

Sky Blue Sports & Leisure Limited

Report and Financial Statements

Year Ended

31 May 2012

Company number 6414248



Sky Blue Sports & Leisure Limited

Annual report and financial statements for the year ended 31 May 2012

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Directors

T D Fisher
M J Labovitch

Registered office

4th Floor
1 Red Place
London
W1K 6PL

Company number

6414248

Auditors

BDO LLP
3 Hardman Street
Spinningfields
Manchester
M3 3AT

Sky Blue Sports & Leisure Limited

Report of the directors for the year ended 31 May 2012

The directors present their annual report together with the audited financial statements for the year ended 31 May 2012

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

The result for the year is set out in the profit and loss account on page 6. The directors do not recommend payment of a dividend and the loss for the year has been transferred to the reserves.

The Football Club, which is a sub-subsidiary of the company, was relegated from the Championship to League One during the 2011/2012 season. The aim of the Club is now to adjust to the new financial environment of League One by restructuring both the on-field and off-field operations. The potential to reach League One play-offs and therefore the Championship cannot be totally discounted, however, as a first priority, the Board will work towards securing a sound financial platform in the longer term.

The loss of £4.0m for the year, compared to £16.1m in 2011, largely reflects profit on the sale of player registrations of £2.8m in 2012 (2011: £0.1m) and a £6.4m impairment provision against the carrying value of goodwill in 2011. During the year, the group disposed of its interest in the Prozone group of companies, which undertook the sports analysis activities of the group. A profit on disposal of £1.4m has been recorded in the financial statements in relation to this sale (see note 31).

Turnover levels from continuing activities have reduced as a result of poor on-field performances resulting in relegation to League 1 in May 2012. Overhead expenses and other costs of the business have also reduced as management continue to work on reducing the cost base whilst mindful of the need to perform 'on the pitch' with a competitive squad.

The directors consider the key performance indicators of the continuing activities of the group to be league status and finishing position of Coventry City Football Club and the operating result for the year and whilst it is clear that the company has underperformed the directors remain satisfied that with the ongoing re-structuring of the business then the company can be re-positioned to improve its on and off field performance in the long term.

Significant ongoing investment in the Coventry City Football Club Academy is recognised as a key cornerstone for the future growth and sustainability of Coventry City Football Club. A strategic aim in the next financial year will be achieving Category 2 status within the new Elite Performance Player Plan (EPPP) to ensure the continuing success of the youth development programme.

It is recognised by the directors that the introduction of the Financial Fair Play Regulations will have a significant impact on the competitiveness of the first team squad. There is therefore an immediate requirement and necessity to increase income across the commercial spectrum of the business that must include all match day and non-match day revenues.

Coventry City Football Club must therefore focus on the necessity to have its own stadium to secure all related revenue from a community integrated facility to ensure the growth and success of the first team, the Academy and the role it plays within the community.

Post balance sheet events

Subsequent to the year-end, further loans have been received from a group shareholder, Arvo Master Fund Limited, of £9.181m to provide working capital loans to the group and security has been provided by way of a debenture over certain assets of the group to Arvo Master Fund Limited. See note 29 for further details.

Subsequent to the year-end, the trade and certain assets and liabilities of Coventry City Football Club (Holdings) Limited and Coventry City Football Club Limited were acquired by Otium Entertainment Group Limited, another subsidiary of the company. As such, the football activities and the operation of Coventry City Football Club are still controlled by the group headed by Sky Blue Sports & Leisure Limited.

Subsequent to the year-end, Coventry City Football Club Limited, a sub-subsidiary of the company, went into administration and subsequently creditors voluntary liquidation proceedings.

Sky Blue Sports & Leisure Limited

Report of the directors for the year ended 31 May 2012 (continued)

Directors

The directors of the company during the year were

Onye Igwe	(resigned 14 September 2012)
Kenneth Dulieu	(resigned 29 November 2011)
Leonard Brody	(resigned 8 November 2011)
Timothy Fisher	(appointed 4 January 2012)
Mark Labovitch	(appointed 5 December 2011)

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 income is affected by the performance of Coventry City Football Club because significant revenues are dependent upon team performance in the Football League and domestic cup competitions. There is a clear recognition that ground share and the accompanying lower attendances will also lead to a reduced revenue for the year. However, any short term pull-back in financial performance is compensated by the need to secure long term revenues through ownership of the club's own stadium.

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 responsibility of the Board which is to maintain a financially secure professional football club in the context of Financial Fair Play rules in the long term.

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

The company prepares annual budgets and forecasts and maintains a close working relationship with its financiers and shareholders. The continuing existence of the group is dependent on funding continuing to be made available and provided by a co-shareholder, and related party, Arvo Master Fund. Further details of the company's approach to liquidity management are explained in the going concern accounting policy on page 10.

Directors' responsibilities for the financial statements

The directors are responsible for preparing 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, 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 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.

Sky Blue Sports & Leisure Limited

Report of the directors for the year ended 31 May 2012 (*continued*)

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

28 October 2013



M Labovitch
Director

28 October 2013

Sky Blue Sports & Leisure Limited

Report of the independent auditors

INDEPENDENT AUDITOR'S REPORT 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 2012 which comprise the consolidated profit and loss account, the consolidated and company balance sheets, 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).

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 Auditing Practices Board'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 Financial Reporting Council'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 2012 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 directors have produced cash flow forecasts for the 12 months from the date of approval of these financial statements. The forecasts make assumptions regarding the ability of the group to obtain continuing funding to meet its working capital requirements, support to meet loan repayment requirements and to achieve certain cost savings identified and generate revenues at the level expected. However there are material uncertainties in the forecasts.

- The group have received written confirmation from shareholders and other significant funders of their intention to continue to provide support to the group by not demanding repayment of debt due for a period of not less than one year from the date of approval of the financial statements. In addition they have confirmed their intention to provide or source the funding required by the company to enable the group to continue in operational existence for a period of not less than one year from the date of approval of the financial statements. 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

Report of the independent auditors

- The directors have made assumptions regarding the projected revenues that the group can earn through gate receipts, season ticket sales, merchandising, programme sales, advertising, sponsorship and other Football related activity. These assumptions relate to the ground share. However, uncertainty exists regarding the level of support and attendance that can be expected given the ground sharing arrangements, which impacts on other commercial revenues and there is no certainty that the level of revenues projected will be achieved.
- The directors continue to make reductions to the overhead base and payroll costs of the group. However, not all of these savings have yet been implemented and uncertainty exists regarding the directors ability to complete all of the planned savings.

These conditions, along with other matters explained in note 1 to the financial statements, indicate the existence of a fundamental uncertainty which may cast significant doubt over the group and company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company 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 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
28 October 2013

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

Sky Blue Sports & Leisure Limited

Consolidated profit and loss account for the year ended 31 May 2012

	Note	Total 2012 £	Continuing operations 2011 £	Discontinued operations 2011 £	Total 2011 £
Turnover	2	10,825,984	12,059,023	3,962,023	16,021,046
Direct operating costs	3	(2,515,903)	(2,545,127)	(1,626,054)	(4,171,181)
Gross profit		<u>8,310,081</u>	<u>9,513,896</u>	<u>2,335,969</u>	<u>11,849,865</u>
Staff costs	5	(9,913,773)	(11,186,712)	(1,292,265)	(12,478,977)
Administrative expenses		<u>(5,347,481)</u>	<u>(13,343,329)</u>	<u>(1,226,702)</u>	<u>(14,570,031)</u>
Operating loss before amortisation of players and impairment of goodwill		(5,341,722)	(6,814,192)	(182,998)	(6,997,190)
Amortisation of player registrations	9	(1,609,451)	(1,786,610)	-	(1,786,610)
Impairment of goodwill		-	(6,415,343)	-	(6,415,343)
Operating loss	3	<u>(6,951,173)</u>	<u>(15,016,145)</u>	<u>(182,998)</u>	<u>(15,199,143)</u>
Profit on sale of player registrations		2,840,854			72,209
Profit on disposal of subsidiary	31	1,371,445			-
		<u>(2,738,874)</u>			<u>(15,126,934)</u>
Interest received	6	-			18,889
Interest paid	6	(1,264,619)			(1,033,387)
Loss on ordinary activities before taxation		<u>(4,003,493)</u>			<u>(16,141,432)</u>
Taxation	7	-			30,498
Loss for the financial year	19	<u>(4,003,493)</u>			<u>(16,110,934)</u>

All amounts in the current year, with the exception of the profit on disposal of subsidiaries, relate to continuing activities

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

The notes on pages 10 to 26 form part of these financial statements

Sky Blue Sports & Leisure Limited

Consolidated balance sheet at 31 May 2012

Company number 6414248	Note	2012 £	2012 £	2011 £	2011 £
Fixed assets					
Intangible assets	9		951,900		4,704,358
Tangible assets	10		961,710		1,251,427
			<u>1,913,610</u>		<u>5,955,785</u>
Current assets					
Stocks	12	257,855		350,753	
Debtors	13	2,056,967		1,529,183	
Cash at bank and in hand	14	813,908		1,924,683	
		<u>3,128,730</u>		<u>3,804,619</u>	
Creditors: amounts falling due within one year	15	<u>(12,270,842)</u>		<u>(11,931,111)</u>	
Net current liabilities			(9,142,112)		(8,126,492)
Total assets less current liabilities			<u>(7,228,502)</u>		<u>(2,170,707)</u>
Creditors: amounts falling due after more than one year	16		30,509,562		31,812,951
Capital and reserves					
Called up share capital	18	13,698		13,698	
Equity component of convertible debt	18	249,087		-	
Profit and loss account	19	<u>(38,000,849)</u>		<u>(33,997,356)</u>	
Shareholders' deficit	20		<u>(37,738,064)</u>		<u>(33,983,658)</u>
			<u>(7,228,502)</u>		<u>(2,170,707)</u>

The financial statements were approved and authorised for issue by the Board of Directors on 28 October 2013 and were signed on its behalf by



T Fisher
Director



M Labovitch
Director

The notes on pages 10 to 26 form part of these financial statements

Sky Blue Sports & Leisure Limited

Company balance sheet at 31 May 2012

Company number 6414248	Note	2012 £	2012 £	2011 £	2011 £
Fixed assets					
Investments	11		-		369,577
Current assets					
Debtors	13	11,593		2,093,219	
Cash at bank and in hand	14	23,959		731,065	
		<u>35,552</u>		<u>2,824,284</u>	
Creditors: amounts falling due within one year	15	<u>(221,058)</u>		<u>(3,680,471)</u>	
Net current liabilities			<u>(185,506)</u>		<u>(856,187)</u>
Total assets less current liabilities			<u>(185,506)</u>		<u>(486,610)</u>
Creditors: amounts falling due after more than one year	16		28,554,706		29,679,942
Capital and reserves					
Called up share capital	18	13,698		13,698	
Profit and loss account	19	<u>(28,753,910)</u>		<u>(30,180,250)</u>	
Shareholders' deficit			<u>(28,740,212)</u>		<u>(30,166,552)</u>
			<u>(185,506)</u>		<u>(486,610)</u>

The financial statements were approved and authorised for issue by the Board of Directors on 28 October 2013 and were signed on its behalf by



T Fisher
Director



M Labovitch
Director

The notes on pages 10 to 26 form part of these financial statements

Sky Blue Sports & Leisure Limited

Consolidated cash flow statement for the year ended 31 May 2012

	Note	2012 £	2012 £	2011 £	2011 £
Net cash outflow from operating activities	21		(6,570,920)		(8,181,785)
Returns on investments and servicing of finance					
Interest paid		(980,737)		(465,112)	
Net cash outflow from returns on investments and servicing of finance			(980,737)		(465,112)
Capital expenditure and financial investment					
Purchase of intangible fixed assets		(755,840)		(629,320)	
Purchase of tangible fixed assets		(51,407)		(358,258)	
Sale of intangible fixed assets		935,238		-	
Sale of subsidiary undertaking		4,670,630			
Net cash inflow / (outflow) from capital expenditure and financial investment			4,798,621		(987,578)
Net cash outflow before financing			(2,753,036)		(9,634,475)
Financing					
New loans received		6,275,000		11,080,888	
Loan repayments		(4,625,236)		(1,563,141)	
Issue of ordinary share capital		-		-	
Capital element of finance lease repayments		(7,503)		(24,421)	
Net cash inflow from financing			1,642,261		9,493,326
Decrease in cash			(1,110,775)		(141,149)

The notes on pages 10 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 2012

1 Accounting policies

Basis of Preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards. The principal accounting policies of the group have remained unchanged throughout the year and are set out below.

Going concern

Notwithstanding the year end consolidated balance sheet, which shows net current liabilities of £9,142,112 and net liabilities of £37,738,064, the financial statements have been prepared on a going concern basis.

The directors have prepared detailed cash flow forecasts for the group covering the 12 month period from the date of approval of these financial statements. These forecasts indicate that the group and company is able to operate within facilities expected to be made available to fund its business plan and to meet its liabilities as they fall due. However, the forecasts make assumptions regarding the ability of the group to generate revenues and to operate within a strict cost structure and in obtaining funding and support for loans not being called for immediate repayment. Whilst certain elements of the plan have been achieved, some significant assumptions have been made and the directors recognise that there are a number of fundamental uncertainties regarding the future of the business which are as follows:

- The group have received written confirmation from shareholders and other significant funders of their intention to continue to provide support to the group by not demanding repayment of debt due for a period of not less than one year from the date of approval of the financial statements. In addition they have confirmed their intention to provide or source the funding required by the group to enable the group to continue in operational existence for a period of not less than one year from the date of approval of the financial statements. 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 have made assumptions regarding the projected revenues that the group can earn through gate receipts, season ticket sales, merchandising, programme sales, advertising, sponsorship and other Football related activity. These assumptions relate to the ground share. However, uncertainty exists regarding the level of support and attendance that can be expected given the ground sharing arrangements, which impacts on other commercial revenues and there is no certainty that the level of revenues projected will be achieved.
- The directors continue to make reductions to the overhead base and payroll costs of the group. However, not all of these savings have yet been implemented and uncertainty exists regarding the directors ability to complete all of the planned savings.

Should these cost savings not be achieved, revenues not earned as expected and additional funds not made available then the group and company may not have sufficient funds to meet its obligations as they fall due. This indicates the existence of a material uncertainty which may cast significant doubt on the group and company's ability to continue as a going concern. However, the directors have a reasonable expectation that they will be able to implement the planned changes, achieve the cost savings identified, generate the revenues anticipated and to obtain the funding required by the group. For these reasons the directors have prepared the financial statements on a going concern basis.

Basis of consolidation

The group financial statements incorporate those of the company and all of its subsidiary undertakings (see note 11) drawn up to 31 May 2012. 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.

Sky Blue Sports & Leisure Limited

Notes forming part of the financial statements for the year ended 31 May 2012 (*continued*)

1 Accounting policies (*continued*)

Basis of consolidation (continued)

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

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 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
Motor vehicles	25% reducing balance
Buildings	2% straight line

Investments in subsidiary undertakings

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

Fixed asset investments

Investments held as fixed assets are stated at cost less any provision 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 2012 (*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 24.

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 which ranges from 10 to 20 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 2012 (*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 direct to equity.

2 Turnover

The turnover is attributable to the following classes of business

	2012 £	2011 £
Match receipts		
Net receipts from league and cup matches, pools and executive box rentals	3,550,702	3,925,900
Sports analysis		
Net receipts for provision of sports analysis services	-	3,962,023
Commercial activities		
Television, sponsorship, advertising, club lottery, shop and other promotion activities	7,275,282	8,133,123
	<u>10,825,984</u>	<u>16,021,046</u>

Sky Blue Sports & Leisure Limited

Notes forming part of the financial statements
for the year ended 31 May 2012 (*continued*)

3 Operating loss on ordinary activities

The loss on ordinary activities is stated after charging

	2012 £	2011 £
Depreciation and amortisation		
Goodwill amortisation	-	1,355,754
Other intangible fixed assets	1,605,833	1,786,949
Tangible fixed assets	117,805	549,953
Impairment of fixed asset investments	-	-
Auditor's remuneration		
Audit services	24,000	34,800
Non audit services - taxation	27,000	7,250
Operating lease charges		
Equipment and vehicles	30,219	110,651
Land and buildings	1,659,021	1,565,769
Loss on disposal of tangible fixed assets	-	14,017
Goodwill impairment charge	-	6,415,343
Fixed asset impairment charge	-	122,109

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 2012 (continued)

5 Directors and employees

Staff costs across the group during the year were as follows

	2012 £	2011 £
Wages and salaries	8,775,650	11,004,320
Social security costs	1,094,047	1,395,832
Other pension costs	44,076	78,825
	<u>9,913,773</u>	<u>12,478,977</u>

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

	2012 Number	2011 Number
Players and management	83	108
Administrative and commercial	45	80
Stewards (part time)	362	422
	<u>490</u>	<u>610</u>

Remuneration in respect of directors was as follows

	2012 £	2011 £
Emoluments	136,419	27,100
Remuneration paid to third parties in respect of directors' services	361,320	206,250

6 Interest receivable and payable

	2012 £	2011 £
Interest payable		
Finance charges on finance leases	7,487	6,297
On bank loans and overdrafts	-	239
Other loans	1,257,132	1,026,851
	<u>1,264,619</u>	<u>1,033,387</u>
Other interest receivable and similar income	-	(18,889)
	<u>1,264,619</u>	<u>1,014,498</u>

Sky Blue Sports & Leisure Limited

Notes forming part of the financial statements for the year ended 31 May 2012 (continued)

7 Tax on loss on ordinary activities

There was a current corporation tax credit of £nil in the year (year ended 31 May 2011 - £30,498)

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

	2012 £	2011 £
Loss on ordinary activities before tax	(4,003,493)	(16,141,432)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 25.67% (2011 - 27.67%)	(1,027,697)	(4,466,334)
Effect of		
Expenses not deductible for tax purposes	-	2,068,284
Fixed asset timing differences	-	63,966
Movement on provisions	-	(219,797)
Tax losses arising in the year	1,027,697	2,534,747
Enhanced R&D	-	(32,004)
R&D tax credit difference	-	20,640
Current tax credit for the year	-	(30,498)

The group has unrelieved tax losses of approximately £60m (2011 - £57m). No deferred tax asset has been recognised in relation to these losses due to the fact that Coventry City Football Club Limited entered into administration and subsequently a creditors voluntary liquidation. The group also has an unprovided deferred tax asset of £nil (2011 - £667,000) in relation to fixed asset timing differences.

8 Loss for the financial year

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 profit of £1,426,340 (year ended 31 May 2011 - loss of £13,389,693) which is dealt with in the financial statements of the company.

Sky Blue Sports & Leisure Limited

Notes forming part of the financial statements
for the year ended 31 May 2012 (*continued*)

9 Intangible fixed assets

Group	Trade Marks £	Player registrations £	Goodwill £	Total £
<i>Cost</i>				
At 31 May 2011	14,059	5,507,954	13,557,543	19,079,556
Additions	-	994,840	-	994,840
Disposals	-	(499,882)	(4,024,391)	(4,524,273)
At 31 May 2012	14,059	6,002,912	9,533,152	15,550,123
<i>Amortisation</i>				
At 31 May 2011	10,626	3,629,616	10,734,956	14,375,198
Provided in the year	382	1,605,451	-	1,605,833
Disposals	-	(181,004)	(1,201,804)	(1,382,808)
At 31 May 2012	11,008	5,054,063	9,533,152	14,598,223
Net book value at 31 May 2012	3,051	948,849	-	951,900
Net book value at 31 May 2011	3,433	1,878,338	2,822,587	4,704,358

10 Tangible fixed assets

Group	Freehold land and buildings £	Plant, fixtures and fittings £	Total £
<i>Cost</i>			
At 31 May 2011	984,221	3,762,316	4,746,537
Additions	-	51,407	51,407
Disposals	-	(1,233,473)	(1,233,473)
At 31 May 2012	984,221	2,580,250	3,564,471
<i>Depreciation</i>			
At 31 May 2011	181,473	3,313,637	3,495,110
Provided in the year	17,345	100,460	117,805
Disposals	-	(1,010,154)	(1,010,154)
At 31 May 2012	198,818	2,403,943	2,602,761
Net book value at 31 May 2012	785,403	176,307	961,710
Net book value at 31 May 2011	802,748	448,679	1,251,427

Included within the net book value of plant, fixtures and fittings is £nil (2011 - £60,762) relating to assets held under finance leases. The depreciation charged to the financial statements in the year in respect of such assets amounted to £60,762 (2011 - £73,447).

Sky Blue Sports & Leisure Limited

Notes forming part of the financial statements
for the year ended 31 May 2012 (continued)

11 Fixed assets investments

Company	Subsidiary Undertakings £
Cost	
At 31 May 2011	369,577
Additions	901
Impairment charge	(272,412)
Disposals	(98,066)
At 31 May 2012	-

At 31 May 2012 the company held a controlling interest in the ordinary share capital of the following subsidiary undertakings

Subsidiary undertaking	Country of registration	Class of share capital held	Effective proportion held by the parent company	Nature of business
Coventry City Football Club (Holdings) Limited	England & Wales	Ordinary	90 1% "	Holding company providing management and other services to subsidiary undertakings
Coventry City Football Club Limited	England & Wales	Ordinary	90 1% ^	In liquidation
Otium Entertainment Group Limited	England & Wales	Ordinary	90 1%	Holding company

(") – Shares held by Otium Entertainment Group Limited

(^) - Shares held by Coventry City Football Club (Holdings) Limited

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

All of the subsidiary undertakings have been consolidated in the group financial statements. Coventry City Football Club Limited entered into administration and subsequently creditors voluntary liquidation proceedings subsequent to the year end

Sky Blue Sports & Leisure Limited

Notes forming part of the financial statements
for the year ended 31 May 2012 (*continued*)

12 Stocks			2012	2011
			£	£
Group				
Goods for resale			257,855	350,753
			<u> </u>	<u> </u>
13 Debtors				
	Group	Group	Company	Company
	2012	2011	2012	2011
	£	£	£	£
Trade debtors	494,208	653,621	-	112,812
Other debtors	1,212,742	341,250	11,593	82,296
Prepayments and accrued income	350,017	534,312	-	50,068
Amounts owed by group undertakings	-	-	-	1,848,043
	<u>2,056,967</u>	<u>1,529,183</u>	<u>11,593</u>	<u>2,093,219</u>
The amounts above fall due within one year				
14 Cash				
	Group	Group	Company	Company
	2012	2011	2012	2011
	£	£	£	£
Cash at bank and in hand	498,690	1,424,683	23,959	731,065
Restricted cash	315,218	500,000	-	-
	<u>813,908</u>	<u>1,924,683</u>	<u>23,959</u>	<u>731,065</u>

Restricted cash related to amounts held on deposit in relation to guarantees entered into by the group and were not available for use. These amounts were partly drawn down by the party to the guarantee during the year.

Sky Blue Sports & Leisure Limited

Notes forming part of the financial statements
for the year ended 31 May 2012 (continued)

15 Creditors amounts falling due within one year

	Group 2012 £	Group 2011 £	Company 2012 £	Company 2011 £
Other loans and overdrafts	7,626,607	6,315,457	-	3,500,394
Trade creditors and transfer fees	711,839	1,079,737	-	25,599
Social security and other taxes	756,899	723,967	-	-
Other creditors	63,000	780,187	2,086	-
Accruals	1,911,619	1,758,795	181,972	117,478
Finance leases	7,109	43,144	-	-
Deferred income	1,193,769	1,229,824	-	-
Amounts owed to group undertakings	-	-	37,000	37,000
	<u>12,270,842</u>	<u>11,931,111</u>	<u>221,058</u>	<u>3,680,471</u>

16 Creditors amounts falling due after more than one year

	Group 2012 £	Group 2011 £	Company 2012 £	Company 2011 £
Trade creditors and transfer fees	-	-	-	-
Finance leases	-	11,259	-	-
Other loans	30,305,520	31,679,942	28,554,706	29,679,942
Other creditors	204,042	121,750	-	-
	<u>30,509,562</u>	<u>31,812,951</u>	<u>28,554,706</u>	<u>29,679,942</u>

Other loans

Included within other loans falling due after more than one year is an amount of £28,554,706 (2011 - £29,679,942) 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. No interest is currently accruing under this loan agreement.

Included within other loans falling due within one year is an amount of £6,275,000 secured on certain assets of the Football Club in relation to monies advanced by Arvo Master Funds Limited, a company which has an interest in the shares of group companies. Interest of £218,893 is included within accruals in relation to this loan. See note 30.

Included within other loans falling due after more than one year is an amount of £1,750,814 (2011 - £2,000,000) which relates to monies advanced by Arvo Master Funds Limited, a company which has an interest in the shares of group companies. These loan notes are convertible to ordinary shares in specific circumstances in 2014 and have been treated as having elements of both debt and equity in accordance with FRS 25 (see note 18).

Sky Blue Sports & Leisure Limited

Notes forming part of the financial statements
for the year ended 31 May 2012 (*continued*)

17 Borrowings

Borrowings are repayable as follows

	Group 2012 £	Group 2011 £	Company 2012 £	Company 2011 £
Within one year				
Other loans	7,626,607	6,315,457	-	-
Finance leases	7,109	43,144	-	-
After one and within two years				
Other loans	30,305,520	31,679,942	28,554,706	29,679,942
Finance leases	-	11,259	-	-
After two and within five years				
Other loans	-	-	-	-
	<u>37,939,236</u>	<u>38,049,802</u>	<u>28,554,706</u>	<u>29,679,942</u>

Finance leases are secured on the assets to which they relate

18 Share capital

	2012 £	2011 £
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

	2012 £
Issued in the year	249,087
At 31 May 2012	<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 in 2014 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).

Sky Blue Sports & Leisure Limited

Notes forming part of the financial statements
for the year ended 31 May 2012 (*continued*)

19 Reserves

	Profit and loss account £
Group	
At 31 May 2011	(33,997,356)
Loss for the financial year	(4,003,493)
At 31 May 2012	<u>(38,000,849)</u>
	Profit and loss account £
Company	
At 31 May 2011	(30,180,250)
Profit for the financial year	1,426,340
At 31 May 2012	<u>(28,753,910)</u>

20 Reconciliation of movements in shareholders' deficit

	2012 £	2011 £
Group		
Loss for the financial year	(4,003,493)	(16,110,934)
Equity component of convertible debt	249,087	-
Shareholders' deficit at start of year	(33,983,658)	(17,872,724)
Shareholders' deficit at 31 May 2012	<u>(37,738,064)</u>	<u>(33,983,658)</u>

21 Net cash outflow from operating activities

	2012 £	2011 £
Operating loss	(6,951,173)	(15,199,143)
Depreciation	117,805	549,953
Amortisation	1,605,451	3,142,703
Goodwill impairment charge	-	6,415,343
Fixed asset impairment	-	122,109
Decrease / (Increase) in stock	92,898	(127,190)
Decrease in debtors	103,526	494,394
Decrease in creditors	(1,722,955)	(3,593,971)
Loss on disposal of fixed assets	183,528	14,017
Net cash outflow from operating activities	<u>(6,570,920)</u>	<u>(8,181,785)</u>

Sky Blue Sports & Leisure Limited

Notes forming part of the financial statements
for the year ended 31 May 2012 (continued)

22 Reconciliation of net cash flow to movement in net debt

	2012 £	2011 £
(Decrease) in cash in the year	(1,110,775)	(141,149)
Cash flow from changes in debt	361,017	(9,493,326)
Movement in net debt resulting from cashflows	(749,758)	(9,634,475)
Net debt at start of year	(35,960,536)	(26,326,061)
Net debt at end of year	(36,710,294)	(35,960,536)

23 Analysis of changes in net debt

	At 31 May 2011 £	Non cash items £	Cashflow £	At 31 May 2012 £
Cash at bank and in hand	1,924,683	-	(1,110,775)	813,908
Bank overdraft	(394)	-	-	(394)
	1,924,289		(1,110,775)	813,514
Hire purchase and finance leases	(54,403)	-	47,294	(7,109)
Debt due within one year	(6,150,480)	-	(1,060,699)	(7,211,179)
Debt due after one year	(31,679,942)	-	1,374,422	(30,305,520)
	(35,960,536)	-	(749,758)	(36,710,294)

24 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 £111,300 and is included within other creditors. Outstanding pension contributions to individuals' money purchase pension schemes included within creditors at 31 May 2012 were £92,741.

25 Capital commitments

At 31 May 2012 the group had capital commitments of £Nil (2011 - £Nil) which had been approved by the Board but not contracted for.

Sky Blue Sports & Leisure Limited

Notes forming part of the financial statements
for the year ended 31 May 2012 (continued)

26 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

	2012 £	2011 £
Amounts payable		
In one year or less	240,000	240,000
In more than one year	-	50,000
	<u>240,000</u>	<u>290,000</u>

27 Contingent assets

At the year-end, the group could be owed £1,357,000 (2011 - £ nil) under transfer agreements, these sums are dependent on various potential achievements by the player and the club they are now employed by. Subsequent to the year end, £755,000 of this amount has been received.

28 Financial commitments

Leases

The group has annual commitments under non-cancellable operating lease commitments as set out below.

	2012		2011	
	Land and buildings £	Other £	Land and buildings £	Other £
In relation to contracts expiring				
In one year or less	-	-	-	14,809
Between one and five years	-	-	-	175,882
After more than 5 years	1,462,638	30,219	1,371,416	-
	<u>1,462,638</u>	<u>30,219</u>	<u>1,371,416</u>	<u>190,691</u>

Subsequent to the year-end, the group company that was party to the operating lease on the land and buildings entered into administration and subsequently entered liquidation proceedings.

Sky Blue Sports & Leisure Limited

Notes forming part of the financial statements for the year ended 31 May 2012 (continued)

28 Financial commitments (continued)

Bonuses and signing on fees

The minimum payments in respect of loyalty bonuses and deferred signing on fees for playing staff under contract with the group as at the year end, which have not been provided for in the financial statements as the conditions are not met at the balance sheet date, are as follows

Group	2012 £	2011 £
Amounts payable		
In one year or less	573,549	996,990
Between one and five years	1,665,115	1,574,498
	<u>2,238,664</u>	<u>2,571,488</u>

29 Post balance sheet events

The group has signed transfer agreements under which a minimum net sum of £nil was payable (2011 - £720,000 payable)

Subsequent to the year-end, the group has received a revolving loan facility of £5 986m from Arvo Master Fund Limited which is due for repayment in December 2013. The agreement includes the option for Arvo to acquire shares equal to 12.5% of the entire issued share capital of a subsidiary company as deemed repayment of the loan.

The group has also received additional funding of £3 195m from Arvo Master Funds Limited subsequent to the year end. Security has been provided by way of a debenture over certain assets of the group.

Subsequent to the year end, Coventry City Football Club Limited, a subsidiary of the company, entered into administration and then creditors voluntary liquidation proceedings.

30 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. The loan arrangements with these Investment Funds are set out in note 16.

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 16.

Sky Blue Sports & Leisure Limited

Notes forming part of the financial statements
for the year ended 31 May 2012 (*continued*)

31 Disposal of Prozone Group

During the year, the company disposed in full of its interest in the share capital of Prozone Group Limited. The calculation of the profit on disposal is shown below

Consideration received	4,670,630
Less: Net assets disposed of	
Net book value of goodwill	(2,822,587)
Net book value of assets and liabilities	(246,598)
Less: directly attributable costs	(230,000)
Profit on disposal	1,371,445

In addition, directly attributable legal costs of a further £212,750 were incurred in the year ended 31 May 2011 in relation to the sale

The original value of the goodwill acquired by Sky Blue Sports & Leisure Limited in relation to the Prozone Group was £4,024,391 and amortisation of £1,201,804 has been charged to the group's profit and loss account since the date of the acquisition