LEEJAM SPORTS COMPANY
(A Saudi Joint Stock Company)
Financial Statements
For the year ended 31 December 2018
together with the
Independent Auditors' Report

KPMG Al Fozan & Partners
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License No. 46/11/323 issued 11/3/1992

Independent auditors' report

To the Shareholders of Leejam Sports 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 2018, the statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA).

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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the 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 our opinion thereon, and we do not provide a separate opinion on these matters;

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Independent auditors' report

To the Shareholders of Leejam Sports Company (continued)

Revenue recognition

See Note 3(b) and 4(j) for the accounting policy relating to revenue recognition and Note 22 for the related disclosures.

The key audit matter	How the matter was addressed in our audit
During the year ended 31 December 2018, the Company has recognized total revenue of SAR 799.9 million (2017: SAR 732.9 million). Subscriptions and membership fee are recognized as revenue systematically over the term of the subscription period. Revenue recognition is considered as a key audit matter since revenue is a key measure of the Company's performance and is susceptible to the risk of misstatement resulting from either ineffective manual and / or IT related controls, or possibility of these controls being overridden to recognize revenue.	Our audit procedures in this area, included among others: - Assessing the Company accounting policies by considering the requirements of relevant accounting standards; - Assessing the design and implementation, and tested the effectiveness of the Company's controls including IT related controls, over the recognition of revenue including controls over: a) Input of contract details in the system. b) System configuration changes. c) Manual adjustments in revenue account. - Developing an expectation of the current year revenue balance using details of subscriptions, average subscription fee and terms of contract. We then compared this expectation to the actual revenue and analysed the variance; - Performing reconciliation of revenue per the oracle system report and calculated revenue and deferred revenue on sample basis. Further examined system generated invoices, receipt vouchers and parameters for the selected samples; - Testing manual journal entries posted to revenue to identify any unusual or irregular items; and - Reviewing the adequacy, appropriateness and sufficiency of disclosures included in the financial statements in respect of revenue recognition.

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Independent auditors' report

To the Shareholders of Leejam Sports Company (continued)

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' 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 annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Audit Committee.

Responsibilities of Management and the Audit Committee for the Financial Statements.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, the applicable requirements of the Regulations for Companies and Company's By-laws and for such internal control as management 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, management 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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Company's financial reporting process.

Auditors' 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 auditors' 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 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 judgement and maintain professional scepticism throughout the audit. We also:

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management

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Independent auditors' report

To the Shareholders of Leejam Sports Company (continued)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' 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 auditors' 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 of Leejam Sports Company ("the Company").

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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 KPMG Al Fozan & Partners
Certified Public Accountants

Abdullah Hamad Al Fozan
License No: 348

Al Riyadh, 22 Jumada II 1440H
Corresponding to: 27 February 2019

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Certified Public Accountants
KPMG Al Fozan & Partners

LEEJAM SPORTS COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
As at 31 December 2018
(Expressed in Saudi Arabian Riyals)

	Notes	**2018**	2017
ASSETS			
Non-current assets			
Property and equipment	*(5)*	**1,418,514,216**	1,285,102,266
Goodwill	*(6)*	**9,445,544**	9,445,544
Long-term prepayments	*(7)*	**10,523,015**	11,723,015
Total non-current assets		**1,438,482,775**	1,306,270,825
Current assets			
Prepayments and other assets	*(8)*	**130,416,810**	116,683,674
Due from a related party	*(9)*	--	35,450
Trade receivables	*(10)*	**20,407,041**	8,922,683
Short term investment	*(11)*	--	17,000,000
Cash and bank balances	*(12)*	**19,415,381**	56,021,973
Total current assets		**170,239,232**	198,663,780
Total assets		**1,608,722,007**	1,504,934,605
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	*(13)*	**523,833,610**	523,833,610
Statutory reserve	*(14)*	**35,429,133**	17,419,888
Retained earnings		**154,405,707**	87,689,705
Total shareholders' equity		**713,668,450**	628,943,203
Liabilities			
Non-current liabilities			
Loans and borrowings – non-current	*(15)*	**376,323,389**	366,151,163
Defined benefit obligation – employee benefits	*(16)*	**27,426,552**	23,930,307
Deferred rent liability – non-current	*(17)*	**60,891,074**	53,128,602
Total non-current liabilities		**464,641,015**	443,210,072
Current liabilities			
Loans and borrowings – current	*(15)*	**107,853,383**	76,493,562
Deferred rent liability – current	*(17)*	**3,700,268**	3,167,641
Accounts payable	*(18)*	**36,554,283**	37,305,070
Accrued expenses and other liabilities	*(19)*	**35,604,298**	49,751,780
Deferred revenue	*(20)*	**243,317,718**	261,575,595
Provision for Zakat	*(21)*	**3,382,592**	4,487,682
Total current liabilities		**430,412,542**	432,781,330
Total liabilities		**895,053,557**	875,991,402
Total shareholders' equity and liabilities		**1,608,722,007**	1,504,934,605

The accompanying notes (1) to (38) form an integral part of these financial statements.

Waris Sarfaraz
Finance Director

Ahmar Azam
Chief Executive Officer

Ali Hamad AlSagri
Chairman

LEEJAM SPORTS COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2018
(Expressed in Saudi Arabian Riyals)

	Notes	**2018**	2017
Revenue	*(22)*	**799,946,833**	732,878,928
Costs of revenue	*(23)*	**(494,612,578)**	(454,479,095)
Gross profit		**305,334,255**	278,399,833
Advertising and marketing expenses	*(24)*	**(21,409,855)**	(26,828,678)
General and administrative expenses	*(25)*	**(91,710,208)**	(64,887,434)
Impairment (loss) / reversal on trade receivables	*(10.1)*	**(2,227,474)**	2,027,995
Other income		**13,131,976**	7,172,265
Operating profit		**203,118,694**	195,883,981
Finance costs	*(27)*	**(21,067,168)**	(18,336,194)
Net profit before Zakat		**182,051,526**	177,547,787
Zakat	*(21)*	**(1,959,081)**	(3,348,903)
Net profit for the year		**180,092,445**	174,198,884
Earnings per share- basic and diluted	*(28)*	**3.44**	3.33

The accompanying notes (1) to (38) form an integral part of these financial statements.

Waris Sarfaraz
Finance Director

Ahmar Azam
Chief Executive Officer

Ali Hamad AlSagri
Chairman

LEEJAM SPORTS COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018
(Expressed in Saudi Arabian Riyals)

	Notes	**2018**	2017
Net profit for the year		**180,092,445**	174,198,884
Other comprehensive income/ (loss)			
Items that will not be reclassified to profit or loss			
Re-measurement of actuarial losses on defined benefit obligation – employee benefits	*(16)*	**(2,199,435)**	(924,897)
Total comprehensive income for the year		**177,893,010**	173,273,987

The accompanying notes (1) to (38) form an integral part of these financial statements.

Waris Sarfaraz
Finance Director

Ahmar Azam
Chief Executive Officer

Ali Hamad AlSagri
Chairman

LEEJAM SPORTS COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended 31 December 2018
(Expressed in Saudi Arabian Riyals)

	Notes	**Share capital**	**Statutory reserve**	**Retained earnings**	**Total**
Balance at 1 January 2017		195,000,000	64,497,724	264,266,835	523,764,559
Net profit for the year		--	--	174,198,884	174,198,884
Other comprehensive loss		--	--	(924,897)	(924,897)
Total comprehensive income for the year		--	--	173,273,987	173,273,987
Transfer to statutory reserve		--	17,419,888	(17,419,888)	--
Increase in share capital		328,833,610	(64,497,724)	(264,335,886)	--
Transactions with the owners of the Company					
Interim dividend declared for Q1 2017		--	--	(25,119,010)	(25,119,010)
Interim dividend declared for Q2 2017		--	--	(19,781,332)	(19,781,332)
Interim dividend declared for Q3 2017		--	--	(23,195,001)	(23,195,001)
Total transactions with the owners of the Company		--	--	(68,095,343)	(68,095,343)
Balance at 31 December 2017		523,833,610	17,419,888	87,689,705	628,943,203
Balance at 1 January 2018		**523,833,610**	**17,419,888**	**87,689,705**	**628,943,203**
Net profit for the year		--	--	**180,092,445**	**180,092,445**
Other comprehensive loss		--	--	**(2,199,435)**	**(2,199,435)**
Total comprehensive income for the year		--	--	**177,893,010**	**177,893,010**
Transfer to statutory reserve		--	**18,009,245**	**(18,009,245)**	--
Transactions with the owners of the Company					
Final dividend declared for 2017	*(32)*	--	--	**(25,417,116)**	**(25,417,116)**
Interim dividend declared for Q1 2018	*(32)*	--	--	**(17,525,007)**	**(17,525,007)**
Interim dividend declared for Q2 2018	*(32)*	--	--	**(21,332,572)**	**(21,332,572)**
Interim dividend declared for Q3 2018	*(32)*	--	--	**(28,893,068)**	**(28,893,068)**
Total transactions with the owners of the Company		--	--	**(93,167,763)**	**(93,167,763)**
Balance at 31 December 2018		**523,833,610**	**35,429,133**	**154,405,707**	**713,668,450**

The accompanying notes (1) to (38) form an integral part of these financial statements.

Waris Sarfaraz
Finance Director

Ahmar Azam
Chief Executive Officer

Ali Hamad AlSagri
Chairman

LEEJAM SPORTS COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF CASH FLOWS
For the year ended 31 December 2018
(Expressed in Saudi Arabian Riyals)

	Notes	**2018**	2017
Cash flows from operating activities			
Net profit before Zakat		**182,051,526**	177,547,787
Adjustments for non-cash items:			
Depreciation	*(5)*	**109,585,988**	95,112,150
Finance cost	*(27)*	**21,067,168**	18,336,194
Property and equipment written off – net		**4,787,196**	651,053
Charge / (reversal) of allowance for impairment in trade receivables, net	*(10.1)*	**2,227,474**	(2,027,995)
Reversal of provision for advances to suppliers and contractors	*(8.1)*	**--**	(223,948)
Reversal of provision for other assets	*(8.4)*	**--**	(449,000)
Employee benefits	*(16)*	**13,683,714**	6,141,941
		333,403,066	295,088,182
Changes in:			
Increase in prepayments and other assets		**(11,621,063)**	(53,964,515)
(Increase) / decrease in trade receivables		**(13,711,832)**	1,608,996
Increase in deferred rent liability		**8,295,099**	8,980,522
(Decrease) / increase in accounts payable		**(718,620)**	13,630,353
(Decrease) / increase in accrued expenses and other liabilities		**(13,916,618)**	10,614,262
(Decrease) / increase in deferred revenue		**(18,257,877)**	43,719,980
Cash generated from operating activities		**283,472,155**	319,677,780
Employee benefits paid	*(16)*	**(12,386,904)**	(635,747)
Zakat paid	*(21)*	**(3,064,171)**	(5,474,884)
Net cash generated from operating activities		**268,021,080**	313,567,149
Cash flows from investing activities			
Additions to property and equipment		**(244,652,101)**	(236,885,325)
Sale proceeds of assets disposed off		**256,059**	--
Net cash used in investing activities		**(244,396,042)**	(236,885,325)
Cash flows from financing activities			
Dividends paid		**(93,164,480)**	(93,592,588)
Finance cost paid		**(25,599,197)**	(22,589,444)
Proceeds from loans and borrowings		**182,466,491**	134,041,213
Repayments of loans and borrowings		**(140,934,444)**	(133,127,648)
Net cash used in financing activities		**(77,231,630)**	(115,268,467)
Net decrease in cash and cash equivalents		**(53,606,592)**	(38,586,643)
Cash and cash equivalents at beginning of the year		**73,021,973**	111,608,616
Cash and cash equivalents at the end of the year	*(31)*	**19,415,381**	73,021,973

Supplementary information

Non-cash transaction included adjustment of sale proceed of assets amounting to SAR 912,073 adjusted against other receivables in prepayment and other asset.

The accompanying notes (1) to (38) form an integral part of these financial statements.

Waris Sarfaraz	Ahmar Azam	Ali Hamad AlSagri
Finance Director	Chief Executive Officer	Chairman

LEEJAM SPORTS COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018
(Expressed in Saudi Arabian Riyals)

1. ORGANIZATION, OWNERSHIP AND ACTIVITIES

Leejam Sport Company ("the Company") (previously incorporated in the Kingdom of Saudi Arabia as a closed joint stock company), is a Saudi Joint Stock Company and listed on the Saudi Stock Exchange with effect from 10 September 2018. The Company was established in accordance with the Ministry of Commerce and Industry resolution No. 146/S dated 29 Rabie II, 1429H (May 6, 2008) and registered under commercial registration number 4030180323 dated 19 Jumada II 1429H. In 2012, the Company's head office was transferred from Jeddah to Riyadh and the Company obtained the amended commercial registration number 1010337986 dated 14 Jumada II, 1433H (May 6, 2012).

The Company has following branches, which are operating under separate CRs;

Location	C.R.	Date
Riyadh	1010337986	14/6/1433H
Riyadh	1010439237	11/2/1437H
Riyadh	1010439239	11/2/1437H
Dammam	2050108503	15/5/1437H
Jaizan	5900035652	21/3/1438H
Jeddah	4030248720	23/7/1434H
Jeddah	4030180323	19/6/1429H
Najran	5950032239	2/3/1437H
Taif	4032050910	29/1/1438H
Riyadh	1010612788	13/02/1439H
Jubail	2055025936	07/08/1438H
Aldiriya	1010934125	25/05/1439H

UAE trade licenses:

- Dubai Branch	724509	21/3/1436H
- Rashidya Branch (Ajman)	78538	21/11/1437H
- Ras Al-Khaimah Branch	41352	16/7/1438H

The objectives of the Company are the 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 current activity is confined to managing sport centers according to the Deputy General President for Sport Affairs letter No.549 and renting out premises.

The address of the Company's registered office is as follows:
Thumamah Street
PO Box 295245
Riyadh 11351
Kingdom of Saudi Arabia.

a) The Company acquired 95% of the outstanding shares of Fitness Time for Trading Company Limited in order to acquire the trademark "Fitness Time", owned by it and registered the same under the Company's name with the Ministry of Commerce & Industry/Department of trademark registration under the registration certificate number 142905699 originally dated 1429/05/22. 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.

2. BASIS OF PREPARATION

(a) 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 and other standards and pronouncements that are issued by Saudi Organization for Certified Public Accountants ("SOCPA").

This is the first set of the Company's annual financial statements in which IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers have been applied. Changes to significant accounting policies are described in Note 3.

(b) Basis of measurement

These financial statements have been prepared on a going concern basis under the historical cost convention.

(c) Functional and presentation currency

These financial statements are presented in Saudi Arabian Riyals (SAR), which is the functional and presentational currency of the Company. Amounts in the descriptive notes are expressed to the nearest million Saudi Riyal.

(d) Use of judgments and estimates

In preparing these financial statements, management has made judgments and estimates that affect the application of the Company's accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Judgments

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statement is included in the following notes;

- Note 29 and Note 4(m) - Lease: whether an arrangement contains a lease;
- Note 29 and Note 4(m) - Lease classification

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2018 is included in the following notes:

- Note 6 and Note 4(c) – Impairment of goodwill: key assumptions underlying recoverable amounts
- Note 10 and Note 3(a) - (measurement of ECL allowance for trade receivables): key assumptions in determining the weighted-average loss rate.

3. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

The Company has initially applied IFRS 9 (See Note 3(a)) and IFRS 15 (See Note 3(b)) from 1 January 2018. Due to the transition methods chosen by the Company in applying these standards, comparative information throughout these financial statements has not been restated as previously reported, except for additional disclosures under the new standards and separately presenting the impairment loss on trade receivables.

3. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

There is no material impact on the recognition criteria since the current Company policies are in line with the new accounting standards.

a. IFRS 9 - Financial instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

As a result of adoption of IFRS 9, the Company has adopted consequential amendments to IAS 1 Presentation of Financial Statements which require impairment of financial assets to be presented as a separate line item in the statement of profit or loss and other comprehensive income. Previously, the Company's approach was to include the impairment of trade receivables in general and administrative expenses. The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below.

i) Classification and measurement of financial assets and financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has no material effect on the Company's accounting policies related to financial liabilities. The impact of IFRS 9 on the classification and measurement of financial assets is set out below.

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model under which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. CHANGE IN SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a. Financial instruments (continued)

i) Classification and measurement of financial assets and financial liabilities (continued)

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. The Company has no such equity investments.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

The following accounting policies apply to the subsequent measurement of financial assets.

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss. The Company has no such assets.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss. The Company has its financial assets under this category as disclosed in table below.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss. The Company has no such investments.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss. The Company has no such investments.

3. CHANGE IN SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a. Financial instruments (continued)

The following table explains the classification and measurement of the financial assets of the Company under IAS 39 and IFRS 9.

Financial assets	**Classified as loans and receivables under IAS 39 As of 31 December 2017**	**Classified as "At Amortized Cost" under IFRS 9 As at 1 January 2018**
Other assets	2,731,318	2,731,318
Due from a related party	35,450	35,450
Trade receivables	11,308,156	11,308,156
Short term investment	17,000,000	17,000,000
Bank balances	53,157,747	53,157,747

There is no material effect of adopting IFRS 9 financial instruments on the Company's financial statements.

ii) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

The financial assets at amortised cost consist of short-term investment, bank balances, trade receivables, due from a related party and other assets.

Under IFRS 9, loss allowances are measured on either of the following bases:

- *12-month ECLs:* these are ECLs that result from possible default events within the 12 months after the reporting date; and
- *lifetime ECLs:* these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Company measures loss allowances at an amount equal to lifetime ECLs, except for the bank balances and short term investments, for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition, which are measured as 12-month ECLs.

The Company has elected to measure loss allowances for trade receivables and other assets at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

3 CHANGE IN SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a. Financial instruments (continued)

ii) Impairment of financial assets (continued)

The Company considers a financial asset to be in default when:

- the customer is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 1 years past due.

Credit-impaired financial assets
At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Presentation of impairment
Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

iii) Derecognition

Financial assets
The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Financial liabilities
The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

b. IFRS 15 - Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

3 CHANGE IN SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

There is no impact of adopting IFRS 15 on the Company's statement of financial position as of 31 December 2018 and statements of profit or loss and comprehensive income for the year ended 31 December 2018. However, certain additional disclosures have been presented in these annual financial statements in line with the disclosure requirements under the new accounting standards.

The Company has adopted IFRS 15 using the cumulative effect method, with the effect of applying this standard recognised at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for previous year has not been restated, as previously reported, under IAS 18 and related interpretations.

4. SIGNIFICANT ACCOUNTING POLICIES

The Company has consistently applied the following accounting policies to all periods presented in these financial statements. The significant accounting policies adopted in the preparation of the financial statements are as follows:

a. Property and equipment

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 is depreciated on a straight-line basis over the estimated useful lives of the 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 labour;
- 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 construction phase.

The estimated useful lives of the principal classes of assets is as follows:

Buildings	4% – 10%
Motor vehicles	20%
Sports tool and equipment	10%
Electrical equipment and air conditioners	10%
Furniture and office equipment	12.5%
Computers	20%

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

Subsequent costs
Subsequent costs are capitalized only if it is probable that the future economic benefits associated with the cost will flow to the Company. All other subsequent costs are charged to profit or loss when incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a. Property and equipment (continued)

Impairment of non-financial 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 profit or loss 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 profit or loss.

b. Capital work in progress

Capital work in progress is stated at cost and includes certain assets that have been acquired but are not ready for their intended use. These assets are transferred to relevant assets categories and are depreciated once they are available for their intended use.

c. Goodwill

Initial recognition
The Company measures goodwill at the date of acquisition as:

- the fair value of the consideration transferred; plus
- the recognised 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 acquire.

Over the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed. Any goodwill that arises is tested annually for impairment.

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

d. Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits with maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, used by the Company in the management of its short-term commitments and are available to the Company without any restriction.

e. Borrowings

Borrowings are recognized at the proceeds received, net of transaction costs incurred. 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f. Defined benefit obligation- employee benefits

The Company's net obligation in respect of defined benefit plan is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods.

The calculation of defined benefit obligation is performed annually by a qualified actuary using the projected unit credit method. The remeasurement of the net defined benefit liability, which comprise actuarial gains and losses, is recognised immediately in other comprehensive income which are not reclassified to profit or loss in the subsequent periods. The Company determines the net interest expense on net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligations at the beginning of the annual period to the – then net defined benefit liability, taking into account any changes in the net defined benefit liability during the period as a result of contributions and benefit payments. Net interest expense and other expense related to defined benefit plan are recognized in the profit or loss.

g. Dividends

Interim dividends are recorded as a liability in the period in which they are approved by the Board of Directors. Final dividends are recorded in the period in which they are approved by the shareholders in the General Assembly.

h. Zakat

The Company is subject to Zakat in accordance with the Zakat regulation issued by the General Authority of Zakat and Tax ("GAZT") in the Kingdom of Saudi Arabia, which is subject to interpretations. Zakat is recognized in the income statement. Zakat is levied at a fixed rate of 2.5% of the higher of zakat base or adjusted taxable income as defined in the Zakat regulations.

The Company's management establishes provisions where appropriate on the basis of amounts expected to be paid to the GAZT and periodically evaluates positions taken in the Zakat returns with respect to situations in which applicable Zakat regulation is subject to interpretation.

j. Revenue

The Company has initially applied IFRS 15 from 1 January 2018. The effect of initially applying IFRS 15 is described in Note 3(b). Information about the Company accounting policies relating to contracts with customers is provided in Note 22.

k. Fair value measurement

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 assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. The fair value of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k. Fair value measurement

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 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.

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

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

l. Provisions

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

m. Foreign currency transactions

Transactions denominated in foreign currencies are translated to the functional currency of the Company at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency of the Company at the exchange rate ruling at that date. Exchange difference arising on translation are recognized in the statement of profit or loss currently.

n. Leases

Determining whether an arrangement contain a lease
At inception of an arrangement, the Company determines whether the arrangement is or contains a lease.

At inception or on reassessment of an arrangement that contain a lease, the Company separates payments and other consideration required by the arrangement into lease and those for other elements on the basis of their relative fair value.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m. Leases

Leased assets
Asset held by the Company under lease that transfer to the Company substantially all of the risks and rewards of ownership are classified as finance lease. The Company has not entered into any such arrangement during the period.

Assets held under other leases are classified as operating leases and are not recognised in the Company's statement of financial position.

Lease payments
Payments made under operating leases are recognised in statement of profit or loss on a straight line basis over the term of lease. Lease incentive received are recognised as an integral part of the total lease expense, over the term of lease.

n. Earnings per share

The Company presents basic earnings per share for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the number of ordinary shares outstanding during the period.

o. Standards issued but not yet effective:

Standards issued but not yet effective
Following are the new standards and amendments to standards which are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Company has not early adopted them in preparing these financial statements.

i. IFRS 16 Leases

The Company is required to adopt IFRS 16 *Leases* from 1 January 2019. The Company has assessed the estimated impact that initial application of IFRS 16 will have on its financial statements, as described below. The actual impacts of adopting the standard on 1 January 2019 may change because the new accounting policies are subject to change until the Company presents its first financial statements that include the date of initial application.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

(a) Leases in which the Company is a lessee

The Company will recognise new assets and liabilities for its operating leases of centers facilities. The nature of expenses related to those leases will now change because the Company will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Company recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i. IFRS 16 Leases (continued)

The Company has performed a detailed impact assessment of IFRS 16. The impact of adopting IFRS 16 on the date of adoption is expected as follows:

Impact on the statement of financial position (increase/(decrease)) as at 1 January 2019:

	SAR
Assets	
Right of use asset	879,913,021
Prepayments and other assets	(67,941,747)
Total impact on assets	811,971,274
Liabilities	
Lease liability	974,263,057
Deferred rent liability	(64,591,342)
Total impact on liabilities	909,671,715
Equity	(97,700,441)
Total impact on equity	(97,700,441)

Due to the adoption of IFRS 16, the Company's operating profit will improve, while its depreciation and interest expense will increase. This is due to the change in the accounting for expenses of leases that were classified as operating leases under IAS 17.

IFRS 16 further requires additional disclosure for which the Company has considered required changes in the financial systems and related procedures necessary to collect and disclose the required information.

(b) Transition

The Company plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The Company plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

ii. Other standards

The following amended standards and interpretations are not expected to have a significant impact on the Company's financial statements.

- IFRIC 23 – Uncertainty over tax treatments
- Prepayment features with negative compensation (amendments to IFRS 9)
- Long term interests in associates and joint ventures (amendments to IAS 28)
- Planned amendments, curtailments or settlement (amendments to IAS 19)
- Annual Improvements to IFRSs 2015–2017 Cycle – various standards.
- Amendments to reference to conceptual framework in IFRS standard.
- IFRS 17 – Insurance contracts.

5. PROPERTY AND EQUIPMENT

	Land	Buildings	Motor vehicles	Sports tools and equipment	Electrical equipment and air conditioners	Computers	Furniture and office equipment	Capital work in progress (Note 5.2)	Total
Cost									
Balance at 1 January 2017	48,936,000	819,115,547	3,525,741	284,946,893	79,118,794	11,831,061	6,961,598	199,043,213	1,453,478,847
Additions during the year	24,315,525	7,545,149	56,600	2,588,189	8,049,186	1,476,918	964,237	196,150,993	241,146,797
Transfers during the year	--	188,873,224	--	65,592,887	5,192,132	2,993,964	2,334,884	(264,987,091)	--
Write offs during the year (Note 5.3)	--	--	(334,764)	(11,848,205)	(7,407,318)	(177,151)	(47,084)	--	(19,814,522)
Balance at 31 December 2017	73,251,525	1,015,533,920	3,247,577	341,279,764	84,952,794	16,124,792	10,213,635	130,207,115	1,674,811,122
Balance at 1 January 2018	**73,251,525**	**1,015,533,920**	**3,247,577**	**341,279,764**	**84,952,794**	**16,124,792**	**10,213,635**	**130,207,115**	**1,674,811,122**
Additions during the year	**--**	**35,423,275**	**169,510**	**1,069,050**	**2,588,491**	**1,732,771**	**1,730,809**	**206,239,360**	**248,953,266**
Transfers during the year	**--**	**88,235,963**	**--**	**34,614,839**	**2,548,131**	**3,005,682**	**3,994,221**	**(132,398,836)**	**--**
Write offs during the year (Note 5.3)	**--**	**--**	**(235,197)**	**(12,235,867)**	**(47,101)**	**(41,850)**	**(101,389)**	**--**	**(12,661,404)**
Balance at 31 December 2018	**73,251,525**	**1,139,193,158**	**3,181,890**	**364,727,786**	**90,042,315**	**20,821,395**	**15,837,276**	**204,047,639**	**1,911,102,984**
Accumulated depreciation									
Balance at 1 January 2017	--	(171,591,924)	(2,820,760)	(92,473,000)	(32,480,242)	(5,069,979)	(3,119,184)	--	(307,555,089)
Charge for the year	--	(53,277,420)	(281,632)	(30,731,524)	(7,440,678)	(2,368,278)	(1,012,618)	--	(95,112,150)
Eliminated on write offs (Note 5.3)	--	--	334,764	7,447,291	4,978,228	153,466	44,634	--	12,958,383
Balance at 31 December 2017	--	(224,869,344)	(2,767,628)	(115,757,233)	(34,942,692)	(7,284,791)	(4,087,168)	--	(389,708,856)
As at 1 January 2018	**--**	**(224,869,344)**	**(2,767,628)**	**(115,757,233)**	**(34,942,692)**	**(7,284,791)**	**(4,087,168)**	**--**	**(389,708,856)**
Charge for the year	**--**	**(61,457,981)**	**(285,028)**	**(34,483,524)**	**(8,784,082)**	**(3,067,196)**	**(1,508,177)**	**--**	**(109,585,988)**
Eliminated on write offs (Note 5.3)	**--**	**--**	**235,197**	**6,369,344**	**33,756**	**39,321**	**28,458**	**--**	**6,706,076**
Balance at 31 December 2018	**--**	**(286,327,325)**	**(2,817,459)**	**(143,871,413)**	**(43,693,018)**	**(10,312,666)**	**(5,566,887)**	**--**	**(492,588,768)**
NBV at 31 December 2017	73,251,525	790,664,576	479,949	225,522,531	50,010,102	8,840,001	6,126,467	130,207,115	1,285,102,266
NBV at 31 December 2018	**73,251,525**	**852,865,833**	**364,431**	**220,856,373**	**46,349,297**	**10,508,729**	**10,270,389**	**204,047,639**	**1,418,514,216**

5. PROPERTY AND EQUIPMENT (CONTINUED)

5.1. The depreciation charge for the year is allocated as follows:

	2018	2017
Costs of revenue (Note 23)	**105,667,481**	91,833,372
General and administrative expenses (Note 25)	**3,918,507**	3,278,778
	109,585,988	95,112,150

5.2. The Capital Work-in-Progress (CWIP) as of 31 December 2018 represents construction costs and capital equipment amounting to SAR 140.6 million and SAR 63.4 million (December 2017: SAR 83.6 million and SAR 46.6 million), respectively. The construction costs include an amount of SAR 1.6 million (December 2017: SAR 1.5 million) in respect of borrowing costs capitalized during the construction period. The total borrowing cost capitalized under CWIP during the year amount to SAR 4.3 million, and the capitalization rate was 4.55% (December 2017: 4%). The capital equipment mainly includes gym equipment, which have been procured but are not currently available for use.

5.3. The charge in respect of write off of property and equipment is included in the general and administrative expenses, net of disposal proceeds.

6. GOODWILL

This represents goodwill recognized during 2016 as a result of a business combination through acquisition of two running fitness centers located in the cities of Dwadmi and Riyadh. The acquisition has enabled the Company to save time required to construct new centers. The total consideration paid for the acquisition of these centers amounted to SAR 24.5 million, which resulted in goodwill of SAR 9.45 million.

Impairment test
The Company performed the impairment testing of goodwill as of 31 December 2018. The recoverable amount of the two acquired centers was calculated based on a value in use calculation using cash flow projections for next 10 and 17 years, approved by the senior management. The recoverable amount exceeded the carrying amount of goodwill even at a stressed discount rate of 14%, hence the goodwill is not considered to be impaired at 31 December 2018.

Management determined forecast revenue growth based on past performance and its expectations of market development. The discount rate reflects management's estimate of the specific risks relating to the centers. The calculation of value in use is most sensitive to the assumptions on revenue growth rate and costs of revenue used to extrapolate cash flows as well as the factors used in computing Terminal Value. The growth rate used for terminal value computation is 2%.

Sensitivity to Changes in Assumptions
With regard to the assessment of the value in use, management believes that no reasonably possible change in any of the key assumptions above would cause the carrying value of the goodwill to materially exceed its recoverable amount.

7. LONG TERM PREPAYMENTS

This represents prepayments relating to additional rent paid in advance. This mainly includes additional rent paid in respect of a piece of land in Dubai where the Company is currently operating a fitness center. The current lease agreement is due to expire in 2029 and the Company is making annual payments under this agreement. The Company paid SAR 9.32 million, addition as advance to secure the lease for a further period of 15 years after the expiry of the said agreement in 2029. Further, the remaining prepayment of SAR 1.2 million relates to advance rent of SAR 6 million which was paid in 2016 for 5 years, for fitness center land located in Riyadh for lease ending in 2021.

8. PREPAYMENTS AND OTHER ASSETS

	2018	2017
Prepaid expenses:		
- Rent	**46,279,515**	41,580,914
- Housing	**4,173,211**	4,502,607
- Iqama, work permit and others	**10,692,499**	5,304,694
- Current portion of long term prepayment	**1,200,000**	1,200,000
	62,345,225	52,588,215
Advances to suppliers and contractors (Note 8.1)	**51,527,462**	49,317,116
Consumables	**14,564,979**	13,231,143
Initial public offering cost recoverable from existing shareholders (Note 8.2)	--	175,000
Other assets (Note 8.3)	**3,210,762**	2,603,818
Provision for doubtful balances (Note 8.4)	**(1,231,618)**	(1,231,618)
	1,979,144	1,372,200
	130,416,810	116,683,674

8.1 Movement in provision for advance to suppliers and contractors is as follows:

	2018	2017
Balance at the beginning of the year	--	223,948
Reversal for the year	--	(223,948)
Balance at the end of the year	--	--

8.2 This represented consultancy fees and other similar expenses incurred in relation to the Initial Public Offering (IPO) of the Company, agreed to be borne by the shareholders. During the year, the Company incurred further cost of SAR 8.13 million (December 2017: SAR 3.87 million) in this respect which has been fully recovered through;

a) deduction of SAR 0.71 million from dividends; and
b) funds provided by existing shareholders out of the proceeds of IPO.

The unpaid invoices of IPO costs included in accrued expenses amounts to SAR 1.86 million as of 31 December 2018 and will be paid by the Company out of the amounts received from shareholders as explained above.

8.3 It includes investment in a subsidiary of SAR 0.048 million that has not been consolidated because of the immateriality of the balances involved.

8.4 Movement in provision for doubtful balances of other assets is as follows:

	2018	2017
Balance at the beginning of the year	**1,231,618**	1,680,618
Reversal for the year	--	(449,000)
Balance at the end of the year	**1,231,618**	1,231,618

9. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties of the Company comprise of its shareholders having control or significant influence, unconsolidated subsidiary company and key management personnel. The transactions with related parties are carried out in ordinary course of business and are based on terms mutually agreed between the parties. In addition, the Company has also disclosed its transactions and balances with companies under common directorship.

During the period, the significant transactions with these related parties are as follows:

	2018	2017
Remuneration of directors and key management personnel	**13,862,056**	17,272,172
One off bonus and end of service benefits paid to exiting vice-Chairman, CEO and other key management personnel in Q4 2018	**22,984,445**	--
Lease rentals paid to a shareholder	**3,400,000**	3,400,000
Initial public offering cost recovered / recoverable from shareholders (Note 8.2)	**8,136,185**	3,870,154
Purchase of sports equipment from companies where shareholders had interest:		
- Sporta Spa and Fitness Equipment	**4,289,720**	1,526,257
Sales to companies under common directorship:		
- Etihad Etisalat Company (Mobily)	--	2,888,700
- The Mediterranean and Gulf Cooperation (MEDGULF)	**633,350**	940,165
Sales to companies where shareholders had interest:		
- Al Sagri Holding	**103,537**	250,152
Proceeds from disposal of sports equipment to Sporta Spa and Fitness Equipment	**957,977**	324,700
Custom clearance services received from Skat logistics	**2,178,706**	5,695,970
Car rental services received from Theeb – rent a car	**1,241,993**	711,470
Construction services received from Mohret Al Khair Contracting Co.	**3,297,315**	3,059,904
Construction services received from Fidwah Contractor	**5,927,597**	683,387

The above transactions resulted in the following balances with these related parties:

	2018	2017
Due from a related party		
Fitness Time For Trading Company Limited	--	35,450
Advances to related parties included in prepayments and other assets		
Skat Logistics	**84,101**	419,583
Fidwah Contractor	**880,045**	438,453
Mohret Al Khair Contracting Co.	**594,464**	--
Sporta Spa and Fitness Equipment	**2,119,894**	751,779
	3,678,504	1,609,815

9. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

Payables to related parties included in accounts payable

	2018	2017
Mohret Al Khair Contracting Co.	--	268,556

Receivable from companies where shareholders had interest, included in trade receivables

	2018	2017
- Al Sagri Holding	--	7,125

Receivable from companies under common directorship, included in trade receivables

	2018	2017
- Etihad Etisalat Company (Mobily)	--	197,330
- The Mediterranean and Gulf Cooperation (MEDGULF)	74,869	--
	74,869	197,330

10. TRADE RECEIVABLES

	2018	2017
Subscriptions and membership receivables	**16,904,420**	8,159,607
Rentals receivables	**8,115,568**	3,148,549
	25,019,988	11,308,156
Allowance for impairment (Note 10.1)		
- Subscriptions and membership receivables	**(212,488)**	(625,976)
- Rentals receivables	**(4,400,459)**	(1,759,497)
	(4,612,947)	(2,385,473)
	20,407,041	8,922,683

10.1 Movement in allowance for impairment in trade receivables is as follows:

	2018		2017	
	Subscription and membership receivables	Rental receivables	Subscription and membership receivables	Rental receivables
Balance at beginning of the year	**625,976**	**1,759,497**	3,812,679	911,270
(Reversal) / charge for the year	**(413,488)**	**2,640,962**	(2,876,222)	848,227
	212,488	**4,400,459**	936,457	1,759,497
Write-off against provision	--	--	(310,481)	--
Balance at end of the year	**212,488**	**4,400,459**	625,976	1,759,497

11. SHORT TERM INVESTMENT

This represented short term investment of SAR Nil (31 December 2017: SAR 17 million carried mark up at the rate of 2.55% per annum).

12. CASH AND BANK BALANCES

	2018	2017
Cash in hand	**2,159,890**	2,864,226
Cash at bank – current accounts	**17,255,491**	53,157,747
	19,415,381	56,021,973

13. SHARE CAPITAL

The share capital of the Company is SAR 523.8 million (31 December 2017: SAR 523.8 million) divided into 52.3 million (31 December 2017: 52.3 million) shares with a nominal value of SAR 10 each. Out of the total issued capital, 30% of the shares are traded on Saudi Stock Exchange with effect from 10 September 2018.

14. STATUTORY RESERVE

In accordance with Regulations for Companies in Saudi Arabia 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. However, the statutory reserve can be used for meeting the Company's losses or for increasing its capital.

15. LOANS AND BORROWINGS

The Company has credit facilities from local banks in the form of short-term and long-term loans, letters of credit and letters of guarantee.

The following amounts are outstanding in relation to these facilities:

	2018	2017
Non-current liabilities		
Non-current portion of long term loans	**376,323,389**	366,151,163
Current liabilities		
Current portion of long term loans	**107,853,383**	76,493,562
Total loans and borrowings	**484,176,772**	442,644,725

Terms and repayment schedule

The terms and conditions of outstanding loans are as follows

	Currency	Nominal interest rate	Year of maturity	2018	2017
Bank loans - unsecured					
- fixed commission rates	SAR	4.17% to 5.17%	2020 to 2023	**241,736,572**	297,504,460
- variable commission rates	SAR	(SIBOR+1.5%) to (SIBOR + 2%)	2022 to 2024	**242,440,200**	145,140,265
Total				484,176,772	442,644,725

15. LOANS AND BORROWINGS (CONTINUED)

The outstanding balance of accrued financial costs as at 31 December 2018 is SAR 0.15 million (31 December 2017: SR 0.38 million) which is included in accrued expense. In addition, the company has unutilized loan facilities from local banks of SAR 127.42 million expiring in 2019 and renewable as per the terms of agreement.

16. DEFINED BENEFIT OBLIGATION – EMPLOYEE BENEFITS

	2018	2017
Present value of defined benefit obligation	27,426,552	23,930,307

Movement in the present value of the defined benefit obligation is as follows:

	2018	2017
Balance at beginning of the year	**23,930,307**	17,499,216
Benefits paid during the year	**(12,386,904)**	(635,747)
Current service costs and interest	**13,683,714**	6,141,941
Remeasurement of actuarial losses recognized in OCI	**2,199,435**	924,897
Balance at the end of year	**27,426,552**	23,930,307

Expense recognized in the statement of profit or loss

	2018	2017
Current service cost	**6,723,682**	5,540,594
Past service cost	**6,312,637**	--
Interest on obligation	**647,395**	601,347
	13,683,714	6,141,941

The amounts recognised in the statement of profit or loss have been allocated as follows:

	2018	2017
Costs of revenue (Note 23.1)	**5,777,412**	4,623,316
Advertising and marketing expenses (Note 24.2)	**157,349**	144,365
General and administrative expenses (Note 25.1)	**7,748,953**	1,374,260
	13,683,714	6,141,941

	2018	2017
Key actuarial assumptions		
- Discount rate used	**4.20%**	3.65%
- Future growth in salary	**2.50%**	2.15%

Sensitivity analysis

Reasonable possible changes at the reporting date to one of the relevant actuarial assumption, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

	Increase	Decrease
2018		
Discount rate (1% movement)	**(1,439,344)**	1,606,017
Future salary increase (1% movement)	**1,692,282**	(1,541,626)
2017		
Discount rate (1% movement)	**(1,187,403)**	1,325,878
Future salary increase (1% movement)	**1,419,028**	(1,304,376)

16. DEFINED BENEFIT OBLIGATION – EMPLOYEE BENEFITS (CONTINUED)

Risks associated with defined benefit obligation

Salary increase risk:
The most common type of defined benefit is one where the benefit is linked with final salary. The risk arises when the actual increases are higher than expectation and impacts the liability accordingly.

Withdrawal risk:
The risk of actual withdrawals varying with the valuation assumptions can impose a risk to the benefit obligation. The movement of the liability can go either way.

17. DEFERRED RENT LIABILITY

The Company is allowed rent free period on certain leasehold properties under certain agreements with the respective landlords. These rentals are not yet due and are payable in future periods as per the terms of the agreements, however, for the purpose of recognizing the expense, the rent expense is evenly spread over the agreement period.

These rentals are payable on or before year 2043 and have been classified into current and non-current based on their maturities.

	2018	2017
Non-current liabilities		
Non-current portion of deferred rent liability	**60,891,074**	53,128,602
Current liabilities		
Current portion of deferred rent liability	**3,700,268**	3,167,641
Total deferred rent liabilities	**64,591,342**	56,296,243

18. ACCOUNTS PAYABLE

	2018	2017
Accounts payable to:		
- Trade suppliers	**29,009,922**	32,271,829
- Contractors	**7,544,361**	5,033,241
	36,554,283	37,305,070

19. ACCRUED EXPENSES AND OTHER LIABILITIES

	2018	2017
Accrued expenses	**33,930,177**	48,646,988
Advances from customers	**1,674,121**	1,104,792
	35,604,298	49,751,780

20. DEFERRED REVENUE

	2018	2017
Deferred subscription income from:		
- membership fee	**228,077,153**	250,832,414
- personal training fee	**11,525,253**	6,950,732
	239,602,406	257,783,146
Deferred rental income	**3,715,312**	3,792,449
	243,317,718	261,575,595

The amount of SAR 261.57 million recognised in deferred revenue at the beginning of the year has been recognised as revenue for the year ended 31 December 2018 after adjusting an amount of SAR 11.3 million in respect of VAT on subscriptions sold in prior year. As per decision taken by the management, the VAT on aforesaid subscriptions has not been collected from the customers and the Company has borne the expense by itself.

21. ZAKAT

Provision for Zakat

The principal elements of the Company's Zakat base for the years ended December 31 are as follows:

	2018	2017
Share capital	**523,833,610**	523,833,610
Retained earnings	**154,405,707**	87,689,705
Statutory reserve	**35,429,133**	17,419,888
Adjusted income for the year	**134,512,654**	118,090,289
Non-current assets	**1,438,482,775**	1,306,270,825

The movement in provision for Zakat is as follow:

	2018	2017
Balance at beginning of the year	**4,487,682**	6,613,663
Charge for the year	**3,362,816**	4,487,682
Reversal of prior year over provision	**(1,403,735)**	(1,138,779)
	1,959,081	3,348,903
Paid during the year	**(3,064,171)**	(5,474,884)
Balance at end of the year	**3,382,592**	4,487,682

Status of final zakat assessments

The Company has submitted Zakat returns for the years up to 2017. The Company has received Zakat certificates from the General Authority of Zakat and income tax ("GAZT") for all the years up to 31 December 2017 and has received final assessments from GAZT for the years up to 2015.

22. REVENUE

	2018	2017
Revenue from contracts with customers		
- Subscriptions and membership income	**730,469,425**	676,321,123
- Personal training income	**59,575,917**	45,665,538
- Rental income	**9,901,491**	10,892,267
	799,946,833	732,878,928

The following table explains the nature and timing of the satisfaction of performance obligations by the Company in contracts with customers.

Type of Product	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15 (effective from 1 January 2018)
Subscriptions and membership income	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 customer.	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 amortized as revenue 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 as revenue when PT sessions are conducted.
Rentals 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.

22. REVENUE (CONTINUED)

Disaggregation of revenue from contract with customers

Revenue from contract with customers is further disaggregated based on male and female centers offerings and segmented by primary geographical regions in the table below;

	Subscriptions and membership income		Personal training income		Rental income	
	2018	2017	**2018**	2017	**2018**	2017
Type of customers **Gender wise**						
Male Centers	**612,343,281**	661,763,242	**54,378,653**	45,647,802	**8,945,577**	10,199,906
Female Centers	**118,126,144**	14,557,881	**5,197,264**	17,736	**955,914**	692,361
Total	**730,469,425**	676,321,123	**59,575,917**	45,665,538	**9,901,491**	10,892,267
Geographical markets						
Central Region	**360,149,990**	339,614,166	**29,465,013**	24,756,834	**5,879,482**	6,691,299
Western Region	**240,288,319**	236,184,694	**16,599,878**	10,558,810	**3,472,645**	3,770,460
Eastern Region	**115,780,763**	89,644,292	**10,272,217**	7,596,913	**507,506**	415,208
UAE	**14,250,353**	10.877,971	**3,238,809**	2,752,981	**41,858**	15,300
Total	**730,469,425**	676,321,123	**59,575,917**	45,665,538	**9,901,491**	10,892,267

In addition, the Company separately presents segment information in accordance with IFRS-8 (see note 33).

Assets and liabilities related to contracts with customers

The Company has recognised the following assets and liabilities related to contracts with customers:

	2018	2017
Trade receivables, gross (Note 10)	**25,019,988**	11,308,156
Deferred revenue (Note 20)	**(243,317,718)**	(261,575,595)
	(218,297,730)	(250,267,439)

Deferred revenue relates to advance consideration received from customers for memberships sold at centers, corporates, personal training and rental income which will be recognized in future periods based on performance obligation of the services to be rendered and simultaneous receiving of benefits by the customers.

23. COSTS OF REVENUE

	For the year ended 31 December	
	2018	2017
Salaries and related benefits (Note 23.1)	**173,104,497**	158,620,489
Depreciation (Note 5.1)	**105,667,481**	91,833,372
Rent expenses (Note 30)	**78,130,152**	74,384,368
Water and electricity	**61,429,079**	62,440,267
Cleaning and services expenses	**37,326,509**	33,398,922
Consumables	**11,482,873**	10,132,009
Maintenance and repair	**6,867,296**	7,205,738
Governmental and recruiting expenses	**8,079,084**	5,933,004
Security and safety	**3,922,619**	2,845,954
Stationery	**2,210,047**	1,707,550
Telecommunications and subscriptions	**143,829**	332,097
Others	**6,249,112**	5,645,325
	494,612,578	454,479,095

23.1 This includes defined benefits obligation – employee benefits amounting to SAR 5.78 million (31 December 2017: SAR 4.6 million).

24. ADVERTISING AND MARKETING EXPENSES

	For the year ended 31 December	
	2018	2017
Advertising and marketing	**12,647,434**	15,320,257
FC Barcelona license and commercial fees (Note 24.1)	**4,102,033**	7,357,845
Salaries and related benefits (Note 24.2)	**4,660,388**	4,150,576
	21,409,855	26,828,678

24.1 This represents contractual fees incurred in respect of commercial rights and licenses under regional partnership agreement with Football Club Barcelona. The contract has expired on 30 June 2018 and has not been renewed by the Company.

24.2 This includes defined benefits obligation - employee benefits amounting to SAR 0.15 million (31 December 2017: SAR 0.14 million).

25. GENERAL AND ADMINISTRATIVE EXPENSES

	For the year ended 31 December	
	2018	2017
Salaries and related benefits (Note 25.1)	**62,344,490**	45,932,291
Water, electricity and telecommunication	**8,294,052**	6,477,048
Professional fees	**2,793,586**	1,938,469
Depreciation (Note 5.1)	**3,918,507**	3,278,778
Governmental and recruiting expenses	**5,222,205**	1,797,718
Rent expenses (Note 30)	**907,900**	1,056,858
Property and equipment written off (Note 5.3)	**4,787,196**	651,053
Reversal of provision for advances to suppliers and contractors (Note 8.1)	--	(223,948)
Reversal of provision for other assets (Note 8.4)	--	(449,000)
Maintenance, repair and cleaning	**655,825**	693,073
Stationery	**326,676**	402,453
Others	**2,459,771**	3,332,641
	91,710,208	64,887,434

25.1. This includes defined benefits obligation – employee benefits amounting to SAR 7.75 million (31 December 2017: SAR 1.4 million). This further includes SAR 17.70 million of additional expenses recognised during quarter four of current year in relation to one off bonus and end of services obligation paid to exiting vice chairman, CEO and other key management personnel (Note 9).

26. EXPENSES BY NATURE

	For the year ended 31 December 2018				For the year ended 31 December 2017			
	Costs of revenue	**Advertising and marketing expenses**	**General and administrative expenses**	**Total**	Costs of revenue	Advertising and marketing expenses	General and administrative expenses	Total
Salaries and related benefits	173,104,497	4,660,388	62,344,490	**240,109,375**	158,620,489	4,150,576	45,932,291	208,703,356
Depreciation	105,667,481	--	3,918,507	**109,585,988**	91,833,372	--	3,278,778	95,112,150
Rent expenses	78,130,152	--	907,900	**79,038,052**	74,384,368	--	1,056,858	75,441,226
Water, electricity and telephone	61,429,079	--	8,294,052	**69,723,131**	62,440,267	--	6,477,048	68,917,315
Cleaning and services expenses	37,326,509	--	--	**37,326,509**	33,398,922	--	--	33,398,922
Maintenance and repair and cleaning	6,867,296	--	655,825	**7,523,121**	7,205,738	--	693,073	7,898,811
Consumables	11,482,873	--	--	**11,482,873**	10,132,009	--	--	10,132,009
Governmental and recruiting expenses	8,079,084	--	5,222,205	**13,301,289**	5,933,004	--	1,797,718	7,730,722
Security and safety	3,922,619	--	--	**3,922,619**	2,845,954	--	--	2,845,954
Telecommunications and subscriptions	143,829	--	--	**143,829**	332,097	--	--	332,097
Stationery	2,210,047	--	326,676	**2,536,723**	1,707,550	--	402,453	2,110,003
Advertising and marketing	--	12,647,434	--	**12,647,434**	--	15,320,257	--	15,320,257
FCB Barcelona license and commercial fees	--	4,102,033	--	**4,102,033**	--	7,357,845	--	7,357,845
Professional fees	--	--	2,793,586	**2,793,586**	--	--	1,938,469	1,938,469
Reversal of provision advance to supplier and contractor	--	--	--	**--**	--	--	(223,948)	(223,948)
Reversal of provision for other assets	--	--	--	**--**	--	--	(449,000)	(449,000)
Property and equipment written off	--	--	4,787,196	**4,787,196**	--	--	651,053	651,053
Others	6,249,112	--	2,459,771	**8,708,883**	5,645,325	--	3,332,641	8,977,966
	494,612,578	**21,409,855**	**91,710,208**	**607,732,641**	454,479,095	26,828,678	64,887,434	546,195,207

27. FINANCE COSTS

	For the year ended 31 December 2018	2017
Interest on loans and borrowings	**17,763,832**	14,648,648
Bank charges	**3,303,336**	3,687,546
	21,067,168	18,336,194

28. EARNINGS PER SHARE- BASIC AND DILUTED

Earnings per share is calculated by dividing the net profit for the year ended 31 December 2018 and 31 December 2017, by the weighted average number of shares outstanding at the end of the respective year, which consisted of 52.38 million shares as at 31 December 2018 (31 December 2017: 52.38 million shares).

The weighted average number of shares for the year ended 31 December 2018 and 31 December 2017, have been arrived at by taking the effect of increase in the share capital from the beginning of the earliest period presented (i.e. 1 January 2017), in order to comply with the requirements of IAS 33.

Weighted average number of shares

Number of issued shares on 1 January 2017	19,500,000
Effect of increase in share capital	32,883,361
Weighted average number of shares on 1 January 2017	52,383,361

29. COMMITMENTS AND CONTINGENCIES

The Company has capital commitments for contracts for setting up fitness centers amounting to SAR 121.7 million (31 December 2017: SAR 56.7 million) and letter of guarantees issued amounting to SAR 3.17 million (31 December 2017: SAR 4.6 million) against land lease.

Commitments for minimum lease payments under non-cancelable operating leases are as follows:

	2018	2017
Less than one year	**96,732,138**	86,604,638
More than one year and less than five years	**412,852,426**	386,492,569
More than five years	**831,279,036**	872,894,782
	1,340,863,600	1,345,991,989

30. OPERATING LEASE ARRANGEMENTS

These represent rentals payable by the Company for fitness centers and labor accommodation under leases. Operating leases rentals recognized under expenses during the year are as follow:

	2018	2017
Costs of revenue (Note 23)	**78,130,152**	74,384,368
General and administrative expenses (Note 25)	**907,900**	1,056,858
	79,038,052	75,441,226

31. CASH AND CASH EQUIVALENTS

	2018	2017
Short term investment (Note 11)	--	17,000,000
Cash and bank balances (Note 12)	19,415,381	56,021,973
	19,415,381	73,021,973

32. DIVIDEND

On 4 April 2018, the shareholders in their General Assembly meeting approved dividends of SAR 93.51 million for the year ended 31 December 2017 out of which final dividend of SAR 25.42 million was paid on 1 March 2018, while the remaining amount was paid as interim dividends during 2017.

The Board of Directors, in their meetings held on 1 May 2018 and 25 October 2018 proposed interim dividends of SAR 17.52 million, SAR 21.33 million and SAR 28.89 million for the period ended 31 March 2018, 30 June 2018 and 30 September 2018, respectively.

The Board of Directors in their meeting held on 26 February 2019 have recommended final dividend for the year ended 31 December 2018, amounting to SAR 28.18 million, for shareholder's approval in their next General Assembly Meeting.

33. OPERATING SEGMENTS

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision makers. The chief operating decision makers, who are responsible for allocating resources and assessing performance of the operating segment, have been identified as the Executive Management and Board of Directors. The Company's activities consist solely of the provision of high quality health, fitness facilities and personal training services.

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

- Headquarters and central region
- Western region
- Eastern region
- International Region UAE

Segment performance is evaluated based on profit or loss, which in certain respects, is also measured differently from profit or loss in the financial statements.

	Segment				
As at and for year ended 31 December 2018	**Headquarters & Central Region**	**Western Region**	**Eastern Region**	**International Region - UAE**	**Total**
Revenue	**395,494,485**	**260,360,842**	**126,560,486**	**17,531,020**	**799,946,833**
Costs of revenue	**(224,429,671)**	**(173,329,795)**	**(80,238,114)**	**(16,614,998)**	**(494,612,578)**
Gross profit	**171,064,814**	**87,031,047**	**46,322,372**	**916,022**	**305,334,255**
Comprehensive income / (loss)	**100,098,179**	**50,926,015**	**27,105,428**	**(236,612)**	**177,893,010**
Depreciation	**(47,248,431)**	**(40,964,244)**	**(17,868,150)**	**(3,505,163)**	**(109,585,988)**
Total assets	**724,851,190**	**614,475,860**	**217,223,712**	**52,171,245**	**1,608,722,007**
Total liabilities	**685,357,692**	**112,465,927**	**66,592,106**	**30,637,832**	**895,053,557**

33. OPERATING SEGMENTS (CONTINUED)

	Segment				
As at and for year ended 31 December 2017	Headquarters & Central Region	Western Region	Eastern Region	International Region - UAE	Total
Revenue	371,062,299	250,513,964	97,656,413	13,646,252	732,878,928
Costs of revenue	(210,680,642)	(159,626,973)	(67,759,889)	(16,411,591)	(454,479,095)
Gross profit/ (loss)	160,381,657	90,886,991	29,896,524	(2,765,339)	278,399,833
Comprehensive income / (loss)	101,118,620	57,303,106	18,849,383	(3,997,122)	173,273,987
Depreciation	(42,913,444)	(34,887,488)	(14,569,175)	(2,742,043)	(95,112,150)
Total assets	702,529,600	538,885,090	207,486,643	56,033,272	1,504,934,605
Total liabilities	714,780,640	92,395,824	34,782,401	34,032,537	875,991,402

	Market Segments					
	For the year ended 31 December		For the year ended 31 December		For the year ended 31 December	
	2018	2017	2018	2017	2018	2017
	Male Fitness Centers		Female Fitness Centers		Total	
Revenue	**675,667,511**	717,610,950	**124,279,322**	15,267,978	**799,946,833**	732,878,928
Costs of revenue	**(432,243,497)**	(445,924,071)	**(62,369,081)**	(8,555,024)	**(494,612,578)**	(454,479,095)
Gross profit	**243,424,014**	271,686,879	**61,910,241**	6,712,954	**305,334,255**	278,399,833
Comprehensive income	**118,906,850**	167,765,138	**58,986,160**	5,508,849	**177,893,010**	173,273,987
Depreciation	**96,539,530**	93,808,264	**13,046,458**	1,303,886	**109,585,988**	95,112,150

34. DETERMINATION OF FAIR VALUES

Fair values of financial and non-financial assets and liabilities are determined for measurement and/or disclosure purpose on the basis of accounting policies disclosed in the financial statements. At the reporting date, carrying value of the Company's financial and non-financial assets and liabilities reasonably approximate to their fair value.

35. FINANCIAL RISK MANAGEMENT

The Company has exposure to the following risks from financial instruments:

(i) Credit risk;
(ii) Liquidity risk; and
(iii) Market risk.

Risk management framework
The Company's risk governance is manifested in a set of established policies, procedures and controls which uses the existing organisational 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. The Company is exposed to credit, liquidity and market risks.

Risk management structure
A cohesive organisational 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.

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

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.

The risks faced by the Company and the way these risks are mitigated by management are summarised below:

(i) Credit risk

The Company manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally from Company's receivables and balances with banks.

Management of credit risk
The Company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counter-parties, and continually assessing the creditworthiness of counter-parties.

Exposure to credit risk
The table below shows the maximum exposure to credit risk for the components of the statement of financial position.

	31 December 2018	31 December 2017
Financial assets – at amortised cost		
Other assets* *(note 8)*	**3,210,762**	2,778,818
Due from a related party *(note 9)*	**--**	35,450
Trade receivables, gross *(note 10)*	**25,019,988**	11,308,156
Short term investment *(note 11)*	**--**	17,000,000
Bank balances *(note 12)*	**17,255,491**	53,157,747
	45,486,241	84,280,171

** This includes IPO cost recoverable from shareholders amounting to Nil (31 December 2017: SAR 0.175 million) and other receivables amounting to SAR 3.21 million (31 December 2017: SAR 2.603 million).*

Cash and cash equivalents
The Company held balances with banks of SAR 17,255,491 as at 31 December 2018, which represents their maximum exposure on these assets. These balances are held with banks having strong credit ratings. The Company has assessed expected credit losses on bank balances using the life-time approach and have determined that the balances are not impaired.

Trade receivables

The ageing of trade receivables that were not impaired at the reporting date is as follows:

	31 December 2018	31 December 2017
Neither past due nor impaired	**16,293,946**	6,451,372
Past due but not impaired:		
- 1 to 30 days	**1,392,482**	1,753,201
- 31 to 60 days	**649,098**	331,517
- 61 to 90 days	**593,719**	115,205
- 91 to 120 days	**843,815**	271,388
- 121 to 180 days	**96,634**	--
- 181 to 360 days	**537,347**	--
Total trade receivables	**20,407,041**	8,922,683

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Credit risk (continued)

Set out below is the detailed analysis of the credit risk exposure on the Company's trade receivables using a provision matrix as per IFRS 9 effective from 1 January 2018:

31 December 2018	Trade receivables – subscription and membership								
		Day past due							
	Current	1-30 Days	31-60 Days	61-90 Days	91-120 Days	121-180 Days	181-360 Days	>360 Days	Total
Gross carrying amount	14,709,241	684,879	439,094	412,908	17,500	35,000	449,429	156,369	**16,904,420**
Expected credit loss rate	0.1%	0.1%	0.4%	1.1%	1.6%	3.0%	7.7%	100%	
Expected credit loss	(13,409)	(624)	(1,600)	(4,352)	(281)	(1,040)	(34,813)	(156,369)	**(212,488)**
Net carrying amount	14,695,832	684,255	437,494	408,556	17,219	33,960	414,616	--	**16,691,932**

31 December 2018	Trade receivables – rental								
		Day past due							
	Current	1-30 Days	31-60 Days	61-90 Days	91-120 Days	121-180 Days	181-360 Days	>360 Days	Total
Gross carrying amount	1,713,112	779,507	256,340	278,067	1,416,760	865,751	525,320	2,280,711	**8,115,568**
Less: specifically assessed and fully provided	--	(20,318)	(15,802)	(49,665)	(49,665)	(719,013)	(36,378)	(1,405,377)	**(2,296,218)**
Carrying amount assessed for provision matrix	1,713,112	759,189	240,538	228,402	1,367,095	146,738	488,942	875,334	**5,819,350**
Expected credit loss rate	6.7%	6.7%	12 %	18. 9%	39.5%	57.3%	74.9%	100%	
Expected credit loss	(114,998)	(50,962)	(28,934)	(43,239)	(540,499)	(84,064)	(366,211)	(875,334)	**(2,104,241)**
Total allowance for impairment	(114,998)	(71,280)	(44,736)	(92,904)	(590,164)	(803,077)	(402,589)	(2,280,711)	**4,400,459**
Net carrying amount	1,598,114	708,227	211,604	185,163	826,596	62,674	122,731	--	**3,715,109**
Total trade receivables	**16,293,946**	**1,392,482**	**649,098**	**593,719**	**843,815**	**96,634**	**537,347**	--	**20,407,041**

Other current assets
The management believes that the Company is not significantly exposed to credit risk on its other current assets as the balance is not significant. The Company believes that unimpaired amounts that are past due by more than 30 days are still collectible in full based on historical behavior and extensive analysis of customer credit risk.

Geographical concentration of risk of financial assets with credit risk exposure
The Company is not exposed to significant credit risk based on its geographical concentration as the Company's operations are principally based in the Kingdom of Saudi Arabia and all financial assets carrying credit risk are concentrated within the Kingdom of Saudi Arabia except for immaterial balance with a bank in United Arab Emirates.

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

(ii) Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from the inability to sell a financial asset quickly at an amount close to its fair value. The Company limits its liquidity risk by monitoring its funding requirements and ensuring that bank facilities are available.

As at 31 December 2018, current liabilities of the Company has exceeded its current assets by SAR 260.17 million. However, the current liabilities includes SAR 243.32 million of deferred revenue representing subscription fee received in advance, SAR 3.7 million of deferred rentals and SAR 1.67 million of advances from customers, which the Company does not expect and is not legally required to repay as at 31 December 2018. Further, the Company has unutilized short-term banking facility of SR 45 million as of 31 December 2018, which the management can avail in case of any shortfall. Therefore, the Company is not exposed to any significant liquidity risk in the foreseeable future.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2018 based on contractual undiscounted gross cash flows. The contractual maturities of liabilities have been determined based on the remaining period at the statement of financial position date to the contractual maturity date.

31 December 2018	*Within 3 months*	*3 to 12 months*	*1 to 5 Years (SAR)*	*No fixed maturity*	*Total*
Loans and borrowing*	**31,891,930**	**101,637,278**	**408,491,612**	**--**	**542,020,820**
Accounts payables	**36,554,283**	**--**	**--**	**--**	**36,554,283**
Accrued expenses	**33,930,177**	**--**	**--**	**--**	**33,930,177**
	102,376,390	**101,637,278**	**408,491,612**	**--**	**612,505,280**

31 December 2017	*Within 3 months*	*3 to 12 months*	*1 to 5 Years (SAR)*	*No fixed maturity*	*Total*
Loans and borrowing	23,199,347	71,203,737	401,114,929	--	495,518,013
Accounts payables	37,305,070	--	--	--	37,305,070
Accrued expenses	48,646,988	--	--	--	48,646,988
	109,151,405	71,203,737	401,114,929	--	581,470,071

* The loan and borrowing include finance cost of SAR 57.8 million (31 December 2017: SAR 52.87 million).

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

(iii) Market risk

Market risk is the risk that the fair values or future cash flows of the financial instruments will fluctuate due to changes in market variables such as special commission rates and foreign exchange rates.

Interest rate risk

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

	2018	2017
Fixed rate instruments		
Financial liabilities	**241,736,572**	297,504,460
Variable rate instruments		
Financial liabilities	**242,440,200**	145,140,265

Interest rate risk (continued)

A significant portion of the loans and borrowings of the Company is subject to a fixed mark-up rate, hence the Company is not significantly exposed to any changes in the market mark-up rate of fixed rate instruments. Further, these loans and borrowings are carried at amortized cost and hence the Company is not exposed to changes in their fair values.

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 by the amounts shown below. This analysis assumes that all other variables remain constant.

	100 bp increase	100 bp decrease
31 December 2018		
Variable rate instruments	**(3,666,207)**	**3,666,207**
31 December 2017		
Variable rate instruments	(2,689,428)	2,689,428

36. CAPITAL MANAGEMENT

The Company's policy is to maintain a strong capital base to maintain creditor and market confidence and to sustain future development of the business. Management monitors the growth of business, asset quality risks and return on capital as well as the level of dividends to shareholders.

The Board of Directors seek to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The Company monitors capital using a ratio of adjusted net debt to adjusted equity. For this purpose, adjusted net debt is defined as total liabilities, comprising commission-bearing loans and borrowings less cash and cash equivalents. Adjusted equity comprises all components of equity.

37. CORRESPONDING FIGURES

Certain corresponding figures in these financial statements have been rearranged and reclassified, wherever necessary, for better presentation and disclosures. However, impact of these adjustments are not material to these financial statements.

38. APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 26 February 2019.