	<u>1,934,871</u>	<u>1,934,871</u>	<u>(2,000,000)</u>	<u>(46,994,372)</u>	<u>84,717,118</u>

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# Al Safwa Islamic Financial Services (PJSC)

## Condensed unconsolidated interim statement of cash flows

For the nine-month period ended 30 September 2012

	30 September 2012 AED (Reviewed)	30 September 2011 AED (Reviewed)
<b>Cash flows from operating activities</b>		
Net loss for the period	(3,122,864)	(10,273,244)
<i>Adjustments for:</i>		
Depreciation	480,923	400,108
Provision for employees' end of service benefits	99,186	85,655
Impairment loss on receivables	-	779,269
Impairment on investment in subsidiary	-	998,298
Impairment on amount due from subsidiary	-	7,831,410
Profit from Murabaha	(3,362)	(123,486)
<i>Operating loss before change in working capital</i>	<i>(2,546,117)</i>	<i>(301,990)</i>
<i>Working capital changes:</i>		
Change in trade receivables, deposits, prepayments and other receivables	(4,254,545)	5,729,560
Change in amount due from related parties	(3,922,500)	(3,540,891)
Change in trade and other payables	205,193	2,993,555
Change in amount due to related parties	(11,360)	(236,318)
<i>Cash flows (used in)/from in operating activities</i>	<i>(10,529,329)</i>	<i>4,643,916</i>
Employees end of service benefits paid	-	(21,896)
Zakat paid	(1,202,220)	(1,444,545)
<i>Net cash flows (used in)/from operating activities</i>	<i>(11,731,549)</i>	<i>3,177,475</i>
<b>Cash flows from investing activities</b>		
Acquisition of property and equipment	(761,518)	(66,325)
Profit received from Murabaha	3,362	123,486
<i>Net cash flows (used in)/ from investing activities</i>	<i>(758,156)</i>	<i>57,161</i>
<b>Net cash flows from financing activities</b>	-	-
<b>Net change in cash and cash equivalents</b>	<b>(12,489,705)</b>	<b>3,234,636</b>
Cash and cash equivalents at 1 January	19,548,775	8,820,050
<b>Cash and cash equivalents at 30 September</b>	<b>7,059,070</b>	<b>12,054,686</b>
<b>Cash and cash equivalents at the end of period comprises:</b>		
Cash at bank and in hand (refer note 7)	19,481,992	39,129,314
Client deposits	(12,422,922)	(27,074,628)
	<b>7,059,070</b>	<b>12,054,686</b>

The notes on pages 6 to 12 are an integral part of the condensed unconsolidated interim financial information.

The review report of the Auditors is set out on page 1.

# Al Safwa Islamic Financial Services (PJSC)

## Notes

*(forming part of the condensed unconsolidated interim financial information)*

### **1 Legal status and principal activities**

Al Safwa Islamic Financial Services (PJSC) ("the Company") was incorporated on 11 March 2006 in accordance with the provisions of UAE Federal Companies Law No.8 of 1984.

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

The principal activity of the Company is brokerage services in local shares and bonds.

On 14 July 2009, the Company established a subsidiary by subscribing to 10,000,000 shares of AED 1 each representing 100% equity in Al Safwa Capital LLC, a company incorporated in the Emirates of Sharjah in accordance with the provision of the UAE Federal Companies Law no.8 of 1984 (as amended). The principal activity of the subsidiary is to hold investment properties.

### **2 Significant accounting policies**

These condensed unconsolidated interim financial information reflect the operating results and the financial position of the Company only, i.e. these are separate condensed interim financial statements of the Company, and do not include the operating results and financial position of its subsidiary. The condensed consolidated interim financial information for the nine-month period ended 30 September 2012 should be referred to for the better understanding of operating results and financial position of the Company and its subsidiary.

#### **a) Statement of compliance**

The condensed unconsolidated interim financial information has been prepared in accordance with IAS 34 *Interim Financial Reporting*. The interim financial information do not include all the information required for full annual financial statements and should be read in conjunction with the audited financial statements of the Company as at and for the year ended 31 December 2011.

#### **b) Basis of preparation**

The condensed unconsolidated interim financial information has been prepared on the historical cost basis, except for available for sale investment.

The accounting policies and methods of computation adopted by the Company in these condensed unconsolidated interim financial information are the same as those applied by the Company in its audited annual financial statements as at 31 December 2011.

# Al Safwa Islamic Financial Services (PJSC)

## Notes

(forming part of the condensed unconsolidated interim financial information)

### 2 Significant accounting policies (continued)

#### b) Basis of preparation (continued)

The preparation of condensed unconsolidated interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In preparing this condensed unconsolidated interim financial information, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation and uncertainty were the same as those that applied to the audited annual financial statements of the Company as at and for the year ended 31 December 2011.

The condensed unconsolidated interim financial information has been prepared in UAE Dirhams ("AED"), which is the 'functional currency'.

#### c) Financial risk management

The Company's financial risk management objectives, policies and procedures are consistent with those disclosed in the audited annual financial statements as at and for the year ended 31 December 2011.

### 3 Investment in subsidiary

	30 September 2012 AED (Reviewed)	31 December 2011 AED (Audited)
At cost:		
Unquoted shares (at 1 January)	998,298	998,298
Less: Impairment (note 3.2)	(998,298)	(998,298)
	<u>          </u>	<u>          </u>
	-	-
	<u>          </u>	<u>          </u>

#### 3.1 Detail of the subsidiary is as follows:

<i>Name of subsidiary</i>	<i>Country of Incorporation</i>	<i>Principal Activities</i>	<i>Effective ownership interest</i>	
			<b>30 September 2012 (Reviewed)</b>	<b>31 December 2011 (Audited)</b>
Al Safwa Capital LLC	UAE	Investment Company	<b>100%</b>	<b>100%</b>

#### 3.2 At 31 December 2011, investment in subsidiary was fully impaired due to downward movement in fair value of investment properties held by the subsidiary and disposal of investment properties at a realised loss.

# Al Safwa Islamic Financial Services (PJSC)

## Notes

(forming part of the condensed unconsolidated interim financial information)

### 4 Available-for-sale investment

In June 2008, the Company subscribed to 625,000 shares of the National Mass Housing Co. SAOC incorporated in the Sultanate of Oman. These shares were allocated to the Company during the second quarter of 2010. The cost of these shares is AED 3,923,865 (31 December 2011: AED 3,923,865) which represents an equity stake of 2.5%. The management believes that the fair value of this investment is not significantly different from its carrying value.

### 5 Trade receivables, deposits, prepayments and other receivables

	30 September 2012 AED (Reviewed)	31 December 2011 AED (Audited)
Receivable from customers (note 5.1)	29,975,058	21,100,635
Less: Allowance for impairment losses	(5,775,995)	(5,848,437)
	<u>24,199,063</u>	<u>15,252,198</u>
Other financial assets-margin deposits	16,667,500	16,650,000
Settlement due from Dubai Financial Market	3,286,683	5,623,059
Settlement due from Abu Dhabi Securities Exchange	46,697	2,659,558
Prepayments	850,124	345,919
Refundable deposits	40,750	40,750
Other receivables	826,589	1,091,377
	<u>45,917,406</u>	<u>41,662,861</u>

Movement in allowance for impairment of receivables:

	30 September 2012 AED (Reviewed)	31 December 2011 AED (Audited)
At 1 January	5,848,437	2,290,302
Provision for the period/ year	-	3,558,135
Write-off	(72,442)	-
	<u>5,775,995</u>	<u>5,848,437</u>

- 5.1 As at 30 September 2012, market value of securities held as collateral amounted to AED 24.4 million (31 December 2011: AED 13.7 million) against above receivables.

# Al Safwa Islamic Financial Services (PJSC)

## Notes

(forming part of the condensed unconsolidated interim financial information)

### 6 Related party transactions

The Company enters into transactions with companies and entities that fall within the definition of a related party as contained in International Accounting Standard 24 Related Party Disclosures. Related parties comprise shareholders, directors and key management personnel of the Company and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Company's management.

Details of transactions carried out with related parties during the nine-month period ended 30 September 2012 are as follows:

	30 September 2012 AED (Reviewed)	30 September 2011 AED (Reviewed)
<b>Transactions with shareholders</b>		
Commission income	214,749	91,614
	=====	=====
<b>Compensation of key management personnel</b>		
Short term benefits	405,000	450,000
Long term benefits	64,800	72,000
	=====	=====

Details of balances with related parties as at the balance sheet date are as follows:

	30 September 2012 AED (Reviewed)	31 December 2011 AED (Audited)
<b>Balances with related parties</b>		
Amount due from shareholders (note 6.1)	17,510,145	15,998,245
Amount due from subsidiary (note 6.2)	6,456,558	4,045,958
	=====	=====
	23,966,703	20,044,203
	=====	=====
Amount due to shareholders	290,000	301,360
	=====	=====

6.1 Due from shareholders includes past due balance of greater than 365 days amounting to AED 5.68 million against which no provision has been made as these are considered to be recoverable.

#### 6.2 Impairment on amount due from subsidiary

During 2011, an impairment loss of AED 13.8 million was recorded on amount due from subsidiary, due to losses in the subsidiary subsequent to the disposal of the investment properties and due to downward movement in fair value of investment properties held by the subsidiary.

## Al Safwa Islamic Financial Services (PJSC)

### Notes

(forming part of the condensed unconsolidated interim financial information)

#### 7 Cash and bank balances

	30 September 2012 AED (Reviewed)	31 December 2011 AED (Audited)
Cash at bank	7,052,215	19,546,062
Cash in hand	6,855	2,713
Client deposits (note 7.1)	12,422,922	18,074,450
	<u>19,481,992</u>	<u>37,623,225</u>

- 7.1 In accordance with the regulations issued by the Emirates Securities and Commodities Authority ("ESCA"), the Company maintains separate bank accounts for advances received from its customers ("clients' money"). The clients' money is not available to the Company other than to settle transactions executed on behalf of the customers maintaining deposits with the Company.

#### 8 Employees' end of service benefits

Movement of end of service benefits are as follows:

	30 September 2012 AED (Reviewed)	31 December 2011 AED (Audited)
Provision at the beginning of the period / year	439,031	371,593
Provided during the period / year	99,186	127,134
Paid during the period / year	-	(59,696)
Provisions as at the end of the period / year	<u>538,217</u>	<u>439,031</u>

#### 9 Trade and other payables

	30 September 2012 AED (Reviewed)	31 December 2011 AED (Audited)
Advance from customers	12,422,922	18,063,134
Other liabilities	793,756	599,879
	<u>13,216,678</u>	<u>18,663,013</u>

## Al Safwa Islamic Financial Services (PJSC)

### Notes

*(forming part of the condensed unconsolidated interim financial information)*

#### 10 Staff salaries and benefits

	30 September 2012 AED (Reviewed)	30 September 2011 AED (Reviewed)
Employees salaries and benefits	2,630,674	3,084,796
End of service benefits	99,186	85,655
	<u>2,729,860</u>	<u>3,170,451</u>

#### 11 Administrative and general expenses

	30 September 2012 AED (Reviewed)	30 September 2011 AED (Reviewed)
Market expenses	233,648	266,939
Repair and maintenance	72,254	151,295
Printing and stationery	33,041	12,778
Depreciation expenses	480,923	400,108
Utilities	55,896	65,354
Communication expenses	687,895	827,459
Bank charges	295,936	516,269
Legal and professional expenses	907,815	453,653
Other expenses	690,845	563,697
	<u>3,458,253</u>	<u>3,257,552</u>

#### 12 Zakat

Zakat relates to the year ended 31 December 2011 and has been calculated and approved by the Shariah' committee as AED 1.2 million. The amount has been paid during the current quarter.

## Al Safwa Islamic Financial Services (PJSC)

### Notes

*(forming part of the condensed unconsolidated interim financial information)*

#### 13 Contingent liabilities and capital commitments

	30 September 2012 AED (Reviewed)	31 December 2011 AED (Audited)
Letters of guarantee	25,000,000	25,000,000

The Company has arranged bank guarantees amounting to AED 15,000,000 and AED 10,000,000 to the Dubai Financial Market ("DFM") and Abu Dhabi Securities Exchange ("ADX") respectively, for the Company's fulfilment of obligations under the contract / agreement with DFM and ADX (31 December 2011: AED 15,000,000 for DFM and AED 10,000,000 for ADX). The guarantees are secured against the margin deposit of AED 16,667,500 (31 December 2011: AED 16,650,000) placed with an Islamic bank.

#### 14 Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in these condensed unconsolidated interim financial statements.