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Sky Blue Sports & Leisure Limited

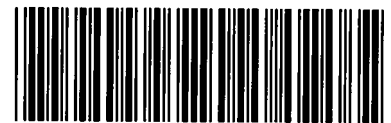
Report and Financial Statements

Year Ended

31 May 2016

Company number 6414248

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Sky Blue Sports & Leisure Limited

Report and financial statements
for the year ended 31 May 2016

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Directors

T D Fisher
L Deering

Registered office

96 Kensington High Street, London, W8 4SG

Company number

6414248

Auditors

BDO LLP, 3 Hardman Street, Spinningfields, Manchester, M3 3AT

Sky Blue Sports & Leisure Limited

Strategic report for the year ended 31 May 2016

The directors present their strategic report together with the audited financial statements for the year ended 31 May 2016.

The loss for the year for the group is set out in the statement of total comprehensive income on page 7. 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. Profitability is envisaged to be in line with industry norms.

The 2015-16 season saw the club finish 8th in the table, 5 points outside of a Play Off position. Tony Mowbray was the manager for the full season. Mr Mowbray subsequently left the club in September 2016. The 2015-16 season could be split into two halves. A first half of the season which saw the first team perform strongly and reside in and around the play-off positions and a second half of the season after December 2015 whereby the first team underperformed and the target points simply fell away.

The club currently has the right to play at the Ricoh Arena until the end of season 2017/18.

There were some key operational contracts signed during the financial year ending 31st May 2016. Outsourcing of the clubs publishing operations for two years to O Publishing during May 2016. The retail operations for the club was also outsourced to Just Sports in June 2015. A new ticketing platform, Ticketmaster, was introduced to the club in March 16, and will be operational for two years.

In regard to the business performance, the 2015-16 period saw a lift in year-on-year turnover of around £0.7m. This is attributable to an increase on both Season Ticket and Match Day Ticket revenues. However, 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.

In respect to costs then the decrease in direct costs is largely due to the outsourcing of the retail operations, and the change of mechanics to the current publishing contract to that of a royalty basis.

Staffing cost decreases were attributable to a substantial prior year pension true up charge which is significantly smaller this year, along with changes to players bonus structure and reductions in administrative staff head-count.

Despite increases in revenues and decreases in costs year-on-year then the group showed an operational loss of £1,876,832 (2015: £4,655,816).

Further to the business operational losses, taking into account player sales and primarily the sale of James Maddison, the business made a profit of £601,756 (2015: loss of £1,938,126).

Significant on-going investment in the Academy continues. Under EPPP rules, to retain its Category Two Academy Status, the club had to commit to a minimum contribution of £510,000. As with the prior year 2014-2015, for the period 2015-2016, the club committed in excess of £600,000.

The interest payable has increased from £1.37m to £2.47m year-on-year due to additional withholding tax due to HMRC on the interest owed to ARVO. The net capital debt owed to ARVO sits at £12,450,286 including accrued interest.

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

Sky Blue Sports & Leisure Limited

Strategic report for the year ended 31 May 2016

A number of challenges face the football club. Despite confirmation of a Wembley appearance in the Checkatrade Final set for 2nd April 2017 the club sits at the bottom of League One and has underperformed on the pitch. Relegation to League Two will have a material impact on revenues.

It should also be noted that a Category Two status academy in League Two is exceptional. Today, only Colchester United and Crewe Alexandra have a Category Two status academy in League Two. The academy relocation remains an open challenge but, at the time of writing, discussions are progressing on a site. The longer term relocation project to a co-joined Academy-first team training site continues with a small number of target sites identified in the area.

Efforts to progress relocating to an alternative home ground for the club continue. The need for match day non-ticketing revenues and on-match day revenues remains undiminished.

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 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 is set out in note 1.

Approval

This strategic report was approved on behalf of the Board on

27.2.17



T D Fisher
Director

Sky Blue Sports & Leisure Limited

Report of the directors for the year ended 31 May 2016

The directors present their annual report together with the audited financial statements for the year ended 31 May 2016.

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.

Post balance sheet events

There were no significant post balance sheet events.

Directors

The directors of the company during the year and subsequent to the year-end were:

T Fisher

S Waggott (appointed 1 September 2014 and resigned 6 November 2015)

L Deering (appointed 7 April 2016)

Sky Blue Sports & Leisure Limited

Report of the directors for the year ended 31 May 2016 (*continued*)

Directors' responsibilities for the financial statements

The directors are responsible for preparing the strategic report, the directors' report and 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 group and company 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 group and company 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;
- 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 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 enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 retrain them in order that their employment with the group may continue.

Auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

BDO LLP have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

On behalf of the Board



T Fisher
Director

Date

27.2.17

Sky Blue Sports & Leisure Limited

Independent auditor's report for the year ended 31 May 2016

TO THE MEMBERS OF SKY BLUE SPORTS & LEISURE LIMITED

We have audited the financial statements of Sky Blue Sports & Leisure Limited for the year ended 31 May 2016 which comprise the consolidated statement of total comprehensive income, the consolidated and company balance sheets, the consolidated and company statement of changes in equity, the consolidated cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

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.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 May 2016 and of the group's loss 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.

Emphasis of matter - 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 Group and Company's ability to continue as a going concern.

The group and company are reliant on group shareholders and the group's forecasts indicate that the group and company are likely to require additional funding. Written confirmations have been received 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 of their intention to provide or source funding if required by the group and company to enable the group and company 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 immediate repayment.

Sky Blue Sports & Leisure Limited

Independent auditor's report (*continued*) for the year ended 31 May 2016

Emphasis of matter - going concern (*continued*)

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 over the group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group were unable to continue as a going concern.

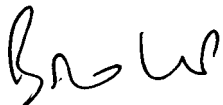
Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the strategic report and directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where 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.



Julien Rye (*senior statutory auditor*)
For and on behalf of BDO LLP, statutory auditor
Manchester
United Kingdom

Date 28 February 2017

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

Sky Blue Sports & Leisure Limited

Consolidated statement of total comprehensive income for the year ended 31 May 2016

| | Note | Total 2016 £ | Total 2015 £ |
|--|------|---------------------------|---------------------------|
| Turnover | 2 | 5,445,427 | 4,763,515 |
| Direct operating costs | 4 | (1,122,123) | (1,517,404) |
| Gross profit | | 4,323,304 | 3,246,111 |
| Staff costs | 5 | (4,306,746) | (5,035,061) |
| Administrative expenses | | (1,893,390) | (2,866,866) |
| Total administrative expenses | | (6,200,136) | (7,901,927) |
| Operating loss | 3 | (1,876,832) | (4,655,816) |
| Profit on sale of player registrations | | 2,478,588 | 2,717,690 |
| Profit / (Loss) after sale of player registrations | | 601,756 | (1,938,126) |
| Interest receivable | 6 | 35 | 32 |
| Interest payable | 6 | (2,470,973) | (1,369,689) |
| Loss on ordinary activities before taxation | | (1,869,182) | (3,307,783) |
| Taxation | 7 | - | - |
| Loss for the financial year | 19 | (1,869,182) | (3,307,783) |
| Other comprehensive income | | - | - |
| Total comprehensive income for the year | | <u>(1,869,182)</u> | <u>(3,307,783)</u> |
| Profit and total comprehensive income for the year attributable to: | | | |
| Non-controlling interest | | 172,793 | 243,885 |
| Owners of the parent company | | 1,696,389 | 3,063,898 |
| | | <u>(1,869,182)</u> | <u>(3,307,783)</u> |

All amounts relate to continuing activities.

There were no recognised gains or losses other than the loss for the financial year.

The notes on pages 12 to 26 form part of these financial statements.

Sky Blue Sports & Leisure Limited

Consolidated balance sheet At 31 May 2016

| Company number 6414248 | Note | 2016 | 2016 | 2015 | 2015 |
|--|-------------|---------------------|---------------------|--------------|--------------|
| | | £ | £ | £ | £ |
| Fixed assets | | | | | |
| Intangible assets | 8 | | 181,215 | | 17,657 |
| Tangible assets | 9 | | 428,157 | | 432,638 |
| | | | <hr/> | | <hr/> |
| | | | 609,372 | | 450,295 |
| Current assets | | | | | |
| Stocks | 11 | - | | 24,575 | |
| Debtors | 12 | 929,383 | | 512,671 | |
| Cash at bank and in hand | 13 | 779,437 | | 152,877 | |
| | | <hr/> | | <hr/> | |
| | | 1,708,820 | | 690,123 | |
| Creditors: amounts falling due within one year | 14 | (45,721,112) | | (42,674,156) | |
| | | <hr/> | | <hr/> | |
| Net current liabilities | | | (44,012,292) | | (41,984,033) |
| | | | <hr/> | | <hr/> |
| Total assets less current liabilities | | | (43,402,920) | | (41,533,738) |
| | | | <hr/> | | <hr/> |
| Creditors: amounts falling due after more than one year | 16 | | - | | - |
| Capital and reserves | | | | | |
| Called up share capital | 17 | 13,698 | | 13,698 | |
| Profit and loss account | | (51,003,164) | | (49,306,775) | |
| | | <hr/> | | <hr/> | |
| Shareholders' deficit | | | (50,989,466) | | (49,293,077) |
| | | | <hr/> | | <hr/> |
| Minority interest | | | 7,586,546 | | 7,759,339 |
| | | | <hr/> | | <hr/> |
| | | | (43,402,920) | | (41,533,738) |
| | | | <hr/> | | <hr/> |

The financial statements were approved and authorised for issue by the Board of Directors on and were signed on its behalf by:

27-2-17



T Fisher
Director

The notes on pages 12 to 26 form part of these financial statements.

Sky Blue Sports & Leisure Limited

Company balance sheet At 31 May 2016

| Company number 6414248 | Note | 2016 £ | 2016 £ | 2015 £ | 2015 £ |
|--|-------------|---------------------|---------------------|---------------------|---------------------|
| Fixed assets | | | | | |
| Investments | 10 | | - | | - |
| Current assets | | | | | |
| Debtors | 12 | 3,145 | | 12,600 | |
| Cash at bank and in hand | 13 | - | | - | |
| | | <u>3,145</u> | | <u>12,600</u> | |
| Creditors: amounts falling due within one year | 14 | <u>(29,840,098)</u> | | <u>(29,723,282)</u> | |
| Net current liabilities | | | <u>(29,836,953)</u> | | <u>(29,710,682)</u> |
| Total assets less current liabilities | | | <u>(29,836,953)</u> | | <u>(29,710,682)</u> |
| Creditors: amounts falling due after more than one year | 16 | | | | |
| Capital and reserves | | | | | |
| Called up share capital | 17 | 13,698 | | 13,698 | |
| Profit and loss account | | <u>(29,850,651)</u> | | <u>(29,724,380)</u> | |
| Shareholders' deficit | | | <u>(29,836,953)</u> | | <u>(29,710,682)</u> |
| | | | <u>(29,836,953)</u> | | <u>(29,710,682)</u> |

The parent company has taken advantage of section 408 of the Companies Act 2006 and has not included its own profit and loss account in the financial statements. The group loss for the year includes a loss of £126,271 (2015 – profit of £309,413) which is dealt with in the financial statements of the company.

The financial statements were approved and authorised for issue by the Board of Directors on and were signed on its behalf by:

27.2.17



T Fisher
Director

The notes on pages 12 to 26 form part of these financial statements.

Sky Blue Sports & Leisure Limited

Statement of changes in equity for the year ended 31 May 2016

| Group | Share capital £ | Minority interest £ | Retained earnings £ | Total £ |
|---|--------------------------------|------------------------------------|---------------------------|---------------------|
| Changes in equity for the year ended 30 May 2015 | | | | |
| At 1 June 2014 | 13,698 | 6,982,032 | (46,242,877) | (39,247,147) |
| Shares issued | - | 1,021,192 | - | 1,021,192 |
| Loss for the year | - | (243,885) | (3,063,898) | (3,307,783) |
| At 31 May 2015 | 13,698 | 7,759,339 | (49,306,775) | (41,533,738) |
| Changes in equity for the year ended 30 May 2016 | | | | |
| Loss for the year | - | (172,793) | (1,696,389) | (1,869,182) |
| At 31 May 2016 | 13,698 | 7,586,546 | (51,003,164) | (43,402,920) |
| Company | | | | |
| | Share capital £ | Retained earnings £ | Total £ | |
| Changes in equity for the year ended 30 May 2015 | | | | |
| At 1 June 2014 | 13,698 | (30,033,793) | (30,020,095) | |
| Profit for the year | - | 309,413 | 309,413 | |
| At 31 May 2015 | 13,698 | (29,724,380) | (29,710,682) | |
| Changes in equity for the year ended 30 May 2016 | | | | |
| Loss for the year | - | (126,271) | (126,271) | |
| At 31 May 2016 | 13,698 | (29,850,651) | (29,836,953) | |

The notes on pages 12 to 26 form part of these financial statements.

Sky Blue Sports & Leisure Limited

Consolidated cash flow statement for the year ended 31 May 2016

| | 2016 | 2015 |
|---|--------------------|--------------------|
| Cash flows from operating activities | | |
| Loss for the financial year | (1,869,182) | (3,307,783) |
| Adjustments for: | | |
| Interest payable | 2,470,938 | 1,369,657 |
| Profit on disposal of player registrations | (2,478,588) | (2,717,690) |
| Depreciation, impairment and amortisation of fixed assets | 149,180 | 134,776 |
| (Increase)/decrease in trade and other debtors | (416,712) | 153,010 |
| Decrease in stocks | 24,575 | 63,324 |
| Increase in trade and other creditors | 104,439 | 467,823 |
| Profit on sale of fixed assets | 110,494 | 74,036 |
| Cash from operations | (1,904,856) | (3,762,847) |
| Interest paid – other | (54,717) | - |
| Interest paid – shareholder loans | (25,000) | - |
| Interest received | 35 | - |
| Net cash absorbed by operating activities | (1,984,538) | (3,762,847) |
| Cash flows from investing activities | | |
| Proceeds from sale of intangible fixed assets | 2,499,849 | 2,717,690 |
| Purchases of tangible fixed assets | (378,714) | (11,714) |
| Purchases of intangible assets | (40,037) | (92,861) |
| Net cash from investing activities | 2,081,098 | 2,613,115 |
| Cash flows from financing activities | | |
| Issue of preference shares in subsidiary undertaking | - | 1,021,192 |
| New loans received | 530,000 | - |
| Net cash from financing activities | 530,000 | 1,021,192 |
| Net increase/(decrease) in cash and cash equivalents | 626,560 | (128,540) |
| Cash and cash equivalents at beginning of year | 152,877 | 281,417 |
| Foreign exchange gains and losses | - | - |
| Cash and cash equivalents at end of year | 779,437 | 152,877 |
| Cash and cash equivalents comprise: | | |
| Cash at bank and in hand | 779,437 | 152,877 |
| Bank overdrafts | - | - |
| | 779,437 | 152,877 |

The notes on pages 12 to 26 form part of these financial statements.

Sky Blue Sports & Leisure Limited

Notes forming part of the financial statements for the year ended 31 May 2016

1 Accounting policies

Basis of Preparation

Sky Blue Sports & Leisure is a company incorporated in England & Wales under the Companies Act. The address of the registered office is given on the contents page and the nature of the company's operations and its principal activities are set out in the strategic report. The financial statements have been prepared in accordance with FRS 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland.

These financial statements are the first financial statements prepared under FRS 102 and information on the impact of first-time adoption of FRS 102 is given in note 23.

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 Company's accounting policies.

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;
- 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.

Going concern

Notwithstanding the year end consolidated balance sheet, which shows net current liabilities of £44,012,292 and net liabilities of £43,402,920, 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 2017-18 season and reviewed the group and company's trading and working capital requirements.

These forecasts indicate that the group and company are likely to require additional funding from group shareholders within the next six months. 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.

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.

Sky Blue Sports & Leisure Limited

Notes forming part of the financial statements for the year ended 31 May 2016(continued)

Basis of consolidation

The group financial statements incorporate those of the company and its subsidiary undertaking (see note 10) drawn up to 31 May 2016. 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 balance sheet and amortised over its expected useful life, being 10 years.

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

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.

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.

Depreciation

Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets, other than freehold land, over their expected useful lives. The rates generally applicable are:

| | |
|------------------------------|-------------------------------|
| Plant, fixtures and fittings | - 7.5% to 33.3% straight line |
| Buildings | - 2% straight line |

Investments in subsidiary undertakings

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

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date.

Stocks

Stocks are stated at the lower of cost and net realisable value.

Sky Blue Sports & Leisure Limited

Notes forming part of the financial statements for the year ended 31 May 2016(continued)

1 Accounting policies (continued)

Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date. Deferred tax balances are not discounted.

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 profit and loss account over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight line basis over the lease term.

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's reduce this liability. Further details of this scheme are set out in note 18.

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. Financial Reporting Standard No 10 "Goodwill and Intangible Assets" makes no provision for the value of players developed within the group. 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 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 profit and loss account 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.

Sky Blue Sports & Leisure Limited

Notes forming part of the financial statements for the year ended 31 May 2016(continued)

1 Accounting policies (continued)

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 profit and loss account in the period in which the criteria for payment are met. Unprovided elements of such contracts are disclosed as contingent liabilities where the criteria are not met at the balance sheet date.

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 balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. 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.

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.

2 Turnover

The turnover is attributable to the following classes of business:

| | 2016 £ | 2015 £ |
|--|------------------|------------------|
| Match receipts: | | |
| -Net receipts from league and cup matches, pools and executive box rentals | 2,314,567 | 1,797,352 |
| Commercial activities: | | |
| -Television, sponsorship, advertising, club lottery, shop and other promotion activities | 3,130,860 | 2,966,163 |
| | 5,445,427 | 4,763,515 |

All turnover originates in the United Kingdom.

Sky Blue Sports & Leisure Limited

Notes forming part of the financial statements
for the year ended 31 May 2016 (*continued*)

3 Operating loss on ordinary activities

The loss on ordinary activities is stated after charging:

| | 2016 £ | 2015 £ |
|---|-----------|-----------|
| Depreciation, amortisation and impairment: | | |
| - Amortisation of intangible fixed assets | 108,795 | 60,303 |
| - Depreciation of tangible fixed assets | 40,385 | 74,473 |
| Loss on disposal of intangible fixed assets | - | 74,036 |
| Auditor's remuneration: | | |
| - Audit services | 20,000 | 20,000 |
| - Non audit services - taxation | 4,000 | 4,000 |
| - Non audit services - other | 1,500 | 1,500 |
| Operating lease charges: | | |
| - Equipment and vehicles | 118,029 | 99,045 |
| - Land and buildings | 491,324 | 443,857 |

4 Direct operating costs

Direct operating costs include match expenses and the direct costs relating to commercial activities.

Sky Blue Sports & Leisure Limited

Notes forming part of the financial statements
for the year ended 31 May 2016 (continued)

5 Directors and employees

Staff costs across the group during the year were as follows:

| | 2016 £ | 2015 £ |
|-----------------------|------------------|------------------|
| Wages and salaries | 4,081,160 | 4,294,949 |
| Social security costs | 392,421 | 614,519 |
| Other pension costs | 38,800 | 337,596 |
| | <u>4,512,381</u> | <u>5,247,064</u> |

Of the amounts disclosed within wages and salaries above £205,635 (2015 - £212,003) 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 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.

The average number of employees of the group during the year was:

| | 2016 Number | 2015 Number |
|-------------------------------|----------------|----------------|
| Players and management | 107 | 105 |
| Administrative and commercial | 15 | 20 |
| Stewards (part time) | 272 | 289 |
| | <u>394</u> | <u>414</u> |

Remuneration in respect of directors was as follows:

| | 2016 £ | 2015 £ |
|--|-----------|-----------|
| Remuneration paid / accrued to third parties in respect of directors' services | 215,500 | 314,000 |
| | <u></u> | <u></u> |

6 Interest receivable and payable

| | 2016 £ | 2015 £ |
|--|------------------|------------------|
| Interest payable: | | |
| Other loans | 1,454,477 | 1,369,689 |
| Withholding tax due on interest payable | 837,533 | - |
| Debt factoring | 146,451 | - |
| Other interest payable | 32,512 | - |
| | <u>2,470,973</u> | <u>1,369,689</u> |
| Other interest receivable and similar income | (35) | (32) |
| | <u>2,470,938</u> | <u>1,369,657</u> |

Sky Blue Sports & Leisure Limited

Notes forming part of the financial statements for the year ended 31 May 2016 *(continued)*

7 Tax on loss on ordinary activities

There was a current corporation tax credit of £nil in the year (2015- £nil).

The tax assessed for the year differs from the UK standard rate of corporation tax as explained below:

| | 2016 £ | 2015 £ |
|---|-------------|-------------|
| Loss on ordinary activities before tax | (1,869,182) | (3,307,783) |
| Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015 - 20%) | (373,836) | (661,557) |
| Effect of: | | |
| Expenses not deductible for tax purposes | 3,986 | 52,967 |
| Income not taxable for tax purposes | (8,481) | - |
| Depreciation in excess of capital allowances | - | 10,367 |
| Tax losses arising in the year | - | 600,844 |
| Deferred tax not recognised | 60,042 | - |
| Adjust deferred tax average rate | 317,261 | - |
| Other differences | 1,028 | (2,621) |
| | <hr/> | <hr/> |
| Total tax charge for the year | - | - |
| | <hr/> | <hr/> |

The directors have not recognised any deferred tax in relation to accumulated tax losses.

Sky Blue Sports & Leisure Limited

Notes forming part of the financial statements
for the year ended 31 May 2016 (*continued*)

8 Intangible fixed assets

| Group | Trade marks £ | Player registrations £ | Goodwill £ | Total £ |
|-----------------------|---------------------|------------------------------|---------------|------------|
| <i>Cost</i> | | | | |
| At 31 May 2015 | 14,059 | 1,115,836 | 11,033,156 | 12,163,051 |
| Additions | - | 278,714 | - | 278,714 |
| Disposals | - | (15,621) | - | (15,621) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31 May 2016 | 14,059 | 1,378,929 | 11,033,156 | 12,426,144 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| <i>Amortisation</i> | | | | |
| At 31 May 2015 | 12,154 | 1,100,084 | 11,033,156 | 12,145,394 |
| Provided in the year | 382 | 108,413 | - | 108,795 |
| Disposals | - | (9,260) | - | (9,260) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31 May 2016 | 12,536 | 1,199,237 | 11,033,156 | 12,244,929 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| <i>Net book value</i> | | | | |
| At 31 May 2016 | 1,523 | 179,692 | - | 181,215 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31 May 2015 | 1,905 | 15,752 | - | 17,657 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

Sky Blue Sports & Leisure Limited

Notes forming part of the financial statements
for the year ended 31 May 2016 (*continued*)

9 Tangible fixed assets

| Group | Freehold land and buildings £ | Plant, fixtures and fittings £ | Total £ |
|-----------------------|--|---|------------|
| <i>Cost</i> | | | |
| At 31 May 2015 | 984,221 | 1,728,269 | 2,712,490 |
| Additions | - | 40,037 | 40,037 |
| Disposals | - | (15,852) | (15,852) |
| | | | |
| At 31 May 2016 | 984,221 | 1,752,454 | 2,736,675 |
| | | | |
| <i>Depreciation</i> | | | |
| At 31 May 2015 | 637,503 | 1,642,349 | 2,279,852 |
| Provided in the year | 5,432 | 34,953 | 40,385 |
| Disposals | - | (11,719) | (11,719) |
| | | | |
| At 31 May 2016 | 642,935 | 1,665,583 | 2,308,518 |
| | | | |
| <i>Net book value</i> | | | |
| At 31 May 2016 | 341,286 | 86,871 | 428,157 |
| | | | |
| At 31 May 2015 | 346,718 | 85,920 | 432,638 |

Sky Blue Sports & Leisure Limited

Notes forming part of the financial statements
for the year ended 31 May 2016 (*continued*)

10 Fixed assets investments

| Company | Subsidiary undertakings £ |
|--------------------------------|------------------------------|
| <i>Cost</i> | |
| At 31 May 2015 and 31 May 2016 | 272,412 |
| <i>Impairment</i> | |
| At 31 May 2015 and 31 May 2016 | 272,412 |
| <i>Net Book Value</i> | |
| At 31 May 2015 and 31 May 2016 | - |

At 31 May 2016 the following company was a subsidiary undertaking:

| Subsidiary undertaking | Country of registration | Class of share capital held | Effective proportion held by the parent company | Nature of business |
|-----------------------------------|-------------------------|-----------------------------|---|--------------------|
| Otium Entertainment Group Limited | England & Wales | Ordinary | 90.1% | Football Club |

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.

Sky Blue Sports & Leisure Limited

Notes forming part of the financial statements
for the year ended 31 May 2016 (*continued*)

11 Stocks

| Group | 2016 £ | 2015 £ |
|------------------|-----------|-----------|
| Goods for resale | - | 24,575 |

12 Debtors

| | Group 2016 £ | Group 2015 £ | Company 2016 £ | Company 2015 £ |
|--------------------------------|--------------------|--------------------|----------------------|----------------------|
| Trade debtors | 190,236 | 102,291 | - | - |
| Other debtors | 420,078 | 132,301 | 3,145 | 12,600 |
| Prepayments and accrued income | 319,069 | 278,079 | - | - |
| | <u>929,383</u> | <u>512,671</u> | <u>3,145</u> | <u>12,600</u> |

The amounts above fall due within one year.

13 Cash

| | Group 2016 £ | Group 2015 £ | Company 2016 £ | Company 2015 £ |
|--------------------------|--------------------|--------------------|----------------------|----------------------|
| Cash at bank and in hand | 779,437 | 152,877 | - | - |
| | <u>779,437</u> | <u>152,877</u> | <u>-</u> | <u>-</u> |

Sky Blue Sports & Leisure Limited

Notes forming part of the financial statements
for the year ended 31 May 2016 (*continued*)

14 Creditors: amounts falling due within one year

| | Group 2016 £ | Group 2015 £ | Company 2016 £ | Company 2015 £ |
|------------------------------------|--------------------|--------------------|----------------------|----------------------|
| Other loans and overdrafts | 36,821,168 | 36,291,132 | 28,554,312 | 28,554,312 |
| Trade creditors and transfer fees | 482,446 | 642,315 | 28,974 | 42,113 |
| Social security and other taxes | 329,670 | 371,559 | - | - |
| Other creditors | 523,002 | 605,031 | 69,771 | 69,771 |
| Accruals | 6,554,641 | 4,416,641 | 334,132 | 234,132 |
| Corporation tax payable | - | - | - | - |
| Deferred income | 1,010,185 | 347,478 | - | - |
| Amounts owed to group undertakings | - | - | 852,909 | 822,954 |
| | <u>45,721,112</u> | <u>42,674,156</u> | <u>29,840,098</u> | <u>29,723,282</u> |

15 Other loans

Included within other loans falling due within one year is an amount of £28,554,312 (2015-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 (2015 - £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 £3,299,393 (2015 - £2,128,473) 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 (2015-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 £833,333 (2015 - £633,333) 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 17).

Included within other loans falling due within one year is an amount of £530,000 (2015 – nil) which relates to a Revolving credit Facility agreed with SISU Master Fund Limited. Interest of £50,740 (2015 – nil) is included within accruals in relation to this loan.

Sky Blue Sports & Leisure Limited

Notes forming part of the financial statements
for the year ended 31 May 2016(*continued*)

16 Borrowings

Borrowings are repayable as follows:

| | Group 2016 £ | Group 2015 £ | Company 2016 £ | Company 2015 £ |
|------------------|--------------------|--------------------|----------------------|----------------------|
| Within one year: | | | | |
| Other loans | 36,821,168 | 36,291,132 | 28,554,312 | 28,554,312 |
| | <u>36,821,168</u> | <u>36,291,132</u> | <u>28,554,312</u> | <u>28,554,312</u> |

17 Share capital

| | 2016 £ | 2015 £ |
|---|---------------|---------------|
| Allotted, called up and fully paid 13,698 ordinary shares of £1 each | <u>13,698</u> | <u>13,698</u> |

Equity component of convertible debt

| | 2016 £ |
|-----------------------------------|----------------|
| At 1 June 2015 and at 31 May 2016 | <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 in accordance with FRS 25 (see note 1 for details of the accounting treatment). This has been included as part of the minority interest.

Sky Blue Sports & Leisure Limited

Notes forming part of the financial statements for the year ended 31 May 2016(continued)

18 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 £330,499 (2015: £361,272). This is included within creditors.

19 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 balance sheet date and no reliable estimates can be made of any subsequent transfer values.

Appearance liabilities

| | 2016 £ | 2015 £ |
|-----------------------|-----------|-----------|
| Amounts payable: | | |
| In one year or less | - | - |
| In more than one year | 100,000 | - |
| | <hr/> | <hr/> |
| | 100,000 | - |
| | <hr/> | <hr/> |

20 Contingent assets

Based on transfer agreements signed prior to the year-end the company could potentially receive additional amounts of at least £200,000 (2015 - £615,000). 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 balance sheet date and no asset has been recognised.

Sky Blue Sports & Leisure Limited

Notes forming part of the financial statements
for the year ended 31 May 2016 (*continued*)

21 Financial commitments

Leases

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

| | 2016 Land and buildings £ | 2016 Other £ | 2015 Land and buildings £ | 2015 Other £ |
|----------------------------|------------------------------------|--------------------|------------------------------------|--------------------|
| In one year or less | 490,096 | - | 473,429 | 406 |
| Between one and five years | 389,262 | - | 626,858 | - |
| | <u>879,358</u> | <u>-</u> | <u>1,100,287</u> | <u>406</u> |

22 Transactions with directors and other related parties

The majority shareholding in the company is held by Investment Funds under the management of SISU Capital Limited and are the controlling interest. The loan arrangements with these Investment Funds 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 6.

23 First time adoption of FRS 102

| Note | Equity as at 1 June 2014 £ | Loss for the year ended 31 May 2015 £ | Equity as at 31 May 2015 £ |
|---|--|--|-------------------------------------|
| As previously stated under UK GAAP | (37,870,443) | (3,320,890) | (41,191,333) |
| Transitional adjustments | | | |
| Holiday pay accrual a | (55,512) | 13,107 | (42,405) |
| As restated in accordance with FRS 102 | <u>(37,925,955)</u> | <u>(3,307,783)</u> | <u>(41,233,738)</u> |

- a) FRS 102 requires that an entity shall recognise the cost of all employee benefits to which its employees have become entitled during the period.