

SKY BLUE SPORTS & LEISURE LIMITED
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MAY 2019

Registered number: 06414248

EDWARDS
Chartered Accountants
Registered Auditor

SKY BLUE SPORTS & LEISURE LIMITED

REPORT AND FINANCIAL STATEMENTS

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SKY BLUE SPORTS & LEISURE LIMITED

COMPANY INFORMATION

Registered number	06414248
Directors	T D Fisher L Deering
Registered office	96 Kensington High street London W8 4SG
Auditors	Edwards 34 High Street Aldridge Walsall West Midlands WS9 8LZ

SKY BLUE SPORTS & LEISURE LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 MAY 2019

The directors present their strategic report together with the audited financial statements for the year ended 31 May 2019.

The result for the year for the group is set out in the statement of comprehensive income on page 10. 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 2018-19 season saw the club back in League One having been promoted from League Two in the previous season. The club finished a respectable 8th in the table, just 8 points outside of a play-off position, and for a period in early 2019 the play-offs looked a possibility. Of the 46 league games 18 were won, 17 lost and 11 matches ended in a draw. The average home league attendance was 12,363, the highest since the 15-16 season and season ticket sales at just over 7,000 were the highest for many seasons.

Subsequent to 2018-19 the club unfortunately had to move away from the Ricoh Arena, and has played its home games at St Andrews, Birmingham. This decision was not taken lightly by the Board and the Club's ownership.

Despite operating under groundshare circumstances the fans have consistently shown a magnificent level of support for the team during the 2019-20 season. The club would like to take this opportunity to thank all of our supporters for their outstanding and continued backing of the club.

With regard to the business performance, the 2018-19 period saw a slight increase in the year on year turnover of £289,658 (31st May 2019 £6,262,072; 31st May 2018 £5,972,414).

Despite the small increase in revenues, the operating loss of the company increased by £694,489 (31st May 2019 loss £2,272,867; 31st May 2018 loss £1,578,378) – this was as a direct consequence of administrative expenses increasing by £1,066,497.

The increase in administrative expenses mainly arose through two areas: increased contracted employee costs of c.£558,000 and higher player amortisation costs of c.£358,000 relating to the investment required to build a competitive playing squad. These increases are as a direct result of promotion to League 1.

Further to the business operational losses, the 2018-19 season saw a significant increase of £3,407,541 in the profit on player sales (31st May 2019 £4,381,086; 31st May 2018 £973,545). This increase was achieved mainly through contingent transfer fees being received following the sale by Norwich City FC of James Maddison to Leicester City FC, together with the sale of Marc McNulty to Reading FC.

With regard to player movements the company invested in excess of £800,000 in player acquisitions, with Amadou Bakayoko joining from Walsall FC and Conor Chaplin arriving from Portsmouth FC.

The increased player sales resulted in the business realising a profit before tax for 2019 of £12,605 (2018 loss £2,477,076).

Significant on-going investment in the Academy continues, with the club committing well in excess of the required minimum seasonal spend contribution in order to retain its Category Two Academy Status. The 2018-19 season saw Academy graduates Lee Burge, Jordan Wills, Jordan Shipley and Tom Bayliss regularly feature in the side and again we were high in the EFL "Futures" table for appearances for young home grown players. The Club has also committed to a 5 year lease at the Alan Higgs Centre which gives the Academy security in the medium term.

The group has maintained its position of not having material creditors, other than its shareholder.

SKY BLUE SPORTS & LEISURE LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 MAY 2019

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 Football League and domestic cup competitions.

In order for the team to remain competitive, significant investment is required on an ongoing basis. 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 available shareholder funding facilities.

The group is dependent upon the continuing support from shareholders, and in consideration of such, prepares annual budgets and forecasts, and maintains a close working relationship with its financiers and shareholders.

The board continue to explore the possibilities of a return to the Ricoh for the playing season 2020-21, but in the absence of any agreement being reached, would seek to implement the option to continue the groundshare at St. Andrew's.

Further detail of the going concern position of the group is set out in note 1.

This strategic report was approved on behalf of the Board on 25 February 2020.



T D Fisher
Director

SKY BLUE SPORTS & LEISURE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MAY 2019

The directors present their report and financial statements for the year ended 31 May 2019.

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 pages 2-3 of these financial statements.

Post statement of financial position events

Transfers of player registrations subsequent to 31 May 2019, taking into account applicable costs and player acquisitions, resulted in a net c.£3,300,000 receivable by the club.

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

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.

SKY BLUE SPORTS & LEISURE LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 MAY 2019

Auditors

Edwards were appointed as auditor to the company and in accordance with section 485 of the Companies Act 2006, a resolution proposing that they be re-appointed will be put at a General Meeting.

This report was approved by the board on 25 February 2020 and signed on its behalf.



T D Fisher
Director

SKY BLUE SPORTS & LEISURE LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 31 MAY 2019

The directors are responsible for preparing the 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). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the company and of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting policies have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006. The directors are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

SKY BLUE SPORTS & LEISURE LIMITED

INDEPENDENT AUDITORS REPORT FOR THE YEAR ENDED 31 MAY 2019

Opinion

We have audited the financial statements of Sky Blue Sports & Leisure Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 May 2019 which comprise of a Consolidated statement of Comprehensive Income, a Consolidated Statement of Financial Position, a Consolidated Statement of Changes in Equity, a Consolidated Statement of Cashflows and 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 parent company's affairs as at 31 May 2019, and of its results for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- 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 parent 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

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the company and group's ability to continue as a going concern.

The group is reliant on its shareholders and the group's forecasts indicate that they are likely to require additional funding within the next 12 months. The group has received written confirmations from its shareholders of their intention to continue to provide support to the group by not demanding repayment of loans owing to them for the foreseeable future.

The board continue to explore the possibilities of a return to the Ricoh for the playing season 2020-21, but in the absence of any agreement being reached, would seek to implement the option to continue the ground share at St. Andrew's. Therefore, at the date of approval of these financial statements, there remains uncertainty regarding the outcome of these negotiations. This uncertainty regarding the venue for the 2020-21 season may also cast significant doubt on the group's and parent company's ability to continue as a going concern.

These conditions indicate the existence of a material uncertainty which may cast significant doubt over the group's and parent company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group and parent were unable to continue as a going concern.

SKY BLUE SPORTS & LEISURE LIMITED

INDEPENDENT AUDITORS REPORT (CONTINUED) FOR THE YEAR ENDED 31 MAY 2019

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. 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 the 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 our knowledge and understanding of the group and 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, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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 AUDITORS REPORT (CONTINUED) FOR THE YEAR ENDED 31 MAY 2019

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 6, 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 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 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: <https://www.frc.org.uk/Our-Work/Audit/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Auditors-responsibilities-for-audit/Description-of-auditors-responsibilities-for-audit.aspx>. 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.



Paul Tonks BSc (Econ) FCA (Senior Statutory Auditor)
for and on behalf of Edwards
Registered Auditors

28/2/2020

34 High Street
Aldridge
Walsall
West Midlands
WS9 8LZ

SKY BLUE SPORTS & LEISURE LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AS AT 31 MAY 2019

	Note	2019 £	2018 £
Turnover	3	6,262,072	5,972,414
Cost of sales		(1,499,909)	(1,582,259)
Gross profit		4,762,163	4,390,155
Administrative expenses		(7,035,030)	(5,968,533)
Operating loss	4	(2,272,867)	(1,578,378)
Profit on sale of player registrations		4,381,086	973,545
Interest receivable and similar income	6	12	40
Interest payable and expenses	7	(2,095,626)	(1,872,283)
Profit/(Loss) before taxation		12,605	(2,477,076)
Taxation on profit/(loss)	8	-	-
Profit/(Loss) for the financial year		12,605	(2,477,076)
Other comprehensive income		-	-
Total comprehensive profit/(loss) for the year		12,605	(2,477,076)
Profit/(Loss) for the year attributable to:			
Non-controlling interests		6,922	(227,443)
Owners of the parent company		5,683	(2,249,633)
		12,605	(2,477,076)

The notes on pages 15 to 30 form part of these financial statements.

SKY BLUE SPORTS & LEISURE LIMITED

CONSOLIDATED BALANCE SHEET AS AT 31 MAY 2019

	Note	2019 £	2019 £	2018 £	2018 £
Fixed assets					
Intangible assets	9		729,163		166,927
Tangible assets	10		432,960		385,535
			1,162,123		552,462
Current assets					
Stock		10,176		-	
Debtors	12	447,213		796,216	
Cash at bank and in hand	13	56,603		682,223	
			513,992	1,478,439	
Creditors: amounts falling due within one year	14	(50,263,066)		(50,630,457)	
			(49,749,074)	(49,152,018)	
Net current liabilities			(49,749,074)	(49,152,018)	
Net liabilities			(48,586,951)	(48,599,556)	
Capital and reserves					
Called up share capital	17		13,698		13,698
Profit and loss account			(55,697,916)		(55,703,599)
Equity attributable to owners of the parent company			(55,684,218)	(55,689,901)	
Non-controlling interests			7,097,267		7,090,345
Total shareholders' funds			(48,586,951)	(48,599,556)	

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 25 February 2020.



T D Fisher
Director

Company Registration Number: 06414248

The notes on pages 15 to 30 form part of these financial statements.

SKY BLUE SPORTS & LEISURE LIMITED

COMPANY BALANCE SHEET AS AT 31 MAY 2019

	Note	2019 £	2019 £	2018 £	2018 £
Current assets					
Debtors: amounts falling due within one year	12	70		70	
Creditors: amounts falling due within one year	14	(29,925,789)	(29,925,789)		
Net liabilities			(29,925,719)	(29,925,719)	
Capital and reserves					
Called up share capital	17		13,698	13,698	
Profit and loss account			(29,939,417)	(29,939,417)	
			(29,925,719)	(29,925,719)	

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 25 February 2020.



T D Fisher
Director

Company Registration Number: 06414248

The notes on pages 15 to 30 form part of these financial statements.

SKY BLUE SPORTS & LEISURE LIMITED

CONSOLIDATED AND COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MAY 2019

Group	Called up share capital	Profit and loss account	Equity attributable to owners of parent company	Non-controlling interest	Total
As 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)
As at 31 May 2018	13,698	(55,703,599)	(55,689,901)	7,090,345	(48,599,556)
Comprehensive income for the year					
Profit for the year	-	5,683	5,683	6,922	12,605
As at 31 May 2019	13,698	(55,697,916)	(55,684,218)	7,097,267	(48,586,951)
Company			Called up Share capital	Profit and loss account	Total
As at 1 June 2017			13,698	(29,939,417)	(29,925,719)
Comprehensive income for the year					
Loss for the year			-	-	-
As at 31 May 2018			13,698	(29,939,417)	(29,925,719)
Comprehensive income for the year					
Loss for the year			-	-	-
As at 31 May 2019			13,698	(29,939,417)	(29,925,719)

The notes on pages 15 to 30 form part of these financial statements.

SKY BLUE SPORTS & LEISURE LIMITED

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MAY 2019

	Note	2019 £	2018 £
Net cash from operating activities	24	(2,151,812)	(725,735)
Cash flow from returns on investments and servicing of finance			
Interest received		12	40
Interest paid		(1,477,906)	-
		<u>(1,477,894)</u>	<u>40</u>
Net cash used from returns on investments and servicing of finance		(1,477,894)	40
Cash flow from investing activities			
Proceeds from sales of intangible assets		4,411,340	979,230
Purchase of tangible fixed assets		(114,427)	(5,200)
Purchase of intangible fixed assets		(1,039,379)	(109,514)
		<u>3,257,534</u>	<u>864,516</u>
Net cash used in investing activities		3,257,534	864,516
Cash flow from financing activities			
New loans received		-	500,000
Repayment of loan		(253,448)	(254,759)
		<u>(253,448)</u>	<u>245,241</u>
Net cash used in financing activities		(253,448)	245,241
Net increase/(decrease) in cash at bank and in hand		(625,620)	384,062
Cash and cash equivalents at the beginning of the year		682,223	298,161
		<u>56,603</u>	<u>682,223</u>
Cash and cash equivalents at the end of the year		56,603	682,223
Consisting of:			
Cash at bank and in hand		56,603	682,223
		<u>56,603</u>	<u>682,223</u>

The notes on pages 15 to 30 form part of these financial statements.

SKY BLUE SPORTS & LEISURE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2019

1 Accounting policies (continued)

Company 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.

Accounting convention

These financial statements have been prepared on the going concern basis and in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the group. Monetary amounts in these financial statements are rounded to the nearest £.

The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted in the preparation of the financial statements are set out below and have been consistently applied.

Consolidation

The group accounts consolidate the accounts of the company and all its subsidiary undertakings at 31 May 2019 using acquisition accounting. As permitted by Section 408 of the Companies Act 2006, the parent company has not presented its own profit and loss account. The loss after tax of the parent Company for the year was £nil (2018 - £nil).

Going concern

Notwithstanding the year end consolidated balance sheet, which shows net current liabilities of £49,749,074 (2018 - £49,152,018) and net liabilities of £48,586,951 (2018 - £48,599,556), the financial statements have been prepared on a going concern basis.

As part of their going concern considerations, the directors have prepared detailed forecasts for the period to 28 February 2021 as part of the longer term forecasts prepared for the company. These forecasts show that the company needs additional funding from its shareholders for the period from June 2019 to February 2021.

The group has received written confirmations from its shareholders of their intention to continue to provide support to the group by not demanding repayment of loans owing to them for the foreseeable future. Shareholders have also confirmed to the parent company their intention to provide or source funding, as required by the parent company. The parent company has confirmed to Otium Entertainment Group Limited, its undertaking, to provide continuing support which will 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 the shareholders loans will not be called upon for repayment within the next 12 months. This casts significant doubt on the company's ability to continue as a going concern.

The board continue to explore the possibilities of a return to the Ricoh for the playing season 2020-21, but in the absence of any agreement being reached, would seek to implement the option to continue the ground share at St. Andrew's. Therefore, at the date of approval of these financial statements, there remains uncertainty regarding the outcome of these negotiations. This uncertainty regarding the venue for the 2020-21 season may also cast significant doubt on the company's ability to continue as a going concern.

SKY BLUE SPORTS & LEISURE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2019

1 Accounting policies (continued)

Going concern (continued)

The directors consider the going concern basis to be appropriate as they have no reason to believe that the group shareholders will not provide the required support, nor that a suitable venue at which to host the 2020-21 season football matches will not be found. However these conditions indicate the existence of a material uncertainty which may cast significant doubt on the company's ability to continue as a going concern.

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.

Intangible fixed 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.

Goodwill

Goodwill arising on an 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 profit and loss account over the directors' estimate of its useful economic life. 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.

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.

Investment in subsidiaries

Investments in subsidiaries are accounted for at cost less impairment in the individual financial statements.

SKY BLUE SPORTS & LEISURE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2019

1 Accounting policies (continued)

Tangible fixed assets

Tangible fixed assets are initially measured at cost and subsequently measured at cost or valuation, net of depreciation and any impairment losses.

Depreciation has been computed to write off the cost of tangible fixed assets over their expected useful lives using the straight-line method and on the following basis:

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

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset and is credited or charged to profit and loss.

Stocks

Stocks are stated at the lower of cost and estimated selling price less cost to complete and sell. Cost comprises of direct materials.

Cash and cash equivalents

Cash and cash equivalents are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less.

Financial instruments

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Basic financial assets

Basic financial assets, which include debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

SKY BLUE SPORTS & LEISURE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2019

1 Accounting policies (continued)

Basic financial liabilities

Basic financial assets, which include creditors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current Tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit or loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

Deferred Tax

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled, or the asset is realised. Deferred tax is charged or credited in the profit or loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

SKY BLUE SPORTS & LEISURE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2019

1 Accounting policies (continued)

Retirement benefits

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 19.

Interest income

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

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.

Leased assets

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet 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.

Foreign exchange

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting end date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting end date.

SKY BLUE SPORTS & LEISURE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2019

2 Critical accounting estimates and judgements

In the application of the group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

3 Turnover

The group's turnover is attributable to the principal activities of the group and represents the value, excluding value added tax, of services supplied to customers during the period. The analysis of turnover by class of business is as follows:

	2019 £	2018 £
Match receipts	2,545,704	2,428,942
Commercial activities	3,716,368	3,543,472
	<hr/>	<hr/>
	6,262,072	5,972,414
	<hr/> <hr/>	<hr/> <hr/>

All turnover arose within the United Kingdom.

SKY BLUE SPORTS & LEISURE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2019

4 Operating loss	2019 £	2018 £
Operating loss is stated after charging:		
Depreciation of tangible fixed assets	67,002	34,987
Amortisation of intangible fixed assets	446,889	89,041
Auditor's remuneration for audit services	12,000	22,000
Taxation services	2,000	4,000
Other	2,500	3,500
Operating lease charges	535,831	574,714
	<u> </u>	<u> </u>

5 Staff costs

The average monthly number of persons employed by the group, including directors, during the year was as follows:

	2019 Number	2018 Number
Players and management	122	132
Administrative and commercial	13	11
Stewards (part time)	227	209
	<u> </u>	<u> </u>
	362	352
	<u> </u>	<u> </u>

The aggregate payroll costs of these persons were as follows:

	2019 £	2018 £
Wages and salaries	4,839,886	4,238,767
Social security costs	448,083	383,924
Other pension costs	33,646	256,608
	<u> </u>	<u> </u>
	5,321,615	4,879,299
	<u> </u>	<u> </u>

The directors are considered to be the key management personnel. No remuneration was paid in respect of these services provided to the company.

The company had no staff costs.

SKY BLUE SPORTS & LEISURE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2019

6	Interest receivable and similar income	2019	2018
		£	£
	Other interest receivable	12	40
		<u> </u>	<u> </u>
7	Interest payable and similar charges	2019	2018
		£	£
	Other loans	2,788	2,827
	Withholding tax due on interest payable	336,101	321,025
	Other interest payable	1,756,737	1,548,431
		<u> </u>	<u> </u>
		2,095,626	1,872,283
		<u> </u>	<u> </u>
8	Taxation	2019	2018
		£	£
	UK corporation tax	-	-
	Overseas tax	-	-
		<u> </u>	<u> </u>
	Total current tax charge/(credit)	-	-
	Deferred tax	-	-
		<u> </u>	<u> </u>
	Taxation on profit on ordinary activities	-	-
		<u> </u>	<u> </u>

SKY BLUE SPORTS & LEISURE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2019

8 Taxation (Continued)

The tax assessed on the profit on ordinary activities for the year is higher (2018 - lower) than the standard rate of corporation tax in the UK of 19% (2018 - 19%). The differences are reconciled below:

	2019 £	2018 £
Profit/(loss) on ordinary activities before taxation	12,605	(2,477,076)
Profit/(loss) on ordinary activities multiplied by standard rate of UK corporation tax of 19% (2018: 19%)	2,395	(470,644)
Effects of:		
Non-deductible expenses	13,368	2,964
Income not taxable for tax purposes	-	(238)
Tax losses utilised	(16,795)	-
Other differences	-	1,435
Other timing differences	-	1,333
Deferred tax not recognised	1,032	465,150
Current tax charge for the period	-	-

Factors that may affect future tax charges:

The Finance Act 2016, which was passed on 15 September 2016, provided that the main UK corporation tax rate will be reduced to 17% from 1 April 2020. In addition, the group has unrecognised losses of £3,221,650 (2018 £3,241,983). These have not been recognised as their future recoverability is uncertain.

SKY BLUE SPORTS & LEISURE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2019

9 Intangible fixed assets

Group:

	Trademarks £	Player registrations £	Goodwill £	Total £
Cost:				
At 1 June 2018	3,820	354,740	2,224,038	2,582,598
Additions	-	1,039,379	-	1,039,379
Disposals	-	(91,349)	-	(91,349)
	<u>3,820</u>	<u>1,302,770</u>	<u>2,224,038</u>	<u>3,530,628</u>
At 31 May 2019	3,820	1,302,770	2,224,038	3,530,628
Amortisation:				
At 1 June 2018	3,061	188,572	2,224,038	2,415,671
Charge for the year	382	446,507	-	446,889
Disposals	-	(61,095)	-	(61,095)
	<u>3,443</u>	<u>573,984</u>	<u>2,224,038</u>	<u>2,801,465</u>
At 31 May 2019	3,443	573,984	2,224,038	2,801,465
Net book value:				
At 31 May 2019	<u>377</u>	<u>728,786</u>	<u>-</u>	<u>729,163</u>
At 31 May 2018	<u>759</u>	<u>166,168</u>	<u>-</u>	<u>166,927</u>

The company has no intangible fixed assets.

SKY BLUE SPORTS & LEISURE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2019

10 Tangible fixed assets

Group:

	Freehold land and buildings £	Plant, fixtures and fittings £	Total £
Cost:			
At 1 June 2018	359,999	213,315	573,314
Additions	-	114,427	114,427
Disposals	-	-	-
	<hr/>	<hr/>	<hr/>
At 31 May 2019	359,999	327,742	687,741
	<hr/>	<hr/>	<hr/>
Depreciation:			
At 1 June 2018	29,577	158,202	187,779
Charge for the year	5,432	61,570	67,002
Disposals	-	-	-
	<hr/>	<hr/>	<hr/>
At 31 May 2019	35,009	219,772	254,781
	<hr/>	<hr/>	<hr/>
Net book value:			
At 31 May 2019	324,990	107,970	432,960
	<hr/>	<hr/>	<hr/>
At 31 May 2018	330,422	55,113	385,535
	<hr/>	<hr/>	<hr/>

The company has no tangible fixed assets.

SKY BLUE SPORTS & LEISURE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2019

11 Fixed asset investments

Company:

	Investments in subsidiary companies £
Cost:	
At 1 June 2018 and 31 May 2019	272,412
Impairment:	
At 1 June 2018 and 31 May 2019	272,412
Net book value:	_____
At 31 May 2018 and 31 May 2019	- =====

Subsidiary undertakings

At 31 May 2019 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.

12 Debtors

	2019		2018	
	Group £	Company £	Group £	Company £
Trade debtors	25,942	-	159,600	-
Other debtors	44,910	70	122,524	70
Prepayments and accrued income	376,361	-	514,092	-
	_____	_____	_____	_____
	447,213	70	796,216	70
	=====	=====	=====	=====

SKY BLUE SPORTS & LEISURE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2019

13 Cash and cash equivalents

	2019		2018	
	Group £	Company £	Group £	Company £
Cash at bank and in hand	56,603	-	682,223	-

14 Creditors: amounts falling due within one year

	2019		2018	
	Group £	Company £	Group £	Company £
Other loans and overdrafts	37,205,278	28,554,349	37,453,930	28,554,349
Trade creditors and transfer fees	1,047,866	33,786	498,232	33,786
Social security and other taxes	389,043	-	356,774	-
Other creditors	547,722	52,766	646,040	52,766
Accruals	11,058,006	437,189	10,696,629	437,189
Deferred income	15,151	-	978,852	-
Amounts owed to group undertakings	-	847,699	-	847,699
	<u>50,263,066</u>	<u>29,925,789</u>	<u>50,630,457</u>	<u>29,925,789</u>

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

15 Other loans

Included within other loans falling due within one year is an amount of £28,554,349 (2018 - £28,554,349) 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 £5,732,556 (2018 - £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 share of group companies. Interest of £5,756,053 (2018 - £5,633,935) is included within accruals in relation to this loan.

Included within other loans falling due within one year is an amount of £1,750,913 (2018 - £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 £1,408,334 (2018 - £1,208,334) is included in 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 17).

Included within other loans falling due within one year is an amount of £1,167,557 (2018 - £1,167,557) which relates to a Revolving Credit Facility agreed with SISU Master Fund Limited. Interest of £537,073 (2018 - £326,913) is included within accruals in relation to this loan.

SKY BLUE SPORTS & LEISURE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2019

16 Borrowings

Borrowings are repayable as follows:

	2019		2018	
	Group £	Company £	Group £	Company £
Amounts falling due within one year				
Other loans	37,205,278	28,554,349	37,453,930	28,554,349
	<u>37,205,278</u>	<u>28,554,349</u>	<u>37,453,930</u>	<u>28,554,349</u>
	<u><u>37,205,278</u></u>	<u><u>28,554,349</u></u>	<u><u>37,453,930</u></u>	<u><u>28,554,349</u></u>

17 Share capital

	2019		2018	
	Number of shares	£	Number of shares	£
Allotted, called up and fully paid:				
Ordinary share capital of £1.00 each	13,698	13,698	13,698	13,698
	<u>13,698</u>	<u>13,698</u>	<u>13,698</u>	<u>13,698</u>
				<u>£</u>
Equity component of convertible debt				
At 1 June 2018 and 31 May 2019				249,087
				<u><u>249,087</u></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.

18 Commitments under operating leases

At 31 May 2019 the group and company were committed to making the following payments under non-cancellable operating leases:

	2019		2018	
	Group £	Company £	Group £	Company £
Within one year	21,734	-	385,271	-
Between two to five years	12,625	-	4,237	-
	<u>34,359</u>	<u>-</u>	<u>389,508</u>	<u>-</u>
	<u><u>34,359</u></u>	<u><u>-</u></u>	<u><u>389,508</u></u>	<u><u>-</u></u>

SKY BLUE SPORTS & LEISURE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2019

19 Pension costs

Certain employees of the group participate in the Football League Pension and Life Assurance (FLPLA) Scheme and the Football League Player' 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 understanding of the scheme and accordingly the group's current share of the liability stands at £430,516 (2018 - £478,583). This is included within creditors.

20 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 estimate can be made of any subsequent transfer values.

	2019 £	2018 £
Maximum amounts payable:	194,000	100,000

21 Contingent assets

Based on transfer agreements signed prior to the year-end the company could potentially receive additional amounts of at least £342,500 (2018 - £650,000). 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.

22 Related party transactions

Details on loan arrangements with investment funds managed by SISU Capital Limited are set out in note 15.

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 15. 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 7.

The directors are considered to be the key management personnel. No remuneration was paid in respect of these services provided to the company.

SKY BLUE SPORTS & LEISURE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MAY 2019

23 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.

24 Notes to the consolidated cash flow statement

	2019 £	2018 £
Profit/(loss) for the financial year	12,605	(2,477,076)
Interest payable	2,095,626	1,872,283
Gain on disposal of intangible assets	(4,381,086)	(973,545)
Amortisation of intangible fixed assets	446,889	89,041
Depreciation of tangible fixed assets	67,002	34,987
Increase in stocks	(10,176)	-
Decrease in debtors	349,003	361,313
(Decrease)/increase in creditors	(731,663)	367,152
Loss on sale of fixed assets	-	150
Interest received	(12)	(40)
	<hr/>	<hr/>
Cash flow from operating activities	(2,151,812)	(725,735)
	<hr/> <hr/>	<hr/> <hr/>