

Company Registration No. SC005863 (Scotland)

Heart of Midlothian plc
Directors' Report and Financial Statements
For The Year Ended 31 July 2006

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HEART OF MIDLOTHIAN PLC

COMPANY INFORMATION

Directors	R Romanov S Fedotovas J Goncaruk
Secretary	A S Fraser
Company number	SC005863
Registered office	Tynecastle Stadium Gorgie Road Edinburgh EH11 2NL
Auditors	Johnston Carmichael 10 Melville Crescent Edinburgh EH3 7LU
Business address	Tynecastle Stadium Gorgie Road Edinburgh EH11 2NL
Bankers	AB Ukie Bankas Maironio Str, 25 LT 44250 Lithuania
Solicitors	Brodies LLP 15 Atholl Crescent Edinburgh EH3 8HA HBJ Gately Wareing (Scotland) LLP Exchange Tower 19 Canning Street Edinburgh EH3 8EH

HEART OF MIDLOTHIAN PLC

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HEART OF MIDLOTHIAN PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 31 JULY 2006

The directors present their report and financial statements for the year ended 31 July 2006

Principal activities and review of the business

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

I am delighted to report that the club has witnessed one of its most successful years in modern times. Winning the Tenant's Scottish Cup and finishing second in the Bank of Scotland SPL was a truly excellent achievement. The strategic and financial decision making undertaken by the Board, coupled with the support of the club's employees, supporters and sponsors made this a memorable and highly rewarding season.

Financial highlights for the period include Heart of Midlothian FC (Hearts) breaking through the £10 million revenue level for the first time. The £10,277,000 income represents a 22% increase of over £1.8 million (2005 £8,428,000) on the previous year.

The full year figures were boosted across all areas of the business including matchday, broadcasting and commercial income. Of particular note was increased revenue streams due to capacity attendance at the majority of Hearts games with crowd figures up 34% at Tynecastle for domestic and Cup competitions when compared to the previous year. The team's onfield success also contributed to an 18% increase in commercial income including retail sales through the club's Tynecastle Superstore. The financial results are all the more impressive given the lack of European competition for Hearts in season 2005/06 and the club's early exit from the CIS Cup.

In the transfer market, Hearts recorded a gain on player sales for the period of £1,041,000 (2005 loss of £42,000) helped by the transfer of Rudi Skacel to Southampton for £1.2 million having cost the club £346,000 from Marseilles. A further financial benefit for Hearts was the forgiveness of £2 million of debt by UAB Ukio Banko Investicine Grupe's (UBIG), a company controlled by Vladimir Romanov.

Club losses before tax increased to £5,282,000 (2005 £2,728,000), the majority of which is accounted for however by the higher salary costs of £10 million (2005 £4.5 million) for playing staff due to an investment in our playing squad and extended contracts for existing players on improved terms. A direct effect of this was an increase in net debt to £28.4 million (2005 £21.5 million). This is in line with the Board's expectation and is part of an approved long term business plan for the club.

The Hearts Board however believes that current levels of debt are manageable and will be reduced as the club moves towards profitability. Higher revenues will be generated through increased participation in European competition, larger attendance in a redeveloped Tynecastle Stadium and greater sponsorship and retail income. Expenditure on the playing squad is unlikely to rise any further and may reduce as players on higher salary contracts leave the club. Hearts is also likely to benefit from the increased financial and business expertise now at its disposal through parent company UBIG.

The Board's aim remains to develop Hearts as a business that operates effectively both in its domestic league and, as importantly, is a regular participant in European competition. In our first full season we achieved notable success. This took investment and we will continue to invest in order to challenge for domestic and European honours. The nature of such investment will however be based on a prudent approach to our future which necessitates balancing the purchase of promising players from around the world with the development of our own players through an already successful youth system.

The Board also foresees greater opportunity to develop our income streams through a number of areas including the stadium, commercial and broadcast sectors. Heart of Midlothian is currently liaising with City of Edinburgh Council on final preparations for the submission of a planning application that, if approved, would allow the club to initially redevelop Tynecastle into a stadium with an increased capacity of 26,000. This in turn will allow us to generate substantially more income on matchdays as well as attracting more non matchday events such as concerts, conferences and other significant events. Thereafter we have plans to develop the entire stadium to become a truly top class European footballing venue.

HEART OF MIDLOTHIAN PLC

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 JULY 2006

In retail terms, since the year end, we have opened two new stores one in Edinburgh and one in Livingston and we intend to identify further opportunities to expand our retail network as the club grows. We also expect to announce a number of new commercial deals this year that will once again increase direct revenues to the club through retail and commercial channels.

In this financial year there have been changes to personnel with Valdas Ivanauskas appointed as First Team Head Coach following the departure of Graham Rix and Jim Duffy (Director of Football). Subsequent to the year end Stephen Frail became Assistant Head Coach following the departure of John McGlynn who has moved to become manager of Raith Rovers. We would like to wish John all the very best in his new role.

The board continues to view the development of Heart of Midlothian as a long term process and the commitment of the Board and its financial partners remains entirely solid.

A Note of Thanks

Once again I would like to thank the players, management team, staff, sponsors, associates and, as importantly, the supporters of Heart of Midlothian.

The faith that so many people have shown continues to encourage us to do our utmost to deliver a truly successful football club at all levels. This season Tynecastle has seen a capacity home crowd for every league game and this gives us every confidence that our development plans for Tynecastle and Heart of Midlothian are deserving of such a loyal support.

Results and dividends

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

Directors

The following directors have held office since 1 August 2005

R Romanov	
S Fedotovas	
J Goncaruk	
A S Fraser	(Resigned 26 January 2006)
L Varanavicius	(Resigned 27 January 2006)
G Foulkes	(Resigned 31 October 2005)
P Anderton	(Resigned 31 October 2005)
D W Archer	(Resigned 20 October 2005)

HEART OF MIDLOTHIAN PLC

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 JULY 2006

Directors' interests

The directors' interests in the shares of the Company were as stated below

	Ordinary shares of 10p each	
	31 July 2006	1 August 2005
R Romanov		3,778,033
S Fedotovas		
J Goncaruk		

None of the directors held a beneficial interest in the ordinary share capital of the immediate parent company, Heart of Midlothian 2005 Limited, or the ultimate parent undertaking, UAB Ukio Banko Investicine Grupe, during the year ended 31 July 2006

None of the directors who held office at the end of the year have been remunerated by the Company in the year ended 31 July 2006

Charitable donations	2006	2005
	£000	£000
During the year the Company made the following payments		
Charitable donations	2	1

All donations made were to local charities

Creditor payment policy

It is the Company's policy to agree terms of payment with suppliers and to abide by them. At 31 July 2006, the Company's average creditor payment period was 76 days (2005 47 days), calculated in accordance with the requirements set down in the Companies Act 1985. 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.

Auditors

Johnston Carmichael were appointed auditors to the company after the year end and in accordance with section 385 of the Companies Act 1985, a resolution proposing that they be re appointed will be put to the Annual General Meeting, due to be held in the Gorgie Suite at Tynecastle Stadium on 27 February 2007.

HEART OF MIDLOTHIAN PLC

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 JULY 2006

Directors' responsibilities

The directors are responsible for preparing the Annual Report and financial statements in accordance with applicable 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). The financial statements are required by law to 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 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 proper accounting records which 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 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Statement of disclosure to auditor

The directors confirm that,

(a) so far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware, and

(b) they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information

On behalf of the board

R Romanov
Chairman
2 February 2007



HEART OF MIDLOTHIAN PLC

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF HEART OF MIDLOTHIAN PLC

We have audited the financial statements of Heart of Midlothian plc for the year ended 31 July 2006 set out on pages 7 to 27. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 the directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition, we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

HEART OF MIDLOTHIAN PLC

INDEPENDENT AUDITORS' REPORT (CONTINUED)

TO THE SHAREHOLDERS OF HEART OF MIDLOTHIAN PLC

Opinion

In our opinion

the financial statements give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 July 2006 and of its loss for the year then ended,

the financial statements have been properly prepared in accordance with the Companies Act 1985, and

the information given in the directors' report is consistent with the financial statements

Emphasis of matter going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in Note 1 to the financial statements concerning the Company's ability to continue as a going concern. The Company incurred a net loss of £5,282,000 during the year ended 31 July 2006, and at that date, the Company's liabilities exceeded its total assets by £11,959,000. These conditions, along with the other matters 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.



Johnston Carmichael

Chartered Accountants
Registered Auditor



10 Melville Crescent
Edinburgh
EH3 7LU

HEART OF MIDLOTHIAN PLC

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 JULY 2006

	Notes	Operations excluding player trading £000	Player trading £000	2006 Total £000	2005 Total £000
Turnover	2	10,277		10,277	8,428
Staff costs	24	(10,013)		(10,013)	(4,541)
Depreciation and other amounts written off tangible and intangible fixed assets		(591)	(752)	(1,343)	(633)
Other operating charges		(5,926)		(5,926)	(4,442)
Operating exceptional items	6				(351)
		(16,530)	(752)	(17,282)	(9,967)
Operating loss	3	(6,253)	(752)	(7,005)	(1,539)
Gain/ (loss) on sale of players' registrations			1,041	1,041	(42)
Forgiveness of debt	14	2,000		2,000	
(Loss)/profit on ordinary activities before interest		(4,253)	289	(3,964)	(1,581)
Interest payable and similar charges	4			(1,318)	(1,147)
Loss on ordinary activities before taxation				(5,282)	(2,728)
Tax on loss on ordinary activities	5				
Retained loss for the year	19			(5,282)	(2,728)

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 31 JULY 2006

	Notes	2006 £000	2005 £000
Loss for the financial year		(5,282)	(2,728)
Unrealised surplus on revaluation of properties			2,199
Total recognised gains and losses relating to the year		<u>(5,282)</u>	<u>(529)</u>

NOTE OF HISTORICAL COST PROFITS AND LOSSES FOR THE YEAR ENDED 31 JULY 2006

	2006 £000	2005 £000
Reported loss on ordinary activities before taxation	(5,282)	(2,728)
Difference between an historical cost depreciation charge and the actual depreciation charge of the year calculated on the revalued amount	84	84
Historical cost loss on ordinary activities before taxation	<u>(5,198)</u>	<u>(2,644)</u>
Historical cost loss for the year retained after taxation, extraordinary items and dividends	<u>(5,198)</u>	<u>(2,644)</u>

HEART OF MIDLOTHIAN PLC

BALANCE SHEET AS AT 31 JULY 2006

	Notes	2006 £000	2005 £000
Fixed assets			
Intangible assets	7	1,569	165
Tangible assets	8	17,990	17,754
		<u>19,559</u>	<u>17,919</u>
Current assets			
Stocks	10	244	108
Debtors	11	3,563	1,028
		<u>3,807</u>	<u>1,136</u>
Creditors' amounts falling due within one year			
Other creditors	12	(15,727)	(7,127)
Convertible loan stock	14	(1,582)	(1,250)
		<u>(17,309)</u>	<u>(8,377)</u>
Net current liabilities		<u>(13,502)</u>	<u>(7,241)</u>
Total assets less current liabilities		<u>6,057</u>	<u>10,678</u>
Creditors' amounts falling due after more than one year			
Other creditors	13	(16,167)	(13,936)
Convertible loan stock	14	(1,155)	(3,335)
		<u>(17,322)</u>	<u>(17,271)</u>
Provisions for liabilities	15	(694)	(84)
		<u>(11,959)</u>	<u>(6,677)</u>
Capital and reserves			
Called up share capital	18	1,263	1,263
Share premium account	19	3,119	3,119
Revaluation reserve	19	5,505	5,589
Profit and loss account	19	(21,846)	(16,648)
Shareholders' funds	20	<u>(11,959)</u>	<u>(6,677)</u>

Approved by the Board and authorised for issue on 2 February 2007

R Romanov
Chairman



HEART OF MIDLOTHIAN PLC

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 JULY 2006

	£000	2006 £000	£000	2005 £000
Net cash outflow from operating activities		(5,238)		(638)
Returns on investments and servicing of finance				
Interest paid	(997)		(968)	
Interest element of finance lease rentals			(3)	
Net cash outflow for returns on investments and servicing of finance		(997)		(971)
Capital expenditure				
Payments to acquire players' registrations	(1,517)		(116)	
Payments to acquire tangible assets	(827)		(276)	
Receipts from sales of intangible assets	(113)		110	
Net cash outflow for capital expenditure		(2,457)		(282)
Net cash outflow before management of liquid resources and financing		(8,692)		(1,891)
Financing				
Other new short term loans	10,501			
Repayment of loans			(1,579)	
Capital element of hire purchase contracts			(14)	
Net cash inflow/(outflow) from financing		10,501		(1,593)
Increase/(decrease) in cash in the year		1,809		(3,484)

HEART OF MIDLOTHIAN PLC

NOTES TO THE CASH FLOW STATEMENT FOR THE YEAR ENDED 31 JULY 2006

1	Reconciliation of operating loss to net cash outflow from operating activities	2006	2005
		£000	£000
	Operating loss	(7,005)	(1,539)
	Depreciation of tangible assets	591	429
	Amortisation of intangible assets	752	204
	(Increase)/decrease in stocks	(136)	68
	(Increase)/decrease in debtors	(1,335)	1,604
	Increase/(decrease) in creditors within one year	1,800	(1,452)
	Release of grant	(36)	(36)
	Increase in provisions	131	84
	Net cash outflow from operating activities	(5,238)	(638)

2	Analysis of net debt	1 August 2005	Cash flow	Other non cash changes	31 July 2006
		£000	£000	£000	£000
	Net cash				
	Bank overdrafts	(4,582)	1,809		(2,773)
	Bank deposits				
	Debt				
	Debts falling due within one year	(1,265)	(10,416)	1,813	(9,868)
	Debts falling due after one year	(15,679)	(85)		(15,764)
		(16,944)	(10,501)	1,813	(25,632)
	Net debt	(21,526)	(8,692)	1,813	(28,405)

3	Reconciliation of net cash flow to movement in net debt	2006	2005
		£000	£000
	Increase/(decrease) in cash in the year	1,809	(3,484)
	Cash (inflow)/outflow from movement in debt	(10,501)	1,593
	Change in net debt resulting from cash flows	(8,692)	(1,891)
	Amortisation of finance costs		(14)
	Forgiveness of debt	1,813	
	Movement in net debt in the year	(6,879)	(1,905)
	Opening net debt	(21,526)	(19,621)
	Closing net debt	(28,405)	(21,526)

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2006

1 Accounting policies

1.1 Accounting convention

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

Going concern

The company has incurred significant losses in recent years and trading activities result in significant ongoing cash outflows

The company does not have formal funding facilities in place that allow it to meet its liabilities as they fall due in the foreseeable future. The Company is dependent upon the short term financial support of UAB Ukio Banko Investicine Grupe, the company's ultimate parent undertaking, which provides short term loans and meets the company's day to day funding requirements

The directors have received written confirmation from the directors of UAB Ukio Banko Investicine Grupe, that it (UAB Ukio Banko Investicine Grupe) will provide sufficient funding to enable the company to meet its liabilities as they fall due for the foreseeable future

The directors are satisfied that UAB Ukio Banko Investicine Grupe has sufficient financial resources to fulfil this undertaking. Further, the directors have plans in place, including the redevelopment of the Tynecastle stadium, which they believe will return the company to profitability and positive cash flow in the longer term

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 31 JULY 2006

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 25 to 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
Assets in the course of construction	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 have elected to "freeze" under the transitional arrangements of FRS 15, treating this as the cost going forward.

Assets in the course of construction are not depreciated during their period of construction.

1.6 Leasing and hire purchase commitments

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible assets and depreciated over the shorter of the lease term and their useful lives. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

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

1.7 Investments

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

1.8 Stock

Stock is valued at the lower of cost and net realisable value. Net realisable value is based on estimated selling price less any further costs expected to be incurred in disposal.

1.9 Pensions

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

1.10 Deferred taxation

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax 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.

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 JULY 2006

1 Accounting policies

(continued)

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

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 228 of the Companies Act 1985 as it is a subsidiary undertaking of Heart of Midlothian 2005 Limited, a company incorporated in Scotland, and is included in the consolidated accounts of that company

1.13 Signing on fees

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

2 Turnover and 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	
	2006 £000	2005 £000
Broadcasting	1,935	1,557
Match day	5,342	4,601
Commercial	2,642	2,249
Other income	358	21
	<u>10,277</u>	<u>8,428</u>

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 JULY 2006

3	Operating loss	2006	2005
		£000	£000
	Operating loss is stated after charging		
	Amortisation of intangible assets	752	204
	Depreciation of tangible assets	591	429
	Operating lease rentals		
	Plant and machinery	59	19
	Other assets	28	89
	Auditors' remuneration	24	36
	Audit		
	Tax	6	10
	Other services	20	36
	and after crediting		
	Football Trust grants	36	36
		<u>36</u>	<u>36</u>
4	Interest payable	2006	2005
		£000	£000
	On bank loans and overdrafts	1,149	1,130
	Hire purchase interest		3
	Other interest	169	14
		<u>1,318</u>	<u>1,147</u>

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 JULY 2006

5	Taxation	2006 £000	2005 £000
	Current tax charge		
	Factors affecting the tax charge for the year		
	Loss on ordinary activities before taxation	(5,282)	(2,728)
	Loss on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30.00% (2005: 30.00%)	(1,585)	(818)
	Effects of		
	Expenses not deductible for tax purposes	196	270
	Depreciation in excess of capital allowances	37	27
	Tax losses carried forward	1,844	583
	Other deferred tax movements	(492)	(62)
		1,585	818
	Current tax charge		

As detailed in Note 15, a potential deferred tax asset of £9,356,000 (2005: £7,421,000) 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.

During the year ended 31 July 2005, 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 the gain on sale has been made. The directors estimate that were the asset to be sold at the revalued amount established at 31 July 2005, a potential capital gains tax liability of approximately £660,000 would arise.

6	Exceptional items	2006 £000	2005 £000
	Operating exceptional items		351

During the year ended 31 July 2005, the Company incurred legal and professional costs of £351,000 in relation to the aborted disposal of Tynecastle Stadium.

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 JULY 2006

7 Intangible fixed assets

	Players' registrations £000
Cost	
At 1 August 2005	209
Additions	2,202
Disposals	(54)
	<hr/>
At 31 July 2006	2,357
	<hr/>
Amortisation	
At 1 August 2005	44
Amortisation on disposals	(8)
Charge for the year	752
	<hr/>
At 31 July 2006	788
	<hr/>
Net book value	
At 31 July 2006	1,569
	<hr/>
At 31 July 2005	165
	<hr/>

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 JULY 2006

8 Tangible fixed assets

	Land and buildings freehold	Leasehold property	Plant and equipment	Memorabilia	Assets in the course of construction	Total
	£000	£000	£000	£000	£000	£000
Cost or valuation						
At 1 August 2005	15,000	2,535	1,436	159		19,130
Additions	24		274		529	827
At 31 July 2006	15,024	2,535	1,710	159	529	19,957
Depreciation						
At 1 August 2005		94	1,282			1,376
Charge for the year	367	94	130			591
At 31 July 2006	367	188	1,412			1,967
Net book value						
At 31 July 2006	14,657	2,347	298	159	529	17,990
At 31 July 2005	15,000	2,441	154	159		17,754

Ryden, Chartered Surveyors, valued the freehold land and buildings as at 31 July 2005 on a depreciated replacement cost basis at £15 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 change in the value of the freehold land and buildings on a depreciated replacement cost basis and therefore the valuation has not been updated at 31 July 2006.

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

Assets in the course of construction relate to the Company's plans to redevelop the main stand at Tynecastle Stadium and are in respect of costs incurred to date on this project.

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 JULY 2006

8	Tangible fixed assets	(continued)
	Comparable historical cost for the land and buildings included at valuation	£000
	Cost	
	At 1 August 2005	11,672
	Additions	24
	At 31 July 2006	11,696
	Depreciation based on cost	
	At 1 August 2005	2,078
	Charge for the year	196
	At 31 July 2006	2,274
	Net book value	
	At 31 July 2006	9,422
	At 31 July 2005	9,570

9 Investments held as fixed assets

The Company owns the entire ordinary share capital of Heart of Midlothian Publishing Limited and Heart of Midlothian Football Club Limited, which are both dormant subsidiary undertakings, each of which is carried at cost of £100 and has net assets of £100

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

10	Stocks	2006 £000	2005 £000
	Finished goods and goods for resale	244	108
11	Debtors	2006 £000	2005 £000
	Trade debtors	826	557
	Other debtors	1,969	404
	Prepayments and accrued income	768	67
		3,563	1,028

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 JULY 2006

12 Creditors, amounts falling due within one year	2006 £000	2005 £000
Bank loans and overdrafts	2,773	4,582
Deferred income (see note 16)	1,558	714
Trade creditors	1,200	764
Amounts owed to parent company	8,390	
Taxes and social security costs	915	118
Other creditors and accruals	891	949
	<hr/>	<hr/>
	15,727	7,127
	<hr/>	<hr/>

Bank loans and overdrafts represent a facility of £2,773,000 with Bank of Scotland. Interest is payable at 0.5% over the applicable base rate and the facility is guaranteed by a £3 million deposit provided by AB Ukio Bankas to Bank of Scotland.

Since the year end, the £3 million deposit has been used to repay the overdraft on behalf of Heart of Midlothian plc with the Bank of Scotland.

The amounts owed to the parent company, UAB Ukio Banko Investicine Grupe, are a series of loan notes repayable within one year from their date of original issue. The first of these loan notes was issued on 8 August 2005. Interest on these loans is payable at 5%.

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 JULY 2006

13 Creditors amounts falling due after more than one year	2006 £000	2005 £000
Bank loans	14,600	12,320
Other loans	9	24
Deferred income (see note 16)	1,558	1,592
	<u>16,167</u>	<u>13,936</u>
Loan maturity analysis		
In more than one year but not more than two years	2,289	15
In more than two years but not more than five years	<u>12,320</u>	<u>12,329</u>

Bank loans represent a term loan of £12,320,000 and a committed working capital facility of £2,280,000, both of which are with AB UKio Bankas. The term loan consists of two tranches. The first tranche of £3 million bears interest at a fixed rate of 6.49%, the second tranche of £9.32 million bears interest at 1% over LIBOR. Both tranches are repayable five years from the initial drawdown on 8 February 2005. Interest on the committed working capital facility is payable at 1.5% over the application base rate. Both the term loan and working capital facility are secured by a bond and floating charge over all of the assets of the Company, a first ranking security over Tynecastle Stadium, land at Wheatfield Yard, Edinburgh and McLeod Street, Edinburgh.

Other loans are payable to Scottish and Newcastle plc, bear interest at 2% over base rate and are secured by means of a standard security over Tynecastle Stadium and a bond and floating charge over all the assets of the Company, both ranking second behind those granted in favour of the Company's principal bankers. The loans will be fully repaid by March 2008.

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 JULY 2006

14 Convertible loan stock	2006 £000	2005 £000
Nominal value	4,480	4,480
Accrued interest	292	139
	<u>4,772</u>	<u>4,619</u>
Less finance costs attributable to future periods	(35)	(34)
Less forgiveness of debt	<u>(2,000)</u>	
Total secured	<u><u>2,737</u></u>	<u><u>4,585</u></u>
Analysis of loan stock		
Amounts falling due within one year	1,582	1,250
Amounts falling due after more than one year	<u>1,155</u>	<u>3,335</u>

Convertible loan stock was issued to SMG Investments Limited on 11 October 1999, and was transferred to UAB Ukio Banko Investicine Grupe on 16 November 2005. The stock bore interest at 4.5% per annum until 11 October 2003 and at LIBOR thereafter, determined on each anniversary of the conversion date and is secured by a floating charge over the assets of the Company. The option to convert is now unavailable. On 16 November 2005, UAB Ukio Banko Investicine Grupe released the Company from the obligation to pay £2 million due in respect of the loan stock, representing both principal and interest. The remaining loan stock falls for repayment in three instalments on 30 September 2006, 31 March 2007 and 30 September 2007. UAB Ukio Banko Investicine Grupe have not yet requested the repayment of the instalment falling due on 30 September 2006.

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 JULY 2006

15 Provisions for liabilities and charges

	£000
Balance at 1 August 2005	84
Utilised during the year	(84)
Charges to the profit and loss account for the year	694
	<hr/>
Balance at 31 July 2006	694
	<hr/>

Provisions for liabilities and charges relate to the expected cost of settlement of outstanding claims in relation to ongoing legal actions. Such claims are expected to be settled in the year ended 31 July 2007.

Unrecognised deferred tax asset

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

	2006 £000	2005 £000
Other timing differences	608	571
Tax losses available	8,748	6,850
	<hr/>	<hr/>
	9,356	7,421
	<hr/>	<hr/>

The potential deferred tax asset has not been recognised in accordance with the accounting policy set out in Note 1, because it is not clear that suitable taxable profits will be available in the foreseeable future for offset.

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 JULY 2006

16 Deferred Income

	2006 £000	2005 £000
Grants receivable from the Football Trust		
Balance at 1 August 2005	1,630	1,666
Released to profit and loss account	(36)	(36)
Balance at 31 July 2006	1,594	1,630
Other deferred income	1,522	676
	<u>3,116</u>	<u>2,306</u>
Deferred income is disclosed as follows		
	2006 £000	2005 £000
Amounts falling due within one year	1,558	714
Amounts falling due after more than one year	<u>1,558</u>	<u>1,592</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

17 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.

	2006 £000	2005 £000
Contributions payable by the company for the year	<u>9</u>	<u>18</u>

18 Share capital

	2006 £000	2005 £000
Authorised		
13,000,000 Ordinary shares of 10p each	<u>1,300</u>	<u>1,300</u>
Allotted, called up and fully paid		
12,633,636 Ordinary shares of 10p each	<u>1,263</u>	<u>1,263</u>

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 JULY 2006

19 Statement of movements on reserves

	Share premium account £000	Revaluation reserve £000	Profit and loss account £000
Balance at 1 August 2005	3,119	5,589	(16,648)
Loss for the year			(5,282)
Transfer from revaluation reserve to profit and loss account		(84)	84
Balance at 31 July 2006	<u>3,119</u>	<u>5,505</u>	<u>(21,846)</u>

20 Reconciliation of movements in shareholders' funds

	2006 £000	2005 £000
Loss for the financial year	(5,282)	(2,728)
Other recognised gains and losses		2,199
Net depletion in shareholders' funds	(5,282)	(529)
Opening shareholders' funds	(6,677)	(6,148)
Closing shareholders' funds	<u>(11,959)</u>	<u>(6,677)</u>

21 Contingent liabilities

In addition to the provisions, as disclosed in note 15, there are other cases for which potential claims may be paid by the company as a result of ongoing legal action. As these cases remain at an early stage, the outcome of these claims cannot be assessed with any certainty.

22 Financial commitments

At 31 July 2006 the company was committed to making the following payments under non cancellable operating leases in the year to 31 July 2007

	Land and buildings		Other	
	2006 £000	2005 £000	2006 £000	2005 £000
Operating leases which expire				
Within one year	37	52	37	14
Between two and five years			36	5
In over five years	37	37		
	<u>74</u>	<u>89</u>	<u>73</u>	<u>19</u>

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 JULY 2006

23 Directors' emoluments	2006 £000	2005 £000
Emoluments for qualifying services	163	270
Company pension contributions to money purchase schemes	3	14
Compensation for loss of office	30	
	<u>196</u>	<u>284</u>

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 0 (2005 1)

24 Employees

Number of employees

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

	2006 Number	2005 Number
Players and coaching staff	81	70
Administration and commercial department staff	23	15
Other staff	9	8
	<u>113</u>	<u>93</u>

Employment costs	2006 £000	2005 £000
Wages and salaries	8,881	4,122
Social security costs	1,123	401
Other pension costs	9	18
	<u>10,013</u>	<u>4,541</u>

25 Control

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

The immediate parent undertaking is Heart of Midlothian 2005 Limited, into which the results of the Company are consolidated

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 JULY 2006

26 Related party transactions

Mr Vladimir Romanov has direct and indirect interests in 29.42% of the issued share capital of AB Ukio Bankas, a company which has provided debt funding of £14.6 million as at 31 July 2006 (2005 £14.6 million) to the Company, all of which remains outstanding at the year end. In the year ended 31 July 2006, AB Ukio Bankas charged interest of £845,152 (2005 £149,992) to the Company in respect of its funding. The funding provided by AB Ukio Bankas is on normal commercial terms. AB Ukio Bankas has a 13.3% interest in UAB Ukio Banko Investicine Grupe, the ultimate parent undertaking.

In addition, in the year ended 31 July 2006, AB Ukio Bankas provided sponsorship income of £240,000 (2005 £nil). This balance remains due to the Company at 31 July 2006.

UAB Ukio Banko Investicine Grupe, the ultimate parent undertaking, and a company in which Mr Vladimir Romanov has a controlling interest, has provided loans totalling £8.2 million as at 31 July 2006 (2005 £nil) to the Company. Interest of £169,000 (2005 £nil) has been accrued in respect of these loans.

In addition, at 31 July 2006, loan stock of £2.7 million remained outstanding to UAB Ukio Banko Investicine Grupe. Interest accrued on this loan stock is £105,000 (2005 £139,000). During the year, UAB Ukio Banko Investicine Grupe forgave £2 million of loan stock due. Since the year end, the repayment of £427,000 loan stock due in September 2006 has not been requested by the ultimate parent undertaking.

27 Post balance sheet events

Also since the year end, a ruling has been given in favour of the Company by Federation Internationale de Football Association (FIFA) in respect of the case brought against Mr Andrew Webster and Wigan Athletic Football Club following his transfer from Heart of Midlothian football club in September 2006. However, at the current date, no decision as to the value of the compensation payment has been reached.

As detailed at Note 12, since the year end AB Ukio Bankas has repaid the overdraft which was held with Bank of Scotland on behalf of Heart of Midlothian plc.