

**LEEJAM SPORTS COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020  
AND INDEPENDENT AUDITOR'S REPORT**

**LEEJAM SPORTS COMPANY  
(A SAUDI JOINT STOCK COMPANY)  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020**

	<b>PAGE</b>
Independent auditor's report	1 - 4
Statement of financial position	5
Statement of income	6
Statement of comprehensive income	7
Statement of changes in equity	8
Statement of cash flows	9
Notes to the financial statements	10 - 40



## *Independent auditor's report to the shareholders of Leejam Sports Company*

### *Report on the audit of the financial statements*

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#### **Our opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Leejam Sports Company (the "Company") as at 31 December 2020, 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).

#### **What we have audited**

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2020;
- the statement of income for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

#### **Independence**

We are independent of the Company in accordance with the code of professional conduct and ethics, 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.

#### **Our audit approach**

##### **Overview**

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- |                  |   |
|------------------|---|
| Key audit matter | • Impairment assessment of non-financial assets |
|------------------|---|
- 

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.



# Independent auditor's report to the shareholders of Leejam Sports Company (continued)

## 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.

Key audit matter	How our audit addressed the Key audit matter
<p><b>Impairment assessment of non-financial assets</b></p> <p>As at 31 December 2020, the carrying value of property and equipment, right-of-use assets and goodwill amounted to Saudi Riyals 1,447.9 million (2019: Saudi Riyals 1,512 million), Saudi Riyals 771.5 million (2019: Saudi Riyals 840.3 million) and Saudi Riyals 9.4 million (2019: Saudi Riyals 9.4 million), respectively.</p> <p>Goodwill is subject to a mandatory annual impairment test and property and equipment and right-of-use assets are subject to impairment testing where there are internal or external indicators of impairment. Accordingly, management performed a detailed impairment assessment by comparing the recoverable amounts of the cash-generating units (CGUs) against their carrying values to determine that assets are not carried at more than their recoverable amounts.</p> <p>In determining the recoverable amounts, management estimated the value-in-use for the CGUs which was based on a discounted cash flow model. Value-in-use was based on management's view of key internal value driver inputs as well as external market conditions such as future membership subscription prices. It also required management to make estimates of growth rates for future periods and to determine the most appropriate discount rate.</p> <p>Management has concluded that the recoverable amounts of the CGUs exceeded the carrying amounts of the respective CGUs resulting in no impairment loss to be recognized as at 31 December 2020.</p> <p>We considered this as a key audit matter as the assessment of recoverable amounts of the CGUs requires estimation and judgement around revenue growth and discount rates, a significant fluctuation in which may have a significant impact on the financial results of the Company.</p> <p><i>Refer to Notes 4.3, 4.5 and 4.6 to the accompanying financial statements for the accounting policies relating to the impairment of property and equipment, right-of-use assets and goodwill, respectively and also Note 3 for the disclosure of significant accounting estimates and judgments and Note 5, Note 6 and Note 34 for the disclosure of matters related to impairment assessment and other information on property and equipment, right-of-use assets and goodwill.</i></p>	<p>We performed the following procedures:</p> <ul style="list-style-type: none"><li>• Evaluated the appropriateness of management's identification of the CGUs.</li><li>• Obtained an understanding of the design and implementation of key controls over the impairment assessment process comprising impairment indicator identification and estimation of recoverable amounts.</li><li>• Evaluated the reasonableness of management's assumptions and estimates used to determine the recoverable amounts of the CGUs based on a discounted cash flow model. This included:<ul style="list-style-type: none"><li>(i) Considered the reasonableness of the forecasts by comparing the historical results with its forecast. We also discussed with management to understand the basis for the assumptions used in the forecast particularly relating to revenue growth and checked the reasonableness of membership growth from the industry analysis supported by third party reports. We also tested the input data used in the discounted cash flow model to the relevant supporting documentation such as, on a sample basis, checked the lease terms of the CGUs from the respective lease contracts;</li><li>(ii) Assessed the methodology used in the impairment assessment and the reasonableness of the discount rate by engaging our internal valuation expert;</li><li>(iii) Checked the mathematical accuracy and logical integrity of the underlying calculations used in the discounted cash flow model; and</li><li>(iv) Performed sensitivity analysis over key assumptions in the calculation of the value-in-use in order to assess the potential impact of a range of possible outcomes.</li></ul></li><li>• Assessed the adequacy and appropriateness of the related disclosures in the accompanying financial statements.</li></ul>



## *Independent auditor's 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 of the Company (but does not include the financial statements and our auditor's report thereon), which is expected to be made available to us after the date of this auditor's report.

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

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

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

### *Responsibilities of management and those charged with governance for the financial statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, and the applicable requirements of the Regulations for Companies and the 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.

Those charged with governance, i.e. the Audit Committee, is responsible for overseeing the Company's financial reporting process.

### *Auditor's responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

## *Independent auditor's report to the Shareholders of Leejam Sports Company (continued)*

### *Auditor's responsibilities for the audit of the financial statements (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, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, 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 auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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**PricewaterhouseCoopers**

Omar M. Al Sagga  
License Number 369

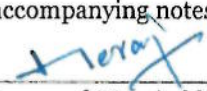
14 February 2021



**LEEJAM SPORTS COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**STATEMENT OF INCOME**  
(All amounts are in Saudi Riyals unless otherwise stated)

		<u>As at 31 December</u>	
	Notes	2020	2019
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment	5	1,447,915,548	1,512,013,931
Right-of-use assets	6	771,477,155	840,332,792
Goodwill	34	9,445,544	9,445,544
Advances to contractors, suppliers and other receivables	7, 36	13,272,419	17,237,780
<b>Total non-current assets</b>		<b>2,242,110,666</b>	<b>2,379,030,047</b>
<b>Current assets</b>			
Prepayments and other assets	8,36	35,328,396	30,465,385
Trade receivables	10	21,245,194	25,480,876
Inventories	36	10,559,104	13,252,682
Cash and cash equivalents	11	258,073,877	68,070,348
<b>Total current assets</b>		<b>325,206,571</b>	<b>137,269,291</b>
<b>Total assets</b>		<b>2,567,317,237</b>	<b>2,516,299,338</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	12	523,833,610	523,833,610
Statutory reserve	13	56,021,218	56,021,218
Retained earnings		84,629,236	141,919,268
<b>Total equity</b>		<b>664,484,064</b>	<b>721,774,096</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	14	348,648,639	293,444,653
Lease liabilities	6	852,863,246	893,772,931
Employees' end of service benefits (EOSB)	15	37,158,533	33,013,250
<b>Total non-current liabilities</b>		<b>1,238,670,418</b>	<b>1,220,230,834</b>
<b>Current liabilities</b>			
Borrowings	14	138,937,826	131,241,548
Lease liabilities	6	67,888,714	62,498,559
Accounts payable	16	52,660,018	28,538,924
Accrued expenses and other liabilities	17	78,516,737	43,878,914
Deferred revenue	18	326,022,298	302,405,529
Provision for Zakat	19	137,162	5,730,934
<b>Total current liabilities</b>		<b>664,162,755</b>	<b>574,294,408</b>
<b>Total liabilities</b>		<b>1,902,833,173</b>	<b>1,794,525,242</b>
<b>Total equity and liabilities</b>		<b>2,567,317,237</b>	<b>2,516,299,338</b>

The accompanying notes (1) to (39) form an integral part of these financial statements.

  
Mohammad Merajuddin

Chief Financial Officer

  
Justin Musgrove

Chief Executive Officer

  
Ali Hamad AlSagri

Chairman of Board of Directors

**LEEJAM SPORTS COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**STATEMENT OF INCOME**  
(All amounts are in Saudi Riyals unless otherwise stated)

	Notes	<u>For the year ended 31 December</u>	
		2020	2019
Revenue	20	659,629,095	944,933,381
Costs of revenue	21	(530,825,619)	(584,738,941)
<b>Gross profit</b>		<b>128,803,476</b>	<b>360,194,440</b>
General and administrative expenses	22,36	(76,914,400)	(74,142,276)
Advertising and marketing expenses	23	(16,473,288)	(19,345,293)
Write off of non-financial assets	25, 36	(43,582,965)	(9,177,947)
Impairment loss on financial assets	10.1	(2,342,315)	(926,958)
Other income, net	24	4,455,976	7,442,544
<b>Operating (loss) / profit</b>		<b>(6,053,516)</b>	<b>264,044,510</b>
Finance costs	26	(52,670,076)	(52,400,524)
<b>(Loss) / profit before zakat</b>		<b>(58,723,592)</b>	<b>211,643,986</b>
Zakat	19	-	(5,723,141)
<b>Net (loss) / profit for the year</b>		<b>(58,723,592)</b>	<b>205,920,845</b>
<b>(Loss) / earnings per share – Basic and diluted</b>	27	<b>(1.12)</b>	<b>3.93</b>

The accompanying notes (1) to (39) form an integral part of these financial statements.

		
_____ Mohammad Merajuddin	_____ Justin Musgrove	_____ Ali Hamad AlSagri
Chief Financial Officer	Chief Executive Officer	Chairman of Board of Directors



**LEEJAM SPORTS COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**STATEMENT OF COMPREHENSIVE INCOME**  
 (All amounts are in Saudi Riyals unless otherwise stated)

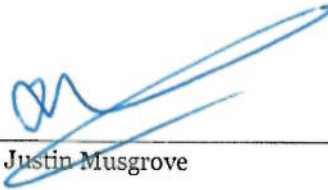
	Notes	For the year ended 31 December	
		2020	2019
Net (loss) / profit for the year		(58,723,592)	205,920,845
<b>Other comprehensive income / (loss)</b>			
<i>Items that will not be reclassified to statement of income in subsequent period</i>			
Gain / (loss) attributable to the re-measurement of employees' EOSB	15	1,433,560	(1,639,897)
<b>Total comprehensive (loss) / income for the year</b>		<b>(57,290,032)</b>	<b>204,280,948</b>

The accompanying notes (1) to (39) form an integral part of these financial statements.



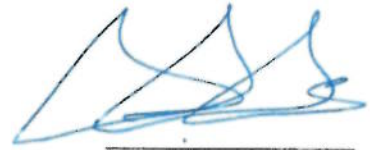
\_\_\_\_\_  
 Mohammad Merajuddin

Chief Financial Officer



\_\_\_\_\_  
 Justin Musgrove

Chief Executive Officer



\_\_\_\_\_  
 Ali Hamad AlSagri

Chairman of Board  
 of Directors

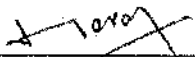
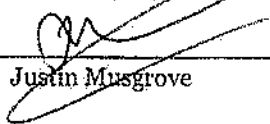
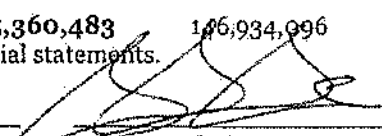
**LEEJAM SPORTS COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**STATEMENT OF CHANGES IN EQUITY**  
(All amounts are in Saudi Arabian Riyals unless otherwise stated)

	Share capital	Statutory reserve	Retained earnings	Total
<b>Balance as at 1 January 2020</b>	<b>523,833,610</b>	<b>56,021,218</b>	<b>141,919,268</b>	<b>721,774,096</b>
Net loss for the year	-	-	(58,723,592)	(58,723,592)
Other comprehensive income	-	-	1,433,560	1,433,560
Total comprehensive loss for the year	-	-	(57,290,032)	(57,290,032)
<b>Balance as at 31 December 2020</b>	<b>523,833,610</b>	<b>56,021,218</b>	<b>84,629,236</b>	<b>664,484,064</b>
<b>Balance at 1 January 2019</b>	523,833,610	35,429,133	154,405,707	713,668,450
Adjustment on initial application of IFRS 16	-	-	(94,465,804)	(94,465,804)
Adjusted balance as at 1 January 2019	523,833,610	35,429,133	59,939,903	619,202,646
Net profit for the year	-	-	205,920,845	205,920,845
Other comprehensive loss	-	-	(1,639,897)	(1,639,897)
Total comprehensive income for the year	-	-	204,280,948	204,280,948
Transfer to statutory reserve	-	20,592,085	(20,592,085)	-
<b>Transaction with owners of the Company</b>				
Dividends declared during the year (Note 29)	-	-	(101,709,498)	(101,709,498)
<b>Balance at 31 December 2019</b>	<b>523,833,610</b>	<b>56,021,218</b>	<b>141,919,268</b>	<b>721,774,096</b>

The accompanying notes (1) to (39) form an integral part of these financial statements.

		
_____ Mohammad Merajuddin	_____ Justin Musgrove	_____ Ali Hamad AlSagri
Chief Financial Officer	Chief Executive Officer	Chairman of Board of Directors

**LEEJAM SPORTS COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**STATEMENT OF CASHFLOWS**  
(All amounts are in Saudi Riyals unless otherwise stated)

		<u>For the year ended 31 December</u>	
	Notes	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
(Loss) / profit before zakat		(58,723,592)	211,643,986
<b>Adjustments for non-cash and other items:</b>			
Depreciation of:			
- property and equipment	5	137,744,940	136,902,386
- right-of-use assets	6	68,024,883	63,321,278
Finance cost	26	52,670,076	52,400,524
Rent concessions	6, 24	(8,116,850)	-
Write off of non-financial assets	25	43,582,965	9,177,947
Impairment of property and equipment	5	6,631,011	-
Gain on disposal of property and equipment		-	87,485
Impairment of trade receivables, net		2,342,315	926,958
Provision for employees' end of service benefits	15	9,090,103	7,938,812
<b>Changes in:</b>			
- Prepayments and other assets		(7,848,860)	11,254,536
- Trade and other receivables		3,418,758	(7,615,725)
- Inventory		2,693,578	1,312,297
- Accounts payable		29,336,274	(16,371,082)
- Accrued expenses and other liabilities		34,637,823	7,850,131
- Deferred revenue		23,616,769	59,177,352
Employee benefits paid	15	(3,511,260)	(3,992,011)
Zakat paid	19	(5,593,772)	(3,374,799)
<b>Net cash generated from operating activities</b>		<u>329,995,161</u>	<u>530,640,075</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to property and equipment, net		(109,829,723)	(207,966,628)
Sale proceeds of assets disposed off		-	141,105
<b>Net cash used in investing activities</b>		<u>(109,829,723)</u>	<u>(207,825,523)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from borrowings	14	182,537,287	83,455,068
Repayments of borrowings	14	(119,637,023)	(142,945,639)
Finance costs paid		(19,776,740)	(22,010,786)
Lease payments	6	(73,285,433)	(90,954,540)
Dividends paid		-	(101,703,688)
<b>Net cash used in financing activities</b>		<u>(30,161,909)</u>	<u>(274,159,585)</u>
<b>Net change in cash and cash equivalents</b>		<u>190,003,529</u>	<u>48,654,967</u>
Cash and cash equivalents at beginning of the year		<u>68,070,348</u>	<u>19,415,381</u>
<b>Cash and cash equivalents at the end of the year</b>	11	<u>258,073,877</u>	<u>68,070,348</u>
<b>Non-cash flow transactions</b>			
Additions to right-of-use assets and corresponding lease liability	6	5,103,653	13,560,240
Borrowing cost capitalized	5,2	2,655,581	4,011,482
Depreciation capitalized	6	5,934,407	9,906,238
Transfers to property and equipment from capital work-in-progress	5	135,360,483	146,934,096
The accompanying notes (1) to (39) form an integral part of these financial statements.			
			
Mohammad Merajuddin	Justin Musgrove	Ali Hamad AlSagari	
Chief Financial Officer	Chief Executive Officer	Chairman of Board of Directors	



**LEEJAM SPORTS COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(All amounts are in Saudi Riyals unless otherwise stated)

**1. CORPORATE INFORMATION**

Leejam Sport Company ("the Company") is a Saudi Joint Stock Company and listed on the Saudi Stock Exchange. 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 (CR) number 4030180323 dated 19 Jumada II 1429H.

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

The Company's operations of managing sports centres are located in the Kingdom of Saudi Arabia (KSA) and United Arab Emirates (UAE).

The address of the Company's registered office is Thumamah Street, P.O. Box 295245, Riyadh 11351, Kingdom of Saudi Arabia.

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

The details of the branches of the Company has been disclosed in note 38 to these financial statements.

**2. BASIS OF PREPARATION**

**2.1. Statement of compliance**

These financial statements have been prepared 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").

**2.2. Historical cost convention**

These financial statements have been prepared on a going concern basis under the historical cost convention, except as disclosed in these financial statements.

**2.3. New standard and amendments adopted by the Company**

The Company has applied the following standard and amendment to existing standards for its reporting from 1 January 2020:

**2.3.1. IFRS 16 – COVID-19-Related Rent Concessions**

The Company has early adopted the COVID-19-Related Rent Concessions – Amendment to IFRS 16 issued on 28 May 2020, effective for annual periods beginning on or after 1 June 2020. The amendment introduces an optional practical expedient for leases in which the Company is a lessee – i.e. for leases to which the Company applies the practical expedient. The Company is not required to assess whether eligible rent concessions that are a direct consequence of the COVID-19 coronavirus pandemic are lease modifications. The Company has applied the amendment prospectively. The amendment has no impact on retained earnings as at 1 January 2020. Also, please refer note 24 to these financial statements.

**2.3.2. Other amendments to standards**

Certain other amendments to standards became applicable for the current reporting period. The Company did not have to change its accounting policies or make retrospective adjustments as a result of adopting these amendments to standards.

**2. BASIS OF PREPARATION (continued)**

**2.4. New IFRS standards, amendments to standards and interpretations not yet adopted by the Company**

Certain new accounting standards, amendments to standards and interpretations have been published by the IASB that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Company, except as disclosed in note 2.3.1 above. These standards are not expected to have a material impact on the Company's financial statements in the current or future reporting periods.

**3. USE OF ESTIMATES, ASSUMPTIONS AND JUDGMENTS**

The preparation of the financial statements in conformity with IFRS requires the use of certain critical estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenue and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and judgments concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and judgments that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve-month period are discussed below:

(i) Going concern

The consequences of Covid-19 materially affected the Company's business since the Company had to close all its fitness centers in the Kingdom of Saudi Arabia from 15 March 2020 to 20 June 2020. Moreover, as per the government instruction, all the fitness centers have been closed subsequent to the year end from 4 February 2021 for a period of 10 days.

Management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Moreover, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as going concern. Therefore, the financial statements are prepared on a going concern basis. Also see Note 32.3 (Liquidity risk).

(ii) Impairment test for non-financial assets, including goodwill (see note 34)

Judgment is required in assessing whether certain factors would be considered an indicator of impairment. Management considers both internal and external information to determine whether there is an indicator of impairment present and, accordingly, whether impairment testing is required. When impairment testing is required, discounted cash flow model is used to determine the recoverable amount of respective cash generating unit (CGU). Significant assumptions used in preparing discounted cash flow model include average revenue growth rates, expected future cash flows, operating costs, capital expenditures and discount rates. These inputs and assumptions are based on management's best estimates and are constructed based upon historic experience and management's best estimate of future trends and performance and take into account anticipated efficiency improvements over the forecasted period.

(iii) Assumptions for employees EOSB provision (see note 15)

The cost of the defined benefit plan and the present value of the obligation are determined using actuarial techniques. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and other factors.

Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. The mortality rate is based on publicly available mortality tables. Those mortality tables tend to change only at intervals in response to demographic changes. Future salary increases are based on expected future inflation rates.

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies applied by the Company in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated in these financial statements.

##### **4.1. Foreign currency translation**

###### **(a) Functional and presentation currency**

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in "Saudi Riyals" ("SAR"), which is the Company's presentation and functional currency.

###### **(b) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in the statement of comprehensive income.

##### **4.2. Business combinations**

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred;
- liabilities incurred to the former owners of the acquired business;
- equity interests issued by the Company;
- fair value of any asset or liability resulting from a contingent consideration arrangement; and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

The Company recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in the statement of income as a bargain purchase.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date. Any gains or losses arising from such re-measurement are recognized in the statement of income.



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3. Property and equipment

(i) Initial recognition and subsequent measurement

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

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

- the cost of materials and direct 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 the construction phase.

(ii) Depreciation

The estimated useful lives of the principal classes of property and equipment are as follows:

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

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

(iii) Subsequent costs

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

(iv) Impairment of non-financial assets

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

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 4.3. Property and equipment (continued)

###### (v) Derecognition

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

##### 4.4. Capital work in progress

Capital work in progress is stated at cost less impairment losses, if any, 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.

##### 4.5. Leases

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

###### The Company as a lessee

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

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

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

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

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

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

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

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

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 4.5. Leases (continued)

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Impairment loss is recognised when the recoverable amount is less than the carrying amount and only assess for impairment when there is any indication of impairment.

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

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

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

##### The Company as a lessor

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

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

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

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

##### 4.6. Goodwill

###### (i) 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 acquiree.
- 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.

###### (ii) Subsequent measurement

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

###### (iii) Impairment of goodwill

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

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



#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **4.7. Financial instruments**

###### **(i) Financial assets**

Classification of financial assets depends on the Company's business model for managing its financial assets and the contractual terms of the cash flows. The Company classifies its financial assets as financial assets measured at amortised cost.

Trade receivables are held to collect contractual cash flows, which are expected to give rise to cash flows representing solely payments of principal and interests, and measured at amortised cost.

###### Initial measurement

Financial assets are measured initially at its fair value plus transaction costs.

###### Impairment

The Company assesses on a forward-looking basis the Expected Credit Losses ("ECL") associated with its financial assets carried at amortised cost. ECL represents credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. The financial assets of the Company subject to ECL are the cash in banks, trade and other receivables. As at 31 December 2020 the impact of ECL on trade receivables is explained in Note 32.1. The ECL impact on the cash in banks is immaterial as the counterparties are reputable financial institutions with sound external credit ratings.

###### De-recognition

A financial asset or a part of a financial asset is de-recognised when:

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

###### **(ii) Financial liabilities**

All financial liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument. Financial liabilities are recognised initially at fair value less any directly attributable transaction cost. Subsequent to initial recognition, these are measured at amortised cost using the effective interest method.

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in respective carrying amounts is recognised in the statement of comprehensive loss. The Company's financial liabilities include trade payables and accrued expenses.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.8. Inventories

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

4.9. Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash in banks and on hand and time deposits with original maturities of less than three months, less restricted cash. Cash and cash equivalents are carried at amortised cost.

4.10. Short-term deposits

Short-term deposits include placements with banks and other short-term highly liquid investments with original maturities of three-months or more but not more than one year from the purchase date.

4.11. Share capital

Ordinary shares are classified as equity.

4.12. Borrowings

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

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

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

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

4.13. Employees' benefits

(i) Short-term employee benefits

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

(ii) Post-employment obligation -- employees' end of service benefits (EOSB)

The Company operates a post-employment benefit plan driven by the local laws of the respective countries in which the Company operates.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**4.13. Employees' benefits (continued)**

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

Current and past service costs related to post-employment benefits are recognized immediately in the statement of income while unwinding of the liability at discount rates used are recorded as finance / interest cost.

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

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

**4.14. Trade and other payables**

Trade payables are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method.

**4.15. Dividend distribution**

Dividend payable is recognized for the amount of any dividend declared being appropriately authorized and no longer at the discretion of the Company, on or before the end of the reporting period but not distributed at the end of the reporting period.

**4.16. Zakat**

The Company is subject to zakat in accordance with the regulations of the General Authority of Zakat and Tax (the "GAZT"). Zakat, for the Company is calculated based on higher of approximate zakat base and adjusted net income and charged to the statement of income. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

Withholding taxes

The Company also withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.17. Revenue

Type of Product	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
(a) 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 customers.	Subscriptions and membership fee are recognized as revenue systematically over the terms of the subscription period. The subscription fee, received in advance, is initially recognized as deferred revenue and subsequently amortised over the subscription period.
(b) Personal training	Performance obligation is satisfied over time based on personal training (PT) sessions. Payment is received in advance.	Personal training fee are recognized as revenue as and when related services are rendered and performance obligation are satisfied. Fee received in advance is initially recognized as deferred revenue and subsequently recognized when PT sessions are conducted or training period ends whichever is earlier.
(c) Rental income	Performance obligation is satisfied over time during the lease period. 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.

Financing component

The Company does not expect to have any contracts where the period between the transfer of the promised services to the customer and payment by the customer exceeds one year. As a consequence, the Company does not adjust any of the transaction prices for the time value of money.

4.18. Costs of revenue and other expenses

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

4.19. Provisions

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



**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**4.20. Current versus non-current classification**

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

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting date; or
- Cash and cash equivalents unless restricted from being exchanged or used to settle a liability for at least twelve months from the reporting date.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is expected to be settled within twelve months after the reporting date; or
- There is unconditional right to defer the settlement of the liability for at least twelve months from the reporting date.

All other liabilities are classified as non-current.

**LEEJAM SPORTS COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(All amounts are in Saudi Riyals unless otherwise stated)

**5. PROPERTY AND EQUIPMENT**

Cost	Land	Buildings (Note 5.4)	Motor vehicles	Sports tools and equipment	Electrical equipment and air conditioners	Computers	Furniture and office equipment	Capital work in progress (Note 5.2)	Total
Balance at 1 January 2020	131,829,182	1,274,542,396	3,116,346	384,245,282	109,683,478	25,619,062	21,033,990	185,348,345	2,135,418,081
Additions	-	26,110,434	-	7,683,935	1,982,082	1,249,922	2,246,670	81,601,641	120,874,684
Transfers	-	98,221,860	-	32,996,805	1,014,373	428,121	2,699,324	(135,360,483)	-
Write offs (note 25)	-	(627,556)	-	(116,843,180)	(838,363)	(79,176)	(183,522)	-	(118,571,797)
Impairment (note 5.3, 24)	-	(15,433,219)	-	-	(1,707,535)	-	-	-	(17,140,754)
Balance at 31 December 2020	131,829,182	1,382,813,915	3,116,346	398,082,842	110,134,935	27,217,929	25,796,462	131,589,503	2,120,580,214
Balance at 1 January 2019	73,251,525	1,139,193,158	3,181,890	364,727,786	90,042,345	20,821,395	15,837,276	204,047,639	1,911,102,984
Additions	58,577,657	40,253,505	-	94,243	1,522,753	3,192,959	740,908	134,420,613	238,808,638
Transfers	-	95,912,315	-	32,914,170	18,155,913	1,686,033	4,451,476	(153,119,907)	-
Disposals	-	-	(65,544)	(1,572,936)	(37,503)	(81,325)	(1,670)	-	(1,758,978)
Write offs	-	(816,582)	-	(11,918,881)	-	-	-	-	(12,735,463)
Balance at 31 December 2019	131,829,182	1,274,542,396	3,116,346	384,245,282	109,683,478	25,619,062	21,033,990	185,348,345	2,135,418,081
<b>Accumulated depreciation</b>									
As at 1 January 2020	-	(368,938,760)	(2,878,178)	(176,390,137)	(53,386,906)	(13,902,099)	(7,908,070)	-	(623,404,150)
Change for the year	-	(84,532,441)	(90,057)	(36,373,011)	(9,972,373)	(3,975,368)	(2,801,690)	-	(137,744,940)
Write offs (note 25)	-	616,403	-	76,792,234	456,127	26,531	83,386	-	77,974,681
Impairment (note 5.3, 24)	-	9,341,818	-	-	1,167,925	-	-	-	10,509,743
Balance at 31 December 2020	-	(443,512,980)	(2,968,235)	(135,970,914)	(61,735,227)	(17,850,936)	(10,626,374)	-	(672,664,666)
Balance at 1 January 2019	-	(286,327,325)	(2,817,459)	(143,871,413)	(43,693,018)	(10,312,666)	(5,566,887)	-	(492,588,768)
Change for the year	-	(83,016,220)	(126,263)	(38,025,803)	(9,726,606)	(3,665,377)	(2,342,117)	-	(136,902,386)
Disposals	-	-	65,544	1,354,348	32,718	75,944	934	-	1,529,488
Write-offs	-	404,785	-	4,152,731	-	-	-	-	4,557,516
Balance at 31 December 2019	-	(368,938,760)	(2,878,178)	(176,390,137)	(53,386,906)	(13,902,099)	(7,908,070)	-	(623,404,150)
<b>Net book values (NBV)</b>									
NBV at 31 December 2020	131,829,182	939,300,935	148,111	172,111,928	48,398,808	9,366,993	15,170,088	131,589,503	1,447,915,548
NBV at 31 December 2019	131,829,182	905,603,626	298,168	297,855,145	56,296,572	11,716,963	13,125,920	185,348,345	1,512,013,931

**LEEJAM SPORTS COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(All amounts are in Saudi Riyals unless otherwise stated)

**5- PROPERTY AND EQUIPMENT (continued)**

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

	2020	2019
Costs of revenue (Note 21)	133,252,233	132,848,172
General and administrative expenses (Note 22)	4,492,707	4,054,214
	<u>137,744,940</u>	<u>136,902,386</u>

5.2. The Capital Work-in-Progress ("CWIP") as of 31 December 2020 represents construction costs and capital equipment amounting to SAR 106.86 million and SAR 24.72 million (2019: SAR 143.84 million and SAR 41.51 million), respectively.

The total borrowing cost capitalized under CWIP during the year amount to SAR 2.66 million (2019: SAR 4.01 million), and the capitalization rate was 2.41% (2019: 4.0%). In addition, interest in respect of lease liability amounting to SAR 5 million (2019: SAR 8.1 million) was capitalized for under construction fitness centres.

5.3. During the current year, the Company has recorded an impairment charge amounting to SAR 6.6 million (2019: Nil) against the closure of one of the fitness center which was located in the Central Region and was constructed on leased land, based upon the request from the landlord.

5.4. Net book value of buildings amounting to SAR 5.8 million (2019: SAR 7.1 million) are constructed on land owned by the Company.

**6. LEASES**

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

	2020	2019
<b><u>Right-of-use assets</u></b>		
Opening balance	840,332,792	900,000,068
Additions during the year	5,103,653	13,560,240
Depreciation		
- charge for the year	(68,024,883)	(63,321,278)
- capitalized for under construction fitness centers	(5,934,407)	(9,906,238)
Closing balance	<u>771,477,155</u>	<u>840,332,792</u>
<b><u>Lease liabilities</u></b>		
Opening balance	956,271,490	991,114,679
Additions during the year	5,103,653	13,560,240
Lease payments for the year	(73,285,433)	(90,954,540)
Rent concessions on lease payments (Note 24)	(8,116,850)	-
Interest expense for the year	35,685,575	34,450,571
Interest capitalized for under construction fitness centers	5,093,525	8,100,540
Closing balance	<u>920,751,960</u>	<u>956,271,490</u>
<b><u>Lease liabilities:</u></b>		
Non-current portion	852,863,246	893,772,931
Current portion	67,888,714	62,498,559
	<u>920,751,960</u>	<u>956,271,490</u>

Expense recognized in the statement of income in relation to leases for the year ended was as follows:

	2020	2019
Depreciation on right-of-use assets (note 6.1)	68,024,883	63,321,278
Interest expense on lease liabilities (note 26)	35,685,575	34,450,571
Total	<u>103,710,458</u>	<u>97,771,849</u>

**LEEJAM SPORTS COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(All amounts are in Saudi Riyals unless otherwise stated)

**6. LEASES (continued)**

**6.1.** Depreciation on right-of-use assets is allocated as follows:

	2020	2019
Costs of revenue (note 21)	67,209,006	62,691,455
General and administrative expenses (note 22)	815,877	629,823
<b>Total</b>	<b>68,024,883</b>	<b>63,321,278</b>

**6.2.** Short-term and low value leases expense for the year amounted to SAR 2.8 million (2019: SAR 2.9 million).

**7. ADVANCES TO CONTRACTORS, SUPPLIERS AND OTHER RECEIVABLES**

	2020	2019
Advances to contractors in respect of construction of fitness centres	10,120,199	14,894,300
Advances to suppliers against purchase of sports equipments	3,152,220	4,318,089
Other receivables	-	1,525,391
	<b>13,272,419</b>	<b>17,237,780</b>

**8. PREPAYMENTS AND OTHER ASSETS**

	2020	2019
<b>Non-financial assets</b>		
Prepayments	15,630,895	19,513,499
Advances to suppliers	15,745,590	7,900,375
	<b>31,376,485</b>	<b>27,413,874</b>
<b>Financial assets</b>		
Other financial assets	3,951,911	3,051,511
	<b>35,328,396</b>	<b>30,465,385</b>

**9. RELATED PARTY TRANSACTIONS AND BALANCES**

Related parties of the Company comprise of its shareholders having control or significant influence, unconsolidated subsidiary company, entities with common directorship 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.

**9.1. Significant related parties' transactions**

	2020	2019
Remuneration of directors and key management personnel	6,797,812	8,856,840
Lease rentals paid to a shareholder	3,400,000	3,400,000
Subscription sold to a company where a shareholder has interest:		
- Al Sagri Holding	143,171	125,774

**9.2. Significant related party's balance – trade receivables**

	2020	2019
Al Sagri Holding	150,988	7,817



**LEEJAM SPORTS COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(All amounts are in Saudi Riyals unless otherwise stated)

**10. TRADE RECEIVABLES**

	2020	2019
Subscriptions and membership receivables	18,839,805	21,157,467
Rentals receivables	10,287,609	9,863,314
	<u>29,127,414</u>	<u>31,020,781</u>
Allowance for impairment (Note 10.1)		
- Subscriptions and membership receivables	(966,469)	(727,201)
- Rentals receivables	(6,915,751)	(4,812,704)
	<u>(7,882,220)</u>	<u>(5,539,905)</u>
	<u>21,245,194</u>	<u>25,480,876</u>

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

	2020	2019
1 January 2020	5,539,905	4,612,947
Charge for the year	2,342,315	926,958
31 December 2020	<u>7,882,220</u>	<u>5,539,905</u>

**11. CASH AND CASH EQUIVALENTS**

	2020	2019
Cash in hand	2,101,053	2,720,766
Cash at bank – current accounts	155,972,824	65,349,582
Short term deposits (note 11.1)	100,000,000	-
	<u>258,073,877</u>	<u>68,070,348</u>

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

**12. SHARE CAPITAL**

The issued share capital of the Company is SAR 523.8 million (31 December 2019: SAR 523.8 million) divided into 52.3 million (31 December 2019: 52.3 million) shares with a nominal value of SAR 10 each.

**13. 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.

**14. BORROWINGS**

	2020	2019
Non-current portion of long-term borrowings	348,648,639	293,444,653
Current portion of long-term borrowings	138,937,826	131,241,548
<b>Total</b>	<u>487,586,465</u>	<u>424,686,201</u>

The movement in borrowings was as follows:

	2020	2019
1 January	424,686,201	484,176,772
Receipts during the year	182,537,287	83,455,068
Repayments during the year	(119,637,023)	(142,945,639)
31 December	<u>487,586,465</u>	<u>424,686,201</u>

**LEEJAM SPORTS COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(All amounts are in Saudi Riyals unless otherwise stated)

**14. BORROWINGS (continued)**

All borrowings are under Islamic mode of financing. The following amounts are outstanding relating to each facility:

	2020	2019
Murabaha facility	252,586,465	229,686,201
Tawarruq facility	235,000,000	195,000,000
<b>Total</b>	<b>487,586,465</b>	<b>424,686,201</b>

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. As at 31 December 2020, the Company had unutilized bank financing facilities amounting to SAR 257.4 million (31 December 2019: SAR 125 million) to manage its short-term and long-term liquidity requirements and for construction of the fitness centers. All borrowings are denominated in Saudi Riyals and bear financial charges at market interest rates. The facilities have been secured by the Company by a joint and several guarantee from certain shareholders of the Company.

The above borrowings and facilities include certain covenants which require the Company to maintain certain levels of current and leverage ratios and certain restriction on dividend distribution and also notify the bank of any breach or probable breach immediately. The Company was not in compliance related to Debt Service Coverage Ratio at 31 December 2020 and has taken waiver letters in this regard from the respective banks.

**15. EMPLOYEES' END OF SERVICE BENEFITS (EOSB)**

Movement in the present value of employees' end of service benefits (EOSB) was as follows:

	2020	2019
Balance at beginning of the year	33,013,250	27,426,552
Benefits paid during the year	(3,511,260)	(3,992,011)
Expense recognized in the statement of income (note 15.1)		
Current service costs	8,318,209	6,802,490
Past service costs	-	76,258
Interest on obligation	771,894	1,060,064
	9,090,103	7,938,812
(Gain) / loss attributable to the re-measurement of employees' end of service benefits recognized in OCI	(1,433,560)	1,639,897
Balance at the end of year	<b>37,158,533</b>	<b>33,013,250</b>

**15.1. Expense recognized in the statement of income**

The amounts recognised in the statement of income have been allocated as follows:

	2020	2019
Costs of revenue	7,939,597	5,354,858
Advertising and marketing expenses	28,649	185,369
General and administrative expenses	1,121,857	2,398,585
	<b>9,090,103</b>	<b>7,938,812</b>

**15.2. Key actuarial assumptions**

	2020	2019
- Discount rate used	2.11%	2.50%
- Future growth in salary	2.11%	2.00%

**LEEJAM SPORTS COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
 (All amounts are in Saudi Riyals unless otherwise stated)

**15. EMPLOYEES' END OF SERVICE BENEFITS (continued)**

**15.3. Sensitivity analysis**

A quantitative sensitivity analysis for significant assumptions on the end of service benefit liability as at 31 December 2020 and 2019 is shown below.

	Increase	Decrease
<b>2020</b>		
Discount rate (1% movement)	(2,639,978)	4,380,787
Future salary (1% movement)	1,812,059	(2,741,421)
<b>2019</b>		
Discount rate (1% movement)	(1,768,736)	1,982,879
Future salary increase (1% movement)	2,055,022	(1,865,153)

The sensitivity analyses are based on a change in a significant assumption, keeping all other assumptions constant as at the reporting date.

**15.4 The maturity profile of the obligation was as follows:**

	2020	2019
1 year	5,262,164	5,098,597
2 year to 5 years	15,252,275	13,480,479
More than 5 years	21,964,339	19,567,101
	<u>42,478,778</u>	<u>38,146,177</u>

**15.5 The weighted average duration of the plan was 5.91 years as at 31 December 2020 and 2019.**

**16. ACCOUNTS PAYABLE**

	2020	2019
Trade suppliers	41,507,087	12,170,812
Contractors in respect of construction of fitness centres	11,152,931	16,368,112
	<u>52,660,018</u>	<u>28,538,924</u>

**17. ACCRUED EXPENSES AND OTHER LIABILITIES**

	2020	2019
Accrued expenses		
- Salaries and other employee benefits	28,461,107	17,836,590
- Utilities	13,990,471	8,361,345
- Others	15,136,908	13,766,723
	<u>57,588,486</u>	<u>39,964,658</u>
Value added tax (VAT) payable	16,534,877	729,042
Advances from customers	4,393,374	3,185,214
	<u>78,516,737</u>	<u>43,878,914</u>

**18. DEFERRED REVENUE**

	2020	2019
Deferred subscription income from:		
- membership fee	305,498,646	284,855,055
- personal training fee	17,586,443	14,582,277
	<u>323,085,089</u>	<u>299,437,332</u>
Deferred rental income	2,937,209	2,968,197
	<u>326,022,298</u>	<u>302,405,529</u>

**LEEJAM SPORTS COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(All amounts are in Saudi Riyals unless otherwise stated)

**19. PROVISION FOR ZAKAT**

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

	2020	2019
Share capital	523,833,610	523,833,610
Retained earnings	84,629,236	141,919,268
Statutory reserve	56,021,218	56,021,218
Adjusted net (loss) / income for the year	(34,824,420)	226,524,862
Non-current assets	2,242,110,666	2,379,030,047

The movement in provision for zakat is as follow:

	2020	2019
Balance at beginning of the year	5,730,934	3,382,592
Charge for the year	-	5,723,141
Paid during the year	(5,593,772)	(3,374,799)
Balance at end of the year	137,162	5,730,934

**19.1 Adjusted net (loss) / income**

	Note	2020	2019
(Loss) / profit before zakat for the year		(58,723,592)	211,643,986
Provision for employees' EOSB	15.1	9,090,103	7,938,812
Impairment of financial assets	24	6,631,011	-
Provision for impairment of trade receivables	10	2,342,315	926,958
Others		5,835,743	6,015,106
Adjusted net (loss) / income for the year		(34,824,420)	226,524,862

**19.2 Status of final zakat assessments**

The Company has submitted its zakat returns for the years up to 2019. The Company has received zakat certificates from the General Authority of Zakat and Income tax ("GAZT") for all the years up to 31 December 2019 and has received final assessments from GAZT for the years up to 2015.

**20. REVENUE**

	2020	2019
Revenue from contracts with customers		
- Subscriptions and membership income	581,223,075	845,262,604
- Personal training income	69,857,070	87,736,345
- Rental income	5,718,540	9,076,293
- Others	2,830,410	2,858,139
	659,629,095	944,933,381



**LEEJAM SPORTS COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(All amounts are in Saudi Riyals unless otherwise stated)

**20. 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:

Type of customers	Subscriptions and membership income		Personal training income		Rental income	
	2020	2019	2020	2019	2020	2019
<b>Gender wise</b>						
Male Centers	436,986,159	641,872,736	50,189,203	66,935,049	4,524,401	7,301,499
Female Centers	144,236,916	203,389,868	19,667,867	20,801,296	1,194,139	1,774,794
<b>Total</b>	<b>581,223,075</b>	<b>845,262,604</b>	<b>69,857,070</b>	<b>87,736,345</b>	<b>5,718,540</b>	<b>9,076,293</b>
<b>Geographical markets</b>						
Central Region	271,828,046	411,945,950	33,163,098	41,764,111	3,443,851	5,311,679
Western Region	215,116,487	281,556,887	22,181,495	27,521,817	2,114,806	3,224,765
Eastern Region	84,701,744	137,305,948	10,735,188	14,140,965	152,925	515,218
UAE	9,576,798	14,453,819	3,777,289	4,309,452	6,958	24,631
<b>Total</b>	<b>581,223,075</b>	<b>845,262,604</b>	<b>69,857,070</b>	<b>87,736,345</b>	<b>5,718,540</b>	<b>9,076,293</b>

In addition, the Company separately presents segment information. See note 30.

**Assets and liabilities related to contracts with customers**

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

	2020	2019
Trade receivables, gross (Note 10)	29,127,414	31,020,781
Deferred revenue (Note 18)	(326,022,298)	(302,405,529)
	<b>(296,894,884)</b>	<b>(271,384,748)</b>

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. Significant portion of deferred revenue will be recognised as revenue in the next twelve months.

**21. COSTS OF REVENUE**

	2020	2019
Salaries and related benefits	179,163,403	213,657,952
Depreciation		
– property and equipment (Note 5.1)	133,252,233	132,848,172
– right-of-use assets (Note 5.1)	67,209,006	62,691,455
Utilities	58,407,197	70,472,394
Cleaning and services	37,377,822	46,874,448
Government and recruiting expenses	19,243,849	15,623,780
Maintenance and repair	12,363,548	11,210,648
Consumables	8,897,038	12,596,285
Security and safety	5,586,782	6,350,073
Stationery	3,027,791	2,898,457
Others	6,296,950	9,515,277
	<b>530,825,619</b>	<b>584,738,941</b>

**LEEJAM SPORTS COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(All amounts are in Saudi Riyals unless otherwise stated)

**22. GENERAL AND ADMINISTRATIVE EXPENSES (ALSO SEE NOTE 36)**

	2020	2019
Salaries and related benefits	34,959,633	42,581,541
Government and recruiting expenses	11,448,953	4,181,579
Water, electricity and telecommunication	7,704,074	7,469,592
Professional fees	5,074,276	4,772,426
Bank charges and commission (Note 36)	4,861,438	5,266,172
Depreciation		
– property and equipment (Note 5.1)	4,492,707	4,054,214
– right-of-use assets (Note 6.1)	815,877	629,823
Maintenance, repair and cleaning	2,057,625	1,399,955
Stationery	1,357,714	613,446
Loss on disposal of property and equipment	-	87,485
Others	4,142,103	3,086,043
	<u>76,914,400</u>	<u>74,142,276</u>

**23. ADVERTISING AND MARKETING EXPENSES**

	2020	2019
Advertising and marketing	12,106,858	13,964,496
Salaries and related benefits	4,366,430	5,380,797
	<u>16,473,288</u>	<u>19,345,293</u>

**24. OTHER (EXPENSES) / INCOME, NET**

Other income includes an amount of SAR 8.11 million (2019: SAR nil) pertaining to rent concessions on lease payments received for the lock-down period on certain leases of the Company. (See note 6)

This also includes impairment loss on property and equipment amounting to SAR 6.6 million (2019: nil). See note 5.

**25. WRITE-OFF OF NON-FINANCIAL ASSETS (ALSO SEE NOTE 36)**

During the current year, the Company's management conducted a comprehensive assessment of sports and other equipment kept at the fitness centres. The assessment included physical count, determining the assets' condition, evaluating the operational status and the potential future economic benefits of these assets. Based on this assessment, the Company has written off an amount of SAR 40.6 million (2019: SAR 8.2 million) as the Company's management determined that there are no future economic benefits that can be availed from the use of those assets.

Further, advances to contractors and suppliers amounting to SAR 3 million (2019: SAR 1 million) were written off.

**26. FINANCE COSTS (ALSO SEE NOTE 36)**

	2020	2019
Profit on borrowings	16,984,501	17,949,953
Finance costs on lease liabilities (Note 6)	35,685,575	34,450,571
	<u>52,670,076</u>	<u>52,400,524</u>

**LEEJAM SPORTS COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(All amounts are in Saudi Riyals unless otherwise stated)

**27. (LOSS) / EARNINGS PER SHARE**

Basic and diluted (loss)/earnings per share is calculated by dividing the net (loss)/profit for the year ended 31 December 2020 and 31 December 2019, by the weighted average number of shares outstanding at the end of the respective year, which consisted of 52.38 million ordinary shares as at 31 December 2020 (31 December 2019: 52.38 million shares).

**28. COMMITMENTS AND CONTINGENCIES**

**28.1. Commitments**

(i) Operating leases

	2020	2019
Payments under short term operating leases recognized as an expense during the year	<u>2,807,469</u>	<u>2,967,291</u>

The amounts recognised in the statement of income for short term leases have been allocated as follows:

	2020	2019
Costs of revenue	2,617,488	2,857,727
General and administrative expenses	<u>189,981</u>	<u>109,564</u>
	<u>2,807,469</u>	<u>2,967,291</u>

(ii) Capital commitments

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

	2020	2019
Minimum lease payments – less than one year	<u>2,807,469</u>	<u>2,967,291</u>

The Company has capital commitments for contracts for setting up fitness centers amounting to SAR 42.6 million (31 December 2019: SAR 70.13 million).

**28.2. Contingent liabilities**

- a) During 2017, the Company purchased a land costing SR 24.31 million. The previous owner of the land has filed a case for the ownership of the land against the Company. Ensuing to the case, the Company has submitted the original land deed and other related documents to the Ministry of Justice for verification and confirmation of the Company's ownership of the land. The Company's management based on the legal advisor's advice is of the view that the Company has valid grounds to prove the beneficial and legal ownership of the land in the Company's name and the matter will be decided in the favor of the Company. Accordingly, no provision has been recorded in these financial statements for the year ended 31 December 2020.
- b) The Company has issued letters of guarantees amounting to SAR 2.9 million (31 December 2019: SAR 2.84 million) against land lease.

**29. DIVIDEND**

The Board of Directors, in their meetings held on 26 February 2019, 12 May 2019, 2 September 2019 and 01 December 2019, recommended the distribution of SAR 28.18 million as final dividend for the year ended 31 December 2018 and SAR 21.05 million, SAR 26.45 million and SAR 26.03 as interim dividend for the periods ended 31 March 2019, 30 June 2019 and 30 September 2019, respectively.

The shareholders approved the final dividend for the year ended 31 December 2018 in the Annual General Meeting held on 7 May 2019.

**LEEJAM SPORTS COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(All amounts are in Saudi Riyals unless otherwise stated)

**30. 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:

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

As at and for year ended 31 December 2020	Geographical Segments				Total
	Central Region	Western Region	Eastern Region	International Region – UAE	
Revenue	311,265	239,413	95,590	13,361	659,629
Costs of revenue	(231,226)	(205,119)	(78,147)	(16,334)	(530,826)
Gross profit	80,039	34,294	17,443	(2,973)	128,803
Impairment of non- financial assets	(6,631)	-	-	-	(6,631)
Write-off of non- financial assets	(22,712)	(10,941)	(9,220)	(710)	(43,583)
<b>As at and for year ended 31 December 2019</b>					
Revenue	461,880	312,303	151,962	18,788	944,933
Costs of revenue	(254,693)	(226,469)	(87,595)	(15,982)	(584,739)
Gross profit	207,187	85,834	64,367	2,806	360,194
Write-off of non- financial assets	(8,263)	(662)	(253)	-	(9,178)

	Market Segments					
	Amount in SAR in '000'					
	Male Fitness Centers for the year ended 31 December		Female Fitness Centers for the year ended 31 December		Total for the year ended 31 December	
	2020	2019	2020	2019	2020	2019
Revenue	493,798	718,244	165,831	226,689	659,629	944,933
Costs of revenue	(394,457)	(451,828)	(136,369)	(132,911)	(530,826)	(584,739)
Gross profit	99,341	266,416	29,462	93,778	128,803	360,194
Depreciation Comprehensive (loss) / income	(14,260)	161,630	(492)	72,777	(14,752)	234,407
Unallocated head office costs:					(42,538)	(30,126)
- property & equipment	(94,139)	(98,267)	(39,113)	(34,581)	(133,252)	(132,848)
- right-of-use assets	(48,536)	(48,165)	(18,673)	(14,526)	(67,209)	(62,691)

**LEEJAM SPORTS COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
 (All amounts are in Saudi Riyals unless otherwise stated)

**31. FINANCIAL INSTRUMENTS**

**31.1. Categories of financial instruments**

The Company holds the following financial instruments:

	Note	2020	2019
<b><u>Financial assets measured at amortised cost</u></b>			
Trade receivables	10	21,245,194	25,480,876
Cash and cash equivalents	11	258,073,877	68,070,348
Others*	8	3,951,911	3,051,511
<b><u>Financial liabilities measured at amortised cost</u></b>			
Lease liabilities	6	920,751,960	956,271,490
Borrowings	14	487,586,465	424,686,201
Accounts payable	16	52,660,018	28,538,924
Accrued expenses	17	57,588,486	39,964,658

\* Others includes employee loan receivables, refundable deposits and other receivables.

**32. FINANCIAL INSTRUMENTS – RISK MANAGEMENT**

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.

**(i) Risk management structure**

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

**(ii) 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.

**(iii) 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 Company has exposure to the following risks from financial instruments:

- a) Credit risk;
- b) Market risk; and
- c) Liquidity risk

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

**32.1. Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and will cause the other party to incur a financial loss. Credit risk arises principally from Company's receivables and balances with banks.



**LEEJAM SPORTS COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(All amounts are in Saudi Riyals unless otherwise stated)

**32. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (continued)**

**32.1. Credit risk (continued)**

**(i) 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.

**(ii) Exposure to credit risk**

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

	Note	2020	2019
<b>Financial assets – at amortised cost</b>			
Trade receivables, net	10	21,245,194	25,480,876
Bank balances	11	255,972,824	65,349,582
Others*	8	3,951,911	3,051,511
		<u>281,169,929</u>	<u>93,881,969</u>

\* Others includes employee loan receivables, refundable deposits and other receivables.

**a. Cash and cash equivalents**

The Company held balances with banks of SAR 255 million as at 31 December 2020, which represents their maximum exposure on these assets. These balances are held with banks having strong credit ratings. While cash and cash equivalents are also subject to the expected credit loss (ECL) requirements of IFRS 9, the identified ECL was immaterial.

**b. Trade receivables**

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

Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Before accepting any new credit customer, the Company uses an internal credit review system to assess the potential customer's credit quality and defines credit limits by customer.

No interest is charged on trade receivables balances that are overdue. The overdue amounts are constantly monitored by the management and a provision towards expected credit loss is made in the books if required.

The Company has applied IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables based on a provision matrix. The provision matrix takes into account historical credit loss experience and is adjusted for average historical recovery rates. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and is based on the ageing of the days the receivables are past due and the rates as calculated in the provision matrix. On that basis, the loss allowance as at 31 December 2020 and 2019 was determined as follows:

**LEEJAM SPORTS COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(All amounts are in Saudi Riyals unless otherwise stated)

**32. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (continued)**

**32.1. Credit risk (continued)**

**Membership receivables - Corporate customers**

**As at 31 December 2020:**

Ageing	Gross carrying amount	Expected credit loss range (%)	Loss allowance	Specific provision	Total
Within the credit period	17,788,968	0.00%	-	-	-
1-180 days past due	84,410	0.1 - 1.3%	37	-	37
181- 365 days past due	966,432	4.3% - 87.1%	-	966,432	966,432
<b>Total</b>	<b>18,839,805</b>		<b>37</b>	<b>966,432</b>	<b>966,469</b>

**As at 31 December 2019:**

Within the credit period	17,545,867	0.00%	-	-	-
1-180 days past due	2,419,806	0.1% - 4.6%	9,923	-	9,923
181- 365 days past due	1,172,405	17.3% - 91.4%	697,889	-	697,889
More than 1 year past due	19,389	100%	19,389	-	19,389
<b>Total</b>	<b>21,157,467</b>		<b>727,201</b>	<b>-</b>	<b>727,201</b>

**Rental receivables**

**As at 31 December 2020:**

Ageing	Gross carrying amount	Expected credit loss range (%)	Loss allowance	Specific provision	Total
Within the credit period	504,215	0.00%	-	-	-
1-180 days past due	3,518,463	0.27% - 1.33%	-	1,320,626	1,320,626
181- 365 days past due	1,011,056	1.90% - 68.55%	-	341,250	341,250
More than 1 year past due	5,253,875	100%	607,087	4,646,788	5,253,875
<b>Total</b>	<b>10,287,609</b>		<b>607,087</b>	<b>6,308,664</b>	<b>6,915,751</b>

**As at 31 December 2019:**

Within the credit period	1,693,659	0.00%	-	-	-
1-180 days past due	2,155,814	0.17% - 0.39%	11,238	90,842	102,080
181- 365 days past due	2,519,450	1.52% - 80.76%	392,522	823,711	1,216,233
More than 1 year past due	3,494,391	100%	791,222	2,703,169	3,494,391
<b>Total</b>	<b>9,863,314</b>		<b>1,194,982</b>	<b>3,617,722</b>	<b>4,812,704</b>

**LEEJAM SPORTS COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(All amounts are in Saudi Riyals unless otherwise stated)

**32. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (continued)**

**32.1. Credit risk (continued)**

**c. Other financial assets**

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

**32.2. 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.

**(i) Interest rate risk**

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

	2020	2019
<b>Fixed rate instruments</b>		
Borrowings	<u>115,333,633</u>	<u>171,037,529</u>
<b>Variable rate instruments</b>		
Borrowings	<u>372,252,832</u>	<u>253,648,572</u>

**(ii) Cash flow sensitivity analysis for variable rate instruments**

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

	<b>100 bp Increase</b>	<b>100 bp Decrease</b>
<b>31 December 2020</b>		
Variable rate instruments	<u>(3,722,528)</u>	<u>3,722,528</u>
<b>31 December 2019</b>		
Variable rate instruments	<u>(2,536,428)</u>	<u>2,536,428</u>

**LEEJAM SPORTS COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(All amounts are in Saudi Riyals unless otherwise stated)

**32. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (continued)**

**32.3. Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from 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.

(i) Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2020 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.

<b>31 December 2020</b>	<b>Within 3 months</b>	<b>3 to 12 months</b>	<b>2 to 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
Borrowings*	35,151,520	117,482,186	368,834,321	-	521,468,027
Accounts payable	52,660,018	-	-	-	52,660,018
Accrued expenses	57,588,486	-	-	-	57,588,486
Lease liabilities	25,901,376	77,704,128	502,521,805	530,277,314	1,136,404,623
	<u>171,301,400</u>	<u>195,186,314</u>	<u>871,356,126</u>	<u>530,277,314</u>	<u>1,768,121,154</u>
<b>31 December 2019</b>	<b>Within 3 months</b>	<b>3 to 12 months</b>	<b>2 to 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
Borrowings *	40,201,003	108,289,255	314,096,725	-	462,586,983
Accounts payable	28,538,924	-	-	-	28,538,924
Accrued expenses	39,964,658	-	-	-	39,964,658
Lease liabilities	25,300,806	75,902,418	515,359,392	704,434,115	1,320,996,731
	<u>134,005,391</u>	<u>184,191,673</u>	<u>829,456,117</u>	<u>704,434,115</u>	<u>1,852,087,296</u>

\*Borrowings include finance cost of SAR 34.90 million (31 December 2019: SAR 37.9 million).

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

	<b>2020</b>	<b>2019</b>
Equity	<u>664</u>	<u>722</u>
Liabilities (excluding deferred revenue)	<u>1,577</u>	<u>1,493</u>
Total capital structure (excluding deferred revenue)	<u>2,241</u>	<u>2,214</u>
Adjusted gearing ratio	<u>70.37%</u>	<u>67.43%</u>
Adjusted current ratio (excluding deferred revenue)	<u>0.96</u>	<u>0.50</u>

As of the reporting date, the management also analyses the liquidity risk as follows:

	<b>2020</b>	<b>2019</b>
	<b>SAR in million</b>	<b>SAR in million</b>
Current financial assets	283	97
Current liabilities excluding deferred revenue	<u>(338)</u>	<u>(272)</u>
Net current financial liability position	<u>(55)</u>	<u>(175)</u>

**LEEJAM SPORTS COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(All amounts are in Saudi Riyals unless otherwise stated)

**32. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (continued)**

**32.3. Liquidity risk (continued)**

As evident from the above net current liability analysis, the liquidity position of the Company has significantly improved as compared to the last year. Further, the Company manages its liquidity risk by ensuring sufficient un-availed borrowing facilities. As of 31 December 2020, unutilized bank borrowing facilities of SAR 45 million were available from multiple banks for managing the working capital requirements. Moreover, the Company generated cash flow from operating activities amounting to SAR 330 million for the year 2020. (2019: SAR 531 million).

In relation to liquidity risk and going concern assessment of the Company, the management has developed comprehensive monthly cash flow projections ensuring the existence of sufficient funds in order to meet the Company's obligations for a period of at least next twelve months from the reporting date.

The management is not aware of any material uncertainty that may cast significant doubt upon the Company's ability to continue as going concern. Therefore, these financial statements have been prepared on a going concern basis. Also see note 3.1.

**33. 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 borrowings less cash and cash equivalents. Adjusted equity comprises all components of equity.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2020 and 2019.

**34. IMPAIRMENT ASSESSMENTS (ALSO SEE NOTE 5 AND NOTE 6)**

As result of Covid-19, all the fitness centers of the Company remained closed from 15 March 2020 to 20 June 2020 and consequently the Company incurred a net loss of SAR 84.7 million during the first half of 2020 which was considered as an impairment indicator. Accordingly, an impairment review has been performed across all cash generating units ("CGUs") by the management of the Company.

During 2016, the Company acquired two fitness centers namely Dwadmi and Alkhaleej with goodwill recognised on the acquisition of these fitness centers amounting to SAR 4.6 million and 4.8 million respectively and these were also tested for impairment.

The recoverable amounts of the CGUs have been determined based on a value-in-use model, using a discounted cash flow analysis. The cash flow projections span over the period of the remaining lease term of the CGUs which ranges from 1 to 24 years.

No impairment loss has been recognised on any of the non-financial assets and goodwill in these financial statements as sufficient headroom was available in respect each CGU as a result of impairment exercise carried by the management of the Company.

The key assumptions made in performing the impairment reviews includes a pre-tax discount rate used at the rate of 10% for all the CGUs and average revenue growth rate up to 8.8% for all the CGUs excluding goodwill. The average revenue growth rate used for CGUs against which goodwill is allocated was 6.9% and 7.2% for Dwadmi and Alkhaleej respectively.



**LEEJAM SPORTS COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(All amounts are in Saudi Riyals unless otherwise stated)

**34. IMPAIRMENT ASSESSMENTS (continued)**

**Assumptions in value-in-use calculation for each CGU**

The assumptions used in the projections for the impairment testing, relate to the average revenue and growth, operating costs, replacement CAPEX and earnings before interest, taxes, depreciation and amortization (EBITDA) and pre-tax discount rate.

For average revenue growth, replacement CAPEX and EBITDA, the assumptions are constructed based upon historic experience and management's best estimate of future trends and performance over the forecasted period.

Discount rate represents the weighted average cost of capital (WACC) of the Company adjusted to reflect specific risks relating to the industry and the country in which the client operates. The discount rate used by the management in the annual impairment exercise performed during the year ended 31 December 2019 was 7.2% and that was adjusted during the current period to reflect risk profile of the industry and the Company after the outbreak of Covid-19.

**Sensitivity analysis**

As at the impairment assessment date, the possible changes in the key assumptions, with all other variables constant, such as increase in discount rate from 10% to 11% and decrease in revenue growth rate by 1% will not result in any impairment loss to be recorded on any of the CGUs including the CGUs where the goodwill was allocated.

**35. SIGNIFICANT EVENT DURING THE YEAR (ALSO SEE NOTE 37)**

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 causing disruptions to businesses and economic activity across the globe. In response to the spread of the Covid-19 in KSA and UAE where the Company operates and its resulting disruptions to the social and economic activities in those markets, Leejam's management has proactively assessed its impacts on its operations and has taken a series of preventive measures, including the creation of on-going crisis management teams and processes, to ensure the health and safety of its employees, customers, consumers and wider community as well.

The consequences of the Covid-19 pandemic have affected the Company's business since all the Company's fitness centers remained closed from 15 March 2020 to 20 June 2020 and consequently the Company incurred a net loss of SAR 84.7 million during the first half of 2020. This resulted in the suspension of sales of subscriptions to the customers as well as the suspension of revenue recognition during the aforementioned period while the Company continues to incur certain fixed and semi-variable expenditures that has impacted the financial performance and cash flows of the Company.

The Company's management has considered potential impacts of the current economic uncertainties and volatility in determination of the reported amounts of the Company's financial and non-financial assets and these are considered to represent management's best assessment based on observable information on the reporting date.

**LEEJAM SPORTS COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
 (All amounts are in Saudi Riyals unless otherwise stated)

**36. COMPARATIVES**

Certain comparative year amounts have been correctly reclassified and represented for the purpose of better presentation. However, the effect of those reclassification was not significant on these financial statements, and therefore third-statement of financial position was not presented. The key reclassifications were as follows:

<b>Reclassification from</b>	<b>Reclassification to</b>	<b>Amount (SAR in million) 2019</b>
<b><u>Statement of financial position</u></b>		
Prepayments and other assets	Inventory – consumables	13.3
Prepayments and other assets	Advances to contractors and suppliers (for construction and procurement of sports equipment) – Non-current assets	15.7
<b><u>Statement of income</u></b>		
General and administrative expenses	Write off of non-financial assets	9.2
Finance cost – Bank charges and commission	General and administrative expenses	5.3
<b><u>Statement of cash flows</u></b>		
Decrease in cash flows from operating activities		14.1
Increase in cash flows from investing activities		8.8
Increase in cash flows from financing activities		5.3

The impact of key reclassifications on the 2018 annual statement of financial position was as follows:

<b>Reclassification from</b>	<b>Reclassification to</b>	<b>Amount (SAR in million) As of 31 December 2018</b>
Prepayments and other assets	Inventory – consumables	14.6
Prepayments and other assets	Advances to contractors and suppliers (for construction and procurement of sports equipment) – Non-current assets	26

**37. SUBSEQUENT EVENTS (ALSO SEE NOTE 35)**

Subsequent to the year ended 31 December 2020, all the fitness centers of the Company in the Kingdom of Saudi Arabia were closed for a period of 10 days starting from 4 February 2021 as per the government instructions.

Based on this announcement of temporary lockdown, the Company, currently, is focused on preserving liquidity and managing cash flow through the financial challenges presented by the lockdown by reducing the discretionary spending, closely managing and monitoring the working capital requirements.

**LEEJAM SPORTS COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(All amounts are in Saudi Riyals unless otherwise stated)

**38. BRANCHES OF THE COMPANY**

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

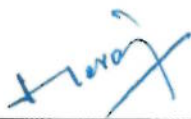
<u>Location</u>	<u>C.R.</u>	<u>Date</u>
Riyadh	1010337986	14/06/1433H
Riyadh	1010439237	11/02/1437H
Riyadh	1010439239	11/02/1437H
Riyadh	1010612788	13/02/1439H
Riyadh	5855346933	22/06/1441H
Riyadh	3350147653	22/06/1441H
Riyadh	1010649568	08/01/1442H
Riyadh	1131308370	14/02/1442H
Riyadh	3400920275	02/03/1442H
Dammam	2050108503	15/05/1437H
Jeddah	4030248720	23/07/1434H
Jeddah	4030180323	19/06/1429H
Jeddah	4030358958	22/10/1440H
Makkah	4031228724	22/10/1440H
Makkah	4031228725	22/10/1440H
Al Madina	4650211820	22/10/1440H
Al Madina	4650211821	22/10/1440H
Najran	5950032239	02/03/1437H
Jizan	5900035652	21/03/1438H
Taif	4032050910	29/01/1438H
Jubail	2055025936	07/08/1438H
Aldiriyah	1010934125	25/05/1439H

**UAE trade licenses:**

<u>Location</u>	<u>C.R.</u>	<u>Date</u>
Dubai Branch	724509	21/03/1436H
Rashidya Branch (Ajman)	78538	21/11/1437H
Ras Al-Khaimah Branch	41352	16/07/1438H

**39. APPROVAL OF FINANCIAL STATEMENTS**

The financial statements have been authorized for issue by the Board of Directors on **13 February 2021**.


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Mohammad Merajuddin  
Chief Financial Officer


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Justin Musgrove  
Chief Executive Officer


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Ali Hamad AlSagri  
Chairman of Board of Directors