

Company Registration No. SC005863 (Scotland)

HEART OF MIDLOTHIAN PLC
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

HEART OF MIDLOTHIAN PLC

COMPANY INFORMATION

Directors	R Wilson	(Appointed 9 May 2014)
	Dr T Hogg	(Appointed 9 May 2014)
	Dr A Budge	(Appointed 9 May 2014)
	I Murray	(Appointed 9 May 2014)

Company number	SC005863
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Registered office	Citypoint 65 Haymarket Terrace Edinburgh EH12 5HD
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Auditors	Johnston Carmichael LLP 7-11 Melville Street Edinburgh EH3 7PE
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Business address	Tynecastle Stadium Gorgie Road Edinburgh EH11 2NL
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HEART OF MIDLOTHIAN PLC

CONTENTS

	Page
Directors' report	1 - 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 - 29

HEART OF MIDLOTHIAN PLC

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2013

The directors present their report and financial statements for the year ended 30 June 2013.

Principal activities and review of the business

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

During the 2012/2013 and 2013/14 playing seasons, 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 Ukie 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.

The company continued in administration until 11 June 2014.

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 Ukie 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.

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 approximately £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.

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 initial funding has been applied to satisfy the transaction costs incurred by the professional advisers acting in relation to the acquisition with the balance remaining to be applied for the general working capital of Hearts. In addition, the Foundation shall advance the sum of £1.4 million per annum for the first two years (£2.8 million in aggregate) of the term of the payment and funding agreement, each annual payment together with the initial cash injection forming part of a secured loan subordinated to the priority first ranking secured loan in favour of Bidco.

HEART OF MIDLOTHIAN PLC

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2013

The new Board of Directors is implementing a 3-5 year plan to ensure a solid financial future for the football club. Since its appointment, the new board has carried out an immediate review of the coaching, playing and general managerial resources of the club to ensure that it was best placed for the start of the new playing season in early August 2014. Such a review is usual business practice for football clubs, but is particularly pressing in the case of Hearts given its recent financial difficulties. The new board of directors of Hearts intend to focus on the academy and the development of home grown talent. As part of its initial review of the first team, a small number of players did not return to Hearts for the 2014/2015 playing season and management have added to the squad through the recruitment of a combination of experienced players and academy talent within the available playing budget.

In terms of the 2013 accounts the highlights are described below.

Turnover for the year was £7.342m, a reduction of £1.34m on 2012 (2012:£8.682m). Prior year's revenue was unusually high as a result of the club's successful Scottish Cup campaign.

The importance of the Heart of Midlothian Youth Academy was once again visible as the club benefitted financially from another positive year in player trading with a net gain of £1.066m, predominantly resulting from the sale of David Templeton to Rangers and Ryan McGowan to Shandong Luneng Taishan.

The club delivered a solid operating performance with reductions in operating charges and staff costs. Steps continue to be made to bring the wage bill down to more sustainable levels.

Other charges in the 2013 Profit and Loss Account include a £2.585m write-down of the stadium below its historic cost, following an external valuation of this asset. This is part of a total reduction in value of the stadium of £7.750m, further details of which can found in note 7 to the accounts.

The Balance Sheet shows net liabilities of £25.701m, including £23.883m owed to related parties. As a result of the administration this related party amount will be written off in 2014.

Whilst 2013 and 2014 were turbulent years for our business 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 meet the Financial Fair Play criteria introduced by UEFA in season 2013/14.

The cornerstone of our business is the continued development of what is widely recognised as the best young squad of footballers in the country, a group that was forged in competitive matches during our difficult period in administration. 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 22 to the accounts.

Results and dividends

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

The directors do not recommend payment of an ordinary dividend.

HEART OF MIDLOTHIAN PLC

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2013

Directors

The following directors have held office since 1 July 2012:

R Romanov	(Resigned 9 May 2014)
S Fedotovas	(Resigned 9 May 2014)
J Goncaruk	(Resigned 8 May 2013)
V Vasiliauskas	(Resigned 9 May 2014)
R Wilson	(Appointed 9 May 2014)
Dr T Hogg	(Appointed 9 May 2014)
Dr A Budge	(Appointed 9 May 2014)
I Murray	(Appointed 9 May 2014)

Creditor payment policy

It is the company's policy to agree terms of payment with suppliers and to abide by them. At 30 June 2013, the company's average creditor payment period was 110 days (2012: 93 days), calculated in accordance with the Companies Act 2006. This represents the ratio, expressed in days, between the amounts invoiced to the company by its suppliers in the year and the amounts due, at the year end, to creditors due within one year.

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

HEART OF MIDLOTHIAN PLC

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2013

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

12 September 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 2013 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 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.

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 2013 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter - going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the company's ability to continue as a going concern. The company has 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 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.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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.



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

12 September 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 2013

	Notes	Operations excluding player trading £000	Player trading £000	2013 Total £000	2012 Total £000
Turnover	2	7,342	-	7,342	8,682
Staff costs	20	(5,414)	-	(5,414)	(8,214)
HMRC tribunal settlement	3, 20	-	-	-	(1,190)
Depreciation and other amounts written off tangible and intangible fixed assets	6, 7	(540)	(62)	(602)	(642)
Other operating charges		(3,567)	-	(3,567)	(3,876)
Impairment of tangible fixed assets	3	(2,585)	-	(2,585)	-
Loan fee income		-	49	49	180
		(12,106)	(13)	(12,119)	(13,742)
Operating loss	3	(4,764)	(13)	(4,777)	(5,060)
Gain on sale of players' registrations		-	1,066	1,066	1,958
Compensation income	23	-	-	-	2,914
		-	1,066	1,066	4,872
Profit/(loss) on ordinary activities before interest		(4,764)	1,053	(3,711)	(188)
Interest payable and similar charges	4			(1,254)	(1,460)
Loss on ordinary activities before taxation				(4,965)	(1,648)
Tax on loss on ordinary activities	5			-	-
Loss for the year	16			(4,965)	(1,648)

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 2013

	Notes	2013 £000	2012 £000
Loss for the financial year		(4,965)	(1,648)
Unrealised deficit on revaluation of properties	16	(5,165)	-
Total recognised gains and losses relating to the year		(10,130)	(1,648)

Note of historical cost profits and losses

	2013 £000	2012 £000
Reported loss on ordinary activities before taxation	(4,965)	(1,648)
Difference between an historical cost depreciation charge and the actual depreciation charge of the year calculated on the revalued amount	110	107
Historical cost loss on ordinary activities before taxation	(4,855)	(1,541)
Historical cost loss for the year retained after taxation, extraordinary items and dividends	(4,855)	(1,541)

HEART OF MIDLOTHIAN PLC

BALANCE SHEET

AS AT 30 JUNE 2013

	Notes	2013		2012	
		£000	£000	£000	£000
Fixed assets					
Intangible assets	6				62
Tangible assets	7		7,378		15,641
			<u>7,378</u>		<u>15,703</u>
Current assets					
Debtors: amounts falling due within one year	9	897		1,323	
Debtors: amounts falling due after more than one year	9	-		400	
Cash at bank and in hand		514		94	
		<u>1,411</u>		<u>1,817</u>	
Creditors: amounts falling due within one year	10	<u>(16,758)</u>		<u>(30,411)</u>	
Net current liabilities			<u>(15,347)</u>		<u>(28,594)</u>
Total assets less current liabilities			<u>(7,969)</u>		<u>(12,891)</u>
Creditors: amounts falling due after more than one year	11		<u>(17,732)</u>		<u>(2,680)</u>
			<u>(25,701)</u>		<u>(15,571)</u>
Capital and reserves					
Called up share capital	15		14,692		14,692
Share premium account	16		11,674		11,674
Revaluation reserve	16		159		5,434
Profit and loss account	16		(52,226)		(47,371)
Shareholders' funds	17		<u>(25,701)</u>		<u>(15,571)</u>

Approved by the Board and authorised for issue on 12 September 2014



Dr A Budge
Director

Company Registration No. SC005863

HEART OF MIDLOTHIAN PLC

CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2013

	£000	2013 £000	£000	2012 £000
Net cash outflow from operating activities		(1,938)		(3,545)
Servicing of finance				
Interest paid	(200)		(165)	
Net cash outflow from servicing of finance		(200)		(165)
Capital expenditure				
Payments to acquire player registrations	-		(71)	
Payments to acquire tangible assets	(27)			
Receipts from sales of player registrations	1,466		1,258	
Net cash inflow for capital expenditure		1,439		1,187
Net cash outflow before financing		(699)		(2,523)
Financing				
Other new short term loans	155		2,641	
Proceeds from share offer not yet ratified	1,077			
Repayment of short term loans	(120)		(89)	
Net cash inflow from financing		1,112		2,552
Increase in cash in the year		413		29

HEART OF MIDLOTHIAN PLC

NOTES TO THE CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2013

1	Reconciliation of operating loss to net cash outflow from operating activities	2013	2012
		£000	£000
	Operating loss	(4,777)	(5,060)
	Depreciation of tangible assets	540	462
	Amortisation of intangible assets	62	180
	Decrease in stocks	-	14
	Decrease in debtors	426	12
	Decrease in creditors within one year	(223)	(195)
	Movement on grant provision	(36)	(36)
	(Decrease)/increase in creditors after one year	(515)	1,078
	Impairment of stadium carrying value	2,585	-
	Net cash outflow from operating activities	(1,938)	(3,545)

2	Analysis of net debt	1 July 2012	Cash flow	Other non-cash changes	30 June 2013
		£000	£000	£000	£000
	Net cash:				
	Cash at bank and in hand	94	420	-	514
	Bank overdrafts	-	(7)	-	(7)
		<u>94</u>	<u>413</u>	<u>-</u>	<u>507</u>
	Debt:				
	Debts falling due within one year	(24,771)	(1,112)	14,756	(11,127)
	Debts falling due after one year	-	130	(15,733)	(15,603)
		<u>(24,771)</u>	<u>(982)</u>	<u>(977)</u>	<u>(26,730)</u>
	Net debt	(24,677)	(569)	(977)	(26,223)

HEART OF MIDLOTHIAN PLC

NOTES TO THE CASH FLOW STATEMENT (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2013

3 Reconciliation of net cash flow to movement in net debt	2013	2012
	£000	£000
Increase in cash in the year	413	29
Cash inflow from increase in debt	(982)	(2,552)
	<hr/>	<hr/>
Change in net debt resulting from cash flows	(569)	(2,523)
Change in net debt from non cash items:		
Compensation income	-	2,914
Interest accrued in the year	(977)	(1,038)
	<hr/>	<hr/>
Changes in net debt resulting from non cash items	(977)	1,876
	<hr/>	<hr/>
Movement in net debt in the year	(1,546)	(647)
Opening net debt	(24,677)	(24,030)
	<hr/>	<hr/>
Closing net debt	(26,223)	(24,677)
	<hr/>	<hr/>

4 Major non-cash transactions

During the year, £15.5 million of debt due to UAB Ukio Banko Investicine Grupe was reassigned to AB Ukio Bankas as detailed at note 23.

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

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 September 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 2013

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 2013

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

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	
	2013 £000	2012 £000
Broadcasting	1,784	2,499
Match day	4,375	4,555
Commercial	1,147	1,594
Other income	36	34
	<u>7,342</u>	<u>8,682</u>

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2013

3	Operating loss	2013	2012
		£000	£000
	Operating loss is stated after charging:		
	Amortisation of intangible assets	62	180
	Depreciation of tangible assets	540	462
	Loss on foreign exchange transactions	-	3
	Impairment of stadium carrying value	2,585	-
	Operating lease rentals		
	- Plant and machinery	80	78
	- Other assets	290	325
	Auditors' remuneration:		
	Audit	25	31
	Tax	9	9
	Other services	64	81
	and after crediting:		
	Government grants	36	36

During the year, a revised valuation of the stadium was incorporated into the financial statements. The reduction in value below depreciated historic cost has been charged to the profit and loss account as an impairment of the stadium carrying value.

During the year, the company settled a dispute with HMRC. As this was settled prior to the finalisation of the 2012 financial statements, the settlement of £1,190,000 was recognised in the prior year accounts.

4	Interest payable	2013	2012
		£000	£000
	On bank loans and overdrafts	245	-
	On overdue tax	207	303
	Other interest	802	1,157
		<u>1,254</u>	<u>1,460</u>

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2013

5 Taxation	2013	2012
	£000	£000
Total current tax	-	-
	<hr/>	<hr/>
Factors affecting the tax charge for the year		
Loss on ordinary activities before taxation	(4,965)	(1,648)
	<hr/>	<hr/>
Loss on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 23.75% (2012 - 25.50%)	(1,179)	(420)
	<hr/>	<hr/>
Effects of:		
Expenses not deductible for tax purposes	183	183
Depreciation in excess of capital allowances	127	118
Stadium impairment	614	-
Tax losses carried forward	255	119
	<hr/>	<hr/>
	1,179	420
	<hr/>	<hr/>
Current tax charge for the year	-	-
	<hr/>	<hr/>

As detailed in note 12, a potential deferred tax asset of £15.412 million (2012 - £15.642 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 7. 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 established as at 30 June 2013, a potential capital gains tax liability of approximately £Nil (2012 - £473,000) would arise.

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2013

6 Intangible fixed assets

	Players' registrations £000
Cost	
At 1 July 2012	300
Disposals	(280)
	<hr/>
At 30 June 2013	20
	<hr/>
Amortisation	
At 1 July 2012	238
Amortisation on disposals	(280)
Charge for the year	62
	<hr/>
At 30 June 2013	20
	<hr/>
Net book value	
At 30 June 2013	-
	<hr/> <hr/>
At 30 June 2012	62
	<hr/> <hr/>

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2013

7 Tangible fixed assets

	Land and buildings freehold	Leasehold property	Plant and equipment	Memorabilia	Total
	£000	£000	£000	£000	£000
Cost or valuation					
At 1 July 2012	13,750	2,544	2,219	159	18,672
Additions	-	-	27	-	27
Revaluation	(8,300)	-	-	-	(8,300)
Disposals	-	-	-	-	-
At 30 June 2013	5,450	2,544	2,246	159	10,399
Depreciation					
At 1 July 2012	275	744	2,012	-	3,031
Revaluation	(550)	-	-	-	(550)
Charge for the year	275	172	93	-	540
At 30 June 2013	-	916	2,105	-	3,021
Net book value					
At 30 June 2013	5,450	1,628	141	159	7,378
At 30 June 2012	13,475	1,800	207	159	15,641

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 2013.

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 2013

7 Tangible fixed assets

(continued)

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

	£000
Cost	
At 1 July 2012 & at 30 June 2013	11,778
Depreciation based on cost	
At 1 July 2012	3,541
Charge for the year	165
At 30 June 2013	3,706
Net book value	
At 30 June 2013	8,072
At 30 June 2012	8,237

8 Investments held as fixed assets

As at 30 June 2013 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 (2012: £100) and had net assets of £100 (2012: £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.

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2013

9 Debtors	2013	2012
	£000	£000
Trade debtors	239	1,391
Other debtors	487	122
Prepayments and accrued income	171	210
	<u>897</u>	<u>1,723</u>

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

	2013	2012
	£000	£000
Trade debtors	-	400
	<u>-</u>	<u>400</u>

10 Creditors: amounts falling due within one year

	2013	2012
	£000	£000
Bank loans and overdrafts	7	-
Deferred income (see note 13)	2,301	2,141
Trade creditors	1,078	954
Amounts owed to parent company	8,280	23,055
Taxes and social security costs	978	1,861
Other creditors and accruals	3,037	2,400
Proceeds from share issue	1,077	-
	<u>16,758</u>	<u>30,411</u>

Amounts owed to the company's parent company, UAB Ukio Banko Investicine Grupe, are unsecured.

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2013

11 Creditors: amounts falling due after more than one year	2013 £000	2012 £000
Bank loans	15,603	-
Other creditors	820	1,335
Deferred income (see note 13)	1,309	1,345
	<u>17,732</u>	<u>2,680</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	15,603	-
	<u>15,603</u>	<u>-</u>

Bank loans represent amounts due to AB Ukio Bankas. These loans were due for repayment in full on 31 December 2015 and attracted interest at 4% per annum. The loans were secured by a standard security over Tynecastle Stadium and other freehold land and buildings. As at 30 June 2013, AB Ukio Bankas also held a floating charge over the assets of the company and a share pledge agreement from UAB Ukio Banko Investicine Grupe.

Other creditors represents amounts due under a settlement with HMRC. The amount due was payable in monthly installments from May 2013 to April 2015. Of the total liability at the year end, £543,000 was due within one year.

Following the finalisation of a Company Voluntary Arrangement on 11 June 2014, the amounts due to AB Ukio Bankas and HMRC described above are no longer payable.

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2013

12 Provisions for liabilities

Unrecognised deferred tax asset

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

	2013 £000	2012 £000
Fixed asset timing differences	661	627
Other timing differences	582	608
Tax losses available	14,169	14,407
	<u>15,412</u>	<u>15,642</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.

13 Deferred Income

	2013 £000	2012 £000
Grants receivable from the Football Trust		
Balance at 1 July 2012	1,381	1,417
Released to profit and loss account	(36)	(36)
	<u>1,345</u>	<u>1,381</u>
Balance at 30 June 2013	1,345	1,381
Other deferred income	2,265	2,105
	<u>3,610</u>	<u>3,486</u>

Deferred income is disclosed as follows:

	2013 £000	2012 £000
Amounts falling due within one year	2,301	2,141
Amounts falling due after more than one year	1,309	1,345

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 2013

14 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.

	2013 £000	2012 £000
Contributions payable by the company for the year	13	15

15 Share capital

	2013 £000	2012 £000
Allotted, called up and fully paid		
146,919,350 Ordinary shares of 10p each	14,692	14,692

16 Statement of movements on reserves

	Share premium account £000	Revaluation reserve £000	Profit and loss account £000
Balance at 1 July 2012	11,674	5,434	(47,371)
Loss for the year	-	-	(4,965)
Transfer from revaluation reserve to profit and loss account	-	(110)	110
Revaluation during the year	-	(5,165)	-
Balance at 30 June 2013	11,674	159	(52,226)

17 Reconciliation of movements in shareholders' funds

	2013 £000	2012 £000
Loss for the financial year	(4,965)	(1,648)
Other recognised gains and losses	(5,165)	-
Net depletion in shareholders' funds	(10,130)	(1,648)
Opening shareholders' funds	(15,571)	(13,923)
Closing shareholders' funds	(25,701)	(15,571)

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2013

18 Financial commitments

At 30 June 2013 the company was committed to making the following payments under non-cancellable operating leases in the year to 30 June 2014:

	Land and buildings		Other	
	2013 £000	2012 £000	2013 £000	2012 £000
Operating leases which expire:				
Within one year	-	-	57	2
Between two and five years	44	44	-	78
In over five years	253	246	-	-
	<u>297</u>	<u>290</u>	<u>57</u>	<u>80</u>

19 Directors' remuneration

	2013 £000	2012 £000
Remuneration for qualifying services	<u>82</u>	<u>93</u>

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2013

20 Employees

Number of employees

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

	2013 Number	2012 Number
Players and coaching staff	94	109
Administration and commercial department staff	45	57
	<u>139</u>	<u>166</u>

Employment costs

	2013 £000	2012 £000
Wages and salaries	4,814	8,130
Social security costs	587	1,259
Other pension costs	13	15
	<u>5,414</u>	<u>9,404</u>

The comparative employment costs include £1,190K of exceptional PAYE and NIC settlement costs after an agreement was reached with HMRC.

21 Control

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

During the year the company's parent company was UAB Ukio Banko Investicine Grupe, a company incorporated in Lithuania and controlled by Mr Vladimir Romanov.

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2013

22 Post balance sheet events

Administration and CVA

The company was placed into administration on 19 June 2013 by AB Ukio Bankas (ABUB) as it was in breach of the terms of its security held by ABUB as a result of the directors of HOM lodging at court a notice of intention to appoint administrators. Bryan Jackson, James Stephen and Trevor Birch of BDO LLP were appointed joint administrators of Heart of Midlothian plc on 19 June 2013.

Subsequently, the CVA proposed by the administrators was approved by the requisite majorities of creditors and members of Hearts on 29 November 2013. The approved terms of the CVA included the acquisition of approximately 79.0 percent shareholding from UBIG by Bidco (1874) Ltd. Upon implementation of the CVA, the creditors of HOM were obliged to release the company from its debts and liabilities (including any securities given) as at the date of the administration.

ABUB was owed approximately £15.0 million which was secured by a floating charge over the assets of Hearts and a standard security over the Stadium. There was a significant shortfall to ABUB in the value of realisations in the administration which serves to demonstrate that HOM was wholly insolvent and the value of the Hearts shares was nil. The unsecured creditors of Hearts have not received any return from the CVA.

The CVA was intended to preserve the existing structure of Hearts and ensure Hearts retains its status as a member of the SFA in accordance with the rules of the SPFL without further sanction. This required an acquisition by Bidco of the shares held by UAB UKio Banko Investicine Grupe (UBIG). The terms of the CVA, as originally approved by the requisite majority of creditors and members, provided that Bidco would acquire the 116,025,847 Hearts shares held by UBIG in exchange for the payment of £1. However, the Lithuanian insolvency representative acting on behalf of UBIG considered that a transfer of the Hearts Shares held by UBIG for £1 was not in the best interests of its creditors. Following protracted negotiations with the Lithuanian insolvency representatives acting on behalf of UBIG the Hearts shares held by UBIG were transferred to Bidco for a consideration of £0.1 million.

The Administrators believed that the intrinsic value of the Hearts shares was nil and the receipt of consideration for the Hearts Shares represents a good outcome for Hearts shareholders.

In addition, approval of the CVA (which included the release of the security held by ABUB) and the Acquisition allowed Hearts to exit administration, the statutory purpose of administration having been achieved, ahead of the 2014/15 playing season which is in the best interests of Hearts employees, supporters and Shareholders.

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 is 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 maintains its status as a member of the SFA in accordance with the rules of the SPFL.

Bidco (1874) Ltd

With these objectives in mind, Dr A Budge established Bidco as a special purpose vehicle to provide urgently needed bridging finance to Hearts and enable the 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 approximately 79.0 per cent shareholding from 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. Details of the arrangement are described in the Director's Report.

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2013

22 Post balance sheet events

(continued)

Unconditional Mandatory Cash Offer

On 9 May 2014, following the purchase by Bidco of 116,025,847 Hearts shares, representing approximately 79.0 per cent. of the issued share capital of Hearts, Bidco, pursuant to Rule 9 of the Code, was obliged to make a mandatory cash offer for the remaining Hearts shares not already owned by Bidco and its concert parties. An offer document was published on 5 June 2014. The Administrators recommended unanimously that all Hearts shareholders accept the Offer of 0.08619 pence in cash for each Hearts share.

Any Hearts shareholders who wished to retain their holding of Hearts shares were welcome to do so and to remain shareholders in Hearts alongside Bidco. This offer closed on 26 June 2014.

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. As a result the offer (detailed above) is not capable of being made in respect of shares applied for by the 2012 Subscribers pursuant to the 2012 share subscription and they are not able to accept the offer in respect of such shares.

Bidco has ensured that the 2012 Subscribers were fairly treated by offering each of the 2012 Subscribers a cash sum equal to the amount they would have received had they been issued with the new shares they subscribed for pursuant to the 2012 share subscription and been able to accept the offer in respect of such shareholding.

Any Subscriber who wished to receive cash has now done so and for those requesting shares the process is in progress with the registrar and is due to be completed in the near future.

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2013

23 Related party relationships and transactions

Other transactions

UAB Ukio Banko Investicine Grupe, the company's parent company during the year and a company in which Mr Vladimir Romanov had a controlling interest, continued to provide funding to the company. At 30 June 2012, the company owed UAB Ukio Banko Investicine Grupe a total of £23.1 million in respect of loans, payments on behalf of the company in respect of player transfer fees and other sundry creditors and interest accrued on these amounts. During the year a further £0.2 million (2012 - £2.7 million) was advanced to the company and £0.2 million (2012 - £0.1 million) was repaid by the company. Interest of £0.7 million (2012 - £0.9 million) was also accrued during the year. On 31 January 2013, UAB Ukio Banko Investicine Grupe reassigned £15.5 million of the debt due to AB Ukio Bankas along with the securities held. As at the balance sheet date, the amount owed to UAB Ukio Banko Investicine Grupe by the company was £8.3 million (2012 - £23.1 million).

During the year, £15.5 million of debt due to UAB Ukio Banko Investicine Grupe was assigned to AB Ukio Bankas, a company which was controlled by Mr Vladimir Romanov during the year. Interest of £0.2 million accrued on the balance assigned and the company repaid £0.1m of this. The company also owed AB Ukio Bankas £129,000 in respect of legal fees. As at the balance sheet date, the total amount owed to AB Ukio Bankas by the company was £15.7m.

At 30 June 2012, the company owed Milson Capital Corp, a company which was controlled during the year by Mr Vladimir Romanov, £1.2 million. Interest of £54,000 has accrued during the year. As at the balance sheet date, the amount owed to Milson Capital Corp by the company was £1.3 million (2012 - £1.2 million).

Ensco 165 Limited was a company controlled by Mr Vladimir Romanov. At 30 June 2013, the company owed £506,000 (2012 - £506,000) to Ensco 165 Limited. The balance is interest free and has no fixed repayment terms.

Mr Vladimir Romanov also controlled UAB Businessline during the year. UAB Businessline charged the company £36,000 (2012 - £53,000) of rent and other expenses. At 30 June 2013, the company owed UAB Businessline £204,000 (2012 - £182,000).

During the year, the company invoiced Kauno futbolo ir beisbolo klubas (FBK) for £Nil (2012 - £2.9 million) in relation to the breach of a contract between the company and FBK for the potential transfer of five of the company's football players to FBK. This was in line with the terms of the contracts originally signed. The company also invoiced FBK £Nil (2012 - £380,000) for the loan of two football players from the company to FBK. At 30 June 2013, the company was owed £200,000 (2012 - £200,000) by FBK. The company provided for this balance fully in the prior year.