HFC Holdings Limited

Group financial statements for the year ended 31 July 1998
together with Directors' and Auditors' Reports

Registration number: 132607



Directors' report

For the year ended 31 July 1998

The directors present their annual report on the affairs of the group together with the financial statements and auditors' report for the year ended 31 July 1998.

Principal activity

The company's principal activity is to act as the holding company of a group of companies. The group's principal trading subsidiary is The *Hibernian* Football Club Limited.

Results and dividends

The consolidated profit and loss account for the year is set out on page 4. The directors do not recommend the payment of a dividend (1997-nil).

Directors and their interests

The directors who served during the year, together with their interests in the ordinary shares of the company, were:

	1998	1997
T Farmer	3,015,000	3,015,000
R Huthersall	-	-
R M Petrie	335,000	335,000

Directors' responsibilities

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and group and its profit or loss for that year. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts 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 group and enable them to ensure that the accounts comply with the Companies Act 1985. They are responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Employees

It is the policy of the group to consult and discuss with employees any matters likely to affect their interests. The group gives full and sympathetic consideration to the employment, training, career development and promotion of disabled persons including those becoming disabled after their employment has commenced.

Directors' report

For the year ended 31 July 1998

Transfer Fees

Transfer fees relating to the purchase of players by The *Hibernian* Football Club Limited are capitalised and amortised over the period of the relevant players' contracts. The net book amount at 31 July 1998 of £1.1 million (1997 - £1.8 million) represents the balance of transfer fees in respect of player purchases which will be amortised in subsequent years. However, the directors' valuation of the player pool at 31 July 1998, assuming the continuation of the relevant players' contracts, is in excess of £5 million (1997 - £5 million) and, in common with many other football clubs, this valuation is not reflected as an asset in the balance sheet.

Incorporation of *Hibernian Financial* Limited

During the year, the Group's activities were expanded by the incorporation of *Hibernian Financial* Limited as a wholly owned subsidiary. *Hibernian Financial* Limited is registered as an Introducer Representative only of Standard Life assurance, pensions and unit trust business.

Supplier payment policy

It is the group's policy to settle the terms of payment with suppliers when agreeing each transaction or series of transactions to ensure suppliers are aware of those terms and to abide by them. The ratio, expressed in days, between the amounts invoiced to the company by its suppliers in the year and the amounts owed to its trade creditors at the year end was 74 days (1997 - 84 days).

Year 2000

A plan has been developed to ensure that all significant risks to the company's computer systems arising from the Year 2000 date change will be identified well in advance of the critical dates and cost effective action taken to ensure the minimum disruption to the business.

Auditors

The directors will place a resolution before the annual general meeting to reappoint Arthur Andersen as auditors.

By order of the Board

Mary Anne McAdam
Secretary
12 Albion Place
Edinburgh
EH7 5QG
14 September 1998

Auditors' report

To the Shareholders of HFC Holdings Limited:

We have audited the financial statements on pages 4 to 19 which have been prepared under the historical cost convention and the accounting policies set out in note 2.

Respective responsibilities of directors and auditors

As described in the directors' report on pages 1 and 2, the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards 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 circumstances of the company and of the group, consistently applied and adequately disclosed.

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

Without qualifying our opinion below we draw attention to the net liabilities position of the group at 31 July 1998 and note 1 which provides important information concerning the basis of preparing the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 July 1998 and of the group's loss and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen.

Arthur Andersen
Chartered Accountants and Registered Auditors

18 Charlotte Square
Edinburgh
EH2 4DF

14 September 1998

Consolidated profit and loss account

For the year ended 31 July 1998

	Notes	1998	1997
		£	£
Turnover	4	4,361,060	4,256,805
Operating expenses	5	(4,890,878)	(5,315,632)
Operating loss		(529,818)	(1,058,827)
Amortisation of transfer fees		(994,143)	(859,965)
Transfer fees receivable		312,000	1,635,000
Loss before interest and taxation		(1,211,961)	(283,792)
Investment income	6	11,098	11,632
Interest payable and similar charges	7	(715,042)	(623,700)
Interest waived	8	-	634,833
Loss on ordinary activities before taxation	9	(1,915,905)	(261,027)
Taxation	12	-	-
Loss for the financial year	21	(1,915,905)	(261,027)

A statement of movement on reserves is given in note 21.

The current and prior year results are derived entirely from continuing operations.

The loss for the financial year equates to the historical cost loss for the financial year.

As permitted by Financial Reporting Standard 3 "Reporting Financial Performance" the group has not prepared a Statement of Total Recognised Gains and Losses or a Reconciliation of Movements on Shareholders' funds as it has no recognised gains or losses other than the loss for the financial year.

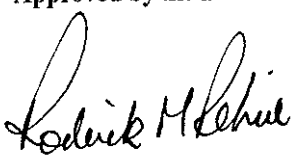
The accompanying notes form an integral part of this consolidated profit and loss account.

Consolidated balance sheet

31 July 1998

	Notes	1998	1997
		£	£
Fixed assets			
Tangible assets	13	9,208,100	9,477,359
Intangible assets	14	1,076,951	1,812,606
		10,285,051	11,289,965
Current assets			
Stocks	16	90,160	72,210
Debtors - due within one year	17	429,646	989,485
Cash at bank and in hand		229,061	453,265
		748,867	1,514,960
Creditors: Amounts falling due within one year	18	(10,121,490)	(9,811,592)
Net current liabilities		(9,372,623)	(8,296,632)
Total assets less current liabilities		912,428	2,993,333
Creditors: Amounts falling due after more than one year	19	(2,470,240)	(2,635,240)
Net (liabilities) assets		(1,557,812)	358,093
Capital and reserves			
Called-up share capital	20	3,350,000	3,350,000
Other reserves	21	251,051	251,051
Profit and loss account	21	(5,158,863)	(3,242,958)
Capital (deficit) employed		(1,557,812)	358,093

Approved by the Board on 14 September 1998



R M Petrie
Director

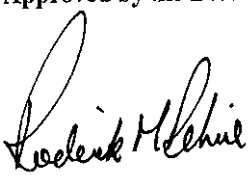
The accompanying notes form an integral part of this consolidated balance sheet.

Company balance sheet

31 July 1998

	Notes	1998	1997
		£	£
Fixed assets			
Tangible assets	13	8,930,129	9,218,514
Investments	15	619,839	619,739
		9,549,968	9,838,253
Current assets			
Debtors - due within one year	17	636,442	11,787
Debtors - due after one year	17	150,000	150,000
Cash at bank and in hand		-	182,996
		786,442	344,783
Creditors: Amounts falling due within one year	18	(7,279,046)	(6,248,732)
Net current liabilities		(6,492,604)	(5,903,949)
Total assets less current liabilities		3,057,364	3,934,304
Creditors: Amounts falling due after more than one year	19	(1,940,240)	(1,980,240)
Net assets		1,117,124	1,954,064
Capital and reserves			
Called-up share capital	20	3,350,000	3,350,000
Profit and loss account	21	(2,232,876)	(1,395,936)
Capital employed		1,117,124	1,954,064

Approved by the Board on 14 September 1998



R M Petrie
Director

The accompanying notes form an integral part of this balance sheet.

Consolidated cash flow statement

For the year ended 31 July 1998

	1998 £	1997 £
Operating loss	(529,818)	(1,058,827)
Depreciation	287,064	119,094
(Increase) decrease in stocks	(17,950)	8,013
Decrease in debtors	131,089	591,934
(Decrease) increase in creditors	(489,663)	793,515
Net cash (outflow) inflow from operating activities	**(619,278)**	**453,729**
Transfer fees paid	(843,502)	(1,556,500)
Transfer fees received	740,750	1,235,000
Transfer fees	**(102,752)**	**(321,500)**
Interest received	11,098	11,632
Interest paid	(498,561)	(623,700)
Servicing of finance	**(487,463)**	**(612,068)**
Acquisition of HFC Properties Limited	-	(490,749)
Payments to acquire tangible fixed assets	(72,109)	(127,955)
Receipts from sale of tangible fixed assets	54,304	3,800
Capital expenditure	**(17,805)**	**(614,904)**
Issue of share capital	-	2,500,000
Loans received	300,000	600,000
Loans repaid	(290,000)	(290,000)
Financing	**10,000**	**2,810,000**
(Decrease) increase in cash balances and overdrafts (Note 22)	**(1,217,298)**	**1,715,257**

The accompanying notes form an integral part of this consolidated cash flow statement.

Notes to the financial statements

for the year ended 31 July 1998

1 Basis of preparation of the financial statements

The financial statements have been prepared on a going concern basis. Although the financial statements show a capital deficit, the directors consider that the financing facilities available to the group including the commitment of support from the principal shareholder are sufficient to meet the group's trading requirements for the foreseeable future.

2 Principal accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below.

a) Basis of accounting

The financial statements are prepared under the historical cost convention, and in accordance with applicable accounting standards.

b) Basis of consolidation

The group accounts consolidate the financial statements of HFC Holdings Limited and its subsidiary undertakings at the year end. Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal. Goodwill arising on consolidation (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) is written off against reserves on acquisition. In the company's accounts, investments in subsidiary undertakings are stated at cost less amounts written off. Only dividends received and receivable are credited to the company's profit and loss account.

c) Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation. The company's policy is to maintain its freehold land and buildings to the highest possible standard in order to meet evolving regulatory guidelines and to protect its trade. The directors consider the life of this asset to be so long and its residual value so high that depreciation is insignificant. Accordingly, no depreciation is provided on freehold land and buildings. Depreciation is provided on all other assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight line basis over its expected useful life, at the following rates per annum:

Plant and equipment	10%
Fixtures and fittings	10%
Motor vehicles	20%

d) Intangible fixed assets and transfer fees

Transfer fees receivable are included in the profit and loss account in the year in which the transfer contract is signed. The costs associated with the acquisition of players are capitalised and treated as intangible fixed assets. These amounts are amortised over the period of the initial contract on the basis of nil residual values. Payments or receipts which are contingent on the performance of the team or a player are not recognised until the relevant event has occurred.

2 Principal accounting policies (continued)

e) The Football Trust Grants

Grants received from The Football Trust for routine expenditure are treated as income and are taken to the profit and loss account in the same period as the related expenditure. Major grants towards the redevelopment of Easter Road Stadium are deducted from the cost of the asset. This is not in accordance with Schedule 4 to the Companies Act 1985 under which assets should be stated at their purchase price or production cost and the capital contributions treated as deferred income and released to profit and loss account over the useful life of the corresponding assets. The directors are of the opinion that Easter Road Stadium has no finite economic life. As the capital contributions would therefore remain in the balance sheet in perpetuity the treatment otherwise required by the Companies Act 1985 would not present a true and fair view of the company's effective investment in such an asset.

f) Stocks

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

g) Signing-on fees

Signing-on fees payable to players are charged to the profit and loss account over the period of the contract to which they relate.

h) Leases and hire purchase transactions

Assets held under hire purchase agreements are initially reported at the fair value of the asset, with an equivalent liability categorised as appropriate under creditors due within or after one year. The asset is depreciated over its useful life. Finance charges are allocated to accounting periods over the period of the agreement to produce a constant rate of return on the outstanding balance. Payments are apportioned between finance charges and reduction of the liability as appropriate. Operating lease rentals are charged to the profit and loss account on a straight line basis over the lease term.

i) Turnover

Turnover represents all income derived from the operation of the group's trading companies and excludes value added tax.

j) Taxation

The charge for taxation is based on the result for the year as adjusted for the tax treatment of certain items. Provision is made in respect of all material tax timing differences to the extent that it is probable that a liability or asset will crystallise.

k) Pensions

One of the group's subsidiaries operates a defined contribution pension scheme for certain members of staff. The charge for pension cost represents contributions payable by the company for the year.

3 Parent company profit and loss account

The company has taken advantage of the exemption in the Companies Act 1985 s230 not to present its own profit and loss account. The company's loss for the financial year was £836,940 (1997 - £595,322).

4 Segment information

In the directors' opinion, desegregating the results of the group would not provide meaningful information .

5 Operating expenses

	1998 £	1997 £
Staff costs	3,051,820	2,913,161
Other operating expenses	1,839,058	2,402,471
	4,890,878	5,315,632

6 Investment income

	1998 £	1997 £
Interest receivable and similar income	11,098	11,632

7 Interest payable and similar charges

	1998 £	1997 £
Bank loans and overdrafts	498,561	337,132
On all other loans	216,481	286,568
	715,042	623,700

8 Interest waived

	1998 £	1997 £
Interest on loans from the principal shareholder waived for the year	-	634,833

9 Loss on ordinary activities before taxation

The loss on ordinary activities before taxation is stated after charging:

	1998 £	1997 £
Auditors' remuneration	16,400	17,000
Depreciation of tangible fixed assets	287,064	119,094
Rental of Easter Road Stadium	-	50,000

In addition to the auditors remuneration shown above the remuneration of the auditors during the year ended 31 July 1998 for non-audit services was £22,450 (1997 - £18,000).

10 Employee information

a) The average number of persons, excluding directors, employed by the group during the year, is analysed below:

	1998 Number	1997 Number
Professional football players	47	42
Management and other staff	34	35
	81	77

In addition an average of 87 people (1997 - 62 people) were employed on a part time basis during the year.

b) Staff costs for the above persons:

	1998 £	1997 £
Wages and salaries	2,795,854	2,663,328
Social security costs	229,936	233,942
Pension costs	26,030	15,891
	3,051,820	2,913,161

11 Directors' emoluments

The total emoluments paid to directors by the company and by its subsidiary undertakings during the year comprised £86,667 (1997 - £26,667) for salaries, £13,000 (1997 - £4,000) for pension contributions and £5,612 (1997- £2,669) in respect of benefits in kind. In the previous year fees of £17,000 were paid to a third party for the services of a director.

12 Taxation

Due to the incidence of tax losses, no current tax charge is required in respect of the year ended 31 July 1998 (1997 - nil). No provision for deferred taxation is required at 31 July 1998 (1997 - nil) and there is no unprovided deferred tax (1997 - nil).

13 Tangible fixed assets

Group

	Land & Buildings £	Fixtures & Fittings £	Plant & Equipment £	Motor Vehicles £	Total £
Cost					
At 1 August 1997	7,140,158	1,641,870	1,111,745	23,494	9,917,267
Additions	9,137	537	62,435	-	72,109
Disposals	(43,206)	-	-	(14,744)	(57,950)
At 31 July 1998	7,106,089	1,642,407	1,174,180	8,750	9,931,426
Depreciation					
At 1 August 1997	-	231,836	206,336	1,736	439,908
Charge	-	164,845	118,532	3,687	287,064
Disposals	-	-	-	(3,646)	(3,646)
At 31 July 1998	-	396,681	324,868	1,777	723,326
Net Book Value					
At 31 July 1998	7,106,089	1,245,726	849,312	6,973	9,208,100
At 1 August 1997	7,140,158	1,410,034	905,409	21,758	9,477,359

13 Tangible fixed assets (continued)

Company

	Land & Buildings £	Fixtures & Fittings £	Plant & Equipment £	Motor Vehicles £	Total £
Cost					
At 1 August 1997	7,140,158	1,554,646	848,790	14,744	9,558,338
Additions	9,137	-	637	-	9,774
Disposals	(43,206)	-	-	(14,744)	(57,950)
At 31 July 1998	7,106,089	1,554,646	849,427	-	9,510,162
Depreciation					
At 1 August 1997	-	220,089	118,714	1,021	339,824
Charge	-	155,626	85,604	2,625	243,855
Disposals	-	-	-	(3,646)	(3,646)
At 31 July 1998	-	375,715	204,318	-	580,033
Net Book Value					
At 31 July 1998	7,106,089	1,178,931	645,109	-	8,930,129
At 1 August 1997	7,140,158	1,334,557	730,076	13,723	9,218,514

14 Intangible fixed assets

Group

	1998 £	1997 £
Cost		
At beginning of year	2,671,500	585,000
Purchase of players	258,488	2,376,500
Relating to disposals	(286,653)	(290,000)
At end of year	2,643,335	2,671,500
Amortisation		
At beginning of year	858,894	288,929
Charge for the year	994,143	859,965
Relating to disposals	(286,653)	(290,000)
At end of year	1,566,384	858,894
Net Book Amounts	1,076,951	1,812,606

Notes to the financial statements

for the year ended 31 July 1998

15 Fixed asset investments

Investment in subsidiary undertakings

	1998 £	1997 £
At beginning of year	619,739	619,738
Incorporation of *Hibernian Financial* Limited	100	-
Acquisition of HFC Properties Limited	-	1
At end of year	619,839	619,739

The company holds more than 10% of the equity capital of the following companies:

	Country of incorporation and operation	Principal activity	Description and proportion of shares held by the company
The *Hibernian* Football Club Limited	Scotland	Professional football club	Ordinary shares 96%
Hibernian Hospitality Limited	Scotland	Hospitality Services	Ordinary shares 100%
Hibernian Financial Limited	Scotland	Financial Services	Ordinary shares 100%
HFC Properties Limited	Scotland	Dormant	Ordinary shares 100%

16 Stocks

Group

	1998 £	1997 £
Goods for resale	90,160	72,210

Company

The company has no stocks

17 Debtors

The following are included in debtors:

Amounts falling due within one year:

	Group		Company	
	1998	1997	1998	1997
	£	£	£	£
Transfer fees receivable	71,250	500,000	-	-
Other debtors	231,800	304,151	54,888	10,000
Signing on fees prepaid	-	45,281	-	-
Prepayments and accrued income	126,596	140,053	-	1,787
Amounts owed by subsidiary undertakings	-	-	581,554	-
	429,646	989,485	636,442	11,787
Amounts falling due after more than one year:				
Amounts owed by subsidiary undertaking	-	-	150,000	150,000

The amount owed by subsidiary undertakings falling due after more than one year represents a loan to The *Hibernian* Football Club Limited which is interest free and has no set terms for repayment.

18 Creditors: Amounts falling due within one year

The following amounts are included in creditors falling due within one year:

	Group		Company	
	1998	1997	1998	1997
	£	£	£	£
Bank overdraft	6,726,074	5,732,980	6,433,637	5,450,565
Short term loan	400,000	350,000	50,000	-
Loan from The Football Trust (Note 19f)	40,000	40,000	40,000	40,000
Trade creditors	414,309	554,743	5,542	122,559
VAT	161,619	454,688	5,315	200,875
Transfer fees payable	234,985	695,000	-	-
Accruals and deferred income	1,973,802	1,883,189	715,097	375,752
Taxation and social security	170,701	100,992	29,455	4,807
Amounts owed to subsidiary undertakings	-	-	-	54,174
	10,121,490	9,811,592	7,279,046	6,248,732

The bank overdraft is secured by a bond and floating charge over the assets of the company. The short term loans are unsecured. The comparative figures for both the group and the company for accruals and deferred income and for the balance of a loan from the principal shareholder falling due after more than one year have been adjusted to correct a misclassification at 31 July 1997 of an amount of £31,300 between amounts due within one year and amounts due after more than one year.

19 Creditors: Amounts falling due after more than one year

The following are included in creditors falling due after more than one year:

	Group		Company	
	1998	1997	1998	1997
	£	£	£	£
Transfer fees payable	40,000	165,000	-	-
Loan stock 2001	490,000	490,000	-	-
Loan from principal shareholder	550,240	550,240	550,240	550,240
Loan from principal shareholder	1,350,000	1,350,000	1,350,000	1,350,000
Loan from The Football Trust	40,000	80,000	40,000	80,000
	2,470,240	2,635,240	1,940,240	1,980,240

The Loan Stock 2001 bears fixed rate interest at 1% per annum and is repayable on 31 July 2001. The loans from the principal shareholder are secured, bear interest at bank base lending rate plus 1% per annum and there are no fixed dates for repayment. The loan from The Football Trust is interest free and repayable in quarterly instalments of £10,000.

Notes to the financial statements

for the year ended 31 July 1998

20 Called-up share capital

	Group & Company	
	1998	1997
	£	£
Equity shares		
Authorised:		
Ordinary Shares of £1 each	3,850,000	3,850,000
Allotted, called-up and fully paid:		
Ordinary Shares of £1 each	3,350,000	3,350,000

21 Reserves

	Other Reserves *"Hibs 100"*		Profit & Loss Account	
	Group	Company	Group	Company
	£	£	£	£
At 1 August 1997	251,051	-	(3,242,958)	(1,395,936)
Loss for the financial year	-	-	(1,915,905)	(836,940)
At 31 July 1998	251,051	-	(5,158,863)	(2,232,876)

The "Hibs 100" reserve represents funds donated by supporters for the benefit of The *Hibernian* Football Club Limited. These funds are not repayable or redeemable under any circumstances, nor do they confer any voting or participation rights on those who made the contribution.

22 Reconciliation of net cash flow to movement in net debt

	Balance at 31 July 1996 £	Acquisition £	Movement in year £	Balance at 31 July 1997 £	Movement in year £	Balance at 31 July 1998 £
Cash balances	446,745	-	6,520	453,265	(224,204)	229,061
Debt due within one year						
Bank overdraft	(2,228,554)	(5,213,163)	1,708,737	(5,732,980)	(993,094)	(6,726,,074)
	(1,781,809)	(5,213,163)	1,715,257	(5,279,715)	(1,217,298)	(6,497,013)
Short term loan	-	-	(350,000)	(350,000)	(50,000)	(400,000)
The Football Trust	-	(40,000)	-	(40,000)	-	(40,000)
Debt due after one year						
The Football Trust	-	(80,000)	-	(80,000)	40,000	(40,000)
Loan Stock	(490,000)	-	-	(490,000)	-	(490,000)
Shareholder loans	(1,900,240)	-	-	(1,900,240)	-	(1,900,240)
	(4,172,049)	(5,333,163)	1,365,257	(8,139,955)	(1,227,298)	(9,367,253)

23 Contingent liabilities and financial commitments

a) Capital Commitments

The group had no capital commitments at 31 July 1998 (1997 - commitments amounting to £40,460).

b) Lease commitments

The group has no annual commitments in respect of operating leases (1997 - nil).

c) Contingent liabilities

A portion of the grants received from The Football Trust may become repayable, at the Trust's discretion, if The *Hibernian* Football Club Limited ever moved from Easter Road Stadium.

d) VAT

The company is registered for VAT purposes in a group of undertakings which share a common registration number. As a result, it has jointly guaranteed the VAT liability of the group, and failure by other members of the group would give rise to additional liabilities for the company.

e) Player related matters

All signing on fees and other amounts payable to playing staff earned by the year end have been provided in the financial statements. In addition, the group is committed to £403,560 (1997 - £535,000) of deferred signing on fees which become payable to those players who stay with the club for the duration of their current contracts. Additional transfer fees of £25,000 (1997 - £50,000) are payable should certain players be selected at international level.

24 Related party transactions

There is no requirement under FRS8 to provide details of transactions between companies which are members of the same group. Mr Cromb, a former director of The *Hibernian* Football Club Limited, is a shareholder in Innes & Cromb Limited which received £2,013 for the supply of goods for resale in the previous year.