The Heavitree Brewery PLC

Report and Accounts

31 October 2005

Annual Report and Accounts

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ERNST & YOUNG

Directors

W P Tucker DL*	- Chairman
N H P Tucker	- Managing
G J Crocker	- Finance
R J Glanville	- Estate
T Wheatley	- Trade
T P Duncan*	
M C Pease-Watkin*	

*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 Broker

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 class meeting

NOTICE IS HEREBY GIVEN that a separate General Meeting of the holders of the 11.5% Cumulative Preference Shares of £1 each in The Heavitree Brewery PLC will be held at the Company's offices, Trood Lane, Matford, Exeter on 6 April 2006 at 11:30am to consider and, if thought fit, pass the following Resolution, which will be proposed as an Extraordinary Resolution:

Resolution

THAT sanction be hereby given to the alteration to the Company's borrowing limits proposed to be effected by Resolution 9 to be considered by the Company's Annual General Meeting convened for the same day and place as this Meeting, and to any and all variations and abrogations of the special rights attaching to the 11.5% Cumulative Preference Shares of £1 each in the capital of the Company entailed thereby or consequent thereon.

By Order of the Board

G J CROCKER
Secretary
7 March 2006

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 11.5% Cumulative Preference Shares of £1 each are entitled to attend and vote at the Meeting.

3. The quorum for the above Meeting shall be two persons at least holding or representing by proxy one-third in nominal amount of the issued Preference Shares. If such quorum is not present at the Meeting, the Meeting will be adjourned until one week later at the same time and place; and the quorum at such adjourned meeting shall be any two holders of such shares present in person or by proxy.

Notice of annual general meeting

NOTICE IS HEREBY GIVEN that the One Hundred and Sixteenth Annual General Meeting of The Heavitree Brewery PLC will be held at the Company's offices, Trood Lane, Matford, Exeter on 6 April 2006 at 11:35 am (or as soon thereafter as the separate Class Meeting of the holders of the Company's 11.5% Cumulative Preference Shares of £1 each shall have been concluded or adjourned) 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 2005 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) R J Glanville
   (b) M C Pease-Watkin
   (c) T Wheatley
4. To re-elect W P Tucker (aged 71) 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:

7. 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 £10 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 2007 (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

8. 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 £4 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 2007 (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).

9. THAT, subject to the consent of the holders of the 11.5% Cumulative Preference Shares of £1 each in the capital of the Company, the borrowing limit applicable under Article 19.2 of the Company's Articles of Association shall henceforth be calculated as if, for the purposes of calculating the Company's "Adjusted Capital and Reserves", the Group's portfolio of public houses appeared in the Company's Accounts at the Directors' open market valuation thereof instead of their historic cost.

By Order of the Board

G J CROCKER
Secretary
7 March 2006

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 Preference Shares, Ordinary Shares and 'A' Limited Voting Ordinary Shares are entitled to attend and vote at the Meeting. On a poll the Preference Shares and 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. The holders of the Preference Shares are only entitled to vote on Resolution 9.

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 7 April 2006 to shareholders on the Register on 3 March 2006.

Chairman's statement

Results

I would like to draw your attention to my opening remarks in last year's statement. The first paragraph said this: "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."

This duly happened and the costs for this year under the above headings amount to a total of £284,000.

The new Licensing Laws' procedural requirements have been completed in respect of all of our pubs. Apart from the financial costs mentioned above, there has been a heavy demand on the time of our senior management people, about seven months' worth of this time in fact.

I find it hard, to say the least, to see any commensurate improvement or benefit to anyone resulting from the new system.

The profit before tax for this year is £1,299,000 (2004 restated – £1,586,000) which, in the circumstances, is satisfactory.

Other points to note are:

Core Company - operating profit of £1,506,000 (2004 restated – £1,994,000).

The Managed Houses (Heavitree Inns) – operating loss of £11,000 (2004 – loss £45,000).

The American Subsidiary (Heavitree Inc) – operating loss of £6,000 (2004 – loss £5,000).

Sales of Fixed Assets – a profit of £252,000 (2004 – £16,000).

Sales of Beer – up by 0.92% on volume.

Dividends

The Directors recommend an unchanged final dividend of 6p per Ordinary and 'A' Limited Voting Ordinary Share. This together with the interim dividend of 3.5p makes a total of 9.5p per share (2004 – 9.5p) for the year. If approved, the final dividend will be paid on 7 April 2006 to the shareholders on the Register at 3 March 2006.

Borrowing

At the AGM we will be seeking Shareholders' approval for a change in our borrowing capacity as defined in the Memorandum & Articles of Association. The proposal is fully described in the Directors' Report on page 9.

Although there is no intention of changing our present policy of borrowing restraint, the proposal reflects the change in the real value of our pubs and the rising cost of the vital programme of their regular refurbishment.

Heavitree Inns

The previous history of losses has been virtually eradicated. In future this subsidiary will operate under rental arrangements more in keeping with the accepted norm for our industry and accordingly will not be liable for a rent charge.

Heavitree Inc

There have been no significant events during the year.

Chairman's statement

Property

The Lamb Inn, Sandford, Crediton was sold giving rise to a gross profit of £293,000. We also purchased a cottage and a former village hall, both for the expansion of our pub operations, at a cost of £439,000. Capital improvements totalling £705,000 have been carried out at several of our pubs including The Mount Pleasant Inn, Dawlish Warren; The Carpenters Arms, Ilsington; The New Inn, Sampford Courtenay; The Crown & Sceptre, Newton St. Cyres; and The Golden Lion Inn, Tipton St. John, with major alterations completed at The Maltsters Arms, Clyst St. Mary and The Full Quart, Hewish, Weston-super-Mare.

Personnel

The whole team has worked tirelessly and every member of it has earned our gratitude.

Prospects

Regulations and legislation will continue to be expensive without being productive and there is now the possibility of a ban on smoking in every pub in the Country. Sales in some of them could well suffer as a result. But these will be overshadowed by the astonishing increased costs which we will face in honouring our pension obligations.

We started our pension scheme in 1963. Proper advice was taken and the cost of a generous pension plan was well within our means. Longer life spans, exacerbated by new rules about the balance of funds invested in equities as opposed gilts and Gordon Brown's tax raid on dividends received by pension funds, have led to ever-increasing contributions required by the calculations of the Actuaries.

All this gives rise to a black hole which, in the course of the last few years, has been variously estimated at £1.4 million at 1 January 2002, £4.2 million at 1 January 2005 (or £7.4 million in the event of cessation), and we still do not have a definite figure.

We have followed professional advice on funding levels throughout the life of the scheme and have never taken a contribution holiday.

This clearly is a very difficult situation to have to face and we continue to take advice and consider all options. No doubt we will get through it, but it is bound to have an effect on our growth strategy. As a starting point, we have decided to adopt, one year early, FRS 17 the Accounting Standard that deals with Retirement Benefits, thereby starting to reflect part of the problem on our balance sheet, which at 31 October 2005 is carrying a net pension deficit of £1,676,000.

On a brighter note, gross profits for 2006 will be boosted by some £800,000 as a result of the sale of our shareholding in George Gale and Company Limited, which was the subject of a successful cash offer from Fuller Smith & Turner PLC in December 2005.

W P TUCKER
Chairman
15 February 2006

Directors' report

The Directors have pleasure in submitting their report for the year ended 31 October 2005.

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

The Group carries on the business of the lease and 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 2005. The profit for the year, after taxation, attributable to shareholders amounts to £991,000 (2004 restated - £1,091,000) 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 (2004 - 9.5p) 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 2005 was £46.2m (2004 - £45.9m).

Directors

The Directors of the Company during the year ended 31 October 2005 were those listed on page 2.

R J Glanville, M C Pease-Watkin and T Wheatley are the Directors retiring by rotation under Article 14 and, being eligible, offer themselves for re-election.

The Company has received special notice that W P Tucker (aged 71), who retires by age under Section 293 of the Companies Act 1985, will offer himself for re-election.

Directors' report

Special business at Annual General Meeting

The Directors seek the renewal, until the 2007 Annual General Meeting, of the authorities conferred upon the Company at the last Annual General Meeting to purchase its own shares. No shares have been so purchased during the year, and indeed, with the precipitate rise of the share price from £3.65 to £6.10 in respect of Ordinary Shares and £3.55 to £5.625 in respect of 'A' Limited Voting Ordinary Shares during the year ended 31 October 2005, it has not lately been possible to do so, as the maximum purchase price the Company could pay was last year (as in previous years) set at £5 per Ordinary or 'A' Limited Voting Ordinary Share. It is proposed to raise this maximum to £10 this year; as previously, the Directors will only utilise these authorities if and when they consider it beneficial to shareholders generally to do so.

The Directors have also reviewed the Group's borrowing limits, which presently stand at an amount equivalent to its Adjusted Capital and Reserves (£7.2m as at 31 October 2005). This latter figure is a significant reduction on the previous year's figure, notwithstanding this year's profits, because the Directors have given effect to Accounting Standard FRS 17, and imported into the balance sheet for the first time the deficit in the Company's defined benefit pension scheme. In addition, there is a very significant disparity between the Directors opinion of the open market value of the Group's portfolio of public houses (presently £46.2m) and the historic cost of the properties concerned (presently £11.6m after depreciation). Although the Directors could bring these properties into the Accounts at their open market value, this would entail expensive annual valuations.

The Group's net borrowings as at 31 October 2005 were £6.6m, which gives the Directors too little flexibility and also does not reflect the true value of its properties.

Accordingly, Resolution 9 to be proposed at the Annual General Meeting will achieve the same result (but without the expense), by deeming the value of those properties to be their open market value for the purpose of calculating the Group's borrowing limits.

This proposal also requires the sanction of the holders of the Company's 11.5% Cumulative Preference Shares, and such sanction will be sought at a separate Class Meeting of the holders of those shares; the related Notice appears on page 3.

Directors' report

Directors' interests

The interests of the Directors and their spouses in the Company's shares as at 31 October 2005 were as follows:

	Ordinary Shares		*'A' Limited Voting Ordinary Shares*	
	31 October 2005	*1 November 2004*	*31 October 2005*	*1 November 2004*
W P Tucker	53,750	53,750	75,480	75,480
N H P Tucker	799,607	799,607	386,385	386,385
G J Crocker	57,392	57,392	174,672	172,488
T P Duncan	150,335	136,790	118,992	104,837
R J Glanville	-	-	39,700	31,482
M C Pease-Watkin	17,064	17,064	82,740	82,740
T Wheatley	-	-	6,530	5,039

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

(a) W P Tucker's interest in 53,750 (2004 - 53,750) Ordinary Shares;

(b) N H P Tucker's interest in 111,142 (2004 - 111,142) Ordinary Shares and 307,000 (2004 - 307,000) 'A' Limited Voting Ordinary Shares;

(c) G J Crocker's interest in 57,392 (2004 - 57,392) Ordinary Shares and 151,000 (2004 - 151,000) 'A' Limited Voting Ordinary Shares; and

(d) R J Glanville's interest in 30,443 (2004: - 22,877) 'A' Limited Voting Ordinary Shares.

Included in these interests are the following joint holdings:

(a) 53,750 (2004 - 53,750) Ordinary Shares held jointly by W P Tucker and N H P Tucker; and

(b) 57,392 (2004 - 57,392) Ordinary Shares and 151,000 (2004 - 151,000) 'A' Limited Voting Ordinary Shares held jointly by G J Crocker and N H P Tucker.

At 31 October 2005, the following Directors held options to subscribe 'A' Limited Voting Ordinary Shares of the Company:

	2005	*2004*
	No.	*No.*
G J Crocker	9,463	9,463
R J Glanville	7,105	7,105
T Wheatley	7,105	7,105

During the period from the end of the financial year to 14 February 2006 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.

Directors' report

Substantial interests

At 14 February 2006 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	-	159,720
R H Duncan	151,643	-
Mrs S M Duncan	-	159,720
Mrs J E M Duncan	150,335	118,992
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 £14,303.

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.

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 2005 is 32 (2004: 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
15 February 2006

Ten year review of profits and dividends

Year ended 31 October	*Profit before tax £000*	*Earnings per 5p share (note 11 to the accounts) p*	*Dividends per 5p share p*
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	1,265	18.9	9.25
2004 restated	1,586	20.1	9.50
2005	1,299	18.4	9.50

Notes:

1. Pre-tax profits and earnings per share for the two 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. Pre-tax profits and earnings per share for the year ended 31 October 2004 have been restated following the implementation of FRS 17 'Retirement Benefits'.

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 2005 which comprise the Group Profit and Loss Account, Group Statement of Total Recognised Gains and Losses, Reconciliation of Shareholders' Funds, Group Balance Sheet, Company Balance Sheet, Group Statement of Cash Flows 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 2005 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
15 February 2006

Group profit and loss account

for the year ended 31 October 2005

	Notes	2005 £000	As restated 2004 £000
Turnover	2	12,891	12,487
Change in stocks		(10)	(2)
Other operating income	3	(41)	(29)
Purchase of stock		5,005	4,902
Staff costs	5	2,861	2,828
Depreciation of tangible fixed assets		572	503
Other operating charges		3,015	2,341
		11,402	10,543
Operating profit	4	1,489	1,944
Profit on sale of fixed assets		252	16
Income from other fixed asset investments		13	13
Profit on ordinary activities before interest and taxation		1,754	1,973
Other interest receivable	6	9	9
Interest payable	7	(379)	(298)
Other finance charges – FRS 17	23	(85)	(98)
Profit on ordinary activities before taxation	8	1,299	1,586
Taxation on profit on ordinary activities	9	(308)	(495)
Profit attributable to shareholders		991	1,091
Dividends - equity and non-equity	10	(513)	(510)
Profit retained for the financial year	22	478	581
Basic and diluted earnings per share	11	18.4p	20.1p

Movements on reserves are set out in Note 22.

The notes on pages 21 to 44 form part of the Accounts.

All revenues and costs relate to continuing operations.

ERNST & YOUNG

Group statement of total recognised gains and losses

for the year ended 31 October 2005

	2005 £000	As restated 2004 £000
Profit attributable to shareholders	991	1,091
Exchange difference on retranslation of net assets of subsidiary undertaking	-	(3)
Actuarial loss recognised on pension scheme	(127)	(81)
Deferred tax relating to actuarial loss on pension scheme	38	24
Total recognised gains and losses relating to the year	902	1,031
Prior year adjustment – FRS 17 (note 27)	(1,539)	
Total recognised gains and losses since last annual report	(637)	

ERNST & YOUNG

Reconciliation of shareholders' funds

for the year ended 31 October 2005

	2005 £000	As restated 2004 £000
At 1 November as previously reported	7,855	7,455
Prior year adjustment – FRS 17 (note 27)	(1,539)	(1,415)
At 1 November as restated	6,316	6,040
Total recognised gains and losses relating to the year	902	1,031
Dividends	(513)	(510)
Consideration received by EBT on sale of shares	39	203
Consideration received by EBT on exercise of share options	-	147
Consideration paid by EBT on purchase of shares	(163)	(595)
At 31 October	6,581	6,316

Group balance sheet

at 31 October 2005

	Notes	2005 £000	As restated 2004 £000
Fixed assets			
Tangible assets	12	15,836	14,839
Investments	13	195	195
		16,031	15,034
Current assets			
Stocks	14	149	143
Debtors	15	1,299	1,608
Cash at bank and in hand		520	700
		1,968	2,451
Creditors: amounts falling due within one year	18	(9,188)	(9,116)
Net current liabilities		(7,220)	(6,665)
Total assets less current liabilities		8,811	8,369
Creditors: amounts falling due after more than one year	19	(272)	(270)
Provisions for liabilities and charges			
Deferred taxation	20	(282)	(264)
Net assets excluding pension liability		8,257	7,835
Pension liability	23	(1,676)	(1,519)
		6,581	6,316
Capital and reserves			
Called up share capital	21	291	291
Capital redemption reserve	22	658	658
Other reserves	22	72	72
Own shares reserve	22	(730)	(595)
Profit and loss account	22	6,290	5,890
		6,581	6,316
Attributable to non-equity interests		11	11
Attributable to equity interests		6,570	6,305
Total shareholders' funds		6,581	6,316

The notes on pages 21 to 44 form part of the Accounts.

On behalf of the Board

N H P Tucker. G J Crocker

N H P TUCKER)
G J CROCKER) Directors
15 February 2006

ERNST & YOUNG

Company balance sheet

at 31 October 2005

	Notes	£000	2005 £000	£000	As restated 2004 £000
Fixed assets					
Tangible assets	12		15,068		13,948
Investments	13		219		224
			15,287		14,172
Current assets					
Stocks	14		22		22
Debtors:	15				
amounts falling due after one year		989		1,103	
amounts falling due within one year		1,037	2,026	1,439	2,542
Cash at bank and in hand			93		251
			2,141		2,815
Creditors: amounts falling due within one year	18		(8,713)		(8,724)
Net current liabilities			(6,572)		(5,909)
Total assets less current liabilities			8,715		8,263
Creditors: amounts falling due after more than one year	19		(272)		(270)
Provisions for liabilities and charges					
Deferred taxation	20		(186)		(158)
Net assets excluding pension liability			8,257		7,835
Pension liability	23		(1,676)		(1,519)
			6,581		6,316
Capital and reserves					
Called up share capital	21		291		291
Capital redemption reserve	22		658		658
Own shares reserve	22		(730)		(595)
Profit and loss account	22		6,362		5,962
			6,581		6,316
Attributable to non-equity interests			11		11
Attributable to equity interests			6,570		6,305
Total shareholders' funds			6,581		6,316

The notes on pages 21 to 44 form part of the Accounts.

On behalf of the Board

N H P Tucker. G J Crocker

N H P TUCKER)
G J CROCKER) Directors
15 February 2006

ERNST & YOUNG

Group statement of cash flows

for the year ended 31 October 2005

	Notes	2005 £000	2004 £000
Net cash inflow from operating activities	4(b)	2,616	1,785
Returns on investments and servicing of finance			
Interest paid		(431)	(246)
Interest received		9	9
Dividends received		13	13
Preference dividend paid		(1)	(1)
Net cash outflow from returns on investments and servicing of finance		(410)	(225)
Taxation			
Corporation tax paid		(632)	(330)
Return of overpayment of corporation tax		-	26
		(632)	(304)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(1,786)	(1,609)
Receipts from sales of tangible fixed assets		470	154
Receipts from repayment of fixed asset investments		-	9
		(1,316)	(1,446)
Equity dividends paid		(510)	(502)
Financing			
Consideration received by EBT on sale of shares		39	203
Consideration received by EBT on exercise of share options		-	147
Consideration paid by EBT on purchase of shares		(163)	(595)
Repayment of directors' loans		(21)	(23)
Loans from directors		17	22
		(128)	(246)
Decrease in cash	16	(380)	(938)

Notes to the accounts

for the year ended 31 October 2005

1. Accounting policies

Basis of preparation

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.

In preparing the accounts for the current year, the Group has adopted FRS 17 'Retirement Benefits'. The adoption of FRS 17 has resulted in a change in accounting policy in relation to the defined benefit pension scheme.

This change in accounting policy has resulted in a prior year adjustment for the Group. The deficit in the pension scheme is now recognised on the balance sheet. Shareholders' funds at 1 November 2004 have been reduced by £1,539,000 and profits attributable to shareholders for the year ended 31 October 2004 have been reduced by £67,000. Fuller details are set out in note 27.

Basis of consolidation

The Group accounts incorporate the accounts of the Company and its subsidiary undertakings for the year ended 31 October 2005.

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 $33^1/_3$%

Notes to the accounts

for the year ended 31 October 2005

1. Accounting policies (continued)

Depreciation (continued)

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.

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 maintains a defined benefit pension scheme for the funding of retirement benefits for scheme members during their working lives in order to pay benefits to them after retirement and to their dependants after their death.

For a defined benefit scheme the amounts charged to operating profit are the current service costs and any gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are charged to operating profit immediately if the benefits have vested. If the benefits have not vested immediately, the costs are recognised by equal annual instalments over the period until vesting occurs. The interest cost and the expected return on assets are included as other finance income. Actuarial gains and losses net of deferred tax are recognised immediately in the statement of total recognised gains and losses.

Defined benefit schemes are funded in separate trustee administered funds, with the assets of the scheme held separately from those of the Company. Pension scheme assets are measured at fair value, and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. Full actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of 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.

Notes to the accounts

for the year ended 31 October 2005

1. Accounting policies (continued)

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.

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 £2,299,000 (2004 - £2,278,000) together with managed houses retail sales and accommodation receipts totalling £5,521,000 (2004 - £5,447,000). All turnover is derived from the United Kingdom.

3. Other operating income

	2005	*2004*
	£000	*£000*
Rents from unlicensed properties	41	29

4. Operating profit

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

		2005	*2004*
		£000	*£000*
Auditors' remuneration	- audit services – statutory audit †	34	33
	- further assurance services	2	3
	- tax services - compliance	8	7
Depreciation of owned fixed assets		571	503
Repairs and maintenance of properties		1,249	1,182
Inventory rental income		(103)	(55)

† £28,000 (2004 - £28,000) of this relates to the Company

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

		As restated
	2005	*2004*
	£000	*£000*
Operating profit	1,489	1,944
Depreciation	571	503
Increase in stocks	(6)	(1)
Decrease/(increase) in operating debtors	309	(516)
Increase in operating creditors	241	12
Exchange gains on cash	-	3
Increase in other provisions	157	15
Net pension change	(145)	(175)
Net cash inflow from continuing operating activities	2,616	1,785

Notes to the accounts

for the year ended 31 October 2005

4. Operating profit (continued)

(c) Directors' remuneration (excluding pension contributions)

	2005	2004
	£000	£000
Fees	52	56
Other emoluments:		
salaries	268	258
performance-related bonuses	47	47
benefits	57	59
	424	420
Aggregate gains made by Directors on the exercise of options	-	29

	2005	2004
	No	No
Members of defined benefit pension scheme	5	6

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 £115,753 (2004 - £114,367).

The highest paid Director has an accrued pension entitlement of £45,378 (2004 - £40,747) as at 31 October 2005.

5. *Staff costs*

	2005	As restated 2004
	£000	£000
Wages and salaries	2,210	2,243
Social security costs	184	178
Other pension costs	467	407
	2,861	2,828

Staff costs include Directors' emoluments as detailed in Note 4(c).

	No.	No.
Average monthly number of employees	204	206

Notes to the accounts

for the year ended 31 October 2005

6. Other interest receivable

	2005	*2004*
	£000	*£000*
Loan interest receivable	7	8
Other interest	2	1
	9	9

7. Interest payable

	2005	*2004*
	£000	*£000*
Bank interest on loans and overdrafts	353	287
Other interest	26	11
	379	298

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:

		As restated
	2005	*2004*
	£000	*£000*
UK:		
The Heavitree Brewery PLC	1,314	1,623
Heavitree Inns Limited	(9)	(32)
USA:		
Heavitree Inc	(6)	(5)
	1,299	1,586

The net assets attributable to Heavitree Inc are £23,000 (2004 - £28,000).

Notes to the accounts

for the year ended 31 October 2005

9. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2005	As restated 2004
	£000	£000
Current tax:		
UK corporation tax	345	530
Tax overprovided in previous years	(26)	(111)
Total current tax (Note 9(b))	319	419
Deferred tax:		
Origination and reversal of timing differences	18	59
Adjustment in respect of FRS 17	(29)	17
Group deferred tax	(11)	76
Tax on profit on ordinary activities	308	495

(b) Factors affecting current tax charge

	2005	As restated 2004
	£000	£000
Profit on ordinary activities before tax	1,299	1,586
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2004 - 30%)	390	476
Effect of:		
Disallowed expenses and non-taxable income	28	37
Capital allowances in excess of depreciation	(29)	(44)
Other timing differences	26	46
Adjustments in respect of previous periods	(26)	(111)
Other	19	15
Capital gains (effects of indexation and rebasing)	(89)	-
Current tax charge for the period	319	419

Notes to the accounts

for the year ended 31 October 2005

9. Tax (continued))

(c) Factors that may affect future tax charges

A potential deferred tax asset of £250,000 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 £156,000 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 year effective tax rate (2005 – 23.7% and 2004 – 31.2%) is 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 2005 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 capital gains (effects of rebasing and indexation).

10. Dividends

	2005	*2004*
	£000	*£000*
Non-equity interests:		
£1 11.5% Preference	1	1
Equity interests:		
Interim 3.5p per Ordinary and 'A' Limited Voting Ordinary share (2004 - 3.5p)	195	199
Proposed final 6p per Ordinary and 'A' Limited Voting Ordinary share (2004 - 6p)	335	335
Less dividends on shares held within employee share schemes	(18)	(25)
	512	509
	513	510

11. Basic and diluted earnings per share

The calculation of basic earnings per ordinary share is based on earnings of £990,000 (2004 restated - £1,090,000), being profit after taxation for the year of £991,000 (2004 restated - £1,091,000) less preference dividends of £1,000 (2004 - £1,000), and on 5,369,929 (2004 - 5,414,935) 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 2005

12. Tangible fixed assets

Group	*Freehold land and buildings and fixtures and fittings* *£000*	*Equipment and vehicles* *£000*	*Total* *£000*
Cost:			
At 1 November 2004	16,422	776	17,198
Additions	1,572	214	1,786
Disposals	(214)	(77)	(291)
At 31 October 2005	17,780	913	18,693
Depreciation:			
At 1 November 2004	1,954	405	2,359
Provided during the year	441	130	571
Disposals	(16)	(57)	(73)
At 31 October 2005	2,379	478	2,857
Net book value			
At 31 October 2005	15,401	435	15,836
At 31 October 2004	14,468	371	14,839

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Notes to the accounts

for the year ended 31 October 2005

12. Tangible fixed assets (continued)

Company	*Freehold land and buildings and fixtures and fittings £000*	*Equipment and vehicles £000*	*Total £000*
Cost:			
At 1 November 2004	15,273	460	15,733
Additions	1,430	196	1,626
Disposals	(153)	(70)	(223)
At 31 October 2005	16,550	586	17,136
Depreciation:			
At 1 November 2004	1,504	281	1,785
Provided during the year	266	74	340
Disposals	(6)	(51)	(57)
At 31 October 2005	1,764	304	2,068
Net book value:			
At 31 October 2005	14,786	282	15,068
At 31 October 2004	13,769	179	13,948

Freehold land and buildings for both Group and Company are included in the above at a cost of £13,517,000 and at a net book value of £13,279,000.

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 £65,073 at 31 October 2005.

Future capital expenditure

Group and Company	*2005 £000*	*2004 £000*
Contracted	168	163

Notes to the accounts

for the year ended 31 October 2005

13. Fixed asset investments

Group	*Unlisted investments £000*	*Total £000*
Cost:		
At 1 November 2004	195	195
Additions	-	-
At 31 October 2005	195	195
Amounts provided:		
At 1 November 2004 and at 31 October 2005	-	-
Net book value:		
At 31 October 2005	195	195
At 31 October 2004	195	195

Company	*Subsidiary undertakings £000*	*Unlisted investments £000*	*Total £000*
At 1 November 2004	29	195	224
Additions	-	-	-
Revaluation	(5)	-	(5)
At 31 October 2005	24	195	219
Amounts provided:			
At 1 November 2004 and as at 31 October 2005	-	-	-
Net book value:			
At 31 October 2005	24	195	219
At 31 October 2004	29	195	224

Notes to the accounts

for the year ended 31 October 2005

13. Fixed assets investments (continued)

The Company's subsidiary undertakings are as follows:

Name of Company	*Country of registration (or incorporation) and operation*	*Holding*	*Proportion held*	*Nature of business*
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

	Group		*Company*	
	2005	*2004*	*2005*	*2004*
	£000	*£000*	*£000*	*£000*
Fine wines	16	16	16	16
Merchandising stocks	6	6	6	6
Stocks in managed houses	127	121	-	-
	149	143	22	22

In the opinion of the Directors the replacement cost of stocks exceeds the balance sheet value, but not by a material amount.

15. Debtors

	Group		*Company*	
		As restated		*As restated*
	2005	*2004*	*2005*	*2004*
	£000	*£000*	*£000*	*£000*
Trade debtors	1,045	1,002	952	972
Amounts owed by subsidiary company	-	-	989	1,103
Other debtors	44	350	44	350
Prepayments and accrued income	210	256	41	117
	1,299	1,608	2,026	2,542

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Notes to the accounts

for the year ended 31 October 2005

15. Debtors (continued)

Amounts falling due after more than one year included above are:

	Group		*Company*	
	2005	*2004*	*2005*	*2004*
	£000	*£000*	*£000*	*£000*
Amounts owed by subsidiary company	-	-	989	1,103
Other debtors	31	-	31	-
	31	-	1,020	1,103

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

	Group	
	2005	*2004*
	£000	*£000*
Decrease in cash in the year	(380)	(938)
Translation difference	-	(3)
Cash outflow resulting from decrease in debt	4	1
Net debt at 1 November	(6,241)	(5,301)
Net debt at 31 October	(6,617)	(6,241)

17. Analysis of changes in net debt

	2005	*Group cashflows in year*	*2004*
	£000	*£000*	*£000*
Cash	520	(180)	700
Overdraft	(7,066)	(200)	(6,866)
Directors' loans	(71)	4	(75)
	(6,617)	(376)	(6,241)

Notes to the accounts

for the year ended 31 October 2005

18. Creditors: amounts falling due within one year

	Group		*Company*	
		As restated		*As restated*
	2005	*2004*	*2005*	*2004*
	£000	*£000*	*£000*	*£000*
Bank overdrafts (unsecured)	7,066	6,866	7,066	6,866
Trade creditors	710	655	514	523
Other taxation and social security	317	349	136	169
Other creditors	205	108	180	79
Accruals	325	262	262	211
Proposed dividend	322	320	322	320
Corporation tax	243	556	233	556
	9,188	9,116	8,713	8,724

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

Group and Company

	2005	*2004*
	£000	*£000*
Tenants' deposits	272	270

20. Deferred taxation

	As restated	
	Group	*Company*
Provided	*£000*	*£000*
At 1 November 2004	264	158
Charge for the year (Note 9a)	18	28
At 31 October 2005	282	186

Deferred taxation provided in the accounts is as follows:

		Provided
		As restated
	2005	*2004*
Group	*£000*	*£000*
Capital allowances in advance of depreciation	282	264

		Provided
		As restated
	2005	*2004*
Company	*£000*	*£000*
Capital allowances in advance of depreciation	186	158

All amounts are fully provided.

Notes to the accounts

for the year ended 31 October 2005

21. Share capital

	2005	2004
	£	£
Authorised		
Non-equity interests:		
11.5% Cumulative Preference Shares of £1 each	11,695	11,695
Equity interests:		
Ordinary Shares of 5p each	108,813	108,813
'A' Limited Voting Ordinary Shares of 5p each	189,703	189,703
Unclassified Shares of 5p each	889,789	889,789
	1,188,305	1,188,305
	1,200,000	1,200,000

	2005	2004	2005	2004
Allotted, called up and fully paid	No.	No.	£	£
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	3,459,061	172,953	172,953
			279,266	279,266
			290,961	290,961

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 2005

22. Reserves

Group	*Capital redemption reserve £000*	*Other reserves £000*	*Own shares reserve £000*	*Profit and loss account £000*
At 31 October 2004 as previously reported	658	72	(595)	7,429
Prior year adjustment – FRS 17	-	-	-	(1,539)
At 31 October 2004 as restated	658	72	(595)	5,890
Actuarial loss recognised on pension scheme	-	-	-	(127)
Deferred tax relating to actuarial loss on pension scheme	-	-	-	38
Consideration received by EBT on sale of shares	-	-	39	-
Consideration paid by EBT on purchase of shares	-	-	(163)	-
Transfer in respect of gain on sale of shares	-	-	(11)	11
Profit for year	-	-	-	478
At 31 October 2005	658	72	(730)	6,290

Company	*Capital redemption reserve £000*	*Own shares reserve £000*	*Profit and loss account £000*
At 31 October 2004 as previously reported	658	(595)	7,501
Prior year adjustment – FRS 17	-	-	(1,539)
At 31 October 2004 as restated	658	(595)	5,962
Actuarial loss recognised on pension scheme	-	-	(127)
Deferred tax relating to actuarial loss on pension scheme	-	-	38
Consideration received by EBT on sale of shares	-	39	-
Consideration paid by EBT on purchase of shares	-	(163)	-
Transfer in respect of gain on sale of shares	-	(11)	11
Profit for year	-	-	478
At 31 October 2005	658	(730)	6,362

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 £991,000 (2004 restated - £1,088,000). This includes sales to Group undertakings of £1,312,000 (2004 - £1,308,000).

Included in the Group and Company profit and loss account are reserves of £430,000 (2004 - £403,000) which relate to The Heavitree Brewery PLC Employee Benefits Trust.

The investment in own shares relates to 71,943 Ordinary shares (2004 - 65,328), 153,905 'A' Limited Voting Ordinary shares (2004 - 131,000) and 446 Preference shares (2004 - 446) held by The Heavitree Brewery PLC Employee benefits trust and Employee share option scheme.

The market value of own shares held in trust at 31 October 2005 was £1,305,000 (2004 - £704,000).

Notes to the accounts

for the year ended 31 October 2005

23. Pension scheme

(i) Prior year adjustment and restatement of comparatives

The Group has adopted FRS 17 'Retirement Benefits'. Under FRS 17, the difference between the market value of assets of the Company's pension scheme and the present value of accrued pension liabilities is reported on the balance sheet as a pension liability, net of related deferred tax. Previously the Group accounted for pensions in accordance with Statement of Standard Accounting Practice No 24 : Pension Costs (SSAP 24). Under SSAP 24, the balance sheet included provisions for the cumulative difference between pension charges included in the profit and loss account and actual payments to the scheme.

The impact of adopting FRS 17 is detailed in note 27.

(ii) Optional pension payments

During the year the Company made optional pension payments of £130,249 (2004 - £117,871) paid directly to past employees of the Company.

(iii) Defined contribution schemes

From 1 January 2003, the Company has 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 £11,934 (2004 - £6,438).

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 £10,210 (2004 - £5,555).

(iv) Defined benefit 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 Zurich Assurance Limited and Legal and General Investment Management. Contributions to the scheme 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 2005 and updated on an approximate FRS 17 compliant basis to 31 October 2005. The full actuarial valuation as at 1 January 2005 stated that the scheme assets were £6,041,000 and would be sufficient to cover 59% of the liabilities arising. This amounted to a deficit of £4,203,000. The deficit arose as a result of assumptions not being fully borne out by subsequent experience.

The deficit of £2,394,000 arising under the FRS 17 calculation below is significantly less than the deficit of £4,203,000 calculated in the 1 January 2005 actuarial valuation. The fundamental reason for this relates to the different purpose and guidance governing each calculation which directly influences the assumptions used in each case. Whilst the discount rate required under FRS 17 is 5.00%, this being the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities, the discount rate used to calculate the deficit in the January 2005 actuarial valuation, which is calculated on an ongoing basis, is 3.57%. The increase in the discount rate to 5.00% has had the effect of decreasing the disclosed value of the discounted liabilities and hence the disclosed deficit.

The net pension deficit after providing for the related deferred tax asset as calculated under FRS17 is reported on the balance sheet of the Group and Company as the pension liability.

Notes to the accounts

for the year ended 31 October 2005

23. Pension scheme (continued)

FRS17 Retirement Benefits' calculation

The major actuarial assumptions made when valuing the assets and liabilities under FRS 17 are as follows:

	2005	*2004*	*2003*
	%	*%*	*%*
Inflation	3.00	3.00	2.75
Salary increases	5.00	5.00	5.00
Rate of discount	5.00	5.25	5.50
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

Based on the above assumptions, the balance sheet figures are as follows:

	Value at 31 October 2005	*Value at 31 October 2004*	*Value at 31 October 2003*
	£000	*£000*	*£000*
Assets	5,248	4,598	3,885
Liabilities	7,642	6,768	6,033
Deficit in the scheme	(2,394)	(2,170)	(2,148)
Related deferred tax asset	718	651	644
Net pension deficit	(1,676)	(1,519)	(1,504)

The majority of the assets of the scheme at 31 October 2005 are invested in a series of with profits deferred annuity policies insured with Zurich Assurance Limited. 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 deferred annuity policies is 6% (2004 - 6%).

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for the year ended 31 October 2005

23. Pension scheme (continued)

The amounts that have been charged to the profit and loss account and statement of total recognised gains and losses under FRS 17 for the year ended 31 October 2005 are set out below:

Components of the defined benefit cost:	*Group 2005 £000*	*Group 2004 £000*
Current service cost	(266)	(246)
Total operating charge	(266)	(246)
Expected return on pension scheme assets	275	236
Interest on pension scheme liabilities	(360)	(334)
Total other finance costs	(85)	(98)
Total charge to the profit and loss account	(351)	(344)

	Group 2005	*Group 2004*	*Group 2003*
Difference between the expected and actual return on pension scheme assets			
Amount (£000)	190	222	207
Percentage of scheme assets	4%	5%	5%
Experience losses arising on scheme liabilities			
Amount (£000)	80	75	(16)
Percentage of the present value of the scheme liabilities	1%	1%	0%
Loss arising from changes in assumptions underlying the present value of scheme liabilities			
Amount (£000)	(397)	(378)	(248)
Total illustrative loss recognised in the statement of total recognised gains and losses			
Amount (£000)	(127)	(81)	(57)
Percentage of the present value of the scheme liabilities	(2%)	1%	1%

Notes to the accounts

for the year ended 31 October 2005

23. Pension scheme (continued)

The movement in the deficit in the scheme over the year is analysed below:

	Group 2005 £000	*Group 2004 £000*	*Group 2003 £000*
At 1 November	(2,170)	(2,148)	(1,993)
Total operating charge	(266)	(246)	(258)
Total other finance costs	(85)	(98)	(80)
Actuarial loss	(127)	(81)	(57)
Contributions	254	403	240
At 31 October	(2,394)	(2,170)	(2,148)

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 ¾% over the base rate.

	2005 £000	*Movement in year £000*	*2004 £000*
W P Tucker	59	17	42
G J Crocker	12	(21)	33
	71	(4)	75

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.

Notes to the accounts

for the year ended 31 October 2005

25. Employee share option scheme and 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 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 £5.625 per share at 31 October 2005, giving a total market value of £245,458 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 2005, the Trust held the following shares which were not under option to the employees:

	Nominal amount 2005 £	*Nominal amount 2004 £*	*Market value 2005 £000*	*Market value 2004 £000*
5p Ordinary Shares				
71,943 shares (2004 – 65,328 shares)	3,597	3,266	439	238
5p 'A' Limited Voting Ordinary				
110,268 shares (2004 – 87,363 shares)	5,513	4,368	620	310
£1 Cumulative Preference Shares				
446 shares (2004 – 446)	446	446	1	1

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.

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.

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26. Financial instruments and derivatives (continued)

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:

	Fixed rate financial liabilities £000	*Floating rate financial liabilities £000*	*Financial liabilities on which no interest is paid £000*	*Total £000*
2005				
Sterling	2,000	5,409	-	7,409
2004				
Sterling	2,000	5,211	-	7,211

The fixed rate financial liabilities bear interest at a weighted average of 4.68% for a weighted average period of 1.6 months.

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 £272,000 (2004 - £270,000) 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.

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26. Financial instruments and derivatives (continued)

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:

	Floating rate financial assets £000	*Financial assets on which no interest is earned £000*	*Total £000*
2005			
Sterling	511	195	706
Dollar	9	-	9
	520	195	715
2004			
Sterling	685	195	880
Dollar	15	-	15
	700	195	895

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.

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:

	Book value 2005 £000	*Fair value 2005 £000*	*Book value 2004 £000*	*Fair value 2004 £000*
Financial assets:				
Unlisted fixed asset investments	195	627	195	463
Cash	520	520	700	700
	715	1,147	895	1,163
Financial liabilities:				
Overdraft	(7,066)	(7,066)	(6,866)	(6,866)
Short term loans	(71)	(71)	(75)	(75)
Long term liabilities	(272)	(272)	(270)	(270)
Non-equity shares	(12)	(12)	(12)	(12)
	(7,421)	(7,421)	(7,223)	(7,223)

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26. Financial instruments and derivatives (continued)

Fair values of financial assets and liabilities (continued)

Derivative financial instrument held to manage the interest rate profile

	Book value 2005 £000	Fair value 2005 £000	Book value 2004 £000	Fair value 2004 £000
Interest rate swap	-	(1)	-	(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 FRS 17 'Retirement Benefits' has required a change to the accounting treatment for defined benefit schemes. Prior year results have been restated accordingly.

(a) Group profit and loss account

	Profit for the year attributable to shareholders £'000
As previously reported	1,158
Implementation of FRS 17	(67)
As restated	1,091

(b) Group balance sheet

	Prepayments & accrued Income £'000	Accruals £'000	Deferred tax liability £'000	Pension liability £'000	Profit & loss reserve £'000
As previously reported	313	(345)	(218)	-	7,429
Implementation of FRS 17	(57)	83	(46)	(1,519)	(1,539)
At 31 October 2004 as restated	256	(262)	(264)	(1,519)	5,890

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for the year ended 31 October 2005

27. Prior year adjustment (continued)

(c) Company balance sheet

	Prepayments & accrued Income £'000	*Accruals £'000*	*Deferred tax liability £'000*	*Pension liability £'000*	*Profit & loss reserve £'000*
As previously reported	174	(294)	(112)	-	7,501
Implementation of FRS17	(57)	83	(46)	(1,519)	(1,539)
At 31 October 2004 as restated	117	(211)	(158)	(1,519)	5,962