

Company Registration No. SC005863 (Scotland)

HEART OF MIDLOTHIAN PLC
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

HEART OF MIDLOTHIAN PLC

COMPANY INFORMATION

Directors	Dr A Budge I Murray C Levein R Wilson Dr T Hogg K Windram	(Appointed 9 May 2014) (Appointed 9 May 2014) (Appointed 2 October 2014) (Appointed 9 May 2014) (Appointed 9 May 2014) (Appointed 2 October 2014)
Secretary	J Duncan	
Company number	SC005863	
Registered office	Collins House Rutland Square Edinburgh EH1 2AA	
Auditors	Johnston Carmichael LLP 7-11 Melville Street Edinburgh EH3 7PE	
Business address	Tynecastle Stadium Gorgie Road Edinburgh EH11 2NL	

HEART OF MIDLOTHIAN PLC

CONTENTS

	Page
Strategic report	1 - 2
Directors' report	3 - 4
Independent auditors' report	5 - 6
Profit and loss account	7
Statement of total recognised gains and losses	8
Balance sheet	9
Cash flow statement	10
Notes to the cash flow statement	11 - 12
Notes to the financial statements	13 - 25

HEART OF MIDLOTHIAN PLC

STRATEGIC REPORT

FOR THE YEAR ENDED 30 JUNE 2014

The directors present their report and financial statements for the year ended 30 June 2014.

Review of the business

During the 2013/14 playing season, Hearts football club played in the Scottish Premiership. After being placed into administration the football club was deducted 15 points, which combined with results, ensured that on 5 April 2014 the club was relegated to the Scottish Championship for the 2014/15 playing season.

The company was placed into administration on 19 June 2013 with James Bernard Stephen, Trevor Nigel Birch and Bryan Alan Jackson, partners and licensed insolvency practitioners in the firm of BDO being appointed as joint administrators of the Company on that date by AB Utkio Bankas (ABUB) the secured creditor of the Company, under paragraph 14 of Schedule B1 to the Insolvency Act, due to the Company being in breach of ABUB's security resulting in the directors of the company lodging at court a notice of intention to appoint administrators.

Hearts was in urgent need of further funding in order to avoid an imminent liquidation. To avoid further point deductions, automatic relegation to the lower leagues and other sanctions, it was essential as part of any rescue operation to preserve the existing corporate structure of Hearts (in particular to preserve the existence of the corporate entity itself) to ensure that Hearts maintained its status as a member of the SFA in accordance with the rules of the SPFL. With these objectives in mind, Dr A Budge established Bidco (1874) Ltd (Bidco) as a special purpose vehicle to provide urgently needed bridging finance to the company and enable the Foundation of Hearts Limited (Foundation), in due course, to become Hearts' majority shareholder, provided it complies with various terms and conditions set out in a repayment and funding support agreement entered into by Bidco and the Foundation on 9 May 2014. In order to achieve this, Bidco has acquired an approximate 79.0 per cent shareholding from UAB Utkio Banko Investicine Grupe (UBIG) and the Foundation shall provide the Company with on-going working capital raised from fan contributions so as to provide Hearts with financial stability going forward. Following the issue of new shares after the year end to other shareholders as described in note 23, Bidco now owns 74.42 per cent of the company's share capital.

The acquisition and the funding arrangements with the Foundation aim to preserve the existence of Hearts, and provide ongoing working capital.

Dr A Budge has provided funding by way of a loan and equity subscriptions to Bidco in an aggregate sum of £2.5 million. Subsequently Bidco has made an onward loan available in the sum of £2.4 million to Hearts on a priority first ranking secured basis. These loan facilities provided to Hearts have been utilised for the purpose of obtaining the release of ABUB's security and to meet the costs and expenses of the administration. The payment for the release of ABUB's security enabled the administrators to finalise a Creditors Voluntary Arrangement (CVA) and the company exited administration on 11 June 2014.

As part of the acquisition process, Bidco has entered into a repayment and funding agreement with the Foundation whereby the Foundation has provided an initial cash injection of £1.0 million representing the aggregate amount of fan contributions collected by the Foundation as at 8 May 2014. £960,000 of this was provided on completion of the Acquisition and a further payment of £40,000 was provided on 21 May 2014.

This funding has been applied to satisfy the transaction costs incurred by the professional advisers acting in relation to the acquisition with the balance being used to assist in the payment of the outstanding football debt.

In accordance with the agreement and in addition to the initial £1million of funding, the Foundation has agreed to advance the sum of £1.4 million per annum for the first two years (£2.8 million in aggregate) of the agreement. Each annual payment together with the initial funding amount will form part of a secured loan subordinated to the priority first ranking secured loan in favour of Bidco. For the year to 30 June 2014 a total of £1.22 million has been provided to Hearts.

HEART OF MIDLOTHIAN PLC

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2014

In terms of the 2014 accounts the highlights are described below.

Turnover for the year was £6.550m, a reduction of £0.792m on 2013 (2013: £7.342m). This was due to limited cup success when compared to the prior year.

The club benefitted financially from another positive year in player trading with a net gain of £234k, predominantly resulting from the transfer of Adam King to Swansea City.

The club's operating charges and staff costs were reduced significantly in 2014 as a result of redundancies and strict cost controls resulting from the administration process.

The CVA resulted in a write-off of creditors of £27.472m in the year, predominantly relating to bank and intercompany debt owed to related parties of the previous owners.

In addition, £552k of fees were incurred in finalising the Bidco acquisition of the club, along with £181k of fees associated with the administration process.

The Balance Sheet shows net assets of £1,094k. This has significantly changed from the 2013 position as a result of the CVA.

The last two years have been turbulent for our business, however we are confident that our new structure and our close relationship with Foundation of Hearts Ltd will move the business forward in a positive manner.

The company's prudent budget and financial foundations allow us to confirm that we continue to meet the Financial Fair Play criteria introduced by UEFA in season 2013/2014.

The cornerstone of our business continues to be the development of what is widely recognised as the best young squad of footballers in the country. This is something our fans have recognised and they too have bolstered our business plan with unprecedented season ticket and retail sales for the 2014/15 season.

The style of football being played by our exciting young squad has truly captured the imagination of the Edinburgh public and beyond and many top flight English clubs now have our young talent in their sights.

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

More information on the post balance sheet events is provided in note 23 to the accounts.

On behalf of the board



Dr A Budge

Director

8 Dec 2014

HEART OF MIDLOTHIAN PLC

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2014

The directors present their report and financial statements for the year ended 30 June 2014.

Principal activities

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

Results and dividends

The results for the year are set out on page 7.

The directors do not recommend payment of an ordinary dividend.

Future developments

Information relating to future developments and post balance sheet events is covered in the Strategic Report and in note 23.

Directors

The following directors have held office since 1 July 2013:

Dr A Budge	(Appointed 9 May 2014)
I Murray	(Appointed 9 May 2014)
C Levein	(Appointed 2 October 2014)
R Wilson	(Appointed 9 May 2014)
Dr T Hogg	(Appointed 9 May 2014)
K Windram	(Appointed 2 October 2014)
R Romanov	(Resigned 9 May 2014)
S Fedotovas	(Resigned 9 May 2014)
V Vasiliauskas	(Resigned 9 May 2014)

HEART OF MIDLOTHIAN PLC

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2014

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;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

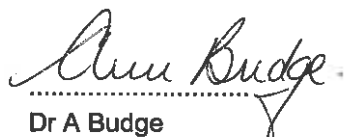
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 auditors

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

On behalf of the board



Dr A Budge

Director

8 Dec 2014

HEART OF MIDLOTHIAN PLC

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF HEART OF MIDLOTHIAN PLC

We have audited the financial statements of Heart of Midlothian plc for the year ended 30 June 2014 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2014 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.

Emphasis of matter - going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the company's ability to continue as a going concern. The company has exited a period of Administration and is re-establishing itself under new ownership and a new Board of directors. This has included obtaining an ongoing undertaking of funding from the Foundation of Hearts to allow the company to meet its working capital requirements. The uncertainties around the ongoing cash inflows as explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

HEART OF MIDLOTHIAN PLC

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Johnston Carmichael LLP

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

8 December 2014

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 2014

	Notes	Operations excluding player trading £000	Player trading £000	2014 Total £000	2013 Total £000
Turnover	2	6,550	-	6,550	7,342
Staff costs	21	(2,890)	-	(2,890)	(5,414)
Depreciation and other amounts written off tangible and intangible fixed assets	7, 8	(304)	-	(304)	(602)
Other operating charges		(2,460)	-	(2,460)	(3,567)
Impairment of tangible fixed assets	3	-	-	-	(2,585)
Loan fee income		-	-	-	49
		(5,654)	-	(5,654)	(12,119)
Operating profit/(loss)	3	896	-	896	(4,777)
Gain on sale of players' registrations		-	234	234	1,066
Write off in respect of Creditors Voluntary Arrangement		27,472	-	27,472	-
Costs of administration process		(181)	-	(181)	-
Costs of deal		(552)	-	(552)	-
		26,739	234	26,973	1,066
Profit/(loss) on ordinary activities before interest		27,635	234	27,869	(3,711)
Other interest receivable and similar income	4			3	-
Interest payable and similar charges	5			(1,077)	(1,254)
Profit/(loss) on ordinary activities before taxation				26,795	(4,965)
Tax on profit/(loss) on ordinary activities	6			-	-
Profit/(loss) for the year	17			26,795	(4,965)

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

HEART OF MIDLOTHIAN PLC

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 30 JUNE 2014

	Notes	2014 £000	2013 £000
Profit/(loss) for the financial year		26,795	(4,965)
Unrealised deficit on revaluation of properties		-	(5,165)
Total recognised gains and losses relating to the year		26,795	(10,130)

Note of historical cost profits and losses

	2014 £000	2013 £000
Reported profit/(loss) on ordinary activities before taxation	26,795	(4,965)
Difference between an historical cost depreciation charge and the actual depreciation charge of the year calculated on the revalued amount	(126)	110
Historical cost profit/(loss) on ordinary activities before taxation	26,669	(4,855)
Historical cost profit/(loss) for the year retained after taxation, extraordinary items and dividends	26,669	(4,855)

HEART OF MIDLOTHIAN PLC

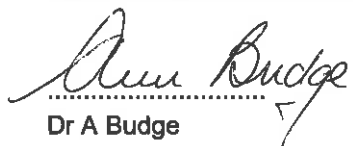
BALANCE SHEET

AS AT 30 JUNE 2014

		2014		2013	
	Notes	£000	£000	£000	£000
Fixed assets					
Intangible assets	7		-		-
Tangible assets	8		7,074		7,378
			<u>7,074</u>		<u>7,378</u>
Current assets					
Debtors: amounts falling due within one year	10	1,490		897	
Cash at bank and in hand		1,554		514	
		<u>3,044</u>		<u>1,411</u>	
Creditors: amounts falling due within one year	11	(4,108)		(16,758)	
Net current liabilities			<u>(1,064)</u>		<u>(15,347)</u>
Total assets less current liabilities			6,010		(7,969)
Creditors: amounts falling due after more than one year	12		(4,916)		(17,732)
			<u>1,094</u>		<u>(25,701)</u>
Capital and reserves					
Called up share capital	16		14,692		14,692
Share premium account	17		11,674		11,674
Revaluation reserve	17		159		159
Profit and loss account	17		(25,431)		(52,226)
Shareholders' funds	18		<u>1,094</u>		<u>(25,701)</u>

Approved by the Board and authorised for issue on

8th Dec 2014



Dr A Budge
Director

Company Registration No. SC005863

HEART OF MIDLOTHIAN PLC

CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2014

	2014	2013
£000	£000	£000
Net cash outflow from operating activities	(412)	(1,938)
Servicing of finance		
Interest received	3	-
Interest paid	-	(200)
Net cash inflow/(outflow) from servicing of finance	3	(200)
Capital expenditure		
Payments to acquire tangible assets	-	(27)
Receipts from sales of player registrations	234	1,466
Net cash inflow for capital expenditure	234	1,439
Net cash outflow before financing	(175)	(699)
Financing		
Funds from Bidco (1874) Limited	2,400	-
Other new short term loans	-	155
Proceeds from share offer not yet ratified	-	1,077
Funds from Foundation of Hearts Limited	1,222	-
Repayment of short term loans	-	(120)
Repayment of AB Utkio Bankas debt	(2,400)	-
Net cash inflow from financing	1,222	1,112
Increase in cash in the year	<u>1,047</u>	<u>413</u>

HEART OF MIDLOTHIAN PLC

NOTES TO THE CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2014

1 Reconciliation of operating profit/(loss) to net cash outflow from operating activities	2014	2013
	£000	£000
Operating profit/(loss)	896	(4,777)
Depreciation of tangible assets	304	540
Amortisation of intangible assets	-	62
(Increase)/decrease in debtors	(486)	426
Increase/(decrease) in creditors within one year	499	(223)
Movement on grant provision	(36)	(36)
Decrease in creditors after one year	(856)	(515)
Impairment of stadium carrying value	-	2,585
Exceptional costs	(733)	-
Net cash outflow from operating activities	(412)	(1,938)

2 Analysis of net debt	1 July 2013	Cash flow	Other non-cash changes	30 June 2014
	£000	£000	£000	£000
Net cash:				
Cash at bank and in hand	514	1,040	-	1,554
Bank overdrafts	(7)	7	-	-
	<u>507</u>	<u>1,047</u>	<u>-</u>	<u>1,554</u>
Debt:				
Debts falling due within one year	(11,127)	-	10,050	(1,077)
Debts falling due after one year	(15,603)	(1,222)	13,182	(3,643)
	<u>(26,730)</u>	<u>(1,222)</u>	<u>23,232</u>	<u>(4,720)</u>
Net debt	<u>(26,223)</u>	<u>(175)</u>	<u>23,232</u>	<u>(3,166)</u>

HEART OF MIDLOTHIAN PLC

NOTES TO THE CASH FLOW STATEMENT (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2014

3 Reconciliation of net cash flow to movement in net debt	2014	2013
	£000	£000
Increase in cash in the year	1,047	413
Cash inflow from increase in debt	(1,222)	(982)
Change in net debt resulting from cash flows	(175)	(569)
Change in net debt from non cash items:		
Company Voluntary Arrangement write off	24,634	-
Administrators fees payable on behalf of AB Ukie Bankas	(325)	-
Interest accrued in the year	(1,077)	(977)
Changes in net debt resulting from non cash items	23,232	(977)
Movement in net debt in the year	23,057	(1,546)
Opening net debt	(26,223)	(24,677)
Closing net debt	(3,166)	(26,223)

4 Major non-cash transactions

During the year, £24.6m of debt and £2.9m of net creditors were written off as a result of the Company Voluntary Arrangement.

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

1 Accounting policies

1.1 Accounting convention

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

Going concern

The directors have prepared cash flow projections through to December 2015. The projections include the continued support of the Foundation of Hearts, contributing £120,000 per month towards the operating costs of the Club.

The projections indicate that the company should remain cash positive throughout the period they cover. However, this is dependent on the continued cash inflows from the Foundation of Hearts. Any significant downward variation in this source of income could impact upon the company's ability to continue as a going concern.

Having reviewed the cash flow projections, and from the continued development of a strong relationship between the Club's new board of directors and the Foundation of Hearts, the directors believe that these uncertainties will not impact the company's ability to continue as a going concern for the foreseeable future.

Therefore, the directors are satisfied that it remains appropriate to prepare the accounts on a going concern basis.

1.2 Compliance with accounting standards

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

1.3 Turnover

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

1.4 Players' registrations

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

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2014

1 Accounting policies

(continued)

1.5 Tangible fixed assets and depreciation

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

Land and buildings freehold	- depreciated over a period of 50 years
Leasehold property	- depreciated over 25 year term of lease
Plant and equipment	- depreciated over a period of 4 to 10 years
Memorabilia	- see below

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

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

1.6 Leasing

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

1.7 Investments

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

1.8 Pensions

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

1.9 Deferred taxation

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

1.10 Foreign currency translation

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

1.11 Grants receivable

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

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2014

1 Accounting policies (continued)

1.12 Group accounts

The financial statements present information about the company as an individual undertaking and not about its group. The company has not prepared group accounts as it is exempt from the requirement to do so by section 402 of the Companies Act 2006 as all of its subsidiary companies are wholly immaterial and their inclusion is not material for the purpose of giving a true and fair view.

1.13 Signing on fees

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

2 Turnover and profit/(loss) on ordinary activities before taxation

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

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

An analysis of turnover is shown below:

Class of business	Turnover	
	2014 £000	2013 £000
Broadcasting	1,313	1,784
Match day	3,836	4,375
Commercial	1,305	1,147
Other income	96	36
	<u>6,550</u>	<u>7,342</u>

3 Operating profit/(loss) 2014 £000 2013 £000

Operating profit/(loss) is stated after charging:

Amortisation of intangible assets	-	62
Depreciation of tangible assets	304	540
Impairment of stadium carrying value	-	2,585
Operating lease rentals		
- Plant and machinery	39	80
- Other assets	279	290
Auditors' remuneration:		
Audit	25	25
Tax	9	9
Other services	-	64
Government grants	36	36

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2014

4	Investment income	2014	2013
		£000	£000
	Bank interest	3	-
		<u>3</u>	<u>-</u>
		<u>3</u>	<u>-</u>
5	Interest payable	2014	2013
		£000	£000
	On amounts payable to group companies	24	-
	On bank loans and overdrafts	624	245
	On overdue tax	-	207
	Other interest	429	802
		<u>1,077</u>	<u>1,254</u>
		<u>1,077</u>	<u>1,254</u>

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2014

6 Taxation	2014	2013
	£000	£000
Total current tax	<u>-</u>	<u>-</u>
Factors affecting the tax charge for the year		
Profit/(loss) on ordinary activities before taxation	<u>26,795</u>	<u>(4,965)</u>
Profit/(loss) on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 22.50% (2013 - 23.75%)	<u>6,029</u>	<u>(1,179)</u>
Effects of:		
Expenses not deductible for tax purposes	179	183
Depreciation in excess of capital allowances	74	127
Stadium impairment	-	614
Tax losses carried forward	-	255
Creditors Voluntary Arrangement	(6,181)	-
Utilisation of tax losses	(122)	-
Other tax movements	21	-
	<u>(6,029)</u>	<u>1,179</u>
Current tax charge for the year	<u>-</u>	<u>-</u>

As detailed in note 13, a potential deferred tax asset of £12.639 million (2013 - £15.412 million) has not been recognised in the financial statements in accordance with the accounting policy set out in note 1, because it is not clear that suitable taxable profits will be available in the foreseeable future for offset.

As at 8 November 2012, the company's freehold land and buildings were revalued in accordance with FRS 15 Tangible Fixed Assets, as detailed in note 8. As there are no plans to dispose of the asset no provision for deferred taxation which might arise on sale has been made. The directors estimate that were the assets to be sold at the revalued amount as at 30 June 2014, a potential capital gains tax liability of approximately £nil (2013 - £nil) would arise.

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2014

7 Intangible fixed assets

	Players' registrations £000
Cost	
At 1 July 2013	20
Disposals	(20)
	<hr/>
At 30 June 2014	-
	<hr/>
Amortisation	
At 1 July 2013	20
Amortisation on disposals	(20)
	<hr/>
At 30 June 2014	-
	<hr/>
Net book value	
At 30 June 2014	-
	<hr/> <hr/>
At 30 June 2013	-
	<hr/> <hr/>

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2014

8 Tangible fixed assets

	Land and buildings freehold	Leasehold property	Plant and equipment	Memorabilia	Total
	£000	£000	£000	£000	£000
Cost or valuation					
At 1 July 2013 & at 30 June 2014	5,450	2,544	2,246	159	10,399
Depreciation					
At 1 July 2013	-	916	2,105	-	3,021
Charge for the year	109	101	94	-	304
At 30 June 2014	109	1,017	2,199	-	3,325
Net book value					
At 30 June 2014	5,341	1,527	47	159	7,074
At 30 June 2013	5,450	1,628	141	159	7,378

J & E Shepherd, Chartered Surveyors, valued the freehold land and buildings as at 8 November 2012 on a depreciated replacement cost basis at £5.45 million on the basis of the Practice Statements contained within the Royal Institution of Chartered Surveyors Appraisal & Valuation manual. The directors are not aware of any material difference in this value at 30 June 2014.

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

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2014

8 Tangible fixed assets (continued)

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

	£000
Cost	
At 1 July 2013 & at 30 June 2014	11,778
Depreciation based on cost	
At 1 July 2013	3,706
Charge for the year	235
At 30 June 2014	3,941
Net book value	
At 30 June 2014	7,837
At 30 June 2013	8,072

9 Investments held as fixed assets

During the year, the Company owned the entire ordinary share capital of Heart of Midlothian Publishing Limited and Heart of Midlothian Football Club Limited, which were both dormant subsidiary undertakings, each of which was carried at a cost of £100 (2013: £100) and had net assets of £100 (2013: £100).

Both subsidiary undertakings were registered in Scotland. Their principal place of business was Tynecastle Stadium, Gorgie Road, Edinburgh, EH11 2NL. These subsidiaries were both dissolved on 4 April 2014.

10 Debtors	2014	2013
	£000	£000
Trade debtors	77	239
Other debtors	998	487
Prepayments and accrued income	415	171
	1,490	897

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2014

11 Creditors: amounts falling due within one year

	2014 £000	2013 £000
Bank loans and overdrafts	-	7
Deferred income (see note 14)	1,843	2,301
Trade creditors	365	1,078
Amounts owed to parent company	-	8,280
Taxes and social security costs	106	978
Other creditors and accruals	717	3,037
Proceeds from share issue	1,077	1,077
	<u>4,108</u>	<u>16,758</u>

12 Creditors: amounts falling due after more than one year

	2014 £000	2013 £000
Bank loans	-	15,603
Other creditors	-	820
Amounts due to Foundation of Hearts	1,222	-
Deferred income (see note 14)	1,273	1,309
Amounts owed to parent company	2,421	-
	<u>4,916</u>	<u>17,732</u>

Loan maturity analysis

In more than one year but not more than two years	-	-
In more than two years but not more than five years	2,421	15,603
	<u>2,421</u>	<u>15,603</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 hold a floating charge over the assets of the company.

For the year to 30 June 2014 a total of £1.22 million has been provided to the company by the Foundation of Hearts Limited in accordance with the Repayment and Funding Support Agreement dated 9 May 2014 between Bidco (1874) Limited and Foundation of Hearts Limited. Amounts due to Foundation of Hearts Limited, are secured by a standard security over Tynecastle Stadium. Foundation of Hearts Limited also holds a floating charge over the assets of the company. All security held by Foundation of Hearts Limited is subordinated behind the security held by Bidco (1874) Limited.

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2014

13 Provisions for liabilities

Unrecognised deferred tax asset

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

	2014	2013
	£000	£000
Fixed asset timing differences	486	661
Other timing differences	8	582
Tax losses available	12,145	14,169
	<u>12,639</u>	<u>15,412</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.

14 Deferred Income

	2014	2013
	£000	£000
Grants receivable from the Football Trust		
Balance at 1 July 2013	1,345	1,381
Released to profit and loss account	(36)	(36)
Balance at 30 June 2014	<u>1,309</u>	<u>1,345</u>
Other deferred income	<u>1,807</u>	<u>2,265</u>
	<u>3,116</u>	<u>3,610</u>

Deferred income is disclosed as follows:

	2014	2013
	£000	£000
Amounts falling due within one year	1,843	2,301
Amounts falling due after more than one year	<u>1,273</u>	<u>1,309</u>

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

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

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2014

15 Pension costs

Defined contribution

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

	2014 £000	2013 £000
Contributions payable by the company for the year	15	13

16 Share capital

	2014 £000	2013 £000
Allotted, called up and fully paid 146,919,350 Ordinary shares of 10p each	14,692	14,692

17 Statement of movements on reserves

	Share premium account £000	Revaluation reserve £000	Profit and loss account £000
Balance at 1 July 2013	11,674	159	(52,226)
Profit for the year			26,795
Balance at 30 June 2014	11,674	159	(25,431)

18 Reconciliation of movements in shareholders' funds

	2014 £000	2013 £000
Profit/(loss) for the financial year	26,795	(4,965)
Other recognised gains and losses		(5,165)
Net addition to/(depletion in) shareholders' funds	26,795	(10,130)
Opening shareholders' funds	(25,701)	(15,571)
Closing shareholders' funds	1,094	(25,701)

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2014

19 Financial commitments

At 30 June 2014 the company was committed to making the following payments under non-cancellable operating leases in the year to 30 June 2015:

	Land and buildings		Other	
	2014	2013	2014	2013
	£000	£000	£000	£000
Operating leases which expire:				
Within one year	-	-	2	57
Between two and five years	44	44	-	-
In over five years	259	253	-	-
	<u>303</u>	<u>297</u>	<u>2</u>	<u>57</u>

20 Directors' remuneration

	2014	2013
	£000	£000
Remuneration for qualifying services	<u>-</u>	<u>82</u>

21 Employees

Number of employees

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

	2014	2013
	Number	Number
Players and coaching staff	67	94
Administration and commercial department staff	37	45
	<u>104</u>	<u>139</u>

Employment costs

	2014	2013
	£000	£000
Wages and salaries	2,624	4,814
Social security costs	251	587
Other pension costs	15	13
	<u>2,890</u>	<u>5,414</u>

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2014

22 Control

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

23 Post balance sheet events

2012 share subscription

On 26 October 2012, Hearts issued a circular to certain of its shareholders and certain members of the public inviting them to subscribe for new ordinary shares of 10 pence each in Hearts at a price of 11 pence per share. Applications for subscriptions were received from the 2012 Subscribers in respect of an aggregate of 9,848,745 shares at an aggregate subscription price of approximately £1.08 million. The subscription monies in respect of the 2012 share subscription were received by the company, but the new shares in Hearts were never issued to the 2012 Subscribers. This meant that legally the 2012 Subscribers were not on the share register and therefore were not entitled to participate in the mandatory cash offer made by Bidco on 5 June 2014.

Bidco wished to ensure that all 2012 Subscribers were treated fairly so it was assumed that for the purposes of this cash offer the 2012 subscribers were deemed to be on the register. They therefore offered a cash sum equal to the amount they would have received had they been issued with new 2012 shares.

Any Subscriber who wished to receive cash has now done so and for the majority of those requesting shares, the certificates have now been issued. There still remains a small number of subscriber queries which are currently being dealt with by the company.

The company now has 155,987,566 allotted, called up and fully paid shares with a nominal value of 10p per share, represented by 7,839 shareholders.

Foundation of Hearts (FOH)

The company has received a total of £1.826m to date from FOH - comprising the initial £1m to pay deal costs and football debt, with the remainder contributing to working capital.

24 Related party relationships and transactions

Other transactions

During the year, Bidco (1874) Limited, the company's parent company, made a loan of £2.4 million to the company. The loan was to pay AB Ukie Bankas £2.4 million in consideration for the secured debt, less £325,000 of administration costs paid by the company to BDO on behalf of AB Ukie Bankas. Finance charges of £24,000 were accrued during the year. The company was also recharged deal costs by Bidco (1874) Limited of £472,000 (2013 - £nil) during the year. These costs were incurred by Bidco during its purchase of the company, and were charged to the company in line with the funding agreement between Bidco (1874) Limited and Foundation of Hearts Limited. As at 30 June 2014, the amount owed to Bidco (1874) Limited was £2.4 million (2013 - £nil).

Foundation of Hearts Limited is a company in which I Murray, a director of the company, is also a director. During the year, Foundation of Hearts Limited made advances of £1.2 million to provide funds for the deal costs and working capital requirements of the company. The balance is interest free. The company also paid £71,000 of deal costs on behalf of Foundation of Hearts Limited in line with the funding agreement between Bidco (1874) Limited and Foundation of Hearts Limited. As at 30 June 2014, the amount owed to Foundation of Hearts Limited was £1.2 million (2013 - £nil).