

Company Registration No. SC005863 (Scotland)

HEART OF MIDLOTHIAN PLC
ANNUAL REPORT AND FINANCIAL
STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

TUESDAY



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HEART OF MIDLOTHIAN PLC

COMPANY INFORMATION

| | | |
|--------------------------|--|--|
| Directors | Dr A Budge C Levein Dr T Hogg K Windram D Cumming J Duncan S Wallace | (Appointed 1 July 2017) (Appointed 3 February 2017) |
| Secretary | J Duncan | |
| Company number | SC005863 | |
| Registered office | Collins House Rutland Square Edinburgh EH1 2AA | |
| Auditor | Johnston Carmichael LLP 7-11 Melville Street Edinburgh EH3 7PE | |
| Business address | Tynecastle Park Gorgie Road Edinburgh EH11 2NL | |

HEART OF MIDLOTHIAN PLC

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HEART OF MIDLOTHIAN PLC

STRATEGIC REPORT

FOR THE YEAR ENDED 30 JUNE 2017

The directors present the strategic report for the year ended 30 June 2017.

Fair review of the business

Financial Year 2016/17 was Year 2 of our 3 year plan to redevelop Tynecastle Stadium. This was always going to be a challenging year, with a number of key milestones to be achieved but we met these challenges head on and delivered against most of our main objectives.

Firstly, we saw the completion of the Wheatfield Undercroft Development; the essential fore-runner to the main development, providing as it does temporary office facilities, retail space and UEFA standard changing rooms, all of which are essential to enable the continued operation of the business while the construction of our new main stand is underway.

Relocation of all of the aforementioned business areas was achieved on schedule, within the first half year, immediately followed by the demolition of the club's main office building, the club store and ticket-office building, and the Tynecastle Nursery. This demolition work was needed to allow the main construction programme to get underway, behind the 103 year old, Archibald Leitch stand, while we continued to play all of our Home fixtures at Tynecastle. This was no mean feat. As well as being logistically challenging, this was costly as a result of the additional spend required to secure the building site whilst being operational at the same time. This contributed significantly to the increase in operating charges for the year. The final milestone in this year was the demolition of the old main stand itself, which took place on schedule, in May and June, once the football season was finished.

All of the above meant that this was a very e-typical year. However, despite the disruption to our normal business, we were able to continue to grow our revenues across all areas of the club, with turnover increasing by £1.3m to £11.3m. This was largely due to the continued support of our fans, over 13,700 of whom bought season tickets. Most of our home matches were "sold out", as was the majority of our match-day hospitality. Our retail operation also grew, despite the limitations of our temporary location; and our corporate clients and business partners played their part too, resulting in increased sponsorship and advertising income.

With business growth in areas such as retail and hospitality, comes increased operating costs, related to the provision of the products and services being delivered. Staff costs rose by £364k overall, with increases in both full-time (up from 144 to 160) and part-time (up from 105 to 115) staff. The increase in our Operating Costs matched the trend of the increase in our Turnover, rising by £1.1m, from £4.3m to £5.4m. In addition to those areas already mentioned, we had an unexpected problem with the pitch over the winter months, which meant we were also faced with the cost of re-turfing the pitch in February 2017.

The company's balance sheet at 30 June 2017 remains strong with net assets of £11.5m. At 30 June 2017, approximately £6m of the stadium redevelopment costs had been capitalised.

On the playing front, we got off to an exciting start to the season, having qualified for the Europa League, which saw us play matches both in Estonia and Malta. Unfortunately, our European adventures went no further but, suffice to say, it was great for the supporters and the club to once again enjoy European football; and it did, of course, mean additional monies from UEFA.

In November, 2016, our then Head Coach, Robbie Nielson and his assistant, Stevie Crawford attracted the eye of MK Dons, a team in the English Football League. Felt by Robbie and Stevie, to be an opportunity they could not turn down, the club agreed to their move. A new management team was recruited quickly, in the shape of Ian Cathro and Austin MacPhee. As is not uncommon in such situations, this resulted in a slightly higher than anticipated turnover of players in the January transfer window. However, the relationship of player costs to turnover is one of our key performance indicators and we were careful to remain within our accepted levels. At the end of the season, we once again, finished in the top 6 (5th place) in the Ladbrokes Premier League.

A cornerstone of our business strategy is to invest in developing young players coming through our Academy and that investment continued throughout the year. Plans were developed during the year to prepare both for full participation in the SFA's Project Brave programme when it is launched later in 2017 and indeed for establishing our own Performance School, which opened in August 2017. Staffing levels were revised to accommodate these plans.

HEART OF MIDLOTHIAN PLC

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2017

We had a net cash inflow during the year of £0.5m. This arose as a result of an exceptional donation received from our benefactors, the sale of players, in particular the sale of Callum Paterson to Cardiff City, the continuing support of the Foundation of Hearts and our ongoing partnership with Save the Children. This cash inflow, along with monies received via our commercial activities, has allowed the business to acquire new player registrations and to continue to invest in youth, while pushing ahead with the Tynecastle Redevelopment Project.

As in the prior year, the company's prudent budget and financial foundations allow us to confirm that we continue to meet UEFA's Financial Fair Play criteria.

The directors believe that the principal risks and uncertainties facing the business include a downturn in the performance of the First Team in the Premier League, the ability of the relevant football authorities to maintain broadcast and sponsorship revenue streams, external economic conditions affecting the spending capacity of commercial partners and sponsors and the general uncertainty regarding Brexit. The impact of these risks and uncertainties is minimised by strong management control over all aspects of our business.

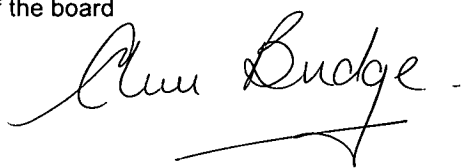
Finally, the Board would like to express its thanks to the employees, players, supporters, shareholders and other associates, including sponsors, commercial and community partners, for their unwavering support.

On behalf of the board

Dr A Budge

Director

17 November 2017



HEART OF MIDLOTHIAN PLC

CORPORATE AND SOCIAL RESPONSIBILITY STATEMENT

FOR THE YEAR ENDED 30 JUNE 2017

The directors present the corporate and social responsibility statement for the year ended 30 June 2017.

Introduction

Heart of Midlothian Football Club has a rich heritage with history dating back to 1874. The Club has played a central role in the lives of generations of supporters. The Club has a positive reputation and is focused on promoting strong community values, using the power of sport to provide meaningful education, employability, health, inclusion, environmental and sport-related programmes. The Club whilst focusing on its own local initiatives also works proactively with the SPFL Trust, rolling out programmes throughout Scotland and helping to meet the identified social needs of the people of Scotland.

Community Engagement

Community engagement is embedded at all levels of the Club and investment is made in tackling a wide range of social issues through 'on-pitch' and 'off-pitch' programmes. Specific Community space has already been set aside in the plans for our new stand at Tynecastle Park.

The Club has three principle vehicles through which it provides outreach work in the community.

The Club's Community Football Department, which is run on a not for profit basis, currently has 3 full-time staff members and 15 part-time community coaches who are responsible for promoting health and wellbeing through the delivery of a variety of different programmes, catering for all ages. The programmes include school holiday courses, Football Fans in Training, schools projects, coach education and Walking Football for over 50's. The programmes are accessibly priced (or provided without charge) and are powerful vehicles for promoting healthier lifestyles.

The department works with a variety of sports and non-sports agencies to engage with some of the most challenged and vulnerable members of the community. Most recently, our coaches have worked with Syrian children as part of the local authority's refugee settlement programme. In addition, the Community Football Department has built partnerships with Rwandan non-profit sport organisations, schools and the local government where they organised a trip to deliver free coach education, donate football strips and share best practice.

The second vehicle is Big Hearts, our own charitable operation, fully constituted as a charity under the regulation of OSCR. The Club is the catalyst for different groups to come together and deliver much needed support. As an example, Big Hearts, Save the Children and the Club's First Team Players have combined to deliver Families and Schools Together (FAST); a programme that provides parents with the skills and activities that strengthens family bonds and improves educational development. So far, the partnership has enabled the programme to reach 276 families and over 565 children across Edinburgh.

Over 1,500 fans have registered to volunteer to assist Big Hearts in effecting social change in our local community. In this connection, we are delighted that Big Hearts have recently achieved Investing in Volunteers accreditation – the first Club in Scotland to achieve this. Staff and volunteers deliver many programmes including Football Memories, a programme to help those living with forms of dementia, the flagship Kinship Care Programmes and a recently launched multi-cultural initiative, designed to help young people from a variety of backgrounds feel more confident and comfortable in and out of school.

The third vehicle is our Heritage Department, again run on a not for profit basis. Our Heritage Department is a new addition to the organisation and at present encompasses our Museum and Memorial Garden. Our Museum opened to the public in September 2016 as a free, accessible attraction. It has been extensively researched and displays a collection of objects and artefacts which tell the story of the Club and the community. The museum has already received over 10,000 visitors and has been very well received. To develop our community links further, our Museum Curator is currently involved in developing educational links with local schools and community groups.

We are immensely proud of the achievements of our Community Football Department, our Heritage Department and our charity, Big Hearts.

HEART OF MIDLOTHIAN PLC

CORPORATE AND SOCIAL RESPONSIBILITY STATEMENT

FOR THE YEAR ENDED 30 JUNE 2017

Charitable Giving

Largely administered through our charity Big Hearts, the Club has a charity policy which outlines its commitments and procedures with regards to charitable donations. In addition, we are very proud of our ongoing partnership with Save the Children, which is now in its third year.

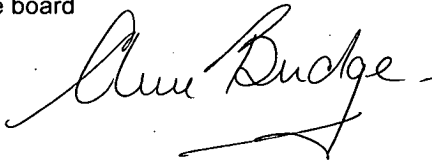
Employee Commitment

The business is proud to be the only football club in Scotland who is a Living Wage employer. The Club implemented the increased Living Wage in November 2016 and intends doing the same in November 2017.

Environmental Management

The Club is focused on managing the environmental impact of football in and around the stadium, particularly in the area of waste management. The desire over the coming years is to become a 'Zero Waste to Landfill' Club and we have recently partnered with a supplier, who is the only Scottish company to achieve ISO 20121, demonstrating best practice in their sustainability procedures.

On behalf of the board



Dr A Budge
Director

17 November 2017

HEART OF MIDLOTHIAN PLC

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017

The directors present their report and financial statements for the year ended 30 June 2017.

Principal activities

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

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

Dr A Budge

C Levein

Dr T Hogg

K Windram

B Cormack

(Resigned 6 December 2016)

D Cumming

J Duncan

(Appointed 1 July 2017)

S Wallace

(Appointed 3 February 2017)

Results and dividends

The results for the year are set out on page 10.

No ordinary dividends were paid. The directors do not recommend payment of a final dividend.

Disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment within the company continues and that the appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee involvement

On matters affecting employees' interests, the company's policy is to consult and discuss with employees at regular communication briefings and through the annual appraisal process.

Information about matters of concern to employees is given through statements from the Chief Executive and other communication briefings. The purpose of these is to achieve a common awareness on the part of all employees of the financial and economic factors affecting company performance.

Future developments

The Club is currently undergoing a significant stadium redevelopment programme. The development of the Wheatfield under-croft is now complete, with the building of a new main stand and upgrade to many other areas of the stadium ongoing. It is envisaged that this project will be complete in the next year.

HEART OF MIDLOTHIAN PLC

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2017

Statement of directors' responsibilities

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

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

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

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

The directors are also responsible for the maintenance and integrity of the financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of disclosure to auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company's auditor is unaware. Additionally, the directors individually 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 auditor is aware of that information.

On behalf of the board


Dr A Budge
Director

17 November 2017

HEART OF MIDLOTHIAN PLC

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF HEART OF MIDLOTHIAN PLC

Opinion

We have audited the financial statements of Heart of Midlothian plc (the 'company') for the year ended 30 June 2017 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's 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.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

HEART OF MIDLOTHIAN PLC

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

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and the Directors' Report.

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

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

Responsibilities of directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

HEART OF MIDLOTHIAN PLC

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

Auditor's responsibilities for the audit of the financial statements (continued)

As part of an audit in accordance with ISAs (UK), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Johnston Carmichael LLP

Irvine Spowart (Senior Statutory Auditor)
for and on behalf of Johnston Carmichael LLP

17 November 2017

Chartered Accountants
Statutory Auditor

7-11 Melville Street
Edinburgh
EH3 7PE

HEART OF MIDLOTHIAN PLC

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 JUNE 2017

| | Notes | Operations excluding player trading £000 | Player trading £000 | 2017 Total £000 | 2016 Total £000 |
|--|--------|--|---------------------------|-----------------------|-----------------------|
| Turnover | 3 | 11,255 | - | 11,255 | 9,967 |
| Staff costs | 7 | (5,884) | - | (5,884) | (5,520) |
| Other operating charges | | (5,361) | - | (5,361) | (4,334) |
| Loan fee income | | - | 260 | 260 | 85 |
| Profit on ordinary activities before interest, depreciation, amortisation and exceptional items | | 10 | 260 | 270 | 198 |
| Depreciation and other amounts written off tangible and intangible fixed assets | 12, 13 | (231) | (292) | (523) | (437) |
| Exceptional donation | 6 | 2,500 | - | 2,500 | - |
| Gain on sale of players' registrations | 4 | - | 214 | 214 | 1,019 |
| Profit on ordinary activities before interest | 6 | 2,279 | 182 | 2,461 | 780 |
| Other interest receivable and similar income | 9 | | | 15 | 18 |
| Interest payable and similar charges | 10 | | | (155) | (172) |
| Profit on ordinary activities before taxation | | | | 2,321 | 626 |
| Taxation | 11 | | | - | (3) |
| Profit for the financial year | | | | 2,321 | 623 |
| Other comprehensive income for the year | | | | | |
| Bidco (1874) loan interest waived | 27 | | | - | 13 |
| Total comprehensive income for the year | | | | 2,321 | 636 |

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

HEART OF MIDLOTHIAN PLC

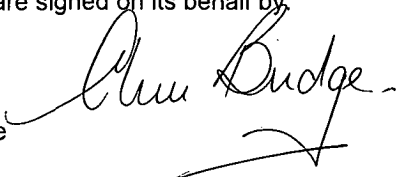
BALANCE SHEET

AS AT 30 JUNE 2017

| | | 2017 | 2016 |
|--|-------|----------------------|---------------------|
| | Notes | £000 | £000 |
| Fixed assets | | | |
| Intangible assets | 12 | 489 | 437 |
| Tangible assets | 13 | 13,393 | 7,382 |
| | | <u>13,882</u> | <u>7,819</u> |
| Current assets | | | |
| Stocks | 15 | 440 | 248 |
| Debtors | 16 | 1,507 | 2,522 |
| Cash at bank and in hand | | 5,541 | 5,036 |
| | | <u>7,488</u> | <u>7,806</u> |
| Creditors: amounts falling due within one year | 17 | <u>(7,623)</u> | <u>(5,832)</u> |
| Net current (liabilities)/assets | | (135) | 1,974 |
| Total assets less current liabilities | | <u>13,747</u> | <u>9,793</u> |
| Creditors: amounts falling due after more than one year | 18 | (2,258) | (2,400) |
| Net assets | | <u><u>11,489</u></u> | <u><u>7,393</u></u> |
| Capital and reserves | | | |
| Called up share capital | 23 | 15,648 | 15,648 |
| Share premium account | 24 | 11,769 | 11,769 |
| Revaluation reserve | 25 | 159 | 159 |
| Other reserves | 27 | 5,691 | 4,204 |
| Equity reserve | 28 | 155 | - |
| Profit and loss reserves | 26 | (21,933) | (24,387) |
| Total equity | | <u><u>11,489</u></u> | <u><u>7,393</u></u> |

The financial statements were approved by the board of directors and authorised for issue on 17 November 2017 and are signed on its behalf by:

Dr A Budge
Director



Company Registration No. SC005863

HEART OF MIDLOTHIAN PLC

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2017

| | Notes | Share capital £000 | Share premium account £000 | Revaluation reserve £000 | Equity reserve £000 | Other reserves £000 | Profit and loss reserves £000 | Total £000 |
|--|-------|-----------------------|-------------------------------|-----------------------------|------------------------|------------------------|----------------------------------|---------------|
| Balance at 1 July 2015 | | 15,644 | 11,769 | 159 | - | - | (25,010) | 2,562 |
| Period ended 30 June 2016: | | | | | | | | |
| Profit for the year | | - | - | - | - | - | 623 | 623 |
| Issue of share capital | | 4 | - | - | - | - | - | 4 |
| Funds received from Foundation of Hearts - working capital reserve | | - | - | - | - | 3,941 | - | 3,941 |
| Funds received from Foundation of Hearts - stadium redevelopment reserve | | - | - | - | - | 250 | - | 250 |
| Bidco (1874) Ltd loan interest waived | | - | - | - | - | 13 | - | 13 |
| Balance at 30 June 2016 | | 15,648 | 11,769 | 159 | - | 4,204 | (24,387) | 7,393 |
| Period ended 30 June 2017: | | | | | | | | |
| Profit for the year | | - | - | - | - | - | 2,321 | 2,321 |
| Bidco (1874) Ltd loan discounted due to interest holiday | 28 | - | - | - | 275 | - | - | 275 |
| Funds received from Foundation of Hearts - stadium redevelopment reserve | 27 | - | - | - | - | 1,500 | - | 1,500 |
| Bidco (1874) Ltd loan interest holiday discount unwinding in year | 27 | - | - | - | (133) | - | 133 | - |
| Bidco 1874 Ltd loan interest waived transfer | 28 | - | - | - | 13 | (13) | - | - |
| Balance at 30 June 2017 | | 15,648 | 11,769 | 159 | 155 | 5,691 | (21,933) | 11,489 |

HEART OF MIDLOTHIAN PLC

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2017

| | | 2017 | | 2016 | |
|---|-------|---------|---------|-------|-------|
| | Notes | £000 | £000 | £000 | £000 |
| Cash flows from operating activities | | | | | |
| Cash generated from/(absorbed by) operations | 35 | | 1,414 | | (122) |
| Investing activities | | | | | |
| Payments to acquire player registrations | | (454) | | (265) | |
| Receipts from sale of player registrations | | 384 | | 1,038 | |
| Purchase of tangible fixed assets | | (4,836) | | (386) | |
| Income taxes paid | | (3) | | - | |
| Net cash (used in)/generated from investing activities | | | (4,909) | | 387 |
| Financing activities | | | | | |
| Funds from Foundation of Hearts Limited | | 1,500 | | 1,498 | |
| Funds from exceptional donation | | 2,500 | | - | |
| Interest and arrangement fees paid | | - | | (247) | |
| Net cash generated from financing activities | | | 4,000 | | 1,251 |
| Net increase in cash and cash equivalents | | | 505 | | 1,516 |
| Cash and cash equivalents at beginning of year | | | 5,036 | | 3,520 |
| Cash and cash equivalents at end of year | | | 5,541 | | 5,036 |

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

1 Accounting policies

Company information

Heart of Midlothian plc is a public company limited by shares incorporated in Scotland. The registered office is Collins House, Rutland Square, Edinburgh, EH1 2AA.

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £000.

The financial statements have been prepared on the historical cost convention, modified to include the revaluation of certain tangible fixed assets and certain financial instruments at fair value. The principal accounting policies adopted are set out below.

The company has taken advantage of the exemption under section 402 of the Companies Act 2006 not to prepare consolidated accounts, as the company's only subsidiary, Tynecastle Events Limited, is dormant and its inclusion is not material for the purpose of giving a true and fair view of the group. These financial statements present information about the company as an individual entity and not about its group.

Heart of Midlothian plc is a subsidiary of Bidco (1874) Limited, which has its registered office at Collins House, Rutland Square, Edinburgh, Midlothian, EH1 2AA. The results of Heart of Midlothian plc are included in the consolidated financial statements of Bidco (1874) Limited which are available from Companies House, Fourth Floor, Edinburgh Quay 2, 139 Fountainbridge, Edinburgh, EH3 9FF.

1.2 Going concern

The directors have prepared cash flow projections through to 30 November 2018. The projections include:

- The continued support of the Foundation of Hearts, contributing £125,000 per month towards funding Stadium redevelopment.
- Additional loan facilities of £1,750,000 secured by the Club effective from October 2017.
- The realisation of new revenue streams and commercial sources of income from the operation of the new main stand.

The projections indicate that the company should remain cash positive throughout the period they cover. This includes the projected spend on redeveloping the Stadium planned during this period. It also includes the impact of cash inflows which can be generated from the new Stadium facilities becoming operational and the associated commercial revenues that this can bring to the Club. Whilst the company is not wholly dependent on the cash inflows from the Foundation of Hearts to continue as a going concern, the Foundation monies continue to be a vital source of funding.

Having reviewed the cash flow projections, and in light of the continued close relationship between the Club's board of directors and the Foundation of Hearts, the directors believe that the company has the ability to continue as a going concern for the foreseeable future.

The directors have concluded that it is appropriate for the accounts to be prepared on a going concern basis.

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2017

1 Accounting policies

(Continued)

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.

Money received as donations is recognised as turnover when received. Exceptional donations relating to the Tynecastle Redevelopment Project are recognised when received but are not classified as turnover as they do not relate to the operating activities of the company. Donations received from Foundation of Hearts Limited relating to the Tynecastle Redevelopment Project are not included in the profit and loss account, but are taken directly to reserves. Funds received from Foundation of Hearts Limited will eventually lead to Foundation of Hearts taking a majority share ownership in the company, and are therefore treated as a capital contribution. More details are included in notes 27 and 34.

1.4 Players' registrations, transfer fees and signing on fees

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 based on nil residual values. 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 are recognised in the profit and loss account in the year in which the transfer contract is signed and represents the transfer fee receivable, net of any transaction costs, less the unamortised cost of the player's original registration.

1.5 Tangible fixed assets

Tangible fixed assets are initially measured at cost and subsequently measured at cost or valuation, net of depreciation and any impairment losses.

Under FRS102 Section 35, the company has elected to freeze the previous GAAP revaluation of freehold land and buildings and memorabilia and treat it as deemed cost as at the revaluation date. Freehold land and property is depreciated from the valuation date, memorabilia and assets in the course of construction are not depreciated.

Depreciation is provided at rates calculated to write off the cost or valuation less estimated residual value of each asset over its expected useful life, as follows:

| | |
|--------------------------------------|--|
| Land and buildings freehold | Depreciated over a period of 50 years |
| Leasehold property | Depreciated over 25 year term of lease |
| Assets in the course of construction | See above |
| Plant and equipment | Depreciated over a period of 4 to 10 years |
| Memorabilia | See above |

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is credited or charged to the profit and loss account.

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2017

1 Accounting policies

(Continued)

1.6 Impairment of fixed assets

At each reporting end date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit and loss account, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the profit and loss account, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

1.7 Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to sell. Cost comprises direct materials and, where applicable, those overheads that have been incurred in bringing the stocks to their present location and condition.

At each reporting date, an assessment is made for impairment. Any excess of the carrying amount of stocks over its estimated selling price less costs to sell is recognised as an impairment in the profit and loss account. Reversals of impairment losses are also recognised in the profit and loss account.

1.8 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term liquid investments with original maturities of three months or less.

1.9 Financial instruments

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the company's balance sheet when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2017

1 Accounting policies

(Continued)

Basic financial assets

Basic financial assets, which include trade and other debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Impairment of financial assets

Financial assets, other than those held at fair value through the profit and loss account, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the profit and loss account.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in the profit and loss account.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the company transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

Classification of financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Basic financial liabilities, including trade and other creditors and loans from fellow group companies are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Derecognition of financial liabilities

Financial liabilities are derecognised when the company's contractual obligations expire or are discharged or cancelled.

1.10 Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2017

1 Accounting policies

(Continued)

1.11 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

Deferred tax

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.

1.12 Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

1.13 Retirement benefits

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

1.14 Leases

Rentals payable under operating leases, including any lease incentives received, are charged to income on a straight line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

2 Judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2017

2 Judgements and key sources of estimation uncertainty

(Continued)

Key sources of estimation uncertainty

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are as follows.

Carrying value of player registrations

The costs of player registration and transfer fees are written off over the term of the players' contracts. The directors review the value of these assets each year to identify if there is any impairment in the value of them. Where an impairment is identified, it is recognised in the profit and loss account.

Depreciation and estimated useful life of tangible assets

The directors must estimate the useful life and residual value of tangible assets, and determine a suitable depreciation rate over which to write down these assets. Details of these estimates are included in note 1.5. The directors also review the carrying value of tangible assets for any potential impairment. Where an impairment is identified, it is recognised in the profit and loss account.

3 Turnover and other revenue

An analysis of the company's turnover is as follows:

| | 2017 £000 | 2016 £000 |
|---------------------------------|---------------|--------------|
| Turnover | | |
| Gate receipts | 4,296 | 4,333 |
| Sponsorship and advertising | 826 | 647 |
| Broadcasting rights | 244 | 238 |
| Commercial | 2,672 | 2,019 |
| UEFA solidarity and prize money | 2,578 | 1,995 |
| Other operating income | 639 | 735 |
| | <u>11,255</u> | <u>9,967</u> |

Other significant revenue

| | | |
|-----------------|-----------|-----------|
| Interest income | <u>15</u> | <u>18</u> |
|-----------------|-----------|-----------|

Turnover analysed by geographical market

| | 2017 £000 | 2016 £000 |
|----|---------------|--------------|
| UK | <u>11,255</u> | <u>9,967</u> |

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2017

4 Gain on sale of player registrations

| | 2017 £000 | 2016 £000 |
|--|--------------|--------------|
| Proceeds from sale of player registrations | 384 | 1,038 |
| Costs of player registrations sold or terminated | (170) | (19) |
| Gain on sale of players | <u>214</u> | <u>1,019</u> |

5 Auditor's remuneration

| | 2017 £000 | 2016 £000 |
|---|--------------|--------------|
| Fees payable to the company's auditor and associates: | | |
| For audit services | | |
| Audit of the financial statements of the company | <u>16</u> | <u>15</u> |
| For other services | | |
| Taxation compliance services | 3 | 3 |
| Other taxation services | 9 | 2 |
| All other non-audit services | 4 | 5 |
| | <u>16</u> | <u>10</u> |

6 Profit on ordinary activities before interest

| | 2017 £000 | 2016 £000 |
|--|--------------|--------------|
| Profit on ordinary activities before interest for the year is stated after charging/(crediting): | | |
| Depreciation of owned tangible fixed assets | 231 | 224 |
| Amortisation of intangible assets | 292 | 213 |
| Cost of stocks recognised as an expense | 567 | 102 |
| Impairment of stocks recognised or reversed | (4) | 14 |
| Operating lease charges | <u>355</u> | <u>303</u> |

During the year the company received a donation of £2,500,000 towards the cost of the Tynecastle redevelopment project.

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2017

7 Employees

The average monthly number of persons (including directors) employed by the company during the year was:

| | 2017 Number | 2016 Number |
|-------------------------------------|----------------|----------------|
| Players and coaching staff | 104 | 95 |
| Administration and commercial staff | 56 | 49 |
| Part-time hospitality staff | 115 | 105 |
| | <u>275</u> | <u>249</u> |

Their aggregate remuneration comprised:

| | 2017 £000 | 2016 £000 |
|-----------------------|--------------|--------------|
| Wages and salaries | 5,319 | 4,989 |
| Social security costs | 546 | 515 |
| Pension costs | 19 | 16 |
| | <u>5,884</u> | <u>5,520</u> |

8 Directors' remuneration

| | 2017 £000 | 2016 £000 |
|--------------------------------------|--------------|--------------|
| Remuneration for qualifying services | <u>135</u> | <u>154</u> |

The number of directors for whom retirement benefits are accruing under defined contribution schemes amounted to 1 (2016 - 1).

9 Interest receivable and similar income

| | 2017 £000 | 2016 £000 |
|---------------------------|--------------|--------------|
| Interest income | | |
| Interest on bank deposits | <u>15</u> | <u>18</u> |

Investment income includes the following:

| | | |
|--|-----------|-----------|
| Interest on financial assets not measured at fair value through profit or loss | <u>15</u> | <u>18</u> |
|--|-----------|-----------|

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2017

10 Interest payable and similar expenses

| | 2017 £000 | 2016 £000 |
|---|--------------|--------------|
| Interest on financial liabilities measured at amortised cost: | | |
| Interest payable to group undertakings | - | 150 |
| Other finance costs: | | |
| Finance costs for financial instruments measured at fair value through profit or loss | 133 | - |
| Loan arrangement fees | 22 | 22 |
| | <u>155</u> | <u>172</u> |

More details about interest payable and similar expenses are explained in notes 19 and 28.

11 Taxation

| | 2017 £000 | 2016 £000 |
|--|--------------|--------------|
| Current tax | | |
| UK corporation tax on profits for the current period | - | 3 |
| | <u>-</u> | <u>3</u> |

The actual charge for the year can be reconciled to the expected charge for the year based on the profit or loss and the standard rate of tax as follows:

| | 2017 £000 | 2016 £000 |
|--|--------------|--------------|
| Profit before taxation | <u>2,321</u> | <u>626</u> |
| Expected tax charge based on the standard rate of corporation tax in the UK of 19.75% (2016: 20.00%) | 458 | 125 |
| Tax effect of expenses that are not deductible in determining taxable profit | 72 | 70 |
| Tax effect of income not taxable in determining taxable profit | (493) | - |
| Change in unrecognised deferred tax assets | (37) | (192) |
| | <u>-</u> | <u>3</u> |
| Tax expense for the year | <u>-</u> | <u>3</u> |

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2017

12 Intangible fixed assets

| | Players' registrations £000 |
|------------------------------------|--------------------------------|
| Cost | |
| At 1 July 2016 | 628 |
| Additions - separately acquired | 466 |
| Disposals | (370) |
| | <hr/> |
| At 30 June 2017 | 724 |
| | <hr/> |
| Amortisation and impairment | |
| At 1 July 2016 | 191 |
| Amortisation charged for the year | 292 |
| Disposals | (248) |
| | <hr/> |
| At 30 June 2017 | 235 |
| | <hr/> |
| Carrying amount | |
| At 30 June 2017 | 489 |
| | <hr/> |
| At 30 June 2016 | 437 |
| | <hr/> |

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2017

13 Tangible fixed assets

| | Land and buildings freehold £000 | Leasehold property £000 | Assets in the course of construction £000 | Plant and equipment £000 | Memorabilia £000 | Total £000 |
|------------------------------------|---|-------------------------------|--|--------------------------------|---------------------|---------------|
| Cost or valuation | | | | | | |
| At 1 July 2016 | 5,450 | 2,544 | 705 | 2,339 | 159 | 11,197 |
| Additions | - | - | 6,207 | 35 | - | 6,242 |
| Transfers | 1,400 | - | (1,400) | - | - | - |
| At 30 June 2017 | 6,850 | 2,544 | 5,512 | 2,374 | 159 | 17,439 |
| Depreciation and impairment | | | | | | |
| At 1 July 2016 | 327 | 1,221 | - | 2,267 | - | 3,815 |
| Depreciation charged in the year | 109 | 102 | - | 20 | - | 231 |
| At 30 June 2017 | 436 | 1,323 | - | 2,287 | - | 4,046 |
| Carrying amount | | | | | | |
| At 30 June 2017 | 6,414 | 1,221 | 5,512 | 87 | 159 | 13,393 |
| At 30 June 2016 | 5,123 | 1,323 | 705 | 72 | 159 | 7,382 |

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2017

13 Tangible fixed assets

(Continued)

Revalued assets

J&E Shepherd, Chartered Surveyors, valued the freehold land and buildings as at 8 November 2012 on a depreciated replacement cost basis at £5.45m 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 his 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.

Under FRS102 Section 35, the company has elected to freeze the previous GAAP revaluation of freehold land and buildings and memorabilia on transition to FRS 102 and treat it as the deemed cost as at the revaluation date.

If revalued assets were stated on an historical cost basis rather than a fair value basis, the total amounts included would have been as follows:

| | 2017 £000 | 2016 £000 |
|--------------------------|--------------|--------------|
| Cost | 12,143 | 12,143 |
| Accumulated depreciation | (4,648) | (4,412) |
| Carrying value | <u>7,495</u> | <u>7,731</u> |

The revaluation surplus is disclosed in note 25.

Stadium redevelopment

In March 2016, the business announced its plans to redevelop Tynecastle Stadium. The plans include the development of the under-croft in the Wheatfield stand and a new main stand build. At 30 June 2017, £6.9m has been incurred to further these plans. These costs have been capitalised in the accounts as 'Assets in the course of construction'.

During the year, the work at the under-croft in the Wheatfield stand was completed. To recognise this, the £1.4m cost was transferred from 'Assets in the course of construction' to 'Land and buildings freehold'.

14 Financial instruments

| | 2017 £000 | 2016 £000 |
|---|--------------|--------------|
| Carrying amount of financial assets | | |
| Debt instruments measured at amortised cost | 1,421 | 2,355 |
| Cash at bank | <u>5,541</u> | <u>5,036</u> |
| Carrying amount of financial liabilities | | |
| Measured at amortised cost | <u>5,239</u> | <u>4,107</u> |

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2017

| | | |
|-------------------------------------|-------------|-------------|
| 15 Stocks | | |
| | 2017 | 2016 |
| | £000 | £000 |
| Finished goods and goods for resale | 440 | 248 |

| | | |
|---|--------------|--------------|
| 16 Debtors | | |
| | 2017 | 2016 |
| | £000 | £000 |
| Amounts falling due within one year: | | |
| Trade debtors | 231 | 273 |
| Other debtors | 855 | 1,864 |
| Prepayments and accrued income | 421 | 385 |
| | <u>1,507</u> | <u>2,522</u> |

The reduction in 'Other debtors' in the year reflects a reduction of £839,000 in the value of ticket sales credit card payments being held as a deposit by the company's credit card merchant.

| | | | |
|--|--------------|--------------|--------------|
| 17 Creditors: amounts falling due within one year | | | |
| | Notes | 2017 | 2016 |
| | | £000 | £000 |
| Trade creditors | | 2,277 | 925 |
| Corporation tax | | - | 3 |
| Other taxation and social security | | 279 | 633 |
| Deferred income | 21 | 4,029 | 3,713 |
| Other creditors and accruals | | 1,038 | 558 |
| | | <u>7,623</u> | <u>5,832</u> |

| | | | |
|---|--------------|-------------|-------------|
| 18 Creditors: amounts falling due after more than one year | | | |
| | Notes | 2017 | 2016 |
| | | £000 | £000 |
| Loans and overdrafts | 19 | 2,258 | 2,400 |

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2017

19 Loans and overdrafts

| | 2017 £000 | 2016 £000 |
|-------------------------------|--------------|--------------|
| Loans from group undertakings | 2,258 | 2,400 |
| Payable after one year | 2,258 | 2,400 |

Amounts owed to the company's parent company, Bidco (1874) Limited, are secured by a standard security over Tynecastle Stadium. Bidco (1874) Limited also holds a floating charge over the assets of the company.

From 1 July 2016 until 31 May 2018, Bidco (1874) Limited has granted an interest holiday on its loan of £2,400,000 to the company. Therefore, in line with the accounting policy set out at note 1.9, the loan has been accounted for within these financial statements as a financing transaction at the present value of future payments discounted at a market rate of interest. No repayments of the £2,400,000 have been made by the company to Bidco (1874) Limited.

20 Provisions for liabilities

Unrecognised deferred tax asset

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

| | 2017 £000 | 2016 £000 |
|--------------------------------|--------------|--------------|
| Fixed asset timing differences | 252 | 329 |
| Other timing differences | 24 | - |
| Tax losses available | 9,861 | 9,766 |
| | 10,137 | 10,095 |

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.

21 Deferred income

| | 2017 £000 | 2016 £000 |
|-----------------------|--------------|--------------|
| Other deferred income | 4,029 | 3,713 |

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

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2017

22 Retirement benefit schemes

| | 2017 £000 | 2016 £000 |
|---|--------------|--------------|
| Defined contribution schemes | | |
| Charge to profit or loss in respect of defined contribution schemes | 19 | 16 |

The company operates a defined contribution pension scheme for all qualifying employees. The assets of the scheme are held separately from those of the company in an independently administered fund.

23 Share capital

| | 2017 £000 | 2016 £000 |
|---|--------------|--------------|
| Ordinary share capital | | |
| Issued and fully paid | | |
| 156,478,232 Ordinary shares of 10p each | 15,648 | 15,648 |

Each share has equal voting rights and is entitled to one vote each.

24 Share premium account

The share premium account represents amounts received in excess of the par value of a share.

25 Revaluation reserve

The revaluation reserve represents the revaluation of memorabilia as at 31 July 1998, based on the open market value. The memorabilia was previously carried at £nil cost.

26 Profit and loss reserves

The profit and loss reserves represent the accumulated losses of the company.

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2017

27 Other reserves

| | Foundation of Hearts working capital reserve | Foundation of Hearts stadium redevelopment reserve | Bidco (1874) Ltd stadium redevelopment reserve | Total |
|---|--|---|---|-------|
| | £000 | £000 | £000 | £000 |
| At 1 July 2015 | - | - | - | - |
| Transfer from liabilities to equity | 3,941 | - | - | 3,941 |
| Funds received from Foundation of Hearts | - | 250 | - | 250 |
| Interest waived by Bidco | - | - | 13 | 13 |
| At 30 June 2016 | 3,941 | 250 | 13 | 4,204 |
| Funds received from Foundation of Hearts | - | 1,500 | - | 1,500 |
| Transfer to equity reserve | - | - | (13) | (13) |
| At 30 June 2017 | 3,941 | 1,750 | - | 5,691 |

The Foundation of Hearts working capital reserve represents the funding received from Foundation of Hearts Limited in the first two years of its support to the company, which ended on 9 May 2016. With the successful completion of the initial two year financial support period, the directors reviewed these balances in conjunction with the directors of Foundation of Hearts Limited. These funds were deemed not to be repayable to Foundation of Hearts Limited and were therefore reclassified as equity rather than as a liability.

The Foundation of Hearts stadium redevelopment reserve includes the funds advanced by Foundation of Hearts, subsequent to the end of the initial two year period, for the redevelopment of Tynecastle stadium. These funds are also not repayable to Foundation of Hearts and are classed as equity rather than as a liability. See note 34 below.

The Bidco (1874) Limited stadium redevelopment reserve includes the interest waived on the senior loan from 1 June 2016. With effect from 1 July 2016 an interest holiday is in place on the loan from Bidco (1874) Limited to the company. Therefore the balance of this reserve has been transferred to the Equity reserve. See note 28 below

For the year ended 30 June 2017, a total of £1.5m (2016 - £1.5m) has been provided to the company by the Foundation of Hearts Limited in accordance with the Repayment and Funding Support Agreement dated 18 January 2017 between Bidco (1874) Limited and Foundation of Hearts Limited. Foundation of Hearts Limited, holds a standard security over Tynecastle Stadium. Foundation of Hearts Limited also holds a floating charge over the assets of the company. All securities held by Foundation of Hearts Limited are subordinated behind the security held by Bidco (1874) Limited.

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2017

28 Equity reserve

Bidco (1874) Limited has provided a loan of £2,400,000 to the company. From 1 July 2016 to 31 May 2018, Bidco (1874) has agreed to provide an interest holiday on the interest payable on this loan.

The loan is therefore being accounted for as a financing transaction, and has been adjusted in value to the present value of future payments discounted at a market rate of interest. At 1 July 2016 this created an equity reserve of £275,000.

The £13,000 balance in the Bidco (1874) Ltd stadium redevelopment reserve arising from an interest waiver effective 1 June 2016, has been transferred into the equity reserve during the year.

The balance of the equity reserve is transferred to profit and loss reserves to match the notional interest charge arising as this fair value adjustment of £275,000 unwinds over the period of the interest holiday. During the year, £133,000 was transferred to profit and loss reserves, leaving a balance of £155,000 at 30 June 2017.

No repayments of the £2,400,000 have been made by the company to Bidco (1874) Limited.

29 Operating lease commitments

Lessee

At the reporting end date the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

| | 2017 £000 | 2016 £000 |
|----------------------------|--------------|--------------|
| Within one year | 292 | 288 |
| Between two and five years | 1,152 | 1,152 |
| In over five years | 1,440 | 1,728 |
| | <u>2,884</u> | <u>3,168</u> |

30 Capital commitments

| | 2017 £000 | 2016 £000 |
|--|--------------|--------------|
| Amounts contracted for but not provided in the financial statements: | | |
| Contracted for but not provided in the financial statements: | | |
| Acquisition of tangible fixed assets | <u>5,878</u> | <u>1,418</u> |

31 Related party transactions

Remuneration of key management personnel

The remuneration of key management personnel, including directors, is as follows.

| | 2017 £000 | 2016 £000 |
|------------------------|--------------|--------------|
| Aggregate compensation | <u>497</u> | <u>415</u> |

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2017

31 Related party transactions

(Continued)

Other transactions

During the year, the company was charged arrangement fees of £22,000 (2016 - charged interest and arrangement fees of £172,000) on a loan of £2.4m made to the company by Bidco (1874) Limited. From 1 July 2016 to 30 June 2018 as a contribution to the Tynecastle redevelopment project, Bidco (1874) Limited has provided an interest holiday period on interest payable on this loan. At 30 June 2017 the company owed Bidco (1874) Limited £2.4m (2016 - £2.4m).

Foundation of Hearts Limited is a company in which D Cumming, B Cormack and S Wallace were also directors during the year. During the year, Foundation of Hearts Limited made advances of £1.5m (2016 - £1.5m) to contribute capital to the Tynecastle redevelopment project. As at 30 June 2017, the total amount received to date from Foundation of Hearts Limited was £5.8m (2016 - £4.3m).

Dr A Budge is a director of Big Hearts Community Trust. During the year, the company invoiced £21,859 (2016 - £nil) and received £20,790 (2016 - £10,438) from the charity. As at 30 June 2017, the company was owed £1,790 (2016 - £720) by Big Hearts Community Trust.

During the year, the company purchased construction services from JB Contracts (Scotland) Limited amounting to £1,465,000 (2016 - £248,000). At 30 June 2017, the company owed JB Contracts (Scotland) Limited £200,000 (2016 - £240,000). Whilst there is a family connection between Dr A Budge and the director and controlling shareholder of this company, there are no shared business interests. The construction services were procured by our independent 3rd party Construction Manager, who was responsible for the evaluation, selection and appointment of suitable trade contractors, via a structured tender process. The Board are satisfied that the services were purchased on an arm's length basis.

32 Controlling party

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

Bidco (1874) Limited is the only company into which the results of the company are consolidated. Copies of the consolidated accounts can be obtained from Companies House, Fourth Floor, Edinburgh Quay 2, 139 Fountainbridge, Edinburgh, EH3 9FF.

33 Subsidiaries

Details of the company's subsidiaries at 30 June 2017 are as follows:

| Name of undertaking | Registered office | Nature of business | Class of shares held | % Held | |
|---------------------------|-------------------|--------------------|----------------------|--------|----------|
| | | | | Direct | Indirect |
| Tynecastle Events Limited | Scotland | Dormant | Ordinary | 100.00 | |

The capital and reserves for the year of the subsidiary was £1.

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2017

34 Bidco/Foundation of Hearts revised agreement

The directors of Foundation of Hearts Limited, following approval by their membership at the end of May 2016, have agreed to participate in the funding of the redevelopment of Tynecastle Stadium. The Foundation of Hearts Limited and the company's parent company Bidco (1874) Limited have formally agreed the necessary changes and additions to the original Repayment and Funding Support Agreement as of 18 January 2017.

As part of the amendments to this agreement, Bidco (1874) Limited agreed to transfer 20% of the voting rights attached to the shares held by Bidco (1874) Limited in the company to Foundation of Hearts Limited. This transfer of these voting rights was to happen once Foundation of Hearts Limited had provided £1.5 million of funding towards the Tynecastle Stadium redevelopment project. This transfer was completed in May 2017.

35 Cash generated from operations

| | 2017 £000 | 2016 £000 |
|--|--------------|--------------|
| Profit for the year after tax | 2,321 | 623 |
| Adjustments for: | | |
| Taxation charged | - | 3 |
| Finance costs | 155 | 172 |
| Investment income | (15) | (18) |
| Gain on sale of registrations | (214) | (1,019) |
| Exceptional donation income | (2,500) | - |
| Amortisation and impairment of intangible assets | 292 | 213 |
| Depreciation and impairment of tangible fixed assets | 231 | 224 |
| Movements in working capital: | | |
| (Increase) in stocks | (192) | (216) |
| Decrease/(increase) in debtors | 1,008 | (381) |
| Increase in creditors | 12 | 78 |
| Increase in deferred income | 316 | 199 |
| Cash generated from/(absorbed by) operations | 1,414 | (122) |