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The Heavitree Brewery PLC

Report and Financial Statements

31 October 2007

Annual Report and Financial Statements

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Directors

N H P Tucker - Chairman (Appointed as Chairman 1st May 2007)
G J Crocker - Managing and Finance (Appointed as Managing Director 1st May 2007)
R J Glanville - Estate
T Wheatley - Trade
W P Tucker DL* - (Resigned as Chairman 1st May 2007)
T P Duncan*
M C Pease-Watkin*

*Non-executive

Secretary and Registered Office

R J Glanville
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 Eighteenth Annual General Meeting of The Heavitree Brewery PLC will be held at the Company's offices, Trood Lane, Matford, Exeter on 11 April 2008 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 2007 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 N H P Tucker as a Director of the Company

4 To re-elect T P Duncan as a Director of the Company

5 To re-elect W P Tucker (aged 73) as a Director of the Company.

6 To re-appoint Ernst & Young LLP as auditors of the Company for the period prescribed in Section 385(2) of the Companies Act 1985.

7 To authorise the Directors to determine the remuneration of the auditors

Special Business

To consider and, if thought fit, pass the following Resolution

8 THAT the Company be hereby authorised to purchase up to an aggregate of 314,739 Ordinary Shares of 5p each and/or 503,409 '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 2009 (except in relation to the purchase of shares the contract for which was concluded before such date and might be executed wholly or partly after such date)

By Order of the Board

R. J. Glanville

R J GLANVILLE
Secretary
12 March 2008

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 14 April 2008 to shareholders on the Register on 7 March 2008

Chairman's statement

Introduction

The problems in our market caused by the fallout from the smoking ban and the miserable weather which hit this year's season for the South West have been further exacerbated by the economic squeeze now being experienced A lack of confidence in central Government has only fanned the flames of uncertainty for the consumer In spite of this, I am able to report that the Company has achieved satisfactory results for the year ended 31 October 2007, and remains well positioned to face the pressures within our industry

Results

Turnover for the Group has decreased slightly for the period by 0 86%, and generated an operating profit of £1,652,000 against a restated operating profit for the previous year of £1,846,000. This shows a drop of 10 51% Whilst income remains stable and costs continue to rise, our energies are concentrated on driving trade and controlling costs

The Managed House subsidiary, Heavitree Inns, produced an operating profit of £508,000 against last year's £522,000 which we recognised at the time as an extremely hard fought performance

Heavitree Incorporated, our American subsidiary, produced an operating loss of £6,000 which was the same as the previous year A small piece of land was sold in the year for which we have received £28,000 on account Our Agent in Houston reports continuing interest in land for development.

Dividend

The Directors recommend an unchanged final dividend of 7p per Ordinary and 'A' Limited Voting Ordinary Share This, together with the interim dividend of 4 5p per share, makes a total dividend of 11 5p per share (2006 – 11p) The dividend will be paid on 14 April 2008, subject to shareholder approval at the Annual General Meeting on 11 April 2008, to shareholders on the Register at 7 March 2008

Property Sales

We have sold four pubs this year This is in accordance with the Company's continuing strategy of focusing our investment and expertise on operations which best position us in the marketplace The houses we have sold are The Eagle Tavern in Exeter, The Royal Standard in Shaldon, Judge Jefferies in Exeter and The Bird in Hand in Witney We also sold two unlicensed properties In total, a gross book profit, before tax, of £1,426,000 was realised We are currently marketing another four houses in line with this strategy, together with a small number of unlicensed properties.

Pension Scheme

The final salary scheme is still in the process of being wound up following the Company's decision to close it to future accrual At the time of writing, our scheme actuary is still seeking quotes for securing the benefits accrued under the scheme through the purchase of bulk annuity contracts I hope to have more information on this, and be able to report further as to the actual cost of the purchase of these annuities, at the half-year

Chairman's statement

Capital Investment

The main investments during the year were expended on extending The Anchor Inn at Cockwood into the next door property, which we purchased in 2005, enlarging the kitchens at The Otter Inn at Weston, completing the roll-out of the cellar management systems across the whole estate and the strategic purchase of a cottage next door to one of our pubs in advance of a possible major development

One such major development is currently taking place at The Church House Inn at Stokenham, which is due to re-open prior to Easter The estate will benefit from further refurbishments which are planned to take place this year

The Company remains committed to acquiring houses in strategic positions throughout the West Country

Repurchase of Shares

The Company has continued to exercise its right to buy back its own shares, purchasing a further 79,000 'A' Limited Voting Ordinary and 28,000 Ordinary Shares at an aggregate cost of £1,191,550, in the year As reported and explained in detail at the half-year, this policy continues to return great value to shareholders

Personnel

I would like to thank ~~all our~~ tenants and staff for their efforts in achieving this year's results

N H P TUCKER
Chairman
18 February 2008

Directors' report

The Directors have pleasure in submitting their report for the year ended 31 October 2007

Principal activities

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

Review of business developments

Core Company - operating profit after consolidation adjustments £1,150,000 (2006 - restated £1,330,000)

Heavitree Inns Limited - operating profit £508,000 (2006 - £522,000)

Heavitree Inc - operating loss £6,000 (2006 - loss of £6,000)

Group turnover for the year is £13,296,000 (2006 - £13,412,000) a decrease of £116,000 (0 86%)

During the year under review the following properties were sold Eagle Tavern, Exeter, Royal Standard, Shaldon, Judge Jeffries, Exeter, Bird In Hand, Witney plus two unlicensed properties at Church Street Heavitree, Exeter, and Sampford Courtenay, Okehampton

The combined result of these sales realised a profit before tax of £1,426,000

For further review of the business see the Chairman's Statement on pages 5 and 6

Principal risks and uncertainties

The ban on smoking in enclosed public places came into effect in England in July 2007 To date it is difficult to gauge the extent of the adverse effect on trade Poor weather during the summer months has prevented any direct comparison against the previous year

As with all other retailers, the Group could be affected by any downturn in the economy which may affect consumer spending The Group considers itself to be well placed to obtain its share of ongoing trade with a good mix of food and wet-led licensed premises

As at 31 October 2007 the Group's total borrowings were £5,376,000 (2006 - £6,877,000) 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

For details of the Group's policy on financial instruments refer to note 27

Future developments

In April 2006, the defined benefit superannuation scheme was closed to future accrual The scheme actuary is in the process of obtaining quotes for the purchase of bulk annuity contracts to buy out the accrued benefits in full Once these are secured, the scheme will be wound up.

Directors' report

Results and dividends

The Directors submit the audited financial statements for the year ended 31 October 2007 The profit for the year, after taxation, attributable to shareholders amounts to £2,052,000 (2006 – restated £1,811,000)

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 4 5p per share makes a total of 11 5p per share (2006 – 11p) for the year The fixed dividend of 11 5p per share was paid on the Preference Shares in the year

Fixed assets

The Directors' estimated open market valuation for existing use basis of the portfolio of public houses at 31 October 2007 was £47 3m (2006 - £48 8m) This figure includes houses currently marketed for sale, with a combined market value of £2 3m, which are held in current assets at a historic value of £733,000

Purchase of own shares

During the year the Company purchased 79,000 5p 'A' Limited Voting Ordinary Shares (2006 – 24,000) at a cost of £868,150 (2006 – £246,000) and 28,000 Ordinary Shares (2006 – nil) at a cost of £323,400 (2006 – £nil) The purchases accounted for 2 3% of the issued 'A' Limited Voting Ordinary Shares and 1 3% of the issued Ordinary Shares. The Company considers that the purchase of these shares will be beneficial to shareholders generally

Environment

The Group still intends to pilot an energy-efficient outlet including the use of energy-efficient lighting and heating Data gained will be used to implement energy efficiencies across the managed estate and to assist tenants to manage better the use of lighting and heating to maximise their profits Work will commence once acceptable quotes have been received

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 £12,230

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' report

Directors

The Directors of the Company during the year ended 31 October 2007 were those listed on page 2

N H P Tucker and T P Duncan 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 73), who also retires by age under Section 293 of the Companies Act 1985, will offer himself for re-election

Directors' interests

The interests of the Directors and their spouses in the Company's shares as at 31 October 2007 were as follows

	Ordinary Shares		*'A' Limited Voting Ordinary Shares*	
	31 October 2007	*1 November 2006*	*31 October 2007*	*1 November 2006*
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	180,858	175,013
T P Duncan	150,335	150,335	118,992	118,992
R J Glanville	-	-	49,586	43,196
M C Pease-Watkin	17,064	17,064	82,740	82,740
T Wheatley	-	-	12,055	7,699

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

(a) W P Tucker's interest in 53,750 (2006 - 53,750) Ordinary Shares,

(b) N H P Tucker's interest in 111,142 (2006 - 111,142) Ordinary Shares and 307,000 (2006 - 307,000) 'A' Limited Voting Ordinary Shares,

(c) G J Crocker's interest in 57,392 (2006 - 57,392) Ordinary Shares and 151,000 (2006 - 151,000) 'A' Limited Voting Ordinary Shares, and

(d) R J Glanville's interest in 34,116 (2006 – 32,589) 'A' Limited Voting Ordinary Shares

Included in these interests are the following joint holdings

(a) 53,750 (2006 - 53,750) Ordinary Shares held jointly by W P Tucker and N H P Tucker, and

(b) 57,392 (2006 - 57,392) Ordinary Shares and 151,000 (2006 - 151,000) 'A' Limited Voting Ordinary Shares held jointly by G J Crocker and N H P Tucker

Directors' report

Directors' interests (continued)

On 8 October 2007 the following Options in relation to 'A' Limited Voting Ordinary Shares were exercised by the Directors

	Options	*Exercise price*	*Market price on date of exercise*	*Gain*
G J Crocker	9,463	£3 50	£10 975	£70,736
R J Glanville	7,105	£3 50	£10 975	£53,110
T Wheatley	7,105	£3 50	£10 975	£53,110

At 31 October 2007, the following Directors held options to subscribe 'A' Limited Voting Ordinary Shares of the Company

	2007 No	*2006 No*
G J Crocker	2,999	9,463
R J Glanville	2,295	7,105
T Wheatley	2,295	7,105

During the period from the end of the financial year to 17 February 2008 the following transaction affecting the interests of the Directors took place

R J Glanville's interest in 49,586 'A' Limited Voting Ordinary Shares has been reduced to 46,544 'A' Limited Voting Ordinary Shares (31,704 non beneficial)

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 17 February 2008 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
Ms T C Tucker	78,010	178,205
N H Rowlinson	99,392	393,400
J E Pease-Watkin	89,621	-
Mrs E M A Pease-Watkin	125,105	-
J F H Pease-Watkin	130,205	-

Directors' report

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 2007 is 38 (2006 - 54)

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

Implementation of International Financial Reporting Standards

This is the last Annual Report in which we will be presenting consolidated financial statements under United Kingdom Generally Accepted Accounting Practice (UK GAAP) International Financial Reporting Standards (IFRS) will first apply to The Heavitree Brewery PLC for the year ended 31 October 2008 and will have been adopted when we report our interim results for the period to 30 April 2008

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

R.J. Glanville

R J GLANVILLE
Secretary
18 February 2008

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*
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	1,298	18 4	9 50
2006 restated	2,195	34 0	11.0
2007	2,653	38 9	11 5

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 1998 have been amended for any increase in profits arising from the 1999 adjustment to restate freehold property to historical cost.

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 were restated following the implementation of FRS 25 'Financial Investments Disclosure and Presentation'.

5 Pre-tax profits and earnings per share for the year ended 31 October 2006 have been restated following the implementation of FRS 20 'Share-based payment'

6 For 2006 the diluted earnings per share are 33 9p (as restated)

7 For 2007 the diluted earnings per share are 38 7p

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 the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the Group and Company 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 2007 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 Directors and other information, Notice of annual general meeting, Chairman's statement, Director's report 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 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 2007 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

Ernst & Young LLP
Registered Auditor
Exeter
18 February 2008

Group profit and loss account

for the year ended 31 October 2007

	Notes	2007 £000	As restated 2006 £000
Turnover	2	13,296	13,412
Change in stocks		(69)	7
Other operating income	3	(64)	(54)
Purchase of stock		4,904	4,903
Staff costs	5	3,169	3,208
Depreciation of tangible fixed assets		661	654
Other operating charges		3,043	2,848
		11,644	11,566
Operating profit	4	1,652	1,846
Profit/(loss) on sale of tangible fixed assets	6	1,435	(74)
Profit on sale of fixed asset investments	6	-	842
Income from other fixed asset investments		1	1
Profit on ordinary activities before interest and taxation		3,088	2,615
Other interest receivable	7	6	10
Interest payable	8	(403)	(371)
Other finance charges – FRS 17	24	(38)	(59)
Profit on ordinary activities before taxation	9	2,653	2,195
Taxation on profit on ordinary activities	10	(601)	(384)
Profit attributable to shareholders	23	2,052	1,811
Dividends – equity dividends paid	11	(607)	(533)
Basic earnings per share	12	38.9p	34 0p
Diluted earnings per share	12	38 7p	33 9p

Movements on reserves are set out in Note 23

The notes on pages 21 to 46 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 2007

	2007 £000	As restated 2006 £000
Profit attributable to shareholders	2,052	1,811
Exchange difference on retranslation of net assets of subsidiary undertaking	1	(3)
Actuarial gain recognised on pension scheme	572	174
Deferred tax relating to actuarial gain on pension scheme	(160)	(52)
Deferred tax relating to change in tax rates on deferred tax on pension scheme	(43)	-
Total recognised gains and losses relating to the year and since last annual report	2,422	1,930
Prior year adjustment (as explained in note 1)	(6)	
	2,416	

Reconciliation of shareholders' funds

for the year ended 31 October 2007

	2007 £000	As restated 2006 £000
At 1 November	7,598	6,891
Total recognised gains and losses relating to the year	2,422	1,930
Dividends	(607)	(533)
Consideration received by EBT on sale of shares	313	63
Consideration paid by EBT on purchase of shares	(481)	(759)
Reserve credit for share-based payment plans	5	6
At 31 October	9,250	7,598

Group balance sheet

at 31 October 2007

	Notes	2007 £000	2006 £000
Fixed assets			
Tangible assets	13	15,263	16,650
Investments	14	20	20
		15,283	16,670
Current assets			
Stocks	15	210	142
Assets held for sale		733	-
Debtors	16	1,384	1,493
Cash at bank and in hand		738	435
		3,065	2,070
Creditors: amounts falling due within one year	19	(7,510)	(9,067)
Net current liabilities		(4,445)	(6,997)
Total assets less current liabilities		10,838	9,673
Creditors: amounts falling due after more than one year	20	(283)	(296)
Provisions for liabilities and charges			
Deferred taxation	21	(243)	(262)
Net assets excluding pension liability		10,312	9,115
Pension liability	24	(1,062)	(1,517)
		9,250	7,598
Capital and reserves			
Called up share capital	22	273	278
Capital redemption reserve	23	664	659
Other reserves	23	70	69
Own shares reserve	23	(963)	(1,335)
Profit and loss account	23	9,206	7,927
Total shareholders' funds		9,250	7,598

The notes on pages 21 to 46 form part of the financial statements

These accounts were approved by the Board of Directors and authorised for issue on 18 February 2008 and were signed on its behalf by

N H P TUCKER)
G J CROCKER) Directors

Company balance sheet

at 31 October 2007

	Notes	£000	2007 £000	£000	2006 £000
Fixed assets					
Tangible assets	13		14,465		15,901
Investments	14		76		54
			14,541		15,955
Current assets					
Stocks	15		33		18
Assets held for sale			733		-
Debtors	16				
amounts falling due after more than one year		767		736	
amounts falling due within one year		1,062	1,829	1,164	1,900
Cash at bank and in hand			413		91
			3,008		2,009
Creditors: amounts falling due within one year	19		(6,784)		(8,370)
Net current liabilities			(3,776)		(6,361)
Total assets less current liabilities			10,765		9,594
Creditors: amounts falling due after more than one year	20		(283)		(296)
Provisions for liabilities and charges					
Deferred taxation	21		(168)		(180)
Net assets excluding pension liability			10,314		9,118
Pension liability	24		(1,062)		(1,517)
			9,252		7,601
Capital and reserves					
Called up share capital	22		273		278
Capital redemption reserve	23		664		659
Own shares reserve	23		(963)		(1,335)
Profit and loss account	23		9,278		7,999
Total shareholders' funds			9,252		7,601

The notes on pages 21 to 46 form part of the financial statements

These accounts were approved by the Board of Directors and authorised for issue on 18 February 2008 and were signed on its behalf by

N H P TUCKER)
G J CROCKER) Directors

Group statement of cash flows

for the year ended 31 October 2007

	Notes	2007 £000	2006 £000
Net cash inflow from operating activities	4(b)	1,923	2,543
Returns on investments and servicing of finance			
Interest paid		(403)	(371)
Interest received		6	10
Dividends received		1	1
Preference dividend paid		(1)	(1)
Net cash outflow from returns on investments and servicing of finance		(397)	(361)
Taxation			
Corporation tax paid		(380)	(316)
		(380)	(316)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(1,558)	(1,764)
Receipts from sales of tangible fixed assets		2,972	222
Receipts from sales of fixed asset investments		-	1,017
		1,414	(525)
Equity dividends paid		(607)	(533)
Financing			
Consideration received by EBT on sale of shares		314	63
Consideration paid by EBT on purchase of shares		(481)	(760)
Repayment of Directors' loans		(2)	(7)
Loans from Directors		20	-
		(149)	(704)
Increase in cash	17	1,804	104

Notes to the financial statements

for the year ended 31 October 2007

1. Accounting policies

Basis of preparation and prior year adjustment

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 20, 'Share-based payment'

The adoption of FRS 20 has resulted in a change in accounting policy for share-based payment transactions. The main impact of FRS 20 on the Group is the recognition of an expense and a corresponding entry to equity for employees' share options

The Group has applied FRS 20 retrospectively and has taken advantage of the transitional provisions for FRS 20 in respect of equity settled awards As a result, the Group has applied FRS 20 only to equity settled awards granted after 7 November 2002 that had not vested on 1 November 2006

The effect of the revised policy has decreased current year profits by £5,632 (2006 - £6,400) due to an increase in the employee benefits expense included within other operating expenses.

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.

Assets held for sale

Assets held for sale represent assets which are being actively marketed for sale No depreciation is charged on assets held for sale

Notes to the financial statements

for the year ended 31 October 2007

1. Accounting policies (continued)

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 $33^1/_3$%

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.

Revenue recognition

Revenue represents amounts receivable for goods and services provided in the normal course of business, net of discounts and VAT Revenue is measured as the fair value of consideration received or receivable Sales of beverages are recognised when these goods are delivered to our customers

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

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.

Notes to the financial statements

for the year ended 31 October 2007

1. Accounting policies (continued)

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 and there has been no future accrual since 5 April 2006

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

Share-based payments

The cost of equity settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using an appropriate pricing model In valuing equity settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions)

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and of the number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting as described above The movement in cumulative expense since the previous balance sheet date is recognised in the profit and loss account, with a corresponding entry in equity

Where the terms of an equity settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of modification No reduction is recognised if this difference is negative

Where an equity settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement.

Notes to the financial statements

for the year ended 31 October 2007

1. Accounting policies (continued)

Share-based payments (continued)

The Group has taken advantage of the transitional provisions of FRS 20 in respect of equity settled awards so as to apply FRS 20 only to those equity settled awards granted after 7 November 2002 that had not vested before 1 November 2006 For awards granted before 7 November 2002, the Group recognises only the intrinsic value or cost of these potential awards as an expense This is accrued over the performance period of each plan based on the intrinsic value of the equity settled awards

The adoption of this standard has no overall effect on the Group's retained reserves or cash flows

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 £2,155,000 (2006 - £2,226,000) together with managed houses retail sales and accommodation receipts totalling £6,346,000 (2006 - £6,386,000) All turnover is derived from the United Kingdom

3. Other operating income

	2007	*2006*
	£000	*£000*
Rents from unlicensed properties	64	54

4. Operating profit

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

	2007	*2006*
	£000	*£000*
Depreciation of owned fixed assets	661	654
Repairs and maintenance of properties	857	1,014
Inventory rental income	(72)	(55)

Notes to the financial statements

for the year ended 31 October 2007

4. Operating profit (continued)

		2007 £000	2006 £000
Auditors' remuneration			
Audit of the financial statements+		36	34
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	26	11
		45	30
		81	64

+£21,000 (2006 - £20,000) of this relates to the Company

For the year ended 31 October 2007 and 31 October 2006, all amounts in respect of other fees to auditors relate to the Company and its UK subsidiary

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

	2007 £000	As restated 2006 £000
Operating profit	1,652	1,846
Depreciation	661	654
(Increase)/decrease in stocks	(53)	7
Decrease/(increase) in operating debtors	109	(195)
(Decrease)/increase in operating creditors	(293)	337
Net pension charge	(158)	(112)
Share-based payment	5	6
Net cash inflow from continuing operating activities	1,923	2,543

Notes to the financial statements

for the year ended 31 October 2007

4. Operating profit (continued)

(c) Directors' remuneration (continued)

	2007 £000	As restated 2006 £000
Fees	50	54
Salaries	299	291
Performance-related bonuses	58	51
Benefits	65	62
	472	458
Company contributions paid in respect of money purchase schemes	135	76
Aggregate gains made by Directors on the exercise of options	177	-

	2007 No	2006 No
Members of defined benefit pension scheme	-	-
Members of defined contribution pension scheme	4	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 £123,661 (2006 - £119,790)

The highest paid Director has an accrued pension entitlement of £87,865 (2006 - £87,865) as at 31 October 2007, arising from past membership of the defined benefit scheme which is no longer active

Notes to the financial statements

for the year ended 31 October 2007

5. Staff costs

	2007	As restated 2006
	£000	£000
Wages and salaries	2,589	2,586
Social security costs	210	211
Other pension costs	370	411
	3,169	3,208

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

	No	No
Average monthly number of employees	193	208

6. Exceptional items

The profit on sale of tangible fixed assets in the year ended 31 October 2007 relates mainly to sales of licensed and unlicensed premises The loss on sale of the tangible fixed assets in the year ended 31 October 2006 related mainly to disposals of fixtures and fittings The profit on sale of fixed asset investments in the year ended 31 October 2006 related to the disposal of shares in George Gale and Company Limited

7. Other interest receivable

	2007	2006
	£000	£000
Loan interest receivable	5	9
Other interest	1	1
	6	10

8. Interest payable

	2007	2006
	£000	£000
Bank interest on loans and overdrafts	386	352
Other interest	16	18
Preference share dividends	1	1
	403	371

Notes to the financial statements

for the year ended 31 October 2007

9. 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, food and accommodation together with 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

	2007	*As restated* 2006
	£000	£000
UK		
The Heavitree Brewery PLC	2,118	1,679
Heavitree Inns Limited	513	522
USA		
Heavitree Inc	22	(6)
	2,653	2,195

The net assets attributable to Heavitree Inc are £37,000 (2006 - £14,000)

10. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows

	2007	2006
	£000	£000
Current tax		
UK corporation tax	576	431
Tax overprovided in previous years	10	(43)
Total current tax (note 10(b))	586	388
Deferred tax		
Origination and reversal of timing differences	(19)	31
In respect of pension scheme liabilities	34	16
Adjustment in respect of prior years	-	(51)
Group deferred tax	15	(4)
Tax on profit on ordinary activities	601	384

Notes to the financial statements

for the year ended 31 October 2007

10. Tax (continued)

(b) Factors affecting current tax charge

	2007 £000	As restated 2006 £000
Profit on ordinary activities before tax	2,653	2,195
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2006 - 30%)	796	659
Effect of		
Disallowed expenses and non-taxable income	41	63
Capital allowances in excess of depreciation	(4)	(33)
Other timing differences	(36)	(65)
Adjustments in respect of previous periods	10	(43)
Other	(5)	59
Capital gains (effects of indexation and rebasing)	(216)	(252)
Current tax charge for the period	586	388

(c) Factors affecting current and future tax charges

A potential deferred tax asset of £Nil (2006 - £17,000) 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 £151,000 (2006 - £158,000) 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 (2007 – 22 7% and 2006 - 18 3%) is lower than the mainstream corporation tax rate of 30% In both years this is largely due to the impact of March 1982 values and indexation used in calculating the capital gains on properties and other assets disposed

From the tax year 2008/9 onwards, the UK corporation tax rate will reduce from 30% to 28%

11. Dividends

	2007 £000	2006 £000
Declared and paid during the year		
Equity dividends on Ordinary Shares and 'A' Limited Voting Ordinary Shares		
Final dividend for 2006 7p (2005 - 6p)	389	321
First dividend for 2007 4 5p (2006 - 4p)	248	237
Less dividends on shares held within employee share schemes	(30)	(25)
	607	533
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 2007 7p (2006 - 7p)	371	370

Notes to the financial statements

for the year ended 31 October 2007

12. Basic and diluted earnings per share

The calculation of basic earnings per ordinary share is based on earnings of £2,052,000 (2006 restated - £1,811,000), being profit after taxation for the year, on 5,279,211 (2006 - 5,323,113) shares being the weighted average number of Ordinary and 'A' Limited Voting Ordinary Shares in issue during the year after excluding those shares owned by The Heavitree Brewery PLC Employee Benefits Trust and by the Employee Share Option Scheme

The calculation of diluted earnings per ordinary share is based on earnings of £2,052,000 (2006 restated - £1,811,000), being profit after taxation for the year, on 5,307,220 (2006 - 5,349,453) 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

13. Tangible fixed assets

Group	*Freehold land and buildings and fixtures and fittings £000*	*Equipment and vehicles £000*	*Total £000*
Cost			
At 1 November 2006	19,044	958	20,002
Additions	1,358	200	1,558
Disposals	(1,899)	(188)	(2,087)
Transfer to current assets	(870)	-	(870)
At 31 October 2007	17,633	970	18,603
Depreciation.			
At 1 November 2006	2,761	591	3,352
Provided during the year	492	169	661
Disposals	(429)	(121)	(550)
Transfer to current assets	(123)	-	(123)
At 31 October 2007	2,701	639	3,340
Net book value			
At 31 October 2007	14,932	331	15,263
At 31 October 2006	16,283	367	16,650

Notes to the financial statements

for the year ended 31 October 2007

13. Tangible fixed assets (continued)

Company	*Freehold land and buildings and fixtures and fittings £000*	*Equipment and vehicles £000*	*Total £000*
Cost			
At 1 November 2006	17,551	662	18,213
Additions	1,078	176	1,254
Disposals	(1,592)	(188)	(1,780)
Transfer to group companies	(18)	-	(18)
Transfer to current assets	(870)	-	(870)
At 31 October 2007	16,149	650	16,799
Depreciation			
At 1 November 2006	1,939	373	2,312
Provided during the year	296	116	412
Disposals	(146)	(121)	(267)
Transfer to current assets	(123)	-	(123)
At 31 October 2007	1,966	368	2,334
Net book value			
At 31 October 2007	14,183	282	14,465
At 31 October 2006	15,612	289	15,901

Freehold land and buildings for both Group and Company are included in the above at a cost of £13,655,000 (2006 - £14,415,000) and at a net book value of £13,336,000 (2006 - £14,120,000)

Included within freehold land and buildings for both the Group and Company is an aggregate cost of £89,652 (2006 - £89,652) relating to licensed property with short leases granted to tenants. The net book value of these assets was £87,831 at 31 October 2007 (2006 - £88,438)

As at 31 October 2007 certain licensed and unlicensed properties were actively being marketed for sale. These properties have been reclassified as current assets and are disclosed as 'assets held for resale' At 31 October 2007 these properties had a net book value of £733,000

Future capital expenditure

Group and Company	*2007 £000*	*2006 £000*
Contracted	300	130

Notes to the financial statements

for the year ended 31 October 2007

14. Fixed asset investments

Group

	Unlisted investments £000
Cost	
At 1 November 2006 and at 31 October 2007	20
Amounts provided	
At 1 November 2006 and at 31 October 2007	-
Net book value	
At 31 October 2007	20
At 31 October 2006	20

Company

	Subsidiary undertakings £000	*Unlisted investments £000*	*Total £000*
At 1 November 2006	39	20	59
Revaluation	22	-	22
At 31 October 2007	61	20	81
Amounts provided			
At 1 November 2006	(5)	-	(5)
Impairment	-	-	-
At 31 October 2007	(5)	-	(5)
Net book value			
At 31 October 2007	56	20	76
At 31 October 2006	34	20	54

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

Notes to the financial statements

for the year ended 31 October 2007

Each subsidiary undertaking is directly owned by the Company

15. Stocks

	Group		*Company*	
	2007	*2006*	*2007*	*2006*
	£000	*£000*	*£000*	*£000*
Fine wines	15	15	15	15
Merchandising stocks	18	3	18	3
Stocks in managed houses	177	124	-	-
	210	142	33	18

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

16. Debtors

	Group		*Company*	
	2007	*2006*	*2007*	*2006*
	£000	*£000*	*£000*	*£000*
Trade debtors	1,049	1,128	993	1,031
Amounts owed by subsidiary company	-	-	767	700
Other debtors	13	42	13	43
Prepayments and accrued income	322	323	56	126
	1,384	1,493	1,829	1,900

Amounts falling due after more than one year included above are

	Group		*Company*	
	2007	*2006*	*2007*	*2006*
	£000	*£000*	*£000*	*£000*
Amounts owed by subsidiary company	-	-	767	700
Other debtors	-	36	-	36
	-	36	767	736

17. Reconciliation of net cash flow to movement in net debt (note 18)

	Group	
	2007	*2006*
	£000	*£000*
Increase in cash in the year	1,804	104
Cash (inflow)/outflow resulting from decrease in debt	(18)	7
Net debt at 1 November	(6,506)	(6,617)
Net debt at 31 October	(4,720)	(6,506)

Notes to the financial statements

for the year ended 31 October 2007

18. Analysis of changes in net debt

	2007 £000	Group cashflows in year £000	2006 £000
Cash	738	303	435
Overdraft	(5,376)	1,501	(6,877)
Directors' loans	(82)	(18)	(64)
	(4,720)	1,786	(6,506)

19. Creditors: amounts falling due within one year

	Group		Company	
	2007 £000	2006 £000	2007 £000	2006 £000
Bank overdrafts (unsecured)	5,376	6,877	5,376	6,877
Trade creditors	818	948	547	753
Other taxation and social security	246	344	57	132
Other creditors	115	114	88	93
Accruals	434	469	356	379
Corporation tax	521	315	360	136
	7,510	9,067	6,784	8,370

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

Group and Company	2007 £000	2006 £000
Tenants' deposits	272	285
11 5% Cumulative Preference Shares (note 22)	11	11
	283	296

21. Deferred taxation

Provided	Group £000	Company £000
At 1 November 2006	262	180
Charge for the year (Note 10a)	(19)	(12)
At 31 October 2007	243	168

Notes to the financial statements

for the year ended 31 October 2007

21. Deferred taxation (continued)

Deferred taxation provided in the financial statements is as follows

		Provided
	2007	*2006*
Group	*£000*	*£000*
Capital allowances in advance of depreciation	243	262

		Provided
	2007	*2006*
Company	*£000*	*£000*
Capital allowances in advance of depreciation	168	180

All amounts are fully provided

Notes to the financial statements

for the year ended 31 October 2007

22. Share capital

	2007 £	2006 £
Authorised		
11 5% Cumulative Preference Shares of £1 each	11,695	11,695
Ordinary Shares of 5p each	104,913	106,313
'A' Limited Voting Ordinary Shares of 5p each	167,803	171,753
Unclassified Shares of 5p each	915,589	910,239
	1,188,305	1,188,305
	1,200,000	1,200,000

Allotted, called up and fully paid	2007 No	2006 No	2007 £	2006 £
11 5% Cumulative Preference Shares of £1 each	11,695	11,695	11,695	11,695
Ordinary Shares of 5p each	2,098,262	2,126,262	104,913	106,313
'A' Limited Voting Ordinary Shares of 5p each	3,356,061	3,435,061	167,803	171,753
			272,716	278,066

The Group has implemented FRS 25 'Financial Instruments Disclosures and Presentation' Consequently the preference shares are presented as creditors due after more than one year (note 20) and the preference dividends are presented as interest (note 8)

During the year the Company purchased 79,000 5p 'A' Limited Voting Ordinary Shares (2006 - 24,000) at a cost of £868,150 (2006 - £246,000) and 28,000 Ordinary Shares (2006 - nil) at a cost of £323,400 (2006 - £nil) under an authority granted at the Annual General Meeting in 2007

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 2007

22. Share capital (continued)

Under the Company's Approved Share Option Scheme the following options were held at 31 October 2007:

Number of shares at 31 October 2006	*Number of share options granted in the year*	*Number of share options exercised in the year*	*Number of share options lapsed in the year*	*Date of grant*	*Number of shares at 31 October 2007*	*Price*	*Exercise period*
38,581	-	(38,581)	-	-	-	£3 50	08/10/2007 to 18/10/2007
-	19,454	-	-	30/10/2007	19,454	£10 975	30/10/2010 to 13/11/2010

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 2007, the Trust held the following shares which were not under option to the employees

	Nominal amount 2007 £	*Nominal amount 2006 £*	*Market value 2007 £000*	*Market value 2006 £000*
5p Ordinary Shares				
63,183 shares (2006 – 91,183 shares)	3,159	4,559	730	1,014
5p 'A' Limited Voting Ordinary				
74,904 shares (2006 – 141,197 shares)	3,745	7,060	822	1,500

The Trust also holds 854 (2006 581) Preference Shares The purchase of these shares has resulted in a reduction to the liability arising under FRS 25.

Notes to the financial statements

for the year ended 31 October 2007

23. Reserves

Group	*Capital redemption reserve £000*	*Other reserves £000*	*Own shares reserve £000*	*Profit and loss account £000*
At 31 October 2006	659	69	(1,335)	7,927
Actuarial gain recognised on pension scheme	-	-	-	572
Deferred tax relating to actuarial gain on pension scheme	-	-	-	(160)
Deferred tax relating to change in tax rates on pension scheme	-	-	-	(44)
Transfer in respect of the buy back of own shares	5	-	611	(611)
Consideration paid by EBT on purchase of shares	-	-	(481)	-
Consideration received by EBT on sale of shares	-	-	314	-
Gain by EBT on sale of shares	-	-	(72)	72
Exchange difference on retranslation of net assets of subsidiary undertaking	-	1	-	-
Share-based payment	-	-	-	5
Profit for year	-	-	-	2,052
Dividends	-	-	-	(607)
At 31 October 2007	664	70	(963)	9,206

Company	*Capital redemption reserve £000*	*Own shares reserve £000*	*Profit and loss account £000*
At 31 October 2006	659	(1,335)	7,999
Actuarial gain recognised on pension scheme	-	-	572
Deferred tax relating to actuarial gain on pension scheme	-	-	(160)
Deferred tax relating to change in tax rate on pension scheme	-	-	(44)
Transfer in respect of the buy back of own shares	5	611	(611)
Consideration paid by EBT on purchase of shares	-	(481)	-
Consideration received by EBT on sale of shares	-	314	-
Gain by EBT on sale of shares	-	(72)	72
Share-based payment	-	-	5
Profit for year	-	-	2,052
Dividends	-	-	(607)
At 31 October 2007	664	(963)	9,278

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 £2,052,000 (2006 restated - £1,811,000). This includes sales to Group undertakings of £1,208,000 (2006 - £1,181,000)

Notes to the financial statements

for the year ended 31 October 2007

23. Reserves (continued)

The investment in own shares relates to 63,183 Ordinary Shares (2006 - 91,183), 94,358 'A' Limited Voting Ordinary Shares (2006 - 184,834) held by The Heavitree Brewery PLC Employee Benefits Trust and Employee Share Option Scheme

The market value of Ordinary and 'A' Limited Voting Ordinary Shares held in trust at 31 October 2007 was £1,765,000 (2006 - £2,978,000) The own shares reserve relates solely to the Ordinary and 'A' Limited Voting Ordinary Shares.

24. Pension schemes

(i) Optional pension payments

During the year the Company made discretionary pension payments of £142,795 (2006 - £133,864) 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 £227,005 (2006 - £158,195) 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 (2006 - £nil)

(iii) Defined benefit scheme

The Company operated 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 2007 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 2007

24. 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:

	2007	*2006*	*2005*
	%	*%*	*%*
Inflation	3 00	3 00	3 00
Salary increases	n\a	n\a	5 00
Rate of discount	5 80	5 00	5 00
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:

	Expected long term rate of return at 31 October 2007	*Value at 31 October 2007*	*Expected long term rate of return at 31 October 2006*	*Value at 31 October 2006*	*Expected long term rate of return at 31 October 2005*	*Value at 31 October 2005*
	%	*£000*	*%*	*£000*	*%*	*£000*
Equities		-	7 00	1,195	7 00	886
Cash	5 75	1,684	4 25	155	4 00	176
Other	6 00	3,835	6 00	4,325	5 00	4,186
Total value of assets		5,519		5,675		5,248
Liabilities		6,994		7,842		7,642
Deficit in the scheme		(1,475)		(2,167)		(2,394)
Related deferred tax asset		413		650		718
Net pension deficit		(1,062)		(1,517)		(1,676)

The majority of the assets of the scheme at 31 October 2007 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 these assets are classed as "other" This was also the case at 31 October 2006 and 31 October 2005 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

Notes to the financial statements

for the year ended 31 October 2007

24. 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 2007 are set out below.

Components of the defined benefit cost	*Group and Company 2007 £000*	*Group and Company 2006 £000*
Current service cost	-	(119)
Total operating charge	-	(119)
Expected return on pension scheme assets	354	323
Interest on pension scheme liabilities	(392)	(382)
Total other finance costs	(38)	(59)
Total charge to the profit and loss account	(38)	(178)

History of experience gains and losses	*Group and Company 2007*	*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)	(655)	11	190	222	207
Percentage of scheme assets	12%	0%	4%	5%	5%
Experience gains arising on scheme liabilities					
Amount (£000)	0	0	80	75	(16)
Percentage of the present value of the scheme liabilities	0%	0%	1%	1%	0%
Gain/(loss) arising from changes in assumptions underlying the present value of scheme liabilities					
Amount (£000)	1,227	163	(397)	(378)	(248)
Total gain/(loss) recognised in the statement of total recognised gains and losses					
Amount (£000)	572	174	(127)	(81)	(57)
Percentage of the present value of the scheme liabilities	8%	2%	2%	1%	1%

Notes to the financial statements

for the year ended 31 October 2007

24. Pension scheme (continued)

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

	Group and Company 2007 £000	*Group and Company 2006 £000*	*Group and Company 2005 £000*
At 1 November	(2,167)	(2,394)	(2,170)
Total operating charge	-	(119)	(266)
Total other finance costs	(38)	(59)	(85)
Actuarial gain/(loss)	572	174	(127)
Contributions	158	231	254
At 31 October	(1,475)	(2,167)	(2,394)

25. Particulars of transactions involving Directors

Three Directors have made loans to the Company They are repayable on demand and carry an interest rate of 0 75% over the base rate

	2007 £000	*Movement in year £000*	*2006 £000*
W P Tucker	67	16	51
G J Crocker	11	(2)	13
R J Glanville	4	4	-
	82	18	64

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

for the year ended 31 October 2007

26. Employee share option scheme

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 Awards are not subject to any performance condition and may only be exercised for a period of fourteen days (2004 options – ten days) following vesting on the third anniversary of the date of grant

On 8 October 2004, options were granted under the Scheme over 43,637 'A' Limited Voting Ordinary Shares held by the Scheme with an exercise price of £3 50 and exercise period of 8 October 2007 to 18 October 2007 During 2006, 5,056 of these share options lapsed and the remaining 38,581 were exercised during the year ended 31 October 2007

On 30 October 2007, options were granted under the Scheme over 19,454 (2006 - 43,637) 'A' Limited Voting Ordinary Shares held by the Scheme with an exercise price of £10 975, and these remained under option at the year end The mid-market value was £10 975 per share at 31 October 2007, giving a total market value of £213,508 (2006 - £463,643) for the shares under option

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year

	2007 Number	*2007 WAEP*	*2006 Number*	*2006 WAEP*
Outstanding at 1 November	38,581	£3 50	43,637	£3 50
Granted during the year	19,454	£10 975	-	-
Lapsed	-	-	(5,056)	£3 50
Exercised	(38,581)	(£3 50)	-	-
Outstanding at 31 October	19,454	£10 975	38,581	£3 50
Exercisable 31 October	-	-	-	-

The weighted average share price of the options exercised in the year at the date of exercise is £10 975 (2006 - £Nil)

For the share options outstanding at 31 October 2007, the weighted average remaining contractual life is 3 years (2006 – options granted in 2004 1 year)

The weighted average fair value of options granted during the year was £2 08 (2006 – options granted in 2004 £0 44). The exercise price for options outstanding at 31 October 2007 was £10.975

The total expense recognised for the year arising from equity compensation plans was as follows

	2007 £	*2006* £
Fair value of options	5,632	6,400

Notes to the financial statements

for the year ended 31 October 2007

26. Employee share option scheme (continued)

The fair value of options granted during the year estimated by using a binomial option pricing model was £2 08 The fair value of options was estimated on the date of grant, based upon the following weighted average assumptions.

	2007	*2006*
Share price	£10 975	£3 50
Exercise price	£10 975	£3 50
Expected volatility	20%	17%
Historical volatility	20%	17%
Expected life	3 years	3 years
Risk free interest rate	5 0%	4 7%
Expected dividend yield	1 0%	3 2%

The expected volatility used was based upon the historical volatility of the share price over a period equivalent to the expected life of the options prior to the date of grant. The expected dividend yield has been based on an average dividend yield over the 12 months prior to the date of grant

27. 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

The Group continually monitors 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 2007

27. 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

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*
2007				
Sterling	11	5,730	-	5,741
2006				
Sterling	11	7,226	-	7,237

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 preference shares Interest on tenants deposits is based on the base rate and negotiations with tenants

All the financial liabilities mature within one year with the exception of the tenants' deposits of £272,000 (2006 - £285,000) 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 any public market and have no fixed maturity date

Notes to the financial statements

for the year ended 31 October 2007

27. 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*
2007			
Sterling	698	20	718
Dollar	40	-	40
	738	20	758
2006			
Sterling	416	20	436
Dollar	19	-	19
	435	20	455

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 2007 £000	*Fair value 2007 £000*	*Book value 2006 £000*	*Fair value 2006 £000*
Financial assets				
Unlisted fixed asset investments	20	112	20	128
Cash	738	738	435	435
	758	850	455	563
Financial liabilities				
Overdraft	(5,376)	(5,376)	(6,877)	(6,877)
Short term loans	(82)	(82)	(64)	(64)
Long term liabilities	(272)	(272)	(285)	(285)
Non-equity shares	(11)	(11)	(11)	(11)
	(5,741)	(5,741)	(7,237)	(7,237)