Company Registration No. SC005863 (Scotland)

# HEART OF MIDLOTHIAN PLC

## DIRECTORS' REPORT AND FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2012

# HEART OF MIDLOTHIAN PLC

## COMPANY INFORMATION

| | |
|---|---|
| **Directors** | R Romanov<br>S Fedotovas<br>J Goncaruk<br>V Vasiliauskas |
| **Secretary** | S Fedotovas |
| **Company number** | SC005863 |
| **Registered office** | Tynecastle Stadium<br>Gorgie Road<br>Edinburgh<br>EH11 2NL |
| **Auditors** | Johnston Carmichael LLP<br>7-11 Melville Street<br>Edinburgh<br>EH3 7PE |
| **Business address** | Tynecastle Stadium<br>Gorgie Road<br>Edinburgh<br>EH11 2NL |
| **Solicitors** | Gateley (Scotland) LLP<br>Exchange Tower<br>19 Canning Street<br>Edinburgh<br>EH3 8EH |

# HEART OF MIDLOTHIAN PLC

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# HEART OF MIDLOTHIAN PLC

## DIRECTORS' REPORT

## *FOR THE YEAR ENDED 30 JUNE 2012*

The directors present their report and financial statements for the year ended 30 June 2012. These financial statements cover the 12 months from 1 July 2011 to 30 June 2012, the comparatives cover the 11 months from 1 August 2010 to 30 June 2011.

**Principal activities and review of the business**
The principal activity of the company is that of a professional football club.

The club achieved an improved turnover of £8.68m (11 months ended June 2011: £6.92m).

The improvement in performance was underpinned by a revenue boost due in the main to the club's participation in the qualifying and play-off rounds of the 2011/12 UEFA Europa League. Additionally the club also benefited from its successful William Hill Scottish Cup campaign culminating in a historic 5-1 victory against city rivals Hibernian at Hampden Park on the 19th May 2012.

The importance of the Heart of Midlothian Youth Academy was once again visible as the club benefitted financially from another positive year in player trading with a net gain of £1.96m accounted for in the main by the transfer of two of the club's Academy graduates - Scotland international defender Lee Wallace moved to Rangers and Icelandic international midfielder Eggert Jonsson joined Premiership Wolverhampton Wanderers.

The club also delivered a solid operating performance with reductions in operating expenses and staff costs when based on annualised figures for the previous period to year ended 30 June 2011. Finance charges also reduced on an annualised basis with only a modest increase in net debt to £24.7m.

Post year end, the company also successfully resolved a contingent liability relating to an HMRC investigation from a previous reporting period. The result of this is that the company will report the full £1.58m settlement figure in this reporting period leading to a loss for the year of £1.65m.

The company's continued financial progress gives the club confidence that its financial position now provides the foundation stone for it to achieve the Financial Fair Play requirements of UEFA in time for its full introduction in season 2013/14.

The company continues to be resolute in its belief that the future of the business is dependent on three key factors - developing the best young footballers in the country, building a stadium that is befitting of one of the biggest clubs in the United Kingdom and expanding the supporter base of the club.

Our youth development policy aims to ensure that investment returns are delivered through managed player development, promotion and trading while also providing supporters with entertaining and successful football in domestic and European competitions.

Our stadium development plans continue to be an aim which will benefit the club, the city and the game of football in Scotland. And the requirement for a new stadium development whether that be at Tynecastle or elsewhere in the city has never been more evident than the recent European matches against English Premiership clubs Tottenham Hotspur and Liverpool when the club could have sold thousands more tickets and attracted thousands more visitors to the city if it had a suitable stadium facility. We continue however to work with the City of Edinburgh Council and business partners in order to deliver a stadium befitting of a top European football team playing in one of the world's finest capital cities.

We are confident that future financial results will demonstrate further progress and with the continued support of the club's tens of thousands of supporters Heart of Midlothian will be in a good position to benefit from changes in the game both domestically and in Europe.

During the period there has been mention of Heart of Midlothian being for sale. The Board can assure supporters that the club will only be sold on the basis of a constructive and realistic offer for the company and secondly, and as importantly, can prove that they have the resource, determination, and business acumen to allow Heart of Midlothian to prosper in future years.

The Board has, post year end, offered supporters the opportunity to take an increased share of the club which could lead to an outright purchase of the club in the future. The club is delighted with the positive response received and this gives it confidence that supporter ownership can be a viable proposition for the club. The Board can assure supporters that any structured and realistic offer presented to the Board by an organised and professionally constituted supporter organisation will be treated seriously.

We remain resolute and due to the commitment of all those associated with the club we are cautiously optimistic about the future of the business. This resolve and commitment will be particularly essential as we move forward given that the club can no longer depend on the support that it has received in previous years from UAB Ukio Banko Investicine Grupe ("UBIG"). Note 1 to the accounts explains this and other factors the Board have considered in reaching the conclusion that it remains appropriate to prepare the accounts on a going concern basis. Critical to this assessment is projected income from both player sales and the soon to be launched membership scheme.

It is crucial that everyone with the interests of the club at heart continues to back the team and we hope that this year's season ticket sales and match day ticket sales will show that the club can have a positive outlook going into the new season.

Finally the Board would like to express its thanks to the employees, players, supporters, shareholders and other associates such as sponsors, commercial and community partners who continue to support the business.

**Results and dividends**

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

The directors do not recommend payment of an ordinary dividend.

**Directors**

The following directors have held office since 1 July 2011:

R Romanov

S Fedotovas

J Goncaruk

V Vasiliauskas

**Creditor payment policy**

It is the company's policy to agree terms of payment with suppliers and to abide by them. At 30 June 2012, the company's average creditor payment period was 93 days (2011: 91 days), calculated in accordance with the Companies Act 2006. 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.

**Statement of directors' responsibilities**
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 financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and 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 accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the 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.

**Statement of disclosure to auditors**
So far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware. Additionally, the directors have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the board

..............................

S Fedotovas
**Director**
...08/04/13...

# HEART OF MIDLOTHIAN PLC

## INDEPENDENT AUDITORS' REPORT

## TO THE MEMBERS OF HEART OF MIDLOTHIAN PLC

We have audited the financial statements of Heart of Midlothian plc for the year ended 30 June 2012 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses 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 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 directors and auditors**
As explained more fully in the Directors' Responsibilities Statement, included in the Directors' Report, 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**
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Opinion on financial statements**
In our opinion the financial statements:
- give a true and fair view of the state of the company's affairs as at 30 June 2012 and of its 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 disclosure made in note 1 to the financial statements concerning the company's ability to continue as a going concern. The company has made significant operating losses in recent years and has been able to continue trading solely as a result of the ongoing support it has received from its parent company, UAB Ukio Banko Investicine Grupe. However, the company has been advised that it will not receive any additional funds from Ukio Banko Investicine Grupe. Also, as explained at note 24, AB Ukio Bankas, which now holds a standard security over Tynecastle stadium and a floating charge over the other assets of the company, has entered administration. These conditions, along with the uncertainties in the cash flow projections explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

# HEART OF MIDLOTHIAN PLC

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

## TO THE MEMBERS OF HEART OF MIDLOTHIAN PLC

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

Johnston Carmichael LLP

**David Holmes (Senior Statutory Auditor)**
**for and on behalf of Johnston Carmichael LLP**

8 April 2013

**Chartered Accountants**
**Statutory Auditor**

7-11 Melville Street
Edinburgh
EH3 7PE

# HEART OF MIDLOTHIAN PLC

## PROFIT AND LOSS ACCOUNT
*FOR THE YEAR ENDED 30 JUNE 2012*

| | Notes | Operations excluding player trading £000 | Player trading £000 | Year ended 30 June 2012 Total £000 | 11 Months ended 30 June 2011 Total £000 |
|---|---|---|---|---|---|
| **Turnover** | 2 | 8,682 | - | 8,682 | 6,915 |
| Staff costs | 21 | (8,214) | - | (8,214) | (8,034) |
| HMRC tribunal settlement | 3, 21 | (1,190) | - | (1,190) | - |
| Depreciation and other amounts written off tangible and intangible fixed assets | 6, 7 | (462) | (180) | (642) | (719) |
| Other operating charges | | (3,876) | - | (3,876) | (3,634) |
| Write-off of stadium redevelopment costs | | - | - | - | (1,383) |
| Loan fee income | 23 | - | 180 | 180 | - |
| | | (13,742) | - | (13,742) | (13,770) |
| **Operating loss** | 3 | (5,060) | - | (5,060) | (6,855) |
| Gain on sale of players' registrations | | - | 1,958 | 1,958 | - |
| Compensation income | 23 | - | 2,914 | 2,914 | - |
| | | - | 4,872 | 4,872 | - |
| **Profit/(loss) on ordinary activities before interest** | | (5,060) | 4,872 | (188) | (6,855) |
| Interest payable and similar charges | 4 | | | (1,460) | (1,438) |
| Related party forgiveness of debt | 23 | | | - | 8,804 |
| **(Loss)/profit on ordinary activities before taxation** | | | | (1,648) | 511 |
| Tax on (loss)/profit on ordinary activities | 5 | | | - | - |
| **(Loss)/profit for the year** | 17 | | | (1,648) | 511 |

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

## HEART OF MIDLOTHIAN PLC

### STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

### *FOR THE YEAR ENDED 30 JUNE 2012*

| | Notes | Year ended 30 June 2012 £000 | 11 Months ended 30 June 2011 £000 |
|---|---|---|---|
| **(Loss)/profit for the financial year** | | (1,648) | 511 |
| Unrealised deficit on revaluation of properties | | - | (454) |
| **Total recognised gains and losses relating to the year** | | (1,648) | 57 |

## Note of historical cost profits and losses

| | Year ended 30 June 2012 £000 | 11 Months ended 30 June 2011 £000 |
|---|---|---|
| **Reported (loss)/profit on ordinary activities before taxation** | (1,648) | 511 |
| Difference between an historical cost depreciation charge and the actual depreciation charge of the year calculated on the revalued amount | 107 | 128 |
| **Historical cost (loss)/profit on ordinary activities before taxation** | (1,541) | 639 |
| **Historical cost (loss)/profit for the year retained after taxation, extraordinary items and dividends** | (1,541) | 639 |

# HEART OF MIDLOTHIAN PLC

## BALANCE SHEET

## *AS AT 30 JUNE 2012*

| | | 2012 | | 2011 | |
|---|---|---|---|---|---|
| | **Notes** | **£000** | **£000** | **£000** | **£000** |
| **Fixed assets** | | | | | |
| Intangible assets | **6** | | 62 | | 242 |
| Tangible assets | **7** | | 15,641 | | 16,032 |
| | | | 15,703 | | 16,274 |
| **Current assets** | | | | | |
| Stocks | **9** | - | | 14 | |
| Debtors: amounts falling due within one year | **10** | 1,323 | | 1,035 | |
| Debtors: amounts falling due after more than one year | **10** | 400 | | - | |
| Cash at bank and in hand | | 94 | | 65 | |
| | | 1,817 | | 1,114 | |
| **Creditors: amounts falling due within one year** | **11** | (30,411) | | (29,609) | |
| **Net current liabilities** | | | (28,594) | | (28,495) |
| **Total assets less current liabilities** | | | (12,891) | | (12,221) |
| **Creditors: amounts falling due after more than one year** | **12** | | (2,680) | | (1,702) |
| | | | (15,571) | | (13,923) |
| **Capital and reserves** | | | | | |
| Called up share capital | **16** | | 14,692 | | 14,692 |
| Share premium account | **17** | | 11,674 | | 11,674 |
| Revaluation reserve | **17** | | 5,434 | | 5,541 |
| Profit and loss account | **17** | | (47,371) | | (45,830) |
| **Shareholders' funds** | **18** | | (15,571) | | (13,923) |

Approved by the Board and authorised for issue on 08/04/13

S Fedotovas
**Director**

**Company Registration No. SC005863**

# HEART OF MIDLOTHIAN PLC

## CASH FLOW STATEMENT

## *FOR THE YEAR ENDED 30 JUNE 2012*

| | £000 | Year ended 30 June 2012 £000 | £000 | 11 Months ended 30 June 2011 £000 |
|---|---|---|---|---|
| **Net cash outflow from operating activities** | | (3,545) | | (5,141) |
| **Returns on investments and servicing of finance** | | | | |
| Interest paid | (165) | | - | |
| **Net cash outflow for returns on investments and servicing of finance** | | (165) | | - |
| **Capital expenditure** | | | | |
| Payments to acquire players' registrations | (71) | | (132) | |
| Payments to acquire tangible assets | - | | (23) | |
| Receipts from sales of players' registrations | 1,258 | | - | |
| **Net cash inflow/(outflow) for capital expenditure** | | 1,187 | | (155) |
| **Net cash outflow before financing** | | (2,523) | | (5,296) |
| **Financing** | | | | |
| Other new short term loans | 2,641 | | 5,339 | |
| Repayment of short term loans | (89) | | (29) | |
| **Net cash inflow from financing** | | 2,552 | | 5,310 |
| **Increase in cash in the year** | | 29 | | 14 |

# HEART OF MIDLOTHIAN PLC

## NOTES TO THE CASH FLOW STATEMENT

### *FOR THE YEAR ENDED 30 JUNE 2012*

| 1 | **Reconciliation of operating loss to net cash outflow from operating activities** | **2012** | **2011** |
|---|---|---|---|
| | | **£000** | **£000** |
| | Operating loss | (5,060) | (6,855) |
| | Depreciation of tangible assets | 462 | 459 |
| | Amortisation of intangible assets | 180 | 260 |
| | Write-off of stadium redevelopment costs | - | 1,383 |
| | Decrease in stocks | 14 | 95 |
| | Decrease/(increase) in debtors | 12 | (363) |
| | Decrease in creditors within one year | (195) | (87) |
| | Increase in creditors after one year | 1,078 | - |
| | Movement on grant provision | (36) | (33) |
| | **Net cash outflow from operating activities** | (3,545) | (5,141) |

| 2 | **Analysis of net debt** | **1 July 2011** | **Cash flow** | **Other non-cash changes** | **30 June 2012** |
|---|---|---|---|---|---|
| | | **£000** | **£000** | **£000** | **£000** |
| | Net cash: | | | | |
| | Cash at bank and in hand | 65 | 29 | - | 94 |
| | Debt: | | | | |
| | Debts falling due within one year | (23,774) | (2,552) | 1,555 | (24,771) |
| | Debts falling due after one year | (321) | - | 321 | - |
| | | (24,095) | (2,552) | 1,876 | (24,771) |
| | **Net debt** | (24,030) | (2,523) | 1,876 | (24,677) |

## NOTES TO THE CASH FLOW STATEMENT (CONTINUED)

### *FOR THE YEAR ENDED 30 JUNE 2012*

| 3 | **Reconciliation of net cash flow to movement in net debt** | | **2012** | **2011** |
|---|---|---|---|---|
| | | | **£000** | **£000** |
| | Increase in cash in the year | | 29 | 14 |
| | Cash inflow from increase in debt | | (2,552) | (5,310) |
| | Change in net debt resulting from cash flows | | (2,523) | (5,296) |
| | Change in debt from non cash items: | **Notes** | | |
| | Debt conversion to equity | | - | 10,000 |
| | Compensation income | **23** | 2,914 | - |
| | Related party forgiveness of debt | | - | 8,804 |
| | Interest accrued in the year | | (1,038) | (1,438) |
| | Change in net debt resulting from non cash items | | 1,876 | 17,366 |
| | **Movement in net debt in the year** | | (647) | 12,070 |
| | Opening net debt | | (24,030) | (36,100) |
| | **Closing net debt** | | (24,677) | (24,030) |

4 **Major non-cash transactions**

During the year, £2.9 million of debt due to UAB Ukio Banko Investicine Grupe was offset by UAB Ukio Banko Investicine Grupe against compensation income receivable from Kauno futbolo ir beisbolo klubas, as detailed at note 23.

**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 made significant operating losses in recent years and has been able to continue trading solely as a result of the ongoing support it has received from its parent company, UAB Ukio Banko Investicine Grupe ("UBIG").

However, the directors have been advised that the company will not receive any additional funds from UBIG and therefore the company now has to generate sufficient cash from its own operations to allow it to meet its liabilities as they fall due.

The directors have prepared cash flow projections through to June 2014, which they believe to be realistic and achievable. The projections include significant new outgoings, being quarterly interest payments on the Ukio Bankas loan described at note 24; monthly interest payments to UBIG; and from May 2013, monthly payments to HMRC under the terms of the tribunal settlement described at note 3.

Whilst the projections indicate that the company can remain cash positive through to the end of next season, there are two income streams within these projections, being player sales and the soon to be launched membership scheme, which cannot be quantified with any certainty. The directors are confident that, up to a certain level, shortfalls in these two income streams could if required be offset by additional savings in player wages. However, the uncertain nature of these income streams does represent a significant uncertainty, which could impact upon the company's ability to continue as a going concern.

Further, as explained in note 24, AB Ukio Bankas has now entered administration. There have also been significant recent changes in the composition of the UBIG board of directors. However the directors do not believe these factors will impact the company's ability to continue as a going concern for the foreseeable future. Both AB Ukio Bankas and UBIG facilities do not fall due for repayment until 2015.

Therefore, on balance, having taken all the above factors 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 Accounting policies** **(continued)**

**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.

**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:

| | |
|---|---|
| Land and buildings freehold | - depreciated over a period of 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 |

The part of the annual depreciation charge on revalued assets which relates to the revaluation surplus is transferred from the revaluation reserve to the profit and loss account.

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

**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 Accounting policies** **(continued)**

**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.

**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 402 of the Companies Act 2006 as all of its subsidiary companies are wholly immaterial and their inclusion is not material for the purpose of giving a true and fair view.

**1.14 Signing on fees**

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

**2 Turnover**

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:

| | Turnover | |
|---|---|---|
| | 2012 | 2011 |
| | £000 | £000 |
| **Class of business** | | |
| Broadcasting | 2,499 | 1,743 |
| Match day | 4,555 | 3,576 |
| Commercial | 1,594 | 1,498 |
| Other income | 34 | 98 |
| | 8,682 | 6,915 |

## 3 Operating loss

| | | 2012 £000 | 2011 £000 |
|---|---|---|---|
| Operating loss is stated after charging: | | | |
| Amortisation of intangible assets | | 180 | 260 |
| Depreciation of tangible assets | | 462 | 459 |
| Loss on foreign exchange transactions | | 3 | - |
| Write-off of stadium redevelopment costs | | - | 1,383 |
| Operating lease rentals | | | |
| - Plant and machinery | | 78 | 40 |
| - Other assets | | 325 | 266 |
| Auditors' remuneration: | Audit | 31 | 35 |
| | Tax | 9 | 6 |
| | Other services | 81 | 34 |
| and after crediting: | | | |
| Government grants | | 36 | 33 |

Since the year end the company has settled a dispute with HMRC. The company has therefore recognised the settlement of £1,190,000, interest due on this settlement up to the balance sheet date of £227,000 and the related costs of £159,000 in the current year. The amount due is payable in monthly instalments from May 2013 to April 2015 and interest of £85,000 will be added to the outstanding balance over the three year period of repayment. Of the total of £1,576,000, £242,000 is due within one year and £1,335,000 in greater than one year at the balance sheet date.

## 4 Interest payable

| | 2012 £000 | 2011 £000 |
|---|---|---|
| On overdue tax | 303 | - |
| Other interest | 1,157 | 1,170 |
| Foreign exchange loss on borrowings | - | 268 |
| | 1,460 | 1,438 |

| 5 | **Taxation** | **2012** | **2011** |
|---|---|---|---|
| | | **£000** | **£000** |
| | **Total current tax** | - | - |
| | | | |
| | **Factors affecting the tax charge for the period** | | |
| | (Loss)/profit on ordinary activities before taxation | (1,648) | 511 |
| | | | |
| | (Loss)/profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 25.50% (2011 - 27.46%) | (420) | 140 |
| | Effects of: | | |
| | Expenses not deductible for tax purposes | 183 | 139 |
| | Depreciation in excess of capital allowances | 118 | 15 |
| | Tax losses carried forward | 119 | 1,743 |
| | Forgiveness of debt | - | (2,417) |
| | Write off of stadium redevelopment costs | - | 380 |
| | | 420 | (140) |
| | **Current tax charge for the period** | - | - |

As detailed in note 13, a potential deferred tax asset of £15.642 million (2011: £16.204 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 30 March 2012, 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 30 June 2012, a potential capital gains tax liability of approximately £473,000 (2011: £493,000) would arise.

## 6 Intangible fixed assets

| | Players' registrations £000 |
|---|---|
| **Cost** | |
| At 1 July 2011 | 925 |
| Disposals | (625) |
| At 30 June 2012 | 300 |
| **Amortisation** | |
| At 1 July 2011 | 683 |
| Amortisation on disposals | (625) |
| Charge for the year | 180 |
| At 30 June 2012 | 238 |
| **Net book value** | |
| At 30 June 2012 | 62 |
| At 30 June 2011 | 242 |

# HEART OF MIDLOTHIAN PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### *FOR THE YEAR ENDED 30 JUNE 2012*

**7 Tangible fixed assets**

| | Land and buildings freehold | Leasehold property | Plant and equipment | Memorabilia | Total |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| **Cost or valuation** | | | | | |
| At 1 July 2011 | 13,750 | 2,544 | 2,148 | 159 | 18,601 |
| Additions | - | - | 71 | - | 71 |
| Disposals | - | - | - | - | - |
| At 30 June 2012 | 13,750 | 2,544 | 2,219 | 159 | 18,672 |
| **Depreciation** | | | | | |
| At 1 July 2011 | - | 650 | 1,919 | - | 2,569 |
| Charge for the year | 275 | 94 | 93 | - | 462 |
| At 30 June 2012 | 275 | 744 | 2,012 | - | 3,031 |
| **Net book value** | | | | | |
| At 30 June 2012 | 13,475 | 1,800 | 207 | 159 | 15,641 |
| At 30 June 2011 | 13,750 | 1,894 | 229 | 159 | 16,032 |

Ryden, Chartered Surveyors, valued the freehold land and buildings as at 30 March 2012 on a depreciated replacement cost basis at £13.75 million on the basis of the Practice Statements contained within the Royal Institution of Chartered Surveyors Appraisal & Valuation manual. The directors are not aware of any material difference in this value at 30 June 2012.

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 elected to "freeze" this valuation under the transitional arrangements of FRS15 and to treat this as the cost going forward.

**7 Tangible fixed assets** **(continued)**

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

| | £000 |
|---|---|
| **Cost** | |
| At 1 July 2011 & at 30 June 2012 | 11,778 |
| **Depreciation based on cost** | |
| At 1 July 2011 | 3,373 |
| Charge for the year | 168 |
| At 30 June 2012 | 3,541 |
| **Net book value** | |
| At 30 June 2012 | 8,237 |
| At 30 June 2011 | 8,405 |

**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 (2011: £100) and has net assets of £100 (2011: £100).

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

**9 Stocks**

| | 2012<br>£000 | 2011<br>£000 |
|---|---|---|
| Finished goods and goods for resale | - | 14 |

### 10 Debtors

| | 2012 £000 | 2011 £000 |
|---|---|---|
| Trade debtors | 1,391 | 740 |
| Other debtors | 122 | 10 |
| Prepayments and accrued income | 210 | 285 |
| | 1,723 | 1,035 |

Amounts falling due after more than one year and included in the debtors above are:

| | 2012 £000 | 2011 £000 |
|---|---|---|
| Trade debtors | 400 | - |

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

| | 2012 £000 | 2011 £000 |
|---|---|---|
| Deferred income (see note 14) | 2,141 | 2,503 |
| Trade creditors | 954 | 1,145 |
| Amounts owed to parent company | 23,055 | 22,413 |
| Taxes and social security costs | 1,861 | 1,166 |
| Other creditors and accruals | 2,400 | 2,382 |
| | 30,411 | 29,609 |

The amounts owed to the company's parent company, UAB Ukio Banko Investicine Grupe, bears interest at 4.5% and as at 30 June 2012, fell due for repayment on various dates between 31 July 2012 and 31 December 2012. In March 2013, UAB Ukio Banko Investicine Grupe extended the maturity of this debt until at least March 2015, with repayments of £20,000 per month commencing from April 2013.

During the year the balance owed to UAB Ukio Banko Investicine Grupe was secured by a standard security over Tynecastle Stadium and a floating charge across the assets of the company. Since the year end these securities have been satisfied and replaced with new securities as explained in note 24.

| **12 Creditors: amounts falling due after more than one year** | **2012** | **2011** |
|---|---|---|
| | **£000** | **£000** |
| Other creditors | 1,335 | 321 |
| Deferred income (see note 14) | 1,345 | 1,381 |
| | 2,680 | 1,702 |

**13 Provisions for liabilities**

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

| | **2012** | **2011** |
|---|---|---|
| | **£000** | **£000** |
| Fixed asset timing differences | 627 | 606 |
| Other timing differences | 608 | 631 |
| Tax losses available | 14,407 | 14,967 |
| | 15,642 | 16,204 |

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.

## 14 Deferred Income

| | 2012 £000 | 2011 £000 |
|---|---|---|
| **Grants receivable from the Football Trust** | | |
| Balance at 1 July 2011 | 1,417 | 1,450 |
| Released to profit and loss account | (36) | (33) |
| Balance at 30 June 2012 | 1,381 | 1,417 |
| **Other deferred income** | 2,105 | 2,467 |
| | 3,486 | 3,884 |

Deferred income is disclosed as follows:

| | 2012 £000 | 2011 £000 |
|---|---|---|
| Amounts falling due within one year | 2,141 | 2,503 |
| Amounts falling due after more than one year | 1,345 | 1,381 |

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.

## 15 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.

| | 2012 £000 | 2011 £000 |
|---|---|---|
| Contributions payable by the company for the year | 15 | 38 |

## 16 Share capital

| | 2012 £000 | 2011 £000 |
|---|---|---|
| **Allotted, called up and fully paid** | | |
| 146,919,350 Ordinary shares of 10p each | 14,692 | 14,692 |

### 17 Statement of movements on reserves

| | Share premium account £000 | Revaluation reserve £000 | Profit and loss account £000 |
|---|---|---|---|
| Balance at 1 July 2011 | 11,674 | 5,541 | (45,830) |
| Loss for the period | - | - | (1,648) |
| Transfer from revaluation reserve to profit and loss account | - | (107) | 107 |
| Balance at 30 June 2012 | 11,674 | 5,434 | (47,371) |

### 18 Reconciliation of movements in shareholders' funds

| | 2012 £000 | 2011 £000 |
|---|---|---|
| (Loss)/profit for the financial year | (1,648) | 511 |
| Other recognised gains and losses | - | (454) |
| Value of new shares issued | - | 10,000 |
| Net (reduction)/addition to shareholders' funds | (1,648) | 10,057 |
| Opening shareholders' funds | (13,923) | (23,980) |
| Closing shareholders' funds | (15,571) | (13,923) |

### 19 Financial commitments

At 30 June 2012 the company was committed to making the following payments under non-cancellable operating leases in the year to 30 June 2013:

| | Land and buildings | | Other | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | £000 | £000 | £000 | £000 |
| Operating leases which expire: | | | | |
| Within one year | - | 8 | 2 | 2 |
| Between two and five years | 44 | 41 | 78 | 60 |
| In over five years | 246 | 224 | - | - |
| | 290 | 273 | 80 | 62 |

| **20 Directors' remuneration** | **2012** | **2011** |
|---|---|---|
| | **£000** | **£000** |
| Remuneration for qualifying services | 93 | 67 |

**21 Employees**

**Number of employees**

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

| | **2012** | **2011** |
|---|---|---|
| | **Number** | **Number** |
| Players and coaching staff | 109 | 110 |
| Administration and commercial department staff | 47 | 47 |
| Other staff | 10 | 10 |
| | 166 | 167 |

| **Employment costs** | **2012** | **2011** |
|---|---|---|
| | **£000** | **£000** |
| Wages and salaries | 8,130 | 7,121 |
| Social security costs | 1,259 | 875 |
| Other pension costs | 15 | 38 |
| | 9,404 | 8,034 |

The company has reduced ongoing employment costs this year. After removing the exceptional PAYE and NIC settlement costs of £1,190K disclosed in note 3, employment costs in the year ended 30 June 2012 show a pro-rated reduction when compared to the 11 months ended 30 June 2011.

**22 Control**

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

## 23 Related party relationships and transactions

**Other transactions**

UAB Ukio Banko Investicine Grupe, the company's parent company, and a company in which Mr Vladimir Romanov has a controlling interest, has continued to provide funding to the company during the year. At 30 June 2011 the company owed UAB Ukio Banko Investicine Grupe a total of £22.4 million in respect of loans, payments on behalf of the company in respect of player transfer fees and other sundry creditors and interest accrued on these amounts. During the year a further £2.7 million (2011 - £4.8 million) was advanced to the company and £0.1 million (2011 - £nil) was repaid by the company. Interest of £0.9 million (2011 - £0.8 million) was accrued during the year. During the year UAB Ukio Banko Investicine Grupe set off £2.9 million (2011 - £nil) of the balance owed to it by the company against a balance due to UAB Ukio Banko Investicine Grupe by Kauno futbulo ir beisbolo klubas. As at the balance sheet date, the amount owed to UAB Ukio Banko Investicine Grupe by the company was £23.1 million.

At 30 June 2011 the company owed UAB Hearts Developments, a company which is controlled by Mr Vladimir Romanov, £1.2 million. Interest of £34,000 has accrued during the period (2011 - £287,000). On 1 February 2012, £1.2m of debt due to UAB Hearts Development was assigned by UAB Hearts Development to Milson Capital Corp, a company which is controlled by Mr Vladimir Romanov. As at 30 June 2012 £nil (2011 - £1.2 million) was due to UAB Hearts Developments and £1.2 million (2011 - £nil) was due to Milson Capital Corp. This balance attracts interest at rates of between 3.5% and 4.5% and falls due for repayment in May 2015.

During the year the company invoiced Kauno futbolo ir beisbolo klubas (FBK) for £2.9 million (2011 - £nil) in relation to the breach of a contract between the company and FBK for the potential transfer of five of the company's football players to FBK. This was in line with the terms of the contracts originally signed. The company also invoiced FBK £380,000 (2011 - £nil) for the loan of two football players from the company to FBK. At 30 June 2012, the company was owed £200,000 (2011 - £nil) by FBK. The company has provided in full against this balance.

Ensco 165 Limited is a company controlled by Mr Vladimir Romanov. At 30 June 2012 the company owed £506,000 (2011 - £506,000) to Ensco 165 Limited. This balance is interest free and has no fixed repayment terms.

Mr Vladimir Romanov also controls UAB Businessline, which charged the company £53,000 (2011 - £44,000) of rent and other expenses during the period. At 30 June 2012, the company owed UAB Businessline £182,000 (2011 - £129,000).

## 24 Post balance sheet events

At 30 June 2012, the company had a debtor of £800,000 in respect of the fee for the transfer of Mr Lee Wallace to Rangers Football Club, £500,000 of which was due in greater than one year. Since the year end, £700,000 of this income has been received, and the remaining £100,000 was waived as an early settlement discount.

Since the year end the company has transferred the registration of two football players for a total transfer fee of £1,171,000.

In November 2012 the company has settled an ongoing dispute with HMRC. The cost of settlement and associated legals costs have been recognised in the current year as explained in note 3.

During the autumn of 2012, the company launched a share offer, which raised net proceeds of £1,080,000.

Since the year end £15.0 million of debt due to the company's parent company UAB Ukio Banko Investicine Grupe has been transferred to AB Ukio Bankas. This debt now falls due for repayment in full on 31 December 2015 and attracts interest of 4% per annum payable quarterly. In addition, the security held by UAB Ukio Banko Investicine Grupe over Tynecastle Stadium has been transferred to AB Ukio Bankas. AB Ukio Bankas also holds a floating charge over the assets of the company and a share pledge agreement from UAB Ukio Banko Investicine Grupe in relation to 29.9% of the company's share capital. AB Ukio Bankas entered administration in February 2013.