

2005-00

# The Heavitree Brewery PLC

## Report and Accounts

31 October 2004

 ERNST & YOUNG



# Annual Report and Accounts

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### Directors

W P Tucker DL*	- Chairman	
N H P Tucker	- Managing	
G J Crocker	- Finance	
R J Glanville		
T Wheatley	- Estates	
T P Duncan*		(appointed 1 June 2004)
M S Evans*		(resigned 31 May 2004)
M C Pease-Watkin*		
L Wood*		(resigned 31 May 2004)

\*Non-executive

### Secretary and Registered Office

G J Crocker  
The Heavitree Brewery PLC  
Trood Lane  
Matford  
Exeter  
EX2 8YP

### Bankers

National Westminster Bank PLC  
Heavitree  
Exeter

Barclays Bank PLC  
High Street  
Exeter

### Solicitors

Ford Simey  
Exeter

Michael Conn Goldsobel  
London

### Nominated Adviser and Brokers

Shore Capital and Corporate Limited  
14 Clifford Street  
London  
W1S 4JU

Shore Capital Stockbrokers Limited  
14 Clifford Street  
London  
W1S 4JU

### Auditors

Ernst & Young LLP  
Broadwalk House  
Southernhay West  
Exeter  
EX1 1LF

### Registrars

Computershare Services plc  
PO Box No 82  
The Pavilions  
Bridgwater Road  
Bristol  
BS99 7NH

## Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the One Hundred and Fifteenth Annual General Meeting of The Heavitree Brewery PLC will be held at the Company's offices, Trood Lane, Matford, Exeter on 13 April 2005 at 11.30am to transact the following business:

### Ordinary Business

1. To receive and, if thought fit, adopt the Accounts of the Company for the year ended 31 October 2004 and the Report of the Directors thereon.
2. To declare final dividends on the Ordinary Shares and the 'A' Limited Voting Ordinary Shares.
3. To re-elect the following as Directors of the Company:
  - (a) G J Crocker
  - (b) N H P Tucker
4. To elect T P Duncan as a Director of the Company.
5. To re-appoint Ernst & Young LLP as auditors of the Company for the period prescribed in Section 385(2) of the Companies Act 1985.
6. To authorise the Directors to determine the remuneration of the auditors.

### Special Business

To consider and, if thought fit, pass the following Resolutions, of which Resolution 8 will be proposed as a Special Resolution:

7. THAT the authority conferred upon the Directors by Article 3.3 of the Company's Articles of Association (authority to allot, and to make offers or agreements to allot, relevant securities) be hereby extended for the five-year period ending on the date of the Company's Annual General Meeting in 2010 (or if earlier, on 12 April 2010): AND THAT such authority shall for that period relate to relevant securities up to an aggregate nominal amount of £93,089.
8. THAT the power conferred upon the Directors by Article 3.4 of the Company's Articles of Association (power to allot, or make offers or agreements to allot, equity securities as if Section 89(1) of the Companies Act 1985 did not apply to any such allotment) be hereby renewed for the five-year period ending on the date of the Company's Annual General Meeting in 2010 (or, if earlier, on 12 April 2010): provided that the aggregate nominal amount of equity securities allotted or agreed to be allotted wholly for cash during such period (otherwise than in connection with a rights issue) shall not exceed £13,963.
9. THAT the Company be hereby authorised to purchase up to an aggregate of 318,939 Ordinary Shares of 5p each and/or 518,859 'A' Limited Voting Ordinary Shares of 5p each in the capital of the Company at a price (exclusive of expenses) which is:
  - (a) not more than £5 nor less than 5p per share; and
  - (b) not more than 5% above the arithmetical average of business transacted (as derived from the Daily Official List of The London Stock Exchange) for the ten business days next preceding any such purchase;

AND THAT the authority conferred by this Resolution shall expire on the date of the Company's Annual General Meeting in 2006 (except in relation to the purchase of shares the contract for which was concluded before such date and might be executed wholly or partly after such date).

## Notice of Annual General Meeting

10. THAT the Company be hereby authorised to purchase up to an aggregate of 11,695 11.5 per cent Cumulative Preference Shares of £1 each in the capital of the Company at a price (exclusive of expenses) which is:
- (a) not more than £1.60p nor less than £1 per share; and
  - (b) not more than 5% above the arithmetical average of business transacted (as derived from the Daily Official List of The London Stock Exchange) for the ten business days next preceding any such purchase;

AND THAT the authority conferred by this Resolution shall expire on the date of the Company's Annual General Meeting in 2006 (except in relation to the purchase of shares the contract for which was concluded before such date and might be executed wholly or partly after such date).

By Order of the Board



G J CROCKER  
Secretary  
11 March 2005

Trood Lane  
Matford  
Exeter  
EX2 8YP

### NOTES

1. Any Member entitled to attend and vote at the above 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.
2. Only holders of Ordinary Shares and 'A' Limited Voting Ordinary Shares are entitled to attend and vote at the Meeting. On a poll the Ordinary Shares carry one vote for every £1 in nominal amount and the 'A' Limited Voting Ordinary Shares carry one vote for every £10 in nominal amount.
3. The Directors' Service Contracts will be available for inspection at the registered office of the Company during normal business hours on any weekday, and at the place of the Annual General Meeting for fifteen minutes prior to, and during, the Meeting.
4. The dividend, if approved, will be paid on 14 April 2005 to shareholders on the Register on 4 March 2005.

## Chairman's Statement

### Results

As indicated by the half-year report this has been another year of solid improvement. The figures are distorted as costs of some £200,000 authorised but not actually spent in 2004 have been reallocated to 2005. This money is part of the £400,000 which I mentioned in June 2004 as being a minimum necessary spend to comply with the new regulations regarding Disability Discrimination, Control of Asbestos and Licensing. The profit for this year has benefited from this, but next year's will suffer the consequences.

A profit before tax of £1,590,000 was achieved (2003 restated - £1,265,000) which is an increase of 25.7% or £325,000 but bear in mind the £200,000 explained above.

Other headline figures are:

Core Company - operating profit of £1,900,000 (2003 restated - £1,680,000); an increase of 13.1%.

The Managed Houses (Heavitree Inns) - operating loss of £45,000 (2003 - loss £312,000); an improvement of £267,000 or 85.6%.

The American Subsidiary (Heavitree Inc) - operating loss of £5,000 (2003 - loss £7,000).

Sales of Fixed Assets - a profit of £16,000 (2003 - £140,000).

Sales of Beer - up by 1.9% on volume.

### Dividends

The Directors recommend a final dividend of 6p per Ordinary and 'A' Limited Voting Ordinary Share (2003 - 5.75p); an increase of 4.3% making a total of 9.5p for the year (2003 - 9.25p). If approved, the final dividend will be paid on 14 April 2005 to shareholders on the Register on 4 March 2005.

### Shares

During the year we bought in and cancelled 100,000 'A' Limited Voting Ordinary Shares at a cost of £350,000.

### Heavitree Inns

I said last year that further progress could be expected and this has been achieved in full measure. Everyone in this subsidiary has made a magnificent effort. Losses at their worst were £482,000 in 2002. That was the year we took these pubs back under our own control.

### Heavitree Inc

There is nothing significant to report.

### Property

We did not dispose of any properties in the year, although we acquired two cottages for the expansion of our pub operations at a cost of £356,000. Minor improvements were carried out at The Bishop John De Grandisson, Bishopsteignton, Teignmouth; The Jolly Sailor Inn, East Ogwell, Newton Abbot; The Royal Oak Inn, Ideford, Newton Abbot; and also The Ship Inn, Kingswear, which was subject to a major spend following a landslip, resulting in a combined cost of £335,000.

### Personnel

Everyone has done very well to achieve these results. Their efforts are much appreciated.

## Chairman's Statement

### Prospects

There are grounds for optimism but the barrage of legislation continues to create uncertainty about the future. Indeed, the £400,000 mentioned in my half-year statement and referred to under the 'Results' heading above appears certain to be exceeded.

W P Tucker  
Chairman  
14 February 2005



## Directors' Report

The Directors have pleasure in submitting their report for the year ended 31 October 2004.

### Principal activities, review of business developments, subsequent events and future developments

The Group carries on the business of the operation of public houses.

The Chairman's Statement gives a review of business developments, subsequent events and future developments and therefore forms part of this report for the purposes of Section 234 of the Companies Act 1985.

### Results and dividends

The Directors submit the audited accounts for the year ended 31 October 2004. The profit for the year, after taxation, attributable to shareholders amounts to £1,158,000 (2003 restated - £1,047,000) and is dealt with as shown in the Group profit and loss account.

The Directors propose a final dividend of 6p per share on the Ordinary and 'A' Limited Voting Ordinary Shares. This together with the interim dividend of 3.5p per share makes a total of 9.5p per share (2003 - 9.25p) for the year. The fixed dividend of 11.5p per share was paid on the Preference Shares in the year.

### Fixed assets

The Directors' open market valuation for existing use basis of the portfolio of public houses at 31 October 2004 was £45.9m (2003 - £38.4m).

### Directors

The Directors of the Company during the year ended 31 October 2004 were those listed on page 2.

G J Crocker and N H P Tucker are the Directors retiring by rotation under Article 14 and, being eligible, offer themselves for re-election.

T P Duncan was appointed as a Director by the Board on 1 June 2004 and offers himself for election under Article 14.6 by the shareholders at the Annual General Meeting.

M S Evans and L Wood served as Directors until 31 May 2004 when they resigned.

### Share capital

During the year the Company purchased 100,000 5p 'A' Limited Voting Ordinary Shares at a total cost of £350,000. The purchases accounted for 1.75% of the issued ordinary share capital of the Company. The Company considers that the purchase of these shares will be beneficial to shareholders generally.

### Special business at Annual General Meeting

The Directors seek the extension, until the 2010 Annual General Meeting, of the authority conferred upon them by the Articles of Association to allot up to 1,861,774 shares (one-third of the issued ordinary share capital of the Company as at 13 February 2005) and also in the case of ordinary share capital to make small issues for cash (up to 279,266 shares being 5% of such issued ordinary share capital as at such date) otherwise than pro rata to existing holders of ordinary share capital. Such extension will however be subject to the practice of the London Stock Exchange whereby any shares allotted for cash (other than by way of a rights issue) will not exceed 7.5% of the Company's issued share capital in any three year period. The Directors have no present intention of using such authorities.

The Directors also seek the renewal, until the 2006 Annual General Meeting, of the authorities conferred upon the Company at the last Annual General Meeting to purchase its own shares. They will utilise these authorities if and when they consider it beneficial to shareholders generally to do so.



## Directors' Report

### Directors' interests

The interests of the Directors and their spouses in the Company's shares as at 31 October 2004 were as follows:

	Ordinary Shares		'A' Limited Voting Ordinary Shares	
	31 October 2004	1 November 2003 or subsequent date of appointment	31 October 2004	1 November 2003 or subsequent date of appointment
W P Tucker	53,750	421,906	75,480	75,480
N H P Tucker	799,607	799,607	386,385	386,385
G J Crocker	57,392	57,392	172,488	177,189
T P Duncan	136,790	136,790	104,837	104,837
R J Glanville	-	-	31,482	16,872
M C Pease-Watkin	17,064	17,064	82,740	82,740
T Wheatley	-	-	5,039	1,920

All these interests are beneficial, save for the following non-beneficial interests:

- (a) W P Tucker's interest in 53,750 (2003 - 421,906) Ordinary Shares;
- (b) N H P Tucker's interest in 111,142 (2003 - 111,142) Ordinary Shares and 307,000 (2003 - 307,000) 'A' Limited Voting Ordinary Shares;
- (c) G J Crocker's interest in 57,392 (2003 - 57,392) Ordinary Shares and 151,000 (2003 - 159,101) 'A' Limited Voting Ordinary Shares; and
- (d) R J Glanville's interest in 22,877 (2003: - 11,145) 'A' Limited Voting Ordinary Shares.

Included in these interests are the following joint holdings:

- (a) 53,750 (2003 - 53,750) Ordinary Shares held jointly by W P Tucker and N H P Tucker; and
- (b) 57,392 (2003 - 57,392) Ordinary Shares and 151,000 (2003 - 151,000) 'A' Limited Voting Ordinary Shares held jointly by G J Crocker and N H P Tucker.

## Directors' Report

### Directors' interests (continued)

At 31 October 2004, the following Directors held options to subscribe 'A' Limited Voting Ordinary Shares of the Company:

	2004 No.	2003 No.
G J Crocker	9,463	12,301
R J Glanville	7,105	7,781
T Wheatley	7,105	7,006

During the period from the end of the financial year to 13 February 2005 the interests of the Directors were unchanged.

Service contracts exist for each of the executive Directors and contain either a one-year or a three-year notice period. Non-executive Directors have contracts for a period of three years.

### Substantial interests

At 13 February 2005 the following interests of shareholders in excess of 3% of each class of ordinary share capital, other than Directors, had been notified to the Company:

	Ordinary	'A' Limited Voting Ordinary
P A Benett	135,380	270,740
Mrs B E Calrow	103,563	-
R A Duncan	65,996	188,030
R H Duncan	138,098	-
Mrs S M Duncan	65,996	188,030
Mrs T C Harley	78,010	178,205
N H Rowlinson	99,392	393,400
J E Pease-Watkin	89,621	127,992
Mrs E M A Pease-Watkin	125,105	-
J F H Pease-Watkin	130,205	-

### Charitable donations

The Group has made charitable donations during the year totalling £11,783.

### Disabled persons

It is the Group's policy to give full consideration to suitable applications for employment by disabled persons. Opportunities also exist for employees of the Group who become disabled to continue in their employment, training and career development, or to be found other positions in the Group's employment.

## Directors' Report

### Supplier payment policy and practice

It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers, provided that all trading terms and conditions have been complied with.

The number of days' purchases represented by trade creditors for the Company at 31 October 2004 is 43.

### Auditors

A resolution to re-appoint Ernst & Young LLP as the Company's auditor will be put to the forthcoming Annual General Meeting.

By Order of the Board



G J CROCKER

Secretary

14 February 2005

## Ten year review of profits and dividends

<i>Year ended</i>	<i>Profit before tax £000</i>	<i>Earnings per 5p share (note 11 to the accounts) p</i>	<i>Dividends per 5p share p</i>
<i>31 October</i>			
1995	1,718	16.1	5.75
1996	1,867	18.9	7.00
1997	1,870	19.0	7.50
1998	2,213	25.4	8.50
1999	2,004	24.2	8.75
2000	1,623	20.4	8.75
2001	1,678	23.7	8.75
2002	973	12.8	8.75
2003 (restated)	1,265	18.9	9.25
2004	1,590	21.4	9.50

### Notes:

1. Pre-tax profits and earnings per share for the three years ended 31 October 1997 have not been amended for any increase in profits arising from the 1999 adjustment to restate freehold property to historical cost. The 1998 figures have been restated for this adjustment.
2. From 1998 onwards the earnings per share figures are both basic and diluted.
3. 2003 results have been restated following the implementation of Urgent Issues Task Force (UITF) Abstract 38 'Accounting for ESOP Trusts'.

## Statement of directors' responsibilities in respect of the accounts

Company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing those accounts, 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 accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Group 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 Group and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **Independent auditors' report**

**to the members of The Heavitree Brewery PLC**

We have audited the Group's financial statements for the year ended 31 October 2004 which comprise the Group Profit and Loss Account, Group Balance Sheet, Company Balance Sheet, Group Cash Flow Statement, Group Statement of Total Recognised Gains and Losses, Reconciliation of Group Shareholders' Funds and the related Notes 1 to 27. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### ***Respective responsibilities of directors and auditors***

The Directors are responsible for preparing the Annual Report, including the financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards as set out in the Statement of Directors' Responsibilities in relation to the financial statements.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Group is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Notice of Annual General Meeting, Directors' Report, Chairman's Statement and Ten Year Review of Profits and Dividends. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### ***Basis of audit opinion***

We conducted our audit in accordance with United Kingdom 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 Group's circumstances, consistently applied and adequately disclosed.

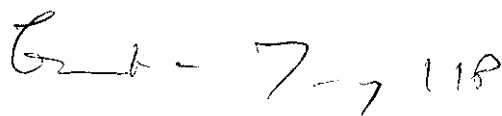
## **Independent auditors' report**

**to the members of The Heavitree Brewery PLC (continued)**

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 and of the Group as at 31 October 2004 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP  
Registered Auditor  
Exeter  
14 February 2005

**Group profit and loss account**

for the year ended 31 October 2004

		2004	As restated 2003
	Notes	£000	£000
<b>Turnover</b>	2	12,487	12,309
Change in stocks		(2)	30
Other operating income	3	(29)	(32)
Purchase of stock		4,902	4,714
Staff costs	5	2,922	3,019
Depreciation of tangible fixed assets		503	505
Other operating charges		2,341	2,713
		<u>10,637</u>	<u>10,949</u>
<b>Operating profit</b>	4	1,850	1,360
Profit on sale of fixed assets		16	140
Income from other fixed asset investments		13	12
		<u>1,879</u>	<u>1,512</u>
<b>Profit on ordinary activities before interest and taxation</b>		1,879	1,512
Other interest receivable	6	9	27
Interest payable	7	(298)	(274)
		<u>1,590</u>	<u>1,265</u>
<b>Profit on ordinary activities before taxation</b>	8	1,590	1,265
Taxation on profit on ordinary activities	9	(432)	(218)
		<u>1,158</u>	<u>1,047</u>
<b>Profit attributable to shareholders</b>		1,158	1,047
Dividends - equity and non-equity	10	(510)	(507)
		<u>648</u>	<u>540</u>
<b>Profit retained for the financial year</b>	22	648	540
<b>Basic and diluted earnings per share</b>	11	21.4p	18.9p

Movements on reserves are set out in Note 22.

The notes on pages 20 to 43 form part of the Accounts.

All revenues and costs relate to continuing operations.



## Group statement of total recognised gains and losses

for the year ended 31 October 2004

	2004	<i>As restated</i> 2003
	£000	£000
Profit attributable to shareholders	1,158	1,047
Exchange difference on retranslation of net assets of subsidiary undertaking	(3)	(13)
Total recognised gains and losses relating to the year	1,155	1,034
Prior year adjustment (note 27)	42	
<b>Total recognised gains and losses since last annual report</b>	<b>1,197</b>	

### Reconciliation of shareholders' funds

	2004	<i>As restated</i> 2003
	£000	£000
At 1 November as previously reported	8,019	8,183
Prior year adjustment (note 27)	(564)	(887)
At 1 November as restated	7,455	7,296
Total recognised gains and losses relating to the year	1,155	1,034
Dividends	(510)	(507)
Consideration received by EBT on sale of shares	203	66
Consideration received by EBT on exercise of share options	147	-
Consideration paid by EBT on purchase of shares	(595)	(434)
At 31 October	7,855	7,455

**Group balance sheet**

at 31 October 2004

			As restated 2003
	Notes	2004 £000	2003 £000
<b>Fixed assets</b>			
Tangible assets	12	14,839	13,871
Investments	13	195	204
		<u>15,034</u>	<u>14,075</u>
<b>Current assets</b>			
Stocks	14	143	142
Debtors	15	1,665	1,144
Cash at bank and in hand		700	401
		<u>2,508</u>	<u>1,687</u>
<b>Creditors:</b> amounts falling due within one year	18	(9,199)	(7,843)
<b>Net current liabilities</b>		<u>(6,691)</u>	<u>(6,156)</u>
<b>Total assets less current liabilities</b>		<u>8,343</u>	<u>7,919</u>
<b>Creditors:</b> amounts falling due after more than one year	19	(270)	(259)
<b>Provisions for liabilities and charges</b>			
Deferred taxation	20	(218)	(205)
		<u>7,855</u>	<u>7,455</u>
<b>Capital and reserves</b>			
Called up share capital	21	291	296
Capital redemption reserve	22	658	653
Other reserves	22	72	75
Own shares reserve	22	(595)	(606)
Profit and loss account	22	7,429	7,037
		<u>7,855</u>	<u>7,455</u>
Attributable to non-equity interests		11	11
Attributable to equity interests		7,844	7,444
<b>Total shareholders' funds</b>		<u>7,855</u>	<u>7,455</u>

The notes on pages 20 to 43 form part of the Accounts.

On behalf of the Board

N H P TUCKER )  
 G J CROCKER ) Directors  
 14 February 2005

*N.H.P. Tucker*  
*G.J. Crocker*

# Company balance sheet

at 31 October 2004

			2004	As restated
	Notes	£000	£000	2003
			£000	£000
<b>Fixed assets</b>				
Tangible assets	12		13,948	12,916
Investments	13		224	241
			<u>14,172</u>	<u>13,157</u>
<b>Current assets</b>				
Stocks	14		22	23
Debtors:	15			
amounts falling due after one year		1,103	985	
amounts falling due within one year		1,496	939	1,924
			<u>2,599</u>	
Cash at bank and in hand			251	150
			<u>2,872</u>	<u>2,097</u>
<b>Creditors:</b> amounts falling due within one year	18		(8,807)	(7,445)
<b>Net current liabilities</b>			<u>(5,935)</u>	<u>(5,348)</u>
<b>Total assets less current liabilities</b>			<u>8,237</u>	<u>7,809</u>
<b>Creditors:</b> amounts falling due after more than one year	19		(270)	(259)
<b>Provisions for liabilities and charges</b>				
Deferred taxation	20		(112)	(95)
			<u>7,855</u>	<u>7,455</u>
<b>Capital and reserves</b>				
Called up share capital	21		291	296
Capital redemption reserve	22		658	653
Own shares reserve	22		(595)	(606)
Profit and loss account	22		7,501	7,112
			<u>7,855</u>	<u>7,455</u>
Attributable to non-equity interests			11	11
Attributable to equity interests			7,844	7,444
<b>Total shareholders' funds</b>			<u>7,855</u>	<u>7,455</u>

The notes on pages 20 to 43 form part of the Accounts.

On behalf of the Board

N H P TUCKER )  
G J CROCKER ) Directors  
14 February 2005

*N.H.P. Tucker*  
*G.J. Crocker*

**Group statement of cash flows**

for the year ended 31 October 2004

		2004	As restated 2003
	Notes	£000	£000
<b>Net cash inflow from operating activities</b>	4(b)	1,785	1,942
<b>Returns on investments and servicing of finance</b>			
Interest paid		(246)	(313)
Interest received		9	27
Dividends received		13	12
Preference dividend paid		(1)	(1)
<b>Net cash outflow from returns on investments and servicing of finance</b>		(225)	(275)
<b>Taxation</b>			
Corporation tax paid		(330)	24
Return of overpayment of corporation tax		26	-
		(304)	24
<b>Capital expenditure and financial investment</b>			
Payments to acquire tangible fixed assets		(1,609)	(2,126)
Receipts from sales of tangible fixed assets		154	872
Receipts from repayment of fixed asset investments		9	2
		(1,446)	(1,252)
<b>Equity dividends paid</b>		(502)	(487)
<b>Financing</b>			
Consideration received by EBT on sale of shares		203	66
Consideration received by EBT on exercise of share options		147	-
Consideration paid by EBT on purchase of shares		(595)	(434)
Repayment of directors' loans		(23)	-
Loans from directors		22	-
		(246)	(368)
<b>Decrease in cash</b>	16	(938)	(416)

## Notes to the accounts

for the year ended 31 October 2004

### 1. Accounting policies

#### *Accounting convention*

The accounts are prepared under the historical cost convention, as modified by the revaluation of the Company's investment in its US subsidiary, and in accordance with applicable accounting standards.

#### *Basis of consolidation*

The Group accounts incorporate the accounts of the Company and its subsidiary undertakings for the year ended 31 October 2004.

The Group has implemented Urgent Issues Task Force (UITF) Abstract 38 'Accounting for ESOP Trusts' which requires that the cost of own shares owned by the Employee Benefits Trust previously reported as a fixed asset investment be shown as a deduction from shareholder's funds. A prior year adjustment has been made to reflect this change. Details of the effect of adopting UITF 38 are set out in note 27.

#### *Stocks*

Stocks have been consistently valued at the lower of cost and net realisable value. Purchase cost is calculated on a first-in, first-out basis.

#### *Deferred taxation*

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;
- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

#### *Tangible fixed assets*

All assets are initially recorded at cost.

#### *Depreciation*

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Properties	-	2%
Vehicles	-	25%
Office equipment	-	20%
Fixtures and fittings	-	10% to 20%
Computer equipment	-	20% to 33 $\frac{1}{3}$ %

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

## Notes to the accounts

for the year ended 31 October 2004

### 1. Accounting policies (continued)

#### *Foreign currency translation*

On consolidation, the accounts of the overseas subsidiary undertaking are translated at the year end rate of exchange. Exchange differences arising on consolidation are dealt with in other reserves.

#### *Financial instruments*

Interest rate swaps are occasionally used to hedge the Group's exposure to movements on interest rates. Interest differentials are recognised by accruing with net interest payable. Interest rate swaps are not revalued to fair value or shown on the Group balance sheet at the year end.

#### *Employee Share Option Scheme and Employee Benefits Trust*

The assets of the Employee Share Option Scheme and the Employee Benefits Trust are fully consolidated within the accounts of the Company. Shares held in the Scheme and Trust are deducted from shareholders' funds and are stated at cost.

#### *Pension scheme*

The Company operates a defined benefit pension scheme which requires contributions to be made to a separately administered fund. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over the employees' working lives with the Company. The regular cost is attributed to individual years using the projected unit method. Variations in pension cost, which are identified as a result of actuarial valuations, are amortised over the average expected remaining working lives of employees in proportion to their expected payroll costs. Differences between the amounts funded and the amounts charged to the profit and loss account are treated as either provisions or prepayments in the balance sheet.

The Company also operates an employer-sponsored personal pension arrangement. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

Heavitree Inns Limited operates an employer-sponsored personal pension arrangement. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

#### *Post Retirement Benefits other than Pensions*

The Company provides optional additional post-retirement benefits to retired employees. The benefits, which are entirely discretionary, are reviewed on an annual basis and charged to the profit and loss account during the year.

#### *Leasing income*

Any rental income received in respect of operating leases is recognised in the profit and loss account on a straight line basis over the lease term.

#### *Investment in subsidiary*

The Company's investment in its US subsidiary is revalued annually to take account of movements in exchange rates and in its underlying net assets. Any adjustment below original cost is dealt with through the profit and loss account.

## Notes to the accounts

for the year ended 31 October 2004

### 2. Turnover

Turnover is shown exclusive of VAT and comprises the invoiced value of beers, ciders and wines supplied by the Group to tenants, together with gaming machine revenue. It also includes rents from licensed properties totalling £2,278,000 (2003 - £2,193,000) together with managed houses retail sales and accommodation receipts totalling £5,447,000 (2003 - £5,833,000). All turnover is derived from the United Kingdom.

### 3. Other operating income

	2004 £000	2003 £000
Rents from unlicensed properties	29	32

### 4. Operating profit

(a) This is stated after charging/(crediting):

	2004 £000	2003 £000
Auditors' remuneration - audit services – statutory audit †	33	32
- further assurance services	3	3
- tax services - compliance	7	7
Depreciation of owned fixed assets	503	505
Repairs and maintenance of properties	1,182	1,198
Inventory rental income	(55)	(80)

† £28,000 (2003 - £27,000) of this relates to the Company

(b) Reconciliation of operating profit to net cash inflow from operating activities:

	2004 £000	2003 £000
Operating profit	1,850	1,360
Depreciation	503	505
(Increase)/decrease in stocks	(1)	35
Increase in operating debtors	(521)	(46)
(Decrease)/increase in operating creditors	(46)	88
Net cash inflow from continuing operating activities	1,785	1,942

## Notes to the accounts

for the year ended 31 October 2004

### 4. Operating profit (continued)

#### (c) Directors' remuneration (excluding pension contributions)

	2004 £000	2003 £000
Fees	56	61
Other emoluments:		
salaries	258	230
performance-related bonuses	47	44
benefits	59	44
Aggregate gains made by Directors on the exercise of options	29	-
	<u>449</u>	<u>379</u>
	2004 No	2003 No
Members of defined benefit pension scheme	<u>6</u>	<u>7</u>

Pension contributions charged to the profit and loss account in respect of Directors amount to £237,200 (2003 - £211,534).

The performance-related bonuses comprise payments under the Company's bonus scheme and are dependent upon the level of profits in the year.

The emoluments (excluding pension contributions) of the highest paid Director totalled £114,367 (2003 - £105,078).

The highest paid Director has an accrued pension entitlement of £40,747 (2003 - £35,943) as at 31 October 2004. Pension contributions charged to the profit and loss account in respect of the highest paid Director amount to £69,242 (2003 - £61,960).

### 5. Staff costs

	2004 £000	2003 £000
Wages and salaries	2,243	2,339
Social security costs	178	174
Other pension costs	501	506
	<u>2,922</u>	<u>3,019</u>
Staff costs include Directors' emoluments as detailed in Note 4(c).		
	No.	No.
Average monthly number of employees	<u>206</u>	<u>252</u>



## Notes to the accounts

for the year ended 31 October 2004

### 6. Other interest receivable

	2004 £000	2003 £000
Loan interest receivable	8	6
Other interest	1	21
	<u>9</u>	<u>27</u>

### 7. Interest payable

	2004 £000	2003 £000
Bank interest on loans and overdrafts	287	261
Other interest	11	13
	<u>298</u>	<u>274</u>

### 8. Profit on ordinary activities before taxation

All the profit on ordinary activities is derived from the wholesaling and retailing of beers, wines, spirits, ciders, minerals and food sales, and the administration of owned public houses in the United Kingdom, with the exception of the profit or loss from the US subsidiary as detailed below. The profit, before taxation, from Group undertakings is as follows:

	2004 £000	As restated 2003 £000
UK:		
The Heavitree Brewery PLC	1,627	1,678
Heavitree Inns Limited	(32)	(415)
USA:		
Heavitree Inc	(5)	2
	<u>1,590</u>	<u>1,265</u>

The net assets attributable to Heavitree Inc are £28,000 (2003 - £35,000).

## Notes to the accounts

for the year ended 31 October 2004

### 9. Tax

#### (a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2004 £000	2003 £000
<i>Current tax:</i>		
UK corporation tax	530	330
Tax overprovided in previous years	(111)	(58)
Total current tax (Note 9(b))	419	272
<i>Deferred tax:</i>		
Origination and reversal of timing differences	13	(54)
Group deferred tax	13	(54)
Tax on profit on ordinary activities	432	218

#### (b) Factors affecting current tax charge

	2004 £000	As restated 2003 £000
Profit on ordinary activities before tax	1,590	1,265
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2003 - 30%)	477	380
Effect of:		
Disallowed expenses and non-taxable income	37	27
Capital allowances in excess of depreciation	(44)	24
Other timing differences	46	(31)
Adjustments in respect of previous periods	(111)	(58)
Other	14	8
Indexation allowances and rebasing etc	-	(78)
Current tax charge for the period	419	272

## Notes to the accounts

for the year ended 31 October 2004

### 9. Tax (continued))

#### (c) Factors that may affect future tax charges

A potential deferred tax asset of £225,000 in respect of capital losses has not been recognised as it is not anticipated that these losses will be fully utilised in the foreseeable future.

In addition, a further potential deferred tax asset of £155,000 in respect of overseas losses incurred by Heavitree Inc has not been recognised as it is not anticipated that these losses will be fully utilised in the foreseeable future.

The current and prior year effective tax rates (2004 – 27.1% and 2003 – 17.2%) are lower than the mainstream corporation tax rate of 30%. This is due to a release of prior year over provisions of tax and because in 2003 profits before tax include profits on disposal of chargeable assets which either do not give rise to a chargeable gain for tax purposes or for which any chargeable gain is covered by the capital losses as set out above. The effect of these disposals is shown in (b) above as indexation allowances and rebasing.

### 10. Dividends

	2004 £000	2003 £000
Non-equity interests:		
£1 11.5% Preference	1	1
Equity interests:		
Interim 3.5p per Ordinary and 'A' Limited Voting		
Ordinary share (2003 - 3.5p)	199	201
Proposed final 6p per Ordinary and 'A' Limited Voting		
Ordinary share (2003 - 5.75p)	335	327
Less dividends on shares held within employee share schemes	(25)	(22)
	509	506
	510	507

### 11. Basic and diluted earnings per share

The calculation of basic earnings per ordinary share is based on earnings of £1,157,000 (2003 restated: £1,046,000), being profit after taxation for the year of £1,158,000 (2003 restated - £1,047,000) less preference dividends of £1,000 (2003 - £1,000), and on 5,414,935 (2003 - 5,548,910) shares being the weighted average number of Ordinary and 'A' Limited Voting Ordinary Shares in issue during the year after excluding the shares owned by The Heavitree Brewery PLC Employee Benefits Trust and those shares under option pursuant to the Employee Share Option Scheme.

The diluted earnings per share is equal to the basic earnings per share because the share options within the Employee Share Option Scheme are considered to be non-dilutive potential ordinary shares.

The Ordinary Shares and the 'A' Limited Voting Ordinary Shares have equal dividend rights and therefore no separate calculation of earnings per share for the different classes has been given.

## Notes to the accounts

for the year ended 31 October 2004

### 12. Tangible fixed assets

<i>Group</i>	<i>Freehold land and buildings and fixtures and fittings £000</i>	<i>Equipment and vehicles £000</i>	<i>Total £000</i>
Cost and valuation:			
At 1 November 2003	15,064	750	15,814
Additions	1,444	165	1,609
Disposals	(86)	(139)	(225)
At 31 October 2004	16,422	776	17,198
Depreciation:			
At 1 November 2003	1,585	358	1,943
Provided during the year	382	121	503
Disposals	(13)	(74)	(87)
At 31 October 2004	1,954	405	2,359
Net book value			
At 31 October 2004	14,468	371	14,839
At 31 October 2003	13,479	392	13,871

## Notes to the accounts

for the year ended 31 October 2004

### 12. Tangible fixed assets (continued)

<i>Company</i>	<i>Freehold land and buildings and fixtures and fittings £000</i>	<i>Equipment and vehicles £000</i>	<i>Total £000</i>
Cost and valuation:			
At 1 November 2003	14,036	445	14,481
Additions	1,279	148	1,427
Disposals	(42)	(133)	(175)
At 31 October 2004	15,273	460	15,733
Depreciation:			
At 1 November 2003	1,284	281	1,565
Provided during the year	220	71	291
Disposals	-	(71)	(71)
At 31 October 2004	1,504	281	1,785
Net book value:			
At 31 October 2004	13,769	179	13,948
At 31 October 2003	12,752	164	12,916

Freehold land and buildings for both Group and Company are included in the above at a cost of £12,477,389 and at a net book value of £12,337,150.

Included within freehold land and buildings for both the Group and Company is an aggregate cost of £68,120 relating to licensed property with short leases granted to tenants. The net book value of these assets was £67,218 at 31 October 2004.

Future capital expenditure

<i>Group and Company</i>	<i>2004 £000</i>	<i>2003 £000</i>
Contracted	163	210

## Notes to the accounts

for the year ended 31 October 2004

### 13. Fixed asset investments

<i>Group</i>		<i>Unlisted investments £000</i>	<i>Other loans £000</i>	<i>Own shares £000</i>	<i>Total £000</i>
Cost:					
At 1 November 2003 as previously reported		195	9	606	810
Prior year adjustment (note 27)		-	-	(606)	(606)
At 1 November 2003 as restated		195	9	-	204
Disposals		-	(9)	-	(9)
At 31 October 2004		195	-	-	195
Amounts provided:					
At 1 November 2003 as previously reported		-	-	(42)	(42)
Prior year adjustment (note 27)		-	-	42	42
At 1 November 2003 as restated and at 31 October 2004		-	-	-	-
Net book value:					
At 31 October 2004		195	-	-	195
At 31 October 2003 as restated		195	9	-	204
<i>Company</i>	<i>Subsidiary Undertakings £000</i>	<i>Unlisted investments £000</i>	<i>Other loans £000</i>	<i>Own shares £000</i>	<i>Total £000</i>
Cost:					
At 1 November 2003 as previously reported	37	195	9	606	847
Prior year adjustment (note 27)	-	-	-	(606)	(606)
At 1 November 2003 as restated	37	195	9	-	241
Disposals	-	-	(9)	-	(9)
Revaluation	(8)	-	-	-	(8)
At 31 October 2004	29	195	-	-	224
Amounts provided:					
At 1 November 2003 as previously reported	-	-	-	(42)	(42)
Prior year adjustment (note 27)	-	-	-	42	42
At 1 November 2003 as restated and as at 31 October 2004	-	-	-	-	-
Net book value:					
At 31 October 2004	29	195	-	-	224
At 31 October 2003 as restated	37	195	9	-	241

## Notes to the accounts

for the year ended 31 October 2004

### 13. Fixed assets investments (continued)

The Company's subsidiary undertakings are as follows:

<i>Name of Company</i>	<i>Country of registration (or incorporation) and operation</i>	<i>Holding</i>	<i>Proportion held</i>	<i>Nature of business</i>
Heavitree Inc	USA	Common Stock	100%	Ownership of freehold land
Heavitree Inns Limited	England and Wales	Ordinary shares	100%	Managed houses

Each subsidiary undertaking is directly owned by the Company.

### 14. Stocks

	<i>Group</i>		<i>Company</i>	
	<i>2004</i>	<i>2003</i>	<i>2004</i>	<i>2003</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Fine wines	16	13	16	13
Merchandising stocks	6	10	6	10
Stocks in managed houses	121	119	-	-
	<u>143</u>	<u>142</u>	<u>22</u>	<u>23</u>

### 15. Debtors

	<i>Group</i>		<i>Company</i>	
	<i>2004</i>	<i>2003</i>	<i>2004</i>	<i>2003</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Trade debtors	1,002	856	972	841
Amounts owed by subsidiary company	-	-	1,103	985
Other debtors	350	3	350	3
Prepayments and accrued income	313	285	174	95
	<u>1,665</u>	<u>1,144</u>	<u>2,599</u>	<u>1,924</u>

Amounts owed by subsidiary company are due after more than one year.

## Notes to the accounts

for the year ended 31 October 2004

### 16. Reconciliation of net cash flow to movement in net debt (note 17)

	<i>Group</i>	
	<i>2004</i>	<i>2003</i>
	<i>£000</i>	<i>£000</i>
Decrease in cash in the year	(938)	(416)
Translation difference	(3)	-
Cash outflow resulting from decrease in debt	1	(11)
Net debt at 1 November	(5,301)	(4,874)
Net debt at 31 October	<u>(6,241)</u>	<u>(5,301)</u>

### 17. Analysis of changes in net debt

	<i>Group</i>		<i>Exchange</i>	
	<i>2004</i>	<i>cashflows</i>	<i>movement</i>	<i>2003</i>
	<i>£000</i>	<i>in year</i>	<i>£'000</i>	<i>£000</i>
Cash	700	302	(3)	401
Overdraft	(6,866)	(1,240)	-	(5,626)
Directors' loans	(75)	1	-	(76)
	<u>(6,241)</u>	<u>(937)</u>	<u>(3)</u>	<u>(5,301)</u>

### 18. Creditors: amounts falling due within one year

	<i>Group</i>		<i>Company</i>	
	<i>2004</i>	<i>2003</i>	<i>2004</i>	<i>2003</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Bank overdrafts (unsecured)	6,866	5,626	6,866	5,626
Trade creditors	655	592	523	409
Other taxation and social security	349	347	169	181
Other creditors	108	93	79	79
Accruals	345	431	294	396
Proposed dividend	320	313	320	313
Corporation tax	556	441	556	441
	<u>9,199</u>	<u>7,843</u>	<u>8,807</u>	<u>7,445</u>

### 19. Creditors: amounts falling due after more than one year

*Group and Company*

	<i>2004</i>	<i>2003</i>
	<i>£000</i>	<i>£000</i>
Tenants' deposits	<u>270</u>	<u>259</u>



## Notes to the accounts

for the year ended 31 October 2004

### 20. Deferred taxation

	<i>Group</i> £000	<i>Company</i> £000
<i>Provided</i>		
At 1 November 2003	205	95
Charge for the year (Note 9a)	13	17
At 31 October 2004	218	112

Deferred taxation provided in the accounts is as follows:

	<i>2004</i> £000	<i>Provided</i> <i>2003</i> £000
<i>Group</i>		
Capital allowances in advance of depreciation	264	205
Other timing differences	(46)	-
	218	205

	<i>2004</i> £000	<i>Provided</i> <i>2003</i> £000
<i>Company</i>		
Capital allowances in advance of depreciation	158	95
Other timing differences	(46)	-
	112	95

All amounts are fully provided.

### 21. Share capital

	<i>2004</i> £	<i>2003</i> £
<i>Authorised</i>		
Non-equity interests:		
11.5% Cumulative Preference Shares of £1 each	11,695	11,695
Equity interests:		
Ordinary Shares of 5p each	106,313	106,313
'A' Limited Voting Ordinary Shares of 5p each	172,953	177,953
Unclassified Shares of 5p each	909,039	904,039
	1,188,305	1,188,305
	1,200,000	1,200,000

## Notes to the accounts

for the year ended 31 October 2004

### 21. Share capital (continued)

	2004 No.	2003 No.	2004 £	2003 £
<i>Allotted, called up and fully paid</i>				
Non-equity interests:				
11.5% Cumulative Preference Shares of £1 each	11,695	11,695	11,695	11,695
Equity interests:				
Ordinary Shares of 5p each	2,126,262	2,126,262	106,313	106,313
'A' Limited Voting Ordinary Shares of 5p each	3,459,061	3,559,061	172,953	177,953
			279,266	284,266
			290,961	295,961

During the year the Company purchased Nil (2003 - 50,000) 5p Ordinary Shares at a cost of £Nil (2003 - £142,500) and 100,000 (2003 - 235,000) 5p 'A' Limited Voting Ordinary Shares at a cost of £350,000 (2003 - £533,500) under an authority granted at an Extraordinary General Meeting held on 13 June 1985 and renewed at the Annual General Meeting in 2004.

The Preference Shares are entitled to a fixed cumulative preferential dividend at 11.5% per annum. On a return of capital on a winding up, these shares will rank first for their nominal amount and any arrears of dividend. The Preference Shares do not normally carry voting rights.

The Ordinary Shares and 'A' Limited Voting Ordinary Shares are entitled equally to dividends, and rank equally on a winding up, after the Preference Shares. The Ordinary Shares carry one vote for every £1 in nominal amount and the 'A' Limited Voting Ordinary Shares carry one vote for every £10 in nominal amount.

There are no Unclassified Shares in issue; shares purchased by the Company become authorised (but unissued) Unclassified Shares.

## Notes to the accounts

for the year ended 31 October 2004

### 22. Reserves

<i>Group</i>	<i>Capital redemption reserve £000</i>	<i>Other reserves £000</i>	<i>Own shares reserve £000</i>	<i>Profit and loss account £000</i>
At 31 October 2003 as previously reported	653	75	-	6,995
Prior year adjustment (note 27)	-	-	(606)	42
At 31 October 2003 as restated	653	75	(606)	7,037
Transfer in respect of buy back of own shares	5	-	350	(350)
Consideration received by EBT on sale of shares	-	-	203	-
Consideration received by EBT on exercise of share options	-	-	147	-
Consideration paid by EBT on purchase of shares	-	-	(595)	-
Transfer in respect of gain on sale of shares	-	-	(94)	94
Exchange difference on retranslation of net assets of subsidiary undertaking	-	(3)	-	-
Profit for year	-	-	-	648
At 31 October 2004	658	72	(595)	7,429

<i>Company</i>	<i>Capital redemption reserve £000</i>	<i>Own shares reserve £000</i>	<i>Profit and loss account £000</i>
At 31 October 2003 as previously reported	653	-	7,070
Prior year adjustment (note 27)	-	(606)	42
At 31 October 2003 as restated	653	(606)	7,112
Transfer in respect of buy back of own shares	5	350	(350)
Consideration received by EBT on sale of shares	-	203	-
Consideration received by EBT on exercise of share options	-	147	-
Consideration paid by EBT on purchase of shares	-	(595)	-
Transfer in respect of gain on sale of shares	-	(94)	94
Profit for year	-	-	645
At 31 October 2004	658	(595)	7,501

## Notes to the accounts

for the year ended 31 October 2004

### 22. Reserves (continued)

In accordance with the exemption allowed by Section 230(3) of the Companies Act 1985 the Company has not separately presented its own profit and loss account. The profit for the financial year dealt with in the accounts of the Company was £1,155,000 (2003 restated: £1,034,000). This includes sales to Group undertakings of £1,308,000 (2003 - £1,524,000).

Included in the Group and Company profit and loss account are reserves of £403,000 (2003 - £386,000) which relate to The Heavitree Brewery PLC Employee Benefits Trust.

The investment in own shares related to 65,328 Ordinary shares (2003: 29,828), 131,000 'A' Limited Voting Ordinary shares (2003: 210,223) and 446 Preference shares (2003: 424) held by The Heavitree Brewery PLC Employee Benefits Trust and under option pursuant to the Employee Share Option Scheme.

The market value of own shares held in trust at 31 October 2004 was £704,000 (2003: £565,000).

### 23. Pension scheme

The Company operates a defined benefit pension scheme. The assets of the scheme are held separately from those of the Company, this fund being administered by Eagle Star Life Assurance Company Limited and Legal and General Investment Management. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Company. The contributions are determined by a qualified actuary on the basis of triennial valuations by discounting projected future income and benefits using the projected unit method modified by the use of a control period of 20 years.

The scheme was closed to new members on 18 July 2002. Due to the increasing age profile of members of the defined benefit scheme, the current service cost will increase as they approach retirement.

The last full actuarial valuation of this scheme was carried out by a qualified independent actuary as at 1 January 2002 and updated on an approximate basis to 31 October 2004. The full actuarial valuation as at 1 January 2002 stated that the scheme assets were £2,519,000 and would be sufficient to cover 64% of the liabilities arising. This amounted to a deficit of £1,431,000. The deficit arose as a result of assumptions which were made prior to 1999 not being fully borne out by subsequent experience.

The contributions payable by the employer over the financial year were £221,516 (2003 - £223,730). These contributions amounted to 36% of pensionable earnings plus expenses of administration and premiums in respect of death in service benefits, together with annual deficit correction payments. These correction payments are designed to eliminate the scheme's actuarial deficit by 2012. The contribution rate is to continue until reviewed following the triennial valuation of the scheme due as at 1 January 2005.

The total pension charge for the year of £489,388 (2003 - £488,286) includes £117,871 (2003 - £120,261) of optional pension payments paid directly to past employees of the company.

At 31 October 2004 the Company had commitments of £15,640 (2003 - £15,642) in respect of unpaid contributions.

From 1 January 2003, the Company also operated an employer-sponsored personal pension arrangement. The assets of the arrangement are held separately from those of the Company in an independently administered fund. The pension charge for the period was £6,438 (2003 - £8,225).

The subsidiary company, Heavitree Inns Limited, operates an employer-sponsored personal pension arrangement. The assets of the arrangement are held separately from those of the subsidiary in an independently administered fund. The pension charge for the period was £5,555 (2003 - £10,001).

## Notes to the accounts

for the year ended 31 October 2004

### 23. Pension scheme (continued)

#### FRS17 "Retirement Benefits" disclosures

The transitional arrangements of the accounting standard FRS 17 'Retirement Benefits' require certain additional disclosures as at 31 October 2004. For the purpose of these financial statements, these figures are illustrative only and do not impact on the actual 31 October 2004 balance sheet. The assets of the scheme have been taken at a value consistent with the requirements of FRS 17 and the liabilities have been calculated using the following principal actuarial assumptions.

	2004	2003	2002
	%	%	%
Inflation	3.00	2.75	2.50
Salary increases	5.00	5.00	5.00
Rate of discount	5.25	5.50	5.25
Pension in payment increases			
(in accordance with the scheme rules)	3.00-5.00	3.00-5.00	3.00-5.00
Revaluation rate for deferred pensioners	5.00	5.00	5.00

On this basis, the illustrative balance sheet figures are as follows:

	Value at 31 October 2004 £000	Value at 31 October 2003 £000	Value at 31 October 2002 £000
Assets	4,598	3,885	3,307
Liabilities	6,768	6,033	5,300
Deficit in the scheme	(2,170)	(2,148)	(1,993)
Related deferred tax asset	651	644	598
Net pension deficit	(1,519)	(1,504)	(1,395)

The assets of the scheme at 31 October 2004 are invested in a series of with profits deferred annuity policies insured with Eagle Star. As such it is not possible to provide a split of the assets between equities and bonds, and therefore for the purposes of FRS 17 100% of the assets are classed as "other". The value of the with profits deferred annuity policies is linked to UK equities for members with more than ten years to retirement and, for members within ten years of retirement, to a mixture of gilt edged investments and equities.

The expected long term rate of return for the assets is 6% (2003 – 5.50%).

## Notes to the accounts

for the year ended 31 October 2004

### 23. Pension scheme (continued)

Reconciliation of fair values to net assets and reserves:

	<i>Group 2004 £000</i>	<i>Group 2003 £000</i>
<b>Net Assets</b>		
Net assets as previously reported in balance sheet excluding pension deficit	7,855	8,019
Prior year adjustment (note 27)	-	(564)
Net assets as restated in balance sheet excluding pension deficit	7,855	7,455
Net pension deficit	(1,519)	(1,504)
Net assets including pension deficit	6,336	5,951
<b>Reserves</b>		
Profit and loss account as stated in balance sheet excluding pension deficit	7,429	6,995
Prior year adjustment (note 27)	-	42
Profit and loss reserve as restated in balance sheet excluding pension deficit	7,429	7,037
Net pension deficit	(1,519)	(1,504)
Profit and loss reserve including pension deficit	5,910	5,533
The impact of the net pension deficit on the results of the Group had FRS17 been fully implemented would be as follows:		
<b>Components of the defined benefit cost:</b>	<i>Group 2004 £000</i>	<i>Group 2003 £000</i>
Current service cost	(246)	(258)
Total operating charge	(246)	(258)
Expected return on pension scheme assets	236	203
Interest on pension scheme liabilities	(334)	(283)
Total other finance costs	(98)	(80)
Total illustrative charge to the profit and loss account	(344)	(338)

## Notes to the accounts

for the year ended 31 October 2004

### 23. Pension scheme (continued)

Illustration of amount recognised in the statement of total recognised gains and losses

	<i>Group</i> 2004	<i>Group</i> 2003	<i>Group</i> 2002
Difference between the expected and actual return on pension scheme Assets			
Amount (£000)	222	207	62
Percentage of scheme assets	5%	5%	2%
Experience losses arising on scheme liabilities			
Amount (£000)	75	(16)	(557)
Percentage of the present value of the scheme liabilities	1%	0%	11%
Loss arising from changes in assumptions underlying the present value of scheme liabilities			
Amount (£000)	(378)	(248)	(813)
Total illustrative loss recognised in the statement of total recognised gains and losses			
Amount (£000)	(81)	(57)	(1,308)
Percentage of the present value of the scheme liabilities	1%	1%	25%

Analysis of movements in the deficit during the year:

	<i>Group</i> 2004 £000	<i>Group</i> 2003 £000	<i>Group</i> 2002 £000
At 1 November	(2,148)	(1,993)	(727)
Total operating charge	(246)	(258)	(215)
Total other finance costs	(98)	(80)	(41)
Actuarial loss	(81)	(57)	(1,308)
Contributions	403	240	298
At 31 October	(2,170)	(2,148)	(1,993)

The deficit arising under the FRS 17 calculation is significantly more than the deficit calculated in the 1 January 2002 actuarial valuation. The fundamental reason for the difference is that the discount rate required under FRS 17 is 5.25%, this being the current rate of return on a high quality corporate bond, whereas the discount rate used to calculate the deficit in the January 2002 actuarial valuation, which is calculated on an ongoing basis, is 6.5%. The reduction in the discount rate to 5.25% has had the effect of increasing the disclosed value of the discounted liabilities and hence the disclosed deficit. The discounted rate used for the purpose of FRS 17 in the previous year was 5.50%.

## Notes to the accounts

for the year ended 31 October 2004

### 24. Particulars of transactions involving directors

Two Directors have made loans to the Company. They are repayable on demand and carry an interest rate of  $\frac{3}{4}\%$  over the base rate.

	2004	Movement in year	2003
	£000	£000	£000
W P Tucker	42	(15)	57
G J Crocker	33	14	19
	<u>75</u>	<u>(1)</u>	<u>76</u>

The above balances are included in other creditors falling due within one year. There were no other transactions during the year which require disclosure under Part II of Schedule 6 to the Companies Act 1985.

### 25. Employee share option scheme/Employee benefits trust

In 1998, the Company set up a discretionary Employee Share Option Scheme. The Scheme was approved by the Inland Revenue on 24 July 1998. The value of shares over which options are granted is limited to a maximum of £30,000 per employee. The Scheme's rules allow that qualifying employees may exercise their options between the third and tenth anniversary of the option being granted.

On 21 September 2001, options were granted under the Scheme over 62,550 'A' Limited Voting Ordinary Shares with an exercise price of £2.35, all of these options were exercised before the year end.

On 8 October 2004, options were granted under the Scheme over 43,637 'A' Limited Voting Ordinary Shares with an exercise price of £3.50, and these remained under option at the year end. The mid-market value was £3.55 per share at 31 October 2004, giving a total market value of £154,911 for the shares under option.

The Heavitree Brewery PLC Employee Benefits Trust is a vehicle set up for the benefit of the employees. The Trust will terminate on 31 October 2062. If any funds remain on the termination date, the funds will be distributed equally between the employees on that date. Any distribution to the employees of the Trust funds before the termination date is at the discretion of the Trustees. Under the terms of the Trust Deed the Trustees have full powers to buy and sell shares in the Company as they consider appropriate.

All the costs and expenses of the Trust are borne by the Company and expensed within the profit and loss account. The shares within the Trust received dividends during the year and, at 31 October 2004, the Trust held the following shares which were not under option to the employees:

	Nominal amount 2004 £	Nominal amount 2003 £	Market value 2004 £000	Market value 2003 £000
5p Ordinary Shares				
65,328 shares (2003 – 29,828 shares)	3,266	1,491	238	81
5p 'A' Limited Voting Ordinary				
87,363 shares (2003 – 147,673 shares)	4,368	7,384	310	340
£1 Cumulative Preference Shares				
446 shares (2003 – 424)	446	424	1	1



## Notes to the accounts

for the year ended 31 October 2004

### 26. Financial instruments and derivatives

The Group's principal financial instruments comprise bank overdrafts, cash, deposits, loans, investments and its own non-equity share capital. The principal purpose of these financial instruments is to provide finance for the Group's operations. The Group has various other financial instruments such as trade debtors and trade creditors that arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk and structural foreign exchange risk. The board reviews and agrees the policies for managing each of these risks and they are summarised below. These policies have remained unchanged over the two reported years, apart from an interest rate swap taken out in December 2002 fuller details of which are given under 'interest rate risk'.

#### **Interest rate risk**

The Group operates with borrowings denominated in sterling. Interest is paid on these borrowings at a floating rate.

On 18 December 2002 the company entered into an agreement with National Westminster Bank Plc to fix the base interest rate at 4.68% per annum on £2,000,000 by way of a sterling base rate swap to be effective between 18 December 2002 and 18 December 2005.

#### **Liquidity risk**

Short term flexibility on Group borrowings is achieved by overdraft facilities.

#### **Foreign currency risk**

As a result of the investment in operations in the United States, the Group's financial statements can be affected by movements in the exchange rate between sterling and the US dollar. This risk has been considered by the Group and is not deemed significant enough to warrant the extra cost of hedging the risk.

The Group does not face transactional currency exposure as all transactions are denominated in the functional currency.

#### **Short term debtors and creditors**

Short term debtors and creditors have been excluded from the numerical disclosures below.

#### **Interest rate risk profile of financial liabilities**

After taking account of the interest rate swap the interest rate profile of the financial liabilities of the Group as at 31 October was as follows:

	<i>Fixed rate financial liabilities £000</i>	<i>Floating rate financial liabilities £000</i>	<i>Financial liabilities on which no interest is paid £000</i>	<i>Total £000</i>
2004				
Sterling	2,000	5,211	-	7,211
	<hr/>	<hr/>	<hr/>	<hr/>
2003				
Sterling	2,000	3,961	-	5,961
	<hr/>	<hr/>	<hr/>	<hr/>

The fixed rate financial liabilities bear interest at a weighted average of 4.68% for a weighted average period of 13.6 months.

## Notes to the accounts

for the year ended 31 October 2004

### 26. Financial instruments and derivatives (continued)

The floating rate is based on the base rate. The floating rate financial liabilities consist of the overdraft, the tenants' deposits and Directors' loans.

All the financial liabilities mature within one year with the exception of the tenants' deposits of £270,000 (2003 - £259,000) which mature when the tenant leaves or if trading terms are altered.

#### *Interest rate risk profile of non-equity shares*

The Company has in issue 11,695 £1 Cumulative Preference Shares with a fixed coupon rate of 11.5%. These represent the remaining preference shares in issue following the offer made by the Company in 1996 to repurchase these shares. They are no longer listed on The London Stock Exchange and have no fixed maturity date.

#### *Interest rate risk profile of financial assets*

The interest rate risk profile of the financial assets of the Group as at 31 October was as follows:

	<i>Floating rate financial assets £000</i>	<i>Financial assets on which no interest is earned £000</i>	<i>Total £000</i>
2004			
Sterling	685	195	880
Dollar	15	-	15
	<hr/> 700	<hr/> 195	<hr/> 895
2003			
Sterling	389	195	584
Dollar	21	-	21
	<hr/> 410	<hr/> 195	<hr/> 605

The assets attracting a floating rate of interest have their return based on the base rate.

The assets attracting no interest are equity investments which can be readily converted into cash, subject to Board approval.

## Notes to the accounts

for the year ended 31 October 2004

### 26. Financial instruments and derivatives (continued)

#### *Fair values of financial assets and liabilities*

Set out below is a comparison by category of book values and fair values of all the Group's financial assets, financial liabilities and non equity shares as at 31 October:

	<i>Book value 2004 £000</i>	<i>Fair value 2004 £000</i>	<i>Book value 2003 £000</i>	<i>Fair value 2003 £000</i>
Financial assets:				
Unlisted fixed asset investments	195	463	195	446
Fixed asset loans	-	-	9	9
Cash	700	700	401	401
	<u>895</u>	<u>1,163</u>	<u>605</u>	<u>856</u>
Financial liabilities:				
Overdraft	(6,866)	(6,866)	(5,626)	(5,626)
Short term loans	(75)	(75)	(76)	(76)
Long term liabilities	(270)	(270)	(259)	(259)
Non equity shares	(12)	(12)	(12)	(12)
	<u>(7,223)</u>	<u>(7,223)</u>	<u>(5,973)</u>	<u>(5,973)</u>
<i>Derivative financial instrument held to manage the interest rate profile</i>				
Interest rate swap	-	(3)	-	-

#### *Fixed asset investments*

The fair value of the unlisted fixed asset investments is calculated using the year end market value as determined by OFEX.

### 27. Prior year adjustment

The implementation of UITF 38 'Accounting for ESOP Trusts' has required a change to the accounting treatment for the investment in own shares. Prior year results have been restated accordingly.

#### *(a) Profit and loss account*

	<i>Profit for the year attributable to shareholders £000</i>
As previously reported	1,032
Implementation of UITF 38 – provision against investment in own shares	(21)
Implementation of UITF38 – loss on sale of own shares	36
At 31 October 2003 as restated	<u>1,047</u>

## Notes to the accounts

for the year ended 31 October 2004

### 27. Prior year adjustment (continued)

#### (b) Consolidated and company balance sheet

	<i>Profit &amp; loss reserve £'000</i>	<i>Fixed asset investments - own shares £000</i>	<i>Own shares reserve £000</i>
As previously reported	6,995	564	-
Implementation of UITF 38	42	(564)	(606)
At 31 October 2003 as restated	<u>7,037</u>	<u>-</u>	<u>(606)</u>

#### (c) Effect on the current year

The adoption of UITF 38 has had no effect on the results for the current year.