

SPORT CLUBS COMPANY
(CLOSED JOINT STOCK COMPANY)

**STANDALONE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
AND INDEPENDENT AUDITOR'S REVIEW REPORT**

SPORT CLUBS COMPANY

(CLOSED JOINT STOCK COMPANY)

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the shareholders of
Sport Clubs Company
(Closed Joint Stock Company)

Riyadh, Kingdom of Saudi Arabia

Report on the Audit of the Financial Statements

Opinion

We have audited the Standalone financial statements of **Sport Clubs Company** A Saudi Closed Joint Stock Company (the "**Company**"), which comprise the Standalone financial position as at 31 December 2022, and the Standalone statements of profit or loss and other comprehensive income, Standalone statement of changes in equity and standalone statement of cash flows for the year then ended. and the notes to the Standalone financial statements, including a summary of significant accounting policies.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Standalone Financial Statements" section of our report. We are independent of the Company in accordance with the professional code of conduct and ethics, that are endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the Standalone financial statements, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

The company prepares a separate set of consolidated financial statements of general purpose for the year ended 31 December 2022 in accordance with International Financial Reporting Standards ("IFRSs") that are endorsed in the Kingdom of Saudi Arabia.

Responsibilities of Management and Those Charged with Governance for the Standalone financial statements

Management is responsible for the preparation and fair presentation of the Standalone financial statements, in accordance with International Financial Reporting Standards ("IFRSs") that are endorsed in the kingdom of Saudi Arabia, and other standards and pronouncements endorsed by SOCPA and Regulations for Companies and the Company's Bylaws, and for such internal control as the management determine is necessary to enable the preparation of Standalone financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Standalone 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 the Management either intend to liquidate the Company or to cease operations or has no realistic alternative but not to do so.

Those Charged with Governance, in particular the Audit Committee, are responsible for overseeing the Company's financial reporting process.

SPORT CLUBS COMPANY
(CLOSED JOINT STOCK COMPANY)
STANDALONE STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022
(SAUDI RIYALS)

	<u>Notes</u>	<u>31 December 2022</u>	<u>31 December 2021</u>
Assets			
Non-current assets			
Property ,Plant and equipment	(5)	382,306,270	379,515,958
Right of use Assets	(6-1)	246,041,463	255,559,009
Investment Property	(7)	-	2,220,706
Intangible assets	(8)	3,446,077	3,762,526
Investment in subsidiary company	(9)	72,562	82,500
Total non-current assets		631,866,372	641,140,699
Current assets			
Inventory	(10)	6,193,824	5,022,048
Trade Receivables	(11)	3,815,482	320,908
Advance payments and other Receivables	(12)	15,407,684	11,060,219
Cash and cash equivalents	(13)	15,895,356	16,135,878
Total current assets		41,312,346	32,539,053
Total assets		673,178,718	673,679,752
Equity and liabilities			
Equity			
Share capital	(14)	104,000,000	104,000,000
Statutory reserve		13,553,709	11,127,558
Retained earnings		16,918,681	288,864
Total equity		134,472,390	115,416,422
Non-current liabilities			
Lease liability non-current portion	(6-2)	285,519,448	294,447,973
Long term loan non-current portion	(15)	81,357,788	109,009,911
Employees' benefits	(16)	15,205,000	15,534,000
Contracts liability non-current portion	(17)	1,430,292	5,045,930
Total non-current liabilities		383,512,528	424,037,814
Current liabilities			
Lease liability - Current Portion	(6-2)	15,739,192	14,992,291
Long term loan – Current Portion	(15)	44,167,530	37,280,346
Account Payables		3,565,532	4,746,105
Contracts liability current portion	(17)	67,924,152	60,644,995
Accrued expenses and other Payables	(18)	23,114,197	16,031,465
Zakat provision	(19)	683,197	530,314
Total current liabilities		155,193,800	134,225,516
Total liabilities		538,706,328	558,263,330
Total equity and liabilities		673,178,718	673,679,752

The accompanying notes (1) to (37) form an integral part of these financial statements

Chairman Ammar Al khudairy	Chief Executive Officer Wael El Merhabi	Financial Manager Abdullah Altahan
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SPORT CLUBS COMPANY
(CLOSED JOINT STOCK COMPANY)
STANDALONE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE
INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022
(SAUDI RIYALS)

	Notes	2022	2021
Revenue	(20)	268,043,244	204,358,263
Cost of revenue	(21)	(197,190,499)	(164,631,924)
Gross profit		70,852,745	39,726,339
Sales and marketing expenses	(22)	(9,183,179)	(5,163,601)
General and administrative expenses	(23)	(15,098,455)	(10,422,149)
Operating Profit		46,571,111	24,140,589
Other income -net	(24)	3,498,354	4,391,297
Finance costs	(25)	(25,113,228)	(16,903,497)
Share of loss from investment in subsidiary		(9,938)	(2,500)
Profit before Zakat		24,946,299	11,625,889
Zakat expenses	(19)	(684,793)	(450,000)
Profit for the year		24,261,506	11,175,889
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Re-measurement loss of employees' benefits		794,462	1,855,403
Other comprehensive income of the year		794,462	1,855,403
Total comprehensive income of the year		25,055,968	13,031,292
Basic and diluted earnings per share (SR)	34	2.33	1.07

The accompanying notes (1) to (37) form an integral part of these financial statements

Chairman Ammar Al khudairy	Chief Executive Officer Wael El Merhabi	Financial Manager Abdullah Altahan
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SPORT CLUBS COMPANY
(CLOSED JOINT STOCK COMPANY)
STANDALONE STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022
(SAUDI RIYALS)

	<u>Share capital</u>	<u>Statutory reserve</u>	<u>Retained earnings</u>	<u>Total</u>
Balance s at 1 January 2022	104,000,000	11,127,558	288,864	115,416,422
Profit of the year	-	-	24,261,506	24,261,506
Other comprehensive income	-	-	794,462	794,462
Total comprehensive income for the year	-	-	25,055,968	25,055,968
Dividends paid	-	-	(6,000,000)	(6,000,000)
Transferred to statutory reserve	-	2,426,151	(2,426,151)	-
Balance as at 31 December 2022	104,000,000	13,553,709	16,918,681	134,472,390
Balance as at 1 January 2021	104,000,000	11,127,558	(12,742,428)	102,385,130
Profit of the year	-	-	11,175,889	11,175,889
Other comprehensive income	-	-	1,855,403	1,855,403
Total comprehensive income of the year	-	-	13,031,292	13,031,292
Balance as at 31 December 2021	104,000,000	11,127,558	288,864	115,416,422

The accompanying notes (1) to (37) form an integral part of these financial statements

Chairman Ammar Al khudairy	Chief Executive Officer Wael El Merhabi	Financial Manager Abdullah Altahan
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SPORT CLUBS COMPANY
(CLOSED JOINT STOCK COMPANY)
STANDALONE STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2022
(SAUDI RIYALS)

	2022	2021
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before zakat	24,946,299	11,625,889
Adjustments:		
Depreciation of Property, Plant and equipment and Right of use assets	57,145,876	50,378,227
Profit from disposal of property and equipment	2,859	(281,589)
Amortization of intangible	189,896	341,877
Provision for employees' benefits	2,438,000	2,437,000
Finance costs	25,113,228	16,903,497
Discounts on rent expenses	(995,922)	(2,324,524)
Share of loss from investment in subsidiary	9,938	2,500
	108,850,174	79,082,877
Changes in working capital:		
Trade Receivables	(3,494,574)	(178,923)
Inventory	(1,171,776)	1,004,947
Advance payments and other current assets	(4,347,465)	381,874
Account Payables	(1,180,573)	12,103,920
Accrued expenses and other Payables	7,082,732	1,517,901
Contracts liability, net	3,663,519	3,954,352
Zakat Paid	(531,910)	(106,033)
Employees' benefits paid	(1,829,934)	(1,086,597)
Cash generated from operating activities	107,040,193	72,466,478
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(37,723,893)	(69,862,075)
Purchase of intangible assets	(353,358)	(913,121)
Proceeds from sale of property and equipment	1,225,471	442,374
Net cash used in investing activities	(36,851,780)	(70,332,822)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of loans	(32,327,733)	(7,462,540)
Proceeds from loans	11,562,794	48,437,825
Payment of lease liability, Net	(35,732,142)	(32,076,615)
Dividends paid	(6,000,000)	-
Payment of Finance costs	(7,931,854)	(3,637,063)
Net cash (used in) / generated from financing activities	(70,428,935)	5,261,607
Net change in cash and cash equivalents	(240,522)	7,395,263
Cash and cash equivalents at the beginning of the year	16,135,878	8,740,615
Cash and cash equivalents at the end of the year (Note 12)	15,895,356	16,135,878

Non-cash transactions:

Additions of property and equipment 838,203 -

The accompanying notes (1) to (37) form an integral part of these consolidated financial statements.

Chairman Ammar Al khudairy	Chief Executive Officer Wael El Merhabi	Financial Manager Abdullah Altahan
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SPORT CLUBS COMPANY

(CLOSED JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

1. ORGANISATION AND ACTIVITIES

Sports Clubs Company (Limited Liability Company) (the “Company” or the “Parent Company”) was established in accordance with the Companies Law in the Kingdom of Saudi Arabia and operates under Commercial Registration No. 1010167892 on 26 Rabi-Al-Thani 1422 H (18 July 2001 G) in Riyadh city.

The main activities of the company are the wholesale and retail trade in sports equipment, tools and clothing, the purchase of lands for the construction of buildings on them and their investment by sale or rent for the benefit of the company, the establishment, management and maintenance of gymnasiums, general contracting for buildings, and electrical, mechanical and electronic works.

In the partners’ meeting held on Rabi’ Al-Awwal 1, 1444 H, corresponding to (September 26, 2022 G), the partners unanimously agreed to convert the legal entity of the company from a limited liability company to a closed Saudi joint stock company while retaining the number, name and date of the commercial registration of the company and its branches, and on 2 Rabi’ Al-Awwal 1444 G corresponding to (27 September 2022 G), The statutory procedures to amend the company’s articles of incorporation and articles of association have been completed.

The head office of the company is located at the following address:

P.O Box 270079-Riyadh 11352

Kingdom of Saudi Arabia

The company also exercises its activities through branches of sports clubs that operate according to the following commercial records for the regions or for each of them separately as follows:

	<u>City / Region</u>	<u>Commercial Registration No</u>	<u>Date of the commercial register</u>
1	Riyadh	1010167892	26/4/1422 H
2	Al-Qassim	1131028467	27/3/1430 H
3	Dammam	2050069185	15/3/1431 H
4	Khamis Mushait	5855346579	26/4/1422 H
5	Hail	3350147174	18/5/1441 H
6	Al-Ahsa	2250064353	18/3/1437 H
7	Jeddah	7003774358	5/9/1438 H
8	Najran	5950032854	15/3/1438 H
9	Hafar Al-Batin	2511108063	4/6/1439 H
10	Tabuk	3550122370	4/6/1439 H
11	Al Badi’ah “ females”	1010460120	1/9/1440 H
12	Medina	4650209419	2/8/1440 H
13	Mecca	4031235157	18/5/1441 H

SPORT CLUBS COMPANY

(CLOSED JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

2. BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organization for Chartered and professional Accountants ("SOCPA") (here and after referred to as "IFRSs").

The preparation of these standalone financial statements in accordance with International Financial Reporting Standards endorsed in the Kingdom of Saudi Arabia requires the use of certain significant accounting estimates. It also requires management to exercise its judgment in applying the Group's accounting policies. The areas involving a high degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4 of the consolidated financial statements.

2.2 Basis of measurement

These financial statements have been prepared on a going concern basis under the historical cost convention except for the employees' benefit obligation which is measured at the present value of future obligations using the projected unit credit method.

2.3 Functional and presentation currency

These financial statements are presented in Saudi Riyals, which is the functional and presentation currency.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Property and equipment

Property, plant and equipment, excluding land and capital work-in-progress, are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Land and capital work-in-progress are stated at cost less impairment losses, if any.

Historical cost includes expenditures directly attributable to the acquisition of an asset, and subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, and only when it is probable that the economic benefits associated with the asset will flow to the company and the cost can be measured reliably.

Depreciation is recognized to write off the cost of assets after deducting their residual value over their useful lives using the straight-line method. The estimated useful lives, residual values and method of depreciation are reviewed at the end of each reporting period, and any changes are accounted for on a prospective basis.

The Company applies the following estimated useful lives to property, plant and equipment:

Assets	Years
buildings	30 (or the lease period, whichever is less, for buildings over rented lands))
Buildings on leased land	The rental period or the estimated useful life, whichever is shorter
Improvements to rented buildings	The rental period or the estimated useful life, whichever is shorter
Machines and equipment	7-10
Furniture	10
Electrical hardware and software	6.66
Vehicles	5

SPORT CLUBS COMPANY

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

Land and capital work in progress are not depreciated.

Stored materials and spare parts with a useful life more than one year are depreciated over their estimated useful lives.

An item of property, plant and equipment is derecognized when it is sold or when no future economic benefits are expected from its continued use or sale. Any gain or loss arising on disposal of an item of property, plant and equipment, which is determined as the difference between the net sales proceeds and the carrying amount of the asset, is recognized in profit or loss.

Capital work in progress

Capital work-in-progress is stated at cost and is not depreciated. Depreciation of capital work-in-progress begins when the assets are ready for their intended use, at that time they will be transferred to property, equipment or investment property. Finance costs incurred on borrowings to finance the construction of a qualifying asset are capitalized over the time period required to complete and prepare the asset for its intended use.

3.2 Lease Contracts

The Company assesses whether a contract is a lease, or contains a lease, at the inception of the contract. The Company recognizes a right-of-use asset and a corresponding lease liability in respect of all lease agreements in which the lessee is, except for short-term leases (defined as leases of 12 months or less) and leases of low-value assets. For these leases, the Company recognizes the lease payments as an operating expense on a straight line basis over the lease term unless there is another systematic basis for the time plan in which the economic benefits from the leased asset are exhausted.

The lease liability is initially measured at the present value of the lease payments not paid at the commencement date, discounted using the rate implicit in the lease. If this rate cannot be easily determined, the Company uses an incremental borrowing rate.

The lease payments included in the measurement of the lease liability include:

- Fixed lease payments (including fixed payments), less any lease incentives.
- Variable lease payments that are dependent on an index or a price, initially measured using the index or price at the commencement date,
- The amount expected to be paid by the lessee under residual value guarantees,
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options, and
- Payment of fines for terminating the lease, if the lease reflects the exercise of the option to terminate the lease.

The lease liability is presented separately in the statement of financial position.

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

The Company re-measures the lease liability (and adjusts against the related right-of-use assets) if:

- The terms of the lease have changed or there has been a change in the assessment of the exercise of the purchase option, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.
- The lease payments have changed due to changes in an index or rate or a change in the expected payment according to the guaranteed residual value, in which case the lease liability is remeasured by discounting the adjusted lease payments using the initial discount rate (unless the lease payments change due to a change in the prevailing interest rate. In this case, a modified discount rate is used.
- The lease is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is re-measured by discounting the modified lease payments using a modified discount rate.

SPORT CLUBS COMPANY

(CLOSED JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

The right-of-use asset includes the initial measurement of the corresponding lease liability, lease payments made on or before the commencement day and any initial direct costs. It is subsequently measured at cost less accumulated depreciation and impairment losses.

The right-of-use asset is amortized over the lease term and the specified useful life, whichever is shorter. If the lease transfers ownership of an identified asset or the cost of the right to use the asset, it reflects that the Company expects to exercise the purchase option, the related right to use asset is amortized over the asset's useful life. Depreciation begins on the start date of the lease.

Right-of-use assets are presented as a separate line item in the statement of financial position.

The Company applies International Accounting Standard No. (36) "Impairment of Assets" to determine whether there has been any impairment in the value of right-of-use assets.

3.3 Intangible Assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight line basis based on the estimated useful lives. The estimated useful life and the amortization method are reviewed at the end of each reporting period, and any changes in estimates are accounted for on a prospective basis.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually or at the reporting date when there is an indication of impairment, either individually or at the cash-generating unit level. The calendar of indefinite lives is reviewed annually to determine whether indefinite lives are still possible. If not, the useful life is changed from indefinite to finite on a prospective basis.

The Company applies the following useful years of amortization to its intangible assets:

Computer Software	5 Years
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3.4 Impairment of tangible and intangible assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the impairment loss (if any). If it is not possible to estimate the recoverable amount of a specific asset, the Company estimates the recoverable amount of the cash-generating unit to which the same asset belongs. When reasonable and consistent bases of distribution can be determined, the common assets are also allocated to cash-generating units, or they are allocated to the smallest company of cash-generating units for which a reasonable and consistent basis of distribution can be determined. The cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication of impairment by comparing the unit's carrying value, including goodwill, with the unit's recoverable amount. Intangible assets with an indefinite useful life are not amortized. Instead, the asset is tested for impairment annually, and whenever there is an indication that the asset is impaired.

The recoverable amount is the asset's fair value less cost to sell or value in use, whichever is higher. In assessing value in use, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the assessment of future cash flows has not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized directly in profit or loss.

SPORT CLUBS COMPANY

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

When the impairment loss is subsequently reversed, the carrying amount of the asset (or cash-generating unit) is increased to its revalued recoverable amount, so that the revised carrying amount does not exceed the value of the asset (or cash-generating unit) had no impairment loss been calculated for it in previous years. The reversal of an impairment loss is recognized immediately in profit or loss. An impairment loss recognized in prior periods for goodwill is not reversed in a subsequent period.

3.5 Investment Property

Investment property is property held to obtain rentals and/or capital appreciation.

Investment properties are initially recognized at cost. Transaction costs are included in the initial measurement. Costs include costs incurred initially and subsequently incurred to add, replace, or service a property. If a replacement part is recognized in the carrying amount of the investment property, the carrying amount of the replaced part is derecognized. Any gain or loss on disposal of the investment property (calculated as the difference between the net proceeds from disposal and the book value of the investment property) is recognized in profit or loss as other income or other expense.

cost model:

After initial recognition, investment properties are accounted for using the “cost model” in accordance with International Accounting Standard No. (40) and are stated at cost less accumulated depreciation and impairment losses, if any.

The cost less the estimated residual value is depreciated on a straight line basis over the estimated useful lives of the assets or the lease term if the investment is on leasehold land - whichever is less.

Rental income and operating expenses from investment properties are recorded under "Other income (expenses)."

3.6 Investment in subsidiary

The results of the investment in the subsidiary are accounted for using the equity method. Under the equity method, the investment is initially recognized in the statement of financial position at cost and thereafter the Company's share of profit or loss and other comprehensive income of the subsidiary. When the Company's share of losses in a subsidiary company exceeds the Company's share of losses in a subsidiary, the Company ceases to recognize its share of additional losses. Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or has made payments on behalf of the subsidiary.

The Company discontinues the use of the equity method from the date on which the subsidiary is disposed of or when the subsidiary is classified as held for sale.

3.7 Inventory

Inventory is stated at cost or net realizable value, whichever is lower. Net realizable value is the estimated selling price less all estimated costs of completion and any further costs involved in making the sale. The cost of raw materials and spare parts is determined on a weighted average basis. Spare parts are items that may result in fixed capital expenditures but are not discernible. They are stated at cost and determined on a weighted average basis.

3.8 Trade Receivables

Accounts receivable are recorded at the original invoice amount less impairment losses at an amount equal to the estimated lifetime credit loss. When the receivable is uncollectible, it is written off against the impairment loss. Any subsequent recoveries of amounts previously written off against “impairment losses on trade receivables” are credited to profit or loss.

SPORT CLUBS COMPANY

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

3.9 Cash and Cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and deposits with banks which are all available for use by the Company unless otherwise stated, and whose maturities are three months or less, and which are subject to an insignificant risk of change in value.

3.10 Statutory Reserve

In accordance with the Company's Articles of Association and Companies Regulations, the Company must transfer 10% of the annual net profit to the statutory reserve until it becomes 30% of the capital.

3.11 Employees benefits

Defined employee benefit obligations

Employees' benefits are calculated using the expected unit credit method, with actuarial valuations performed at the end of each reporting period. Remeasurement recognized in other comprehensive income is recognized immediately in retained earnings and is not recognized in profit or loss in subsequent periods. Changes in the present value of the benefit obligation, which result from changes and reductions, are recognized directly in profit or loss as service costs from prior periods. Interest is calculated by using the discount rate at the beginning of the period on defined employee benefit obligations. Defined benefit costs are categorized as follows:

- service cost (including current service costs and past service costs, plus gains and losses from cutbacks and adjustments);
- cost of interest; And
- Remeasurement.

The company presents the first two components of defined benefit costs in profit or loss in the related items.

Short-term employee benefits

The obligation is recognized for benefits related to wages, salaries, annual leave, travel tickets and sick leaves and is expected to be settled in full during the twelve-month period following the end of the period in which the service is provided. The obligation is recorded at the undiscounted amount of benefits expected to be paid in exchange for those services.

3.12 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material). When provisions are deducted, the increase in the provision due to the passage of time is recognized as a finance cost.

3.13 Zakat

The company is subject to zakat in accordance with the regulations of the Zakat, Tax and Customs Authority in the Kingdom of Saudi Arabia, and the entitlement to zakat is recognized and charged to the statement of profit or loss and other comprehensive income. Additional zakat liabilities, if any, relating to assessments on prior years are calculated by the Authority for Zakat, Tax and Customs in the year in which the final assessments are issued.

SPORT CLUBS COMPANY

(CLOSED JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

3.14 Financial Instruments

The Company recognizes financial assets or financial liabilities in the statement of financial position when it becomes a party to the contractual provisions of the financial instrument.

Financial Assets

Initial recognition

Financial assets are classified, on initial recognition, and subsequently measured at amortized cost, at fair value through other comprehensive income, and at fair value through profit or loss.

The classification of financial assets on initial recognition depends on the contractual cash flow characteristics of the financial asset and the Company's business model for managing it.

For a financial asset to be classified and measured at amortized cost or FVOCI, that asset must generate cash flows that are “payments from the asset and proceeds only” on the original amount receivable. This evaluation is referred to as the (Payments from Principal and Returns Only) test (SPPI) and is performed at the financial instrument level. Financial assets with cash flows that are not 'Payments from Principal and Returns Only' are classified as FVTPL, regardless of the business model.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether the cash flows will result from the collection of contractual cash flows, from the sale of financial assets, or from both. Financial assets classified and measured at amortized cost are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at FVOCI are held within a business model whose objective is to collect contractual cash flows and sell.

Subsequent Measurement

For the purposes of subsequent measurement, financial assets are classified into four categories:

A) Debt instruments at amortized cost.

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

B) Equity instruments at fair value through other comprehensive income with no possibility of rolling back to profit or loss.

Gains and losses on valuation of these financial assets are not recycled to profit or loss. Dividends are recognized as income in the statement of profit or loss when the right to receive is established, except when the company benefits from these returns as a recovery of part of the cost of the financial asset, in which case, these revenues are recognized in other comprehensive income. Equity instruments at fair value through other comprehensive income are not subject to impairment testing.

C) equity instruments at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the profit or loss.

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Decline in the value of financial assets

The Company applies the simplified approach in calculating impairment. Expected credit losses on financial assets are estimated using the Company's historical credit loss experience, adjusted for general economic conditions and an assessment of both the current trend as well as expectations of conditions at the reporting date, including the time value of money where it is. That is appropriate.

The expected credit loss measurement is an indication of the probability of default, or a given loss (meaning the magnitude of the loss if there is a default). The assessment of the probability of default is based on historical data that is modified by information that predicts the future as described above.

The Company recognizes impairment gains or losses separately in the statement of profit or loss and other comprehensive income, and provisions for losses measured at amortized cost are deducted from the total carrying amount of the financial assets.

Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the financial asset expire, or it transfers the financial asset and the risks and rewards of ownership to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, the Company will continue to recognize its retained interest in the assets and liabilities associated with the financial asset for amounts it may have to pay.

Financial liabilities

Financial liabilities are classified either at amortized cost or at fair value through profit or loss.

All financial liabilities of the Company have been classified and measured at amortized cost using the effective yield method. The Company has no financial liabilities at fair value through profit or loss.

Financial liabilities at amortized cost

Bank loans are initially recognized at fair value net of any transaction costs directly attributable to the issue of the instrument. These interest-bearing liabilities are subsequently measured at amortized cost using the effective interest rate method, which ensures that any interest expense over the repayment period is at a constant rate on the liability balance recognized in the statement of financial position. For the purposes of each financial liability, interest expense includes initial transaction costs and any premium payable.

Derecognition of financial liabilities

The Company derecognizes financial liabilities only when the obligations are discharged, canceled or expire.

3.15 Revenue recognition

The Company recognizes revenue from contracts with customers using a five-step method as mentioned in IFRS 15:

- Step 1: Determine the contract(s) with the customer. A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and clarifies the foundations and criteria that must be fulfilled for each contract.
- Step 2: Determine the performance obligations in the contract. A performance obligation is an undertaking under the contract with the customer to transfer a good or service to the customer.
- Step 3: Determine the transaction price: The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

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Step 4: Allocate the transaction price to the performance obligations stipulated in the contract. For contracts that have more than one performance obligation, the Company will allocate a transaction price to each performance obligation in the amount to which the Company expects to be entitled in exchange for meeting each performance obligation.

Step 5: Recognize revenue when the entity fulfills the performance obligation.

The Company satisfies the performance obligation and recognizes revenue over time, if one of the following criteria is met:

- A. The performance of the company does not create an asset with an alternative use of the company, and the company has an enforceable right to payment for performance completed to date.
- B. Company performance creates or improves a customer-controlled asset at the same time as the asset is being constructed or improved.
- C. The customer simultaneously receives and consumes the benefits provided by the entity's performance once the Company has performed.

For performance obligations, if any of the above conditions are not met, revenue is recognized at the point in time at which the performance obligation is satisfied.

If the Company fulfills the performance obligation by providing the promised services, this creates a contract-based asset in exchange for consideration gained from performance. In the event that the consideration received by the customer exceeds the amount of revenue that has been recognized, a contract obligation may arise.

Revenue is measured at the fair value of the consideration received or receivable, after taking into account the contractual terms of payment, and after excluding taxes and fees.

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and that revenue and costs, where applicable, can be measured reliably.

Subscription and membership revenue

Subscription and membership fees are recognized as revenue on a regular basis over the subscription period. Revenue fees received in advance are initially recognized as contract obligations and amortized over the subscription period.

Personal training revenue

Personal training fees are recognized as revenue when the related services are provided and performance obligations are fulfilled. Fees received in advance are initially recognized as contract obligations and are subsequently recognized when personal training sessions are conducted or the training period ends, whichever comes first.

3.16 Cost of Revenues

The cost of sales includes all direct costs of the activity, including direct labor, direct materials, and expenses related to the activity.

3.17 Expenses

Marketing expenses principally consist of costs incurred in the distribution and sale of the Company's services. All other expenses are classified as general and administrative expenses.

3.18 Finance Cost

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets that are assets that require a significant period of time to be ready for their expected use or sale are added to the cost of those assets until they are substantially ready for use or sale.

Investment income earned on the temporary investment of specific loans until they are spent on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

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3.19 Dividends

Dividends are recorded in the financial statements in the period in which they are approved by the shareholders of the group, and they are recorded in the financial statements in the period that is approved by the shareholders of the group.

Dividends are recorded in the period that is approved by the Partners.

3.20 Earnings per share

The group presents basic and diluted earnings per share (EPS). Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the group by the weighted average number of ordinary shares outstanding during the year, adjusted for own shares held, if any.

Diluted EPS, if any is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential common shares.

3.21 NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS

3.21.1 Standards issued but not yet effective:

The group has applied the following new standards and amendments for the first time, for their annual reporting period commencing 1 January 2022:

Amendments to IAS 16, IAS37:

- IAS 16 “Property, plant and equipment” prohibit a group from deducting from the cost of property, plant and equipment the amounts received from the sale of items produced while the group prepares an asset for its intended use. Instead, the group will recognize these sales proceeds and related costs in the profit statement or loss.
- IAS 37 “Provisions, Liabilities and Contingent Assets” specifies which costs a group includes when assessing whether a contract will be loss-making.

3.21.2 Standards issued but not yet effective:

Following are the new standards and amendments to standards which are effective for annual periods beginning on or after 1 January 2023 and earlier application is permitted, however the group has not early adopted them in preparing these financial statements.

- Amendments to IAS 1 “Presentation of Financial Statements”, on the classification of liabilities.
These amendments to IAS 1 “Presentation of Financial Statements”, clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period, classification is unaffected by the entity's expectations or events after the reporting date.
- Amendments to IAS 1, Practice Statement 2 and IAS 8.
The amendments aim to improve accounting policy disclosures and help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies.
- Amendments to IAS 12 “Deferred Tax” related to assets and liabilities arising from a single transaction
These amendments require companies to record deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences.

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4. SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the consolidated financial statements requires management to use judgments, estimates and assumptions that may affect the application of policies and the reported amounts of assets, liabilities, income and expenses. Although these estimates are based on current information and events available to management, final actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis, and the effect of the revision of accounting estimates is reflected in the review period and the future periods affected.

The following is information about significant areas of estimation, uncertainties and critical judgments in applying accounting policies that have a significant effect on the amounts recognized in the consolidated financial statements:

4.1 Useful lives of property, plant and equipment

The useful lives of property, plant and equipment are estimated according to the new information available to the Group's management. The management determines the estimated useful lives of property, plant and equipment for the purpose of calculating depreciation. This estimate is determined after considering the expected use of the assets and physical damage to these assets. The management reviews the residual value and useful lives annually, and the change in depreciation expenses (if any) is adjusted in the current and future periods.

4.2 Determining the lease term with extension and termination options - Group as lessee

The Group determines the lease term as non-cancellable for any periods covered by an option to extend the contract if the Group is reasonably certain that it will be able to exercise that option, or for any periods covered by an option to terminate the contract if the Group is reasonably certain that it will not be able to exercise it. Option. The Group exercises judgment in assessing the reasonableness of ensuring that the option to extend or terminate the contract is exercised. For this purpose, the Group considers all relevant factors that constitute an economic incentive to exercise the option to extend or terminate. After the commencement date of the lease, the Group reassesses the term of the lease if there is a significant event or change in circumstances within its control that affects the Group's ability to exercise or not to exercise the option to renew or terminate the lease.

4.3 Estimate the additional borrowing rate

The group cannot easily determine the interest rate implicit in the lease contracts, and therefore it uses the incremental borrowing rate to measure the lease commitments, the incremental borrowing rate represents the interest rate that the group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment, Over a similar period and with a similar guarantee, the incremental borrowing rate therefore reflects what the group has to pay, which requires an estimate when observable rates are not available (such as for subsidiaries that do not conduct financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease, The group estimates the incremental borrowing rate using observable inputs (e.g. market commission rates) when available, and is required to make some judgment of the entity (e.g. independent credit assessment).

4.4 intangible assets

Management reviews the period and method of amortization of tangible assets with a finite useful life at least at the end of each financial year. If the expected useful lives of the assets are different from the previous estimates, the group changes the amortization period accordingly. If there is a change in the expected pattern of consumption of future economic benefits embodied in the asset, the Group changes the amortization method to reflect the changed pattern.

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4.5 Impairment of non-financial assets

Impairment occurs when the amount of an asset or cash-generating unit exceeds its recoverable amount as fair value less costs of disposal or its value in use - whichever is higher. The fair value minus costs of disposal is based on available data from binding arm's length sales of similar assets or observable market prices minus incremental costs of disposal of the asset. The value in use calculation is based on the discounted cash flow model. Cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that could enhance the asset performance of the cash-generating unit being tested. The recoverable amount is sensitive to the discount rate used in the discounted cash flow model as well as to the expected future cash inflows and the growth rate used for the purposes of extrapolating the future.

4.6 Measuring the fair value of financial instruments

If the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is determined using valuation techniques including the discounted cash flow model. Inputs to these models are obtained from observable markets when possible, but where this is not feasible, a degree of judgment must be used to determine fair values. Judgments include considerations for inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors may affect the disclosed fair value of financial instruments.

4.7 Employees' benefits

The cost of employee defined benefit obligations and other post-employment benefits is determined based on a measurement at the present value of future obligations using the expected unit addition method. The actuarial valuation involves making several assumptions which may differ from actual developments in the future. These assumptions include determining the discount rate, future salary increases, and mortality rates. Due to the complex and long-term nature of the valuation and underlying assumptions, the defined benefit obligation is significantly affected by changes in these assumptions. All assumptions are reviewed at each reporting date.

The discount rate is the most variable indicator. In determining the appropriate discount rate, management takes into account the commission rates on corporate bonds registered in currencies consistent with the currencies in which the defined post-employment benefits obligations for employees are recorded, and they are estimated when needed with the rate of return in line with the expected duration of the defined benefits commitment. The quality of the relevant bonds is also reviewed. Those bonds that have high credit spreads are excluded from the bond analysis on which the discount rate was determined, as they do not represent high quality bonds.

The mortality rate is determined based on publicly available mortality tables in the respective countries. These mortality tables are subject to change only from

Time to time according to demographic changes. Future salary increases are determined based on expected future inflation rates for the respective countries and future salary increases.

4.8 The principle of continuity

The group's management has made an assessment of the group's ability to continue its business according to the principle of continuity, and the group is convinced that it has the resources to continue its business in the foreseeable future, and the group's management does not have any fundamental doubts that may affect the group's ability to continue its business. Therefore, these financial statements have been prepared according to the going concern principle.

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5. PROPERTY, PLANT AND EQUIPMENT

	Lands	Buildings	Buildings on Leased Lands	Improvements on Leased Building	Machinery and equipment	Furniture and fixtures	Electrical hardware	Vehicles	Capital work in progress	Total
Cost:										
Balance At 31 December 2021	15,211,756	17,001,534	348,998,793	55,389,989	92,019,456	33,968,060	8,333,562	3,567,834	47,730,783	622,221,767
Transferred to Inventory	-	-	-	-	-	-	-	-	(703,887)	(703,887)
Balance At 1 January 2022	15,211,756	17,001,534	348,998,793	55,389,989	92,019,456	33,968,060	8,333,562	3,567,834	47,026,896	621,517,880
Additions	-	-	-	-	8,215,204	2,937,258	1,552,873	1,196,700	24,660,061	38,562,096
Transferred from Investment property	1,816,044	809,600	-	-	-	-	-	-	-	2,625,644
Transferred from PUC	-	-	48,312,742	-	1,377,376	-	-	-	(49,690,118)	-
Disposals	-	-	(17,174,521)	(606,804)	(4,702,181)	(2,542,793)	(578,477)	(536,700)	-	(26,141,476)
Balance At 31 December 2022	17,027,800	17,811,134	380,137,014	54,783,185	96,909,855	34,362,525	9,307,958	4,227,834	21,996,839	636,564,144
Accumulated depreciation:										
Balance as at 31 December 2021	-	(7,162,806)	(142,411,349)	(36,103,110)	(37,721,832)	(12,872,769)	(3,886,611)	(1,843,445)	-	(242,001,922)
Charges for the year	-	(602,727)	(20,890,985)	(2,888,739)	(7,461,300)	(3,163,584)	(1,020,799)	(715,910)	-	(36,744,044)
Transferred from Investment property	-	(453,034)	-	-	-	-	-	-	-	(453,034)
Disposals	-	-	17,174,521	606,804	3,985,290	2,126,154	519,490	528,867	-	29,941,126
Balance at 31 December 2022	-	(8,218,567)	(146,127,813)	(38,385,045)	(41,197,842)	(13,910,199)	(4,387,920)	(2,030,488)	-	(254,257,874)
Net book value:										
At 31 December 2022	17,027,800	9,592,567	234,009,201	16,398,140	55,712,013	20,452,326	4,920,038	2,197,346	21,996,839	382,306,270
At 31 December 2021	15,211,756	9,838,728	206,587,444	19,286,879	54,297,624	21,095,291	4,446,951	1,724,389	47,026,896	379,515,958

- The machinery and equipment includes a fully depreciated assets with a book value of SAR 7,553,179 as on December 31, 2022 (December 31, 2021: SAR 7,545,612). All lands are mortgaged to Riyadh Bank as security for the loan obtained by the group as shown in Note No. (15).
- During the year ended December 31, 2022, the Group capitalized a borrowing cost related to qualifying assets of SAR 4,062,561 using a capitalization rate ranging from 3% to 4.5% per annum (December 31, 2021: SAR 7,466,590) using a capitalization rate ranging from 3% to 4.5% annually (note 25).
- The capital work in progress as of December 31, 2022 mainly represents the costs incurred in establishing new branches that are still under construction.

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For the year ending on December 31, 2021	Land	Buildings	Buildings on Leased Lands	Improvements on Leased Building	Machinery and equipment	Furniture and fixtures	Electrical hardware and software	Vehicles	Capital work in progress	Total
Cost:										
As at 31 December 2020	15,211,756	17,001,534	279,647,764	49,337,908	81,757,142	29,754,357	5,935,212	2,880,726	60,328,572	541,854,971
Additions during the year	-	-	-	-	4,268,293	3,461,969	2,428,630	1,040,608	70,387,803	81,587,303
Transferred from projects in progress	-	-	69,351,029	6,052,081	6,807,759	774,723	-	-	(82,985,592)	-
Disposals	-	-	-	-	(813,738)	(22,989)	(30,280)	(353,500)	-	(1,220,507)
On December 31, 2021	15,211,756	17,001,534	348,998,793	55,389,989	92,019,456	33,968,060	8,333,562	3,567,834	47,730,783	622,221,767
Accumulated depreciation:										
As at 31 December 2020	-	(6,561,607)	(124,106,150)	(33,421,590)	(32,069,932)	(10,124,919)	(3,242,224)	(1,641,293)	-	(211,167,715)
Charge for the year	-	(601,199)	(18,305,199)	(2,681,520)	(6,373,468)	(2,767,942)	(654,567)	(511,344)	-	(31,895,239)
Disposals	-	-	-	-	721,568	20,092	10,180	309,192)	-	1,061,032
On December 31, 2021	(15,211,756)	(7,162,806)	(142,411,349)	(36,103,110)	(37,721,832)	(12,872,769)	(3,886,611)	(1,843,445)	-	(242,001,922)
Net book value										
On December 31, 2021	15,211,756	9,838,728	206,587,444	19,286,879	54,297,624	21,095,291	4,446,951	1,724,389	47,730,783	380,219,845
On December 31, 2020	15,211,756	10,439,927	155,541,614	15,916,318	49,687,210	19,629,438	2,692,988	1,239,433	60,328,572	330,687,256

- The machinery and equipment includes a fully depreciated assets with a book value of SAR 7,545,612 as on December 31, 2021 (2020: SAR 7,415,370). All lands are mortgaged to Riyadh Bank as security for the loan obtained by the group as shown in Note No. (15).

- During the year ended December 31, 2021, the Group capitalized a borrowing cost related to qualifying assets of SAR 7,111,770 using a capitalization rate ranging from 3% to 4.5% per annum (December 31, 2020: SAR 11,173,679) using a capitalization rate ranging from 3% to 4.5% per annum (Note 25).

- The capital work in progress as of December 31, 2021 is mainly represented by the costs incurred in establishing new branches that are still under construction

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NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****(SAUDI RIYALS)****The depreciation charge was distributed over the year as follows:**

	31 December 2022	31 December 2021
Cost of revenue (note 21)	35,705,056	31,421,873
General and administrative expenses (note 23)	949,431	452,100
Marketing expenses (note 22)	89,557	21,266
	36,744,044	31,895,239

6. LEASE CONTRACTS**6.1 Right of Use Assets**

The Company leases sports clubs on lease contracts ranging from five to twenty years, with an option to renew the lease contract after that date (Note 3-2).

	31 December 2022	31 December 2021
Cost		
Balance on January 1	300,705,380	300,705,380
Additions during the year	8,043,813	-
Remeasurement of lease liability	4,680,833	-
Balance at the end of the year	313,430,026	300,705,380
Accumulated Depreciation:		
Balance on January 1	(45,146,371)	(22,486,917)
Depreciation during year	(20,381,716)	(18,426,471)
Capitalized depreciation on projects in progress	(1,860,476)	(4,232,983)
Balance at the end of the year	(67,388,563)	(45,146,371)
Net book value	246,041,463	255,559,009

The depreciation charge:

Lease depreciation expenses are charged in full to Cost of Revenue (Note 21)

6.2 Lease Liabilities

	31 December 2022	31 December 2021
Balance at the beginning of the year	309,440,264	323,081,414
Additions during the year	8,043,813	-
Remeasurement of lease liability	2,261,960	-
financing costs	18,240,667	20,397,039
Paid during the year	(36,728,064)	(34,038,189)
Total lease liabilities	301,258,640	309,440,264

The lease contract obligations are presented in the statement of financial position as follows:

	31 December 2022	31 December 2021
Lease liability current Portion	15,739,192	14,992,291
Lease liability non-current portion	285,519,448	294,447,973
	301,258,640	309,440,264

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NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****(SAUDI RIYALS)****6.3 Amounts recognized in the statement of profit or loss and other comprehensive income related to lease contracts:**

	<u>31 December 2022</u>	<u>31 December 2021</u>
Depreciation expense of right-of-use assets	20,381,716	18,426,471
interests of lease liability	16,092,472	14,465,869
Rental expenses for short-term contracts	2,378,266	5,338,081
	<u>38,852,454</u>	<u>38,230,421</u>

7. INVESTMENT PROPERTY

<u>Year ended 31 December 2022</u>	<u>Lands</u>	<u>Buildings</u>	<u>Total</u>
Cost			
As at 31 December 2021	1,816,044	11,461,015	13,277,059
Disposals	-	(10,651,415)	(10,651,415)
Transferred to PPE	(1,816,044)	(809,600)	(2,625,644)
As at 31 December 2022	-	-	-
Accumulated Depreciation:			
As at 31 December 2021	-	11,056,353	11,056,353
Depreciation of the year	-	20,116	20,116
Disposals	-	(10,623,435)	(10,623,435)
Transferred to PPE	-	(453,034)	(453,034)
As at 31 December 2022	-	-	-
Net book value on 31 December 2022	-	-	-
Net book value on 31 December 2021	1,816,044	404,662	2,220,706

The group completely disposed **SAHAF** branch, the main Headquarter of the group, including investment properties, and transferred the remaining part, "lands and assets that were in buildings" to the item of property, Plant, and equipment.

8. INTANGIBLE ASSETS

Intangible assets include goodwill resulting from the acquisition of a commercial activity (self-defense sports activity), in addition to automated programs and systems to serve the activity.

	<u>31 December 2022</u>	<u>31 December 2021</u>
Programs (A)	374,404	943,369
Goodwill (b)	937,460	937,460
Projects under implementation	2,134,213	1,881,697
	<u>3,446,077</u>	<u>3,762,526</u>

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NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****(SAUDI RIYALS)****A. The movement of programs during the year is as follows:**

	31 December 2022	31 December 2021
<u>Cost</u>		
Balance at the beginning of the year	2,114,278	3,164,423
Additions during the year	100,842	266,099
Disposals during the year	(1,021,037)	(1,316,244)
Balance as on 31 December	1,194,083	2,114,278
<u>Accumulated amortization:</u>		
Balance at the beginning of the year	1,170,909	2,145,276
Amortization of the year	189,896	341,877
Disposals of the year	(541,126)	(1,316,244)
Balance as on 31 December	819,679	1,170,909
Net book value	374,404	943,369

B. Goodwill

As a result of the company's acquisition of the martial arts project shares during 2017, The acquisition resulted in a goodwill amounted of SAR 937,460.

Impairment of Goodwill

The Company's management performed the annual impairment test for goodwill on December 31, 2022 and the recoverable amount was determined based on the value in use calculation. The use of this method requires estimating the future cash flows and determining the discount rate in order to calculate the present value of the cash flows over a period of time. As at December 31, 2022, the Company determined the recoverable amount based on the discounted future cash flows, and the recoverable amount was greater than the carrying amount of the cash-generating unit.

The recoverable amount of the value in use calculation has been determined based on cash flow projections from officially approved budgets covering a period of five years to December 31, 2027. Other major assumptions are as follows:

	31 December 2022	31 December 2021
Discount Rate	%13	%13
Growth Rate*	%3	%3

*Growth rate assumptions apply only to the period beyond the period of the financial statements with value in use calculated based on extrapolating budgeted cash flows for the fifth year.

Operating margins were based on past experiences and future expectations in light of expected economic and market conditions. The discount rates are based on the company's beta adjusted to reflect management's assessment of the specific risks specific to the cash-generating unit. Growth rates after the first five years are based on economic data related to the respective region.

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NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****(SAUDI RIYALS)****9. INVESTMENT IN SUBSIDIARY**

The investment is represented in the Third Places Company by 100%, which was established in the Kingdom of Saudi Arabia in 2015 with a capital of 100,000 Saudi riyals. The following is the movement of investment in the subsidiary:

	31 December 2022	31 December 2021
Opening balance	82,500	85,000
Share of loss for the year of the subsidiary	(9,938)	(2,500)
Ending balance	<u>72,562</u>	<u>82,500</u>

10. INVENTORY

	31 December 2022	31 December 2021
Spare parts	2,519,047	2,408,828
Operation and maintenance materials	1,917,092	1,909,333
Good for sale	1,757,685	703,887
	<u>6,193,824</u>	<u>5,022,048</u>

11. TRADE RECEIVABLE

	31 December 2022	31 December 2021 (Audited)
Trade Receivable	5,780,654	2,286,080
Expected credit loss	(1,965,172)	(1,965,172)
	<u>3,815,482</u>	<u>320,908</u>

12. ADVANCE PAYMENTS AND OTHER RECEIVABLES

	31 December 2022	31 December 2021
Expenses paid in advance	8,294,511	7,389,376
Insurance of rented buildings	1,399,500	1,690,000
Employees' custody	1,761,616	1,336,371
	1,433,857	-
Advance payments to suppliers	1,818,336	679,253
Labor supply insurance	996,100	506,300
Rent debtors	426,188	320,014
Accrued revenue	404,167	310,740
Letters of guarantee	223,670	103,552
Related parties (note 31)	-	74,613
	<u>16,757,684</u>	<u>12,410,219</u>
Expected credit loss	(1,350,000)	(1,350,000)
	<u>15,407,684</u>	<u>11,060,219</u>
<u>Expected credit loss movement</u>		
Balance at the beginning of the year	1,350,000	1,350,000
Balance at the end of the year	<u>1,350,000</u>	<u>1,350,000</u>

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NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****(SAUDI RIYALS)****13. CASH AND CASH EQUIVALENTS**

	31 December 2022	31 December 2021 (Audited)
Banks - Current accounts	15,494,467	15,482,059
Cash on hand	400,889	653,819
	15,895,356	16,135,878

14. SHARE CAPITAL**For the year ended 31 December 2022:**

In accordance with a share assignment agreement dated Safar 19, 1444 AH corresponding to (September 15, 2022 AD), Diamond opportunity Sports Company "One Person Closed Joint Stock Company" has transferred 100 shares which makes its ownership percentage in Sport Clubs Company 34.4999% instead of 34.5% at 3,587,999 shares at a value of 10 Saudi riyals per share to Silver Opportunities Investment Company "a one-person company" which makes its ownership in Sport Clubs Company 0.00000009615%.

The capital of the group is 104 million Saudi riyals, divided into 10,400,000 shares of equal value, the value of each share being 10 Saudi riyals:

	Number of shares	Value per share	Total Value	Ownership percentage
Private Opportunities Investment Company	4,160,000	10	41,600,000	40%
Diamond opportunity Sports Company	3,587,900	10	35,879,000	34.49999%
Elaf Gulf Commercial Investment Company	2,652,000	10	26,520,000	25.50%
Silver Opportunities Investment Company	100	10	10,000	0.00000009615%
	104,000,000		104,000,000	100%

The ownership of these shares has been recorded in the shareholders register prepared in accordance with the articles of association of the company and the Saudi Companies Law, The ownership and assignment of these shares are subject to the referred laws.

For the year ended December 31, 2021:

The capital of the group is 104 million Saudi riyals, divided into 104,000 shares of equal value, the value of each share being 1,000 Saudi riyals.

The following is the distribution of the capital among the partners, and their ownership percentages in the capital as on September 30, 2022 and December 31, 2021:

	Number of quotes	Value per quote	Total Value	Ownership percentage
Private Opportunities Investment Company	41,600	1,000	41,600,000	40%
Diamond opportunity Sports Company	35,880	1,000	35,880,000	34.5%
Elaf Gulf Commercial Investment Company	26,520	1,000	26,520,000	25.5%
	104,000		104,000,000	100%

SPORT CLUBS COMPANY

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(SAUDI RIYALS)

15. LONG TERM LOANS

On January 19, 2021 (corresponding to 06 Jumada al-Akhirah 1442 AH), the Company signed a credit facilities renewal contract with a local bank to update the data of the facilities previously withdrawn by the Company over the past years at fixed rates at a value of 88.7 million Saudi riyals. These loans are repaid in quarterly installments for a period of five years with a grace period of one year. The loan balance as of March 31, 2022 amounted to 79,893,185 Saudi riyals (December 31, 2021: 82,985,972 Saudi riyals).

The aforementioned loan is secured against a mortgage of lands (note 5), in addition to the partners guaranteeing the loan through their share of the company's ownership. The following is the data of the mortgages of the mortgaged lands sukuk (note 5):

<u>Date</u>	<u>Deed Number</u>
1441-3-22 H	814006005053
1441-6-17 H	314006005791
1441-6-17 H	914006005790

As on October 28, 2020 (corresponding to Rabi' al-Awwal 11, 1442 AH), the Company signed a credit facility renewal contract with another local bank to obtain additional facilities in the amount of 50 million Saudi riyals, bringing the total facilities from this local bank to 66.6 million Saudi riyals. The facility is at fixed rates, the loan balance amounted to 51,109,927 Saudi riyals (December 31, 2021: 53,304,283 Saudi riyals), These facilities are secured by a payment paper and an individual and collective guarantee from the partners, each in proportion to his participation.

As on December 21, 2020 (corresponding to Jumada Al-Ula 06 1442 AH), the company signed a credit facility renewal contract with another local bank to obtain additional facilities in the amount of 10 million Saudi riyals, in return for annual administrative services amounting to 400,000 Saudi riyals. These loans are repaid in semi-annual installments for a period of five years with a grace period of one year. The loan balance as of 31 December 2022 amounted to 8,750,000 Saudi riyal (December 31, 2021 amounted to 10,000,000 Saudi riyals). These facilities are secured by a payment paper and an individual and collective guarantee from the partners, each in proportion to his participation.

A. The following is a statement of the movement of loans:

	31 December 2022	31 December 2021
Balance at the beginning of the year	146,290,257	105,314,972
Received during the year	11,562,794	48,437,825
Paid during the year	(32,327,733)	(7,462,540)
Balance at the end of the year	125,525,318	146,290,257

SPORT CLUBS COMPANY

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NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****(SAUDI RIYALS)**

- B. The total loan amounts were presented according to the agreed upon maturity dates of the repayment installments, after they were classified into current and non-current liabilities, minus the deferred financing costs, as follows:

31 December 2022	Long term loans non-current portion	Long term loans current portion	Total
Total Loans	81,357,788	44,167,530	125,525,318
	81,357,788	44,167,530	125,525,318

31 December 2021	Long term loans non-current portion	Long term loans current portion	Total
Total Loans	109,009,911	37,280,346	146,290,257
	109,009,911	37,280,346	146,290,257

- C. The table below shows the maturity dates of the loans referred to in accordance with the maturity dates referred to in the loan contracts:

	31 December 2022	31 December 2021
less than one year	44,167,530	37,280,346
Between 1-2 years	67,614,364	78,211,396
Between 2- 5 years	13,743,424	30,798,515
	125,525,318	146,290,257

16. EMPLOYEES' BENEFITS

The Company grants end-of-service benefits to employees in accordance with the Saudi Labor Law and the social insurance systems enforced in the Kingdom of Saudi Arabia.

Movement of employees' benefits:

	31 December 2022	31 December 2021
Balance at the beginning of the year	15,534,000	16,039,000
Current service cost and return cost	1,909,000	1,915,000
Interest cost	529,000	522,000
Paid benefits	(1,829,934)	(1,086,597)
Remeasurement of actuarial liabilities	(937,066)	(1,855,403)
Balance at the end of the year	15,205,000	15,534,000

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FOR THE YEAR ENDED 31 DECEMBER 2022

(SAUDI RIYALS)

<u>Main actuarial assumptions</u>	31 December 2022	31 December 2021
Financial Assumptions		
Discount rate	5.20%	%3.20
salary increase rate	0.75%	%0.75

<u>Sensitivity Analysis</u>	31 December 2022		31 December 2021	
	1 % Increase	1% Decrease	1 % Increase	1% Decrease
Discount rate	14,291,000	16,244,000	14,495,000	16,731,000
salary increase rate	16,281,000	14,244,000	16,749,000	14,461,000

17. CONTRACTS LIABILITIES

	31 December 2022	31 December 2021
Balance at the beginning of the year	65,690,925	61,736,573
Added during the year	238,730,593	190,192,319
Recognized during the year as subscription income (note 20)	(233,636,567)	(184,672,173)
Recognized during the year as other income (note 24)	(1,430,507)	(1,565,794)
Balance at the end of the year	69,354,444	65,690,925

	31 December 2022	31 December 2021
Contracts liability non - current portion	1,430,292	5,045,930
Contracts liability current portion	67,924,152	60,644,995
Balance at the end of the year	69,354,444	65,690,925

18. ACCRUED EXPENSES AND OTHER PAYABLES

	31 December 2022	31 December 2021
Employees' Due	11,742,381	8,373,264
Accrued Expenses	10,385,273	5,756,956
Related parties (note 31)	986,543	1,901,245
	23,114,197	16,031,465

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NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****(SAUDI RIYALS)****19. ZAKAT****A. Zakat position:**

The company submitted its zakat returns for all years up to the year ending on December 31, 2022 AD and obtained a final assessment from the Zakat, Tax and Customs Authority in the Kingdom of Saudi Arabia (the Authority) for all years up to the fiscal year ending on December 31, 2018.

B. The significant components of the zakat base for the fiscal year ending on December 31 are as follows:

Adjusted net income	31 December 2022	31 December 2021
Profit for the year before zakat	24,946,299	11,625,889
Added: Non-deductible costs	2,438,000	2,439,500
Adjusted Profit (A)	27,384,299	14,065,389
Equity		
Share capital at beginning of the year	104,000,000	104,000,000
Provisions	17,019,238	20,174,621
Statutory reserve	11,127,558	11,127,558
Deferred subscription revenue	65,690,925	61,736,574
Loans & other sources of financing	426,783,956	435,561,096
Net adjusted profit	27,384,299	14,065,389
	652,005,976	646,665,238
Net property, projects in progress & spare parts inventory	(631,873,810)	(635,564,230)
Zakat base (B)	20,132,166	(11,101,008)
Zakat expense (a) or (b) whichever is greater 2.5%	684,793	351,635

C. The movement in the provision for zakat payable is as follows:

	31 December 2022	31 December 2021
Balance at the beginning of the year	530,314	186,347
Paid during the year	(531,910)	(106,033)
Zakat due for the year	684,793	351,635
Zakat for the years of the year	-	98,365
Balance at the end of the year	683,197	530,314

20. REVENUE

	31 December 2022	31 December 2021
Sports club subscriptions (note 16)	233,636,567	185,009,652
Health club services	31,996,038	19,199,093
Sports Equipment Sales	2,410,639	149,518
	268,043,244	204,358,263

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NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****(SAUDI RIYALS)****21. COST OF REVENUE**

	31 December 2022	31 December 2021
Salaries, wages and other benefits	99,629,076	79,868,522
Depreciation of property, plant and equipment (note 5)	35,705,056	31,421,873
Depreciation of right-of-use assets (note 6)	20,381,716	18,426,471
electricity and water	16,200,811	14,361,124
Maintenance, supplies and hygiene	11,942,155	8,508,693
Rent expenses	3,645,922	6,172,528
Government fees and subscriptions	2,045,371	1,225,237
fuels and oils	1,693,869	1,282,676
phone and mail	1,183,036	1,089,285
The cost of selling sports equipment	1,979,544	248,598
Amortization of intangible assets (note 8)	126,727	220,243
Other	2,657,216	1,806,674
	197,190,499	164,631,924

22. MARKETING EXPENSES

	31 December 2022	31 December 2021
Advertising	6,950,766	3,539,934
Salaries, wages and other benefits	2,055,090	1,514,373
Depreciation of property, plant and equipment (note 5)	89,557	21,266
Amortization of intangible assets (note 8)	2,912	6,247
Other	84,854	81,781
	9,183,179	5,163,601

23. GENERAL AND ADMINISTRATIVE EXPENSES

	31 December 2022	31 December 2021
Salaries, wages and other benefits	9,847,714	8,208,629
Provisions formed	1,794,613	-
Depreciation of property, plant and equipment (note 5)	949,431	452,100
Maintenance and cleaning	469,883	275,876
Phone and mail	178,656	240,133
Amortization of intangible assets (note 8)	60,257	115,387
Other	1,797,901	1,130,024
	15,098,455	10,422,149

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NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****(SAUDI RIYALS)****24. OTHER INCOME, NET**

Other income (less other expenses) consists of the following:

	31 December 2022	31 December 2021
Rent income	2,525,407	1,841,702
Discounts on rent expenses	995,922	2,324,524
Depreciation expense for investment properties (note 7)	(20,116)	(56,518)
(Losses) / Profit on disposal of assets	(2,859)	281,589
	3,498,354	4,391,297

25. FINANCE COSTS

	31 December 2022	31 December 2021
Interests of lease commitments	18,240,667	20,397,049
Long-term loan costs	7,931,854	3,637,063
Bank fees and commissions	3,003,268	335,975
Capitalized during the year from the interest of lease obligations	(2,148,195)	(5,931,170)
Capitalized during the year of financing costs on loans	(1,914,366)	(1,535,420)
Charged to the statement of profit or loss	25,113,228	16,903,497

26. FINANCIAL ASSETS AND LIABILITIES**26.1 Financial Assets**

	31 December 2022	31 December 2021
Financial assets at amortized cost:		
Cash and cash equivalents	15,494,467	15,482,059
Trade Receivables	3,815,482	320,908
Total financial assets at amortized cost	19,309,949	5,802,967

26.2 Financial Liabilities

	31 December 2022	31 December 2021
Financial liabilities at amortized cost:		
long term loans	125,525,318	146,290,257
Lease Liabilities	301,258,640	309,440,264
Accounts Payable	3,565,532	4,746,105
Total financial liabilities at amortized cost	430,349,490	460,476,626
Non-current portion of financial liabilities	366,877,236	403,457,884
Current portion of financial liabilities	63,472,254	57,018,742
Total Financial Liabilities	430,349,490	460,476,626

The fair values of financial assets and financial liabilities measured at amortized cost are not materially different from their carrying values.

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(SAUDI RIYALS)

27. CONTINGENT LIABILITIES

As on December 31, 2022, the company has capital commitments amounting to 5,884,187 Saudi riyals (31 December 2021 : 5,941,850 Saudi riyals) for contracts for the establishment of new sports clubs included in the capital work in progress..

Contingent liabilities are disclosed when there is an obligation that will be confirmed only by future events or when the obligations cannot be reliably measured. The contingent liabilities related to the loans signed on December 28, 2022 amounted to SAR 36,562,794 as of December 31, 2022.

28. FAIR VALUE

Fair value is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the assumption that the transaction to sell the asset or transfer the liability will occur in one of the following cases:

- In the main market for the asset or liability, or
- In the most favorable market for the assets or liabilities in the absence of the main market.

The fair value of an asset or a liability is measured using the assumptions that dealers would use to price the asset or liability, on the assumption that the dealers seek the best economic interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use, or by selling it to another market participant that would use the asset in its highest and best use.

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

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

Level 1: Quoted market prices (without adjustment) in active markets for similar assets and liabilities.

Level 2: Fair value measurement using inputs other than quoted prices included in Level 1 that are either directly or indirectly observable.

Level 3: Valuation techniques that use the minimum inputs needed to measure fair value (unobservable inputs).

For assets and liabilities that are recognized in the financial statements at fair value on a recurring basis, using the Level 1 and Level 2 indicators, the Company determines whether a transfer has occurred between levels in the hierarchy by re-assessing classification (based on the lowest level input that is significant to the fair value measurement). Generally, at the end date of each reporting period.

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

The fair value of short-term financial assets and liabilities approximates their book value due to the short term maturity.

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(SAUDI RIYALS)

29. FINANCIAL INSTRUMENTS RISK MANAGEMENT

The Company is exposed to the following risks through its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Foreign exchange risk
- Interest rate risk
- Capital Management Risk

Risk management is carried out by senior management in accordance with policies approved by the Board of Directors. Senior management identifies and assesses financial risks, when appropriate, in close cooperation with the Company's operating units.

29.1 Credit Risk

Credit risk is the risk that the Company will incur a financial loss in the event that a customer or counterparty fails to meet its contractual obligations, and arises primarily from the Company's dues from customers. The fair value of the financial assets represents the maximum exposure to credit risk.

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers factors that may have an impact on the credit risk of the customer base, including the risk of default in the customer sector and the countries in which the customers operate.

The Board of Directors has established a credit policy under which each new customer is analyzed individually for creditworthiness before introducing the Company's standard payment terms and conditions. The company's review includes external ratings, if available, and in some cases, bank references.

The Company has established an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables (note 10).

	31 December 2022	31 December 2021
Cash and cash equivalents	15,494,467	15,482,059
Trade Receivables	3,815,482	320,908
	19,309,949	15,802,967

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NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****(SAUDI RIYALS)****29.2 Liquidity Risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting its obligations associated with its financial liabilities that are settled by paying cash or through other financial assets. The Company's approach is to manage liquidity risk by ensuring, as far as possible, that it has sufficient liquidity to meet its liabilities as they fall due, under both normal and abnormal conditions, without incurring unacceptable losses or being exposed to risks to the company's reputation.

The following is an analysis of the undiscounted contractual maturities of the Company's financial liabilities:

	Less than a Year	From 1 to 5 Years	More than 5 Years	Total Contractual Flows	Book Value
As on December 31, 2022					
Long term loans	44,167,530	81,357,788	-	-	125,525,318
Lease liabilities	15,739,192	102,283,580	183,235,868	301,258,640	301,258,640
Accounts payable	3,565,532	-	-	3,565,532	3,565,532
Accrued expenses and other payable	23,114,197	-	-	23,114,197	23,114,197
	86,586,451	183,641,368	183,235,868	327,938,369	453,463,687
As on December 31, 2021					
Long term loans	37,280,346	109,009,911	-	-	146,290,257
Lease liability	14,992,291	94,835,701	199,612,272	306,440,264	309,440,264
Accounts Payable	4,746,105	-	-	4,746,105	4,746,105
Accrued expenses and other payable	16,031,465	-	-	16,031,465	16,031,465
	73,050,207	203,845,612	199,612,272	330,217,834	476,508,091

29.3 Market Risk

Market risk is the risk of the potential impact of changes in market prices such as foreign exchange rates, interest rates and equity prices on the Company's revenue or the value of its financial instruments. Market risk management aims to manage and control risk exposures within acceptable limits while achieving optimum return.

Market risk consists of three types of risk: currency risk, interest rate risk and other price risk.

29.4 Foreign Exchange Risk

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to fluctuations in foreign exchange rates. The Company is not exposed to fluctuations in foreign exchange rates in the normal course of business as the Company's significant transactions during the year are stated in Saudi Riyals and US Dollars. Since the Saudi riyal exchange rate is pegged to the US dollar, there are no significant risks associated with transactions and balances listed in US dollars.

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NOTES TO THE FINANCIAL STATEMENTS

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(SAUDI RIYALS)

29.5 Interest Rate Risk

Interest rate risk is the fluctuation in the fair value of future cash flows of financial instruments due to changes in market interest rates.

The Company's interest rate risk arises from its long term borrowings. The approved floating rate loans expose the Company to cash flow interest rate risk.

	<i>Increase/decrease in basis points related to currency rates</i>	<i>Impact on profit for the year</i>
<u>December 31, 2022</u>	100 +	1,255,253
	100 -	(1,255,253)
<u>December 31, 2021</u>	100 +	1,462,903
	100 -	(1,462,903)

29.6 CAPITAL MANAGEMENT RISK

The primary objective of the company's capital management is to ensure that it maintains strong capital ratios, support its business and maximize shareholder value.

The company manages its capital structure and makes adjustments to it in light of changes in business conditions. There have been no changes in the company's objectives, policies and procedures for the year ended 31 December 2022 and the year ended 31 December 2021. The capital includes capital and statutory reserve And retained earnings measured at SAR 134,472,390 as of 31 December 2022 (December 31, 2021 SAR 115,416,422). The capital includes capital and statutory reserve And retained earnings measured at SAR 134,472,390 as on December 31, 2022 (December 31, 2021 SAR 115,416,422).

The Group's policy is to maintain a strong capital base to maintain investors, creditors and market confidence and to sustain future development of the business. The Group monitors its capital base using a ratio of net debt to equity. Net debt is calculated as borrowings less cash and cash equivalents.

The following is the net debt to equity ratio of the Company at the end of the year:

	31 December 2022	31 December 2021
Loans	125,525,318	146,290,257
Subtract: Cash in hand	(15,895,356)	(16,135,878)
Net debt	109,629,962	130,154,379
Total Equity	134,472,390	115,416,422
Net debt to equity ratio	%81	%112

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(SAUDI RIYALS)

30. TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties are represented in the company partners making payments on behalf of the company in order to pay some operating expenses and some subscriptions for employees of the parties related to the company's clubs and consulting and management services. These transactions were carried out in accordance with the conditions specified in the agreements concluded with related parties and approved by the management. The following is a summary of the most important transactions with related parties and the balances resulting from them:

	Relationship	Nature of transaction	31 December 2022	31 December 2021
Gulf Money Company	Predecessor partner	Balance write off	74,613	-
Third Sports Amaken Company	Subsidiary	Labor rental	914,702	393,906

The following are the balances due from related parties resulting from these transactions:

Under advance payments and other receivable assets (Note 11):

	31 December 2022	31 December 2021
Gulf Money Company	-	74,613

The balance was written off during the year

Under accrued expenses and other credit balances (Note 18):

	31 December 2022	31 December 2021
Third Sports Amaken Company	986,543	1,901,246

Senior Management Compensation

	31 December 2022	31 December 2021
Salaries and other short-term benefits	1,577,370	1,383,711

31. SEGMENT REPORTING

31.1 GEOGRAPHICAL SEGMENTS

For management purposes, the company consists of business units based on geographical distribution, and it has five operating segments on which reports are submitted as follows:

- Central Region
- Eastern Province
- The northern area
- Southern area
- Western Region

The following tables present information on revenue and profit/(loss) for the geographical segments at the end of the period:

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(CLOSED JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****(SAUDI RIYALS)****As at and for the year ending December 31, 2022:**

	<u>Headquarter</u>	<u>Central Region</u>	<u>Eastern Region</u>	<u>Northern Region</u>	<u>Southern Region</u>	<u>Western Region</u>	<u>Total</u>
Revenues	-	168,774,281	39,523,842	14,846,392	9,243,928	35,654,801	268,043,244
Cost of Revenues	-	(116,054,456)	(32,094,580)	(11,240,515)	(7,184,866)	(30,616,082)	(197,190,499)
Gross profit	-	52,719,825	7,429,262	3,605,877	2,059,062	5,038,719	70,852,745
Marketing expenses	(9,183,179)	-	-	-	-	-	(9,183,179)
General and administrative expenses	(15,098,455)	-	-	-	-	-	(15,098,455)
Operating Profit	(24,281,634)	52,719,825	7,429,262	3,605,877	2,059,062	5,038,719	46,571,111
Other income – net	1,703,741	-	-	-	-	-	3,498,354
Finance costs	(25,113,228)	-	-	-	-	-	(25,113,228)
Share of loss from investment in subsidiary	(9,938)	-	-	-	-	-	(9,938)
Profit before Zakat	(45,906,446)	52,719,825	7,429,262	3,605,877	2,059,062	5,038,719	24,946,299
Zakat expenses	(684,793)	-	-	-	-	-	(684,793)
Profit for the year	(46,591,239)	52,719,825	7,429,262	3,605,877	2,059,062	5,038,719	24,261,506
Other comprehensive income:							
Re-measurement loss of employees' benefits	794,462	-	-	-	-	-	794,462
Total comprehensive income for the year	(45,796,777)	52,719,825	7,429,262	3,605,877	2,059,062	5,038,719	25,055,968

SPORT CLUBS COMPANY

(CLOSED JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****(SAUDI RIYALS)****As at and for the period ending December 31, 2021:**

	<u>Headquarter</u>	<u>Central Region</u>	<u>Eastern Region</u>	<u>Northern Region</u>	<u>Southern Region</u>	<u>Western Region</u>	<u>Total</u>
Revenues	-	121,561,852	35,013,373	11,968,642	8,491,312	27,323,084	204,358,263
Cost of Revenues	-	(100,485,686)	(28,792,983)	(7,387,575)	(6,656,261)	(21,309,419)	(164,631,924)
Gross profit	-	21,076,166	6,220,390	4,581,067	1,835,051	6,013,665	39,726,339
Marketing expenses	(5,163,601)	-	-	-	-	-	(5,163,601)
General and administrative expenses	(10,422,149)	-	-	-	-	-	(10,422,149)
Operating Profit	(15,585,750)	21,076,166	6,220,390	4,581,067	1,835,051	6,013,665	24,140,589
Other income – net	4,391,297	-	-	-	-	-	4,391,297
Finance costs	(16,903,497)	-	-	-	-	-	(16,903,497)
Share of loss from investment in subsidiary	(2,500)	-	-	-	-	-	(2,500)
Profit before Zakat	(28,100,450)	21,076,166	6,220,390	4,581,067	1,835,051	6,013,665	11,625,889
Zakat expenses	(450,000)	-	-	-	-	-	(450,000)
Profit for the year	(28,550,450)	21,076,166	6,220,390	4,581,067	1,835,051	6,013,665	11,175,889
Other comprehensive income:							
Re-measurement loss of employees' benefits	1,855,403	-	-	-	-	-	1,855,403
Total comprehensive income for the year	(26,695,047)	21,076,166	6,220,390	4,581,067	1,835,051	6,013,665	13,031,292

SPORT CLUBS COMPANY

(CLOSED JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

(SAUDI RIYALS)

31.2 MARKET SEGMENTS

The following tables present information on revenue and profit/(loss) for the market segments:

	<u>Headquarters</u>		<u>Men's fitness centers</u>		<u>Women's fitness centers</u>		<u>Total</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Revenues	-	-	198,427,372	173,008,241	69,615,872	31,350,022	268,043,244	-
Cost of Revenues	-	-	(142,438,307)	(134,448,873)	(54,752,192)	(30,183,051)	(197,190,499)	(164,631,924)
Gross profit	-	-	55,989,065	38,559,368	14,863,680	1,166,971	70,852,745	39,726,339
Marketing expenses	(9,183,179)	(5,163,601)	-	-	-	-	(9,183,179)	(5,163,601)
General and administrative expenses	(15,098,455)	(10,422,149)	-	-	-	-	(15,098,455)	(10,422,149)
Operating Profit	(24,281,634)	(15,585,750)	55,989,065	38,559,368	14,863,680	1,166,971	46,571,111	24,140,589
Other income – net	3,498,354	4,391,297	-	-	-	-	3,498,354	4,391,297
Finance costs	(25,113,228)	(16,903,497)	-	-	-	-	(25,113,228)	(16,903,497)
Share of loss from investment in subsidiary	(9,938)	(2,500)	-	-	-	-	(9,938)	(2,500)
Profit before Zakat	(45,906,446)	(28,100,450)	55,989,065	38,559,368	14,863,680	1,166,971	24,946,299	11,625,889
Zakat expenses	(684,793)	(450,000)	-	-	-	-	(684,793)	(450,000)
Profit for the year	(46,591,239)	(28,550,450)	55,989,065	38,559,368	14,863,680	1,166,971	24,261,506	11,175,889
Other comprehensive income:								
Re-measurement loss of employees' benefits	794,462	1,855,403	-	-	-	-	794,462	1,855,403
Total comprehensive income for the year	(45,796,777)	(26,695,047)	55,989,065	38,559,368	14,863,680	1,166,971	25,055,968	13,031,292

SPORT CLUBS COMPANY

(CLOSED JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2022****(SAUDI RIYALS)****31.3 STATEMENT OF FINANCIAL POSITION**

	<u>Headquarters</u>		<u>Men's fitness centers</u>		<u>Women's fitness centers</u>		<u>Total</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Property, Plant and Equipment	2,429,661	1,795,406	252,018,262	263,315,978	127,858,347	114,404,574	382,306,270	379,515,958
Right of use Assets	-	-	179,907,381	185,475,693	66,134,082	70,083,316	246,041,463	255,559,009
Other Non-Current Assets	3,518,639	6,065,732	-	-	-	-	3,518,639	6,065,732
Current Assets	41,312,346	32,539,053	-	-	-	-	41,312,346	,539,05332
Total Assets	47,260,646	40,400,191	431,925,643	448,791,671	193,992,429	184,487,890	673,178,718	673,679,752
Non-Current Liabilities	383,512,528	424,037,814	-	-	-	-	383,512,528	,037,814424
Current Liabilities	155,193,800	134,225,516	-	-	-	-	155,193,800	134,225,516
Total Liabilities	538,706,328	558,263,330	-	-	-	-	538,706,328	558,263,330

SPORT CLUBS COMPANY

(CLOSED JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

(SAUDI RIYALS)

32. SEASONALITY OF THE COMPANY'S BUSINESS

In general, there is an improvement in the company's business during the fourth quarter of the year better than other periods of the year due to many factors, including the favorable weather conditions and the company's offers with discounts that attract customers on the Saudi National Day (i.e. September 23). It is recorded in the fourth quarter of the year, enhances the company's revenue and profitability and improves the company's financial performance during the fourth quarter of the year.

33. DIVIDENDS

On September 14, 2022 AD, the partners unanimously approved the recommendation of the Board of management, held on September 8, 2022 AD, to distribute profits to the partners in a total amount of 6 million Saudi riyals, at 57.7 Saudi riyals per quota.

34. EARNINGS PER SHARE

Basic and diluted earnings per share

Basic earnings per share is calculated by dividing income for the year attributable to the company's ordinary shareholders by the number of ordinary shares outstanding during the year.

	31 December 2022	31 December 2021 (Restated)
Income for the year	24,261,506	11,175,889
<u>No. of shares</u>		
Weighted average number of shares (Note 15)	10,400,000	10,400,000
Basic and diluted earnings per share (Saudi Riyals)*	2.33	1.07

- The number of shares as of December 31, 2022 was 10,400,000 shares. The number of shares was applied to the comparison periods retrospectively for the purposes of calculating earnings per share.

*The diluted earnings per share are the same as the basic earnings per share as the company has no diluted instruments.

35. SUBSEQUENT EVENTS

- On March 28, 2023, the request to list Sports Clubs Company in the parallel market was conditionally approved, provided that the approval is conditional on the issuer obtaining the Capital Market Authority's approval of the registration application and the relevant offering in accordance with the relevant regulations and rules and fulfilling the liquidity conditions.

36. COMPARATIVE FIGURES

Certain comparative numbers have been reclassified to conform with the current presentation of the consolidated financial statements.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The company's financial statements for the year ended 31 December 2022 were approved by the Board of Directors 1 Dhu Al-Qa'adah H (Corresponding to 21 May 2023 G).