

Company Registration No. SC005863 (Scotland)

Heart of Midlothian plc
Directors' Report and Financial Statements
For The Year Ended 31 July 2009



HEART OF MIDLOTHIAN PLC

COMPANY INFORMATION

Directors	R Romanov S Fedotovas J Goncaruk V Vasiliauskas (Appointed 3 March 2009)
Secretary	A S Fraser
Company number	SC005863
Registered office	Tynecastle Stadium Gorgie Road Edinburgh EH11 2NL
Auditors	Johnston Carmichael 7-11 Melville Street EDINBURGH EH3 7PE
Business address	Tynecastle Stadium Gorgie Road Edinburgh EH11 2NL
Bankers	AB Ukio Bankas Maironio Str, 25 LT-44250 Lithuania
Solicitors	HBJ Gateley Wareing (Scotland) LLP Exchange Tower 19 Canning Street Edinburgh EH3 8EH McGrigor Donald Princes Exchange 1 Earl Grey Street Edinburgh EH3 9AQ

HEART OF MIDLOTHIAN PLC

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HEART OF MIDLOTHIAN PLC

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 JULY 2009

The directors present their report and financial statements for the year ended 31 July 2009.

Principal activities and review of the business

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

Heart of Midlothian Football Club (Hearts) enjoyed a successful period on the field finishing third in the Clydesdale Bank Premier League and the club continued towards its aim of reaching operational breakeven in the medium term with further business efficiencies being achieved for the financial year ended 31 July 2009.

Savings of over £3 million were achieved across the business including 31% operational cost savings of £1.94 million (reduced to £4.30m), a 7% reduction in employment costs of £842,000 (reduced to £10.48m) and a 19% saving of £421,000 on finance costs (reduced to £1.83m). This helped restrict operating losses to £8.6 million compared to the previous year's £11.2 million.

Hearts can report another positive figure in relation to its net gain on player sales with the £1.81 million principally due to the transfer of Christophe Berra to Wolverhampton Wanderers. The transaction was the highest value transfer for any player from a Scottish club in the January '09 transfer window and once again demonstrates the value of Hearts' player development system.

The club reasserts its view that the development of young players through the Heart of Midlothian Football Academy will continue to underpin the future growth of the club's on field ambitions. More than half the present Hearts first team squad have progressed through the Heart of Midlothian Football Academy with 22 year-old Lee Wallace a leading example of this. The defender is now playing for the Scotland international team and is Hearts' current top appearance holder having played almost 150 games for the team. Players such as Andrew Driver, Eggert Jonsson and Calum Elliot are also approaching their 100 appearance mark for the club.

Finance costs were significantly reduced for the period following the successful funding-for-equity agreement in July 2008. The Board is considering another similar initiative to eliminate further future costs and reduce the club's debt of £34.78m. The club also benefits from not paying cash for interest payments on its funding from the majority shareholders Ukio Banko Investicijne Grupe (UBIG), rather it is accumulated and this allows the club to manage both its cash flow and debt effectively.

The Board of Hearts is also working to deliver an investment solution that will allow the club to generate a profit from an enhanced stadium. It is currently assessing certain investment options that will deliver the required benefits to the club and its supporters.

The Board remains focused on improving revenues, increasing efficiencies and reducing costs across the business. The club's employment costs will continue to reduce significantly in seasons 2009/10 and 2010/11 as a number of players reach the natural end of their contracts. This will in turn assist the club in bringing the budget for playing staff closer to market standards without compromising on quality. Indeed, through its new football management team, the aim remains to improve the quality of the squad and predicted conditions in player markets are expected to help boost the availability of quality players.

Revenues for the current financial year will also benefit from a higher season ticket base of over 11,000 and the club's participation in the Europa League qualification stages. Additionally Hearts expect to improve commercial revenues beyond its present successful partnerships with global businesses such as Ukio Bankas and Umbro into local businesses.

Other key post year-end events include the extension of a successful shirt sponsorship agreement with existing shirt sponsor Ukio Bankas. The agreement provides Hearts with a shirt sponsorship deal that is believed to be the third highest team sponsorship in the Clydesdale Bank Premier League and demonstrates the success of the club's partnership with the European bank. Ukio Bankas is set to open its first UK branch in Edinburgh in the near future. The club also appointed Jim Jefferies as manager following the departure of Csaba Laszlo at the end of January.

HEART OF MIDLOTHIAN PLC

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2009

Results and dividends

The results for the year are set out on page 6.

The directors do not recommend payment of an ordinary dividend.

Directors

The following directors have held office since 1 August 2008:

R Romanov

S Fedotovas

J Goncaruk

V Vasiliauskas

(Appointed 3 March 2009)

Creditor payment policy

It is the company's policy to agree terms of payment with suppliers and to abide by them. At 31 July 2009, the company's average creditor payment period was 96 days (2008: 77 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 31 JULY 2009

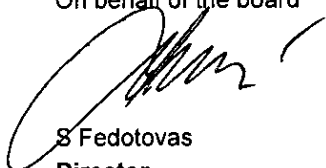
Statement of disclosure to auditors

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) 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



S Fedotovas

Director

8 April 2010

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 31 July 2009 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 sections 495 and 496 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.

Qualified opinion on financial statements arising from limitation in audit scope

The audit evidence available to us was limited because information that may have enabled us to conclude as to whether UAB Ukio Banko Investicine Grupe is able to meet its commitment to provide sufficient funding to enable the company to meet its liabilities as they fall due for the foreseeable future was not made available to us. Had this information been available to us we might have formed a different opinion on the financial statements.

Except for the financial effects of any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning the appropriateness of the going concern basis of preparation of the financial statements, in our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 July 2009 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.

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

In respect solely of the limitation on our work relating to the assessment of the appropriateness of the going concern basis of preparation of the financial statements, described above, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

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.



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

8 April 2010

Chartered Accountants
Statutory Auditor

7-11 Melville Street
EDINBURGH
EH3 7PE

HEART OF MIDLOTHIAN PLC

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 JULY 2009

	Notes	Operations excluding player trading £000	Player trading £000	2009 Total £000	2008 Total £000
Turnover	2	8,307	-	8,307	9,161
Staff costs	23	(10,477)	-	(10,477)	(11,319)
Depreciation and other amounts written off tangible and intangible fixed assets		(493)	(1,658)	(2,151)	(2,845)
Other operating charges		(4,300)	-	(4,300)	(6,243)
		(15,270)	(1,658)	(16,928)	(20,407)
Operating loss	3	(6,963)	(1,658)	(8,621)	(11,246)
Gain on sale of players' registrations		-	1,814	1,814	9,964
Loss on ordinary activities before interest		(6,963)	156	(6,807)	(1,282)
Interest payable and similar charges	4			(1,827)	(2,248)
Loss on ordinary activities before taxation				(8,634)	(3,530)
Tax on loss on ordinary activities	5			-	-
Loss for the year	18			(8,634)	(3,530)

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 2009

	Notes	2009 £000	2008 £000
Loss for the financial year		(8,634)	(3,530)
Unrealised surplus on revaluation of properties		-	1,052
Total recognised gains and losses relating to the year		<u>(8,634)</u>	<u>(2,478)</u>

Note of historical cost profits and losses

	2009 £000	2008 £000
Reported loss on ordinary activities before taxation	(8,634)	(3,530)
Difference between an historical cost depreciation charge and the actual depreciation charge of the year calculated on the revalued amount	132	84
Historical cost loss on ordinary activities before taxation	<u>(8,502)</u>	<u>(3,446)</u>
Historical cost loss for the year retained after taxation, extraordinary items and dividends	<u>(8,502)</u>	<u>(3,446)</u>

HEART OF MIDLOTHIAN PLC

BALANCE SHEET

AS AT 31 JULY 2009

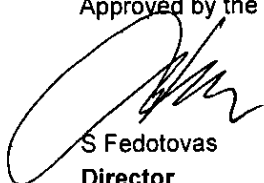
	Notes	2009 £000	2008 £000
Fixed assets			
Intangible assets	6	1,070	2,348
Tangible assets	7	18,772	19,174
		<u>19,842</u>	<u>21,522</u>
Current assets			
Stocks	9	353	515
Debtors	10	1,192	2,039
Cash at bank and in hand		521	15
		<u>2,066</u>	<u>2,569</u>
Creditors: amounts falling due within one year			
Other creditors	11	(41,379)	(20,396)
Convertible loan stock	13	(3,098)	(2,977)
		<u>(44,477)</u>	<u>(23,373)</u>
Net current liabilities		<u>(42,411)</u>	<u>(20,804)</u>
Total assets less current liabilities		<u>(22,569)</u>	<u>718</u>
Creditors: amounts falling due within one year			
Other creditors	12	(1,450)	(16,086)
Provisions for liabilities	14	-	(17)
		<u>(24,019)</u>	<u>(15,385)</u>
Capital and reserves			
Called up share capital	17	4,692	4,692
Share premium account	18	11,674	11,674
Revaluation reserve	18	6,257	6,389
Profit and loss account	18	(46,642)	(38,140)
Shareholders' funds	19	<u>(24,019)</u>	<u>(15,385)</u>

HEART OF MIDLOTHIAN PLC

BALANCE SHEET (CONTINUED)

AS AT 31 JULY 2009

Approved by the Board and authorised for issue on 8 April 2010



S Fedotovas
Director

Company Registration No. SC005863

HEART OF MIDLOTHIAN PLC

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 JULY 2009

	2009	2008
	£000	£000
Net cash outflow from operating activities	(4,868)	(12,743)
Returns on investments and servicing of finance		
Interest paid	(141)	(2,253)
Net cash outflow for returns on investments and servicing of finance	(141)	(2,253)
Capital expenditure		
Payments to acquire players' registrations	(609)	(1,049)
Payments to acquire tangible assets	(91)	(498)
Receipts from sales of intangible assets	2,043	10,315
Net cash inflow for capital expenditure	1,343	8,768
Net cash outflow before financing	(3,666)	(6,228)
Financing		
Other new short term loans	5,438	6,160
Repayment of short term loans	(1,266)	-
Cost of financing	-	(15)
Net cash inflow from financing	4,172	6,145
Increase/(decrease) in cash in the year	506	(83)

HEART OF MIDLOTHIAN PLC

NOTES TO THE CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 JULY 2009

1	Reconciliation of operating loss to net cash outflow from operating activities	2009	2008
		£000	£000
	Operating loss	(8,621)	(11,246)
	Depreciation of tangible assets	493	556
	Amortisation of intangible assets	1,658	2,239
	Decrease/(increase) in stocks	162	(136)
	Decrease/(increase) in debtors	847	(792)
	Increase/(decrease) in creditors within one year	646	(3,291)
	Movement on grant provision	(36)	(36)
	Decrease in provisions	(17)	(37)
	Net cash outflow from operating activities	(4,868)	(12,743)

2	Analysis of net debt	1 August 2008	Cash flow	Other non-cash changes	31 July 2009
		£000	£000	£000	£000
	Net cash:				
	Cash at bank and in hand	15	506	-	521
	Debt:				
	Debts falling due within one year	(15,892)	(4,172)	(15,236)	(35,300)
	Debts falling due after one year	(14,600)	-	14,600	-
		(30,492)	(4,172)	(636)	(35,300)
	Net debt	(30,477)	(3,666)	(636)	(34,779)

3	Reconciliation of net cash flow to movement in net debt	2009	2008
		£000	£000
	Increase/(decrease) in cash in the year	506	(83)
	Cash outflow from increase in debt	(4,172)	(6,145)
	Other non cash items	(636)	12,000
	Movement in net debt in the year	(4,302)	5,772
	Opening net debt	(30,477)	(36,249)
	Closing net debt	(34,779)	(30,477)

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2009

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 increases in debt.

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 parent company, which provides short term loans and meets the Company's day-to-day funding requirements.

In addition, £17.6 million of loan funding from Ukio Bankas fell due for repayment on 7 February 2010. Part of this loan funding has now been taken on by UAB Ukio Banko Investicine Grupe with the remainder taken on by a company related to UAB Ukio Banko Investicine Grupe. Both parties have provided written confirmation to the Company that they will not seek repayment of these loans until at least 31 May 2011.

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.

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.

Having taken all of the above into account, 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 31 JULY 2009

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

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 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.

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 JULY 2009

1 Accounting policies

(continued)

1.12 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.

1.13 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.

1.14 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:

	Turnover	
	2009	2008
	£000	£000
Class of business		
Broadcasting	1,874	1,290
Match day	3,881	4,209
Commercial	2,316	3,331
Other income	236	331
	<u>8,307</u>	<u>9,161</u>

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 JULY 2009

3	Operating loss	2009	2008
		£000	£000
	Operating loss is stated after charging:		
	Amortisation of intangible assets	1,658	2,239
	Depreciation of tangible assets	493	556
	Loss on foreign exchange transactions	-	540
	Operating lease rentals		
	- Plant and machinery	46	54
	- Other assets	86	64
	Auditors' remuneration: Audit	40	40
	Tax	6	6
	Other services	19	12
	and after crediting:		
	Football Trust grants	(36)	(36)
	Profit on foreign exchange transactions	(102)	-
		<u><u> </u></u>	<u><u> </u></u>
4	Interest payable	2009	2008
		£000	£000
	On bank loans and overdrafts	1,041	1,188
	Other interest	786	1,060
		<u><u> </u></u>	<u><u> </u></u>
		1,827	2,248

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 JULY 2009

5	Taxation	2009 £000	2008 £000
	Current tax charge	-	-
	Factors affecting the tax charge for the year		
	Loss on ordinary activities before taxation	(8,634)	(3,530)
	Loss on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 28.00% (2008 - 29.33%)	(2,418)	(1,035)
	Effects of:		
	Expenses not deductible for tax purposes	118	124
	Tax losses carried forward	1,775	195
	Other tax movements	525	716
		2,418	1,035
	Current tax charge	-	-

As detailed in Note 14, a potential deferred tax asset of £15.489 million (2008: £13.136 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 31 July 2008, 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 as at 31 July 2008, a potential capital gains tax liability of approximately £670,000 would arise.

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 JULY 2009

6 Intangible fixed assets

	Players' registrations £000
Cost	
At 1 August 2008	5,842
Additions	609
Disposals	(1,684)
	<hr/>
At 31 July 2009	4,767
	<hr/>
Amortisation	
At 1 August 2008	3,494
Amortisation on disposals	(1,455)
Charge for the year	1,658
	<hr/>
At 31 July 2009	3,697
	<hr/>
Net book value	
At 31 July 2009	1,070
	<hr/>
At 31 July 2008	2,348
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HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 JULY 2009

7 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 2008	15,100	2,535	2,063	159	1,368	21,225
Additions	32	-	44	-	15	91
At 31 July 2009	15,132	2,535	2,107	159	1,383	21,316
Depreciation						
At 1 August 2008	-	376	1,675	-	-	2,051
Charge for the year	320	94	79	-	-	493
At 31 July 2009	320	470	1,754	-	-	2,544
Net book value						
At 31 July 2009	14,812	2,065	353	159	1,383	18,772
At 31 July 2008	15,100	2,159	388	159	1,368	19,174

Ryden, Chartered Surveyors, valued the freehold land and buildings as at 31 July 2008 on a depreciated replacement cost basis at £15.1 million on the basis of the Practice Statements contained within the Royal Institution of Chartered Surveyors Appraisal & Valuation manual.

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 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 2009

7 Tangible fixed assets (continued)

Comparable historical cost for the land and buildings included at valuation:		£000
Cost		
At 1 August 2008		11,742
Additions		32
		<hr/>
At 31 July 2009		11,774
		<hr/>
Depreciation based on cost		
At 1 August 2008		2,835
Charge for the year		188
		<hr/>
At 31 July 2009		3,023
		<hr/>
Net book value		
At 31 July 2009		8,751
		<hr/>
At 31 July 2008		8,907
		<hr/>

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	2009 £000	2008 £000
Finished goods and goods for resale	353	515
	<hr/>	<hr/>

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 JULY 2009

10 Debtors	2009 £000	2008 £000
Trade debtors	513	1,502
Other debtors	187	132
Prepayments and accrued income	492	405
	<u>1,192</u>	<u>2,039</u>

11 Creditors: amounts falling due within one year	2009 £000	2008 £000
Bank loans and overdrafts	17,600	3,000
Deferred income (see note 15)	2,908	2,727
Trade creditors	1,161	1,311
Amounts owed to parent company	13,829	9,635
Amounts owed to other group companies	198	280
Taxes and social security costs	1,329	1,386
Other creditors and accruals	4,354	2,057
	<u>41,379</u>	<u>20,396</u>

Bank loans and overdrafts represent a £3.0 million deposit account loan, a term loan of £12.3 million and a committed working capital facility of £2.3 million all of which are with AB Ukio Bankas. The deposit account loan bears interest at 1.5% over the applicable base rate. 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 fell due for repayment 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.

The amounts owed to the company's parent company, UAB Ukio Banko Investicine Grupe, include £6.0 million (2008:£6.0 million) of loan notes repayable within one year from their date of original issue. 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 includes £197,800 (2008:£280,000) owed to Blue Orchid Flats Limited a fellow subsidiary of the company's parent company. This loan bears interest at 6.25% and is repayable on demand.

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 JULY 2009

12 Creditors: amounts falling due after more than one year	2009	2008
	£000	£000
Bank loans	-	14,600
Deferred income (see note 15)	1,450	1,486
	<u>1,450</u>	<u>16,086</u>
Loan maturity analysis		
In more than one year but not more than two years	-	14,600
	<u>-</u>	<u>14,600</u>
13 Convertible loan stock	2009	2008
	£000	£000
Nominal value	2,480	2,480
Accrued interest	638	517
	<u>3,118</u>	<u>2,997</u>
Less: finance costs attributable to future periods	(20)	(20)
	<u>3,098</u>	<u>2,977</u>
Analysis of loan stock		
Amounts falling due within one year	<u>3,098</u>	<u>2,977</u>

Convertible loan stock is held with UAB Ukio Banko Investicine Grupe. The stock bears interest based at LIBOR 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. The stock fell due for repayment in three instalments on 30 September 2006, 31 March 2007 and 30 September 2007. UAB Ukio Banko Investicine Grupe has not yet requested the repayment of these 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 2009

14 Provisions for liabilities

	Other £000
Balance at 1 August 2008	17
Profit and loss account	(17)
	<hr/>
Balance at 31 July 2009	-
	<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. Also see note 20.

Unrecognised deferred tax asset

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

	2009 £000	2008 £000
Other timing differences	2,054	1,523
Tax losses available	13,435	11,613
	<hr/>	<hr/>
Provision for deferred taxation	15,489	13,136
	<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 2009

15 Deferred Income

	2009 £000	2008 £000
Grants receivable from the Football Trust		
Balance at 1 August	1,522	1,558
Released to profit and loss account	(36)	(36)
Balance at 31 July	1,486	1,522
Other deferred income	2,872	2,691
	<u>4,358</u>	<u>4,213</u>

Deferred income is disclosed as follows:

	2009 £000	2008 £000
Amounts falling due within one year	2,908	2,727
Amounts falling due after more than one year	1,450	1,486

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.

	2009 £000	2008 £000
Contributions payable by the company for the year	<u>32</u>	<u>24</u>

17 Share capital

	2009 £000	2008 £000
Allotted, called up and fully paid		
46,919,350 Ordinary shares of 10p each	<u>4,692</u>	<u>4,692</u>

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 JULY 2009

18 Statement of movements on reserves

	Share premium account £000	Revaluation reserve £000	Profit and loss account £000
Balance at 1 August 2008	11,674	6,389	(38,140)
Loss for the year	-	-	(8,634)
Transfer from revaluation reserve to profit and loss account	-	(132)	132
Balance at 31 July 2009	<u>11,674</u>	<u>6,257</u>	<u>(46,642)</u>

19 Reconciliation of movements in shareholders' funds

	2009 £000	2008 £000
Loss for the financial year	(8,634)	(3,530)
Other recognised gains and losses	-	1,136
Proceeds from issue of shares	-	12,000
Cost of share issue written off to share premium account	-	(16)
Net (depletion in)/addition to shareholders' funds	<u>(8,634)</u>	<u>9,590</u>
Opening shareholders' funds	<u>(15,385)</u>	<u>(24,975)</u>
Closing shareholders' funds	<u>(24,019)</u>	<u>(15,385)</u>

20 Contingent liabilities

At the date of sign off of the financial statements, the company is the subject of an ongoing investigation by HMRC. At this stage, no indication has been given of the likelihood or extent of any potential unrecorded tax liabilities.

There is an ongoing action being heard by the Scottish Football Association arbitration tribunal which relates to a claim by an agent for fees in respect of a player transfer. Whilst the outcome of this action is uncertain, current legal opinion is that it is more likely than not that this will not result in any financial cost to the company. Accordingly, no provision has been made in respect of this in the financial statements.

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 JULY 2009

21 Financial commitments

At 31 July 2009 the company was committed to making the following payments under non-cancellable operating leases in the year to 31 July 2010:

	Land and buildings		Other	
	2009	2008	2009	2008
	£000	£000	£000	£000
Operating leases which expire:				
Within one year	28	144	1	-
Between two and five years	-	-	58	54
In over five years	41	41	-	-
	<u>69</u>	<u>185</u>	<u>59</u>	<u>54</u>

22 Directors' emoluments

	2009	2008
	£000	£000
Emoluments for qualifying services	<u>19</u>	<u>-</u>

23 Employees

Number of employees

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

	2009	2008
	Number	Number
Players and coaching staff	99	103
Administration and commercial department staff	45	46
Other staff	10	12
	<u>154</u>	<u>161</u>

Employment costs

	2009	2008
	£000	£000
Wages and salaries	9,487	9,978
Social security costs	958	1,317
Other pension costs	32	24
	<u>10,477</u>	<u>11,319</u>

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 JULY 2009

24 Control

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

25 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 2009 (2008: £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 2009, AB Ukio Bankas charged interest of £1.1million (2008: £1 million) to the Company in respect of its funding, and a total of £2.1 million (2008: £1 million) is accrued at the year end. All funding provided by AB Ukio Bankas is on normal commercial terms.

UAB Ukio Banko Investicine Grupe, the company's parent company, and a company in which Mr Vladimir Romanov has a controlling interest, has provided loans totalling £6.0 million as at 31 July 2009 (2008: £6.0 million) to the Company. In addition, the 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 £5.8 million (2008: £2.1 million). Interest of £2.0 million (2008: £1.5 million) has been accrued in respect of these loans and other payments, of which £473,000 (2008: £802,000) relates to the current year.

At 31 July 2009, loan stock of £2.5 million (2008: £2.5 million) remained outstanding to the parent company. Interest accrued on this loan stock is £618,000 (2008: £497,000), of which £121,000 (2008: £120,000) relates to the current year. Since the year end, no repayment of the loan stock or interest outstanding has been requested by the parent company.

Blue Orchid Flats Limited is fellow subsidiary of UAB Ukio Banko Investicine Grupe and Ensco 165 Limited is controlled by UAB Ukio Banko Investicine Grupe. As at 31 July 2009 the company owed Blue Orchid Flats Limited £197,800 (2008: £280,000). This loan bears interest at 6.25% per annum and is repayable on demand. During the year Blue Orchid Flats paid expenses totalling £282,000 on behalf of the company. Blue Orchid Flats Limited subsequently reassigned their right to this amount to Ensco 165 Limited under an agreement that interest would accrue at 8.25%. The company was also advanced a further £293,000 by Ensco 165 Limited, so that at 31 July 2009 the company owed £575,000 (2008: £nil) to Ensco 165 Limited.

Mr Vladimir Romanov also controls UAB Businessline, which charged the company £37,000 (2008: 45,000) of rent during the year. At 31 July 2009, the company owed UAB Businessline £41,000 (2008 - £nil). Ensco 133 Limited is a subsidiary of UAB Businessline. During the year the company borrowed £130,000 from Ensco 133 Limited. This balance was subsequently reassigned to the company's parent company so that at 31 July 2009, the company owed Ensco 133 Limited £nil (2008: £nil).

26 Post balance sheet events

As explained in note 11, as at 31 July 2009 the Company had £17.6m of loans and facilities from AB Ukio Bankas which fell due for repayment on 8 February 2010. On 15 December 2009, £5.0m of these loans and facilities were taken on by UAB Ukio Banko Investicine Grupe and £12.6m were taken on by a company related to UAB Ukio Banko Investicine Grupe. Neither party will seek repayment of these loans and facilities until at least 31 May 2011.