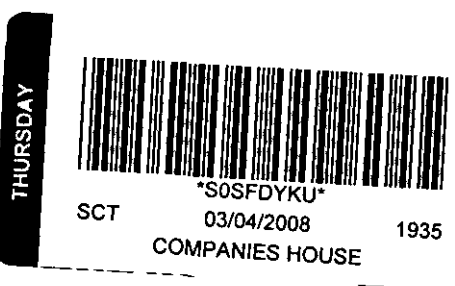


Company Registration No SC005863 (Scotland)

Heart of Midlothian plc
Directors' Report and Financial Statements
For The Year Ended 31 July 2007



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 Utkio Bankas Maironio Str, 25 LT 44250 Lithuania
Solicitors	Brodies LLP 15 Atholl Crescent Edinburgh EH3 8HA HBJ Gateley Wareing 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 2007

The directors present their report and financial statements for the year ended 31 July 2007

Principal activities and review of the business

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

I am pleased to report that the club has continued to achieve a strong turnover of £10.32 million (2006: £10.28 million)

Of particular note was increased revenue streams due to improved retail sales and the ability of the club to attract top quality sponsorship partners

The record turnover is all the more impressive given our fourth place league finish (2006: second) in the Bank of Scotland Scottish Premier League in season 2006/07 and the team's early exit from both domestic cup competitions (2006: Scottish Cup winners)

In the transfer market, Hearts recorded a gain on player sales for the period of £1.12 million (2006: £1.04 million) due in the main to the transfer of Paul Hartley to Celtic

Gains from the previously widely reported transfer of the registration of Craig Gordon will be realised in the next set of annual results

Club losses before tax were £12.45 million (2006: £5.77 million (restated)), the majority of which is accounted for by employment costs of £12.49 million (2006: £10.50 million (restated)). A direct effect of this was an increase in net debt to £36.25 million (2006: £28.40 million) which is within the club's £40 million debt facility

The loss is in line with the Board's expectation and is part of an approved long term business plan for the club. Going forward the club has financial support from its ultimate parent company, UAB Utkio Banko Investicine Grupe (UBIG), helping the club to meet financial demands and manage debt

The Board believes that current levels of debt are manageable and will be reduced as the club moves towards profitability. Future revenues will be generated through increased participation in European competition, larger attendance in a redeveloped Tynecastle Stadium and an associated greater sponsorship and retail income. Expenditure on the playing squad is unlikely to rise any further and the Board is also working towards a more appropriate 'salary to turnover' ratio with the full effect of the departure of some of the club's top earning players not being felt until the next set of financial results

The outlook for the present financial year (year to 31 July 2008) is therefore encouraging and the Board and management team of the club are actively engaged in targeting operational break even for the business in the mid to long term

Finally there are two notable post balance sheet events. Our commercial agreement with Umbro represents the largest shirt partnership deal in the history of the club and we are pleased with the way this relationship is developing. We are also pleased with our progress to submission of a Planning Application for our new main stand development. If approved, this will allow us to increase the stadium capacity to 23,000 while also providing a number of other revenue generating opportunities. This is a cornerstone of our future revenue growth and will bring significant benefits to the locality around Tynecastle Stadium and indeed wider benefits to the City of Edinburgh as a whole

HEART OF MIDLOTHIAN PLC

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 JULY 2007

Note of Thanks

It is entirely fitting that the Board acknowledge the continued commitment of the employees, players, management team, sponsors, associates and supporters of Heart of Midlothian FC

The effort of all these people and organisations is a mainstay in the ongoing development of the club. By continuing to work together we will achieve the on an off field success that we are targeting for Hearts and I thank them for this unstinting support

Results and dividends

The results for the year are set out on page 6

Directors

The following directors have held office since 1 August 2006

R Romanov
S Fedotovas
J Goncaruk

Creditor payment policy

It is the Company's policy to agree terms of payment with suppliers and to abide by them. At 31 July 2007, the Company's average creditor payment period was 82 days (2006 76 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.

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.

HEART OF MIDLOTHIAN PLC

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 JULY 2007

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



S Fedotovas

Director

25 March 2008

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 2007 set out on pages 6 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 2007 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

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 £12,447,000 during the year ended 31 July 2007, and at that date, the Company's liabilities exceeded its total assets by £24,891,000. 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

25 March 2008

Chartered Accountants
Registered Auditor

10 Melville Crescent
Edinburgh
EH3 7LU

HEART OF MIDLOTHIAN PLC

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 JULY 2007

	Notes	Operations excluding player trading £000	Player trading £000	2007 Total £000	Restated 2006 Total £000
Turnover	2	10,319		10,319	10,277
Staff costs	22	(12,488)		(12,488)	(10,499)
Depreciation and other amounts written off tangible and intangible fixed assets		(549)	(1,342)	(1,891)	(1,343)
Other operating charges		(7,692)		(7,692)	(5,925)
		(20,729)	(1,342)	(22,071)	(17,767)
Operating loss	3	(10,410)	(1,342)	(11,752)	(7,490)
Gain on sale of players' registrations			1,120	1,120	1,041
Forgiveness of debt	13				2,000
Loss on ordinary activities before interest		(10,410)	(222)	(10,632)	(4,449)
Interest payable and similar charges	4			(1,815)	(1,318)
Loss on ordinary activities before taxation				(12,447)	(5,767)
Tax on loss on ordinary activities	5				
Loss for the year	18			(12,447)	(5,767)

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 2007

		2007	2006
	Notes	£000	as restated £000
Loss for the financial year		(12,447)	(5,767)
Prior year adjustment	1,18	(486)	
Total gains and losses recognised since last financial statements		<u>(12,933)</u>	<u>(5,767)</u>

NOTE OF HISTORICAL COST PROFITS AND LOSSES FOR THE YEAR ENDED 31 JULY 2007

	2007	2006
	£000	as restated £000
Reported loss on ordinary activities before taxation	(12,447)	(5,767)
Difference between a 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>(12,363)</u>	<u>(5,683)</u>
Historical cost loss for the year retained after taxation, extraordinary items and dividends	<u>(12,363)</u>	<u>(5,683)</u>

HEART OF MIDLOTHIAN PLC

BALANCE SHEET AS AT 31 JULY 2007

	Notes	2007 £000	Restated 2006 £000
Fixed assets			
Intangible assets	6	3,889	1,569
Tangible assets	7	18,182	17,990
		<u>22,071</u>	<u>19,559</u>
Current assets			
Stocks	9	379	244
Debtors	10	1,247	3,563
Cash at bank and in hand		98	
		<u>1,724</u>	<u>3,807</u>
Creditors. amounts falling due within one year			
Other creditors	11	(29,653)	(16,212)
Convertible loan stock	13	(2,857)	(1,582)
		<u>(32,510)</u>	<u>(17,794)</u>
Net current liabilities		<u>(30,786)</u>	<u>(13,987)</u>
Total assets less current liabilities		<u>(8,715)</u>	<u>5,572</u>
Creditors: amounts falling due after more than one year			
Other creditors	12	(16,122)	(16,167)
Convertible loan stock	13		(1,155)
		<u>(16,122)</u>	<u>(17,322)</u>
Provisions for liabilities and charges	14	(54)	(694)
		<u>(24,891)</u>	<u>(12,444)</u>
Capital and reserves			
Called up share capital	17	1,263	1,263
Share premium account	18	3,119	3,119
Revaluation reserve	18	5,421	5,505
Profit and loss account	18	(34,694)	(22,331)
Shareholders' funds	19	<u>(24,891)</u>	<u>(12,444)</u>

HEART OF MIDLOTHIAN PLC

BALANCE SHEET (CONTINUED) AS AT 31 JULY 2007

Approved by the Board and authorised for issue on 25 March 2008

S Fedotovas
Director



HEART OF MIDLOTHIAN PLC

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 JULY 2007

	£000	2007 £000	£000	2006 £000
Net cash outflow from operating activities		(2,967)		(5,238)
Returns on investments and servicing of finance				
Interest paid	(932)		(997)	
Net cash outflow for returns on investments and servicing of finance		(932)		(997)
Capital expenditure				
Payments to acquire players' registrations	(3,822)		(1,517)	
Payments to acquire tangible assets	(741)		(827)	
Receipts from sales of intangible assets	1,280		(113)	
Net cash outflow for capital expenditure		(3,283)		(2,457)
Net cash outflow before management of liquid resources and financing		(7,182)		(8,692)
Financing				
Other new short term loans	10,053		10,501	
Net cash inflow from financing		10,053		10,501
Increase in cash in the year		2,871		1,809

HEART OF MIDLOTHIAN PLC

NOTES TO THE CASH FLOW STATEMENT FOR THE YEAR ENDED 31 JULY 2007

1	Reconciliation of operating loss to net cash outflow from operating activities				Restated
			2007	2006	
			£000	£000	
	Operating loss		(11,752)	(7,490)	
	Depreciation of tangible assets		549	591	
	Amortisation of intangible assets		1,342	752	
	Increase in stocks		(135)	(136)	
	Decrease/(increase) in debtors		2,316	(1,335)	
	Increase in creditors within one year		5,389	2,285	
	Release of grant		(36)	(36)	
	(Decrease)/increase in provisions		(640)	131	
	Net cash outflow from operating activities		(2,967)	(5,238)	

2	Analysis of net debt	1 August 2006	Cash flow	Other non-cash changes	31 July 2007
		£000	£000	£000	£000
	Net cash				
	Cash at bank and in hand		98		98
	Bank overdrafts	(2,773)	2,773		
		(2,773)	2,871		98
	Debt				
	Debts falling due within one year	(9,868)	(10,062)	(1,817)	(21,747)
	Debts falling due after one year	(15,764)	9	1,155	(14,600)
		(25,632)	(10,053)	(662)	(36,347)
	Net debt	(28,405)	(7,182)	(662)	(36,249)

3	Reconciliation of net cash flow to movement in net debt	2007	2006
		£000	£000
	Increase in cash in the year	2,871	1,809
	Cash inflow from increase in debt	(10,053)	(10,501)
	Other non cash items	(662)	
	Forgiveness of debt		1,813
	Movement in net debt in the year	(7,844)	(6,879)
	Opening net debt	(28,405)	(21,526)
	Closing net debt	(36,249)	(28,405)

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2007

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

UAB Ukio Bankas Investicine Grupe's support is contingent upon the Company being able to materially reduce playing staff costs going forward. The directors are satisfied that the Company will be able to meet this requirement. 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 2007

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

Freehold property	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

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 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

1.11 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 31 JULY 2007

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 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.

1.14 Prior year adjustment

A prior year adjustment has arisen as the company has been retrospectively charged £486,000 in relation to the year ended 31 July 2006 in respect of players loaned from other clubs. This has resulted in an increase in player costs of £486,000 and increase in loss overall to £5,767,000 for the year ended 31 July 2006. The net liabilities at 31 July 2006 have also increased to £12,444,000 as a result of the restatement.

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	
	2007 £000	2006 £000
Broadcasting	1,635	1,935
Match day	4,901	5,342
Commercial	3,328	2,642
Other income	455	358
	<u>10,319</u>	<u>10,277</u>

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 JULY 2007

3	Operating loss	2007	2006
		£000	£000
	Operating loss is stated after charging		
	Amortisation of intangible assets	1,342	752
	Depreciation of tangible assets	549	591
	Operating lease rentals		
	Plant and machinery	53	59
	Other assets	38	28
	Auditors' remuneration		
	Audit	25	24
	Tax	7	6
	Other services	17	20
	and after crediting		
	Football Trust grants	36	36
		<u>36</u>	<u>36</u>
4	Interest payable	2007	2006
		£000	£000
	On bank loans and overdrafts	1,300	1,149
	Other interest	515	169
		<u>1,815</u>	<u>1,318</u>

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 JULY 2007

5 Taxation	2007 £000	Restated 2006 £000
Current tax charge		
Factors affecting the tax charge for the year		
Loss on ordinary activities before taxation	(12,447)	(5,767)
Loss on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30.00% (2006: 30.00%)	(3,734)	(1,730)
Effects of		
Expenses not deductible for tax purposes	156	196
Depreciation in excess of capital allowances		37
Tax losses carried forward	2,606	1,989
Other tax movements	972	(492)
	3,734	1,730
Current tax charge		

As detailed in Note 14, a potential deferred tax asset of £12,133,000 (2006: £9,528,000 (restated)) 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 7. 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.

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 JULY 2007

6 Intangible fixed assets

	Players' registrations £000
Cost	
At 1 August 2006	2,357
Additions	3,822
Disposals	(713)
At 31 July 2007	5,466
Amortisation	
At 1 August 2006	788
Amortisation on disposals	(553)
Charge for the year	1,342
At 31 July 2007	1,577
Net book value	
At 31 July 2007	3,889
At 31 July 2006	1,569

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 JULY 2007

7 Tangible fixed assets

	Freehold property	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 2006	15,024	2,535	1,710	159	529	19,957
Additions	42		310		389	741
At 31 July 2007	15,066	2,535	2,020	159	918	20,698
Depreciation						
At 1 August 2006	367	188	1,412			1,967
Charge for the year	327	94	128			549
At 31 July 2007	694	282	1,540			2,516
Net book value						
At 31 July 2007	14,372	2,253	480	159	918	18,182
At 31 July 2006	14,657	2,347	298	159	529	17,990

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 2007.

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 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 2007

7 Tangible fixed assets (continued)

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

	£000
Cost	
At 1 August 2006	11,696
Additions	42
At 31 July 2007	11,738
Depreciation based on cost	
At 1 August 2006	2,274
Charge for the year	280
At 31 July 2007	2,554
Net book value	
At 31 July 2007	9,184
At 31 July 2006	9,422

8 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.

9 Stocks	2007 £000	2006 £000
Finished goods and goods for resale	379	244

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 JULY 2007

10 Debtors	2007	2006
	£000	£000
Trade debtors	569	826
Other debtors	497	1,969
Prepayments and accrued income	181	768
	<u>1,247</u>	<u>3,563</u>

11 Creditors: amounts falling due within one year	2007	Restated 2006
	£000	£000
Bank loans and overdrafts	3,000	2,773
Deferred income (see note 15)	2,676	1,558
Other loans	9	15
Trade creditors	1,594	1,200
Amounts owed to ultimate parent company	15,681	8,390
Amounts owed to other group companies	200	
Taxes and social security costs	1,202	915
Other creditors and accruals	5,291	1,361
	<u>29,653</u>	<u>16,212</u>

Bank loans and overdrafts represent a £3.0 million deposit account loan held with AB Ukio Bankas. This bears interest at 1.5% over the applicable base rate.

The amounts owed to the ultimate parent company, UAB Ukio Banko Investicine Grupe includes £13.2 million of loan notes repayable within one year from their date of original issue. The first of these loan notes was issued on 2 August 2006. Interest on these loans is payable at 5%. The remaining balance is in respect of payments for player transfers made by the ultimate parent company on behalf of the company.

The amounts owed to other group companies is a loan provided by Blue Orchid Flats Limited, a fellow subsidiary of the immediate parent undertaking, Heart of Midlothian 2005 Limited. There is no interest applied to this loan and no fixed repayment term.

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 and have been included in other creditors due less than one year.

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 JULY 2007

12 Creditors: amounts falling due after more than one year	2007 £000	2006 £000
Bank loans	14,600	14,600
Other loans		9
Deferred income (see note 15)	1,522	1,558
	<u>16,122</u>	<u>16,167</u>
 Loan maturity analysis		
In more than one year but not more than two years	2,280	2,289
In more than two years but not more than five years	<u>12,320</u>	<u>12,320</u>

Bank loans represent a term loan of £12.3 million and a committed working capital facility of £2.3 million both of which are with AB UKIO Bankas. The term loan consists of two tranches. The first tranche of £3.0 million bears interest at a fixed rate of 6.49%, the second tranche of £9.3 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 applicable base rate. The working capital facility has no fixed repayment date and the level is based on the on going working capital requirements of the company. 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 and land at Wheatfield Yard, Edinburgh.

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 JULY 2007

13 Convertible loan stock	2007 £000	2006 £000
Nominal value	2,480	4,480
Accrued interest	397	292
	<u>2,877</u>	<u>4,772</u>
Less finance costs attributable to future periods	(20)	(35)
Less forgiveness of debt		(2,000)
	<u>2,857</u>	<u>2,737</u>
Analysis of loan stock		
Amounts falling due within one year	2,857	1,582
Amounts falling due after more than one year		1,155
	<u>2,857</u>	<u>1,155</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 £2.0 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 these final three instalments. Further interest has been charged on the outstanding loan stock during the year.

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 JULY 2007

14 Provisions for liabilities and charges

	£000
Balance at 1 August 2006	694
Utilised during the year	(640)
	<hr/>
Balance at 31 July 2007	54
	<hr/>

Provisions for liabilities and charges relate to the expected cost of settlement of outstanding claims in relation to ongoing legal actions. Such claims have now been settled in the year ended 31 July 2008.

Unrecognised deferred tax asset

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

	2007 £000	2006 £000
Other timing differences	651	608
Tax losses available	11,482	8,920
	<hr/>	<hr/>
	12,133	9,528
	<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 2007

15 Deferred Income

	2007 £000	2006 £000
Grants receivable from the Football Trust		
Balance at 1 August 2006	1,594	1,630
Released to profit and loss account	(36)	(36)
Balance at 31 July 2007	1,558	1,594
Other deferred income	2,640	1,522
	4,198	3,116

Deferred income is disclosed as follows

	2007 £000	2006 £000
Amounts falling due within one year	2,676	1,558
Amounts falling due after more than one year	1,522	1,558

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

16 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.

	2007 £000	2006 £000
Contributions payable by the company for the year	13	9

17 Share capital

	2007 £000	2006 £000
Authorised		
13,000,000 Ordinary shares of 10p each	1,300	1,300
Allotted, called up and fully paid		
12,633,636 Ordinary shares of 10p each	1,263	1,263

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 JULY 2007

18 Statement of movements on reserves

	Share premium account £000	Revaluation reserve £000	Profit and loss account £000
Balance at 1 August 2006 as previously reported	3,119	5,505	(21,845)
Prior year adjustment (see note 1)			(486)
Balance at 1 August 2006 as restated	3,119	5,505	(22,331)
Loss for the year			(12,447)
Transfer from revaluation reserve to profit and loss account		(84)	84
Balance at 31 July 2007	3,119	5,421	(34,694)

19 Reconciliation of movements in shareholders' funds

	2007 £000	Restated 2006 £000
Loss for the financial year	(12,447)	(5,767)
Opening shareholders' funds	(12,444)	(6,677)
Closing shareholders' funds	(24,891)	(12,444)

Opening shareholder funds were originally £(11,958,000) before deducting the prior year adjustment of £(486,000)

20 Financial commitments

At 31 July 2007 the company was committed to making the following payments under non cancellable operating leases in the year to 31 July 2008:

	Land and buildings		Other	
	2007 £000	2006 £000	2007 £000	2006 £000
Operating leases which expire				
Within one year	244	37	161	37
Between two and five years				36
In over five years	37	37		
	281	74	161	73

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 JULY 2007

21 Directors' emoluments	2007 £000	2006 £000
Emoluments for qualifying services		163
Company pension contributions to money purchase schemes		3
Compensation for loss of office		30
		<u>196</u>

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 0 (2006: 1)

22 Employees

Number of employees

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

	2007 Number	2006 Number
Players and coaching staff	93	81
Administration and commercial department staff	35	23
Other staff	10	9
	<u>138</u>	<u>113</u>

Employment costs	2007 £000	Restated 2006 £000
Wages and salaries	11,004	9,367
Social security costs	1,471	1,123
Other pension costs	13	9
	<u>12,488</u>	<u>10,499</u>

23 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 2007

24 Related party transactions

Mr Vladimir Romanov has direct and indirect interests in 32.96% of the issued share capital of AB Ukio Bankas, a company which has provided debt funding of £14.6 million as at 31 July 2007 (2006 £14.6 million) to the Company, all of which remains outstanding at the year end. AB Ukio Bankas has also provided a £3 million deposit account loan, on which interest is being applied. In the year ended 31 July 2007, AB Ukio Bankas charged interest of £961,000 (2006 £845,000) to the Company in respect of its funding, of which £240,000 (2006 £211,000) is accrued at the year end. All funding provided by AB Ukio Bankas is on normal commercial terms. AB Ukio Bankas has a 6.0% interest in UAB Ukio Banko Investicine Grupe, the ultimate parent undertaking.

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 £13.2 million as at 31 July 2007 (2006 £8.2 million) to the Company. In addition, the ultimate parent company has made payments on behalf of the Company in respect of player transfer fees and other sundry creditors. At the year end the total balance outstanding was £1.8 million. Interest of £684,000 (2006 £169,000) has been accrued in respect of these loans and other payments, of which £515,000 relates to the current year.

At 31 July 2007, loan stock of £2.5 million (2006 £2.5 million) remained outstanding to the ultimate parent company. Interest accrued on this loan stock is £397,000 (2006 £292,000), of which £292,000 relates to interest outstanding from the previous year. Since the year end, no repayment of the loan stock or interest outstanding has been requested by the ultimate parent undertaking.

Blue Orchid Flats Limited, a fellow subsidiary of Heart of Midlothian 2005 Limited, leases flats to the club's players on commercial terms. Total rentals charged to the Company for the year were £9,600 (2006 £nil), and these were fully paid at the year end. In addition, a loan was made during the year from Blue Orchid Flats Limited to the Company for £200,000 (2006 £nil). This is non interest bearing and repayable on demand.

25 Post balance sheet events

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. The final value of the compensation payment has been agreed at £150,000 and we have adjusted for this amount due in the financial statements.

The company transferred the registration of Mr Craig Gordon to Sunderland Football Club for a total value of £9 million. This is payable in four installments over a two year period, conditional in part on match appearances. Since the year end, three installments totalling £8.0 million have been received by the Company.