

Company Registration No. SC005863 (Scotland)

HEART OF MIDLOTHIAN PLC
ANNUAL REPORT AND FINANCIAL
STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

HEART OF MIDLOTHIAN PLC

COMPANY INFORMATION

Directors	Dr A Budge C Levein Dr T Hogg D Cumming J Duncan S Wallace K D Windram	(Appointed 1 July 2017)
Secretary	J Duncan	
Company number	SC005863	
Registered office	Collins House Rutland Square Edinburgh EH1 2AA	
Auditor	Johnston Carmichael LLP 7-11 Melville Street Edinburgh EH3 7PE	
Business address	Tynecastle Park Gorgie Road Edinburgh EH11 2NL	

HEART OF MIDLOTHIAN PLC

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HEART OF MIDLOTHIAN PLC

STRATEGIC REPORT

FOR THE YEAR ENDED 30 JUNE 2018

The directors present the strategic report for the year ended 30 June 2018.

Fair review of the business

Financial Year 2017/18 saw us continue on our journey to re-establish Heart of Midlothian FC as a major force within Scottish Football. Our investments continued, both on and off the field, in line with our long term strategic objectives. Once again, we were faced with a number of different challenges and once again, we met these challenges head on. By so doing, we managed to deliver a very credible financial performance, while at the same time, making great strides forward in terms of rebuilding our infrastructure.

Off the pitch we reached another key milestone in our Tynecastle Redevelopment Project, when we opened our fantastic new Main Stand in November 2017. A few weeks later than originally anticipated, it was nonetheless well worth the wait and has set a new standard for football stadia in Scotland. With capacity increased to over 20,000 and hospitality space more than doubled, we have seen increased turnover in both of these areas. Importantly, our hospitality suites are not only proving popular on match days but also with the business community for quality conference space and indeed with the wider community in terms of function spaces. Our hospitality and catering teams received a number of accolades and awards throughout the year for the quality of the experience they deliver, having risen brilliantly to the challenges this growth has presented.

Construction priorities were changed in the second half of the year, to better meet the short-term needs of our supporters and the Club. Having successfully delivered on Phase 1 (i.e. full match-day operations and facilities) we slowed down the major developments in Phase 2 and concentrated on delivering a number of our “sub-projects” such as the new Club Store, the long-awaited Supporters Bar, the 3rd floor TV studio and the Control Room modification. The Club Store is an impressive space allowing us to offer so much more, both in terms of product range and customer experience. The Supporters Bar, named Eighteen Seventy-Four by suggestion from our fans, has already become the bar of choice for many of our supporters, pre and post-match. It is also rapidly becoming the place for locally based supporters to enjoy watching weekend football with their family and friends.

These changes in priorities meant a delay to the start of our major 2nd and 3rd floor developments. However, this allowed us to move the focus to laying our new, state-of-the-art £1m Hybrid Pitch, work on which started immediately after our last game of the 2017/18 season was played at Tynecastle Park.

This was the first full pitch redevelopment in nearly 20 years at Tynecastle and included a new undersoil heating system, a new irrigation system, a new computerised monitoring system and much more including the replacement of the supporting infrastructure. (e.g. boiler systems).

Major projects such as the new Main Stand and the new pitch come at significant cost, but they are key investments to secure the future of the club. While we are beginning to reap rewards from investments made to-date, this “Investment Phase” of our journey continues. The remaining phases of redevelopment are planned and the work will continue during Season 2018/19, with the formal completion and “official opening” being planned for Season 2019/20.

On the pitch and for the second year in succession we found ourselves faced with changing our First Team Manager. After the departure of Ian Cathro, in consultation with the board, Craig Levein agreed to take on the role of First Team Manager while continuing in his wider role, of Director of Football. This was only possible because of the significant investment from the club and the efforts of Craig over the last 4 years, in building a solid management structure to support our football operation.

While our final league position was disappointing, finishing, as we did, in 6th place in the Ladbrokes Premier League, our investment in building a team to take us forward continued. The last two transfer windows have seen us make significant signings, both permanent and loan signings, to strengthen the squad and we are already seeing the positive impact of this investment in Season 2018/19.

HEART OF MIDLOTHIAN PLC

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2018

As a club we invest heavily in youth. It is a cornerstone of our business model, and there were many highlights during the year, which demonstrated the success of this policy. Our performance school at Balerno, which provides elite youth players with the opportunity to combine both their studies and their footballing education, celebrated its first anniversary. It has proved to be a great success and is ensuring our young players have enough coaching time to improve as players, without missing out on crucial education and life skills. The focus on our youth structure was shown to be paying large dividends, with 9 of our academy players signing professional contracts in season 2017/18 and more young players taking to the field in our 1st team than in any other club in Europe.

From a financial perspective and despite all the challenges we have faced and are continuing to face, we have once again achieved our major objective which was to grow our revenues profitably. In particular, our turnover increased from £11.3m to £12.1m during the year. To support this business growth, our operating costs have inevitably increased. We received an exceptional £1m donation towards player costs from our benefactors. This allowed us to enhance our playing budget for the year and consequently our staff costs increased considerably. In addition, our operating charges increased from £5.4m to £6.1m, matching the trend of the increase in our turnover. The effect of playing 4 matches during the season at BT Murrayfield impacted both our revenue and costs, however, whilst we had budgeted to break-even, we actually made a small profit even with the disruption to normal operations.

The company's balance sheet at 30 June 2018 remains strong with net assets of £14.7m. At year end, approximately £17.7m of stadium redevelopment costs had been capitalised.

Our cash outflow during the year was £5.3m. This arose largely as a result of payments made in connection with the Tynecastle Redevelopment Project, offset by exceptional donations received from our benefactors; the drawdown of the additional loan facilities secured during the year and the sale of players, in particular Jamie Walker to Wigan and Esmael Goncalves to Pakhtakor. We also continued to benefit from our ongoing partnership with Save the Children and the continuing support of the Foundation of Hearts. The Foundation have now completed their £3m contribution to the Tynecastle Redevelopment Project and have commenced repayment of the senior loan to Bidco (1874) Limited.

In summary, it was a demanding year both on and off the pitch but we faced and overcame the challenges by sticking to our values and to our long-term plan. As a business we are in good shape; growing revenues and managing costs. The future looks bright indeed.

Finally, the Board would like to express its thanks to the employees, players, supporters, shareholders and other associates, including sponsors, commercial and community partners, for their unwavering support.

On behalf of the board

Dr A Budge

Director

2 November 2018

HEART OF MIDLOTHIAN PLC

CORPORATE AND SOCIAL RESPONSIBILITY STATEMENT

FOR THE YEAR ENDED 30 JUNE 2018

The directors present the corporate and social responsibility statement for the year ended 30 June 2018.

Heart of Midlothian Football Club has a rich heritage with a history dating back to 1874. The Club has played a central role in the lives of generations of supporters. The Club is focussed on promoting strong community values, using the power of sport to provide meaningful education, employability, health, social inclusion, environmental and sport-related programmes.

Community engagement is embedded at all levels of the Club and investment is made in tackling a wide range of social issues through 'on-pitch' and 'off-pitch' programmes.

The Club has three principle vehicles through which it provides outreach work in the community.

The Club's Community Football Department, which is run on a not for profit basis, currently has 3 full-time staff members and 15 part-time community coaches who are responsible for promoting health and wellbeing through the delivery of a variety of different programmes, catering for all ages. The programmes include school holiday courses, schools' projects, coach education, and Walking Football for over 50's. The programmes are accessibly priced (or provided without charge) and are powerful vehicles for promoting healthier lifestyles.

The Community Football Department has introduced Play the Game, a new initiative created by Heart of Midlothian Football Club which has been developed to support the thousands of people involved in the grassroots game. It is inspired by street football of yesteryear, encouraging more play and game-centered activity within grassroots football.

Play the Game features five core programmes that support grassroots players, coaches and volunteers:

- Schools: Promoting playground football
- Centres: Increasing opportunities to play
- Street Games: Creating dynamic sessions
- Clubs: Supporting local clubs
- Expo: Showcasing grassroots football

The department also works with a variety of sports and non-sports agencies to engage with some of the most challenged and vulnerable members of the community.

Our second vehicle is Big Hearts, our own charitable operation, fully constituted as a charity under the regulation of OSCR. Big Hearts' main commitment is to improve the lives of individuals and families who are most at risk of social isolation across Edinburgh with five main areas of focus:

- Kinship Care – supporting kinship care families living in Edinburgh
- Older People – improving the wellbeing of older people
- Multicultural Community – building a community where all cultures thrive together
- Families in Need – making a difference to families living in poverty
- Mental Health & Wellbeing – developing initiatives to promote positive mental health

The 5 full time staff and 1000+ volunteers deliver programmes and projects that have a direct and positive impact on the lives of individuals and families in our community, including Football and Edinburgh Memories, a programme to help those living with forms of dementia, flagship Kinship Care Programmes and a recently launched programme promoting mental health, The Changing Room. The Changing Room is a mental health and wellbeing project from the Scottish Association for Mental Health (SAMH) delivered in partnership with the SPFL Trust. It engages with men of middle years, the group most at risk of mental health issues. Big Hearts' Changing Room at Tynecastle Park offers the ideal environment for male supporters aged 30 to 64 years old to address their own mental health and open the discussion about how they feel.

The third vehicle is our Heritage Department, again run on a not for profit basis. Our Heritage Team works hard to bring the past to life, by creating engaging and informative experiences for any Hearts supporter, tourist or local visitor.

HEART OF MIDLOTHIAN PLC

CORPORATE AND SOCIAL RESPONSIBILITY STATEMENT

FOR THE YEAR ENDED 30 JUNE 2018

Our Museum opened to the public in September 2016 as a free, accessible attraction. It has been extensively researched and displays a collection of objects and artefacts which tell the story of the Club and the community. The museum has already received nearly 20,000 visitors and this season has included special exhibits on fans' memories of the club and most recently a striking tribute to mark the centenary of the Armistice.

The Memorial Garden at Tynecastle Park, offers a peaceful, contemplative space in which to remember those who have passed on and is free to enter for all visitors.

We have also this year launched our Heritage Trail, extensively researched by our Club Historians and Curators, which travels round Edinburgh visiting key locations that mark the Clubs founding years.

We are immensely proud of the achievements of our Community Football Department, our Heritage Department and our charity, Big Hearts.

This season, the Club has been working with new sponsors to develop new and innovative programmes designed to promote the regeneration of local businesses and exciting educational opportunities for a broad spectrum of children in the local area.

The Club will announce details of this initiative in the New Year.

In addition to the achievements outlined above, there are two other key areas that are a source of enormous pride for the club. The first is our unique partnership with Save The Children, which has recently been renewed for a further three seasons taking us to their centenary year in 2019 and beyond. The second is our continued commitment to the living wage, which we implemented in 2014. We remain the only football club in Scotland that is an accredited living wage employer.

On behalf of the board

Dr A Budge

Director

2 November 2018

HEART OF MIDLOTHIAN PLC

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2018

The directors present their report and financial statements for the year ended 30 June 2018.

Principal activities

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

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

Dr A Budge

C Levein

Dr T Hogg

D Cumming

J Duncan

S Wallace

K D Windram

(Appointed 1 July 2017)

Results and dividends

The results for the year are set out on page 10.

No ordinary dividends were paid. The directors do not recommend payment of a final dividend.

Disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment within the company continues and that the appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee involvement

On matters affecting employees' interests, the company's policy is to consult and discuss with employees at regular communication briefings and through the annual appraisal process.

Information about matters of concern to employees is given through statements from the Chief Executive and other communication briefings. The purpose of these is to achieve a common awareness on the part of all employees of the financial and economic factors affecting company performance.

HEART OF MIDLOTHIAN PLC

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2018

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, 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;
- 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.

The directors are also responsible for the maintenance and integrity of the financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of disclosure to auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company's auditor is unaware. Additionally, the directors individually 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 auditor is aware of that information.

On behalf of the board

Dr A Budge

Director

2 November 2018

HEART OF MIDLOTHIAN PLC

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF HEART OF MIDLOTHIAN PLC

Opinion

We have audited the financial statements of Heart of Midlothian plc (the 'company') for the year ended 30 June 2018 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2018 and of its profit 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

HEART OF MIDLOTHIAN PLC

INDEPENDENT AUDITOR'S REPORT (CONTINUED) TO THE MEMBERS OF HEART OF MIDLOTHIAN PLC

Matters on which we are required to report by exception

In the light of our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and the Directors' Report.

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

Responsibilities of directors

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

HEART OF MIDLOTHIAN PLC

INDEPENDENT AUDITOR'S REPORT (CONTINUED) TO THE MEMBERS OF HEART OF MIDLOTHIAN PLC

Auditor's responsibilities for the audit of the financial statements (continued)

As part of an audit in accordance with ISAs (UK), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Irvine Spowart (Senior Statutory Auditor)
for and on behalf of Johnston Carmichael LLP

5 November 2018

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 2018

	Notes	Operations excluding player trading £000	Player trading £000	2018 Total £000	2017 Total £000
Turnover	3	12,131	-	12,131	11,255
Staff costs	6	(7,023)	-	(7,023)	(5,884)
Exceptional donation towards player costs	8	1,000	-	1,000	-
Other operating charges		(6,105)	-	(6,105)	(5,361)
Loan fee income		-	183	183	260
Profit on ordinary activities before interest, depreciation, amortisation and other exceptional items		3	183	186	270
Depreciation and other amounts written off tangible and intangible fixed assets	12, 13	(332)	(245)	(577)	(523)
Exceptional donation	8	2,000	-	2,000	2,500
Gain on sale of players' registrations	4	-	444	444	214
Profit on ordinary activities before interest	8	1,671	382	2,053	2,461
Other interest receivable and similar income	9			6	15
Interest payable and similar charges	10			(257)	(155)
Profit on ordinary activities before taxation				1,802	2,321
Taxation	11			3	-
Profit for the financial year				1,805	2,321

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 30 JUNE 2018

	Notes	2018 £000	£000	2017 £000	£000
Fixed assets					
Intangible assets	12		337		489
Tangible assets	13		26,401		13,393
			<u>26,738</u>		<u>13,882</u>
Current assets					
Stocks	15	484		440	
Debtors	16	1,205		1,507	
Cash at bank and in hand		199		5,541	
		<u>1,888</u>		<u>7,488</u>	
Creditors: amounts falling due within one year	17	(9,753)		(7,623)	
Net current liabilities			<u>(7,865)</u>		<u>(135)</u>
Total assets less current liabilities			18,873		13,747
Creditors: amounts falling due after more than one year	18		(4,139)		(2,258)
Net assets			<u>14,734</u>		<u>11,489</u>
Capital and reserves					
Called up share capital	24		15,648		15,648
Share premium account	25		11,769		11,769
Revaluation reserve	26		159		159
Equity reserve	28		-		155
Other reserves	27		7,131		5,691
Profit and loss reserves			(19,973)		(21,933)
Total equity			<u>14,734</u>		<u>11,489</u>

The financial statements were approved by the board of directors and authorised for issue on 2 November 2018 and are signed on its behalf by:

Dr A Budge
Director

Company Registration No. SC005863

HEART OF MIDLOTHIAN PLC

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2018

	Notes	Share capital £000	Share premium account £000	Revaluation reserve £000	Equity reserve £000	Other reserves £000	Profit and loss reserves £000	Total £000
Balance at 1 July 2016		15,648	11,769	159	-	4,204	(24,387)	7,393
Period ended 30 June 2017:								
Profit for the year		-	-	-	-	-	2,321	2,321
Bidco (1874) Ltd loan discounted due to interest holiday		-	-	-	275	-	-	275
Funds received from Foundation of Hearts - stadium redevelopment reserve		-	-	-	-	1,500	-	1,500
Bidco (1874) Ltd loan interest holiday discount unwinding in the year		-	-	-	(133)	-	133	-
Bidco (1874) Ltd loan interest waived transfer		-	-	-	13	(13)	-	-
Balance at 30 June 2017		15,648	11,769	159	155	5,691	(21,933)	11,489
Period ended 30 June 2018:								
Profit for the year		-	-	-	-	-	1,805	1,805
Repayment of Bidco (1874) Ltd loan		-	-	-	-	190	-	190
Funds received from Foundation of Hearts - stadium redevelopment reserve	27	-	-	-	-	1,250	-	1,250
Bidco (1874) Ltd loan interest holiday discount unwinding in year	28	-	-	-	(142)	-	142	-
Transfer of reserves		-	-	-	(13)	-	13	-
Balance at 30 June 2018		15,648	11,769	159	-	7,131	(19,973)	14,734

HEART OF MIDLOTHIAN PLC

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2018

	Notes	2018 £000	£000	2017 £000	£000
Cash flows from operating activities					
Cash generated from operations	34		1,817		1,414
Investing activities					
Payments to acquire player registrations		(289)		(454)	
Receipts from sale of player registrations		670		384	
Purchase of tangible fixed assets		(12,478)		(4,836)	
Proceeds on disposal of tangible fixed assets		2		-	
Interest received		6		-	
Income taxes paid		-		(3)	
Net cash used in investing activities			(12,089)		(4,909)
Financing activities					
Funds received in relation to repayment of Bidco loan	27	190		-	
Repayment of Bidco (1874) Ltd loan	27	(190)		-	
Funds from Foundation of Hearts Limited		1,250		1,500	
Funds from exceptional donation		2,000		2,500	
Funds received from related parties		1,702		-	
Funds received from Bidco (1874) Ltd		170		-	
Interest and arrangement fees paid		(37)		-	
Repayment of finance leases obligations		(155)		-	
Net cash generated from financing activities			4,930		4,000
Net (decrease)/increase in cash and cash equivalents			(5,342)		505
Cash and cash equivalents at beginning of year			5,541		5,036
Cash and cash equivalents at end of year			199		5,541

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

1 Accounting policies

Company information

Heart of Midlothian plc is a public company limited by shares incorporated in Scotland. The registered office is Collins House, Rutland Square, Edinburgh, EH1 2AA.

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £000.

The financial statements have been prepared on the historical cost convention, modified to include the revaluation of certain tangible fixed assets and certain financial instruments at fair value. The principal accounting policies adopted are set out below.

This company is a qualifying entity for the purposes of FRS 102, being a member of a group where the parent of that group prepares publicly available consolidated financial statements, including this company, which are intended to give a true and fair view of the assets, liabilities, financial position and profit or loss of the group. The company has therefore taken advantage of exemptions from the following disclosure requirements:

- Section 4 'Statement of Financial Position' – Reconciliation of the opening and closing number of shares;
- Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instrument Issues' – Carrying amounts, interest income/expense and net gains/losses for each category of financial instrument; basis of determining fair values; details of collateral, loan defaults or breaches, details of hedges, hedging fair value changes recognised in profit or loss and in other comprehensive income;
- Section 26 'Share based Payment' – Share-based payment expense charged to profit or loss, reconciliation of opening and closing number and weighted average exercise price of share options, how the fair value of options granted was measured, measurement and carrying amount of liabilities for cash-settled share-based payments, explanation of modifications to arrangements;
- Section 33 'Related Party Disclosures' – Compensation for key management personnel.

The company has taken advantage of the exemption under section 402 of the Companies Act 2006 not to prepare consolidated accounts, as the company's only subsidiary, Tynecastle Events Limited, is dormant and its inclusion is not material for the purpose of giving a true and fair view of the group. These financial statements present information about the company as an individual entity and not about its group.

Heart of Midlothian plc is a subsidiary of Bidco (1874) Limited, which has its registered office at Collins House, Rutland Square, Edinburgh, Midlothian, EH1 2AA. The results of Heart of Midlothian plc are included in the consolidated financial statements of Bidco (1874) Limited which are available from Companies House, Fourth Floor, Edinburgh Quay 2, 139 Fountainbridge, Edinburgh, EH3 9FF.

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2018

1 Accounting policies

(Continued)

1.2 Going concern

The directors have prepared cash flow projections through to 30 June 2020. The projections include:

- The realisation of new revenue streams and commercial sources of income from the operation of the new function suite capacity, the new supporters' bar and the new shop in the main stand.
- Donations amounting to £3.25m received in the first quarter of season 2018/2019.
- Player sale income received in August 2018.
- The availability of the £1.75m loan facility, of which £1.7m has already been drawn down.
- The continued support of the Foundation of Hearts, contributing £120k per month to repay the Bidco (1874) Limited senior loan.

The projections indicate that the company should remain cash positive throughout the period they cover. This includes the continuing spend on the redevelopment of the Stadium planned during this period and the impact of cash flows which can be generated from the increased utilisation of the new Stadium facilities. Whilst the company is not wholly dependent on the cash inflows from the Foundation of Hearts to continue as a going concern, the Foundation repayment of the Bidco loan, continues to be a vital element of Club funding.

Having reviewed the cash flow projections, and in light of the continued close relationship between the Club's board of directors and the Foundation of Hearts, the directors believe that the company has the ability to continue as a going concern for the foreseeable future.

The directors have concluded that it is appropriate for the accounts to be prepared on a going concern basis.

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.

Money received as donations is recognised as turnover when received. Exceptional donations relating to the Tynecastle Redevelopment Project are recognised when received but are not classified as turnover as they do not relate to the operating activities of the company. Donations received from Foundation of Hearts Limited relating to the Tynecastle Redevelopment Project are not included in the profit and loss account, but are taken directly to reserves. Funds received from Foundation of Hearts Limited will eventually lead to Foundation of Hearts taking a majority share ownership in the company, and are therefore treated as a capital contribution. More details are included in notes 27.

1.4 Players' registrations, transfer fees and signing on fees

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 based on nil residual values. 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 are recognised in the profit and loss account in the year in which the transfer contract is signed and 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 30 JUNE 2018

1 Accounting policies

(Continued)

1.5 Tangible fixed assets

Tangible fixed assets are initially measured at cost and subsequently measured at cost or valuation, net of depreciation and any impairment losses.

Under FRS102 Section 35, the company has elected to freeze the previous GAAP revaluation of freehold land and buildings and memorabilia and treat it as deemed cost as at the revaluation date. Freehold land and property is depreciated from the valuation date, memorabilia and assets in the course of construction are not depreciated.

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
Assets in the course of construction	See above
Plant and equipment	Depreciated over a period of 4 to 10 years
Memorabilia	See above

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is credited or charged to the profit and loss account.

1.6 Impairment of fixed assets

At each reporting end date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit and loss account, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the profit and loss account, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2018

1 Accounting policies

(Continued)

1.7 Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to sell. Cost comprises direct materials and, where applicable, those overheads that have been incurred in bringing the stocks to their present location and condition.

At each reporting date, an assessment is made for impairment. Any excess of the carrying amount of stocks over its estimated selling price less costs to sell is recognised as an impairment in the profit and loss account. Reversals of impairment losses are also recognised in the profit and loss account.

1.8 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term liquid investments with original maturities of three months or less.

1.9 Financial instruments

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the company's balance sheet when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Basic financial assets

Basic financial assets, which include trade and other debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Other financial assets

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

Impairment of financial assets

Financial assets, other than those held at fair value through the profit and loss account, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the profit and loss account.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in the profit and loss account.

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2018

1 Accounting policies

(Continued)

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the company transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

Classification of financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Basic financial liabilities, including trade and other creditors and loans from fellow group companies are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Other financial liabilities

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or finance income as appropriate, unless hedge accounting is applied and the hedge is a cash flow hedge.

Debt instruments that do not meet the conditions in FRS 102 paragraph 11.9 are subsequently measured at fair value through profit or loss. Debt instruments may be designated as being measured at fair value through profit or loss to eliminate or reduce an accounting mismatch or if the instruments are measured and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Derecognition of financial liabilities

Financial liabilities are derecognised when the company's contractual obligations expire or are discharged or cancelled.

1.10 Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

1.11 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2018

1 Accounting policies

(Continued)

Deferred tax

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.

1.12 Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

1.13 Retirement benefits

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

1.14 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessees. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets at the lower of the assets fair value at the date of inception and the present value of the minimum lease payments. The related liability is included in the balance sheet as a finance lease obligation. Lease payments are treated as consisting of capital and interest elements. The interest is charged to the profit and loss account so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Rentals payable under operating leases, including any lease incentives received, are charged to income on a straight line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

2 Judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2018

2 Judgements and key sources of estimation uncertainty

(Continued)

Key sources of estimation uncertainty

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are as follows.

Carrying value of player registrations

The costs of player registration and transfer fees are written off over the term of the players' contracts. The directors review the value of these assets each year to identify if there is any impairment in the value of them. Where an impairment is identified, it is recognised in the profit and loss account.

Depreciation and estimated useful life of tangible assets

The directors must estimate the useful life and residual value of tangible assets, and determine a suitable depreciation rate over which to write down these assets. Details of these estimates are included in note 1.5. The directors also review the carrying value of tangible assets for any potential impairment. Where an impairment is identified, it is recognised in the profit and loss account.

3 Turnover and other revenue

An analysis of the company's turnover is as follows:

	2018	2017
	£000	£000
Turnover analysed by class of business		
Gate receipts	5,307	4,296
Sponsorship and advertising	762	826
Broadcasting rights	82	244
Commercial	2,888	2,672
UEFA solidarity and prize money	2,428	2,578
Other operating income	664	639
	<u>12,131</u>	<u>11,255</u>
	2018	2017
	£000	£000
Other revenue		
Interest income	6	15
	<u>6</u>	<u>15</u>
	2018	2017
	£000	£000
Turnover analysed by geographical market		
UK	12,131	11,255
	<u>12,131</u>	<u>11,255</u>

Broadcasting rights consists of monies received from Cup television income and the Club's internal TV streaming subscriptions. Other broadcasting income, received as part of the SPFL prize money, is included within UEFA solidarity and prize money.

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2018

4 Gain on sale of player registrations

	2018	2017
	£000	£000
Proceeds from sale of player registrations	670	384
Costs of player registrations sold or terminated	(226)	(170)
	<u>444</u>	<u>214</u>

5 Auditor's remuneration

	2018	2017
	£000	£000
Fees payable to the company's auditor and associates:		
For audit services		
Audit of the financial statements of the company	18	16
	<u>18</u>	<u>16</u>
For other services		
Taxation compliance services	4	3
Other taxation services	13	9
All other non-audit services	4	4
	<u>21</u>	<u>16</u>

6 Employees

The average monthly number of persons (including directors) employed by the company during the year was:

	2018	2017
	Number	Number
Players, coaching and football support staff	116	115
Administration and commercial staff	50	45
Part-time hospitality staff	109	115
	<u>275</u>	<u>275</u>

Their aggregate remuneration comprised:

	2018	2017
	£000	£000
Wages and salaries	6,370	5,319
Social security costs	629	546
Pension costs	24	19
	<u>7,023</u>	<u>5,884</u>

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2018

7 Directors' remuneration

	2018 £000	2017 £000
Remuneration for qualifying services	221	135

The number of directors for whom retirement benefits are accruing under defined contribution schemes amounted to 2 (2017 - 1).

Remuneration disclosed above include the following amounts paid to the highest paid director:

	2018 £000	2017 £000
Remuneration for qualifying services	141	135

8 Profit on ordinary activities before interest

	2018 £000	2017 £000
Profit on ordinary activities before interest for the year is stated after charging/(crediting):		
Exchange losses/(gains)	3	-
Depreciation of owned tangible fixed assets	332	231
Amortisation of intangible assets	245	292
Cost of stocks recognised as an expense	585	567
Impairment of stocks recognised or reversed	35	(4)
Operating lease charges	419	355

During the year the company received a donation of £2,000,000 towards the cost of the Tynecastle redevelopment project and £1,000,000 to assist with the player budget.

9 Interest receivable and similar income

	2018 £000	2017 £000
Interest income		
Interest on bank deposits	6	15

Investment income includes the following:

Interest on financial assets not measured at fair value through profit or loss	6	15
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HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2018

10 Interest payable and similar expenses

	2018 £000	2017 £000
Interest on financial liabilities measured at amortised cost:		
Interest on finance leases and hire purchase contracts	37	-
Interest payable to group undertakings	16	-
Interest payable to related parties	29	-
	<u>82</u>	<u>-</u>
Other finance costs:		
Finance costs for financial instruments measured at fair value through profit or loss	142	133
Loan arrangement fees on loans from fellow group undertakings	22	22
Loan arrangement fees on related party loans	11	-
	<u>257</u>	<u>155</u>

More details about interest payable and similar expenses are explained in notes 19 and 28.

11 Taxation

	2018 £000	2017 £000
Current tax		
UK corporation tax on profits for the current period	(3)	-
	<u>(3)</u>	<u>-</u>

The actual credit for the year can be reconciled to the expected charge for the year based on the profit or loss and the standard rate of tax as follows:

	2018 £000	2017 £000
Profit before taxation	1,802	2,321
	<u>1,802</u>	<u>2,321</u>
Expected tax charge based on the standard rate of corporation tax in the UK of 20.00% (2017: 19.75%)	360	458
Tax effect of expenses that are not deductible in determining taxable profit	-	72
Tax effect of income not taxable in determining taxable profit	(363)	(493)
Change in unrecognised deferred tax assets	-	(37)
	<u>(3)</u>	<u>(37)</u>
Tax credit for the year	(3)	-
	<u>(3)</u>	<u>-</u>

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2018

12 Intangible fixed assets

	Players' registrations £000
Cost	
At 1 July 2017	724
Additions - separately acquired	319
Disposals	(425)
	<hr/>
At 30 June 2018	618
	<hr/>
Amortisation and impairment	
At 1 July 2017	235
Amortisation charged for the year	245
Disposals	(199)
	<hr/>
At 30 June 2018	281
	<hr/>
Carrying amount	
At 30 June 2018	337
	<hr/> <hr/>
At 30 June 2017	489
	<hr/> <hr/>

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2018

13 Tangible fixed assets

	Land and buildings freehold	Leasehold property	Assets in the course of construction	Plant and equipment	Memorabilia	Total
	£000	£000	£000	£000	£000	£000
Cost						
At 1 July 2017	6,850	2,544	5,512	2,374	159	17,439
Additions	33	-	12,748	561	-	13,342
Disposals	-	-	-	(3)	-	(3)
At 30 June 2018	6,883	2,544	18,260	2,932	159	30,778
Depreciation and impairment						
At 1 July 2017	436	1,323	-	2,287	-	4,046
Depreciation charged in the year	180	102	-	50	-	332
Eliminated in respect of disposals	-	-	-	(1)	-	(1)
At 30 June 2018	616	1,425	-	2,336	-	4,377
Carrying amount						
At 30 June 2018	6,267	1,119	18,260	596	159	26,401
At 30 June 2017	6,414	1,221	5,512	87	159	13,393

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2018

13 Tangible fixed assets

(Continued)

Stadium redevelopment

In March 2016, the business announced its plans to redevelop Tynecastle Stadium, with work commencing in November 2016. Phase 1 of the works was completed in November 2017, with the opening of the new Main Stand. Phase 2, comprising the new Club Store, the Supporters Bar, the 3rd Floor TV studio and the Control Room modification was completed at the end of June 2018. At 30 June 2018 a total of £17.7m has been capitalised in the accounts as 'assets in the course of construction'.

In addition, the full replacement of the pitch commenced in May 2018 - with £566k capitalised at 30th June 2018. This is also included in 'assets in the course of construction'.

The £561k acquisition of new kitchen, kiosk, bar equipment and additional turf lights during the year has been capitalised and included in 'plant and equipment'.

14 Financial instruments

	2018 £000	2017 £000
Carrying amount of financial assets		
Debt instruments measured at amortised cost	998	1,421
Cash at bank	199	5,541
	<u> </u>	<u> </u>
Carrying amount of financial liabilities		
Measured at amortised cost	7,969	5,239
	<u> </u>	<u> </u>

15 Stocks

	2018 £000	2017 £000
Finished goods and goods for resale	484	440
	<u> </u>	<u> </u>

16 Debtors

	2018 £000	2017 £000
Amounts falling due within one year:		
Trade debtors	417	231
Corporation tax recoverable	3	-
Other debtors	581	855
Prepayments and accrued income	204	421
	<u> </u>	<u> </u>
	1,205	1,507
	<u> </u>	<u> </u>

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2018

17 Creditors: amounts falling due within one year

	Notes	2018 £000	2017 £000
Loans and overdrafts	19	170	-
Obligations under finance leases	20	166	-
Trade creditors		3,494	2,277
Other taxation and social security		270	279
Deferred income	22	4,876	4,029
Other creditors and accruals		777	1,038
		<u>9,753</u>	<u>7,623</u>

18 Creditors: amounts falling due after more than one year

	Notes	2018 £000	2017 £000
Loans and overdrafts	19	3,912	2,258
Obligations under finance leases	20	227	-
		<u>4,139</u>	<u>2,258</u>

19 Loans and overdrafts

	2018 £000	2017 £000
Loans from group undertakings - senior loan	2,210	2,258
Loans from group undertakings - short-term loan	170	-
Loans from related parties	1,702	-
	<u>4,082</u>	<u>2,258</u>
Payable within one year	170	-
Payable after one year	3,912	2,258
	<u>4,082</u>	<u>2,258</u>

Amounts owed to the company's parent company, Bidco (1874) Limited, are secured by a standard security over Tynecastle Stadium. Bidco (1874) Limited also holds a floating charge over the assets of the company.

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2018

19 Loans and overdrafts

(Continued)

From 1 July 2016 until 31 May 2018, Bidco (1874) Limited had granted an interest holiday on its loan of £2,400,000 to the company. Therefore, in line with the accounting policy set out at note 1.9, the loan has been accounted for within these financial statements as a financing transaction at the present value of future payments discounted at a market rate of interest.

During the year, £190k was repaid to Bidco (1874) Limited in accordance with the repayment and funding support agreement.

Bidco (1874) Limited provided an additional short term loan facility of £170k to the company during the year. This loan is interest free.

In addition, a director provided a £1.75m loan facility to the company for a period of 2 years. At 30 June 2018, £1.70m had been drawn down. The loan has been provided at market interest rates.

20 Finance lease obligations

	2018	2017
	£000	£000
Future minimum lease payments due under finance leases:		
Within one year	199	-
In two to five years	243	-
	<u>442</u>	<u>-</u>
Less: future finance charges	49	-
	<u>393</u>	<u>-</u>

The company entered into a number of finance leases during the year in order to acquire new kitchen, kiosk and bar equipment, additional turf lights and new function suite furniture. Leases include purchase options at the end of the lease period, and no restrictions are placed on the use of the assets. The average lease term is 3 years. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

21 Provisions for liabilities

Unrecognised deferred tax asset

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

	2018	2017
	£000	£000
Fixed asset timing differences	155	252
Other timing differences	28	24
Tax losses available	9,920	9,861
	<u>10,103</u>	<u>10,137</u>

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 30 JUNE 2018

22 Deferred income

	2018	2017
	£000	£000
Other deferred income	4,876	4,029
	<u>4,876</u>	<u>4,029</u>

23 Retirement benefit schemes

	2018	2017
	£000	£000
Defined contribution schemes		
Charge to profit or loss in respect of defined contribution schemes	24	19
	<u>24</u>	<u>19</u>

The company operates a defined contribution pension scheme for all qualifying employees. The assets of the scheme are held separately from those of the company in an independently administered fund.

24 Share capital

	2018	2017
	£000	£000
Ordinary share capital		
Issued and fully paid		
156,478,232 Ordinary shares of 10p each	15,648	15,648
	<u>15,648</u>	<u>15,648</u>

Each share has equal voting rights and is entitled to one vote each.

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2018

25 Share premium account

The share premium account represents amounts received in excess of the par value of a share.

26 Revaluation reserve

The revaluation reserve represents the revaluation of memorabilia as at 31 July 1998, based on the open market value. The memorabilia was previously carried at £nil cost.

27 Other reserves

	Foundation of Hearts working capital reserve £000	Foundation of Hearts stadium redevelopment reserve £000	Bidco (1874) Ltd stadium redevelopment reserve £000	Foundation of Hearts Bidco repayment reserve £000	Total £000
At 1 July 2016	3,941	250	13	-	4,204
Funds received from Foundation of Hearts	-	1,500	-	-	1,500
Interest waived by Bidco	-	-	(13)	-	(13)
At 30 June 2017	3,941	1,750	-	-	5,691
Payments of loans by Foundation of Hearts	-	-	-	190	190
Funds received from Foundation of Hearts	-	1,250	-	-	1,250
At 30 June 2018	3,941	3,000	-	190	7,131

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2018

27 Other reserves

(Continued)

The Foundation of Hearts working capital reserve represents the funding received from Foundation of Hearts Limited in the first two years of its support to the company, which ended on 9 May 2016. These funds were deemed not to be repayable to Foundation of Hearts Limited and were therefore classified as equity rather than as a liability.

The Foundation of Hearts stadium redevelopment reserve represents the funds advanced by Foundation of Hearts, subsequent to the end of the initial two year period, for the redevelopment of Tynecastle stadium. The Repayment and Funding Support Agreement entered into in May 2014 between Bidco (1874) Limited and Foundation of Hearts Limited, was updated in January 2017 to facilitate this. For the year ended 30 June 2018, a total of £1.25m (2017 - £1.5m) has been provided. These funds are also not repayable to Foundation of Hearts and are classed as equity rather than as a liability.

In accordance with the amendments to this Agreement, a total of 35% of the voting rights attached to the shares held by Bidco (1874) Limited in the company, have now been transferred to Foundation of Hearts Limited, following the completion of the £3m participation in the redevelopment project. This transfer was completed in May 2018.

The Bidco (1874) Limited stadium redevelopment reserve includes the interest waived on the senior loan from 1 June 2016. With effect from 1 July 2016 an interest holiday was in place on the loan from Bidco (1874) Limited to the company. Therefore, the balance of this reserve has been transferred to the Equity reserve. The total amount of interest not paid to Bidco (1874) Limited as a result of the interest waiver (£25k) and holiday (£275k) is £300k. See note 28 below.

During the year, in accordance with The Repayment and Funding Support Agreement, the company started to make repayments of the Bidco (1874) Limited senior loan, via funds supplied by the Foundation of Hearts Limited. These funds are deemed not to be repayable to Foundation of Hearts Limited and have therefore been classified as equity rather than as a liability. £190k (2017 – nil) has been repaid in the year. See note 28 below.

The Foundation of Hearts Limited holds a standard security over Tynecastle Stadium. The Foundation of Hearts Limited also holds a floating charge over the assets of the company. All securities held by Foundation of Hearts Limited are subordinated behind the security held by Bidco (1874) Limited.

28 Equity reserve

Bidco (1874) Limited has provided a loan of £2,400,000 to the company. From 1 July 2016 to 31 May 2018, Bidco (1874) Limited agreed to provide an interest holiday on the interest payable on this loan.

The loan is therefore being accounted for as a financing transaction, and has been adjusted in value to the present value of future payments discounted at a market rate of interest. At 1 July 2016 this created an equity reserve of £275,000.

The balance of the equity reserve is transferred to profit and loss reserves to match the notional interest charge arising as this fair value adjustment of £275,000 unwinds over the period of the interest holiday. During the year, £155,000 was transferred to profit and loss reserves, leaving a balance of nil at 30 June 2018.

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2018

29 Capital commitments

	2018 £000	2017 £000
Amounts contracted for but not provided in the financial statements:		
Contracted for but not provided in the financial statements:		
Acquisition of tangible fixed assets	276	5,878

30 Operating lease commitments

Lessee

At the reporting end date the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2018 £000	2017 £000
Within one year	275	292
Between two and five years	1,186	1,152
In over five years	1,335	1,440
	<u>2,796</u>	<u>2,884</u>

31 Related party transactions

Remuneration of key management personnel

The remuneration of key management personnel, including directors, is as follows.

	2018 £000	2017 £000
Aggregate compensation	459	497

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2018

31 Related party transactions

(Continued)

Other transactions

During the year, the company was charged arrangement fees of £22k (2017 - £22k) on a loan of £2.4m made to the company by Bidco (1874) Limited. From 1 July 2016 to 31 May 2018 as a contribution to the Tynecastle redevelopment project, Bidco (1874) Limited has provided an interest holiday period on interest payable on this loan. At 30 June 2018 the company owed Bidco (1874) Limited £2.2m (2017 - £2.4m).

During the year, Bidco (1874) Limited provided an additional short term loan facility of £170k. At 30 June 2018, the company owed Bidco (1874) Limited £170k in relation to this obligation.

Foundation of Hearts Limited is a company in which D Cumming and S Wallace were also directors during the year. During the year, Foundation of Hearts Limited made advances of £1.25m (2017 - £1.5m) to contribute capital to the Tynecastle redevelopment project. In addition, during the year, the Foundation of Hearts Limited repaid £190k (2017- nil) of the £2.4m senior loan owed to Bidco (1874) Limited. As at 30 June 2018, the total amount received to date from Foundation of Hearts Limited was £7.1m (2017 - £5.8m).

Dr A Budge is a director of Big Hearts Community Trust. During the year, the company invoiced £14k (2017 - £22k) and received £18k (2017 - £21k) from the charity. As at 30 June 2018, the company was owed £1k (2017 - £2k) by Big Hearts Community Trust.

During the year, Dr A Budge provided the company with a £1.75m loan facility. This loan facility has been provided for a 24 month period and earns interest at the market rate, refer to note 19 for further details. An arrangement fee of £11k has been charged in relation to this loan.

During the year, the company purchased construction services from JB Contracts (Scotland) Limited amounting to £3.3m (2017 - £1.5m). At 30 June 2018, the company owed JB Contracts (Scotland) Limited £981k (2017 - £200k). Whilst there is a family connection between Dr A Budge and the director and controlling shareholder of this company, there are no shared business interests. The construction services were procured by our independent 3rd party Construction Manager, who was responsible for the evaluation, selection and appointment of suitable trade contractors, via a structured tender process. The Board are satisfied that the services were purchased on an arm's length basis.

32 Controlling party

The company's parent and ultimate parent company is Bidco (1874) Limited. The ultimate controlling party is Dr A Budge.

Bidco (1874) Limited is the only company into which the results of the company are consolidated. Copies of the consolidated accounts can be obtained from Companies House, Fourth Floor, Edinburgh Quay 2, 139 Fountainbridge, Edinburgh, EH3 9FF.

33 Subsidiaries

Details of the company's subsidiaries at 30 June 2018 are as follows:

Name of undertaking	Registered office	Nature of business	Class of shares held	% Held	
				Direct	Indirect
Tynecastle Events Limited	Scotland	Dormant	Ordinary	100.00	

The capital and reserves for the year of the subsidiary was £1.

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2018

34 Cash generated from operations

	2018	2017
	£000	£000
Profit for the year after tax	1,805	2,321
Adjustments for:		
Taxation credited	(3)	-
Net effect of foreign exchange differences	3	-
Finance costs	257	155
Investment income	(6)	(15)
Gain on sale of registrations	(444)	(214)
Exceptional donation income	(2,000)	(2,500)
Amortisation and impairment of intangible assets	245	292
Depreciation and impairment of tangible fixed assets	332	231
Movements in working capital:		
(Increase) in stocks	(44)	(192)
Decrease in debtors	280	1,008
Increase in creditors	545	12
Increase in deferred income	847	316
Cash generated from operations	<u>1,817</u>	<u>1,414</u>