LEEJAM SPORTS COMPANY
(A SAUDI JOINT STOCK COMPANY)

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR’S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022

LEEJAM SPORTS COMPANY (A SAUDI JOINT STOCK COMPANY)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

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Ernst & Young Professional Services (Professional LLC)
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INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Leejam Sports Company (A Saudi Joint Stock Company)

Opinion
We have audited the financial statements of Leejam Sports Company (the "Company"), which comprise the statement of financial position as at 31 December 2022, and the statement of profit or loss, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Chartered and Professional Accountants.

Basis for Opinion
We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) that is endorsed in the Kingdom of Saudi Arabia that is relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with this Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of a matter:
We draw attention to note 29 to the financial statements. As stated therein, during the year ended 31 December 2021, management has received an assessment order from the Zakat, Tax and Customs Authority ("ZATCA") on the ground that part of the Company's profits for the years 2015, 2016, 2017 and 2018 were subject to income tax. Our opinion is not modified in respect of this matter.

Key Audit Matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Leejam Sports Company (A Saudi Joint Stock Company) (continued)

Key Audit Matters (continued)

Key audit matter	***How our audit addressed the key audit matter***
Revenue recognition	
The Company reported revenue of SR 1,065.8 million from subscriptions and membership fees of fitness training centers and related activities for the year ended 31 December 2022. We considered this a key audit matter due to the application of accounting standard for revenue recognition in the fitness training sector requires revenue to be recognized over the term of subscription period. Additionally, there are inherent risks about the accuracy of revenues recorded due to either ineffective manual and / or IT related controls. Refer to note 4.1 for the accounting policy related to revenue recognition and note 6 for the related disclosures.	Our audit procedures included, among others, the following: • Evaluated the appropriateness of revenue recognition policies. • Involved our IT specialists in testing the design, implementation and operating effectiveness of system internal controls related to revenue recognition. • Tested the accuracy of customer invoice generation on a sample basis and tested a sample of the discounts and promotions applied to customer invoice. • Performed analytical procedures by comparing expectations of revenue with actual revenue and analyzing variances. • Assessed the adequacy of the relevant disclosures in the financial statements.
Uncertain Zakat and tax provision	
During the year ended 31 December 2021, the Zakat, Tax and Custom Authority ("ZATCA") issued an assessment for the years 2015, 2016, 2017 and 2018 on the ground that part of the Company's profits for the years 2015, 2016, 2017 and 2018 were subject to income tax. The Company has filed an objection against the assessment. ZATCA did not respond to the objection, then the Company filed a lawsuit against ZATCA before the General Secretariate of Zakat, Tax and Customs Committees "GSTC" who issued its ruling in the favor of ZATCA. The Company filed an appeal against this ruling which is still in progress. The Company's management is of view that they will win this appeal and based on that they did not account for additional zakat liability. We considered this as key audit matter since the accounting for this uncertain zakat provision comprise significant judgment by the management and due to the materiality of the claims involved. Refer to note 29	Our audit procedures included, among others, the following: • Gained an understanding of the process management followed to assess the impact of the assessment. • Inspected the zakat and tax opinion of management's expert obtained by the Company on the respective case. • Evaluated the reasonableness of management's assessment for the accounting of the uncertain zakat provision in the light of zakat and tax regulation, recent practices of ZATCA and merits of the appeal filed with the ZATCA against the assessment raised. • Assessed the adequacy of the relevant disclosures in the financial statement.

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INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Leejam Sports Company (A Saudi Joint Stock Company) (continued)

Other information included in The Company's 2022 Annual Report

Other information consists of the information included in the Company's 2022 annual report, other than the financial statements and our auditor's report thereon. The Board of Directors is responsible for the other information in its annual report. The Company's 2022 annual report is expected to be made available to us after the date of this auditor's report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Company's 2022 annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the Board of Directors and Those Charged with Governance for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Chartered and Professional Accountants and the provisions of Companies' Law and Company's By-laws, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the Company'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 the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material 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 International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit, in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

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INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Leejam Sports Company (A Saudi Joint Stock Company) (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- Conclude on the appropriateness of the Board of Directors' 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period 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.

for Ernst & Young Professional Services

Waleed G. Tawfiq
Certified Public Accountant
License No. 437

Riyadh: 16 Sha'ban 1444H
8 March 2023

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CR.1010383821
شركة إرنست ويونغ للخدمات المهنية
(مهنية ذات مسؤولية محدودة)
Ernst & Young Professional Services
(Professional LLC)

LEEJAM SPORTS COMPANY (A SAUDI JOINT STOCK COMPANY)

STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 SR	2021 SR
Revenue	6	**1,065,788,788**	885,283,139
Cost of revenue	7	**(629,667,673)**	(512,243,190)
GROSS PROFIT		**436,121,115**	373,039,949
General and administrative expenses	8	**(93,002,848)**	(87,837,592)
Advertising and marketing expenses	9	**(13,650,113)**	(14,405,763)
Impairment of non-financial assets	13&14	**(12,655,947)**	(12,945,904)
Reverse for expected credit losses	20	**117,062**	1,683,594
OPERATING PROFIT		**316,929,269**	259,534,284
Other income	10	**7,157,637**	-
Finance costs, net	11	**(59,473,305)**	(47,581,711)
PROFIT BEFORE ZAKAT		**264,613,601**	211,952,573
Zakat	29	**(7,354,469)**	(5,932,354)
PROFIT FOR THE YEAR		**257,259,132**	206,020,219
EARNINGS PER SHARE			
Basic and diluted earnings per share	12	**4.9111**	3.9329

Assim Al Attas
Chief Financial Officer

Adnan Abdullah Al Khalaf
Chief Executive Officer

Ali Hamad AlSagri
Chairman

The attached notes 1 to 38 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 SR	2021 SR
Net profit for the year		**257,259,132**	206,020,219
Other comprehensive income			
Item that will not be reclassified to statement of profit or loss in subsequent periods:			
Re-measurement gain / (loss) on employees end of service benefits obligation	25	**3,006,590**	(1,503,080)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**260,265,722**	204,517,139

Assim Al Attas
Chief Financial Officer

Adnan Abdullah Al Khalaf
Chief Executive Officer

Ali Hamad AlSagri
Chairman

The attached notes 1 to 38 form an integral part of these financial statements.

Leejam Sports Company (A Saudi Joint Stock Company)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

	Note	*2022* *SR*	*2021* *SR*
ASSETS			
NON-CURRENT ASSETS			
Property and equipment	13	**1,534,965,640**	1,509,992,894
Right-of-use assets	14	**753,692,120**	787,384,535
Intangible assets	15	**3,277,167**	3,058,447
Goodwill	16	**9,445,544**	9,445,544
Advances to suppliers and contractors	17	**34,938,555**	33,741,377
TOTAL NON- CURRENT ASSETS		**2,336,319,026**	2,343,622,797
CURRENT ASSETS			
Inventories		**8,000,691**	10,222,768
Prepayments and other current assets	18	**30,394,060**	36,333,370
Trade receivables	20	**22,809,309**	23,753,088
Cash and cash equivalents	21	**300,626,898**	179,886,073
TOTAL CURRENT ASSETS		**361,830,958**	250,195,299
TOTAL ASSETS		**2,698,149,984**	2,593,818,096
EQUITY AND LIABILITIES			
EQUITY			
Share capital	22	**523,833,610**	523,833,610
Statutory reserve	23	**102,349,153**	76,623,240
Retained earnings		**312,356,345**	204,112,819
TOTAL EQUITY		**938,539,108**	804,569,669
NON-CURRENT LIABILITIES			
Borrowings	24	**165,952,119**	238,038,485
Lease liabilities	14	**831,922,280**	861,584,948
Employees' end of service benefits	25	**43,213,239**	41,421,197
TOTAL NON-CURRENT LIABILITIES		**1,041,087,638**	1,141,044,630
CURRENT LIABILITIES			
Borrowings	24	**94,275,829**	126,912,106
Lease liabilities	14	**78,650,791**	79,898,303
Accounts payable	26	**62,328,705**	80,865,297
Accrued expenses and other current liabilities	27	**79,651,896**	54,425,849
Deferred revenue	28	**396,112,324**	300,032,726
Provision for zakat	29	**7,503,693**	6,069,516
TOTAL CURRENT LIABILITIES		**718,523,238**	648,203,797
TOTAL LIABILITIES		**1,759,610,876**	1,789,248,427
TOTAL EQUITY AND LIABILITIES		**2,698,149,984**	2,593,818,096

Assim Al Attas	*Adnan Abdullah Al Khalaf*	*Ali Hamad AlSagri*
Chief Financial Officer	*Chief Executive Officer*	*Chairman*

The attached notes 1 to 38 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022

	Share Capital *SR*	*Statutory Reserve* *SR*	*Retained earnings* *SR*	*Total* *SR*
As at 1 January 2021	523,833,610	56,021,218	84,629,236	664,484,064
Profit for the year	-	-	206,020,219	206,020,219
Other comprehensive loss	-	-	(1,503,080)	(1,503,080)
Total comprehensive income for the year	-	-	204,517,139	204,517,139
Transfer to statutory reserve	-	20,602,022	(20,602,022)	-
Dividends (note 31)	-	-	(64,431,534)	(64,431,534)
As at 31 December 2021	523,833,610	76,623,240	204,112,819	804,569,669
Profit for the year	-	-	**257,259,132**	**257,259,132**
Other comprehensive income	-	-	**3,006,590**	**3,006,590**
Total comprehensive income for the year	-	-	**260,265,722**	**260,265,722**
Transfer to statutory reserve	-	**25,725,913**	**(25,725,913)**	-
Dividends (note 31)	-	-	**(126,296,283)**	**(126,296,283)**
As at 31 December 2022	**523,833,610**	**102,349,153**	**312,356,345**	**938,539,108**

Assim Al Attas
Chief Financial Officer

Adnan Abdullah Al Khalaf
Chief Executive Officer

Ali Hamad AlSagri
Chairman

The attached notes 1 to 38 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	*2022* *SR*	*2021* *SR*
OPERATING ACTIVITIES			
Profit before zakat		**264,613,601**	211,952,573
Adjustments to reconcile profit before zakat to net cash flows:			
Gain on lease cancellations	10	**(6,172,248)**	(2,056,638)
Finance costs	11	**59,473,305**	47,581,711
Depreciation of property and equipment	13	**152,671,572**	137,684,889
Impairment loss of property and equipment	13&14	**12,655,947**	12,945,904
Depreciation of right-of-use assets	14	**75,624,010**	69,764,264
Rent concessions on lease payments	14	**(1,706,965)**	(18,933,943)
Amortization of intangible assets	15	**1,608,308**	116,342
Reversal for expected credit losses	20	**(117,062)**	(1,683,594)
Provision for employees' end of service benefits	25	**9,029,524**	8,380,416
Loss on disposal of property and equipment		**-**	581,580
		567,679,992	466,333,504
Working capital changes:			
Inventories		**2,222,077**	336,336
Prepayments and other current assets		**5,939,310**	(1,004,974)
Trade receivables		**1,060,841**	(824,300)
Accounts payable		**(18,536,592)**	28,205,279
Accrued expenses and other current liabilities		**25,773,569**	(22,099,652)
Deferred revenue		**96,079,598**	(25,989,572)
Cash from operations		**680,218,795**	444,956,621
Employees' end of service benefits paid	25	**(5,124,646)**	(6,338,011)
Zakat paid	29	**(5,920,292)**	-
Net cash from operating activities		**669,173,857**	438,618,610
INVESTING ACTIVITIES			
Property and equipment, net		**(176,740,513)**	(206,027,752)
Advances to suppliers and contractors		**(1,197,178)**	(20,468,958)
Intangible assets	15	**(1,827,028)**	(1,203,675)
Net cash used in investing activities		**(179,764,719)**	(227,700,385)
FINANCING ACTIVITIES			
Proceeds from borrowings	24	**45,148,333**	20,907,440
Repayments of borrowings	24	**(149,870,976)**	(143,543,314)
Finance cost paid		**(22,485,792)**	(11,586,958)
Payment of lease liabilities	14	**(115,163,595)**	(90,451,663)
Dividend paid	31	**(126,296,283)**	(64,431,534)
Net cash used in financing activities		**(368,668,313)**	(289,106,029)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		**120,740,825**	(78,187,804)
Cash and cash equivalents at the beginning of the year		**179,886,073**	258,073,877
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	21	**300,626,898**	179,886,073

STATEMENT OF CASH FLOWS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2022

	2022 SR	2021 SR
SIGNIFICANT NON-CASH TRANSACTIONS		
Additions to right-of-use assets and corresponding lease liability	**96,025,479**	97,931,453
Transfers to property and equipment from capital work-in-progress	**65,891,780**	145,056,611
Capitalization of borrowing cost	**661,214**	2,085,642
Capitalization of right-of-use depreciation	**3,793,258**	6,387,300
Interest on lease liabilities capitalized for under construction fitness centers	**1,697,814**	2,845,784

Assim Al Attas
Chief Financial Officer

Adnan Abdullah Al Khalaf
Chief Executive Officer

Ali Hamad AlSagri
Chairman

The attached notes 1 to 38 form an integral part of these financial statements.

1 CORPORATE INFORMATION

Leejam Sports Company ("the Company") is a Saudi Joint Stock Company and listed on the Saudi Stock Exchange Market. The Company was established in accordance with the Ministry of Commerce and Industry resolution No. 146/S dated 29 Rabi Al-Thani 1429H (corresponding to 5 May 2008) and registered under commercial registration (CR) No 4030180323 dated 19 Jumada Al-Alkhirah 1429H (corresponding to 23 June 2008). The address of the Company's registered office is Thumamah Street, P.O. Box 295245, Riyadh 11351, Kingdom of Saudi Arabia. In 2012, The Company's head office was transferred from Jeddah to Riyadh, the Company obtained amended commercial registration number 1010337986 dated 14 Jumada Al-Alkhirah 1433H (corresponding to 6 May 2012).

The objectives of the Company are construction, management and operation of sports and entertaining centers and wholesale and retail trading in sports' clothes and equipment and owning real estate and constructing buildings necessary to achieve its purposes and advertising, construction, management and owning hotels and furnished apartments and other activities that the Company needs to use. The Company's operations are located in the Kingdom of Saudi Arabia and United Arab Emirates.

The Company acquired 95% of the outstanding shares of Fitness Time for Trading Company Limited in order to acquire the trademark "Fitness Time". The trademark is renewable for a period of 10 years or periods at the option of the Company for a nominal fee. Fitness Time discontinued its operations after the trademark was transferred to the Company. The management believes that Fitness Time is immaterial to the Company; hence, do not consolidate the results of operations of Fitness Time and its financial position in the financial statements of the Company.

During the year the Company has established new subsidiary "Al Rasn investment Company" for investment activities, currently the subsidiary has not started its operations yet, accordingly the management believes that Al Rasn investment Company is immaterial to the Company and hence did not consolidate the results of operations of Al Rasn investment Company and its financial position in the financial statements of the Company.

2 BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia ("KSA") and other standards and pronouncements as endorsed by Saudi Organization for Chartered and Professional Accountants ("SOCPA") (collectively referred to "IFRS as endorsed in KSA").

2.2 Basis of measurement

These financial statements have been prepared under the historical cost basis, except otherwise indicated.

2.3 Functional and presentation currency

The financial statements are presented in Saudi Riyal ("SR") which is the Company's functional and presentation currency, and all values are stated in full, except when otherwise indicated.

3 NEW AND AMENDED STANDARDS AND INTERPRETATIONS

3.1 New IFRS standards, amendments to standards and interpretations not yet effective

The amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these new amended standards and interpretations, if applicable, when they become effective.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

• A specific adaptation for contracts with direct participation features (the variable fee approach)
• A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Company.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Company is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

The amendments are not expected to have a material impact on the Company's financial statements.

3 NEW AND AMENDED STANDARDS AND INTERPRETATIONS (continued)

3.1 New IFRS standards, amendments to standards and interpretations not yet effective (continued)

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Company is currently revisiting their accounting policy information disclosures to ensure consistency with the amended requirements.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12

In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability should also be recognised for all deductible and taxable temporary differences associated with leases and decommissioning obligations.

The amendments are not expected to have a material impact on the Company's financial statements.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted, consistent with those applied in comparative periods presented, are as follows:

4.1 Revenue

Type of Product	**Nature and timing of satisfaction of performance obligations, including significant payment terms**	**Revenue recognition under IFRS 15**
Subscriptions and membership revenue	Performance obligation is satisfied over time during the subscription period. For individual customers, payment is received in advance. For corporates, consideration is received based on credit terms agreed with the corporate customers.	Subscriptions and membership fee are recognized as revenue systematically over the terms of the subscription period. The subscription fee, received in advance, is initially recognized as deferred revenue and subsequently amortised over the subscription period.
Personal training	Performance obligation is satisfied over time based on personal training (PT) sessions and payment is received in advance.	Personal training fee are recognized as revenue as and when related services are rendered and performance obligation are satisfied. Fee received in advance is initially recognized as deferred revenue and subsequently recognized when PT sessions are conducted or training period ends whichever is earlier.
Rental income	Performance obligation is satisfied over time during the lease period and payment is received based on contractual terms with the tenants.	Rental income is recognized on a straight line basis over the terms of the lease agreements.

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4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.2 Cost of revenue and other expenses

Costs of revenue consists of direct and indirect costs arising in connection with the generation of revenue. Allocations between costs of revenue, advertising and marketing and general and administration expenses, when required, are made on a consistent basis depending upon the nature of the expense

4.3 Current versus non-current classification

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- expected to be realized or intended to be sold or consumed in the normal operating cycle,
- held primarily for the purpose of trading,
- expected to be realized within twelve months after the reporting period, or
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- it is expected to be settled in the normal operating cycle,
- it is held primarily for the purpose of trading,
- it is due to be settled within twelve months after the reporting period, or
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current

4.4 Property and equipment

(i) Initial recognition and subsequent measurement

Property and equipment except land, are stated at cost less accumulated depreciation and any accumulated impairment losses. The cost less estimated residual value of property and equipment if any, is depreciated on a straight-line basis over the estimated useful lives of the respective assets. Land is stated at cost.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes:

- the cost of materials and direct labor;
- any other costs directly attributable to bringing the assets to a working condition for their intended use;
- when the Company has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located; and
- capitalized borrowing costs, during the construction phase.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.4 Property and equipment (continued)

(ii) Depreciation

The estimated depreciation rates of the principal classes of property and equipment are as follows:

Buildings	4% – 12% or the lease term
Motor vehicles	20%
Sports tools and equipment	10%
Electrical equipment and air conditioners	10%
Computers	20%
Furniture and office equipment	12.5%

Any gain or loss on disposal of an item of property and equipment is recognized in the statement of profit or loss

(iii) Subsequent costs

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognized when replaced. All other repairs and maintenance are charged to the statement of income during the reporting period in which they are incurred.

(iv) Impairment of non-financial assets including intangible assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized in the statement of income for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset’s fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the statement of income.

(v) Derecognition

Property and equipment are de-recognized when they have been disposed or no future economic benefits are expected to arise from their use or disposal. Gains or losses arising from de-recognition of an item of property and equipment is included in the statement of income at the time the item is de-recognized.

4.5 Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Intangible assets with indefinite useful life are not amortized and carried at cost less accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at each financial year end, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses. Intangible assets, which comprise computer software, are amortized at straight line method with an estimated useful life of 10 years.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.5 Intangible assets (continued)

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in the statement of profit or loss when the asset is derecognized

Software costs associated with maintaining software programs are recognized as an expense as incurred.

- It is technically feasible to complete the Software so that it will be available for use.
- Management intends to complete the software and use or sell it.
- There is an ability to use or sell the software.
- It can be demonstrated how the software will generate probable future economic benefits.
- Adequate technical, financial and other resources to complete the development and to use or sell the software are available, and
- The expenditure attributable to the software during its development can be reliably measured.

Directly attributable costs that are capitalized as part of the software include employee costs and an appropriate portion of relevant overheads. Capitalized development costs are recorded as intangible assets and amortized from the point at which the asset is ready for use. Research expenditure and development expenditure that do not meet the criteria above are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

4.6 Goodwill

(i) Initial recognition

The Company measures goodwill at the date of acquisition as:

- the fair value of the consideration transferred; plus
- the recognized amount of any non-controlling interest in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree.
- over the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed. Any goodwill that arises is tested annually for impairment.

(ii) Subsequent measurement

Subsequently, goodwill is measured at cost less accumulated impairment losses.

(iii) Impairment of goodwill

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value maybe impaired. Impairment is determined by assessing the recoverable amount of each CGU (or group CGUs) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than its carrying amount, an impairment loss is recognised

Impairment losses relating to goodwill is not reversed cannot be reversed in future periods.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.7 Financial instruments

Financial instruments – initial recognition and subsequent measurement
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

4.7.1 Financial assets

Initial recognition and measurement

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivable that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest ("SPPI")' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, the Company classifies its financial assets as financial assets at amortized cost.

Financial assets at amortized cost

The Company measures financial assets at amortized cost if both of the following conditions are met:

- the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest ("EIR") method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Company's financial assets at amortized cost include trade receivable, amounts due from related parties, bank balances, and contract assets.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.7 Financial instruments (continued)

4.7.1 Financial assets (continued)

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Company's statement of financial position) when:

- the rights to receive cash flows from the asset have expired, or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Impairment of financial assets

The Company recognizes an allowance for expected credit losses ("ECL"s) for all debt instruments. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For trade receivable and contract assets, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company considers a financial asset in default when contractual payments are 365 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

The Company's policy measures ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.7 Financial instruments (continued)

4.7.2 Financial liabilities

Initial recognition and measurement
All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Company's financial liabilities include trade payable, contract liabilities and amounts due to related parties.

Subsequent measurement
After initial recognition, interest-bearing loans and borrowings and trade and other payables are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the statement of profit or loss and other comprehensive income when the liabilities are derecognized, as well as through the EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of profit or loss and other comprehensive income.
This category generally applies to trade payables.

Derecognition
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss and other comprehensive income.

4.7.3 Offsetting of financial instruments

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

4.8 ***Fair value measurement***

The Company measures financial instruments at fair value at each reporting date.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing an asset or a liability, assuming that market participants act in their economic best interest.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.8 Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2—Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3—Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Company determines the policies and procedures for both recurring fair value measurement and for non-recurring measurement.

At each reporting date, the Company analyses the movements in the values of assets and liabilities which are required to be remeasured or re-assessed as per the Company's accounting policies. For this analysis, the Company verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The Company also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable**.**

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

4.9 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and bank balances comprise cash on hand and deposits held with banks, all of which are available for use by the Company unless otherwise stated and have maturities of three months or less, which are subject to insignificant risk of changes in values.

4.10 Statutory reserve

As required by the Company's By-law and in compliance with Saudi Arabian Companies' Law,10% of its income in each year until it has built up a reserve equal to 30% of the capital. The Company may resolve to discontinue such transfers when the reserve totals 30% of the capital. The reserve is not available for distribution.

4.11 Inventories

Inventories comprises consumables (shampoos, sanitizers, spare parts and other related stuff) kept at the fitness centers. Inventories are stated at the lower of cost and net realizable value. Cost includes expenditures incurred in acquiring the inventories, and other costs incurred in bringing them to their existing location and condition. Costs are assigned to individual items of inventory on the basis of weighted average method. Costs of purchased inventory are determined after deducting rebates and discounts if any.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.12 Lease

A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Company as a lessee

At the lease commencement date, the Company recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (leases with a lease term of 12 months or less) and leases of low-value assets, for which the Company recognizes the lease payments as an operating expense (unless they are incurred to produce assets) on a straight line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate. In general, the Company uses its incremental borrowing rate as the discount rate which has been used to measure all the lease liabilities recognized.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the statement of financial position, classified as current and non-current.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest rate method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right of-use asset whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used); and
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of the lease term or the economic useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the economic useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.12 Lease (continued)

The right-of-use assets are presented as a separate line in the statement of financial position, unless the right-of-use asset meet the definition of investment property and in such case, it is presented in the statement of financial position within investment property.

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset, and the related payments are recognized as an expense (unless they are incurred to produce assets) in the period in which the event or condition that triggers those payments occurs.

<u>The Company as a lessor</u>

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. In such case the lease is a finance lease, otherwise it is an operating lease.

When the Company is an intermediate lessor, it accounts for its interests in the head lease and the sublease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

If an arrangement contains lease and non-lease components, then the Company applies IFRS 15 to allocate the consideration in the contract. The Company applies the derecognition and impairment requirements in IFRS 9 to the finance lease receivables.

Lease payments received under operating leases are recognized as income on a straight-line basis over the lease term as part of other income.

4.13 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of profit or loss over the period of the Borrowings using the effective interest rate method. Borrowings are recognized within finance charges in the period in which they are incurred.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Borrowing costs that are directly attributable to the construction and / or development of a qualifying asset are capitalized up to stage when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed; otherwise, such costs are charged to the statement of profit or loss.

Borrowings are derecognized from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in statement of profit or loss as other income or finance costs.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.14 Employees' end of service benefits

Short-term employee benefits

Short-term employees' benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Post-employment obligation

The Company operates a post-employment benefit scheme plans driven by the labor laws of the Kingdom of Saudi Arabia.

The post-employment benefits plans are not funded. Valuations of the obligations under those plans are carried out by an independent actuary based on the projected unit credit method. The costs relating to such plans primarily consist of the present value of the benefits attributed on an equal basis to each year of service and the interest on this obligation in respect of employee service in previous years.

Current and past service costs related to post-employment benefits are recognized immediately as "Employee costs" in profit or loss while unwinding of the liability at discount rates used are recorded as "Financial charges". Any changes in net liability due to actuarial valuations and changes in assumptions are taken as re-measurement in other comprehensive income.

Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the period in which they occur, directly in other comprehensive income. Re-measurements are not reclassified to profit or loss in subsequent periods.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in profit or loss as past service costs.

Valuations of the obligations under the plan are carried out using actuarial techniques on the projected unit credit method. The costs relating to such plan primarily consist of the present value of the benefits attributed on an equal basis to each year of service and the interest on this obligation in respect of employee service in previous years.

Current and past service costs related to post-employment benefits are recognized immediately in the statement of profit or loss while unwinding of the liability at discount rates used are recorded as financial cost.

Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized directly in other comprehensive income and transferred to other reserves in the statement of changes in equity in the period in which they occur.

Changes in the present value of the defined benefit obligations resulting from plan amendments or curtailments are recognized immediately in the statement of profit or loss as past service costs. End of service payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the laws of the respective countries in which the Company operates.

4.15 Zakat and indirect taxes

Zakat is provided in accordance with the Regulations of the Zakat, Tax and Customs Authority (ZATCA) in the Kingdom of Saudi Arabia on an accruals basis and charged to profit or loss. Differences, if any, resulting from final assessments are adjusted in the year of their finalization.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.15 Zakat and indirect taxes (continued)

Value-added tax ("VAT")

Revenues, expenses and assets are recognized net of the amount of VAT, except for:

- where the VAT incurred on a purchase of assets or services is not recoverable from the tax authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- in case of receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from or payable to the tax authority is classified as an asset or a liability, respectively, in the statement of financial position.

4.16 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. If the effect of the time value of money are material, provisions are discounted using a current pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

5. SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS

The preparation of the financial statements in conformity with IFRS as endorsed in KSA requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenue and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates, by definition, may differ from the related actual results.

Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

Assumption and estimation uncertainties
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a risk of causing an adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Impairment of non-financial assets
Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the projects' useful lives and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

5. SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS (continued)

Impairment of accounts receivable

An estimate of the collectible amount of accounts receivable is made using ECL model which involves evaluation of credit rating and days past due information. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively.

Estimating the incremental borrowing rate

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease. The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the stand-alone credit rating).

Useful lives of property and equipment

The Company's management determines the estimated useful lives of property and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear.

Management reviews the useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

Going concern

Management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Employees end of service benefits

The present value of the employees end of service benefits is determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions, and its long-term nature, a DBO is highly sensitive to changes in these assumptions. All assumptions are reviewed annually.

Discount rate

There is no deep corporate bond or government bond market in Saudi Arabia. Therefore, for selecting the discount rate, we have considered the yield available on Citi Pension Liability Index ("CPLI") of duration equal to the duration of the liability.

Mortality rate

The mortality rate is based on publicly available mortality tables for the specific countries. Those mortality tables tend to change only at intervals in response to demographic changes.

Salary and future pension increase

Estimates of future salary increase, takes into account inflation, seniority, promotion and past history.

5. SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS (continued)

Significant judgment in determining the lease term of contracts with renewal options

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Company has several lease contracts that include extension and termination options. The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

6 REVENUE

	2022	*2021*
	SR	*SR*
Type of services		
Subscriptions and membership	**931,945,890**	774,516,173
Personal training	**103,079,984**	90,408,121
Rental income	**18,187,850**	10,484,753
Others	**12,575,064**	9,874,092
	1,065,788,788	885,283,139

Set out below is the disaggregation of the Company's revenue from contracts with customers, for the year ended 31 December, based on male and female centers offerings and segmented by primary geographical regions:

	Subscriptions and membership		***Personal training***		***Rental income***	
	2022	*2021*	***2022***	*2021*	***2022***	*2021*
	SR	*SR*	***SR***	*SR*	***SR***	*SR*
Types of customers						
Male centers	**718,183,993**	587,497,619	**68,945,031**	61,262,659	**10,677,476**	7,435,046
Female centers	**213,761,897**	187,018,554	**34,134,953**	29,145,462	**7,510,374**	3,049,707
	931,945,890	774,516,173	**103,079,984**	90,408,121	**18,187,850**	10,484,753
Geographical markets						
Central region	**407,099,630**	333,682,915	**46,856,842**	44,102,228	**10,536,103**	5,836,023
Western region	**362,064,088**	305,309,437	**33,320,246**	26,823,245	**6,919,612**	4,085,458
Eastern region	**142,774,391**	123,794,011	**17,403,738**	13,778,307	**732,135**	563,272
UAE	**20,007,781**	11,729,810	**5,499,158**	5,704,341	**-**	-
	931,945,890	774,516,173	**103,079,984**	90,408,121	**18,187,850**	10,484,753

7 COST OF REVENUE

	2022	*2021*
	SR	*SR*
Salaries and related benefits	**227,170,392**	184,141,402
Depreciation of property and equipment (note 13)	**149,303,371**	132,896,880
Depreciation of right-of-use assets	**74,622,080**	68,762,334
Utility	**64,930,738**	57,305,551
Cleaning and services	**47,012,071**	32,849,435
Government and recruitment expenses	**22,367,837**	27,115,189
Maintenance and repair	**19,181,901**	9,661,289
Security and safety	**11,661,264**	8,395,076
Consumables	**5,329,293**	3,136,871
Stationary	**925,107**	1,863,120
Others	**8,870,584**	5,049,986
Rent concessions (note 14)	**(1,706,965)**	(18,933,943)
	629,667,673	512,243,190

8 GENERAL AND ADMINSTRATIVE EXPENSES

	2022	*2021*
	SR	*SR*
Salaries and related benefits	**43,710,280**	43,363,389
Water, electricity, and telecommunication	**10,441,620**	9,857,230
Professional fees	**7,805,781**	6,789,479
Bank charges and commission	**6,569,091**	8,551,799
Government and recruiting expenses	**3,914,407**	6,132,299
Depreciation of property and equipment (note 13)	**3,368,201**	4,788,009
Maintenance, repair, and cleaning	**1,803,031**	1,031,243
Amortization of intangible assets	**1,608,308**	116,342
Depreciation- right of use assets	**1,001,930**	1,001,930
Stationary	**857,038**	1,103,329
Others	**11,923,161**	5,102,543
	93,002,848	87,837,592

9 ADVERTISING AND MARKETING EXPENSES

	2022	*2021*
	SR	*SR*
Advertising and marketing	**6,393,107**	8,246,756
Salary and related benefits	**7,257,006**	6,159,007
	13,650,113	14,405,763

10 OTHER INCOME

	2022	*2021*
	SR	*SR*
Gain on lease cancellations	**6,172,248**	-
Others	**985,389**	-
	7,157,637	-

11 FINANCE COST, NET

	2022	*2021*
	SR	*SR*
Finance cost on lease liabilities (note 14)	**37,302,495**	37,268,810
Profit on borrowings	**11,253,678**	9,110,544
Finance commission	**10,023,378**	485,178
Interest on employees’ defined benefit liabilities (note 25)	**893,754**	717,179
	59,473,305	47,581,711

12 EARNINGS PER SHARE

The following is the calculation of basic and diluted earnings per share for the year ended 31 December:

	2022 ***SR***	*2021* *SR*
Profit for the year	**257,259,132**	206,020,219
Number of shares	**52,383,361**	52,383,361
Earnings Per Share	**4.9111**	3.9329

There has been no item of dilution affecting the weighted average number of ordinary shares.

13 PROPERTY AND EQUIPMENT

	Land	*Buildings*	*Motor vehicles*	*Sports tools and equipment*	*Electrical Equipment, and air conditioner*	*Computers*	*Furniture and office equipment*	*Capital work in progress*	*Total*
	SR	*SR*	*SR*	*SR*	*SR*	*SR*	*SR*	*SR*	*SR*
Cost:									
At 1 January 2022	181,543,604	1,541,509,043	3,879,458	346,619,746	117,841,020	18,852,606	29,474,116	65,553,150	2,305,272,743
Additions	62,451,185	29,564,484	188,000	20,172,946	8,298,770	2,350,982	1,162,843	58,703,589	182,892,799
Transfers	-	29,443,663	-	32,603,997	1,652,680	171,207	2,020,233	(65,891,780)	-
Impairment	-	(4,294,170)	-	(954,311)	-	-	-	-	(5,248,481)
At 31 December 2022	243,994,789	1,596,223,020	4,067,458	398,442,378	127,792,470	21,374,795	32,657,192	58,364,959	2,482,917,061
Accumulated depreciation:									
At 1 January 2022	-	530,628,038	3,112,610	165,031,079	70,458,354	12,454,684	13,595,084	-	795,279,849
Charge for the year	-	101,547,030	207,172	35,405,575	9,705,050	2,363,560	3,443,185	-	152,671,572
At 31 December 2022	-	632,175,068	3,319,782	200,436,654	80,163,404	14,818,244	17,038,269	-	947,951,421
Net book value									
At 31 December 2022	243,994,789	964,047,952	747,676	198,005,724	47,629,066	6,556,551	15,618,923	58,364,959	1,534,965,640

13 PROPERTY AND EQUIPMENT (continued)

	Land	*Buildings*	*Motor vehicles*	*Sports tools and equipment*	*Electrical Equipment, and air conditioner*	*Computers*	*Furniture and office equipment*	*Capital work in progress*	*Total*
	SR	*SR*	*SR*	*SR*	*SR*	*SR*	*SR*	*SR*	*SR*
Cost:									
At 1 January 2021	131,829,182	1,382,813,915	3,116,346	308,082,842	110,134,035	16,221,204	25,796,462	131,589,503	2,109,583,489
Additions	49,714,422	29,465,349	763,112	33,355,739	6,615,632	3,343,954	2,086,120	89,916,505	215,260,833
Transfer	-	135,285,713	-	5,724,311	2,179,793	275,260	1,591,534	(145,056,611)	-
Disposals	-	(12,275)	-	(543,146)	-	(987,812)	-	-	(1,543,233)
Impairment	-	(6,043,659)	-	-	(1,088,440)	-	-	(10,896,247)	(18,028,346)
At 31 December 2021	181,543,604	1,541,509,043	3,879,458	346,619,746	117,841,020	18,852,606	29,474,116	65,553,150	2,305,272,743
Accumulated depreciation:									
At 1 January 2021	-	443,512,980	2,968,235	135,970,914	61,735,227	8,825,325	10,626,374	-	663,639,055
Charge for the year	-	91,457,644	144,375	29,429,997	9,464,910	4,219,253	2,968,710	-	137,684,889
Write off	-	(1,927)	-	(369,832)	-	(589,894)	-	-	(961,653)
Impairment	-	(4,340,659)	-	-	(741,783)	-	-	-	(5,082,442)
At 31 December 2021	-	530,628,038	3,112,610	165,031,079	70,458,354	12,454,684	13,595,084	-	795,279,849
Net book value									
At 31 December 2021	181,543,604	1,010,881,005	766,848	181,588,667	47,382,666	6,397,922	15,879,032	65,553,150	1,509,992,894

The depreciation charge for the year is allocated as follows:

	2022	*2021*
	SR	*SR*
Cost of revenue (note 7)	**149,303,371**	132,896,880
General and administrative expenses (note 8)	**3,368,201**	4,788,009
	152,671,572	137,684,889

13 PROPERTY AND EQUIPMENT (continued)

The Capital Work-in-Progress ("CWIP") as of 31 December 2022 represents construction costs and capital equipment amounting to SR 30.69 million and SR 27.68 million (2021: SR 18.63 million and SR 46.93 million), respectively.

The total borrowing cost capitalized under CWIP during the year amount to SR 0.66 million (2021: SR 2.09 million), and the capitalization rate was 5.9% (2021: 2.22%). In addition, interest in respect lease liability amounting to SR 1.7 million (2021: SR 2.8 million) was capitalized for under construction fitness centers.

During the current year, the Company has recorded an impairment charge amounting to SR 5.2 million against the closure of one of the fitness centers in Ras Al Khaimah-UAE (2021: SR 12.9 million against the closure of four fitness centers in KSA) .

Net book value of buildings amounting to SR 8.2 million (2021: SR 9.4 million) are constructed on land owned by the Company.

As at 31 December 2022 and 2021, the Company had secured borrowings against mortgages on land (note 24) owned by the Company with a cost of SR 58.5 million.

14 LEASES

The Company holds various properties on leases on which fitness centers where constructed. Rental contract periods range between 2 and 24 years. Lease term are negotiated on an individual basis and contain a wide range of different terms and conditions.

Set out below are the carrying amounts of right-of-use assets recognized and the movements during the year:

	2022	*2021*
	SR	*SR*
Opening balance	**787,384,535**	771,477,155
Addition during the year	**96,025,479**	97,931,453
Depreciation charge for the year	**(75,624,010)**	(69,764,264)
Capitalized for under construction fitness centers	**(3,793,258)**	(6,387,297)
Lease cancelation	**(42,893,160)**	(5,872,512)
Impairment	**(7,407,466)**	-
Closing balance	**753,692,120**	787,384,535

Movement in lease liabilities is as follows:

	2022	*2021*
	SR	*SR*
Opening balance	**941,483,251**	920,751,960
Addition during the year	**96,025,479**	97,931,453
Lease payments for the year	**(115,163,595)**	(90,451,663)
Rent concessions on lease payments (note 7)	**(1,706,965)**	(18,933,943)
Interest expense for the year (note 11)	**37,302,495**	37,268,810
Lease cancelation	**(49,065,408)**	(7,929,150)
Interest capitalized for under construction fitness centers	**1,697,814**	2,845,784
Closing balance	**910,573,071**	941,483,251

14 LEASES (continued)

Lease liability included in the statement of financial position:

	2022	*2021*
	SR	*SR*
Non-current	**831,922,280**	861,584,948
Current	**78,650,791**	79,898,303
	910,573,071	941,483,251

The maturity analysis of lease liabilities is disclosed in note 33.

15 INTANGIBLE ASSETS

	2022	*2021*
	SR	*SR*
Cost:		
At 1 January	**12,200,400**	10,996,725
Additions	**1,827,028**	1,203,675
At 31 December	**14,027,428**	12,200,400
Accumulated amortization:		
At 1 January	**9,141,953**	9,025,611
Charge for the year	**1,608,308**	116,342
At 31 December	**10,750,261**	9,141,953
Carrying amount	**3,277,167**	3,058,447

16 GOODWILL

During 2016, the Company acquired two fitness centers namely Dwadmi and Alkhaleej with goodwill recognised on the acquisition of these fitness centers amounting to SR 4.6 million and 4.8 million respectively. As at 31 December 2022 the management conducted an impairment test to assess if the recoverable amount of the goodwill is lower than its carrying value. Based on the impairment test the goodwill carrying value is lower than the fair value and accordingly no impairment is required.

17 ADVANCES TO SUPPLIERS AND CONTRACTORS

	2022	*2021*
	SR	*SR*
Advances to contractors in respect of construction of fitness center	**19,539,176**	19,447,830
Advances to suppliers against purchase of sport equipment	**19,625,676**	14,293,547
	39,164,852	33,741,377
Less: Allowance for impairment loss	**(4,226,297)**	-
	34,938,555	33,741,377

17 ADVANCES TO SUPPLIERS AND CONTRACTORS (continued)

Movement in the allowance for impairment loss of advances to suppliers and contractors is as follows:

	2022	*2021*
	SR	*SR*
At the beginning of the year	**-**	-
Charge during the year	**4,226,298**	-
Closing balance	**4,226,298**	-

18 PREPAYMENT AND OTHER ASSETS

	2022	*2021*
	SR	*SR*
Prepayments	**14,983,175**	13,643,010
Advances to suppliers	**16,596,692**	22,128,840
Other prepayments	**6,720,398**	7,265,319
	38,300,265	43,037,169
Less: Allowance against prepayments and other assets	**(7,906,205)**	(6,703,799)
	30,394,060	36,333,370
Allocation of allowance of prepayments and other assets is as follow:		
Advances to suppliers	**6,907,531**	5,705,125
Other prepayments	**998,674**	998,674
	7,906,205	6,703,799

Movement in Allowance prepayments and other assets is as follows:

	2022	*2021*
	SR	*SR*
At the beginning of the year	**6,703,799**	4,217,467
Charge during the year	**1,202,406**	2,486,332
Closing balance	**7,906,205**	6,703,799

19 RELATED PARTIES TRANSACTIONS AND BALANCES

Related parties represent major shareholders, directors and key management personnel of the Company, and entities controlled or significantly influenced by such parties.

The following are the details of the major related party transactions occurred during the year:

Related party	***Nature of relationship***	***Nature of transactions***	***2022***	*2021*
			SR	*SR*
Key management personnel	Key management personnel	Salaries and other benefits	**5,477,383**	3,893,997
		Post-employment benefits	**206,960**	152,101
Board of Directors	Directors	Remuneration	**2,965,000**	2,996,000
Hamad Ali AlSagri	Shareholder	Lease rentals paid to a shareholder	**3,400,000**	2,487,123
AlSagri Holding	Shareholder affiliate	Subscription sold	**191,051**	197,831

Amounts due from related parties - (included in trade receivables) are as follows:

	2022	*2021*
	SR	*SR*
AlSagri Holding	**70,080**	45,443

20 TRADE RECEIVABLES

	2022	*2021*
	SR	*SR*
Subscriptions and membership receivables	**16,073,394**	14,642,908
Rental receivables	**12,817,479**	15,308,806
	28,890,873	29,951,714
Less: Allowance for expected credit losses		
- Subscriptions and membership receivables	**(7,089)**	(77,343)
- Rental receivables	**(6,074,475)**	(6,121,283)
	22,809,309	23,753,088

Movement in the Allowance for expected credit losses of trade receivables is as follows

	2022	*2021*
	SR	*SR*
At the beginning of the year	**6,198,626**	7,882,220
Reversal during the year	**(117,062)**	(1,683,594)
Closing balance	**6,081,564**	6,198,626

Information about the credit exposures on trade receivables is disclosed in note 33.

21 CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flows, cash and cash equivalents are comprised of the following:

	2022	*2021*
	SR	*SR*
Cash in hand	**215,866**	1,481,434
Cash at bank – current accounts	**150,411,032**	128,404,639
Short term deposits (note a)	**150,000,000**	50,000,000
	300,626,898	179,886,073

Note a: These are placed with a local bank as interest bearing deposits which are based on prevailing market interest rates and have original maturity of less than three months.

22 SHARE CAPITAL

The share capital of the Company is SR 523.8 million (31 December 2021: SR 523.8 million) divided into 52.3 million shares (31 December 2021: 52.3 million shares) with a nominal value of SR 10 each.

23 STATUTORY RESERVE

In accordance with Companies' Law effective as at 31 December 2022 and the By-laws of the Company, the Company is required to set aside 10% of its net income to statutory reserve until such reserve equals to 30% of the share capital.

The statutory reserve is not available for distribution to the shareholders.

24 BORROWINGS

	2022	*2021*
	SR	*SR*
Non-current portion of long-term borrowings	**165,952,119**	238,038,485
Current portion of long-term borrowings	**94,275,829**	126,912,106
	260,227,948	364,950,591

The movements in the borrowings during the year was as follow:

	2022	*2021*
	SR	*SR*
At 1 January	**364,950,591**	487,586,465
Receipts during the year	**45,148,333**	20,907,440
Repayments during the year	**(149,870,976)**	(143,543,314)
	260,227,948	364,950,591

As at 31 December 2022, the Company had unutilized bank financing facilities amounting to SR 852.42 million (31 December 2021: SR 193.6 million) to manage its short-term and long-term liquidity requirements and for construction of the fitness centers. The facilities have been secured by promissory note issued by the Company.

All borrowings are denominated in Saudi Riyals and are under Islamic financing mode being Murabaha and Tawaruq loans. The above borrowings and facilities include certain covenants which require the Company to maintain certain levels of current and leverage ratios and certain restriction on dividend distribution and also notify the bank of any breach or probable breach immediately. As at 31 December 2022 the Company is in compliance with borrowings covenants.

24 BORROWINGS (continued)

The Company has entered into an interest rate swap (IRS) with notional amount of SR 15 million with a local commercial bank. The IRS agreement require the Company to pay a fixed rate of interest of 3.68% as on 31 December 2022 in exchange for floating rate interest payments based on Saudi Inter Bank Offer Rate (SIBOR). The IRS contract will mature on 31 July 2023.

As at 31 December 2022 and 2021, the Company had secured borrowings against mortgages on land (note 13) owned by the Company with a cost of SR 58.5 million.

25 EMPLOYEES' END OF SERVICE BENEFITS

The management has carried out an exercise to assess the present value of its defined benefit obligations at 31 December 2022 and 31 December 2021 in respect of employees' end-of-service benefits payable under relevant local regulations and contractual arrangements. The following tables summarize the components of net benefits expense recognized in the statement of comprehensive income and balances reported in the statement of financial position.

	2022	*2021*
	SR	*SR*
Present value of end of service benefits (Statement of financial position)		
Present value of employees' end of service benefits liabilities	**43,213,239**	41,421,197

	2022	*2021*
	SR	*SR*
Statement of profit or loss		
Current service costs	**9,029,524**	8,380,416
Finance costs	**893,754**	717,179

Reconciliation of present value of liability

	2022	*2021*
	SR	*SR*
As at 1 January	**41,421,197**	37,158,533
Current service cost	**9,029,524**	8,380,416
Interest cost	**893,754**	717,179
Actuarial (gain)/loss (charged to other comprehensive income)	**(3,006,590)**	1,503,080
Payments during the year	**(5,124,646)**	(6,338,011)
As at 31 December	**43,213,239**	41,421,197

	2022	*2021*
Discount rate	**4.2%**	2.30%
Future salary increment rate (0% for 1st year, 2% thereafter)	**3.00%**	2.00%
Retirement age	**60 years**	60 years

25 EMPLOYEES' END OF SERVICE BENEFITS (continued)

The sensitivity of the defined benefit obligations to changes in the weighted principal assumptions is as follows:

	2022	*2021*
	SR	*SR*
Increase in discount Rate 1%	**(2,883,253)**	(2,280,878)
Decrease in discount Rate 1%	**3,311,747**	2,553,999
Increase in long term Salary Increases 1%	**3,425,840**	2,645,273
Decrease in long term Salary Increases 1%	**(3,031,141)**	(2,404,123)

The weighted average duration of the defined benefit obligation is 7.17 years (31 December 2021: 5.84 years). The expected maturity analysis of undiscounted defined benefit obligation is as follows (time in years):

	2022	*2021*
	SR	*SR*
Within the next 12 months (next annual reporting period)	**6,053,203**	5,948,586
Between 2 and 5 years	**16,510,422**	17,492,145
Beyond 5 years	**38,624,109**	24,341,878
Total expected payments	**61,187,734**	47,782,609

26 ACCOUNTS PAYABLE

	2022	*2021*
	SR	*SR*
Trade suppliers	**56,215,496**	73,139,215
Contractors in respect of construction of fitness centers	**6,113,209**	7,726,082
	62,328,705	80,865,297

27 ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	2022	*2021*
	SR	*SR*
Accrued expenses	**60,526,876**	42,267,901
Value added tax (VAT) payable	**16,044,913**	5,281,707
Advances from customers	**3,080,107**	6,876,241
	79,651,896	54,425,849

28 DEFERRED REVENUE

	2022	*2021*
	SR	*SR*
Deferred subscription income from:		
Membership fee	**372,809,131**	282,679,186
Personal training fee	**20,603,243**	13,631,940
	393,412,374	296,311,126
Deferred rental income	**2,699,950**	3,721,600
	396,112,324	300,032,726

29 ZAKAT

29.1 Charge for the year

The charge for the year is as follows:

	2022	*2021*
	SR	*SR*
Provision for the year	**7,354,469**	5,932,354

29.2 Movements in zakat provision

	2022	*2021*
	SR	*SR*
At the beginning of the year	**6,069,516**	137,162
Charge during the year	**7,354,469**	5,932,354
Payments during the year	**(5,920,292)**	-
At the end of the year	**7,503,693**	6,069,516

29.3 The principal elements of the Company's Zakat base for the year ending 31 December are as follows:

	2022	*2021*
	SR	*SR*
Share capital	**523,833,610**	523,833,610
Retained earnings	**312,356,345**	204,112,819
Statutory reserve	**102,424,896**	76,623,240
Adjusted net profit for the year	**289,834,694**	232,971,268
Book value of non-current assets	**2,331,974,973**	2,337,631,727

29 ZAKAT (continued)

29.4 Adjusted net income

	2022	*2021*
	SR	*SR*
Profit for the year before zakat	**264,613,601**	211,952,573
Provision for employees end of service benefits	**9,923,278**	9,097,584
Impairment of non-financial assets	**12,655,947**	12,945,904
Reversal for expected credit losses	**117,062**	(1,683,594)
Others	**2,524,806**	658,801
At the end of the year	**289,834,694**	232,971,268

29.5 Status of assessments

The Company has submitted its zakat returns for the years up to 2021. The Company has received zakat certificate from the Zakat, Tax and Customs Authority (“ZATCA”) valid up to 30 April 2023 and has received final assessments from ZATCA for the years up to 2014.

However, the Company received assessment orders from ZATCA on 30/4/2021 for the years 2015, 2016, 2017 and 2018, claiming an additional liability regarding the ownership of shares by Target Opportunities for Trading Company, one of the shareholders in the Company during the years 2015, 2016, 2017 and 2018, that there are certain taxes on the Company. ZATCA’s view based on certain assumptions, is that the Company is partially subject to income tax. In the above-mentioned assessment, ZATCA assumed that the above-mentioned shareholder is owned directly or indirectly by non-GCC nationals and accordingly, the amount of income tax exposure as stated by ZATCA is SR 32.7 million excluding late payment penalties. The former shareholder was a shareholder of the Company until and including the year ended 31 December 2018.

The Company has filed an objection with ZATCA against this assessment. ZATCA did not respond to the objection, then the Company filed a lawsuit against ZATCA before the General Secretariate of Zakat, Tax and Customs Committees “GSTC” and during the current year the GSTC issued its ruling in the favor of ZATCA. The Company filed an appeal against this ruling which is still in progress.

The management position that the Company is a 100% zakatable Company on the basis of its ownership structure with all direct and indirect shareholders being either GCC nationals, or companies that were established within the GCC and whose shareholders consist wholly of GCC nationals. Further, dividends distributions to the above-mentioned former shareholder, in management view, are not subject to withholding tax as it is a resident Company in the Kingdom of Saudi Arabia (as a Saudi limited liability Company on the basis of the incorporation documents). Moreover, in case of any ruling in favor of ZATCA, in addition to any relevant fines and delay penalties, the above-mentioned former shareholder has provided to the Company an indemnity undertaking letter to bear any tax related liability that might be imposed on the Company by ZATCA in connection with the above matter. Therefore, based on the management assessment and formal advice received from an independent legal advisor that decision of the appeal will be probably in favor of the Company, in addition to the indemnity undertaking letter from the above-mentioned former shareholder, no provision has been recorded in the financial statements by the management.

The Company's zakat assessments for the years from 2019 to 2020 are currently under review by the ZATCA. On 9 June 2021, ZATCA raised some queries related to the years 2019 and 2020, which were responded. ZATCA has not issued a final assessment to date.

30 CONTINGENCIES AND COMMITMENTS

30.1 Contingencies

In the normal course of the business, the Company's certain suppliers and contractors have commenced an action against the Company for claims and additional payments. The Company has consulted its legal advisor and for probable cash out flows, adequate provisions have been recorded. For certain cases where the legal counsel has advised that it is only possible, but not probable, that the action will succeed, no provision for any liability has been made in these financial statements.

The Company's bankers have issued letters of guarantees amounting to SR 9.77 million as at 31 December 2022 (31 December 2021: SR 4.99 million) against land lease and letter of credit amounting to SR 64.5 million as at 31 December 2022 (2021: SR 41.2 million).

30.2 Commitments

The Company has capital commitments on contracts for setting up fitness centers amounting to SR 20.6 million as at 31 December 2022 (31 December 2021: SR 41.8 million).

31 DIVIDENDS

On 18 Ramadhan 1443H (corresponding to 19 April 2022), the ordinary general assembly meeting, approved to distribute cash dividends of SR 0.87 per share amounting to SR 45.6 million for the year ended 2021.

On 25 Ramadhan 1443H (corresponding to 26 April 2022), the Board of Directors, resolved to distribute interim cash dividends of SR 0.471 per share amounting to SR 24.7 million for the first quarter of 2022. Dividends have been fully paid during the period and it will be subject to approval in annual general assembly meeting.

On 6 Muharram 1444H (corresponding to 4 August 2022), the Board of Directors, resolved to distribute interim cash dividends of SR 0.37 per share amounting to SR 19.4 million for the second quarter of 2022. Dividends have been fully paid during the period and it will be subject to approval in annual general assembly meeting.

On 5 Rabi Al-Thani 1444H (corresponding to 30 October 2022), the Board of Directors, resolved to distribute interim cash dividends of SR 0.7017 per share amounting to SR 36.7 million for the third quarter of 2022. Dividends have been fully paid during the period and it will be subject to approval in annual general assembly meeting.

32 SEGMENTAL INFORMATION

32.1 Geographical segments

For management purposes, the Company is organized into business units based on their geographical distribution and has four reportable operating segments as follows:

- Central Region
- Western Region
- Eastern Region
- International Region UAE

32 SEGMENTAL INFORMATION (continued)

The following tables present revenue and profit / (loss) information for the geographical segments for year end.

As at and for year ended 31 December 2022

	Central Region	**Western Region**	**Eastern Region**	**International Region – UAE**	**Total**
	SR '000	***SR '000***	***SR '000***	***SR '000***	***SR '000***
Revenues	**473,643**	**404,491**	**161,918**	**25,737**	**1,065,789**
Costs of revenue	**(279,818)**	**(236,484)**	**(89,038)**	**(24,327)**	**(629,667)**
Gross profit	**193,825**	**168,007**	**72,880**	**1,410**	**436,122**
Allowance for expected credit losses	**117**	-	-	-	**117**
Impairment of non-financial assets	-	-	-	**(12,656)**	**(12,656)**

As at and for year ended 31 December 2021

	Central Region	Western Region	Eastern Region	International Region – UAE	Total
	SR '000	*SR '000*	*SR '000*	*SR '000*	*SR '000*
Revenues	391,364	337,655	138,732	17,532	885,283
Costs of revenue	(220,751)	(199,082)	(75,319)	(17,808)	(512,960)
Gross profit	170,613	138,573	63,413	(276)	372,323
Reverse for expected credit losses	1,684	-	-	-	1,684
Impairment of non-financial assets	800	12,146	-	-	12,946

Market segments

The following tables present revenue and profit information for the Market segments

	Male Fitness Centers		***Female Fitness Centers***		***Total***	
	2022	*2021*	***2022***	*2021*	***2022***	*2021*
	SR '000	*SR '000*	***SR '000***	*SR '000*	***SR '000***	*SR '000*
Revenue	**808,158**	664,804	**257,631**	220,479	**1,065,789**	885,283
Costs of revenue	**(454,610)**	(363,574)	**(175,057)**	(149,386)	**(629,667)**	(512,960)
Gross profit	**353,548**	301,230	**82,574**	71,093	**436,122**	372,323
Comprehensive income	**267,127**	212,594	**54,642**	39,548	**321,769**	252,142
Unallocated head office costs	-	-	-	-	**(61,503)**	(47,625)
Depreciation						
- property & equipment	**(104,254)**	(93,314)	**(48,418)**	(44,371)	**(152,672)**	(137,685)
- right-of-use assets	**(53,193)**	(47,333)	**(22,431)**	(22,431)	**(75,624)**	(69,764)

33 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Introduction
The Company's principal financial liabilities comprise of non-conventional short-term loans, long term loans, lease liabilities and accounts payable. The main purpose of these financial liabilities is to raise funds for the Company's operations and capital expenditure. The Company has a certain portion of prepayments and other current assets, trade receivable and bank balances that arise directly from its operations**.**

The Company is exposed to credit risk, market risk and liquidity risk. The Company risk governance oversees the management of these risks. The Company risk governance manifested in a set of established policies, procedures and controls which uses the existing organizational structure to meet strategic targets. The Company's philosophy revolves on willing and knowledgeable risk acceptance commensurate with the risk appetite and strategic plan approved by the Board.

Risk management structure
A cohesive organizational structure is established within the Company in order to identify, assess, monitor and control risks.

Board of Directors/ Audit Committee
The apex of risk governance is the centralised oversight of the Board of Directors and Audit Committee providing direction and the necessary approvals of strategies and policies in order to achieve defined corporate goals.

Senior management
Senior management is responsible for the day-to-day operations towards achieving the strategic goals within the Company's pre-defined risk appetite.

Credit risk
Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its trade receivables, amounts due from related parties and bank balances.

Expected credit loss assessment for trade receivables
Trade receivables generally exposed to significant credit risk, therefore, the Company has established a number of procedures to manage credit risk exposure including limiting transactions with specific counter-parties, evaluation of the customers' credit worthiness, formal credit approvals.

The Company follows a credit classification mechanism, primarily driven by the day's delinquency as a tool to manage the quality of credit risk of trade receivables. Further, the Company has categorized its trade receivables into sub-categorized on the basis of similar credit risk characteristic. Exposures within each credit risk category by services provided classification and an ECL is calculated for each service provided based on the delinquency status and actual credit loss experience over the past years. These rates are multiplied by scaler factors to reflect differences between economic conditions, current conditions and the Company's view of economic conditions over the expected lives of trade receivables.

33 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Cash and cash equivalents
The company held balances with banks and short-term deposit of SR 150.4 million and 150 million as at 31 December 2022 respectively, which represents their maximum exposure on these assets. These balances are held with banks having strong credit ratings. While cash and cash equivalents are also subject to the expected credit loss (ECL)requirements of IFRS 9, the identified ECL was immaterial.

Trade receivables are amount due from customers for membership sold or other services rendered in the ordinary course of business. The average credit period is less than one year and therefore are all classified as current. The Company holds the trade receivables with the objective to collect the contractual cash flows and therefore measure them subsequently at amortized cost using effective interest method.

Due to the shorter nature of the current receivables, they are carrying amount is considered to be the same as they are fair value.

The company has applied IFRS9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowances for all trade receivables based on a provision matrix. The provision matrix takes into account historical credit loss experience and is adjusted for average historical recovery rates. To measure the expected credit losses, trade receivables have been grouped based on share credit risk characteristics and is based on the ageing of the days the receivables are past due and the rates as calculated in the provision matrix. On that basis, the allowance as 31 December 2022 and 2021 was determined as follows:

Membership receivables - Corporate customers.

31 December 2022

	Within Credit period SR	***1-180 days past due SR***	***181-365 days past due SR***	***Total SR***
Gross carrying amount	**10,220,037**	**5,853,357**	**-**	**16,073,394**
Expected credit loss range (%)	**0.013%**	**0.098%**	**-**	**-**
Loss allowance	**1,350**	**5,739**	**-**	**7,089**

31 December 2021

	Within Credit period SR	*1-180 days Past Due SR*	*181-365 days past due SR*	*Total SR*
Gross carrying amount	14,183,277	290,961	168,670	14,642,908
Expected credit loss range (%)	0.00%	0.02-0.63%	1.8%-76.3%	-
Loss allowance	-	50	77,293	77,343

33 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Rent receivables

31 December 2022

	Within credit period	***1-180 days Past Due***	***181-365 days past due***	***More 1 year due***	***Total***
	SR	***SR***	***SR***	***SR***	***SR***
Gross carrying amount	**1,114,203**	**3,451,577**	**1,882,135**	**6,369,564**	**12,817,479**
Expected credit loss range (%)	**7.06%**	**9.08%-12.73%**	**33.61%-47.24%**	**59.84%**	
Loss allowance	**78,705**	**379,039**	**645,718**	**2,087,236**	**3,190,698**
Specific provision	**-**	**-**	**-**	**2,881,627**	**2,881,627**

31 December 2021

	Within credit period	*1-180 days Past due*	*181-365 days past due*	*More than 1 year past due*	*Total*
	SR	*SR*	*SR*	*SR*	*SR*
Gross carrying amount	2,637,838	4,235,817	3,079,041	5,356,110	15,308,806
Expected credit loss range (%)	0%	0.33% - 1.64%	2.40% - 61.01%	100%	
Loss allowance	-	-	-	2,434,963	2,434,963
Specific provision	-	765,173	-	2,921,147	3,686,320

The Company is not significantly exposed to credit risk on its other current asset as the employee loans are secured against end of service balance and the remaining balance is not significant.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: commission rate risk, currency risk and commodity risk. Financial instruments affected by market risk include short-term loans. The sensitivity analyses in the following sections relate to the position as at 31 December 2022 and 2021.

Interest rate risk

The interest rate profile of the Company's interest – bearing financial instruments are as follows:

	2022	*2021*
	SR	*SR*
Borrowings		
Fixed rate instruments	**15,000,000**	35,000,000
Variable rate instruments	**245,227,948**	329,956,212

33 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

Cash flow sensitivity analysis for variable rate instruments

A reasonably possible change of 100 basis points in interest rates at the reporting date would have increased/(decreased)profit or loss for the year by amounts shown below. This analysis assumes that all other variable remain constant.

	2022	*2021*
	SR	*SR*
Variable rate instruments		
100 bp Increase	**(2,602,279)**	(3,649,506)
100 bp Decrease	**2,602,279**	3,649,506

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to realize financial assets quickly at an amount close to its fair value. The Company manages its liquidity risk by monitoring working capital and cash flow requirements on regular basis. The Company manages its liquidity risk by ensuring that bank facilities are available.

The table below summarizes the maturity profile of the Company's financial liabilities, excluding lease liability, based on contractual undiscounted payments.

31 December 2022

	Within 3 Months	***3 to 12 months***	***2 to 5 years***	***More than 5 years***	***Total***
	SR	***SR***	***SR***	***SR***	***SR***
Borrowings*	**28,260,803**	**79,347,287**	**181,918,556**	**-**	**289,526,646**
Accounts payable	**62,328,705**	**-**	**-**	**-**	**62,328,705**
Accrued expenses	**79,651,896**	**-**	**-**	**-**	**79,651,896**
Lease liabilities	**37,412,344**	**74,824,688**	**518,262,807**	**478,286,301**	**1,108,786,140**
	207,653,748	**154,171,975**	**700,181,363**	**478,286,301**	**1,540,293,387**

31 December 2021

	Within 3 Months	*3 to 12 months*	*2 to 5 years*	*More than 5 years*	*Total*
	SR	*SR*	*SR*	*SR*	*SR*
Borrowings*	32,895,394	101,777,724	247,893,377	-	382,566,495
Accounts payable	80,865,297	-	-	-	80,865,297
Accrued expenses	43,818,490	-	-	-	43,818,490
Lease liabilities	38,719,364	77,438,727	531,194,036	503,760,715	1,151,112,842
	196,298,545	179,216,451	779,087,413	503,760,715	1,658,363,124

*Borrowings include finance cost of SR 29.3 million (31 December 2021: SR 17.62 million).

33 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

At the statement of financial position date, gearing ratio and current ratio were as follows:

	2022	*2021*
	SR	*SR*
Equity	**938,539,108**	804,569,669
Liabilities (excluding deferred revenue)	**1,363,498,552**	1,489,215,701
	2,302,037,660	2,293,785,370

	2022	*2021*
	SR	*SR*
Gearing ratio	**59.23%**	64.92%
Current ratio (excluding deferred revenue)	**1.12**	0.73

As of 31 December 2022, the management also analyses the liquidity risk as follows:

	2022	*2021*
	SR	*SR*
Current financial assets	**323,491,760**	203,639,161
Current liabilities excluding deferred revenue	**(322,410,914)**	(348,171,071)
Net current financial asset (liability) position	**1,080,846**	(144,531,910)

The Company manages liquidity risk by ensuring sufficient un-availed borrowing facilities. As at 31 December 2022, unutilized bank borrowing facilities of SR 852.4 million were available from multiple banks for managing the working capital requirements. Moreover, the Company generated cash flow from operating activities amounting to SR 669 million for the year 2022.

In relation to the liquidity risk of the Company, the management monitors the Company's cash flow to ensure the existence of sufficient funds in order to meet the Company's obligations for a period of at least next twelve months from the reporting date.

The management is not aware of any material uncertainty that name cast significant doubt up on the company's ability to continue as going concern there for these financial statements have been prepared on a going concern basis

34 CAPITAL MANAGEMENT

The primary objective of the Company capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it in light of changes in business conditions. No changes were made in the objectives, policies or processes during the year ended 31 December 2022 and the year ended 31 December 2021. Capital comprises share capital, statutory reserve, retained earnings and other reserves and is measured at SR 938.5 million as at 31 December 2022 (2021: SR 804.6 million).

35 EVENTS AFTER THE REPORTING PERIOD

No events have arisen subsequent to 31 December 2022 and before the date of issuing the financial statements that could have a significant effect on the financial statements as at 31 December 2022.

36 BRANCHES OF THE COMPANY

The Company has the following branches, which are operating under separate Commercial Registration ("CR").

Location	CR	Issuance Date
Riyadh	1010439237	11/02/1437H
Riyadh	1010439239	11/02/1437H
Dammam	2050108503	15/05/1437H
Jaizan	5900035652	21/03/1438H
Jeddah	4030248720	23/07/1434H
Jeddah	4030180323	19/06/1429H
Najran	5950032239	02/03/1437H
Taif	4032050910	29/01/1438H
Riyadh	1010612788	13/02/1439H
Jubail	2055025936	07/08/1438H
Riyadh	1010934125	25/05/1439H
Al Madina	4650211820	22/10/1440H
Al Madina	4650211821	22/10/1440H
Makkah	4031228724	22/10/1440 H
Makkah	4031228725	22/10/1440H
Jeddah	4030358958	22/10/1440H
Skaka	3400120275	02/03/1442H
Riyadh	1010649568	07/01/1442H
Khamis	5855346933	22/06/1441H
Hail	3350147653	22/06/1441H
Buraidah	1131308370	14/02/1442H
Riyadh	1010739641	29/01/1443H
Riyadh	1010738515	22/1/1443H
Tabuk	3550145682	22/11/1443H
Arar	3450181275	04/06/1444H

UAE trade licenses

Dubai Branch	724509	11/01/2015
Ras Al-Khaimah Branch	41352	3/3/2015
Rashidya Branch (Ajman)	78538	24/08/2016
Hazana (Sharjah)	786703	26/10/2021

37 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the classification used for the year ended 31 December 2022. However, such reclassification have not resulted in any additional impact on equity or loss for comparative figures. The key reclassifications were as follows:

Reclassification from	***Reclassification to***	***Amount (SR)***
Cost of revenue - Interest on employees' defined benefit liabilities	Finance costs	717,179
General and administrative expenses - Finance commission	Finance costs	485,178

38 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved for issuance by the Company's Board of Directors on 10 Sha'ban 1444H (corresponding to 2 March 2023).

Assim Al Attas
Chief Financial Officer

Adnan Abdullah Al Khalaf
Acting Chief Executive Officer

Ali Hamad AlSagri
Chairman