

Company Registration No. SC005863 (Scotland)

**Heart of Midlothian plc**  
**Directors' Report and Financial Statements**  
**For The Year Ended 31 July 2008**

TUESDAY



\*SKT649E2\*

SCT

28/04/2009

756

COMPANIES HOUSE

# HEART OF MIDLOTHIAN PLC

## COMPANY INFORMATION

---

|                          |   |
|--------------------------|---|
| <b>Directors</b>         | R Romanov<br>S Fedotovas<br>J Goncaruk<br>V Vasiliauskas (Appointed 3 March 2009)   |
| <b>Secretary</b>         | A S Fraser  |
| <b>Company number</b>    | SC005863  |
| <b>Registered office</b> | Tynecastle Stadium<br>Gorgie Road<br>Edinburgh<br>EH11 2NL  |
| <b>Auditors</b>          | Johnston Carmichael<br>7-11 Melville Street<br>Edinburgh<br>EH3 7PE   |
| <b>Business address</b>  | Tynecastle Stadium<br>Gorgie Road<br>Edinburgh<br>EH11 2NL  |
| <b>Bankers</b>           | AB Utkio Bankas<br>Maironio Str, 25<br>LT-44250<br>Lithuania  |
| <b>Solicitors</b>        | HBJ Gateley Wareing LLP<br>Exchange Tower<br>19 Canning Street<br>Edinburgh<br>EH3 8EH<br><br>McGrigor Donald<br>Princes Exchange<br>1 Earl Grey Street<br>Edinburgh<br>EH3 9AQ |

---

# HEART OF MIDLOTHIAN PLC

## CONTENTS

---

|                                   | Page    |
|-----------------------------------|---------|
| Directors' report                 | 1 - 3   |
| Independent auditors' report      | 4 - 5   |
| Profit and loss account           | 6       |
| Balance sheet                     | 7 - 8   |
| Cash flow statement               | 9       |
| Notes to the cash flow statement  | 10 - 11 |
| Notes to the financial statements | 12 - 27 |

---

# HEART OF MIDLOTHIAN PLC

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 JULY 2008

---

The directors present their report and financial statements for the year ended 31 July 2008.

### Principal activities and review of the business

The principal activity of the company is that of a professional football club.

The club reported positive progress in its aim of returning to profitability, over the mid to long term, with pre-tax losses reduced by more than 70% to £3.53m (2007: £12.45m). The improved figures were aided by a 10% reduction in employment costs to £11.3m (2007: £12.49m). Increased operational efficiencies led to a 19% saving on the previous year of over £1.45 million.

The successful conclusion of a £12m debt-for-equity agreement contributed substantially to the club's total debt figure reducing to £30.48m (2007: £36.25m). The debt reduction removes the burden of an estimated £600,000 of interest per annum - the full effect of which will not be reflected until the financial results for season 2008/09.

The results of the club's investment in a successful and progressive youth academy system, to promote the best 'home developed' players, was also ably demonstrated through this financial period. Hearts achieved a club record fee for the transfer of Scotland international goalkeeper Craig Gordon to English Premiership side Sunderland, providing the majority of the £9.96m gain on player sales. Roman Bednar was also sold to Premiership side West Bromwich Albion for a fee in excess of £2m.

The Board of Hearts also restated its intention to develop Tynecastle into a 20,000+ capacity stadium. The club is working on revised proposals - within the existing planning application submitted to City of Edinburgh Council - to redevelop Tynecastle. The plans, which are subject to suitable funding arrangements, provide for redevelopment work to commence in the latter part of 2010 providing a new main stand to be constructed and fully operational in season 2011/12.

Turnover for the period reduced from £10.32m to £9.16m due, in the main, to the eighth place domestic league finish and the associated negative effects on income streams from the SPL for final league placing. The club's early exit from the Tennent's Scottish Cup in season 07/08 also had a knock-on effect on retail and ticket sales.

Despite the current challenging economic climate, the club views the outlook with cautious optimism based on a continued focus on increasing efficiency by lowering costs, improving results on the field and attracting further commercial partnerships.

In each of these areas Hearts has made solid progress in the new financial year. Key 'post year end' events have included the appointment of Csaba Laszlo as team manager. Mr Laszlo has delivered a marked improvement in the club's on-field progress.

Other key items of note are the transfer of Christophe Berra to English Championship side Wolverhampton Wanderers. The transaction was the highest value transfer for any player from a Scottish club in the January '09 transfer window and once again demonstrates the value of Hearts' player development system.

Off-field agreements are also in place to extend two major existing commercial partnerships. A three year extension to the club's highly successful partnership with shirt manufacturer Umbro will complement a further one year extension to the club's shirt sponsorship agreement with Ukio Bankas.

Finally the redevelopment of Tynecastle Stadium remains high on the Board's agenda. Vitalijus Vasiliuaskas has been appointed as a Board Director and will be responsible as Project Manager for Infrastructure and Development for the Tynecastle redevelopment project.

# HEART OF MIDLOTHIAN PLC

## DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 JULY 2008

---

### Results and dividends

The results for the year are set out on page 6.

### Directors

The following directors have held office since 1 August 2007:

R Romanov

S Fedotovas

J Goncaruk

V Vasiliauskas

(Appointed 3 March 2009)

### Creditor payment policy

It is the Company's policy to agree terms of payment with suppliers and to abide by them. At 31 July 2008, the Company's average creditor payment period was 77 days (2007: 82 days), calculated in accordance with the requirements set down in the Companies Act 1985. This represents the ratio, expressed in days, between the amounts invoiced to the Company by its suppliers in the year and the amounts due, at the year end, to creditors due within one year.

### Directors' responsibilities

The directors are responsible for preparing the Annual Report and financial statements in accordance with applicable regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company 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 estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which 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 1985. 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.

# HEART OF MIDLOTHIAN PLC

## DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 JULY 2008

---

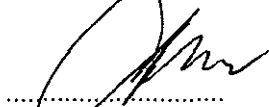
### Statement of disclosure to auditor

The directors confirm that:

(a) so far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware, and

(b) they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the board



S Kedotovas

Director

8/4/2008

# HEART OF MIDLOTHIAN PLC

## INDEPENDENT AUDITORS' REPORT

### TO THE SHAREHOLDERS OF HEART OF MIDLOTHIAN PLC

---

We have audited the financial statements of Heart of Midlothian plc for the year ended 31 July 2008 set out on pages 6 to 27. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' 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 the directors and auditors**

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

#### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. However, the evidence available to us was limited because information that may have enabled us to conclude as to whether UAB Ukio Banko Investicine Grupe is able to meet its commitment to provide sufficient funding to enable the company to meet its liabilities as they fall due for the foreseeable future was not made available to us. Had this information been available, we might have formed a different opinion.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

# HEART OF MIDLOTHIAN PLC

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### TO THE SHAREHOLDERS OF HEART OF MIDLOTHIAN PLC

---

#### Qualified opinion arising from limitation in audit scope

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning the appropriateness of the going concern basis of preparation of the financial statements, in our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 July 2008 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985.
- the information given in the directors' report is consistent with the financial statements.

In respect solely of the limitation of our work relating to the assessment of the appropriateness of the going concern basis of preparation of the financial statements we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

*Johnston Carmichael*

Johnston Carmichael

Chartered Accountants  
Registered Auditor

*8 April 2009*

7-11 Melville Street  
Edinburgh  
EH3 7PE



# HEART OF MIDLOTHIAN PLC

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 JULY 2008

|  | Notes | Operations<br>excluding<br>player<br>trading<br>£000 | Player<br>trading<br>£000 | 2008<br>Total<br>£000 | 2007<br>Total<br>£000 |
|--|-------|--|---------------------------|-----------------------|-----------------------|
| Turnover   | 2     | 9,161  | -                         | 9,161                 | 10,319                |
| Staff costs  | 22    | (11,319)   | -                         | (11,319)              | (12,488)              |
| Depreciation and other amounts written off<br>tangible and intangible fixed assets |       | (639)  | (2,206)                   | (2,845)               | (1,891)               |
| Other operating charges  |       | (6,243)  | -                         | (6,243)               | (7,692)               |
|  |       | (18,201)   | (2,206)                   | (20,407)              | (22,071)              |
| Operating loss   | 3     | (9,040)  | (2,206)                   | (11,246)              | (11,752)              |
| Gain on sale of players' registrations   |       | -  | 9,964                     | 9,964                 | 1,120                 |
| Loss on ordinary activities before<br>interest                                     |       | (9,040)  | 7,758                     | (1,282)               | (10,632)              |
| Interest payable and similar charges   | 4     |  |                           | (2,248)               | (1,815)               |
| Loss on ordinary activities before<br>taxation                                     |       |  |                           | (3,530)               | (12,447)              |
| Tax on loss on ordinary activities   | 5     |  |                           | -                     | -                     |
| Loss for the year  | 18    |  |                           | (3,530)               | (12,447)              |

The profit and loss account has been prepared on the basis that all operations are continuing operations.

# HEART OF MIDLOTHIAN PLC

## BALANCE SHEET AS AT 31 JULY 2008


|  | Notes | 2008<br>£000    | 2007<br>£000    |
|--|-------|-----------------|-----------------|
| <b>Fixed assets</b>  |       |                 |                 |
| Intangible assets  | 6     | 2,348           | 3,889           |
| Tangible assets  | 7     | 19,174          | 18,182          |
|  |       | <u>21,522</u>   | <u>22,071</u>   |
| <b>Current assets</b>  |       |                 |                 |
| Stocks   | 9     | 515             | 379             |
| Debtors  | 10    | 2,039           | 1,247           |
| Cash at bank and in hand                                       |       | 15              | 98              |
|  |       | <u>2,569</u>    | <u>1,724</u>    |
| <b>Creditors: amounts falling due within one year</b>          |       |                 |                 |
| Other creditors  | 11    | (20,396)        | (29,653)        |
| Convertible loan stock   | 13    | (2,977)         | (2,857)         |
|  |       | <u>(23,373)</u> | <u>(32,510)</u> |
| <b>Net current liabilities</b>                                 |       | <u>(20,804)</u> | <u>(30,786)</u> |
| <b>Total assets less current liabilities</b>                   |       | <u>718</u>      | <u>(8,715)</u>  |
| <b>Creditors: amounts falling due after more than one year</b> |       |                 |                 |
| Other creditors  | 12    | (16,086)        | (16,122)        |
|  |       | <u>(16,086)</u> | <u>(16,122)</u> |
| <b>Provisions for liabilities and charges</b>                  | 14    | (17)            | (54)            |
|  |       | <u>(15,385)</u> | <u>(24,891)</u> |
| <b>Capital and reserves</b>                                    |       |                 |                 |
| Called up share capital  | 17    | 4,692           | 1,263           |
| Share premium account  | 18    | 11,674          | 3,119           |
| Revaluation reserve  | 18    | 6,389           | 5,421           |
| Profit and loss account  | 18    | (38,140)        | (34,694)        |
| <b>Shareholders' funds</b>                                     | 19    | <u>(15,385)</u> | <u>(24,891)</u> |

# HEART OF MIDLOTHIAN PLC

## BALANCE SHEET (CONTINUED) AS AT 31 JULY 2008

---

Approved by the Board and authorised for issue on ..... 8/4/2009 .....

  
.....  
S Fedotovas  
Director

# HEART OF MIDLOTHIAN PLC

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31 JULY 2008

|   | £000    | 2008<br>£000 | £000    | 2007<br>£000 |
|---|---------|--------------|---------|--------------|
| <b>Net cash outflow from operating activities</b>                           |         | (12,743)     |         | (2,967)      |
| <b>Returns on investments and servicing of finance</b>                      |         |              |         |              |
| Interest paid   | (2,253) |              | (932)   |              |
| <b>Net cash outflow for returns on investments and servicing of finance</b> |         | (2,253)      |         | (932)        |
| <b>Capital expenditure</b>  |         |              |         |              |
| Payments to acquire players' registrations                                  | (1,049) |              | (3,822) |              |
| Payments to acquire tangible assets   | (498)   |              | (741)   |              |
| Receipts from sales of intangible assets                                    | 10,315  |              | 1,280   |              |
| <b>Net cash inflow/(outflow) for capital expenditure</b>                    |         | 8,768        |         | (3,283)      |
| <b>Net cash outflow before management of liquid resources and financing</b> |         | (6,228)      |         | (7,182)      |
| <b>Financing</b>  |         |              |         |              |
| Cost of financing   | (15)    |              | -       |              |
| Other new short term loans  | 6,160   |              | 10,053  |              |
| <b>Net cash inflow from financing</b>                                       |         | 6,145        |         | 10,053       |
| <b>(Decrease)/increase in cash in the year</b>                              |         | (83)         |         | 2,871        |

# HEART OF MIDLOTHIAN PLC

## NOTES TO THE CASH FLOW STATEMENT FOR THE YEAR ENDED 31 JULY 2008

|   |  |  |          |          |
|---|--|--|----------|----------|
| 1 | Reconciliation of operating loss to net cash outflow from operating activities |  | 2008     | 2007     |
|   |  |  | £000     | £000     |
|   | Operating loss   |  | (11,246) | (11,752) |
|   | Depreciation of tangible assets  |  | 556      | 549      |
|   | Amortisation of intangible assets  |  | 2,239    | 1,342    |
|   | Increase in stocks   |  | (136)    | (135)    |
|   | (Increase)/decrease in debtors   |  | (792)    | 2,316    |
|   | (Decrease)/Increase in creditors within one year                               |  | (3,291)  | 5,389    |
|   | Release of grant   |  | (36)     | (36)     |
|   | Decrease in provisions   |  | (37)     | (640)    |
|   | Net cash outflow from operating activities                                     |  | (12,743) | (2,967)  |

|   |                                   |               |           |                        |              |
|---|-----------------------------------|---------------|-----------|------------------------|--------------|
| 2 | Analysis of net debt              | 1 August 2007 | Cash flow | Other non-cash changes | 31 July 2008 |
|   |                                   | £000          | £000      | £000                   | £000         |
|   | Net cash:                         |               |           |                        |              |
|   | Cash at bank and in hand          | 98            | (83)      | -                      | 15           |
|   | Debt:                             |               |           |                        |              |
|   | Debts falling due within one year | (21,747)      | (6,145)   | 12,000                 | (15,892)     |
|   | Debts falling due after one year  | (14,600)      | -         | -                      | (14,600)     |
|   |                                   | (36,347)      | (6,145)   | 12,000                 | (30,492)     |
|   | Net debt                          | (36,249)      | (6,228)   | 12,000                 | (30,477)     |

|   |   |          |          |
|---|---|----------|----------|
| 3 | Reconciliation of net cash flow to movement in net debt | 2008     | 2007     |
|   |   | £000     | £000     |
|   | (Decrease)/increase in cash in the year                 | (83)     | 2,871    |
|   | Cash (inflow) from (increase) in debt                   | (6,145)  | (10,053) |
|   | Other non cash items                                    | 12,000   | (662)    |
|   | Movement in net debt in the year                        | 5,772    | (7,844)  |
|   | Opening net debt  | (36,249) | (28,405) |
|   | Closing net debt  | (30,477) | (36,249) |

# HEART OF MIDLOTHIAN PLC

## NOTES TO THE CASH FLOW STATEMENT (CONTINUED) FOR THE YEAR ENDED 31 JULY 2008

---

### 4 Major non-cash transactions

During the year, 34,285,714 Ordinary shares of 10 pence each were issued to UAB Ukio Banko Investicine Grupe, the ultimate parent undertaking. The shares were issued at 35 pence each as part of a Debt for Equity conversion that reduced the debt owed by the Company to UAB Ukio Banko Investicine Grupe by £12.0 million.

# HEART OF MIDLOTHIAN PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2008

---

### 1 Accounting policies

#### 1.1 Accounting convention

The financial statements are prepared under the historical cost convention modified to include the revaluation of freehold land and buildings.

#### Going concern

The company has incurred significant losses in recent years and trading activities result in significant ongoing cash outflows.

The company does not have formal funding facilities in place that allow it to meet its liabilities as they fall due in the foreseeable future. The Company is dependent upon the short term financial support of UAB Ukio Banko Investicine Grupe, the Company's ultimate parent undertaking, which provides short term loans and meets the Company's day-to-day funding requirements.

In addition, £17.6 million of loan funding from Ukio Bankas falls due for repayment on 7 February 2010.

The directors have received written confirmation from the directors of UAB Ukio Banko Investicine Grupe, that it (UAB Ukio Banko Investicine Grupe) will provide sufficient funding to enable the Company to meet its liabilities as they fall due for the foreseeable future. This includes the repayment of £17.6 million of Ukio Bankas loans, should this be necessary. The directors are satisfied that UAB Ukio Banko Investicine Grupe has sufficient financial resources to fulfil this undertaking.

The directors have plans in place, including the redevelopment of the Tynecastle stadium, which they believe will return the Company to profitability and positive cash flow in the longer term.

Having taken all of the above into account, the directors are satisfied that it remains appropriate to prepare the accounts on a going concern basis.

#### 1.2 Compliance with accounting standards

The financial statements are prepared in accordance with applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), which have been applied consistently (except as otherwise stated).

#### 1.3 Turnover

Turnover represents amounts receivable for goods and services net of VAT and trade discounts, from football and related commercial activities. The fixed element of broadcasting revenues is recognised over the duration of the football season, whilst facility fees for live coverage or highlights are recognised when earned. Income from the sale of season tickets in respect of the coming season is deferred at the year end and recognised throughout the year based on the number of matches.

#### 1.4 Players' registrations

Costs associated with the acquisition of players' registrations are capitalised as intangible fixed assets. These costs are fully amortised, in equal annual instalments, over the period of the respective players' contracts. Players' registrations are written down for impairment when the carrying amount exceeds the estimated amount recoverable through continued registration with the Club or sale. Profits or losses on the disposal of player registrations represents the transfer fee receivable, net of any transaction costs, less the unamortised cost of the player's original registration.

# HEART OF MIDLOTHIAN PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 JULY 2008

### 1 Accounting policies

(continued)

#### 1.5 Tangible fixed assets and depreciation

Tangible fixed assets other than freehold land are stated at cost or valuation less depreciation. Depreciation is provided at rates calculated to write off the cost or valuation less estimated residual value of each asset over its expected useful life, as follows:

|                                      |   |
|--------------------------------------|---|
| Freehold property                    | - depreciated over a period of 25 to 50 years |
| Leasehold property                   | - depreciated over 25 year term of lease      |
| Plant and equipment                  | - depreciated over a period of 4 to 10 years  |
| Memorabilia                          | - see below                                   |
| Assets in the course of construction | - see below                                   |

Memorabilia is not depreciated and is carried at a valuation that the Directors have elected to "freeze" under the transitional arrangements of FRS 15, treating this as the cost going forward.

Assets in the course of construction are not depreciated during their period of construction.

#### 1.6 Leasing

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

#### 1.7 Investments

Fixed asset investments are stated at cost less provision for diminution in value.

#### 1.8 Stock

Stock is valued at the lower of cost and net realisable value. Net realisable value is based on estimated selling price less any further costs expected to be incurred in disposal.

#### 1.9 Pensions

The company operates a defined contribution scheme for the benefit of its employees. Contributions payable are charged to the profit and loss account in the year they are payable.

#### 1.10 Deferred taxation

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset. Deferred tax assets are recognised to the extent that it is regarded as more likely than not they will be recovered. Deferred tax assets and liabilities are not discounted.

#### 1.11 Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to profit and loss account.

#### 1.12 Grants receivable

Grants receivable in respect of tangible fixed assets, including for stadium redevelopment, are treated as a deferred credit and are released to the profit and loss account over the estimated useful life of the assets concerned.



# HEART OF MIDLOTHIAN PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 JULY 2008

### 1 Accounting policies

(continued)

#### 1.13 Group accounts

The financial statements present information about the company as an individual undertaking and not about its group. The company has not prepared group accounts as it is exempt from the requirement to do so by section 228 of the Companies Act 1985 as it is a subsidiary undertaking of Heart of Midlothian 2005 Limited, a company incorporated in Scotland, and is included in the consolidated accounts of that company.

#### 1.14 Signing on fees

Signing on fees are expensed to the profit and loss account as part of staff costs.

### 2 Turnover and loss on ordinary activities before taxation

Turnover is the amount derived from all trading activities, exclusive of value added tax. Sales of players' registrations are not included within turnover in accordance with FRS3 Reporting financial performance and industry practice.

The Directors consider that all turnover and operating losses arise from a single business segment, all of which arose in the UK.

An analysis of turnover is shown below:

| Class of business | Turnover     |               |
|-------------------|--------------|---------------|
|                   | 2008<br>£000 | 2007<br>£000  |
| Broadcasting      | 1,290        | 1,635         |
| Match day         | 4,209        | 4,901         |
| Commercial        | 3,331        | 3,328         |
| Other income      | 331          | 455           |
|                   | <u>9,161</u> | <u>10,319</u> |

# HEART OF MIDLOTHIAN PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 JULY 2008

|          |  |                   |                   |
|----------|--|-------------------|-------------------|
| <b>3</b> | <b>Operating loss</b>                    | <b>2008</b>       | <b>2007</b>       |
|          |  | <b>£000</b>       | <b>£000</b>       |
|          | Operating loss is stated after charging: |                   |                   |
|          | Amortisation of intangible assets        | 2,239             | 1,342             |
|          | Depreciation of tangible assets          | 556               | 549               |
|          | Loss on foreign exchange transactions    | 540               | -                 |
|          | Operating lease rentals                  |                   |                   |
|          | - Plant and machinery                    | 54                | 53                |
|          | - Other assets                           | 64                | 38                |
|          | Auditors' remuneration: Audit            | 40                | 25                |
|          | Tax                                      | 6                 | 7                 |
|          | Other services                           | 12                | 17                |
|          | and after crediting:                     |                   |                   |
|          | Football Trust grants                    | 36                | 36                |
|          |  | <u>          </u> | <u>          </u> |
| <b>4</b> | <b>Interest payable</b>                  | <b>2008</b>       | <b>2007</b>       |
|          |  | <b>£000</b>       | <b>£000</b>       |
|          | On bank loans and overdrafts             | 1,188             | 1,300             |
|          | Other interest                           | 1,060             | 515               |
|          |  | <u>          </u> | <u>          </u> |
|          |  | <u>2,248</u>      | <u>1,815</u>      |

# HEART OF MIDLOTHIAN PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 JULY 2008

### 5 Taxation

|   | 2008<br>£000 | 2007<br>£000 |
|---|--------------|--------------|
| Current tax charge  | -            | -            |
| <b>Factors affecting the tax charge for the year</b>  |              |              |
| Loss on ordinary activities before taxation   | (3,530)      | (12,447)     |
| Loss on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 29.33% (2007 - 30.00%) | (1,035)      | (3,734)      |
| Effects of:   |              |              |
| Expenses not deductible for tax purposes  | 124          | 156          |
| Tax losses carried forward  | 195          | 2,606        |
| Other tax movements   | 716          | 972          |
|   | 1,035        | 3,734        |
| Current tax charge  | -            | -            |

As detailed in Note 14, a potential deferred tax asset of £13.136 million (2007: £12.133 million) has not been recognised in the financial statements in accordance with the accounting policy set out in Note 1, because it is not clear that suitable taxable profits will be available in the foreseeable future for offset.

As at 31 July 2008, the Company's freehold land and buildings were revalued in accordance with FRS 15 Tangible Fixed Assets, as detailed in Note 7. As there are no plans to dispose of the asset no provision for deferred taxation which might arise on the gain on sale has been made. The directors estimate that were the asset to be sold at the revalued amount established as at 31 July 2008, a potential capital gains tax liability of approximately £670,000 would arise.

# HEART OF MIDLOTHIAN PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 JULY 2008

### 6 Intangible fixed assets

|                           | Players'<br>registrations<br>£000 |
|---------------------------|-----------------------------------|
| <b>Cost</b>               |                                   |
| At 1 August 2007          | 5,466                             |
| Additions                 | 1,049                             |
| Disposals                 | (673)                             |
|                           | <hr/>                             |
| At 31 July 2008           | 5,842                             |
|                           | <hr/>                             |
| <b>Amortisation</b>       |                                   |
| At 1 August 2007          | 1,577                             |
| Amortisation on disposals | (322)                             |
| Charge for the year       | 2,239                             |
|                           | <hr/>                             |
| At 31 July 2008           | 3,494                             |
|                           | <hr/>                             |
| <b>Net book value</b>     |                                   |
| At 31 July 2008           | 2,348                             |
|                           | <hr/>                             |
| At 31 July 2007           | 3,889                             |
|                           | <hr/>                             |

# HEART OF MIDLOTHIAN PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 JULY 2008

### 7 Tangible fixed assets

|                          | Freehold<br>property | Leasehold<br>property | Plant and<br>equipment | Memorabilia | Assets in<br>the course<br>of<br>construction | Total   |
|--------------------------|----------------------|-----------------------|------------------------|-------------|---|---------|
|                          | £000                 | £000                  | £000                   | £000        | £000  | £000    |
| <b>Cost or valuation</b> |                      |                       |                        |             |   |         |
| At 1 August 2007         | 15,066               | 2,535                 | 2,019                  | 159         | 918   | 20,697  |
| Additions                | 4                    | -                     | 44                     | -           | 450   | 498     |
| Revaluation              | 30                   | -                     | -                      | -           | -   | 30      |
| At 31 July 2008          | 15,100               | 2,535                 | 2,063                  | 159         | 1,368   | 21,225  |
| <b>Depreciation</b>      |                      |                       |                        |             |   |         |
| At 1 August 2007         | 694                  | 282                   | 1,540                  | -           | -   | 2,516   |
| Revaluation              | (1,021)              | -                     | -                      | -           | -   | (1,021) |
| Charge for the year      | 327                  | 94                    | 135                    | -           | -   | 556     |
| At 31 July 2008          | -                    | 376                   | 1,675                  | -           | -   | 2,051   |
| <b>Net book value</b>    |                      |                       |                        |             |   |         |
| At 31 July 2008          | 15,100               | 2,159                 | 388                    | 159         | 1,368   | 19,174  |
| At 31 July 2007          | 14,372               | 2,253                 | 480                    | 159         | 918   | 18,182  |

Ryden, Chartered Surveyors, valued the freehold land and buildings as at 31 July 2008 on a depreciated replacement cost basis at £15.1 million on the basis of the Practice Statements contained within the Royal Institution of Chartered Surveyors Appraisal & Valuation manual.

During the period to 31 July 1998, Mark Medcalf Associates valued memorabilia owned by the Company at £159,000 on the basis of open market value and this revaluation has been incorporated in the financial statements. On the historic cost basis, these items were previously carried at £nil cost and £nil net book value. The Directors have elected to "freeze" this valuation under the transitional arrangements of FRS15 and to treat this as the cost going forward.

Assets in the course of construction relate to the Company's plans to redevelop the Tynecastle Stadium and are in respect of costs incurred to date on this project.

# HEART OF MIDLOTHIAN PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 JULY 2008

### 7 Tangible fixed assets (continued)

Comparable historical cost for the land and buildings included at valuation:

|                                    | £000   |
|------------------------------------|--------|
| <b>Cost</b>                        |        |
| At 1 August 2007 & at 31 July 2008 | 11,742 |
| <b>Depreciation based on cost</b>  |        |
| At 1 August 2007                   | 2,554  |
| Charge for the year                | 281    |
| At 31 July 2008                    | 2,835  |
| <b>Net book value</b>              |        |
| At 31 July 2008                    | 8,907  |
| At 31 July 2007                    | 9,184  |

### 8 Investments held as fixed assets

The Company owns the entire ordinary share capital of Heart of Midlothian Publishing Limited and Heart of Midlothian Football Club Limited, which are both dormant subsidiary undertakings, each of which is carried at cost of £100 and has net assets of £100.

Both subsidiary undertakings are registered in Scotland. Their principal place of business is Tynecastle Stadium, Gorgie Road, Edinburgh, EH11 2NL.

| 9 Stocks                            | 2008<br>£000 | 2007<br>£000 |
|-------------------------------------|--------------|--------------|
| Finished goods and goods for resale | 515          | 379          |

| 10 Debtors                     | 2008<br>£000 | 2007<br>£000 |
|--------------------------------|--------------|--------------|
| Trade debtors                  | 1,502        | 569          |
| Other debtors                  | 132          | 497          |
| Prepayments and accrued income | 405          | 181          |
|                                | 2,039        | 1,247        |

# HEART OF MIDLOTHIAN PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 JULY 2008

### 11 Creditors: amounts falling due within one year

|   | 2008<br>£000  | 2007<br>£000  |
|---|---------------|---------------|
| Bank loans and overdrafts               | 3,000         | 3,000         |
| Deferred income (see note 15)           | 2,727         | 2,676         |
| Other loans                             | -             | 9             |
| Trade creditors                         | 1,311         | 1,594         |
| Amounts owed to ultimate parent company | 9,635         | 15,681        |
| Amounts owed to other group companies   | 280           | 200           |
| Taxes and social security costs         | 1,386         | 1,202         |
| Other creditors and accruals            | 2,057         | 5,291         |
|   | <u>20,396</u> | <u>29,653</u> |

Bank loans and overdrafts represent a £3.0 million deposit account loan held with AB Utkio Bankas. This bears interest at 1.5% over the applicable base rate.

The amounts owed to the ultimate parent company, UAB Utkio Banko Investicine Grupe, include £6.0 million (2007:£13.2 million) of loan notes repayable within one year from their date of original issue. Interest on these loans is payable at 5%. The remaining balance is in respect of payments for player transfers made by the ultimate parent company on behalf of the company.

The amounts owed to other group companies is a loan provided by Blue Orchid Flats Limited, a fellow subsidiary of the immediate parent undertaking, Heart of Midlothian 2005 Limited. This loan bears interest at 6.25% and is repayable on demand.

# HEART OF MIDLOTHIAN PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 JULY 2008

| 12 Creditors: amounts falling due after more than one year | 2008<br>£000  | 2007<br>£000  |
|--|---------------|---------------|
| Bank loans   | 14,600        | 14,600        |
| Deferred income (see note 15)                              | 1,486         | 1,522         |
|  | <u>16,086</u> | <u>16,122</u> |
| <b>Loan maturity analysis</b>                              |               |               |
| In more than one year but not more than two years          | 14,600        | 2,280         |
| In more than two years but not more than five years        | -             | 12,320        |
|  | <u>14,600</u> | <u>14,600</u> |

Bank loans represent a term loan of £12.3 million and a committed working capital facility of £2.3 million both of which are with AB Ukie Bankas. The term loan consists of two tranches. The first tranche of £3.0 million bears interest at a fixed rate of 6.49%; the second tranche of £9.3 million bears interest at 1% over LIBOR. Both tranches are repayable five years from the initial drawdown on 8 February 2005. Interest on the committed working capital facility is payable at 1.5% over the applicable base rate. The working capital facility has no fixed repayment date and the level is based on the on-going working capital requirements of the company. Both the term loan and working capital facility are secured by a bond and floating charge over all of the assets of the Company, a first ranking security over Tynecastle Stadium and land at Wheatfield Yard, Edinburgh.



# HEART OF MIDLOTHIAN PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 JULY 2008

| <b>13 Convertible loan stock</b>                   | <b>2008<br/>£000</b> | <b>2007<br/>£000</b> |
|--|----------------------|----------------------|
| Nominal value                                      | 2,480                | 2,480                |
| Accrued interest                                   | 517                  | 397                  |
|  | <u>2,997</u>         | <u>2,877</u>         |
| Less: finance costs attributable to future periods | (20)                 | (20)                 |
|  | <u>2,977</u>         | <u>2,857</u>         |
| <b>Analysis of loan stock</b>                      |                      |                      |
| Amounts falling due within one year                | <u>2,977</u>         | <u>2,857</u>         |

Convertible loan stock was issued to SMG Investments Limited on 11 October 1999, and was transferred to UAB Ukio Banko Investicine Grupe on 16 November 2005. The stock bore interest at 4.5% per annum until 11 October 2003 and at LIBOR thereafter, determined on each anniversary of the conversion date and is secured by a floating charge over the assets of the Company. The option to convert is now unavailable.

On 16 November 2005, UAB Ukio Banko Investicine Grupe released the Company from the obligation to pay £2.0 million due in respect of the loan stock, representing both principal and interest. The remaining loan stock falls for repayment in three instalments on 30 September 2006, 31 March 2007 and 30 September 2007. UAB Ukio Banko Investicine Grupe has not yet requested the repayment of these final three instalments. Further interest has been charged on the outstanding loan stock during the year.

# HEART OF MIDLOTHIAN PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 JULY 2008

### 14 Provisions for liabilities and charges

|   | £000  |
|---|-------|
| Balance at 1 August 2007                            | 54    |
| Charges to the profit and loss account for the year | 37    |
|   | <hr/> |
| Balance at 31 July 2008                             | 17    |
|   | <hr/> |

Provisions for liabilities and charges relate to the expected cost of settlement of outstanding claims in relation to ongoing legal actions. Such claims have now been settled.

#### Unrecognised deferred tax asset

The potential deferred tax asset not recognised in the financial statements is as follows:

|                          | 2008<br>£000 | 2007<br>£000 |
|--------------------------|--------------|--------------|
| Other timing differences | 1,523        | 651          |
| Tax losses available     | 11,613       | 11,482       |
|                          | <hr/>        | <hr/>        |
|                          | 13,136       | 12,133       |
|                          | <hr/>        | <hr/>        |

The potential deferred tax asset has not been recognised in accordance with the accounting policy set out in Note 1, because it is not clear that suitable taxable profits will be available in the foreseeable future for offset.

# HEART OF MIDLOTHIAN PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 JULY 2008

### 15 Deferred Income

|  | 2008<br>£000 | 2007<br>£000 |
|--|--------------|--------------|
| <b>Grants receivable from the Football Trust</b> |              |              |
| Balance at 1 August                              | 1,558        | 1,594        |
| Released to profit and loss account              | (36)         | (36)         |
|  | <u>1,522</u> | <u>1,558</u> |
| Balance at 31 July                               |              |              |
| Other deferred income                            | 2,691        | 2,640        |
|  | <u>4,213</u> | <u>4,198</u> |

Deferred income is disclosed as follows:

|  | 2008<br>£000 | 2007<br>£000 |
|--|--------------|--------------|
| Amounts falling due within one year          | 2,727        | 2,676        |
| Amounts falling due after more than one year | 1,486        | 1,522        |

Grants receivable from the Football Trust are released to the profit and loss account over 50 years in line with the depreciation of the stadium.

Other deferred income principally represents amounts received from the sale of season tickets and sponsorship.

### 16 Pension costs

#### Defined contribution

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund.

|   | 2008<br>£000 | 2007<br>£000 |
|---|--------------|--------------|
| Contributions payable by the company for the year | <u>24</u>    | <u>13</u>    |

# HEART OF MIDLOTHIAN PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 JULY 2008

| 17 Share capital                          | 2008<br>£000 | 2007<br>£000 |
|---|--------------|--------------|
| <b>Authorised</b>                         |              |              |
| 47,000,000 Ordinary shares of 10p each    | 4,700        | 1,300        |
| <b>Allotted, called up and fully paid</b> |              |              |
| 46,919,350 Ordinary shares of 10p each    | 4,692        | 1,263        |

During the year, 34,285,714 Ordinary shares of 10 pence each were issued to UAB Ukio Banko Investicine Grupe, the ultimate parent undertaking. The shares were issued at 35 pence each as part of a Debt for Equity conversion that reduced the debt owed by the Company to UAB Ukio Banko Investicine Grupe by £12.0 million.

### 18 Statement of movements on reserves

|  | Share<br>premium<br>account<br>£000 | Revaluation<br>reserve<br>£000 | Profit and<br>loss<br>account<br>£000 |
|--|-------------------------------------|--------------------------------|---------------------------------------|
| Balance at 1 August 2007                                     | 3,119                               | 5,421                          | (34,694)                              |
| Loss for the year  | -                                   | -                              | (3,530)                               |
| Transfer from revaluation reserve to profit and loss account | -                                   | (84)                           | 84                                    |
| Premium on shares issued during the year                     | 8,571                               | -                              | -                                     |
| Cost of share issue written off to share premium account     | (16)                                | -                              | -                                     |
| Revaluation during the year                                  | -                                   | 1,052                          | -                                     |
| Balance at 31 July 2008                                      | 11,674                              | 6,389                          | (38,140)                              |

### 19 Reconciliation of movements in shareholders' funds

|  | 2008<br>£000 | 2007<br>£000 |
|--|--------------|--------------|
| Loss for the financial year                              | (3,530)      | (12,447)     |
| Other recognised gains and losses                        | 1,052        | -            |
| Proceeds from issue of shares                            | 12,000       | -            |
| Cost of share issue written off to share premium account | (16)         | -            |
| Net addition to/(depletion in) shareholders' funds       | 9,506        | (12,447)     |
| Opening shareholders' funds                              | (24,891)     | (12,444)     |
| Closing shareholders' funds                              | (15,385)     | (24,891)     |

# HEART OF MIDLOTHIAN PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 JULY 2008

### 20 Contingent liabilities

At the date of sign off of the financial statements, the company is subject of an ongoing investigation by HMRC. At this stage, no indication has been given of the likelihood or extent of any potential unrecorded tax liabilities.

### 21 Financial commitments

At 31 July 2008 the company was committed to making the following payments under non-cancellable operating leases in the year to 31 July 2009:

|                                | Land and buildings |            | Other     |            |
|--------------------------------|--------------------|------------|-----------|------------|
|                                | 2008               | 2007       | 2008      | 2007       |
|                                | £000               | £000       | £000      | £000       |
| Operating leases which expire: |                    |            |           |            |
| Within one year                | 144                | 244        | -         | 161        |
| Between two and five years     | -                  | -          | 54        | -          |
| In over five years             | 41                 | 37         | -         | -          |
|                                | <u>185</u>         | <u>281</u> | <u>54</u> | <u>161</u> |

### 22 Employees

#### Number of employees

The average monthly number of employees (including directors) during the year was:

|  | 2008<br>Number | 2007<br>Number |
|--|----------------|----------------|
| Players and coaching staff                     | 103            | 93             |
| Administration and commercial department staff | 46             | 35             |
| Other staff                                    | 12             | 10             |
|  | <u>161</u>     | <u>138</u>     |

#### Employment costs

|                       | 2008<br>£000  | 2007<br>£000  |
|-----------------------|---------------|---------------|
| Wages and salaries    | 9,978         | 11,004        |
| Social security costs | 1,317         | 1,471         |
| Other pension costs   | 24            | 13            |
|                       | <u>11,319</u> | <u>12,488</u> |

# HEART OF MIDLOTHIAN PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 JULY 2008

---

### 23 Control

The ultimate parent company is UAB Ukio Banko Investicine Grupe, which is incorporated in Lithuania and controlled by Mr Vladimir Romanov.

The immediate parent undertaking is Heart of Midlothian 2005 Limited, into which the results of the Company are consolidated.

### 24 Related party transactions

Mr Vladimir Romanov has direct and indirect interests in 32.96% of the issued share capital of AB Ukio Bankas, a company which has provided debt funding of £14.6 million as at 31 July 2008 (2007: £14.6 million) to the Company, all of which remains outstanding at the year end. AB Ukio Bankas has also provided a £3 million deposit account loan, on which interest is being applied. In the year ended 31 July 2008, AB Ukio Bankas charged interest of £1 million (2007: £961,000) to the Company in respect of its funding, of which £1 million (2007: £240,000) is accrued at the year end. All funding provided by AB Ukio Bankas is on normal commercial terms. AB Ukio Bankas has a 6.0% interest in UAB Ukio Banko Investicine Grupe, the ultimate parent undertaking.

UAB Ukio Banko Investicine Grupe, the ultimate parent undertaking, and a company in which Mr Vladimir Romanov has a controlling interest, has provided loans totalling £6.0 million as at 31 July 2008 (2007: £13.2 million) to the Company. In addition, the ultimate parent company has made payments on behalf of the Company in respect of player transfer fees and other sundry creditors. At the year end the total balance outstanding was £2.1 million. Interest of £1.5 million (2007: £684,000) has been accrued in respect of these loans and other payments, of which £802,000 relates to the current year.

During the year, 34,285,714 Ordinary shares of 10 pence each were issued to UAB Ukio Banko Investicine Grupe, the ultimate parent undertaking. The shares were issued at 35 pence each as part of a Debt for Equity conversion that reduced the debt owed by the Company to UAB Ukio Banko Investicine Grupe by £12.0 million.

At 31 July 2008, loan stock of £2.5 million (2007: £2.5 million) remained outstanding to the ultimate parent company. Interest accrued on this loan stock is £517,000 (2007: £397,000), of which £397,000 relates to interest outstanding from previous years. Since the year end, no repayment of the loan stock or interest outstanding has been requested by the ultimate parent undertaking.

Blue Orchid Flats Limited, a fellow subsidiary of Heart of Midlothian 2005 Limited, leases flats to the club's players on commercial terms. Total rentals charged to the Company for the year were £6,000 (2007: £9,600), and these were fully paid at the year end. In addition, a loan was made during the year by Blue Orchid Flats Limited to the Company of £280,000 (2007: £200,000). This loan remains outstanding at the year end, bears interest at 6.25% per annum and is repayable on demand.

### 25 Post balance sheet events

The Company transferred the registration of Mr Christophe Berra to Wolverhampton Wanderers Football club for a total value of £2.0 million. This amount has been received post year end by the Company.