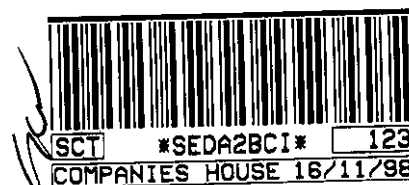


HEART OF MIDLOTHIAN PLC
REPORT AND FINANCIAL STATEMENTS
PERIOD ENDED 31 JULY 1998

Rutherford Manson Dowds
Chartered Accountants
25 Melville Street
Edinburgh
EH3 7PE



HEART OF MIDLOTHIAN PLC

REPORT AND FINANCIAL STATEMENTS

PERIOD ENDED 31 JULY 1998

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HEART OF MIDLOTHIAN PLC

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS: L G Deans (Non-Executive Chairman)
C P Robinson (Chief Executive)
C G Wilson (Non-Executive)
F S Jackson (Non-Executive)
D A Smith (Non-Executive)
B J Duffin (Non-Executive)

SECRETARY: A S Fraser

**REGISTERED
OFFICE:** Tynecastle Stadium
Gorgie Road
Edinburgh
EH11 2NL

AUDITORS: Rutherford Manson Dowds
Chartered Accountants
25 Melville Street
Edinburgh
EH3 7PE

BANKERS: Bank of Scotland
1 Ardmillan Terrace
Edinburgh
EH11 2JN

SOLICITORS: Henderson Boyd Jackson WS
19 Ainslie Place
Edinburgh
EH3 6AU

**FINANCIAL ADVISERS
AND STOCKBROKERS:** Williams De Broe plc
7 Forres Street
Edinburgh
EH3 6TL

**REPORTING
VALUERS:** Ryden
Chartered Surveyors
46 Castle Street
Edinburgh
EH2 3BN

**COMPANY
NUMBER:** SC005863

HEART OF MIDLOTHIAN PLC

THE BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Christopher Peter Robinson

Mr Robinson, aged 47, spent his working life in the catering industry until 1996 when he sold Wheatsheaf Catering Limited to Gardner Merchant Specialist Services Limited. Mr Robinson became non-executive Chairman in June 1994 when New Hearts Limited, which he and Mr Deans jointly control, acquired control of Heart of Midlothian Football Club plc. He was appointed as Chief Executive of the Company on 13 March 1997, with effect from 1 April 1997 and he has, and will continue to have overall responsibility for the management of the Company's operations.

NON-EXECUTIVE DIRECTORS

Leslie George Deans

Mr Deans, aged 47, is senior partner of Leslie Deans & Co., Solicitors and Estate Agents, which he founded in 1986 and which specialises in all aspects of property related legal work. He is a graduate of Edinburgh University and has spent his professional life in private legal practice. Mr Deans became a director of Heart of Midlothian Football Club plc in June 1994 when New Hearts Limited acquired control. He took over as non-executive chairman of the Company on 30 December 1996 from Mr Robinson.

Colin Graham Wilson

Mr Wilson, aged 63, has been a director of the Company since May 1991. He is a Fellow of the Chartered Institute of Marketing and has held board positions with a number of companies in the food industry. He currently holds a number of other non-executive directorships including Castle MacLellan Foods Limited and Fenton Barns (Scotland) Limited.

HEART OF MIDLOTHIAN PLC

THE BOARD OF DIRECTORS

Fraser Scott Jackson

Mr Jackson, aged 44, is the senior corporate law partner in the firm of Henderson Boyd Jackson WS, Solicitors. He is a graduate of Edinburgh University and worked in the public sector and in the oil industry for Shell before entering private legal practice. He has been a non-executive director of the Company since June 1994.

Brian James Duffin

Mr Duffin, aged 43, is an Actuary who joined the Scottish Life Assurance Company ("Scottish Life") in 1976 after graduating from Cambridge University. Having spent significant periods at a senior level in the investment and marketing departments, he was appointed a director of Scottish Life in 1996 and has been appointed to be Group Chief Executive from 1 January 1999. He was appointed as a non-executive director of the Company in May 1997.

Douglas Andrew Smith

Mr Smith, aged 52, was appointed a director of the Company in May 1997. He has spent his working career in the insurance industry. In 1987 he founded and became chairman of Corporate Risk plc which was acquired in March 1996 by Johnston & Higgins, the international insurance brokers which subsequently became part of J & H Marsh McLennan UK Limited. He is now Chairman of Corporate Risk plc and an executive director of J & H Marsh McLennan UK Limited.

HEART OF MIDLOTHIAN PLC

CHAIRMAN'S STATEMENT

The Company has at long last achieved tangible success on the field of play. The results for the 14 month period as highlighted by the Chief Executive reflect the progress and investment which have been ongoing for several years.

We now believe that the framework for the Company, internally and externally within the football environment, is right for progress so that we can begin to deliver shareholder value and continue the growth which has been a feature of recent years. I would like to congratulate Chris Robinson and his management team on guiding the Company through the final stages of the rebuilding programme.

I must commend my Non-Executive Directors for their valuable support as we have grappled with the many issues surrounding both Hearts and the structure of Scottish football. The Chief Executive, myself and Fraser Jackson have been heavily involved along with our fellow clubs in the creation of the new Scottish Premier League. Everyone in Scotland is excited now about the prospects for improved competition emanating from the significant new revenue streams.

Heart of Midlothian has truly begun to prove its potential as Scotland's third force in professional football. We have the stadium, management and players capable of sustaining the challenge and making progress in Cup competitions and European qualification.

Jim Jeffries, his coaching staff and the players have received the highest acclaim following the Scottish Cup victory. This is well deserved and we hope that the squad which has been assembled can go on to win further major honours.

We are now setting demanding standards and targets for everyone connected with Heart of Midlothian so that we can benchmark this football club against the best in UK and Europe. We can now look forward to a new and prosperous era in the history of Heart of Midlothian plc.

Leslie G Deans
Chairman

CHIEF EXECUTIVE'S STATEMENT

It is with great pleasure that I present a review of the Company's operations for the 14 month period ended 31 July 1998. The period has been one of the most eventful in the Company's history. Clearly the highlight was winning the Tennent's Scottish Cup in May. Remarkably this trophy has only been seen in the Capital City four times this century and three of these have been in Gorgie.

To win a major honour after 36 years has lifted a tremendous burden from the Club and all those who follow its fortunes on and off the field. It is appropriate for me to thank everyone for all their efforts. The success, although principally due to management, coaching and playing staff, could not have happened without the collective efforts of everyone working throughout the Club.

Our achievement of winning the Cup to a certain extent overshadowed our tremendous challenge in the League Championship. We finished a very close and credible third place and, had we perhaps had some more depth to the squad, could have finished as champions.

Stadium Redevelopment

Following the successful flotation and restructuring of the capital base, the planned redevelopment of the Stadium was completed in December of last year. The opportunity was taken to extend the scope of the works whilst contractors were present to add value and complete Tynecastle Stadium for the medium term.

The Gorgie Stand was completed for occupancy for spectators in September and the new Gorgie Suite was opened formally by the Rt. Hon Eric Milligan, Lord Provost of the City of Edinburgh, at our fixture against Rangers on Saturday 20 December. Our new superstore opened for business in early December. The additional works comprised new entertainment suites in the Main Stand for Directors, Executive and Premier members which were completed by Christmas, together with substantial refurbishment behind the scenes for players and new modern seating installed.

Tynecastle Stadium, in its complete form, now meets all the relevant safety criteria laid down under the Green Guide. The Stadium is now considered to be amongst the finest in the country and in the last 14 months has been used for a Coca Cola Cup Semi Final, a Scotland 'B' International, a Rugby Superleague fixture and a full Scotland International.

Other projects concluded over the 14 month period include the acquisition of a builders' yard to the west of the Stadium which has created useful additional parking for the superstore, Gorgie Suite and corporate hospitality patrons. The administration building has been totally refurbished with new offices and meeting rooms and is fully equipped with modern telephone and network communication systems necessary to meet the demands of a modern leisure business.

Management Structure

Over the period a new management structure has evolved. Sally Johnson has left the Company to take up an appointment with the Bank of Scotland and I was pleased to welcome Stewart Fraser as Company Secretary. Stewart has in a short period of time put in place new and detailed management information systems to match the ever-changing requirements of a multi-faceted business such as Hearts.

CHIEF EXECUTIVE'S STATEMENT - Continued

With the Stadium project complete, Jim Rigby has returned to his various consultancy roles and we are pleased to welcome Brian Mitchell who has a wealth of property experience. In addition Clare Sargent has joined us as Retail Operations Manager and we have recently appointed Colin Sked in the role of Customer Relations Manager with particular responsibilities for ticketing, retail and supporter liaison.

The new members of the management team have settled in and are well able to cope with the continued growth in all aspects of the business.

Business Activities

Whilst Heart of Midlothian is principally thought of as a professional football club, the scope of business activities continues to broaden. We are involved in retail operations, catalogue sales, publishing, conference and banqueting, corporate hospitality, product licensing, sale of sponsorship, viewing and broadcasting rights, financial services, travel and the development of young footballers both in the community and as part of the professional development of our playing squad.

The new superstore has been particularly successful and is showing significant growth following our Cup triumph. The range and quality of merchandise has been extended and a new catalogue is being launched. We shall see significant revenues from merchandising in the years ahead. Sales of replica jerseys were at an all time high in Season 1997/98 with some 20,000 sold through our superstore and retail sports shops.

Banqueting and hospitality has seen a significant uplift following the opening of the Gorgie Suite in conjunction with the redeveloped Directors' and Executive Suites. Revenue from hospitality and banqueting continues to grow and a team headed by Graeme Pacitti has now been put in place to stimulate and manage Hearts' hospitality operations.

Douglas Dalgleish has made a significant impact in public relations and media management and has now turned his attention to publishing. Our matchday magazine and the monthly "Jambo" publication are going from strength to strength. These publications along with our popular Internet site are an important platform for our general strategy for developing communication with supporters throughout the world.

Scottish Premier League Limited

During the year under review, I chaired the Steering Group of the Premier League Clubs through their negotiations to form a breakaway league from the existing Scottish football leagues. Negotiations with our fellow clubs in Divisions 1, 2 and 3 were at times fractious and difficult. However I am pleased to report that the outcome of these negotiations resulted in the successful creation of a new Scottish Premier League fully recognised by the Scottish Football Association.

CHIEF EXECUTIVE'S STATEMENT - Continued

The leading clubs involved in the initiative have a clear vision to create a new structure for Scottish football which allows the top tier of clubs to have control over their destiny and consequently over the marketing rights including broadcasting, television and sponsorship. The new Scottish Premier League has put in place a series of important deals with BskyB, BBC, Scottish Media Group and a range of radio and commercial companies which create guaranteed revenue for the new League of a minimum £70 million over the next 4 years.

The timing of the creation of the League is of vital importance to the Company as it creates significant new revenues and further financial opportunities which previously had been at a much lower level. I believe that the efforts in creating the Scottish Premier League have been very satisfying and worthwhile and that whilst Hearts and the other member clubs will see benefits, Scottish football generally will be able to raise its profile and create a solid foundation for continued growth into the new Millennium.

Financial Results

As intimated last year, the Company has changed its year end to 31 July to bring the start of the trading year in line with the start of the football season. As a consequence, the results for this period to 31 July 1998 reflect 4 non-trading months of 2 close seasons when no significant revenues accrue to the Company.

The results for the period only benefit from 8 months of full trading from the superstore and Gorgie Suite due to the timing of their opening in late 1997. Turnover reflects increased attendances which now show an average of 15,000 and a successful Scottish Cup run.

At the time of writing, the first 6 months of 1998/99 financial year will include our run to the semi-final of the League Cup and participation in the preliminary and first round of the European Cup Winners Cup. The revenues from these competitions together with the enhanced SPL revenues take the Company forward to a much stronger position. However in the current post-Bosman era there is considerable inflationary pressure on players' wages, and like all major professional football clubs, we shall see a significant increase in our wage costs. This increase, however, is carefully budgeted and maintains the value of key players over their contracted periods.

In all respects the key performance indicators are positive for the Company. Season ticket sales up to the end of July were at 11,000, some 2,700 [33%] higher than the same period in the previous year. Average crowds continue to rise, as does the average income per spectator for both season tickets and match tickets. In the next financial year we shall see a significant increase in revenues from sources other than gate income, television and sponsorship. Merchandising and hospitality will take up a larger proportion of the Company's income and we will be less reliant on spectator income.

HEART OF MIDLOTHIAN PLC

CHIEF EXECUTIVE STATEMENT - Continued

I believe that the costs which have been absorbed in terms of restructuring in recent years give us a real platform to build a strong and profitable company in the years ahead.

The period under review sees the culmination of several years of hard work in propelling Heart of Midlothian to the forefront of Scottish football. No-one would dispute that Hearts are now Scotland's third club in terms of size of support, income generation and profit potential. I believe that if we continue to invest in all aspects of the business and in particular the strength of playing squad, the Company can see significant added value, improved profitability and a secure trading platform for future growth. Everyone at Heart of Midlothian is now clearly focused on delivering these objectives.



C P Robinson
Chief Executive
5 October 1998

HEART OF MIDLOTHIAN PLC

MANAGER'S STATEMENT

It is a source of great pride and personal pleasure that I managed the first Hearts football team to a major honour for 36 years. Having supported Hearts as a youngster, I have fulfilled both a dream of playing for the Club, managing the Club and now winning silverware.

The support which I have had from colleagues within Hearts, the coaching and playing staff at all levels has been exceptional. Football is a team game and the success which we have so enjoyed has been a real team effort. In January of this year both Billy Brown and myself signed new 5 year contracts committing ourselves to Hearts.

The 1997/98 season as a whole was not only remarkable for our Scottish Cup victory, as we also offered a real challenge to the dominance of Rangers and Celtic in the Bell's Premier League Championship. We could have gone all the way in the Championship had it not been for injuries towards the end of the campaign. Had we had more depth in our squad or been able to bring in players in the early part of the year, winning the Championship would have been a real possibility.

Building a quality squad of players is very much an ongoing part of my role. In today's football marketplace, players who can move under freedom of contract make it difficult to maintain a consistent squad. I am pleased to say that I have been able to re-sign most of the key squad players whose contract periods had relatively short terms to run. Some further players have had extensions to their contracts. We have also been able to strengthen the squad over the summer months and I am optimistic that following our successful season we will be able to continue to attract top quality players to Edinburgh and Heart of Midlothian Football Club.

Now that we have tasted success, everyone is desperate to enjoy more of the wonderful scenes which we witnessed both at Celtic Park on Saturday 16 May following our successful defeat of Rangers and the celebrations the next day in Edinburgh.

We are not only excited about the prospects of the first team success but once again our younger players and youth development system have had a successful season. The new SPL Youth League has given an opportunity to our younger players to progress at a faster level and this in turn will lead to increased competition for places in the first team squad.

The success which Hearts enjoyed has been recognised at International level with call-ups to the full International Squad for David Weir who appeared in the World Cup for Scotland. Further call-ups have resulted in a cap for Neil McCann, with Steve Fulton, Jim Hamilton, Gary Naysmith, Colin Cameron and Paul Ritchie amongst others all being on the fringes of either the International Squad or being included in the Under 21 squad.

Nothing can ever be taken for granted, particularly in football, and everyone at the Club will have to work extremely hard to maintain the position we now enjoy. Other clubs in Scotland are now clearly seeing Hearts as a force to be reckoned with and to maintain our competitive edge will be a great test.

Jim Jeffries
Manager

HEART OF MIDLOTHIAN PLC

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the fourteen month period ended 31 July 1998.

1 ACTIVITIES

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

2 RESULTS, DEVELOPMENTS AND FUTURE PROSPECTS

The loss for the period after taxation amounted to £1,939,000. The directors do not recommend the payment of a dividend and propose that the loss of £1,939,000 is transferred against reserves.

The directors intend to implement a reduction in share capital which, if approved by shareholders and confirmed by the Court of Session, would eliminate the majority of the deficit on the profit and loss account reserve. Thereafter, once the Company has generated sufficient profits to eliminate the remaining deficit on the profit and loss account reserve, the directors intend to adopt a progressive dividend payment policy.

A full review of the Company's future prospects is given in the Chief Executive's statement on pages 5 to 8.

3 ANNUAL GENERAL MEETING

Notice of the Annual General Meeting of the Company is set out on pages 38 to 39 of this document. The Meeting will be held in the Gorgie Suite at Tynecastle Stadium at 6pm on 12 November 1998. An explanation of the resolutions being proposed at the Meeting, which forms part of the Directors' Report, is set out on page 40.

4 DIRECTORS

The present membership of the board is set out on page 1.

The interests, including beneficial and family interests, of the directors in office at 31 July 1998 in the shares of the company were as follows:

	Ordinary Shares of 10p	
	31.7.98	31.5.97
	or date of	
	appointment,	
	if later	
	No	No
L G Deans	2,113,482	2,113,482
C P Robinson	2,470,624	2,470,624
F S Jackson	3,700	3,700
C G Wilson	3,400	2,400
B J Duffin	10,000	10,000
D A Smith	-	-

DIRECTORS' REPORT - Continued

4 DIRECTORS - Continued

L G Deans and C P Robinson are directors of New Hearts Limited which holds, directly and indirectly through its wholly owned subsidiary, Pentland Securities (Holdings) Limited, 4,226,563 ordinary shares in the Company. C P Robinson and his wife together hold 50% of the equity share capital of New Hearts Limited through their jointly owned company Chrysalis Scotland Limited and L G Deans holds 50% of New Hearts Limited directly. Chrysalis Scotland Limited holds 357,143 ordinary shares in the Company.

On 25 April 1998, S B Johnson resigned as a director.

The directors retiring by rotation at the annual general meeting are C P Robinson and L G Deans who, being eligible, offer themselves for re-election.

5 INTANGIBLE FIXED ASSETS

Intangible fixed assets, as detailed in Note 8 to the financial statements, represent the amortised value of players' registrations and signing-on fees.

6 TANGIBLE FIXED ASSETS

Movements in tangible fixed assets are shown in Note 9 to the financial statements.

7 SUBSTANTIAL SHAREHOLDINGS

On 28 September 1998 the directors were aware of the following major holdings of the issued ordinary share capital of the company as notified to them under the provisions of Part VI of the Companies Act 1985, as amended by the Disclosure of Interests in Shares (Amendment) Regulations 1993.

	Shareholding	% Total
Chase Nominees Limited	357,143	3.53
Chrysalis Scotland Limited *	357,143	3.53
The Governor and Company of the Bank of Scotland	714,300	7.06
Magwest Nominees Limited	422,000	4.17
New Hearts Limited*	1,724,063	17.04
Pentland Securities (Holdings) Limited*	2,502,500	24.73
Phildrew Nominees Limited	610,000	6.03
RBSTB Nominees Limited	610,000	6.03
	=====	=====

*Directors hold the beneficial interest in these shares and these are fully disclosed in Note 3 above.

DIRECTORS' REPORT - Continued

8 EMPLOYEE INVOLVEMENT

Within the bounds of commercial confidentiality, staff at all levels are kept informed of matters that affect the progress of the Company and that are of interest to them as employees.

9 DISABLED EMPLOYEES

Disabled persons are given full and fair consideration for all types of vacancy. If an existing employee becomes disabled, such steps as are practical and reasonable are taken to retain the employee in employment. Where appropriate, assistance with rehabilitation and suitable training are given. Disabled persons have equal opportunities for training, career development and promotion, except insofar as such opportunities are constrained by the practical limitations of their disability.

10 PAYMENT OF CREDITORS

It is the Company's policy to agree terms of payment with suppliers and abide by them.

At 31 July 1998 the Company's average creditor payment period was 36 days.

11 DONATIONS

During the period the Company made donations to charitable organisations in the UK totalling £2,361 (1997 - £2,392).

12 YEAR 2000 COMPLIANCE

The directors have taken appropriate steps to ensure as far as possible that the Company's computer hardware, software and other systems are year 2000 compliant. This was achieved with the complete replacement of all computer and ticket systems. The directors do not consider that any further significant levels of expenditure will be required in relation to this issue.

13 AUDITORS

A resolution to re-appoint Rutherford Manson Dowds will be proposed at the Annual General Meeting.

5 October 1998

BY ORDER OF THE BOARD


A S Fraser
Secretary

CORPORATE GOVERNANCE

BOARD OF DIRECTORS

The board of directors, comprising five non-executive and one executive director, is responsible for corporate governance and compliance with the Cadbury Committee's Code of Best Practice. During the period under review, the Company has complied with the Code.

GOING CONCERN

After reviewing the budget for the ensuing 12 months, and making further enquires as considered appropriate, the directors are satisfied that, at the time of approving the financial statements, adequate resources are available to the Company to enable it to continue in business for the foreseeable future. For this reason the directors believe it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

INTERNAL CONTROL

The board of directors has overall responsibility for the Company's system of internal control, which has been documented and reviewed by the directors during the course of the period. Although no system of internal financial control can provide absolute assurance against material misstatement or loss, the Company's systems are designed to provide the directors with reasonable assurance that physical and financial assets are safeguarded, transactions are authorised and recorded properly and material errors and irregularities are either prevented or will be detected with the minimum delay. It operates through organisational and financial controls.

ORGANISATIONAL CONTROLS

The Company operates a relatively flat organisational structure with one level of management between staff and directors. Authorisation levels are set in order to provide flexibility in the day to day running of the business, whilst also maintaining strict control over the Company's assets. Other matters including strategic decisions, major capital expenditure and the finalising of annual budgets are reserved for approval by the board.

FINANCIAL CONTROL AND REPORTING

A planning and budgeting process operates throughout the Company with monthly reporting to the board of results against budget. The Company operates a bottom-up approach to budgeting with significant input from directors and management.

HEART OF MIDLOTHIAN PLC
CORPORATE GOVERNANCE - Continued

BOARD COMMITTEES

The board is assisted by the following committees: Audit Committee and Remuneration Committee. Each committee operates within defined terms of reference.

AUDIT COMMITTEE

The audit committee is composed of three non-executive directors, L G Deans, B J Duffin and D A Smith. The committee monitors the adequacy of the company's financial controls and provides the opportunity for the external auditors to communicate directly with non-executive directors.

REMUNERATION COMMITTEE

The remuneration committee, which is composed of non-executive directors L G Deans, F S Jackson, B J Duffin and D A Smith is responsible for the terms and conditions of executive directors, including their remuneration packages. The fees for non-executive directors are a matter for the board.

CORPORATE GOVERNANCE - Continued

REPORT OF THE REMUNERATION COMMITTEE

The directors are of the opinion that the Company has complied with the provisions of Section A of the Code of Best Practice as annexed to the Listing Rules of the London Stock Exchange.

REMUNERATION POLICY

In establishing its remuneration policies, the committee has given full consideration to Section B of the best practice provisions as annexed to the Listing Rules of the London Stock Exchange.

It is the aim of the committee to reward the executive directors not only competitively but to encourage team effectiveness. There are no long term incentive schemes.

REMUNERATION SUMMARY

The various elements of remuneration received by each director from their date of appointment or to their date of resignation for the period are summarised below:-

Executive	Fees £'000	Salary £'000	Benefits £'000	Pension £'000	1998 Total £'000	1997 Total £'000
C P Robinson	-	87.5	-	7.5	95.0	12.5
S B Johnson	-	37.1	-	5.6	42.7	3.6
	-	124.6	-	13.1	137.7	16.1
Non-Executive						
L G Deans	17.5	-	-	-	17.5	0.4
C G Wilson	8.7	-	-	-	8.7	0.2
F S Jackson	-	-	-	-	-	-
B J Duffin	8.7	-	-	-	8.7	0.2
D A Smith	8.7	-	-	-	8.7	0.2
I D MacCallum (resigned 19.5.97)	-	-	-	-	-	-
J G Frame (resigned 19.5.97)	-	-	-	-	-	9.7
	43.6	-	-	-	43.6	10.7

F S Jackson has waived his right to remuneration for the financial period.

The pension element of remuneration reflects actual payments made to the scheme during the period.

CORPORATE GOVERNANCE - Continued

SHARE OPTIONS

The Company operates a share option scheme which provides for the grant of options under (a) an Inland Revenue approved share option scheme and (b) an unapproved share option scheme. The unapproved scheme is intended primarily for executives who have, or are to be granted options in excess of the individual limit permitted under the approved scheme. Save to the extent required in order to obtain Inland Revenue approval, the two sections of the scheme are in all respects identical.

Options may only be granted (i) within 90 days following the date of adoption of the scheme or (ii) within the 42 day period immediately following the preliminary announcement of the final or interim results of the Company.

The aggregate number of ordinary shares which might be issued upon the exercise of options granted under the scheme may not exceed 5% of the Company's issued ordinary share capital.

No option may be granted to an individual under the approved option scheme if the aggregate market value as at the respective dates of grant of ordinary shares would exceed £30,000 or any such limit as may apply under Schedule 9 to the Taxes Act.

No option may be granted to an individual under the unapproved option scheme if, as a result, the aggregate market value (as at the respective dates of grant) of ordinary shares which might fall to be or have been acquired by him upon the exercise of options granted under any share option scheme established by the Company in the immediately preceding ten years, would exceed four times his earnings.

No payment is required for the grant of options.

The exercise price per ordinary share is the greater of (a) its market value on the date of grant determined by taking the arithmetical average of middle market quotations on three dealing days preceding the related date of the grant and (b) its nominal amount.

The option price may be adjusted in the event of a rights issue, capitalisation issue or upon consolidation, sub-division or reduction of the company's share capital.

An option may only be exercised between the third and tenth anniversaries of the date of grant and provided that any performance condition subject to which it is granted has been satisfied.

Options will normally lapse on cessation of employment. Until options are exercised, option holders will have no voting rights in respect of the ordinary shares. Options are not transferable.

No options have been granted under the scheme during the current period.

PENSION SCHEME

During the period the Company operated a pension scheme for certain executive directors. The scheme provided a pension at the date of retirement on a defined contribution basis. The Company's contributions were between 5% and 10% of basic salary per annum. The directors are in the process of formulating a replacement scheme for executive directors and senior employees.

SERVICE CONTRACTS

It is the Company's policy that contracts for the employment or for the services of all directors provide for periods of notice of termination of twelve months or less, with the exception of C P Robinson who is under a two year contract expiring in April 1999.

The committee is firmly of the view that the contractual arrangements are the minimum necessary to attract and retain executives of the appropriate calibre.

CORPORATE GOVERNANCE - Continued

REPORT OF THE AUDITORS TO HEART OF MIDLOTHIAN PLC ON CORPORATE GOVERNANCE MATTERS

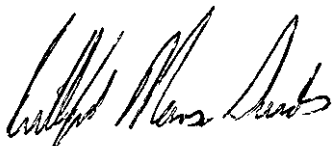
In addition to our audit of the financial statements, we have reviewed the statements on Corporate Governance and the Statement of Directors' Responsibilities on the company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43 (j) and 12.43 (v).

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Company's system of internal financial control or its corporate governance procedures, nor on the ability of the Company to continue in operational existence.

OPINION

With respect to the directors' statement on going concern and internal financial control on page 13, in our opinion the directors have provided the disclosures required and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on an enquiry of certain directors and officers of the company, and examination of relevant documents, in our opinion the statement of the directors on page 13 appropriately reflects the Company's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43 (j).



Rutherford Manson Dowds
Chartered Accountants
Edinburgh
5 October 1998

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial period which 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 those financial statements, the directors are required to:-

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



RMD Chartered Accountants

AUDITORS' REPORT TO THE SHAREHOLDERS

OF

HEART OF MIDLOTHIAN PLC

25 Melville Street
Edinburgh EH3 7PE
Telephone 0131 225 4727
Facsimile 0131 220 1663
E mail rmd@rmd.co.uk

We have audited the financial statements set out on pages 21 to 37 which have been prepared under the accounting policies set out on pages 27 and 28. We have also examined the amounts disclosed relating to the emoluments, share options and long-term incentive scheme interests of the directors which form part of the report to the shareholders by the remuneration committee on pages 15 to 17.

Respective responsibilities of directors and auditors

As described on page 19 the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31 July 1998 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

5 October 1998

Rutherford Manson Dowds
Chartered Accountants
Registered Auditors
Edinburgh

- 20 -

Partners: C Rutherford AG Manson CM Dowds CI Welsh SM Cowie JD Dryburgh I Steele I Durie DMS Beveridge DJ Crawford
MC Pacitti A Allan GJ Neilly EJ Leigh GA Sheils RG Murray R Archibald DA Campbell

2 Queens Terrace, Aberdeen AB10 1XL, Telephone 01224 625888, Facsimile 01224 625025
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63 Queen Victoria Street, London EC4N 4UA, Telephone 0171 653 6300, Facsimile 0171 653 6333

Registered to carry on audit work and authorised to carry on Investment Business by the Institute of Chartered Accountants of Scotland.

Rutherford Manson Dowds
Represented throughout Europe, North
and South America, Asia, Pacific and all
major commercial centres worldwide
through I A International.

HEART OF MIDLOTHIAN PLC

PROFIT AND LOSS ACCOUNT

PERIOD ENDED 31 JULY 1998

	Note	£'000	Year ended 31.5.97 £'000
TURNOVER	2		
Gate receipts		4,092	2,882
Other income		2,324	2,040
		<u>6,416</u>	<u>4,922</u>
 Staff costs	3	 (3,789)	 (2,835)
Other operating charges		(2,897)	(1,770)
		<u>(6,686)</u>	<u>(4,605)</u>
TRADING (LOSS)/PROFIT		(270)	317
 Depreciation of fixed assets, net of grant release		 (336)	 (198)
Amortisation of players' registrations		(1,006)	(1,290)
Gain on sale of players' registrations		95	43
		<u> </u>	<u> </u>
LOSS ON ORDINARY ACTIVITIES BEFORE INTEREST		(1,517)	(1,128)
 Interest payable and similar charges	4	 (422)	 (408)
		<u> </u>	<u> </u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	5	(1,939)	(1,536)
 Tax on loss on ordinary activities	6	 -	 -
		<u> </u>	<u> </u>
RETAINED LOSS FOR THE FINANCIAL PERIOD ATTRIBUTABLE TO THE MEMBERS OF HEART OF MIDLOTHIAN PLC	19	(1,939)	(1,536)
		<u> </u>	<u> </u>
 Loss per ordinary share	7	 (19.2)p	 (25.5)p
		<u> </u>	<u> </u>

All of the activities of the Company are classified as continuing operations.

HEART OF MIDLOTHIAN PLC
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
AND NOTE OF HISTORICAL COST PROFITS AND LOSSES
PERIOD ENDED 31 JULY 1998

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	£'000	Year ended 31.5.97 £'000
Loss for the financial period	(1,939)	(1,536)
Unrealised surplus on revaluation of fixed assets	159	-
Prior year adjustments	-	128
	-----	-----
Total recognised gains and losses since last annual report	(1,780)	(1,408)
	=====	=====

NOTE OF HISTORICAL COST PROFITS AND LOSSES

	£'000	£'000
Reported loss on ordinary activities before taxation	(1,939)	(1,536)
Difference between historical cost depreciation charge and actual depreciation charge for the period calculated on the revalued amount	45	38
	-----	-----
Historical cost loss on ordinary activities before taxation	(1,894)	(1,498)
	=====	=====
Historical cost loss for the financial period	(1,894)	(1,498)
	=====	=====

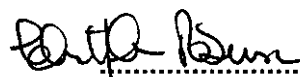
HEART OF MIDLOTHIAN PLC


BALANCE SHEET

AT 31 JULY 1998

	Note	£'000	31.5.97 £'000
FIXED ASSETS			
Intangible assets	8	1,614	1,285
Tangible assets	9	12,394	8,175
		-----	-----
		14,008	9,460
		-----	-----
CURRENT ASSETS			
Stock (goods for resale)		153	72
Debtors	11	889	603
		-----	-----
		1,042	675
		-----	-----
CREDITORS: Amounts falling due within one year	12	(9,253)	(3,369)
		-----	-----
NET CURRENT LIABILITIES		(8,211)	(2,694)
		-----	-----
TOTAL ASSETS LESS CURRENT LIABILITIES		5,797	6,766
		-----	-----
CREDITORS: Amounts falling due after more than one year	13	(1,503)	(581)
		-----	-----
		4,294	6,185
		=====	=====
DEFERRED INCOME	15	2,636	2,608
		-----	-----
CAPITAL AND RESERVES			
Called up share capital	16	1,012	1,012
Share premium account	17	5,273	5,412
Revaluation reserve	18	1,529	1,415
Profit and loss account - deficit	19	(6,156)	(4,262)
		-----	-----
EQUITY SHAREHOLDERS' FUNDS	20	1,658	3,577
		-----	-----
		4,294	6,185
		=====	=====

These financial statements were approved by the Board of Directors on 5 October 1998.

.....Director

.....Director

HEART OF MIDLOTHIAN PLC

CASH FLOW STATEMENT

PERIOD ENDED 31 JULY 1998

	Note	£'000	Year ended 31.5.97 £'000
Net cash inflow/(outflow) from operating activities	i	2,397	(506)
Returns on investments and servicing of finance	ii	(422)	(408)
Capital expenditure	ii	(4,549)	(934)
		-----	-----
		(2,574)	(1,848)
Financing	ii	(284)	4,997
		-----	-----
(Decrease)/increase in cash		(2,858)	3,149
		=====	=====

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT (Note iii)

	£'000	Year ended 31.5.97 £'000
(Decrease)/increase in cash in the period	(2,858)	3,149
Cash outflow from movement in debt and hire purchase financing	145	533
	-----	-----
	(2,713)	3,682
Loan in relation to asset purchase	(248)	-
New hire purchase agreements	(619)	(6)
	-----	-----
Change in net debt	(3,580)	3,676
Net debt at 1 June 1997	(1,901)	(5,577)
	-----	-----
Net debt at 31 July 1998	(5,481)	(1,901)
	=====	=====

HEART OF MIDLOTHIAN PLC

NOTES TO THE CASH FLOW STATEMENT

PERIOD ENDED 31 JULY 1998

i RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	£'000	Year ended 31.5.97 £'000
Operating loss	(1,517)	(1,128)
Depreciation	378	232
Amortisation	1,006	1,290
Gain on sale of tangible fixed assets	(2)	-
Gain on sale of intangible assets	(95)	(43)
Deferred income release	(232)	(122)
(Increase)/decrease in stocks	(81)	24
(Increase)/decrease in debtors	(286)	156
Increase/(decrease) in creditors	3,226	(915)
	-----	-----
	2,397	(506)
	=====	=====

ii GROSS CASH FLOWS

Returns on investments and servicing of finance	£'000	Year ended 31.5.97 £'000
Interest paid	(422)	(408)
	=====	=====
	£'000	£'000
Capital expenditure		
Payments to acquire players' registrations	(1,363)	(1,180)
Payments to acquire tangible fixed assets	(3,592)	(784)
Receipts from sales of players' registrations	123	298
Receipts from sales of tangible fixed assets	23	-
Receipts of grants from Football Trust and 500 Club	260	732
	-----	-----
	(4,549)	(934)
	=====	=====
	£'000	£'000
Financing		
Hire purchase repayments	(145)	(33)
Loan repayments	(150)	(600)
Loan advances	150	100
Issue of ordinary share capital	-	5,960
Expenses paid in connection with share issue	(139)	(430)
	-----	-----
	(284)	4,997
	=====	=====

HEART OF MIDLOTHIAN PLC

NOTES TO THE CASH FLOW STATEMENT - Continued

PERIOD ENDED 31 JULY 1998

iii ANALYSIS OF CHANGES IN NET DEBT

	At 31 May 1997 £'000	Cash Flows £'000	Other Non - Cash Changes £'000	At 31 July 1998 £'000
Bank overdraft	(1,370)	(2,858)	-	(4,228)
Debt due after 1 year	(235)	(150)	(91)	(476)
Debt due within 1 year	(230)	150	(157)	(237)
Hire purchase liabilities	(66)	145	(619)	(540)
	<u>(1,901)</u>	<u>(2,713)</u>	<u>(867)</u>	<u>(5,481)</u>

HEART OF MIDLOTHIAN PLC
NOTES TO THE FINANCIAL STATEMENTS
PERIOD ENDED 31 JULY 1998

1 ACCOUNTING POLICIES

a) Basis of Preparation

The financial statements have been prepared in accordance with applicable accounting standards and the historical cost convention as modified to incorporate the revaluation of certain tangible fixed assets.

b) Consolidated Accounts

Consolidated accounts have not been prepared as the subsidiary undertakings are dormant and consequently there would be no material difference between the parent company accounts and the consolidated accounts.

c) Depreciation

No depreciation is provided on land. Freehold buildings are depreciated at a rate of 2% per annum with the exception of those parts of Tynecastle Stadium which had not been redeveloped as at the period end. These are depreciated at a rate of 4% per annum to reflect more accurately the estimated useful lives of those assets.

For other tangible fixed assets (principally plant and equipment), depreciation is calculated to write down their cost or valuation over their estimated lives, which are considered to be between 4 and 10 years.

d) Deferred Taxation

Deferred taxation is provided at the anticipated tax rates on differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

e) Players' Registrations and Signing on Fees

The cost of acquired players' registrations, including signing on fees, are capitalised and amortised over the respective contract periods. Any permanent diminution in the cost of registrations is charged to the profit and loss account when identified.

HEART OF MIDLOTHIAN PLC
NOTES TO THE FINANCIAL STATEMENTS - Continued
PERIOD ENDED 31 JULY 1998

1 ACCOUNTING POLICIES - Continued

f) Grants Receivable

Grants receivable in respect of tangible fixed assets, including the 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. Revenue grants received from the Football Trust towards police charges are included in the profit and loss account on an accruals basis as a deduction from operating expenses.

g) Stock

Stock consists of goods held for resale and is valued at the lower of cost and net realisable value.

h) Capitalisation of Interest

The cost of financing the stadium redevelopment prior to generating revenues is capitalised as part of the cost of the project. The interest rate applied is specific to the actual rate payable on the bank facility to finance the redevelopment.

i) Leasing and Hire Purchase

Assets held under finance leases and hire purchase contracts and the related obligations are recorded in the balance sheet at the fair value of the assets at the inception of the agreements. The excess of payments over the recorded obligations are treated as finance charges in the profit and loss account.

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the periods of the leases.

j) Pension Costs

Pension costs are charged to the profit and loss account as they become payable in accordance with the rules of the pension scheme.

HEART OF MIDLOTHIAN PLC
NOTES TO THE FINANCIAL STATEMENTS - Continued
PERIOD ENDED 31 JULY 1998

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 as the directors do not consider player sales to be an operating activity.

3 INFORMATION REGARDING DIRECTORS AND EMPLOYEES

		Year ended 31.5.97 £'000
Staff costs:	£'000	
Wages and salaries	3,425	2,566
Pension contributions	46	5
Social security costs	318	264
	-----	-----
	3,789	2,835
	=====	=====

The average number of employees, excluding directors, during the period was:

	No	No
Players and coaching staff	63	63
Administration and commercial department staff	20	22
Other staff	8	13
	-----	-----
	91	98
	=====	=====

Details of directors' remuneration, in aggregate and for each director, and their other benefits are included on pages 15 to 17.

HEART OF MIDLOTHIAN PLC
NOTES TO THE FINANCIAL STATEMENTS - Continued
PERIOD ENDED 31 JULY 1998

4 INTEREST PAYABLE AND SIMILAR CHARGES

		Year ended 31.5.97 £'000
	£'000	
Bank loan, overdraft and other loans	399	400
Hire purchase	63	8
	-----	-----
	462	408
Less: interest capitalised	(40)	-
	-----	-----
	422	408
	=====	=====

Interest in respect of borrowings relates to amounts repayable within five years.

5 LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	£'000	£'000
Loss on ordinary activities before taxation is after charging/(crediting):-		
Depreciation of owned tangible fixed assets	355	211
Depreciation of assets held under hire purchase agreements	23	21
Compensation and other costs in relation to employees	51	-
Auditors' remuneration - audit services	14	9
- non audit services	17	-
Previous auditors' remuneration		
- non audit services	6	7
Release of grants	(42)	(34)
Operating leases - plant and machinery	16	-
- other	61	49
	=====	=====

In addition to the above, auditor's remuneration for non-audit services totalling £100,000, in respect of the raising of equity finance, was charged to the share premium account in the year end 31 May 1997.

6 TAXATION

There is no taxation charge due to the availability of losses.

7 LOSS PER ORDINARY SHARE

Calculated on the weighted average of 10,119,543 (1997 - 6,029,381) shares in issue	(19.2)p	(25.5)p
	=====	=====

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS - Continued

PERIOD ENDED 31 JULY 1998

8 INTANGIBLE ASSETS

Players'
Registrations
and Signing
on Fees
£'000**Cost**

At 1 June 1997

3,887

Additions

1,363

Disposals

(1,215)

At 31 July 1998

4,035

Amortisation

At 1 June 1997

2,602

Charge for period

1,006

Disposals

(1,187)

At 31 July 1998

2,421

Net Book Value

At 31 July 1998

1,614

At 31 May 1997

1,285

9 TANGIBLE FIXED ASSETS

Freehold
Land &
Buildings
£'000Plant &
Equipment
£'000Total
£'000**Cost or Valuation**

At 1 June 1997

8,364

777

9,141

Additions

4,176

283

4,459

Disposals

-

(36)

(36)

Revaluation in period

-

159

159

At 31 July 1998

12,540

1,183

13,723

Depreciation

At 1 June 1997

392

574

966

Charge for period

272

106

378

On disposals

-

(15)

(15)

At 31 July 1998

664

665

1,329

Net Book Value

At 31 July 1998

11,876

518

12,394

At 31 May 1997

7,972

203

8,175

HEART OF MIDLOTHIAN PLC
NOTES TO THE FINANCIAL STATEMENTS - Continued
PERIOD ENDED 31 JULY 1998

9 TANGIBLE FIXED ASSETS - Continued

The net book value of assets held under hire purchase contracts at 31 July 1998 is £647,000 (31 May 1997 - £77,000).

Ryden, Chartered Surveyors, valued the land and buildings as at 31 May 1994 on a Depreciated Replacement Cost basis at £3.2 million on the basis of the Practice Statements contained within the Royal Institution of Chartered Surveyors Appraisal & Valuation manual. The cost or valuation in the accounts as at 31 July 1998 reflects the valuation as at 31 May 1994 and the cost of redevelopment incurred since that date.

Ryden, Chartered Surveyors, updated their valuation as at 31 January 1997, prior to the further major development carried out, to £7.4 million on the basis of the Practice Statements contained within the Royal Institution of Chartered Surveyors Appraisal & Valuation manual. No adjustment was made to the accounts in respect of this valuation.

During the period, Mark Medcalf Associates, valued memorabilia owned by the Company at £159,000 and this revaluation has been incorporated in these accounts. These items were previously carried at £Nil cost and £Nil net book value.

Land and buildings

If stated under historical cost principles, the comparable amounts would be:

	£'000	31.5.97 £'000
Cost	10,796	6,620
Accumulated depreciation	(728)	(501)
	-----	-----
	10,068	6,119
	=====	=====

10 INVESTMENTS

The Company owns the entire issued share capital of Heart of Midlothian Commercial Limited and Heart of Midlothian Publishing Limited which are dormant subsidiary undertakings, each of which is carried at cost of £100 and has net assets of £100. Both subsidiary companies are registered in Scotland.

11 DEBTORS

	£'000	31.5.97 £'000
Trade debtors	688	246
Sundry debtors	181	313
Prepayments and accrued income	20	44
	-----	-----
	889	603
	=====	=====

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS - Continued

PERIOD ENDED 31 JULY 1998

12 CREDITORS: Amounts falling due
within one year

	£'000	31.5.97 £'000
Bank loan and overdraft (Note 13)	4,288	1,430
Deferred income	2,258	573
Trade creditors	728	459
Other creditors and accruals	1,115	581
Taxation and social security	499	115
Football Trust loan (Note 13)	40	40
Finance lease and hire purchase creditors	148	41
Other loans	177	130
	----- 9,253 =====	----- 3,369 =====

The Company meets its day to day working capital requirements through an overdraft facility which is repayable on demand. The Company expects to operate within the facility currently agreed. These views are based on the Company's plans and on the results of discussions with the Company's bankers.

Deferred income principally represents amounts received in respect of sales of season tickets and sponsorship income.

Other loans include a loan for £100,000 payable to New Hearts Limited as disclosed in Note 22.

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS - Continued

PERIOD ENDED 31 JULY 1998

13 CREDITORS: Amounts falling due after more than one year

	£'000	31.5.97 £'000
Bank loan	75	145
Football Trust loan	40	90
Other loans	321	-
Finance lease and hire purchase creditors	392	25
Other creditors	675	321
	-----	-----
	1,503	581
	=====	=====
The bank loan is repayable in instalments as follows:		
Within one year	60	60
Between one and two years	60	60
Between two and five years	15	85
	-----	-----
	135	205
	=====	=====
Other loans are repayable in instalments as follows:		
Within one year (Note 12)	177	130
Between one and two years	77	-
Between two and five years	169	-
After more than five years	75	-
	-----	-----
	498	130
	=====	=====

Interest on the bank loan and overdraft is payable at 2% over the Bank of Scotland base rate. Bank borrowings are secured by a bond and floating charge over all the assets of the Company, first ranking a standard security over Tynecastle Stadium and a second ranking standard security over land at Wheatfield Street yard, Edinburgh.

Other creditors include signing on fees payable to players in instalments over the period of their respective contracts. Other creditors also include an advance of £100,000 which is unsecured, bears no interest charge and is repayable by amounts wholly dependent on the club's appearances in European football competitions.

The loan from the Football Trust is unsecured, does not bear interest and is repayable in quarterly instalments of £10,000.

Other loans include £248,000 bearing interest at 5% over the Bank of Scotland base rate and secured by means of a first ranking standard security over Wheatfield Street yard. Other loans also include £150,000 payable to Scottish & Newcastle plc bearing interest at 2% over base rate and secured by means of a standard security over Tynecastle Stadium and a bond and floating charge over all the assets of the Company both ranking second behind those granted in favour of Bank of Scotland.

Obligations under finance lease and hire purchase contracts are secured by the related assets. All amounts are repayable within five years.

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS - Continued

PERIOD ENDED 31 JULY 1998

14 DEFERRED TAX

Unrecognised deferred tax asset:

	£'000	31.5.97 £'000
Available losses	1,977	1,465
Revaluation	(49)	-
Short term timing differences	15	3
Other timing differences	(500)	(398)
Accelerated capital allowances	146	142
	-----	-----
	1,589	1,212
	=====	=====

No deferred capital gains tax has been provided in the financial statements in respect of Tynecastle Stadium as there is no intention to dispose of the property in the foreseeable future. It is estimated that a tax charge of £560,000 would arise on disposal of Tynecastle Stadium.

Other timing differences relate to the fact that tax has been provided in the financial statements on the basis of claiming relief for the costs of players' registrations in the year of purchase and taxing the proceeds from the sale of players' registrations in the year of sale giving rise to a deferred tax liability based on the net book value of the players' registrations.

15 DEFERRED INCOME

	£'000	31.5.97 £'000
Grants receivable from the Football Trust		
At 1 June 1997	1,663	1,646
Amounts receivable during period	222	51
Released to profit and loss account	(42)	(34)
	-----	-----
At 31 July 1998	1,843	1,663
	-----	-----
Deferred income from "500 Club" and "New 500 Club"		
At 1 June 1997	945	352
Released to profit and loss account	(190)	(88)
Amounts received from "New 500 Club" during period	38	681
	-----	-----
At 31 July 1998	793	945
	-----	-----
	2,636	2,608
	=====	=====

The Company has agreed to give future discounts on season tickets and the purchase of club merchandise to members of the "500 Club", an independent entity. In return for this concession, the "500 Club" provided funds for the development of Tynecastle Stadium. Monies received from the "500 Club" are released to the profit and loss account over six years.

HEART OF MIDLOTHIAN PLC
NOTES TO THE FINANCIAL STATEMENTS - Continued
PERIOD ENDED 31 JULY 1998

15 DEFERRED INCOME - Continued

In the previous year, the "New 500 Club" was set up. Funds raised, which were for the development of the Gorgie Road End of Tynecastle Stadium, are released to the profit and loss account over six years commencing in this period.

16 CALLED UP SHARE CAPITAL

	£'000	31.5.97 £'000
Authorised		
13,000,000 Ordinary Shares of 10p each	1,300	1,300
	=====	=====
Allotted, issued and fully paid		
10,119,543 Ordinary Shares of 10p each	1,012	1,012
	=====	=====

17 SHARE PREMIUM ACCOUNT

	31.5.97 £'000 £
At 1 June 1997	5,412
Expenses of share issue	(139)

At 31 July 1998	5,273
	=====

18 REVALUATION RESERVE

	31.5.97 £'000
At 1 June 1997	1,415
Surplus on revaluation of fixed assets	159
Transfer to profit and loss account	(45)

At 31 July 1998	1,529
	=====

19 PROFIT AND LOSS ACCOUNT - DEFICIT

	31.5.97 £'000
At 1 June 1997	(4,262)
Loss for the financial period	(1,939)
Transfer from revaluation reserve	45

At 31 July 1998	(6,156)
	=====

HEART OF MIDLOTHIAN PLC

NOTES TO THE FINANCIAL STATEMENTS - Continued

PERIOD ENDED 31 JULY 1998

20 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	£'000	Year ended 31.5.97 £'000
Loss for the financial period	(1,939)	(1,536)
Surplus on revaluation of fixed assets	159	-
New share capital issued	-	5,960
Expenses of share issue	(139)	(430)
Opening shareholders' funds	3,577	(417)
	-----	-----
Closing shareholders' funds	1,658	3,577
	=====	=====

21 FINANCIAL COMMITMENTS AND CONTINGENCIES

At 31 July 1998, the Company had annual commitments under operating leases as follows:

	Land & Buildings £'000	Other £'000	31 May 1997 Land & Buildings £'000	Other £'000
Expiring within one year	30	12	-	-
Expiring between two and five years	-	64	-	35
Expiring after five years	26	6	25	-
	-----	-----	-----	-----
	56	82	25	35
	=====	=====	=====	=====

In the course of acquiring players' registrations from other football clubs, the Company enters into agreements which may require future payments based on the acquired players' achievements or the future income received by the Company upon the sale of such registrations. As this cannot be quantified no provision is made in the accounts.

22 RELATED PARTIES

A loan of £100,000 is repayable to New Hearts Limited, a company controlled by C P Robinson and L G Deans. The original amount advanced was £600,000 which was subsequently reduced by £500,000. The loan is secured by a floating charge over all the assets of the Company ranking behind those of the Bank of Scotland and Scottish and Newcastle plc. Interest is payable at normal commercial rates.

23 PENSION SCHEME

The Company operates a defined contribution pension scheme for certain employees. Pension contributions amounting to £6,975 (1997 £4,950) were paid by the Company during the period. As at 31 July 1998, £46,500 was awaiting payment into the scheme (1997 £Nil).

HEART OF MIDLOTHIAN PLC

NOTICE OF ANNUAL GENERAL MEETING

Tynecastle Stadium
Gorgie Road
Edinburgh
EH11 2NL

NOTICE IS HEREBY GIVEN that the Ninety-third Annual General Meeting of Heart of Midlothian plc will be held in the Gorgie Suite, Tynecastle Stadium, Gorgie Road, Edinburgh on 12 November 1998 at 6pm for the following purposes:-

Ordinary Business

As ordinary business:-

- 1 To receive and consider the Report of the Directors, the Accounts for the period ended 31 July 1998 and the Report of the Auditors thereon.
- 2 To re-appoint C P Robinson as a Director.
- 3 To re-appoint L G Deans as a Director.
- 4 To appoint A S Fraser as a Director.
- 5 To re-appoint Rutherford Manson Dowds, Chartered Accountants as auditors and to authorise the Directors to determine the auditors' remuneration.

Special Business

As special business, to consider, and if thought fit, to pass the following resolutions:-

As an Ordinary Resolution:

- 6 THAT, subject to and in accordance with Article 3.2 of the Articles of Association of the Company and in substitution for any previous authority granted to the Directors, the Directors be generally and unconditionally authorised pursuant to section 80(1) of the Companies Act 1985 ("the Act") for a period of 5 years (expiring on 12 November 2003) to exercise all the powers of the Company to allot relevant securities (as defined in section 80(2) of the Act) provided that such authority shall be limited to an aggregate nominal amount of £337,318 and further provided that such authority shall allow the Company to make an offer or agreement before the expiry of such period of 5 years which would or might require relevant securities (as so defined) to be allotted after such authority has expired and the Directors may allot relevant securities (as so defined) as if such authority had not so expired and further provided that all previous authorities conferred upon the Directors to allot relevant securities (as so defined) are hereby revoked and shall henceforth cease to have effect.

NOTICE OF ANNUAL GENERAL MEETING - Continued

As Special Resolutions:-

- 7 THAT the Directors be empowered pursuant to section 95(1) of the Companies Act 1985 ("the Act") during the period expiring on the earlier of 31 December 1999 or the commencement of the next Annual General Meeting to allot equity securities (within the meaning of section 94(2) of the Act) as if section 89(1) of the Act did to apply to such allotment, provided that the Company may at any time before such power expires make an offer or agreement which would or might require equity securities (as so defined) to be allotted after such power has expired and the Directors may allot equity securities (as so defined) as if such power had not expired and provided further that such power shall be limited:-
- a. to the allotment (otherwise than pursuant to sub-paragraph b of this resolution) of equity securities (as so defined) which are, or are to be, wholly paid in cash up to an aggregate nominal amount of £50,590; and
 - b. to the allotment (otherwise than pursuant to sub-paragraph a this resolution) of equity securities (as so defined) in connection with a rights issue or open offer in favour of shareholders where the equity securities (as so defined) respectively attributable to the interests of the shareholders (as nearly as may be) to the respective numbers of Ordinary Shares of 10p each in the Company held by them but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws of, or requirements of any recognised body in, any territory;
- and shall be in substitution for any existing authority granted to the Directors to make any such allotment.
- 8 THAT the whole amount standing to the credit of the share premium account of the Company as at the date of the passing of this resolution be and is hereby cancelled.

By order of the Board

Andrew Stewart Fraser
Secretary

Notes:

- a Any member of the Company entitled to attend and vote at the meeting may appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company. A form of proxy form is enclosed and to be effective must be returned to Bank of Scotland Registrar's Department, Apex House, 9 Haddington Place, Edinburgh so as to be received no later than 48 hours prior to the time of the meeting.
- b Members attending the meeting should bring both this notice and some form of identification with them as this may be requested on admission.
- c The registration of share transfers will be suspended from 15 October 1998 until 12 November 1998 (both dates inclusive).
- d Copies of the service contracts for each of the Directors of the Company are available for inspection during normal business hours (9 am until 5 pm, Monday to Friday) at Tynecastle Stadium, Gorgie Road, Edinburgh and will be available for inspection 15 minutes before and during the meeting.

HEART OF MIDLOTHIAN PLC

NOTICE OF ANNUAL GENERAL MEETING

EXPLANATION OF RESOLUTIONS PROPOSED

As part of the ordinary business of the meeting, Chris Robinson and Leslie Deans retire by rotation and they are both recommended for re-election. In addition it is proposed that Stewart Fraser be appointed a director of the Company. Stewart will become Finance Director on approval of his appointment. A resolution proposing the re-appointment of Rutherford Manson Dowds as auditors will also be moved.

As part of the special business at the meeting:

Allotment of shares and waiver of pre-emption rights

In resolution 6 it is proposed, by way of an ordinary resolution, to authorise the Directors to allot unissued share capital up to a nominal amount of £337,318 (representing just under one third of the number of issued ordinary shares) for a five year period. It is the intention of the Board to continue the practice of renewing this authority annually.

At last year's Annual General Meeting the Directors were empowered to make limited issues of Ordinary Shares for cash without first being required to offer such shares to Shareholders in accordance with the provisions of the Companies Act. The authority sought in Resolution 7, which will be proposed as a special resolution, will permit the Directors to allot up to £50,590 in nominal value of ordinary shares (representing just under 5% of the issued share capital) for cash and to issue shares offered by way of rights in either case during the period expiring on the date of the Annual General Meeting or 31 December 1999 whichever is earlier.

The Directors have no plans at present to issue new shares but they believe it is in the interests of the Company for these authorities to be given to the Board. The authorities sought conform with the guidelines issued by the investor protection bodies to ensure shareholders' interest are safeguarded on such new issues.

Cancellation of share premium

While the Company has recorded trading profits in recent years, trading losses in earlier years combined with the amortisation and write down of players registrations which have contributed to the accrued deficit significantly in the past two financial periods has left the Company with a deficit of £6,156,000 as at 31 July 1998. While the Directors had hoped to declare a dividend for the period to 31 July 1998, it was in anticipation of the Company's trading position combined with the capital reduction eliminating the deficit on the profit and loss account. With the improvements to the ground and the costs which were incurred as has been explained earlier, this has not proved possible. Until the Company eliminates this deficit, the Company will not be in a position to pay dividends.

It is therefore proposed that the Company's share premium account be written off against this deficit by cancelling the whole of the Company's share premium account which currently stands at £5,273,000. The cancellation will result in the creation of a new reserve against which the Company will be able to write off the majority of such accrued deficit.

The proposal to reduce the Company's capital not only requires the approval of shareholders by special resolution through the passing of Resolution No 8 in the notice of Annual General Meeting, but is also subject to subsequent confirmation by the Court of Session. It is anticipated that confirmation of the reduction will be obtained early in the New Year. It should be emphasised that the proposed reduction will not affect the Company's net assets. The Directors consider this proposal to be in the best interests of the shareholders as a whole.