The Heavitree Brewery PLC

Report and Financial Statements

31 October 2006

Annual Report and Financial Statements

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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
Shareholders' dedicated telephone number: 0870 707 1063

Notice of annual general meeting

NOTICE IS HEREBY GIVEN that the One Hundred and Seventeenth Annual General Meeting of The Heavitree Brewery PLC will be held at the Company's offices, Trood Lane, Matford, Exeter on 4 April 2007 at 11:30am to transact the following business:

Ordinary Business

1. To receive and, if thought fit, adopt the financial statements of the Company for the year ended 31 October 2006 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 G J Crocker as a Director of the Company.
4. To re-elect W P Tucker (aged 72) 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 Resolution:

7(A). THAT the Company be hereby authorised to purchase up to an aggregate of 318,939 Ordinary Shares of 5p each and/or 515,259 'A' Limited Voting Ordinary Shares of 5p each in the capital of the Company at a price (exclusive of expenses) which is:

(i) not more than £15 nor less than 5p per share; and

(ii) 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 2008 (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).

(B). THAT the purchase by the Company during the year ended 31 October 2006 of 24,000 5p 'A' Limited Voting Ordinary Shares be ratified notwithstanding that the purchase price per share of £10.25 exceeded the maximum price of £10 per share authorised by the Company at its 2006 Annual General Meeting.

By Order of the Board

G J CROCKER
Secretary
9 March 2007

Trood Lane
Matford
Exeter
EX2 8YP

Notice of annual general meeting

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 10 April 2007 to shareholders on the Register on 23 February 2007.

Chairman's statement

Introduction

The rules governing the preparation and presentation of the accounts have changed again. As a result, most of the information which I cover is now also carried in the 'expanded' Directors' Report which appears on page 6. It goes without saying that the new arrangements will be more expensive and time-consuming than the old. This applies equally to our Auditors and any extra costs incurred by them will have to be passed on to us. I find it difficult to see any benefit coming from all of this.

Results

Group profit on ordinary activities before tax was £2,201,000 (2005 - £1,298,000 as restated). A significant improvement but this year's figure does include £842,000 profit from the sale of our holding in George Gale and Company Limited.

Turnover increased by £521,000 to £13,412,000.

Dividends

The directors recommend a final dividend of 7p per Ordinary and 'A' Limited Voting Ordinary Share, an increase of 1p on top of the increase of ½p which was paid on the interim dividend, making a total of 11p per share (2005 - 9.5p) for the year. This reflects the satisfactory trading position of the Company. The dividend will be paid, subject to shareholder approval at the Annual General Meeting, on 10 April 2007 to shareholders on the Register at 23 February 2007.

Borrowing

The change in our borrowing capacity which was proposed at last year's Annual General Meeting was duly approved.

Heavitree Inns

This has been the first year under the new, no rent, regime; as reported in my Statement last year. A pre-tax profit of £522,000 (2005 - loss £11,000) was achieved. This will be the benchmark for future years.

The notional improvement of £533,000 is, in fact, a real improvement of £130,000 if a like-for-like comparison is drawn. A truly excellent performance on which Terry Wheatley and his team are to be congratulated.

Heavitree Incorporated (USA)

There has been no significant change. The usual costs and fees produced a pre-tax loss of £6,000 (2005 - loss £6,000).

At the time of writing, negotiations are in an advanced state for the sale of a small piece of our remaining land near Houston.

Properties

The cost of maintaining our properties has fallen by £235,000. This is due to the strict financial controls devised by Rodney Glanville and to improved quality control and use of time by our newly-appointed buildings supervisor Michael Jordan.

Personnel

Once again I draw attention to the excellent service which the Company has enjoyed from its employees in both administration and retail. My thanks go to all of them and also to our tenants and their families.

W P TUCKER
Chairman
12 February 2007

Directors' report

The Directors have pleasure in submitting their report for the year ended 31 October 2006.

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. Heavitree Inns Limited is a wholly-owned subsidiary company operating managed houses within the estate and Heavitree Inc is a wholly-owned subsidiary owning land in the United States of America.

Core Company - operating profit £1,697,000 (2005 - restated £1,491,000).

Heavitree Inns Limited - operating profit £522,000 (2005 - loss of £11,000).

Heavitree Inc. - operating loss £6,000 (2005 - loss of £6,000)

Group turnover for the year is £13,412,000 (2005 - £12,891,000) an increase of £521,000 (4.04%).

During the year the Group sold its holding in George Gale and Company Limited giving rise to a profit before tax of £841,680.

The ban on smoking in enclosed public places comes into effect in England in July 2007. Questionnaires have been sent to all tenants to ascertain the way each outlet can best manage this issue. The Group will take whatever action is necessary to mitigate the anticipated initial loss of wet trade, whilst ensuring it is well positioned to seize the opportunity of the predicted growth in food trade. The Group already has a good spread of quality food-led outlets throughout its estate. Many of our outlets have outside areas and these are being closely looked at to see what can be done to make them more comfortable for patrons who smoke. Two fact-finding visits to Edinburgh have already taken place, to ascertain the impact and best management practices, following the ban in Scotland. The Group will continue to invest in its properties to ensure that all outlets are well positioned to compete for trade and thus ensuring each individual business retains its attraction to future tenants and managers.

As at 31 October 2006 the Group's total borrowings were £6,877,000 (2005 - £7,066,000) all of which were unsecured.

The Directors continue to monitor and, where appropriate, take necessary action to minimise the Group's risk to interest rate exposure and to ensure sufficient working capital exists for the Group to operate efficiently. Debt is kept at a manageable level, with gearing no higher than necessary, whilst still enabling the Group to continue its investment strategy.

Within the year, the defined benefit superannuation scheme has been closed to future accrual. The scheme actuary is in the process of obtaining quotes for the purchase of deferred annuities to buy out the accrued benefits in full. The intention is that, once these are secured, the scheme will be wound up.

Since the end of the year under review the Eagle Tavern in Exeter has been sold for the sum of £258,000.

Directors' report

Results and dividends

The Directors submit the audited financial statements for the year ended 31 October 2006. The profit for the year, after taxation, attributable to shareholders amounts to £1,817,000 (2005 restated - £990,000).

The Directors propose a final dividend of 7p per share on the Ordinary and 'A' Limited Voting Ordinary Shares. This together with the interim dividend of 4p per share makes a total of 11p per share (2005 - 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 2006 was £48.8m (2005 - £46.2m).

Environment

The Group intends to pilot an energy-efficient outlet during 2007 including the use of energy-efficient lighting and heating. The intention is to use the data gained to implement energy efficiencies across the managed estate and to be in a position to help tenants to manage better the use of lighting and heating to maximise their profits.

Political Donations

The Group made no donations to political parties in the year and has no intention of doing so in the foreseeable future.

Charitable Donations

During the year the Group made charitable donations totalling £9,184.

The majority of this was given to the Heavitree Brewery Charitable Trust which administers donations to various charities in its own right. The Group intends to continue its support for the foreseeable future.

Staff

The Group is committed to training and incentivising its staff. Various schemes including a share incentive plan and share options are in place. The shares in both of these schemes are held in trust. Bonus schemes are also in place as an added incentive. Various training programmes both internal and external, allow all staff to attain their maximum potential.

It is the Group's policy to give full consideration to suitable applications for employment by people with disabilities. 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

The Directors of the Company during the year ended 31 October 2006 were those listed on page 2.

W P Tucker and G J Crocker 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 72), who also retires by age under Section 293 of the Companies Act 1985, will offer himself for re-election.

Directors' report

Purchase of own shares

During the year the Company purchased 24,000 5p 'A' Limited Voting Ordinary Shares (0.69% of the 'A' Limited Voting Ordinary Shares) at a total cost of £246,000; the Directors considered that such purchase would be beneficial to shareholders generally. In doing so, the Company inadvertently breached the price limit of £10 per share set by the 2006 Annual General Meeting; an appropriate ratificatory paragraph is accordingly contained in the relevant Resolution to be proposed at this year's Annual General Meeting.

Because of the precipitate rise in the price of the Ordinary Shares (from £6.10 to £11.125) and the 'A' Limited Voting Ordinary Shares (from £5.625 to £10.625) during the year ended 31 October 2006, such Resolution sets a new maximum purchase price per share of £15; as always, the Directors will only utilise this authority if and when they consider it beneficial to shareholders generally to do so.

Directors' interests

The interests of the Directors and their spouses in the Company's shares as at 31 October 2006 were as follows:

	Ordinary Shares		*'A' Limited Voting Ordinary Shares*	
	31 October 2006	*1 November 2005*	*31 October 2006*	*1 November 2005*
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	175,013	174,672
T P Duncan	150,335	150,335	118,992	118,992
R J Glanville	-	-	43,196	39,700
M C Pease-Watkin	17,064	17,064	82,740	82,740
T Wheatley	-	-	7,699	6,530

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

(a) W P Tucker's interest in 53,750 (2005 - 53,750) Ordinary Shares;

(b) N H P Tucker's interest in 111,142 (2005 - 111,142) Ordinary Shares and 307,000 (2005 - 307,000) 'A' Limited Voting Ordinary Shares;

(c) G J Crocker's interest in 57,392 (2005 - 57,392) Ordinary Shares and 151,000 (2005 - 151,000) 'A' Limited Voting Ordinary Shares; and

(d) R J Glanville's interest in 32,589 (2005 - 30,443) 'A' Limited Voting Ordinary Shares.

Included in these interests are the following joint holdings:

(a) 53,750 (2005 - 53,750) Ordinary Shares held jointly by W P Tucker and N H P Tucker; and

(b) 57,392 (2005 - 57,392) Ordinary Shares and 151,000 (2005 - 151,000) 'A' Limited Voting Ordinary Shares held jointly by G J Crocker and N H P Tucker.

Directors' report

At 31 October 2006, the following Directors held options to subscribe for 'A' Limited Voting Ordinary Shares of the Company:

	2006 *No.*	*2005* *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 11 February 2007 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 are appointed by letter for a fixed term of three years.

Substantial interests

At 11 February 2007 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	-

Supplier payment policy and practice

It is the Company's policy that payments to suppliers are made in accordance with the 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 as at 31 October 2006 is 54 (2005 - 32).

Directors' report

Directors' statement as to disclosure of information to auditors

The Directors who were members of the board at the time of approving the Directors' report are listed on page 2. Having made enquiries of fellow Directors and of the Company's auditor, each of these Directors confirms that:-

- to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditor is unaware; and
- each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditor is aware of that information.

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
12 February 2007

Ten year review of profits and dividends

Year ended 31 October	*Profit before tax £000*	*Earnings per 5p share (note 11 to the financial statements) p*	*Dividends per 5p share p*
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	1,586	20.1	9.50
2005 restated	1,298	18.4	9.50
2006	2,201	34.1	11.0

Notes:

1. Dividends per 5p share for all years include interim dividends and dividends proposed and subsequently declared in respect of the profits of each year.
2. Pre-tax profits and earnings per share for the year 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.
3. From 1998 to 2005 the earnings per share figures are both basic and diluted.
4. Pre-tax profits and earnings per share for the year ended 31 October 2005 have been restated following the implementation of FRS 25 'Financial Investments Disclosure and Presentation'.
5. For 2006 the diluted earnings per share are 34.0p.

Statement of directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom Law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the Directors to prepare financial statements 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 financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the 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 financial statements 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 and parent Company financial statements (the "financial statements") of The Heavitree Brewery PLC for the year ended 31 October 2006 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 under 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' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition, we report to you if, in our opinion, 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 other transactions is not disclosed.

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

Independent auditors' report

to the members of The Heavitree Brewery PLC (continued)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the parent company's affairs as at 31 October 2006 and of the Group's profit for the year then ended;

- the financial statements have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the Directors' Report is consistent with the financial statements.

Ernst & Young LLP
Registered Auditor
Exeter
12 February 2007

Group profit and loss account

for the year ended 31 October 2006

	Notes	2006 £000	As restated 2005 £000
Turnover	2	13,412	12,891
Change in stocks		7	(10)
Other operating income	3	(54)	(41)
Purchase of stock		4,903	5,005
Staff costs	5	3,202	2,861
Depreciation of tangible fixed assets		654	572
Other operating charges		2,848	3,015
		11,560	11,402
Operating profit	4	1,852	1,489
(Loss)/profit on sale of tangible fixed assets		(74)	252
Profit on sale of fixed asset investments	9(c)	842	-
Income from other fixed asset investments		1	13
Profit on ordinary activities before interest and taxation		2,621	1,754
Other interest receivable	6	10	9
Interest payable	7	(371)	(380)
Other finance charges – FRS 17	23	(59)	(85)
Profit on ordinary activities before taxation	8	2,201	1,298
Taxation on profit on ordinary activities	9	(384)	(308)
Profit attributable to shareholders	22	1,817	990
Dividends – equity dividends paid	10	(533)	(510)
Basic earnings per share	11	34.1p	18.4p
Diluted earnings per share	11	34.0p	18.4p

Movements on reserves are set out in Note 22.

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

All revenues and costs relate to continuing operations.

Group statement of total recognised gains and losses

for the year ended 31 October 2006

	2006 £000	As restated 2005 £000
Profit attributable to shareholders	1,817	990
Exchange difference on retranslation of net assets of subsidiary undertaking	(3)	-
Actuarial gain/(loss) recognised on pension scheme	174	(127)
Deferred tax relating to actuarial gain/(loss) on pension scheme	(52)	38
Total recognised gains and losses relating to the year and since last annual report	1,936	901

Reconciliation of shareholders' funds

for the year ended 31 October 2006

	2006 £000	As restated 2005 £000
At 1 November as previously reported	6,581	6,316
Prior year adjustment – FRS 21 (note 27)	322	320
Prior year adjustment – FRS 25 (note 27)	(12)	(12)
At 1 November as restated	6,891	6,624
Total recognised gains and losses relating to the year	1,936	901
Dividends	(533)	(510)
Consideration received by EBT on sale of shares	309	39
Buy back of own shares	(246)	-
Consideration paid by EBT on purchase of shares	(759)	(163)
At 31 October	7,598	6,891

Group balance sheet

at 31 October 2006

	Notes	2006 £000	As restated 2005 £000
Fixed assets			
Tangible assets	12	16,650	15,836
Investments	13	20	195
		16,670	16,031
Current assets			
Stocks	14	142	149
Debtors	15	1,493	1,299
Cash at bank and in hand		435	520
		2,070	1,968
Creditors: amounts falling due within one year	18	(9,067)	(8,866)
Net current liabilities		(6,997)	(6,898)
Total assets less current liabilities		9,673	9,133
Creditors: amounts falling due after more than one year	19	(296)	(284)
Provisions for liabilities and charges			
Deferred taxation	20	(262)	(282)
Net assets excluding pension liability		9,115	8,567
Pension liability	23	(1,517)	(1,676)
		7,598	6,891
Capital and reserves			
Called up share capital	21	278	279
Capital redemption reserve	22	659	658
Other reserves	22	69	72
Own shares reserve	22	(1,335)	(730)
Profit and loss account	22	7,927	6,612
Total shareholders' funds		7,598	6,891

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

On behalf of the Board

N H P TUCKER)
G J CROCKER) Directors

Company balance sheet

at 31 October 2006

	Notes	£000	2006 £000	£000	As restated 2005 £000
Fixed assets					
Tangible assets	12		15,901		15,068
Investments	13		54		219
			15,955		15,287
Current assets					
Stocks	14		18		22
Debtors:	15				
amounts falling due after one year		736	1,900	1,020	
amounts falling due within one year		1,164		1,006	2,026
Cash at bank and in hand			91		93
			2,009		2,141
Creditors: amounts falling due within one year	18		(8,370)		(8,391)
Net current liabilities			(6,361)		(6,250)
Total assets less current liabilities			9,594		9,037
Creditors: amounts falling due after more than one year	19		(296)		(284)
Provisions for liabilities and charges					
Deferred taxation	20		(180)		(186)
Net assets excluding pension liability			9,118		8,567
Pension liability	23		(1,517)		(1,676)
			7,601		6,891
Capital and reserves					
Called up share capital	21		278		279
Capital redemption reserve	22		659		658
Own shares reserve	22		(1,335)		(730)
Profit and loss account	22		7,999		6,684
Total shareholders' funds			7,601		6,891

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

On behalf of the Board

N H P TUCKER)
G J CROCKER) Directors

Group statement of cash flows

for the year ended 31 October 2006

	Notes	2006 £000	2005 £000
Net cash inflow from operating activities	4(b)	2,543	2,616
Returns on investments and servicing of finance			
Interest paid		(371)	(431)
Interest received		10	9
Dividends received		1	13
Preference dividend paid		(1)	(1)
Net cash outflow from returns on investments and servicing of finance		(361)	(410)
Taxation			
Corporation tax paid		(316)	(632)
		(316)	(632)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(1,764)	(1,786)
Receipts from sales of tangible fixed assets		222	470
Receipts from sales of fixed asset investments		1,017	-
		(525)	(1,316)
Equity dividends paid		(533)	(510)
Financing			
Consideration received by EBT on sale of shares		63	39
Consideration paid by EBT on purchase of shares		(760)	(163)
Repayment of Directors' loans		(7)	(21)
Loans from Directors		-	17
		(704)	(128)
Increase/(decrease) in cash	16	104	(380)

Notes to the financial statements

for the year ended 31 October 2006

1. Accounting policies

Basis of preparation

The financial statements 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 financial statements for the current year, the Group has adopted FRS 21, 'Events after the balance sheet date', FRS 22 'Earnings Per Share', and FRS 25 'Financial Instruments Disclosure and Presentation'. The prior year has been restated for this implementation (note 27).

Basis of consolidation

The Group financial statements incorporate the financial statements of the Company and its subsidiary undertakings as at 31 October each year. The financial statements of the subsidiary undertakings are prepared for the same reporting year as the parent company, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets, are eliminated in full.

Subsidiary undertakings are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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.

Notes to the financial statements

for the year ended 31 October 2006

1. Accounting policies (continued)

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 $33^1/_3$%

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 financial statements 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 financial statements of the Company. Shares held in the Scheme and Trust are deducted from shareholders' funds and are stated at cost.

Pension schemes

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. The scheme was closed to new members on 18 July 2002.

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. 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.

Both the Company and Heavitree Inns Limited operate 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.

Notes to the financial statements

for the year ended 31 October 2006

1. Accounting policies (continued)

Post retirement benefits other than pensions

The Company provides discretionary 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.

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 £2,226,000 (2005 - £2,299,000) together with managed houses retail sales and accommodation receipts totalling £6,386,000 (2005 - £5,521,000). All turnover is derived from the United Kingdom.

3. Other operating income

	2006	*2005*
	£000	*£000*
Rents from unlicensed properties	54	41

4. Operating profit

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

	2006	*2005*
	£000	*£000*
Depreciation of owned fixed assets	654	572
Repairs and maintenance of properties	1,014	1,249
Inventory rental income	(55)	(103)

Notes to the financial statements

for the year ended 31 October 2006

4. Operating profit (continued)

		2006 £000	2005 £000
Auditors' remuneration:			
Audit of the financial statements+		34	32
Other fees to auditors	- audit of the group pension schemes	3	3
	- local statutory audits for subsidiaries	8	8
	- taxation services	8	8
	- other services	11	11
		30	30
		64	62

+£20,000 (2005 - £18,000) of this relates to the Company.

For the year ended 31 October 2006 and 31 October 2005, all amounts in respect of other fees to auditors relate to the Company and its UK subsidiaries.

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

	2006 £000	2005 £000
Operating profit	1,852	1,489
Depreciation	654	572
Decrease/(increase) in stocks	7	(10)
(Increase)/decrease in operating debtors	(195)	312
Increase in operating creditors	337	241
Net pension change	(112)	12
Net cash inflow from continuing operating activities	2,543	2,616

(c) Directors' remuneration

	2006 £000	2005 £000
Fees	54	52
Other emoluments:		
salaries	291	268
performance-related bonuses	51	47
benefits	62	57
	458	424
Aggregate gains made by Directors on the exercise of options	-	-

Notes to the financial statements

for the year ended 31 October 2006

4. Operating profit (continued)

(c) Directors' remuneration (continued)

	2006 No	2005 No
Members of defined benefit pension scheme	-	5
Members of defined contribution pension scheme	4	-

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 £119,790 (2005 - £115,753).

The highest paid Director has an accrued pension entitlement of £49,519 (2005 - £45,378) as at 31 October 2006.

5. Staff costs

	2006 £000	As restated 2005 £000
Wages and salaries	2,580	2,238
Social security costs	211	184
Other pension costs	411	439
	3,202	2,861

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

	No.	No.
Average monthly number of employees	208	204

6. Other interest receivable

	2006 £000	2005 £000
Loan interest receivable	9	7
Other interest	1	2
	10	9

Notes to the financial statements

for the year ended 31 October 2006

7. *Interest payable*

	2006 £000	*As restated* 2005 £000
Bank interest on loans and overdrafts	352	353
Other interest	18	26
Preference share dividends	1	1
	371	380

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:

	2006 £000	*As restated* 2005 £000
UK:		
The Heavitree Brewery PLC	1,685	1,313
Heavitree Inns Limited	522	(9)
USA:		
Heavitree Inc	(6)	(6)
	2,201	1,298

The net assets attributable to Heavitree Inc are £14,000 (2005 - £23,000).

Notes to the financial statements

for the year ended 31 October 2006

9. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2006 £000	2005 £000
Current tax:		
UK corporation tax	431	345
Tax overprovided in previous years	(43)	(26)
Total current tax (note 9(b))	388	319
Deferred tax:		
Origination and reversal of timing differences	31	18
Adjustment in respect of FRS 17	16	(29)
Adjustment in respect of prior years	(51)	-
Group deferred tax	(4)	(11)
Tax on profit on ordinary activities	384	308

(b) Factors affecting current tax charge

	2006 £000	*As restated* 2005 £000
Profit on ordinary activities before tax	2,201	1,298
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2005 - 30%)	660	389
Effect of:		
Disallowed expenses and non-taxable income	63	29
Capital allowances in excess of depreciation	(33)	(29)
Other timing differences	(65)	26
Adjustments in respect of previous periods	(43)	(26)
Other	58	19
Capital gains (effects of indexation and rebasing)	(252)	(89)
Current tax charge for the period	388	319

Notes to the financial statements

for the year ended 31 October 2006

9. Tax (continued)

(c) Factors affecting current and future tax charges

During the year the Company disposed of 24,000 shares in George Gale and Company Limited. A profit of £841,680 was realised on this disposal. No tax is payable on the disposal as the Company has utilised brought forward capital losses to reduce the taxable gain to Nil.

A potential deferred tax asset of £17,000 (2005 - £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 £158,000 (2005 - £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 (2006 - 18.3% and 2005 - 23.7%) 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 2006 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

		As restated
	2006	*2005*
	£000	*£000*
Declared and paid during the year		
Equity dividends on Ordinary Shares and 'A' Limited Voting Ordinary Shares		
Final dividend for 2005: 6p (2004: 6p)	321	333
First dividend for 2006: 4p (2005: 3.5p)	237	195
Less: dividends on shares held within employee share schemes	(25)	(18)
	533	510
Proposed for approval at AGM (not recognised as a liability as at 31 October)		
Equity dividends on Ordinary Shares and 'A' Limited Voting Ordinary Shares		
Final dividend for 2006: 7p (2005: 6p)	370	321

11. Basic and diluted earnings per share

The calculation of basic earnings per ordinary share is based on earnings of £1,817,000 (2005 restated - £990,000), being profit after taxation for the year, on 5,323,113 (2005 - 5,369,929) 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 calculation of diluted earnings per ordinary share is based on earnings of £1,817,000 (2005 restated - £990,000), being profit after taxation for the year, on 5,349,453 (2005 - 5,379,424) shares being the weighted average number of Ordinary and 'A' Limited Voting Ordinary Shares in issue during the year, as diluted for the share options in issue.

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 financial statements

for the year ended 31 October 2006

12. Tangible fixed assets

Group	*Freehold land and buildings and fixtures and fittings £000*	*Equipment and vehicles £000*	*Total £000*
Cost:			
At 1 November 2005	17,780	913	18,693
Additions	1,625	139	1,764
Disposals	(361)	(94)	(455)
At 31 October 2006	19,044	958	20,002
Depreciation:			
At 1 November 2005	2,379	478	2,857
Provided during the year	495	159	654
Disposals	(113)	(46)	(159)
At 31 October 2006	2,761	591	3,352
Net book value:			
At 31 October 2006	16,283	367	16,650
At 31 October 2005	15,401	435	15,836

Company	*Freehold land and buildings and fixtures and fittings £000*	*Equipment and vehicles £000*	*Total £000*
Cost:			
At 1 November 2005	16,550	586	17,136
Additions	1,351	139	1,490
Disposals	(350)	(94)	(444)
Transfer from group companies	-	31	31
At 31 October 2006	17,551	662	18,213
Depreciation:			
At 1 November 2005	1,764	304	2,068
Provided during the year	287	115	402
Disposals	(112)	(46)	(158)
At 31 October 2006	1,939	373	2,312
Net book value:			
At 31 October 2006	15,612	289	15,901
At 31 October 2005	14,786	282	15,068

Notes to the financial statements

for the year ended 31 October 2006

12. Tangible fixed assets (continued)

Freehold land and buildings for both Group and Company are included in the above at a cost of £14,415,000 (2005 - £13,517,000) and at a net book value of £14,120,000 (2005 - £13,279,000).

Included within freehold land and buildings for both the Group and Company is an aggregate cost of £89,652 (2005 - £68,120) relating to licensed property with short leases granted to tenants. The net book value of these assets was £88,438 at 31 October 2006 (2005 - £65,073).

Future capital expenditure

Group and Company	*2006*	*2005*
	£000	*£000*
Contracted	130	168

13. Fixed asset investments

Group	*Unlisted investments*
	£000
Cost:	
At 1 November 2005	195
Disposals	(175)
At 31 October 2006	20
Amounts provided:	
At 1 November 2005 and at 31 October 2006	-
Net book value:	
At 31 October 2006	20
At 31 October 2005	195

Notes to the financial statements

for the year ended 31 October 2006

13. Fixed asset investments (continued)

Company

	Subsidiary undertakings	*Unlisted investments*	*Total*
	£000	*£000*	*£000*
At 1 November 2005	24	195	219
Additions	17	-	17
Disposals	-	(175)	(175)
Revaluation	(2)	-	(2)
At 31 October 2006	39	20	59
Amounts provided:			
At 1 November 2005	-	-	-
Impairment	(5)	-	(5)
At 31 October 2006	(5)	-	(5)
Net book value:			
At 31 October 2006	34	20	54
At 31 October 2005	24	195	219

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*	
	2006	*2005*	*2006*	*2005*
	£000	*£000*	*£000*	*£000*
Fine wines	15	16	15	16
Merchandising stocks	3	6	3	6
Stocks in managed houses	124	127	-	-
	142	149	18	22

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

Notes to the financial statements

for the year ended 31 October 2006

15. Debtors

	Group		Company	
	2006	*2005*	*2006*	*2005*
	£000	*£000*	*£000*	*£000*
Trade debtors	1,128	1,045	1,031	952
Amounts owed by subsidiary company	-	-	700	989
Other debtors	42	44	43	44
Prepayments and accrued income	323	210	126	41
	1,493	1,299	1,900	2,026

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

	Group		Company	
	2006	*2005*	*2006*	*2005*
	£000	*£000*	*£000*	*£000*
Amounts owed by subsidiary company	-	-	700	989
Other debtors	36	31	36	31
	36	31	736	1,020

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

	Group	
	2006	*2005*
	£000	*£000*
Increase/(decrease) in cash in the year	104	(380)
Cash outflow resulting from decrease in debt	7	4
Net debt at 1 November	(6,617)	(6,241)
Net debt at 31 October	(6,506)	(6,617)

17. Analysis of changes in net debt

	2006	*Group cashflows in year*	*2005*
	£000	*£000*	*£000*
Cash	435	(85)	520
Overdraft	(6,877)	189	(7,066)
Directors' loans	(64)	7	(71)
	(6,506)	111	(6,617)

Notes to the financial statements

for the year ended 31 October 2006

18. Creditors: amounts falling due within one year

	Group		*Company*	
		As restated		*As restated*
	2006	*2005*	*2006*	*2005*
	£000	*£000*	*£000*	*£000*
Bank overdrafts (unsecured)	6,877	7,066	6,877	7,066
Trade creditors	948	710	753	514
Other taxation and social security	344	317	132	136
Other creditors	114	205	93	180
Accruals	469	325	379	262
Corporation tax	315	243	136	233
	9,067	8,866	8,370	8,391

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

Group and Company

		As restated
	2006	*2005*
	£000	*£000*
Tenants' deposits	285	272
11.5% Cumulative Preference Shares (note 21)	11	12
	296	284

The liability in respect of the Preference Shares is reducing as a result of the Heavitree Brewery PLC Employee Benefits Trust buying back Preference Shares in the year (note 25).

20. Deferred taxation

	Group	*Company*
Provided	*£000*	*£000*
At 1 November 2005	282	186
Charge for the year (Note 9a)	(20)	(6)
At 31 October 2006	262	180

Deferred taxation provided in the financial statements is as follows:

		Provided
	2006	*2005*
Group	*£000*	*£000*
Capital allowances in advance of depreciation	262	282

		Provided
	2006	*2005*
Company	*£000*	*£000*
Capital allowances in advance of depreciation	180	186

All amounts are fully provided.

Notes to the financial statements

for the year ended 31 October 2006

21. Share capital

	2006 £	2005 £
Authorised		
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	171,753	172,953
Unclassified Shares of 5p each	910,239	909,039
	1,188,305	1,188,305
	1,200,000	1,200,000

Allotted, called up and fully paid	2006 No.	2005 No.	2006 £	As restated 2005 £
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	3,435,061	3,459,061	171,753	172,953
			278,066	279,266

The Group has implemented FRS 25 'Financial Instruments: Disclosure and Presentation.' Consequently the Preference Shares are considered to be debt rather than equity and have been reclassified from share capital to creditors due after more than one year (note 19) and the preference dividend has been reclassified from dividends to interest (note 7).

During the year the Company purchased 24,000 5p 'A' Limited Voting Ordinary Shares (2005 - Nil) at a cost of £246,000 (2005 - Nil) under an authority granted at an Extraordinary General Meeting held on 13th June 1985 and renewed at the Annual General Meeting in 2006.

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 financial statements

for the year ended 31 October 2006

22. Reserves

Group	*Capital redemption reserve £000*	*Other reserves £000*	*Own shares reserve £000*	*Profit and loss account £000*
At 31 October 2005 as previously reported	658	72	(730)	6,290
Prior year adjustment – FRS 21 (note 27)	–	–	–	322
At 31 October 2005 as restated	658	72	(730)	6,612
Actuarial gain recognised on pension scheme	-	-	-	174
Deferred tax relating to actuarial gain on pension scheme	-	-	-	(52)
Transfer in respect of the buy back of own shares	1	-	246	(246)
Buy back of own shares	-	-	(246)	-
Consideration received by EBT on sale of shares	-	-	309	-
Consideration paid by EBT on purchase of shares	-	-	(759)	-
Transfer in respect of gain on sale of shares	-	-	(155)	155
Exchange difference on retranslation of net assets of subsidiary undertaking	-	(3)	-	-
Profit for year	-	-	-	1,817
Dividends	-	-	-	(533)
At 31 October 2006	659	69	(1,335)	7,927

Company	*Capital redemption reserve £000*	*Own shares reserve £000*	*Profit and loss account £000*
At 31 October 2005 as previously reported	658	(730)	6,362
Prior year adjustment – FRS 21 (note 27)	-	-	322
At 31 October 2005 as restated	658	(730)	6,684
Actuarial gain recognised on pension scheme	-	-	174
Deferred tax relating to actuarial gain on pension scheme	-	-	(52)
Transfer in respect of the buy back of own shares	1	246	(246)
Buy back of own shares	-	(246)	-
Consideration received by EBT on sale of shares	-	309	-
Consideration paid by EBT on purchase of shares	-	(759)	-
Transfer in respect of gain on sale of shares	-	(155)	155
Profit for year	-	-	1,817
Dividends	-	-	(533)
At 31 October 2006	659	(1,335)	7,999

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 financial statements of the Company was £1,817,000 (2005 restated - £990,000). This includes sales to Group undertakings of £1,181,000 (2005 - £1,312,000).

Notes to the financial statements

for the year ended 31 October 2006

22. Reserves (continued)

The investment in own shares relates to 91,183 Ordinary Shares (2005 - 71,943), 184,834 'A' Limited Voting Ordinary Shares (2005 - 153,905) and 581 Preference Shares (2005 - 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 2006 was £2,978,000 (2005 - £1,305,000).

23. Pension schemes

(i) Optional pension payments

During the year the Company made optional pension payments of £133,864 (2005 - £130,249) directly to past employees of the Company.

(ii) 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 £158,195 (2005 - £11,934). The increase in the pension charge for the period arises as a result of the former members of the defined benefit scheme joining the defined contribution scheme.

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 £nil (2005 - £10,210).

(iii) 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 and there has been no future accrual since 5 April 2006.

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 FRS 17 compliant basis to 31 October 2006. 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 Group and Company are required to report the net pension deficit after providing for the related deferred tax asset as calculated under FRS 17 and this is shown on the balance sheets as the pension liability.

Notes to the financial statements

for the year ended 31 October 2006

23. Pension scheme (continued)

FRS 17 'Retirement Benefits' calculation

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

	2006	*2005*	*2004*
	%	*%*	*%*
Inflation	3.00	3.00	3.00
Salary increases	n\a	5.00	5.00
Rate of discount	5.00	5.00	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

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

	Value at 31 October 2006	*Value at 31 October 2005*	*Value at 31 October 2004*
	£000	*£000*	*£000*
Assets	5,675	5,248	4,598
Liabilities	7,842	7,642	6,768
Deficit in the scheme	(2,167)	(2,394)	(2,170)
Related deferred tax asset	650	718	651
Net pension deficit	(1,517)	(1,676)	(1,519)

The majority of the assets of the scheme at 31 October 2006 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% (2005 - 6%).

Notes to the financial statements

for the year ended 31 October 2006

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 2006 are set out below:

Components of the defined benefit cost:	*Group and Company 2006 £000*	*Group and Company 2005 £000*
Current service cost	(119)	(266)
Total operating charge	(199)	(266)
Expected return on pension scheme assets	323	275
Interest on pension scheme liabilities	(382)	(360)
Total other finance costs	(59)	(85)
Total charge to the profit and loss account	(258)	(351)

History of experience gains and losses:	*Group and Company 2006*	*Group and Company 2005*	*Group and Company 2004*	*Group and Company 2003*
Difference between the expected and actual return on pension scheme assets				
Amount (£000)	11	190	222	207
Percentage of scheme assets	0%	4%	5%	5%
Experience gains arising on scheme liabilities				
Amount (£000)	0	80	75	(16)
Percentage of the present value of the scheme liabilities	0%	1%	1%	0%
Gain/(loss) arising from changes in assumptions underlying the present value of scheme liabilities				
Amount (£000)	0	(397)	(378)	(248)
Total gain/(loss) recognised in the statement of total recognised gains and losses				
Amount (£000)	11	(127)	(81)	(57)
Percentage of the present value of the scheme liabilities	0%	2%	1%	1%

Notes to the financial statements

for the year ended 31 October 2006

23. *Pension scheme (continued)*

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

	Group and Company 2006 £000	*Group and Company 2005 £000*	*Group and Company 2004 £000*
At 1 November	(2,394)	(2,170)	(2,148)
Total operating charge	(119)	(266)	(246)
Total other finance costs	(59)	(85)	(98)
Actuarial gain/(loss)	174	(127)	(81)
Contributions	231	254	403
At 31 October	(2,167)	(2,394)	(2,170)

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.

	2006 £000	*Movement in year £000*	*2005 £000*
W P Tucker	51	(8)	59
G J Crocker	13	1	12
	64	(7)	71

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 financial statements

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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 shares held by the Scheme (2005 – 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 £10.625 per share at 31 October 2006 (2005 - £5.625), giving a total market value of £463,643 (2005 - £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 2006, the Trust held the following shares which were not under option to the employees:

	Nominal amount 2006 £	*Nominal amount 2005 £*	*Market value 2006 £000*	*Market value 2005 £000*
5p Ordinary Shares				
91,183 shares (2005 – 71,943 shares)	4,559	3,597	1,014	439
5p 'A' Limited Voting Ordinary				
141,197 shares (2005 – 110,268 shares)	7,060	5,513	1,500	620

The Trust also holds 581 (2005: 446) preference shares. The purchase of these shares has resulted in the liability arising under FRS 25 to reduce.

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.

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.

Since 18 December 2005 the Group has continually monitored its interest rate risk exposure when and if it is considered appropriate, the Group will take necessary action to ensure exposure is minimised.

Notes to the financial statements

for the year ended 31 October 2006

26. Financial instruments and derivatives (continued)

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:

	Fixed rate financial liabilities	*Floating rate financial liabilities*	*Financial liabilities on which no interest is paid*	*Total*
	£000	*£000*	*£000*	*£000*
2006				
Sterling	11	7,226	-	7,237
2005 (as restated)				
Sterling	2,012	5,409	-	7,421

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

All the financial liabilities mature within one year with the exception of the tenants' deposits of £285,000 (2005 - £272,000) 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.

Notes to the financial statements

for the year ended 31 October 2006

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	*Financial assets on which no interest is earned*	*Total*
	£000	*£000*	*£000*
2006			
Sterling	416	20	436
Dollar	19	-	19
	435	20	455
2005			
Sterling	511	195	706
Dollar	9	-	9
	520	195	715

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 2006	*Fair value 2006*	*Book value 2005*	*Fair value 2005*
	£000	*£000*	*£000*	*£000*
Financial assets:				
Unlisted fixed asset investments	20	128	195	627
Cash	435	435	520	520
	455	563	715	1,147
Financial liabilities:				
Overdraft	(6,877)	(6,877)	(7,066)	(7,066)
Short term loans	(64)	(64)	(71)	(71)
Long term liabilities	(285)	(285)	(272)	(272)
Non-equity shares	(11)	(11)	(12)	(12)
	(7,237)	(7,237)	(7,421)	(7,421)

Notes to the financial statements

for the year ended 31 October 2006

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 2006 £000	*Fair value 2006 £000*	*Book value 2005 £000*	*Fair value 2005 £000*
Interest rate swap	-	-	-	(1)

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 21 'Events after the balance sheet date' and FRS 25 'Financial Instruments Disclosure and Presentation' have required a change to the accounting treatment for dividends and preference shares. Prior year results have been restated accordingly.

The implementation of FRS 22 'Earnings Per Share' has had no impact on the reported results.

(a) Group profit and loss account

	Profit for the year attributable to shareholders £000
As previously reported	991
Implementation of FRS 25	(1)
As restated for the year ended 31 October 2005	990

The implementation of FRS 25 ' Financial Instruments Disclosure and Presentation' has resulted in preference share dividends being reclassified from dividends to interest payable.

(b) Group balance sheet

	Creditors due within one year £000	*Creditors due in more than one year £000*	*Share capital £000*	*Profit & loss reserve £000*
As previously reported	(9,188)	(272)	291	6,290
Implementation of FRS 21	322	-	-	322
Implementation of FRS 25	-	(12)	(12)	-
At 31 October 2005 as restated	(8,866)	(284)	279	6,612

Notes to the financial statements

for the year ended 31 October 2006

27. Prior year adjustment (continued)

(b) Group balance sheet (continued)

The implementation of FRS 21 'Events after the balance sheet date' has resulted in proposed dividends being recognised on a paid rather than accrued basis.

The implementation of FRS 25 'Financial Instruments Disclosure and Presentation' has resulted in the Preference Shares being reclassified from equity to debt.

(c) Company balance sheet

	Creditors due within one year	*Creditors due in more than one year*	*Share capital*	*Profit & loss reserve*
	£'000	*£'000*	*£'000*	*£'000*
As previously reported	(8,713)	(272)	291	6,362
Implementation of FRS 21	322	-	-	322
Implementation of FRS 25	-	(12)	(12)	-
At 31 October 2005 as restated	(8,391)	(284)	279	6,684

The implementation of FRS 21 'Events after the balance sheet date' has resulted in proposed dividends being recognised on a paid rather than accrued basis.

The implementation of FRS 25 'Financial Instruments Disclosure and Presentation' has resulted in the Preference Shares being reclassified from equity to debt.