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ERNST & YOUNG

DIRECTORS

W P Tucker DL - Chairman
L Wood - Managing Director
G J Crocker
N H P Tucker - appointed 15 August 1994
*Mrs E M A Pease-Watkin - a substantial shareholder
*Mrs S M Duncan - previously a Director of a pub management company and holds a cordon bleu diploma; a substantial shareholder

* 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 Daw Roberts
Exeter

S J Berwin & Co
London

AUDITORS

Ernst & Young
Exeter

REGISTRARS

The Royal Bank of Scotland PLC
P O Box No 82
Caxton House
Redcliffe Way
Bristol
BS99 7NH

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the One Hundred and Fifth Annual General Meeting of The Heavitree Brewery PLC will be held at the Company's offices, Trood Lane, Matford, Exeter on 29 March 1995 at 11.30 a.m to transact the following business:

Ordinary Business

1 To receive and, if thought fit, adopt the Accounts of the Company for the year ended 31 October 1994 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 elect N H P Tucker as a Director of the Company.

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

5 To authorise the Directors to determine the remuneration of the auditors.

Special Business

To consider and, if thought fit, pass the following Resolutions, of which Resolution 7 will be proposed as a Special Resolution:

6 THAT the authority conferred upon the Directors by Article 11(B) of the Company's Articles of Association (authority to allot, and to make offers or agreements to allot, relevant securities) be hereby extended for the period ending on the date of the Company's Annual General Meeting in 1996; AND THAT such authority shall for that period relate to relevant securities up to an aggregate nominal amount of £108,412.

7 THAT the power conferred upon the Directors by Article 11(C) of the Company's Articles of Association (power to allot, or make offers or agreements to allot, equity securities as if Section 89(1) of the Companies Act 1985 did not apply to any such allotment) be hereby renewed for the period ending on the date of the Company's Annual General Meeting in 1996 (or, if earlier, on 28 June 1996): provided that the aggregate nominal amount of equity securities allotted or agreed to be allotted wholly for cash during such period (otherwise than in connection with a rights issue) shall not exceed £16,261.

NOTICE OF ANNUAL GENERAL MEETING

8 THAT the Company be hereby authorised to purchase up to an aggregate of 339,144 Ordinary Shares of 5p each and/or 636,567 'A' Limited Voting Ordinary Shares of 5p each in the capital of the Company at a price (exclusive of expenses) which is:

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

(b) not more than 5% above the arithmetical average of business transacted (as derived from the Daily Official List of The London Stock Exchange) for the ten business days next preceding any such purchase;

AND THAT the authority conferred by this Resolution shall expire on the date of the Company's Annual General Meeting in 1996 (except in relation to the purchase of shares the contract for which was concluded before such date and might be executed wholly or partly after such date).

By Order of the Board

G J CROCKER
Secretary

Trood Lane
Matford
Exeter
EX2 8YP
1 March 1995

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 There are contracts of service with three Directors which 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 dividends, if approved, will be paid on 6 April 1995 to shareholders on the Register on 2 March 1995.

CHAIRMAN'S STATEMENT

RESULTS
The result for the year is a profit before tax up by 4.9% to £1,384,000. This was helped by reductions in interest paid on borrowings and an improved profit margin on beers. However, repair costs to buildings have been higher than last year and we have suffered a somewhat theoretical loss on the sale of some properties; such sales are now treated as part of our ordinary activities in the Profit and Loss account.

The Directors recommend an increased final dividend of 3.5p (1993 - 3.0p) per Ordinary and 'A' Limited Voting Ordinary Share; together with the interim dividend, itself increased from 0.6p to 1.0p per share, this gives an overall increase of 25% for the year. This level of dividend is still covered 2.8 times by earnings and leaves a small increase in the retained profit to carry forward.

THE CURRENT YEAR
We should continue to benefit from reduced borrowings and interest rates are capped at the present level for the rest of the year. The trend towards the sale of smaller quantities of more expensive beers continues and an ever increasing number of our pubs benefit from the sale of food.

We are on course for a year of further steady growth.

HEAVITREE INNS
I mentioned in my Interim Statement that costs were being incurred by removing two houses from management and that a further pub was about to be closed for refurbishment.

In spite of these factors, Heavitree Inns has made a profit of £32,000 - very close to last year's figure of £36,000. The current year promises well.

HEAVITREE INC
Once again there is nothing of significance to report. Modest losses continue as before.

PREMISES
During the year we have had, at various times, eleven pubs either closed or not trading properly.

Four of these were for refurbishments. The Heart of Oak, Pinhoe is the one referred to in the report (above) on Heavitree Inns; it has turned out very well and trade is climbing steadily. The Old London and South Western Hotel, Topsham, now called Drake's Ale House, has been totally transformed, with a strong emphasis on high-quality food. The Acorn Inn, Exeter, has also been improved beyond recognition and renamed The Branch Office. Finally, The Swan at Lympstone, a relatively new acquisition, is still closed but the building work is progressing well. It should be open within a month or so.

The remainder have resulted from problems of the tenants concerned and suitable action has been taken in each case.

We have sold The Gresham House at Dawlish and two small unlicensed properties. These transactions give rise to the loss referred to in my opening paragraph, which I described as theoretical because it was based on our last revaluation in 1989 and not on original cost.

PERSONNEL

Mrs Pease-Watkin retires by rotation and having reached retirement age, has decided not to stand for re-election. We are most grateful for her contribution during her eleven years on the Board.

Nicholas Tucker was appointed a Director on 15 August 1994. He joined the Company in March 1989, having trained previously at Morrells Brewery, Buccaneer Inns, Hutcheson & Grundy (our lawyers in Houston, Texas), MBank (also in Houston), Grant's of St James and Calvet in Bordeaux. He comes up for election by shareholders at the Annual General Meeting.

Everyone throughout the Company has, as usual, worked confidently and cheerfully as an effective team. As ever they have our gratitude.

W P TUCKER
Chairman
1 February 1995

DIRECTORS' REPORT

The Directors have pleasure in submitting their report for the year ended 31 October 1994.

PRINCIPAL ACTIVITIES, REVIEW OF BUSINESS DEVELOPMENTS, SUBSEQUENT EVENTS AND FUTURE DEVELOPMENTS

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

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

RESULTS AND DIVIDENDS

The Directors submit the audited accounts for the year ended 31 October 1994. The profit for the year, after taxation, attributable to shareholders amounts to £889,000 (1993 - £827,000) and is dealt with as shown in the Group profit and loss account.

The Directors propose a final dividend of 3.5p per share on the Ordinary and 'A' Limited Voting Ordinary Shares. This together with the interim dividend of 1.0p per share makes a total of 4.5p per share (1993 - 3.6p) for the year. The fixed dividend of 11.5p per share was paid on the Preference Shares in the year.

FIXED ASSETS

The board obtained a valuation of all freehold land and buildings as at 31 October 1989, details of which are contained in note 13 to the accounts.

As disclosed in note 1 to the accounts, the residual values of freehold licensed properties are, in the opinion of the Directors, at least equal to their respective valuation amounts.

The changes in fixed assets during the year are summarised in notes 13 and 14.

DIRECTORS

The Directors of the Company during the year ended 31 October 1994 were those listed on page 3.

Mrs E M A Pease-Watkin is the director retiring by rotation under Article 82 but, having attained the Company's normal retirement age, has indicated that she will not put herself forward for re-election.

N H P Tucker, who was appointed director on 15 August 1994, retires from the board at the Annual General Meeting and, being eligible, offers himself for election.

SHARE CAPITAL

During the year the Company purchased 106,221 5p Ordinary Shares and 177,229 5p 'A' Limited Voting Ordinary Shares at a total cost, including expenses, of £435,093. The purchases accounted for 4.5% of the Ordinary Shares and 4.0% of the 'A' Limited Voting Ordinary Shares. The Company considers that the purchase of these shares will be beneficial to shareholders generally.

SPECIAL BUSINESS AT ANNUAL GENERAL MEETING

The Directors seek the extension, until the 1996 Annual General Meeting, of the authority conferred upon them by the Company's Articles of Association to allot up to 2,168,240 shares (12.5%) of the issued share capital of the Company as at 1 February 1995, and also, in the case of ordinary share capital, to make small issues for cash (up to 325,220 shares, being 5% of such issued ordinary share capital as at such date) otherwise than pro rata to existing holders of ordinary share capital; such extension will, however, be subject to the practice of the London Stock Exchange, whereby any shares allotted for cash (other than by way of a rights issue) will not exceed 7.5% of the Company's issued share capital in any three-year period. The Directors have no present intention of using such authorities.

The Directors also seek the renewal, until the 1996 Annual General Meeting, of the authority conferred upon the Company at the last Annual General Meeting to purchase its own shares. They will utilise this authority when they consider it beneficial to shareholders generally to do so.

DIRECTORS' INTERESTS

The interests of the Directors, their spouses and infant children in the Company's shares as at 31 October 1994 were as follows:

	Ordinary Shares		*'A' Limited Voting Ordinary Shares*		*11.5% Cumulative Preference Shares*	
	5p	*5p*	*5p*	*5p*	*£1*	*£1*
	1994	*1993*	*1994*	*1993*	*1994*	*1993*
W P Tucker	532,068	532,068	251,405	251,405	1,496	1,496
L Wood	5,000	5,000	54,133	48,210	407	407
G J Crocker	-	-	52,123	46,715	320	320
N H P Tucker	355,878	355,878 *	77,145	77,145 *	12,466	12,465 *
Mrs E M A Pease-Watkin	130,205	130,205	86,400	86,400	4,000	4,000
Mrs S M Duncan	75,560	75,560	357,880	357,880	27,562	27,562

*At date of appointment on 15 August 1994.

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

(a) W P Tucker's interest in 148,980 (1993 - 148,980) Ordinary Shares and 20,600 (1993 - 20,600) 'A' Limited Voting Ordinary Shares;

(b) L Wood's interest in 38,362 (1993 - 34,768) 'A' Limited Voting Ordinary Shares;

(c) G J Crocker's interest in 43,135 (1993 - 39,119) 'A' Limited Voting Ordinary Shares;

(d) N H P Tucker's interest in 53,750 (on 15 August 1994 - 53,750) Ordinary Shares; and

(e) Mrs E M A Pease-Watkin's interest in 42,000 (1993 - Nil) Ordinary Shares and 86,400 (1993 - Nil) 'A' Limited Voting Ordinary Shares.

Included in these non-beneficial interests are:

(a) 53,750 (1993 - 53,750) Ordinary Shares held jointly by W P Tucker and N H P Tucker; and

(b) 32,964 (1993 - 29,977) 'A' Limited V[illegible] [illegible]linary Shares held jointly by L Wood and G J Crocker.

During the period from the end of the fi[illegible]ncial year to 1 February 1995 the interests of the Directors were unchanged.

Service contracts exist for each of the [illegible] Directors with the exception of N H P Tucker, and contain a three-year notice period. Service cont[illegible] not he[illegible] the non-executive Directors.

No contracts of significance in relati[illegible] to the Company's [illegible]usiness in which Directors of the Company had a material interest subsisted at the end of [illegible]ancial yea[illegible] at any time during that year.

SUBSTANTIAL INTERESTS

Apart from Directors' shareholdings, the Company has been notified under Section 198 of the Companies Act 1985 of the following interests in the shares of the Company:

	Ordinary	*'A' Limited Voting Ordinary*
P A Benett	135,380	270,740
C J B Dummett	97,430	-
R A Duncan	75,560	357,880
R H Duncan	120,480	-
T P Duncan	119,100	133,000
Guinness Mahon Nominees Limited	-	166,000
Mrs T C Harley	78,010	178,205
N H Rowlinson	95,230	-
Mrs A F M Tucker	113,930	-
E H P Tucker	113,930	-
Mrs S T Tucker	532,068	251,405
J E Pease-Watkin	73,750	181,080
J F H Pease-Watkin	130,205	-

INCOME AND CORPORATION TAXES ACT 1988

The Company is a close company within the meaning of the Act.

CHARITABLE AND POLITICAL CONTRIBUTIONS

The Company has made charitable donations during the year totalling £6,854.

DISABLED PERSONS

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

DIRECTORS' REPORT

AUDITORS

A Resolution to re-appoint Ernst & Young as auditors will be put to the members at the Annual General Meeting.

By Order of the Board

G J CROCKER
Secretary
1 February 1995

ERNST & YOUNG

TEN YEAR REVIEW OF PROFITS AND DIVIDENDS

Year ended 31 October	*Profit before tax £000*	*Earnings per 5p shares (note 12) p*	*Dividends per 5p share p*
1985	737	4.6	1.65
1986	907	6.4	2.20
1987	1,015	7.4	2.48
1988	1,140	9.0	2.80
1989	1,194	9.4	3.05
1990	1,025	8.1	* 4.05
1991	910	8.0	3.05
1992	496	3.3	3.05
1993	1,319	11.2	3.60
1994	1,384	12.3	4.50

* Includes 1.0p per share bicentenary dividend.

The profit figures shown for 1992 onwards reflect the adoption of Financial Reporting Standard No 3 - Reporting Financial Performance.

CORPORATE GOVERNANCE

The Directors have reviewed the Report of the Cadbury Committee on the financial aspects of Corporate Governance published in December 1992. The Directors are required to report the extent to which the Company has complied during the year with the recommendations set out in the Code of Best Practice.

The Board comprises four executive and two non-executive Directors only, and does not consider that there currently exists a need for further non-executive Directors to be appointed. Whilst the Board recognises the circumstances and current opinion which lie behind the forms of corporate governance recommended by the Cadbury Committee, it feels that the Company's size and shareholding structure means that wholly independent non-executive Directors are not necessary.

With the exception of those paragraphs of the Code which relate to non-executive Directors, and remuneration and audit committees, the Board considers that the Company has complied with the operative provisions of the Code during the year.

The Group has to operate within the prevailing economic climate, and as such has to win customers within a highly competitive market. Having regard to current trading prospects, working capital requirements and financing availability, the Directors have no hesitation in declaring that the Group is a going concern.

The Company's auditors, Ernst & Young, have reviewed this statement in accordance with guidance issued by the Auditing Practices Board. The auditors have confirmed that the Directors' comments on going concern are consistent with the information of which they are aware based on their normal audit work on the accounts, and have satisfied themselves that the statement appropriately reflects the Company's compliance with the other paragraphs of the Cadbury Committee's Code of Best Practice specified for their review.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that period. In preparing those accounts, the Directors are required to:

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

The Directors confirm that the accounts comply with the above requirements.

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

ERNST & YOUNG

REPORT OF THE AUDITORS
TO THE MEMBERS OF THE HEAVITREE BREWERY PLC

We have audited the accounts on pages 16 to 34 which have been prepared under the historical cost convention as modified by the revaluation of freehold land and buildings and on the basis of the accounting policies set out on page 21.

Respective responsibilities of Directors and auditors

As described on page 14 the Company's Directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Group'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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 October 1994 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young

ERNST & YOUNG
Chartered Accountants
Registered Auditor
Exeter

1 February 1995

GROUP PROFIT AND LOSS ACCOUNT
for the year ended 31 October 1994

	Notes	1994 £000	1993 £000
TURNOVER - continuing operations	2	8,431	8,353
Change in stocks of finished goods		10	(5)
		8,441	8,348
Other operating income	3	35	46
		8,476	8,394
Purchase of stock		3,763	3,974
		4,713	4,420
Staff costs	5	1,332	1,349
Depreciation of tangible fixed assets		234	226
Other operating charges		1,366	1,220
		2,932	2,795
OPERATING PROFIT - continuing operations	4	1,781	1,625
Profit on sale of shares in fixed asset investment		-	16
(Loss)/profit on sale of tangible fixed assets		(118)	16
Income from other fixed asset investments	6	7	8
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST		1,670	1,665
Other interest receivable	7	9	12
Interest payable	8	(295)	(358)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	9	1,384	1,319
Taxation on profit on ordinary activities	10	(495)	(492)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		889	827
Dividends - equity and non-equity	11	(357)	(307)
PROFIT RETAINED FOR THE FINANCIAL YEAR	25	532	520
EARNINGS PER SHARE	12	12.3p	11.2p

Movements on reserves are set out in note 25.
The notes on pages 21 to 34 form part of the Accounts.

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 October 1994

	1994 *£000*	*1993* *£000*
Profit attributable to shareholders	889	827
Exchange difference on retranslation of net assets of subsidiary undertaking	(50)	28
Total recognised gains and losses relating to the year	839	855

RECONCILIATION OF SHAREHOLDERS' FUNDS

	1994 *£000*	*1993* *£000*
Total recognised gains and losses	839	855
Dividends	(357)	(307)
Other movements - purchase of own shares	(435)	(72)
Total movements during the year	47	476
Shareholders' funds at 31 October 1993	24,958	24,482
Shareholders' funds at 31 October 1994	25,005	24,958

NOTE OF HISTORICAL COST PROFIT AND LOSSES

	1994 *£000*	*1993* *£000*
Reported profit on ordinary activities before taxation	1,384	1,319
Realisation of property revaluation gains of previous years	182	-
Historical cost profit on ordinary activities before taxation	1,566	1,319

ERNST & YOUNG

GROUP BALANCE SHEET
at 31 October 1994

	Notes	1994 £000	1993 £000
FIXED ASSETS			
Tangible assets	13	28,845	28,876
Investments	14	428	357
		29,273	29,233
CURRENT ASSETS			
Stocks	15	113	103
Debtors	16	765	797
Investment	17	-	331
Cash at bank and in hand	18	398	411
		1,276	1,642
CREDITORS: amounts falling due within one year	20	5,350	5,732
NET CURRENT LIABILITIES		(4,074)	(4,090)
TOTAL ASSETS LESS CURRENT LIABILITIES		25,199	25,143
CREDITORS: amounts falling due after more than one year	21	(164)	(155)
PROVISIONS FOR LIABILITIES AND CHARGES			
Deferred taxation	22	(30)	(30)
		25,005	24,958
CAPITAL AND RESERVES			
Called up share capital	23	867	881
Capital redemption reserve	25	82	68
Revaluation reserve	25	20,736	20,918
Other reserves	25	60	110
Profit and loss account	25	3,260	2,981
		25,005	24,958
Attributable to non-equity interests		542	542
Attributable to equity interests		24,463	24,416
TOTAL SHAREHOLDERS' FUNDS		25,005	24,958

The notes on pages 21 to 34 form part of the Accounts.

On behalf of the Board

W P TUCKER)
L WOOD) Directors

W. P. Tucker
L Wood.

1 February 1995

ERNST & YOUNG

COMPANY BALANCE SHEET
at 31 October 1994

	Notes	1994 £000	1993 £000
FIXED ASSETS			
Tangible assets	13	27,887	27,802
Investments	14	1,542	1,515
		29,429	29,317
CURRENT ASSETS			
Stocks	15	46	46
Debtors	16	822	759
Investment	17	-	331
Cash at bank and in hand		4	5
		872	1,141
CREDITORS: amounts falling due within one year	20	5,161	5,358
NET CURRENT LIABILITIES		(4,289)	(4,217)
TOTAL ASSETS LESS CURRENT LIABILITIES		25,140	25,100
CREDITORS: amounts falling due after more than one year	21	(164)	(155)
PROVISIONS FOR LIABILITIES AND CHARGES			
Deferred taxation	22	-	-
		24,976	24,945
CAPITAL AND RESERVES			
Called up share capital	23	867	881
Capital redemption reserve	25	82	68
Revaluation reserve	25	20,736	20,918
Profit and loss account	25	3,291	3,078
		24,976	24,945
Attributable to non-equity interests		542	542
Attributable to equity interests		24,434	24,403
TOTAL SHAREHOLDERS' FUNDS		24,976	24,945

The notes on pages 21 to 34 form part of the Accounts.

On behalf of the Board

W P TUCKER)
L WOOD) Directors

1 February 1995

GROUP STATEMENT OF CASH FLOWS
for the year ended 31 October 1994

	Notes	1994 £000	1993 £000
NET CASH INFLOW FROM OPERATING ACTIVITIES	4(b)	1,911	1,986
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		7	10
Interest paid		(286)	(371)
Dividends paid		(333)	(271)
Dividends received		7	8
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(605)	(624)
TAXATION			
Corporation tax paid		(467)	(150)
INVESTING ACTIVITIES			
Purchase of investments		(79)	(5)
Receipts from sale or repayment of fixed asset investments		8	59
Payments to acquire tangible fixed assets		(698)	(280)
Receipts from sales of tangible fixed assets		327	296
NET CASH (OUTFLOW)/INFLOW FROM INVESTING ACTIVITIES		(442)	70
NET CASH INFLOW BEFORE FINANCING		397	1,282
FINANCING			
(Repayment from)/loan to Employee Benefits Trust		(331)	113
Purchase of own shares	24	435	72
NET CASH OUTFLOW FROM FINANCING		104	185
INCREASE IN CASH AND CASH EQUIVALENTS	18	293	1,097
		397	1,282

ERNST & YOUNG

NOTES TO THE ACCOUNTS
31 October 1994

1 ACCOUNTING POLICIES

Accounting convention
The accounts are prepared under the historical cost convention modified by the revaluation of freehold land and buildings and in accordance with applicable accounting standards.

Basis of consolidation
The Group accounts incorporate the accounts of the Company and its subsidiary undertakings for the year ended 31 October 1994.

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
Provision is made for deferred taxation, using the liability method, on short term timing differences and all other timing differences to the extent that it is probable that the liability will crystallise.

Depreciation
The provision for depreciation is calculated on the cost of equipment, vehicles and fixtures and fittings in order to write off book values by equal instalments as follows:

Vehicles	-	20%
Office equipment	-	20%
Fixtures and fittings	-	10% to 20%

The nature of the licensed trade requires the maintenance of property to a high standard in order to protect the trade. Maintenance expenditure is charged against profits as incurred and is such that, when applying the requirements of Statement of Standard Accounting Practice No 12, the residual values of freehold licensed properties, based on prices prevailing at the time of acquisition or subsequent revaluation, are, in the opinion of the Directors, at least equal to their respective book amounts. Accordingly, licensed and other freehold properties in the United Kingdom are not depreciated. Any permanent diminution in the value of such properties is charged to the profit and loss account as appropriate. Freehold land in the United States of America is not depreciated.

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

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

Heavitree Inns Limited operates a defined contribution pension scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

NOTES TO THE ACCOUNTS
31 October 1994

2 TURNOVER

Turnover is shown exclusive of VAT and comprises the invoiced value of beers, wines, spirits, ciders and minerals supplied by the Group to tenants and gaming machine revenue. It also includes rents from licensed properties totalling £1,270,000 (1993 - £1,196,000) and managed houses retail sales and accommodation receipts of £2,626,000 (1993 - £2,623,000). All turnover is destined and sourced in the United Kingdom.

3 OTHER OPERATING INCOME

	1994	*1993*
	£000	*£000*
Rents from unlicensed properties	35	46

4 OPERATING PROFIT

(a) This is stated after charging:

	1994	*1993*
	£000	*£000*
Auditors' remuneration - audit services	21	20
- non-audit services	12	13
Depreciation of owned fixed assets	234	226
Repairs and maintenance of properties	558	488
Bad debts	28	16

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

	1994	*1993*
	£000	*£000*
Operating profit	1,781	1,625
Depreciation	234	226
(Increase)/decrease in stocks	(10)	5
Decrease/(increase) in debtors	30	(17)
(Decrease)/increase in creditors	(124)	147
Net cash inflow from continuing operating activities	1,911	1,986

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4 **OPERATING PROFIT (continued)**

(c) Directors' remuneration

	1994	*1993*
	£000	*£000*
Fees	11	3
Other emoluments:		
salaries, including bonuses	167	163
performance related bonuses	24	19
benefits	36	31
pension contributions	53	48
	291	264
Pensions to former directors	39	38
	330	302

The performance related bonuses comprise of payments under the Company's profit related pay scheme or an equivalent amount for the Directors who are not eligible to join the scheme.

The emoluments of the Chairman, who was also the highest-paid Director, are as follows:

	1994	*1993*
	£	*£*
Fees	10	10
Salary	69,223	67,226
Performance related bonus	11,379	9,478
Benefits	8,925	9,717
	89,537	86,431
Pension contributions	20,468	19,367
	110,005	105,798

Directors' emoluments, excluding pension contributions, fell within the following ranges:

	1994	*1993*
	No.	*No.*
£5,001 - £10,000	2	1
£10,001 - £15,000	1	1
£50,001 - £55,000	1	1
£55,001 - £60,000	-	1
£60,001 - £65,000	1	-
£85,001 - £90,000	1	1

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NOTES TO THE ACCOUNTS
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5 STAFF COSTS

	1994 £000	1993 £000
Wages and salaries	1,034	1,054
Social security costs	75	77
Other pension costs	223	218
	1,332	1,349

Staff costs include Directors' salaries, social security and pension costs as detailed in Note 4(c).

	1994 No	1993 No
Average weekly number of employees	138	151

6 INCOME FROM OTHER FIXED ASSET INVESTMENTS

	1994 £000	1993 £000
Dividends from listed and unlisted investments	7	8

7 OTHER INTEREST RECEIVABLE

	1994 £000	1993 £000
Other interest	9	12

8 INTEREST PAYABLE

	1994 £000	1993 £000
Bank interest on loans and overdrafts	290	353
Other interest	5	5
	295	358

All interest charged is on loans or overdrafts repayable within five years.

NOTES TO THE ACCOUNTS

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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 and food sales, and the administration of owned public houses in the United Kingdom. The profit, before taxation, from Heavitree Inns Limited amounted to £32,000 (1993 - £36,000) and there was a loss of £8,000 (1993 - loss of £9,000) from Heavitree Inc., the Company's subsidiary undertaking in the USA.

10 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	1994 *£000*	*1993* *£000*
Based on the profit for the year:		
Corporation tax at 33% (1993 - 33%)	500	447
Prior year adjustments	(17)	13
Deferred tax movement	10	30
Taxation credits attributable to dividends received	2	2
	495	492

The tax effect in the profit and loss account relating to the sale of fixed assets recognised below operating profit is £Nil (1993 - £Nil).

11 DIVIDENDS

	1994 *£000*	*1993* *£000*
Non-equity interest:		
£1 11.5% Preference	62	62
Equity interest:		
Ordinary - interim 1.0p per share (1993 - 0.6p)	23	14
'A' Limited Voting Ordinary - interim 1.0p per share (1993 - 0.6p)	44	27
Ordinary - proposed final 3.5p per share (1993 - 3.0p)	79	71
'A' Limited Voting Ordinary - proposed final 3.5p per share (1993 - 3.0p)	149	133
	295	245
	357	307

12 EARNINGS PER SHARE

Earnings per share are calculated by dividing the profits on ordinary activities after tax (after deducting preference dividends) of £827,000 (1993 - £765,000) by the weighted average of issued Ordinary and 'A' Limited Voting Ordinary Shares totalling 6,707,096 (1993 - 6,834,528).

13 TANGIBLE FIXED ASSETS

Group	*Freehold land and buildings and fixtures and fittings £000*	*Equipment and vehicles £000*	*Total £000*
Cost and valuation			
At 31 October 1993	29,054	278	29,332
Exchange adjustment	(50)	-	(50)
Additions	547	151	698
Disposals	(390)	(157)	(547)
At 31 October 1994	29,161	272	29,433
At 1989 valuation	24,290	-	24,290
At cost	4,871	272	5,143
Depreciation			
At 31 October 1993	365	91	456
Provided during the year	181	53	234
Disposals	(38)	(64)	(102)
At 31 October 1994	508	80	588
Net book value			
At 31 October 1994	28,653	192	28,845
At 31 October 1993	28,689	187	28,876

13 TANGIBLE FIXED ASSETS (continued)

Company	*Freehold land and buildings and fixtures and fittings £000*	*Equipment and vehicles £000*	*Total £000*
Cost and valuation			
At 31 October 1993	27,743	278	28,021
Additions	426	151	577
Disposals	(295)	(157)	(452)
At 31 October 1994	27,874	272	28,146
At 1989 valuation	24,290	-	24,290
At cost	3,584	272	3,856
Depreciation			
At 31 October 1993	128	91	219
Provided during the year	51	53	104
Disposals	-	(64)	(64)
At 31 October 1994	179	80	259
Net book value			
At 31 October 1994	27,695	192	27,887
At 31 October 1993	27,615	187	27,802

Revaluation of freehold land and buildings

Palmer Snell Limited, Chartered Surveyors, 9 Boulevard, Weston-Super-Mare, Avon, valued the Company's licensed properties and unlicensed properties on a current use basis subject to existing leases and tenancies as at 31 October 1989.

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13 TANGIBLE FIXED ASSETS (continued)

If these properties were included in the accounts at historical cost, their value would be lower by:

Group and Company	*1994 £000*	*1993 £000*
Cost and valuation	20,736	20,918
Accumulated depreciation	-	-
Net book value	20,736	20,918

Future capital expenditure (Group and Company)

	1994 £000	*1993 £000*
Not contracted	8	27
Contracted	80	20
	88	47

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14 FIXED ASSET INVESTMENTS

Group	*Listed Investments £000*	*Un'isted Investments £000*	*Other Loans £000*	*Total £000*
Cost at 31 October 1993	61	217	613	891
Additions	-	-	79	79
Disposals	-	-	(57)	(57)
Cost at 31 October 1994	61	217	635	913
Provision for diminution in value				
At 31 October 1993	-	142	392	534
Movements in year	-	-	(49)	(49)
At 31 October 1994	-	142	343	485
Net book amounts				
At 31 October 1994	61	75	292	428
At 31 October 1993	61	75	221	357

14 FIXED ASSET INVESTMENTS (continued)

Company	*Subsidiary Undertakings £000*	*Listed Investments £000*	*Unlisted Investments £000*	*Other Loans £000*	*Total £000*
Cost at 31 October 1993	1,678	61	217	613	2,569
Additions	14	-	-	79	93
Disposals	-	-	-	(57)	(57)
Cost at 31 October 1994	1,692	61	217	635	2,605
Provision for diminution in value					
At 31 October 1993	520	-	142	392	1,054
Movements in year	58	-	-	(49)	9
At 31 October 1994	578	-	142	343	1,063
Net book amounts					
At 31 October 1994	1,114	61	75	292	1,542
At 31 October 1993	1,158	61	75	221	1,515

The listed investments (all of which are listed on the London Stock Exchange) had a market value at 31 October 1994 of £71,000 (1993 - £77,000).

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

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15 STOCKS

	Group		Company	
	1994	*1993*	*1994*	*1993*
	£000	*£000*	*£000*	*£000*
Fine wines	46	46	46	46
Stocks in managed houses	67	57	-	-
	113	103	46	46

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	
	1994	*1993*	*1994*	*1993*
	£000	*£000*	*£000*	*£000*
Due within one year:				
Trade debtors	606	629	707	627
Amounts owed by subsidiary undertakings	-	-	-	32
Other debtors	15	15	13	7
Prepayments and accrued income	137	142	95	82
	758	786	815	748
Due after more than one year:				
ACT on dividends recoverable against future tax liabilities	7	11	7	11
	765	797	822	759

17 INVESTMENT

	1994	*1993*
	£000	*£000*
Employee Benefits Trust - loan	-	331

18 CASH AND CASH EQUIVALENTS AS SHOWN IN THE GROUP BALANCE SHEET

	1994 £000	Change in year £000	1993 £000	Change in year £000	1992 £000
Cash at bank and in hand	398	(13)	411	126	285
Bank overdrafts	(3,782)	306	(4,088)	971	(5,059)
	(3,384)	293	(3,677)	1,097	(4,774)

19 ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS DURING THE YEAR

	1994 £000	1993 £000
Balance at 31 October 1993	(3,677)	(4,774)
Net cash inflow	293	1,097
Balance at 31 October 1994	(3,384)	(3,677)

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20 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	1994 £000	1993 £000	1994 £000	1993 £000
Bank overdrafts (unsecured)	3,782	4,088	3,782	4,088
Trade creditors	334	479	239	234
Other taxation and social security	83	92	18	16
Other creditors	141	174	131	157
Accruals	342	279	321	255
Proposed dividend	228	204	228	204
Corporation tax	440	416	423	404
Amount owed to subsidiary company	-	-	19	-
	5,350	5,732	5,161	5,358

21 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	1994 £000	1993 £000
Tenants' and managers' deposits	164	155

NOTES TO THE ACCOUNTS
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22 DEFERRED TAXATION

Deferred taxation provided in the accounts and the amounts not provided are as follows:

Provided	*Group*		*Company*	
	1994	*1993*	*1994*	*1993*
	£000	*£000*	*£000*	*£000*
Capital allowances in advance of depreciation	80	70	50	40
Less advance corporation tax	(50)	(40)	(50)	(40)
	30	30	-	-

In addition, full provision for deferred taxation would require £2,130,000 (1993 - £2,200,000) for tax on potential chargeable gains on the revaluation of properties and £151,000 (1993 - £151,000) for rollover relief.

23 SHARE CAPITAL

	1994	*1993*
Authorised	*£*	*£*
Non-equity interests:		
11.5% Cumulative Preference Shares of £1 each	541,963	541,963
Equity interests:		
Ordinary Shares of 5p each	113,048	118,359
'A' Limited Voting Ordinary Shares of 5p each	212,189	221,051
Unclassified Shares of 5p each	332,800	318,627
	658,037	658,037
	1,200,000	1,200,000

Allotted, called up and fully paid	*1994* No.	*1993* No.	*1994* £	*1993* £
Non-equity interests:				
11.5% Cumulative Preference Shares of £1 each	541,963	541,963	541,963	541,963
Equity interests:				
Ordinary Shares of 5p each	2,260,964	2,367,185	113,048	118,359
'A' Limited Voting Ordinary Shares of 5p each	4,243,784	4,421,013	212,189	221,051
Unclassified Shares of 5p each	-	-	-	-
			325,237	339,410
			867,200	881,373

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23 SHARE CAPITAL (continued)

During the year the Company purchased 106,221 5p Ordinary Shares and 177,229 5p 'A' Limited Voting Ordinary Shares under an authority granted at an Extraordinary General Meeting held on 13 June 1985 and renewed at the Annual General Meetings in 1993 and 1994.

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 rank first for their nominal amount, the premium (if any) specified in the Company's Articles of Association 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.

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24 ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

Share capital	*1994* *£000*	*1993* *£000*
Balance at 31 October 1993	881	885
Cash outflow from financing	(14)	(4)
Balance at 31 October 1994	867	881

During the year the company spent £435,000 (1993 - £72,000) on the purchase of its shares with a nominal amount of £14,000 (1993 - £4,000).

25 RESERVES

Group	*Capital redemption reserve £000*	*Revaluation reserve £000*	*Other reserves £000*	*Profit & Loss account £000*
At 31 October 1993	68	20,918	110	2,981
Arising on purchase of own shares	14	-	-	(435)
Exchange differences on retranslation of net assets and results of subsidiary undertaking	-	-	(50)	-
Realised on sale of properties	-	(182)	-	182
Retained profit for year	-	-	-	532
	82	20,736	60	3,260

25 RESERVES (continued)

Company	*Capital redemption reserve £000*	*Revaluation reserve £000*	*Profit & Loss account £000*
At 31 October 1993	68	20,918	3,078
Arising on purchase of own shares	14	-	(435)
Realised on sale of properties	-	(182)	182
Retained profit for the year	-	-	466
	82	20,736	3,291

In accordance with the exemption allowed by Section 230(3) of the Companies Act 1985 the Company has not separately presented its own profit and loss account. The profit for the financial year dealt with in the accounts of the Company was £823,000 (1993 - £835,000).

26 PARTICULARS OF TRANSACTIONS INVOLVING DIRECTORS AND OTHERS

There were no transactions during the year which require disclosure under Part II of Schedule 6 to the Companies Act 1985.

27 PENSION SCHEME

The Company operates a defined benefit pension scheme. The assets of the scheme are held separately from those of the Company, being administered by Eagle Star Life Assurance Company Limited. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Company. The contributions are determined by a qualified actuary on the basis of triennial valuations by discounting projected future income and benefits. The most recent valuation was at 31 December 1992. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment returns would be 9% per annum, that salary increases would average 7% per annum and that pensions would increase at the rate of 5% per annum.

The pension charge for the period was £220,921 (1993 - £212,161). This included £86,568 (1993 - £84,180) optional pension payments paid directly to past employees by the Company. Prepaid contributions totalling £5,454 (1993 - £5,313) at the year end are included in debtors.

The most recent actuarial valuation stated that the market value of the scheme's assets would be sufficient to cover the liabilities arising. The contributions to the fund are made solely by the Company and are currently at 25.4% of pensionable earnings.

The subsidiary Company, Heavitree Inns Limited, operates a defined contribution pension scheme. The assets of that scheme are held separately from those of the subsidiary in an independently administered fund. The pension charge for the period was £2,021 (1993 - £5,985).