

Sky Blue Sports & Leisure Limited

Annual Report and Financial Statements

Year Ended

31 May 2018

Company Number 06414248

Sky Blue Sports & Leisure Limited

Company Information

Directors	L Deering T D Fisher
Registered number	06414248
Registered office	96 Kensington High Street London W8 4SG
Independent auditor	BDO LLP 3 Hardman Street Manchester M3 3AT

Sky Blue Sports & Leisure Limited

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Sky Blue Sports & Leisure Limited

Group Strategic Report For the Year Ended 31 May 2018

The directors present their strategic report together with the audited financial statements for the year ended 31 May 2018.

The loss for the year for the group is set out in the statement of total comprehensive income on page 9. The directors do not recommend a payment of a dividend.

The directors consider the key performance indicators of the group to be league status, finishing position of the club and the year's operating result. The directors are satisfied that the continued and on-going re-structuring of the business will improve the long term on and off field performance. The losses are envisaged to be in line with industry norms.

At the time of writing, the Ricoh Arena lease will come to an end at the completion of the 2018/19 season. It is envisaged that a resolution will be found which will allow the club to fulfil its fixtures for the 2019/20 season at the Ricoh Arena.

The 2016-17 season ended in relegation to League Two, the first time the Club had played in the fourth tier of English football since 1959. Mark Robins was appointed Manager in March 2017 but despite his best efforts the team were ultimately relegated. During the Summer of 2017 nine players were released from the squad and the club set about rebuilding a squad capable of challenging for promotion at the first attempt. Part of that process was to develop and grow the existing Recruitment Department.

Eleven new players were recruited during the Summer 2017 transfer window, with a combination of players experienced in League Two and some bright younger prospects. All players came in on free transfers including Marc McNulty who would go on to score 28 goals in all competitions during the 2017/18 season.

The season started with back-to-back wins at home to Notts County and away at Grimsby Town, but inconsistent form meant that although during the season the team were rarely out of the play-off positions we never really threatened to challenge for an automatic promotion place.

The Club was shocked to learn that in late August Assistant Manager Steve Taylor was taken seriously ill. The club called on the services of experienced coach Adi Viveash who was brought in on a temporary basis to support Mark Robins. Unfortunately, Steve Taylor was not able to return to full service and as such Adi was appointed permanent Assistant Manager at the end of the Season.

Progress was made in the FA Cup with a 3rd Round victory over Premier League opposition Stoke City before being knocked out in the 5th Round with defeat at Brighton and Hove Albion.

The club went in to the last game of the season at home to Morecambe requiring a point to be certain of a place in the play-offs. The resulting point saw the club take on Notts County in the play-off semi-final. A 5-2 aggregate win followed and the club went onto a Wembley appearance with around 37,000 fans travelling to London to see the team beat Exeter 3-1 and gain promotion to Division 1. This was the first club promotion in 51 years.

Lord Mayor Councillor John Blundell bestowed a Civic Reception for the Club at St. Marys Guildhall and the scenes that followed with the open top bus parade en-route to the Guildhall, when in excess of 50,000 City fans lined the streets, will remain in memories for a very long time. The club would like to take this opportunity to thank the fans for their magnificent support, and is confident that with this continued support the club can grow stronger.

With regard to the business performance, the 2017-18 period saw a slight decrease in year-on-year turnover of around £0.2m. The key concern for the business remains the partial and limited access to non-ticketing match day revenues and no non-match day turnover putting the club firmly at a competitive disadvantage relative to its peers.

With a small decrease in revenues and a slight increase in costs year-on-year then the group showed an operational loss of £1,578,378 (2017 - £1,113,359).

Sky Blue Sports & Leisure Limited

Group Strategic Report (continued) For the Year Ended 31 May 2018

Further to the business operational losses, the 2017/18 season saw significantly higher player sales, mainly due to the sale of George Thomas, and this resulted in the business realising a loss before interest due of £604,833 (2017 - loss £861,150).

Significant on-going investment in the Academy continues. Under EPPP rules, to retain its Category Two Academy Status, the club committed well in excess of the seasonal minimum spend contribution required.

The interest payable has increased from £1,858,410 to £1,872,283 year-on-year due to additional withholding tax due to HMRC on the interest owed to ARVO. The net capital debt owed to ARVO inclusive of accrued interest sits at £16,073,558 (2017 - £14,283,853).

The group has maintained its position of not having material creditors, other than its shareholder. The group has not securitized any future revenue streams.

Principal risks and uncertainties

The Board acknowledges that there are a number of risks and uncertainties which could have a material impact on the group's performance. The group's future income is affected by the club's performance because significant revenues are dependent upon team performance in the English Football League and domestic cup competitions.

In order for the team to remain competitive, significant investment is required on an ongoing basis in both financial and non-financial terms. This investment needs to be balanced with the most important Board responsibility, which is to maintain a financially secure professional football club.

The Board maintains the financial discipline throughout the company to ensure that it is able to continue to operate within its existing facilities.

The group prepares annual budgets and forecasts, and maintains a close working relationship with its financiers and shareholders and is dependent on the continuing support from shareholders. Further details of the going concern position of the group are set out in note 2.3.

This strategic report was approved on behalf of the Board on 28 February 2019.



T D Fisher
Director

Sky Blue Sports & Leisure Limited

Directors' Report For the Year Ended 31 May 2018

The directors present their report together with the audited financial statements for the year ended 31 May 2018.

Principal activity

The group is principally engaged in the operation of a professional football club. The company is engaged as a holding company for businesses in the sports and leisure industry.

Business review

A review of the business and its principal risks and uncertainties is set out in the strategic report on page 1 of these financial statements.

Post statement of financial position events

There have been no significant events affecting the group since the year end.

Directors

The directors who served during the year were:

L Deering
T D Fisher

Employee involvement

The group recognises the importance of good communications and ensures that employees are informed of matters affecting them as appropriate.

Disabled employees

Applications for employment by disabled persons are given full and fair consideration for all vacancies in accordance with their particular aptitudes and abilities. In the event of employees becoming disabled, every effort is made to assist them in order that their employment with the group may continue.

Disclosure of information to auditor

Each of the persons who are directors at the time when this directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the company and the Group's auditor is unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company and the Group's auditor is aware of that information.

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Directors' Report (continued) For the Year Ended 31 May 2018

The auditor, BDO LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 28 February 2019 and signed on its behalf.



T D Fisher
Director

Sky Blue Sports & Leisure Limited

Directors' Responsibilities Statement For the Year Ended 31 May 2018

The directors are responsible for preparing the group strategic report, the directors' report and the consolidated financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the Group and of the profit or loss of the Group for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the on the going concern basis.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the Group and to enable them to ensure that the comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Sky Blue Sports & Leisure Limited

Independent Auditor's Report to the Members of Sky Blue Sports & Leisure Limited

Opinion

We have audited the financial statements of Sky Blue Sports & Leisure Limited (the 'parent company') and its subsidiary (the 'group') for the year ended 31 May 2018 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the company statement of financial position, the consolidated statement of changes in equity, the company statement of changes in equity and related notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 May 2018 and of the group's loss and the parent company's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty in relation to going concern

We draw attention to note 2.3 to the financial statements, which indicates that the group's forecast shows that the company and group do not require additional funding from group shareholders within the next 12 months. However should the assumptions underlying these forecasts not be achieved, the company and group may require additional funding from group shareholders, and is reliant on the group shareholders in this regard. Additionally, the group has not yet secured a venue at which to host the 2019-20 season football matches.

These events or conditions, along with other matters as set out in note 2.3 indicate that a material uncertainty exists that may cast significant doubt on the group's and the parent company's ability to continue as a going concern. The financial statements do not include the adjustments that would be necessary if the group or parent company was unable to continue as a going concern. Our opinion is not modified in respect of this matter.

Sky Blue Sports & Leisure Limited

Independent Auditor's Report to the Members of Sky Blue Sports & Leisure Limited (continued)

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report and the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion::

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Sky Blue Sports & Leisure Limited

Independent Auditor's Report to the Members of Sky Blue Sports & Leisure Limited (continued)

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent 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 directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Stuart Wood (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Manchester
United Kingdom
28 February 2019

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Sky Blue Sports & Leisure Limited

Consolidated Statement of Comprehensive Income For the Year Ended 31 May 2018

	Note	2018 £	2017 £
Turnover	4	5,972,414	6,134,192
Cost of sales		(1,582,259)	(1,506,587)
Gross profit		4,390,155	4,627,605
Administrative expenses		(5,968,533)	(5,740,964)
Operating loss	5	(1,578,378)	(1,113,359)
Profit on sale of player registrations		973,545	252,087
Interest receivable and similar income	8	40	122
Interest payable and expenses	9	(1,872,283)	(1,858,410)
Loss before taxation		(2,477,076)	(2,719,560)
Tax on loss	10	-	-
Loss for the financial year		(2,477,076)	(2,719,560)
Other comprehensive income		-	-
Total comprehensive income for the year		(2,477,076)	(2,719,560)
(Loss) for the year attributable to:			
Non-controlling interests		(227,443)	(268,758)
Owners of the parent company		(2,249,633)	(2,450,802)
		(2,477,076)	(2,719,560)

The notes on pages 15 to 31 form part of these financial statements.

Sky Blue Sports & Leisure Limited
Registered number: 06414248

Consolidated Statement of Financial Position
As at 31 May 2018

	Note	2018 £	2018 £	2017 £	2017 £
Fixed assets					
Intangible assets	11		166,927		152,139
Tangible assets	12		385,535		415,472
			<u>552,462</u>		<u>567,611</u>
Current assets					
Debtors: amounts falling due within one year	14	796,216		1,157,530	
Cash at bank and in hand	15		682,223	298,161	
			<u>1,478,439</u>	<u>1,455,691</u>	
Creditors: amounts falling due within one year	16	(50,630,457)		(48,145,782)	
Net current liabilities			<u>(49,152,018)</u>		<u>(46,690,091)</u>
Net liabilities			<u>(48,599,556)</u>		<u>(46,122,480)</u>
Capital and reserves					
Called up share capital	19		13,698		13,698
Profit and loss account	20		(55,703,599)		(53,453,966)
Equity attributable to owners of the parent company			<u>(55,689,901)</u>		<u>(53,440,268)</u>
Non-controlling interests			7,090,345		7,317,788
			<u>(48,599,556)</u>		<u>(46,122,480)</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 28 February 2019.



T D Fisher
Director

The notes on pages 15 to 31 form part of these financial statements.

Sky Blue Sports & Leisure Limited
Registered number: 06414248

Company Statement of Financial Position
As at 31 May 2018

	Note	2018 £	2018 £	2017 £	2017 £
Current assets					
Debtors: amounts falling due within one year	14	70		70	
Creditors: amounts falling due within one year	16	(29,925,789)		(29,925,789)	
Net liabilities			<u>(29,925,719)</u>		<u>(29,925,719)</u>
Capital and reserves					
Called up share capital	19		13,698		13,698
Profit and loss account	20		(29,939,417)		(29,939,417)
			<u>(29,925,719)</u>		<u>(29,925,719)</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 28 February 2019.



T D Fisher
Director

The notes on pages 15 to 31 form part of these financial statements.

Sky Blue Sports & Leisure Limited

Consolidated Statement of Changes in Equity For the Year Ended 31 May 2018

	Called up share capital	Profit and loss account	Equity attributable to owners of parent company	Non- controlling interests	Total equity
	£	£	£	£	£
At 1 June 2017	13,698	(53,453,966)	(53,440,268)	7,317,788	(46,122,480)
Comprehensive income for the year					
Loss for the year	-	(2,249,633)	(2,249,633)	(227,443)	(2,477,076)
Other comprehensive income for the year	-	-	-	-	-
Total comprehensive income for the year	-	(2,249,633)	(2,249,633)	(227,443)	(2,477,076)
Total transactions with owners	-	-	-	-	-
At 31 May 2018	13,698	(55,703,599)	(55,689,901)	7,090,345	(48,599,556)

Consolidated Statement of Changes in Equity For the Year Ended 31 May 2017

	Called up share capital	Profit and loss account	Equity attributable to owners of parent company	Non- controlling interests	Total equity
	£	£	£	£	£
At 1 June 2016	13,698	(51,003,164)	(50,989,466)	7,586,546	(43,402,920)
Comprehensive income for the year					
Loss for the year	-	(2,450,802)	(2,450,802)	(268,758)	(2,719,560)
Total comprehensive income for the year	-	(2,450,802)	(2,450,802)	(268,758)	(2,719,560)
Total transactions with owners	-	-	-	-	-
At 31 May 2017	13,698	(53,453,966)	(53,440,268)	7,317,788	(46,122,480)

The notes on pages 15 to 31 form part of these financial statements.

Sky Blue Sports & Leisure Limited

Company Statement of Changes in Equity For the Year Ended 31 May 2018

	Called up share capital £	Profit and loss account £	Total equity £
At 1 June 2017	13,698	(29,939,417)	(29,925,719)
Total comprehensive income for the year	-	-	-
Total transactions with owners	-	-	-
At 31 May 2018	13,698	(29,939,417)	(29,925,719)

Company Statement of Changes in Equity For the Year Ended 31 May 2017

	Called up share capital £	Profit and loss account £	Total equity £
At 1 June 2016	13,698	(29,850,651)	(29,836,953)
Comprehensive income for the year			
Loss for the year	-	(88,766)	(88,766)
Total comprehensive income for the year	-	(88,766)	(88,766)
Total transactions with owners	-	-	-
At 31 May 2017	13,698	(29,939,417)	(29,925,719)

The notes on pages 15 to 31 form part of these financial statements.

Sky Blue Sports & Leisure Limited

Consolidated Statement of Cash Flows For the Year Ended 31 May 2018

	2018 £	2017 £
Cash flows from operating activities		
Loss for the financial year	(2,477,076)	(2,719,560)
Adjustments for:		
Interest payable	1,872,283	1,858,288
Loss on disposal of tangible assets	(973,545)	(252,087)
Depreciation of tangible assets	124,028	144,587
Decrease/(increase) in debtors	361,313	(228,147)
Increase in creditors	367,112	231,105
Profit on sale of fixed assets	150	(696)
Decrease/(increase) in fixed assets held for sale	-	(13,297)
Interest paid - shareholder loans	-	(39,105)
Interest received	40	122
Net cash used in operating activities	(725,695)	(1,018,790)
Cash flows from investing activities		
Proceeds from sale of intangible assets	979,230	252,087
Purchase of tangible fixed assets	(5,200)	(26,927)
Purchase of intangible fixed assets	(109,514)	(75,203)
Net cash from investing activities	864,516	149,957
Cash flows from financing activities		
New loans received	500,000	500,000
Repayment of loan	(254,759)	(112,443)
Net cash used in financing activities	245,241	387,557
Net increase/(decrease) in cash and cash equivalents	384,062	(481,276)
Cash and cash equivalents at beginning of year	298,161	779,437
Cash and cash equivalents at the end of year	682,223	298,161
Cash and cash equivalents at the end of year comprise:		
Cash at bank and in hand	682,223	298,161

The notes on pages 15 to 31 form part of these financial statements.

Sky Blue Sports & Leisure Limited

Notes to the Financial Statements For the Year Ended 31 May 2018

1. General information

Sky Blue Sports & Leisure Limited is a private company limited by shares incorporated in England and Wales under the Companies Act 2006. The address of the registered office is given on the company information page and the nature of the company's operations and its principal activities are set out in the directors' report.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires group management to exercise judgement in applying the group accounting policies (see note 3).

In preparing the financial statements of the company, advantage has been taken of the following disclosure exemptions available in FRS 102 as equivalent disclosures are provided for the group:

- No cash flow statement has been presented for the company;
- Disclosures in respect of the company's financial instruments have not been presented; and
- No disclosure has been given for the aggregate remuneration of the key management personnel of the company.

The following principal accounting policies have been applied:

2.2 Basis of consolidation

The group financial statements incorporate those of the company and its subsidiary undertaking (see note 13) drawn up to 31 May 2018. Profits or losses on intra-group transactions are eliminated in full. The results of subsidiary undertakings are included in the consolidated results from the date of acquisition.

Acquisitions are accounted for under the acquisition method of accounting with goodwill representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, being capitalised in the consolidated statement of financial position and amortised over its expected useful life, being 10 years.

Non-controlling interests in the net liabilities of consolidated subsidiaries are identified separately from the group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling's share of changes in equity since the date of the combination. Losses applicable to the non-controlling in excess of the non-controlling's share of changes in equity are allocated against the interests of the group except to the extent that the non-controlling has a binding obligation and is able to make an additional investment to cover the losses.

Sky Blue Sports & Leisure Limited

Notes to the Financial Statements For the Year Ended 31 May 2018

2. Accounting policies (continued)

2.3 Going concern

Notwithstanding the year end consolidated statement of financial position, which shows net current liabilities of £49,152,018 (2017 - £46,690,091) and net liabilities of £48,599,556 (2017 - £46,122,480), the financial statements have been prepared on a going concern basis.

As part of their going concern considerations the directors have prepared detailed forecasts including the 2019-20 season and reviewed the group and company's trading and working capital requirements.

These forecasts indicate that the company and group do not require additional funding from group shareholders within the next twelve months. However, should the assumptions underlying these forecasts not be achieved, the company and group may require additional funding from group shareholders.

The group and company has received written confirmations from group shareholders of their intention to continue to provide support to the group by not demanding repayment of debt for the foreseeable future and group shareholders have confirmed their intention to provide or source funding if required by the group to enable the group to continue as a going concern. Notwithstanding this intention; there is no contractual certainty that such funding will be made available nor that loans will not be called for repayment.

Additionally, the group has not yet secured a venue at which to host the 2019-20 season football matches. Management remain confident that a solution to this situation will be found and are exploring a number of options in relation to venues at which to host the football matches for the 2019-20 season. Nevertheless, at the date of approval of these financial statements, there remains uncertainty regarding the outcome of these negotiations. The lack of a venue at which to host the football matches for the 2019-20 season may also cast significant doubt on the company's and groups ability to continue as a going concern.

The directors consider the going concern basis to be appropriate as they have no reason to believe that group shareholders will not provide the required support. However these conditions indicate the existence of a material uncertainty which may cast significant doubt on the company's and group's ability to continue as a going concern.

2.4 Turnover

Turnover represents match receipts, executive box rentals and income from commercial activities receivable by the group, excluding VAT and trade discounts. Turnover is recognised for match related income in accordance with the matches played. Sponsorship and similar commercial income is recognised over the duration of the respective contracts in line with the contractual terms. Income arising from the fixed element of TV receipts is recognised over the course of the playing season. The non-fixed element of TV receipts relating to match coverage are recognised as the matches are played.

Income from match receipts, sponsorship and commercial contracts, which has been received prior to the year end in respect of future football seasons, is treated as deferred income.

Sky Blue Sports & Leisure Limited

Notes to the Financial Statements For the Year Ended 31 May 2018

2. Accounting policies (continued)

2.5 Intangible assets

The group capitalises as an intangible asset the element of a player's transfer fee which relates to his registration together with associated costs and amortises that element over the period of his contract including any subsequently agreed extensions. Players' registrations are written down for impairment when the carrying amount exceeds the amount recoverable through use or sale.

Trade marks purchased separately from a business are included at cost and amortised over their useful economic lives of 10 years.

2.6 Goodwill

Goodwill arising on the acquisition of a subsidiary undertaking is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired. Positive goodwill is capitalised and amortised through the statement of comprehensive income over the directors' estimate of its useful economic life of 10 years.

Impairment tests on the carrying value of goodwill are undertaken:

- At the end of the first full financial year following acquisition;
- In other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

The profit or loss on disposal of a business includes any attributable goodwill arising on the acquisitions.

2.7 Impairment of fixed assets and goodwill

The need for any fixed asset and goodwill impairment write-down is assessed by comparison of the carrying value of the asset against the higher of realisable value and value in use.

2.8 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight line method.

Depreciation is provided on the following basis:

Plant, fixtures and fittings	- 7.5% to 33.3% per annum
Freehold land and buildings	- 2% per annum

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the consolidated statement of comprehensive income.

Sky Blue Sports & Leisure Limited

Notes to the Financial Statements For the Year Ended 31 May 2018

2. Accounting policies (continued)

2.9 Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost less provisions for impairment.

2.10 Current and deferred taxation

Tax is recognised in the consolidated statement of comprehensive income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company and the Group operate and generate income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the statement of financial position date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

2.11 Foreign currency translation

Functional and presentation currency

The company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of comprehensive income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within 'other operating income'.

Sky Blue Sports & Leisure Limited

Notes to the Financial Statements For the Year Ended 31 May 2018

2. Accounting policies (continued)

2.12 Leased assets

Assets held under finance leases and hire purchase contracts are capitalised in the statement of financial position and depreciated over their expected useful lives. The interest element of leasing payments represent a constant proportion of the capital balance outstanding and is charged to the statement of comprehensive income over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the statement of comprehensive income on a straight line basis over the lease term.

2.13 Pensions

The pension costs charged against profits represent the amount of the benefit payable to the scheme in respect of the accounting period.

Certain employees are members of the Football League Pension and Life Assurance (FLPLA) Scheme and the Football League Players' Benefit Scheme (the "schemes"). The company continues to make contributions in respect of its share of the deficit of these defined benefit pension schemes. Accrual of the benefits on a final salary basis was suspended with effect from 31 August 1999, when actuarial review showed a substantial deficit. As one of the number of participating employers the company is advised only of its share of the scheme's deficit and recognises a liability in respect of this. Contributions payable to the scheme reduce this liability. Further details of this scheme are set out in note 21.

2.14 Loyalty bonuses and deferred signing on fees

Under the terms of certain player contracts additional sums may be payable dependent upon the achievement of certain future conditions. Such fees are charged to the statement of comprehensive income in the period in which the criteria for payment are met. Unprovided elements of such contracts are disclosed as contingent liabilities where the criteria is not met at the statement of financial position date.

2.15 Interest income

Interest income is recognised in the consolidated statement of comprehensive income using the effective interest method.

2.16 Finance costs

Finance costs are charged to the consolidated statement of comprehensive income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.17 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

Sky Blue Sports & Leisure Limited

Notes to the Financial Statements For the Year Ended 31 May 2018

2. Accounting policies (continued)

2.18 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the consolidated statement of cash flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

2.19 Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the statement of financial position. Finance costs and gains or losses relating to financial liabilities are included in the statement of comprehensive income. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited directly to equity.

3. Judgements in applying accounting policies and key sources of estimation uncertainty

The preparation of financial statements in conformity with FRS 102 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The nature of the group's business is such that there can be unpredictable variation and uncertainty regarding its business. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Sky Blue Sports & Leisure Limited

Notes to the Financial Statements For the Year Ended 31 May 2018

4. Turnover

An analysis of turnover by class of business is as follows:

	2018 £	2017 £
Match receipts:		
- Net receipts from league and cup matches, pools and executive box rentals	2,428,942	2,461,807
Commercial activities:		
- Television, sponsorship, advertising, club lottery, shop and other promotion activities	3,543,472	3,672,385
	<u>5,972,414</u>	<u>6,134,192</u>

All turnover arose within the United Kingdom.

5. Operating loss

The operating loss is stated after charging:

	2018 £	2017 £
Amortisation of intangible fixed assets	89,041	100,704
Depreciation of tangible fixed assets	34,987	43,833
Auditor's remuneration:		
- Audit services	22,000	21,000
- Non audit services - taxation	4,000	4,000
- Non audit services - other	3,500	1,500
Operating lease charges:		
- Equipment and vehicles	28,959	54,370
- Land and buildings	545,755	602,814

Sky Blue Sports & Leisure Limited

Notes to the Financial Statements For the Year Ended 31 May 2018

6. Employees

Staff costs, including directors' remuneration, were as follows:

	Group 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
Wages and salaries	4,238,767	4,051,778	-	-
Social security costs	383,924	365,144	-	-
Other pension costs	256,608	36,417	-	-
	4,879,299	4,453,339	-	-
	4,879,299	4,453,339	-	-

Of the amounts disclosed within wages and salaries above £361,710 (2017 - £281,309) have been included within direct operating costs for the year.

Eligible staff are members of the Football League Limited Pension and Life Assurance Scheme. The latest valuation of the scheme deficit has shown an underfunding of the scheme and accordingly the group's current share of the liability stands at £478,583 (2017 - £295,856). This is included within creditors.

The group operates a defined contribution pension scheme for the benefit of the employees. The assets of the scheme are administered by trustees in a fund independent from those of the group.

An additional accrual in relation to the Football League Limited Pension and Life Assurance Scheme has been required in the year due to an updated position being provided by the Football League. This is not expected to recur next year.

The average monthly number of employees, during the year was as follows:

	Group 2018 No. £	Group 2017 No. £	Company 2018 No. £	Company 2017 No. £
Players and management	132	129	-	-
Administrative and commercial	11	11	-	-
Stewards (part time)	209	258	-	-
	352	398	-	-
	352	398	-	-

Sky Blue Sports & Leisure Limited

Notes to the Financial Statements For the Year Ended 31 May 2018

7. Directors' remuneration

Remuneration in respect of directors was as follows:

	2018 £	2017 £
Remuneration paid / accrued to third parties in respect of directors' services	-	175,781

8. Interest receivable and similar income

	2018 £	2017 £
Other interest receivable	40	122

9. Interest payable and similar expenses

	2018 £	2017 £
Other loans	2,827	6,308
Withholding tax due on interest payable	321,025	367,109
Other interest payable	1,548,431	1,484,993
	1,872,283	1,858,410

10. Taxation

	2018 £	2017 £
Corporation tax		
Current tax on profits for the year	-	-
Total current tax	-	-

Sky Blue Sports & Leisure Limited

Notes to the Financial Statements For the Year Ended 31 May 2018

10. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 19.00% (2017 - 19.83%). The differences are explained below:

	2018 £	2017 £
Loss on ordinary activities before tax	<u>(2,477,076)</u>	<u>(2,719,560)</u>
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.00% (2017 - 19.83%)	(470,644)	(539,373)
Effects of:		
Expenses not deductible for tax purposes	2,964	1,878
Fixed asset differences	1,333	-
Adjust deferred tax average rate	465,150	535,965
Income not taxable for tax purposes	(238)	-
Other differences	1,435	1,530
Total tax charge for the year	<u>-</u>	<u>-</u>

Factors that may affect future tax charges

The group has unrecognised tax losses of £3,241,983 (2017 - £2,817,286). These have not been recognised as their future recoverability is uncertain.

Sky Blue Sports & Leisure Limited

Notes to the Financial Statements For the Year Ended 31 May 2018

11. Intangible assets

Group and Company

	Trade marks £	Player registrations £	Goodwill £	Total £
Cost				
At 1 June 2017	3,820	372,106	2,224,038	2,599,964
Additions	-	109,514	-	109,514
Disposals	-	(126,880)	-	(126,880)
At 31 May 2018	<u>3,820</u>	<u>354,740</u>	<u>2,224,038</u>	<u>2,582,598</u>
Amortisation				
At 1 June 2017	2,679	221,108	2,224,038	2,447,825
Charge for the year	382	88,659	-	89,041
On disposals	-	(121,195)	-	(121,195)
At 31 May 2018	<u>3,061</u>	<u>188,572</u>	<u>2,224,038</u>	<u>2,415,671</u>
Net book value				
At 31 May 2018	<u>759</u>	<u>166,168</u>	-	<u>166,927</u>
At 31 May 2017	<u>1,141</u>	<u>150,998</u>	-	<u>152,139</u>

Sky Blue Sports & Leisure Limited

Notes to the Financial Statements For the Year Ended 31 May 2018

12. Tangible fixed assets

Group

	Freehold land and buildings £	Plant, fixtures and fittings £	Total £
Cost			
At 1 June 2017	359,999	210,765	570,764
Additions	-	5,200	5,200
Disposals	-	(2,650)	(2,650)
At 31 May 2018	<u>359,999</u>	<u>213,315</u>	<u>573,314</u>
Depreciation			
At 1 June 2017	24,145	131,147	155,292
Charge for the year on owned assets	5,432	29,555	34,987
Disposals	-	(2,500)	(2,500)
At 31 May 2018	<u>29,577</u>	<u>158,202</u>	<u>187,779</u>
Net book value			
At 31 May 2018	<u><u>330,422</u></u>	<u><u>55,113</u></u>	<u><u>385,535</u></u>
At 31 May 2017	<u><u>335,854</u></u>	<u><u>79,618</u></u>	<u><u>415,472</u></u>

Sky Blue Sports & Leisure Limited

Notes to the Financial Statements For the Year Ended 31 May 2018

13. Fixed asset investments

Company

	Investments in subsidiary companies £
Cost	
At 31 May 2017 and 31 May 2018	272,412
Impairment	
At 31 May 2017 and 31 May 2018	272,412
Net book value	
	-
At 31 May 2017 and 31 May 2018	-

Subsidiary undertakings

At 31 May 2018 the following were subsidiary undertakings of the company:

Name	Class of shares	Holding	Principal activity
Otium Entertainment Group Limited	Ordinary	90.10 %	Football Club

The registered address of the above named company is Sky Blue Lodge, Leamington Road, Ryton on Dunsmore, CV8 3FL.

The group has not accounted for an asset in relation to the minority interest held in Otium Entertainment Group Limited as there is no contractual commitment for the minority shareholder to fund any losses generated by the subsidiary undertaking.

The subsidiary undertaking have been consolidated in the group financial statements during the period in which the group retained control of the assets and liabilities.

14. Debtors

	Group 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
Trade debtors	159,600	114,938	-	-
Other debtors	122,524	224,925	70	70
Prepayments and accrued income	514,092	817,667	-	-
	796,216	1,157,530	70	70

Sky Blue Sports & Leisure Limited

Notes to the Financial Statements For the Year Ended 31 May 2018

15. Cash and cash equivalents

	Group 2018 £	Group 2017 £
Cash at bank and in hand	682,223	298,161

16. Creditors: amounts falling due within one year

	Group 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
Other loans and overdrafts	37,453,930	37,208,726	28,554,349	28,554,349
Trade creditors and transfer fees	498,232	356,281	33,786	26,513
Social security and other taxes	356,774	242,163	-	-
Other creditors	646,040	901,387	52,766	52,767
Accruals	10,696,629	8,617,756	437,189	437,189
Deferred income	978,852	819,469	-	-
Amounts owed to group undertakings	-	-	847,699	854,971
	50,630,457	48,145,782	29,925,789	29,925,789

Amounts owed to group undertakings are interest free and due on demand.

17. Other loans

Included within other loans falling due within one year is an amount of £28,554,312 (2017 - amounts falling due within one year, £28,554,312) which relates to amounts advanced under a loan facility with Investment Funds managed by SISU Capital Limited, collectively these Funds hold a majority shareholding in the company.

Included within other loans falling due within one year is an amount of £5,986,006 (2017 - £5,986,006) secured on certain assets of the football club in relation to monies advanced by Arvo Master Fund Limited, a company which has an interest in the shares of group companies. Interest of £5,633,935 (2017 - £4,466,664) is included within accruals in relation to this loan.

Included within other loans falling due within one year is an amount of £1,750,814 (2017 - amounts due within one year, £1,750,814) which relates to monies advanced by Arvo Master Fund Limited, a company which has an interest in the shares of group companies. Interest of £1,208,334 (2017 - £1,008,334) is included within accruals in relation to this loan. These loan notes are convertible to ordinary shares in specific circumstances and have been treated as having elements of both debt and equity (see note 19).

Included within other loans falling due within one year is an amount of £1,167,557 (2017 - £917,557) which relates to a Revolving Credit Facility agreed with SISU Master Fund Limited, Interest of £326,913 (2017 - £154,479) is included within accruals in relation to this loan.

Sky Blue Sports & Leisure Limited

Notes to the Financial Statements For the Year Ended 31 May 2018

18. Borrowings

Borrowings are repayable as follows:

	Group 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
Amounts falling due within one year				
Other loans	<u>37,453,930</u>	<u>37,208,726</u>	<u>28,554,349</u>	<u>28,554,349</u>

19. Share capital

	2018 £	2017 £
Allotted, called up and fully paid		
13,698 (2017 - 13,698) ordinary shares of £1.00 each	<u>13,698</u>	<u>13,698</u>

Equity component of convertible debt

	2018 £
At 1 June 2017 and at 31 May 2018	<u>249,087</u>

A subsidiary company has issued £2,000,000 of unsecured convertible loan notes to a related party. These loan notes are convertible to ordinary shares in specific circumstances and have been treated as having elements of both debt and equity.

20. Reserves

The company's capital and reserves are as follows:

Called up share capital

Called up share capital represents the nominal value of the shares issued.

Profit and loss account

The profit and loss account represents cumulative profits or losses, net of dividends paid and other adjustments.

Sky Blue Sports & Leisure Limited

Notes to the Financial Statements For the Year Ended 31 May 2018

21. Pension costs

Certain employees of the group participate in the Football League Pension and Life Assurance (FLPLA) Scheme and the Football League Players' Benefit Scheme. Both schemes are defined benefit schemes co-sponsored by the FA Premier League and the Football League.

Accrual of the benefits on a final salary basis was suspended with effect from 31 August 1999, when actuarial review showed a substantial deficit. As one of the number of participating employers the group is advised only of its share of the scheme's deficit and recognises a liability in respect of this.

The latest valuation of the scheme deficit has shown an underfunding of the scheme and accordingly the group's current share of the liability stands at £478,583 (2017 - £295,856). This is included within creditors.

22. Contingent liabilities

Group

The group has, under transfer agreements, a liability to pay additional sums dependent on players' attainment of agreed numbers of first team appearances and any subsequent transfer value. No provision has been made in these accounts for such liabilities as the conditions are not met at the statement of financial position date and no reliable estimates can be made of any subsequent transfer values.

Appearance liabilities

	2018	2017
	£	£
Amounts payable:		
In more than one year	<u>100,000</u>	<u>100,000</u>

23. Contingent assets

Based on transfer agreements signed prior to the year-end the company could potentially receive additional amounts of at least £650,000 (2017 - £125,000). These sums are dependent on the attainment of certain objectives by the player and the club they are now employed by. Conditions have not been met at the statement of financial position date and no asset has been recognised.

Sky Blue Sports & Leisure Limited

Notes to the Financial Statements For the Year Ended 31 May 2018

24. Financial commitments

Leases

The group has total commitments under non-cancellable operating lease commitments payable as follows:

	2018 Land and buildings £	2017 Land and buildings £
In one year or less	385,271	389,162
Between one and five years	4,237	43,300
	<u>389,508</u>	<u>432,462</u>

25. Related party transactions

Details on loan arrangements with investment funds managed by SISU Capital Limited are set out in note 17.

The group also received loans from Arvo Master Fund Limited, a company with an interest in the shares of group companies. These amounts are included within note 17. The minority interest relates to preference shares in the subsidiary owned by Arvo Master Fund Limited. Interest payable to the minority shareholder is shown in note 9.

The directors are considered to be the key management personnel. See note 7 for details of the total compensation paid to key management personnel for services provided to the company.

26. Controlling party

The majority shareholding in the company is held by investment funds under the management of SISU Capital Limited who are considered to be the controlling party.