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The Heavitree Brewery PLC

Report and Accounts

31 October 1998

ANNUAL REPORT AND ACCOUNTS

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DIRECTORS
W P Tucker DL* - Chairman
L Wood - Managing
G J Crocker - Finance
N H P Tucker - Estate
Mrs S M Duncan*
M S Evans*

*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

NOMINATED BROKERS AND ADVISERS
Credit Lyonnais Securities Europe
5 Appold Street
London
EC2A 2DA

AUDITORS
Ernst & Young
Exeter

REGISTRARS
Computershare Services 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 Ninth Annual General Meeting of The Heavitree Brewery PLC will be held at the Company's offices, Trood Lane, Matford on 6 April 1999 at 11.30 am 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 1998 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-appoint Ernst & Young as auditors of the Company for the period prescribed in 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 2000; AND THAT such authority shall for that period relate to relevant securities up to an aggregate nominal amount of £102,555.

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 2000 (or, if earlier, on 6 July 2000); 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 £15,383.

8. THAT the Company be hereby authorised to purchase up to an aggregate of 339,144 Ordinary Shares of 5p each and/or 583,855 '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% of 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 2000 (except in relation to the purchase of shares the contract for which was concluded before such date and might be executed wholly or partly after such date).

NOTICE OF ANNUAL GENERAL MEETING

9. THAT the Company be hereby authorised to purchase up to an aggregate of 11,695 11.5 per cent Cumulative Preference Shares of £1 each in the capital of the Company at a price (exclusive of expenses) which is:

   (a) not more than £1.60p nor less than £1 per share; and

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

   AND THAT the authority conferred by this Resolution shall expire on the date of the Company's Annual General Meeting in 2000 (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).

10. THAT, with effect from 1 November 1998, the maximum ordinary remuneration of the Directors shall be £100,000 per annum.

By order of the Board

G J CROCKER
Secretary

Trood Lane
Matford
Exeter
EX2 8YP
4 March 1999

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 dividends, if approved, will be paid on 7 April 1999 to shareholders on the Register on 26 February 1999.

CHAIRMAN'S STATEMENT

RESULTS

The half-year results announced in June showed pre-tax profits ahead by 20.8% due to a contribution of £200,000 from a land sale by Heavitree Inc. Without it, earnings per share would have been unchanged at that time. However, I said in my half time statement that profits for the full year were expected to show a steady increase.

Operating profit fell very slightly to £2,098,000 (1997 - £2,143,000) but, mainly as a consequence of profits from sales of tangible fixed assets, primarily the American land sale, the actual outcome is a profit on ordinary activities before tax of £2,183,000 (1997 - £1,870,000), which is an increase of 16.7%. Of this profit the holding company generated £1,927,000 (1997 - £1,711,000), Heavitree Inc £209,000 (1997 - £9,000 loss) and Heavitree Inns £47,000 (1997 - £168,000).

Beer sales, which were up by 3% in volume during the first half, succumbed to a combination of a poor summer, the World Cup and the downturn in the national economy causing second-half volumes to fall by 6.6%. The year as a whole finished 2% down. After tax, profit attributable to shareholders amounted to £1,550,000 (1997 - £1,196,000) and the Directors recommend a final dividend per Ordinary and 'A' Limited Voting Ordinary Share of 5p (1997 - 4.5p), giving a total dividend for the year of 8.5p (1997 - 7.5p) - an increase of 13.3%. Earnings per share increased by 31% to 24.9p mostly as a result of the profit on the Heavitree Inc. land sale.

HEAVITREE INNS

Our managed house subsidiary suffered from the same factors which hit our beer sales and made a reduced pre-tax profit of £47,000 (1997 - £168,000). Strenuous efforts are being made to cut costs and improve profitability.

HEAVITREE INC

The basis of the pre-tax profit achieved by our American subsidiary was described in the half-year report. I am happy to say that at the year-end this has risen to £209,000 (1997 - £9,000 loss).

No further sales are in hand but the areas which include our tracts are showing interesting activity.

CURRENT YEAR

Predicting the current year's outcome is unusually difficult this time. The recession is, almost daily, predicted to be either about to end or about to deepen. Our trading pattern tends to reflect this with good periods followed by bad. The wet and windy weather is not helpful either.

The latest available barrelage figures are down by 3.8% for the two months to the end of December 1998.

Given reasonable stability, our budget forecast for 1998/99 shows a further steady growth in operating profit.

PERSONNEL

My thanks, as always to our Staff, Tenants and the Woodhouse Inns people. Also this year, special thanks to our advisers in Houston, Texas who have negotiated a most encouraging first sale of part of our land holdings there.

I am happy to report that Mrs Sue Duncan has joined her fellow non-executive Director Mr Mark Evans in agreeing to renew her contract for a further three years.

W P TUCKER
Chairman
5 February 1999

DIRECTORS' REPORT

The Directors have pleasure in submitting their report for the year ended 31 October 1998.

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 1998. The profit for the year, after taxation, attributable to shareholders amounts to £1,550,000 (1997 - £1,196,000) and is dealt with as shown in the Group profit and loss account.

The Directors propose a final dividend of 5.0p per share on the Ordinary and 'A' Limited Voting Ordinary Shares. This together with the interim dividend of 3.5p per share makes a total of 8.5p per share (1997 - 7.5p) 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 the portfolio valuation amount.

DIRECTORS

The Directors of the Company during the year ended 31 October 1998 were those listed on page 3.

N H P Tucker is the Director retiring by rotation under Article 82 and, being eligible, offers himself for re-election.

SHARE CAPITAL

During the year the Company purchased 75,071 5p 'A' Limited Voting Ordinary Shares and 1,075 £1 11.5% Cumulative Preference Shares at a total cost, including expenses, of £217,101. The purchases accounted for 1.9% of the issued 'A' Limited Voting Ordinary Shares and 8.4% of the issued 11.5% Cumulative Preference 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 2000 Annual General Meeting, of the authority conferred upon them by the Company's Articles of Association to allot up to 2,051,100 shares (33% of the issued share capital of the Company as at 4 February 1999) and also, in the case of ordinary share capital, to make small issues for cash (up to 307,660 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 2000 Annual General Meeting, of the authorities conferred upon the Company at the last Annual General Meeting to purchase its own shares. They will utilise these authorities when they consider it beneficial to shareholders generally to do so.

There is a further resolution dealing with the "ordinary remuneration" of the Directors, which means the fee paid to a Director in respect of his or her office as opposed to the salary or other benefits paid to an Executive Director. The aggregate amount of such ordinary remuneration was increased from £30,000 to £50,000 by a resolution of shareholders in 1996. This amount (which is now fully utilised following the Chairman's translation to non-executive status) now needs to be increased, for three reasons:

(a) because of a change in policy in relation to company cars;

(b) to give the flexibility to appoint an additional non-executive director; and

(c) to allow for inflation.

In order not to have to revert too frequently to shareholders on this matter, the Directors are proposing an increase in the maximum aggregate amount of "ordinary remuneration" from £50,000 to £100,000 per annum, although this amount will not be fully utilised in the immediate future.

DIRECTORS' INTERESTS

The interests of the Directors, their spouses and infant children in the Company's shares as at 31 October 1998 were as follows:

	Ordinary Shares		*'A' Limited Voting Ordinary shares*	
	5p	*5p*	*5p*	*5p*
	1998	*1997*	*1998*	*1997*
W P Tucker	379,446	532,068	79,805	251,405
L Wood	5,000	5,000	40,606	39,608
G J Crocker	57,392	-	179,241	31,725
N H P Tucker	757,147	699,755	384,145	77,145
Mrs S M Duncan	66,775	66,775	191,168	354,975
M S Evans	-	-	10,000	10,000

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

(a) W P Tucker's interest in 379,446 (1997 - 474,676) Ordinary Shares and Nil (1997 - 20,600) 'A' Limited Voting Ordinary Shares;

(b) L Wood's interest in 17,001 (1997 - 18,186) 'A' Limited Voting Ordinary Shares;

(c) G J Crocker's interest in 57,392 (1997 - Nil) Ordinary Shares and 170,141 (1997 - 20,256) 'A' Limited Voting Ordinary Shares; and

DIRECTORS' REPORT

(d) N H P Tucker's interest in 111,142 (1997 - 53,750) Ordinary Shares and 307,000 (1997 - Nil) 'A' Limited Voting Ordinary Shares.

Included in these interests are the following joint holdings:

(a) 53,750 (1997 - 53,750) Ordinary Shares held jointly by W P Tucker and N H P Tucker;

(b) 57,392 (1997 - Nil) Ordinary Shares and 151,000 (1997 - Nil) 'A' Limited Voting Ordinary Shares held jointly by G J Crocker and N H P Tucker;

(c) 325,696 (1997 - Nil) Ordinary Shares held jointly by W P Tucker and N H P Tucker, but in which only W P Tucker has a non beneficial interest; and

(d) 13,442 (1997 - 14,605) 'A' Limited Voting Ordinary Shares held jointly by L Wood and G J Crocker.

At 31 October 1998, the following Directors held options to subscribe 'A' Limited Voting Ordinary Shares of the Company which were granted, but not exercised, during the year:

	1998 *No.*
L Wood	11,148
G J Crocker	10,828

During the period from the end of the financial year to 4 February 1999 the interests of the Directors were unchanged.

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

Except as detailed in note 26 of the accounts, no contracts of significance in relation to the Company's business in which Directors of the Company had a material interest subsisted at the end of the financial year or at any time during that year.

SUBSTANTIAL INTERESTS

At 4 February 1999 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	101,563	-
R A Duncan	-	191,168
R H Duncan	137,319	-
T P Duncan	136,790	130,837
Mrs T C Harley	78,010	178,205
N H Rowlinson	99,392	393,400
J E Pease-Watkin	89,621	184,514
Mrs E M A Pease-Watkin	130,205	-
J F H Pease-Watkin	130,205	-

DIRECTORS' REPORT

CHARITABLE AND POLITICAL CONTRIBUTIONS
The Company has made charitable donations during the year totalling £11,875.

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.

SUPPLIER PAYMENT POLICY AND PRACTICE
The Company does not follow any specific code or standard when paying suppliers. The Company's policy is to set terms of payment when the account is established, ensure the supplier is made aware of these terms and abide by them.

The number of days' purchases represented by trade creditors for the Company at 31 October 1998 is 29.

YEAR 2000
As is well known, many computer and digital storage systems express dates using only the last two digits of the year and will thus require modification or replacement to accommodate the Year 2000 and beyond in order to avoid malfunctions and resulting widespread commercial disruption. This is a complex and pervasive issue. The operation of our business depends not only on our own computer systems, but also to some degree on those of our suppliers and customers. This could expose us to further risk in the event that there is a failure by other parties to remedy their own Year 2000 issues.

A new computerised accounting system that is Year 2000 compliant has been installed at a capitalised cost of £5,000.

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
5 February 1999

TEN YEAR REVIEW OF PROFITS AND DIVIDENDS

Year ended 31 October	*Profit before tax £000*	*Earnings per 5p share (note 12) p*	*Dividends per 5p share p*
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
1995	1,718	16.1	5.75
1996	1,867	18.9	7.00
1997	1,870	19.0	7.50
1998	2,183	24.9	8.50

* Includes 1.0p per share bicentenary dividend.

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 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 to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

ERNST & YOUNG

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

We have audited the accounts on pages 14 to 31, 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 19.

Respective responsibilities of Directors and auditors

As described on page 12 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 1998 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
Registered Auditor
Exeter
5 February 1999

GROUP PROFIT AND LOSS ACCOUNT
for the year ended 31 October 1998

	Notes	1998 £000	1997 £000
TURNOVER - continuing operations	2	9,846	9,629
Change in stocks and finished goods		8	3
		9,854	9,632
Other operating income	3	38	34
		9,892	9,666
Purchase of stock		4,232	4,210
		5,660	5,456
Staff costs	5	1,654	1,488
Depreciation of tangible fixed assets		259	238
Other operating charges		1,649	1,587
		3,562	3,313
OPERATING PROFIT - continuing operations	4	2,098	2,143
Profit/(loss) on sale of tangible fixed assets	6	263	(56)
Income from other fixed asset investments		7	6
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST		2,368	2,093
Other interest receivable	7	13	8
Interest payable	8	(198)	(231)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	9	2,183	1,870
Taxation on profit on ordinary activities	10	(633)	(674)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		1,550	1,196
Dividends - equity and non-equity	11	(527)	(470)
PROFIT RETAINED FOR THE FINANCIAL YEAR	24	1,023	726
EARNINGS PER SHARE	12	24.9p	19.0p

Movements on reserves are set out in note 24.
The notes on pages 19 to 31 form part of the Accounts.

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 October 1998

	1998	*1997*
	£000	*£000*
Profit attributable to shareholders	1,550	1,196
Exchange difference on retranslation of net assets of subsidiary undertaking	3	(15)
Total recognised gains and losses relating to the year	1,553	1,181

RECONCILIATION OF SHAREHOLDERS' FUNDS

	1998	*1997*
	£000	*£000*
Total recognised gains and losses	1,553	1,181
Dividends	(527)	(470)
Other movements - purchase of own shares	(217)	(192)
Total movements during the year	809	519
Shareholders' funds at 31 October 1997	25,613	25,094
Shareholders' funds at 31 October 1998	26,422	25,613

NOTE OF HISTORICAL COST PROFIT AND LOSSES

	1998	*1997*
	£000	*£000*
Reported profit on ordinary activities before taxation	2,183	1,870
Realisation of property revaluation gains of previous years	30	160
Historical cost profit on ordinary activities before taxation	2,213	2,030
Historical cost profit for the year retained after taxation and dividends	1,053	886

GROUP BALANCE SHEET
at 31 October 1998

	Notes	1998 £000	1997 £000
FIXED ASSETS			
Tangible assets	13	29,442	29,394
Investments	14	286	100
		29,728	29,494
CURRENT ASSETS			
Stocks	15	109	102
Debtors	16	951	1,065
Investments	17	6	49
Cash at bank and in hand	19	395	395
		1,461	1,611
CREDITORS: amounts falling due within one year	20	(4,410)	(5,244)
NET CURRENT LIABILITIES		(2,949)	(3,633)
TOTAL ASSETS LESS CURRENT LIABILITIES		26,779	25,861
CREDITORS: amounts falling due after more than one year	21	(205)	(179)
PROVISIONS FOR LIABILITIES AND CHARGES			
Deferred taxation	22	(152)	(69)
		26,422	25,613
CAPITAL AND RESERVES			
Called up share capital	23	319	324
Capital redemption reserve	24	630	626
Revaluation reserve	24	20,412	20,442
Other reserves	24	49	45
Profit and loss account	24	5,012	4,176
		26,422	25,613
Attributable to non-equity interests		12	13
Attributable to equity interests		26,410	25,600
TOTAL SHAREHOLDERS' FUNDS		26,422	25,613

The notes on pages 19 to 31 form part of the Accounts.

On behalf of the Board

L Wood

G.J. Crocker

L WOOD)
G J CROCKER) Directors
5 February 1999

COMPANY BALANCE SHEET
at 31 October 1998

	Notes	*1998* *£000*	*1997* *£000*
FIXED ASSETS			
Tangible assets	13	28,468	28,500
Investments	14	827	596
		29,295	29,096
CURRENT ASSETS			
Stocks	15	26	27
Debtors	16	1,188	1,204
Investments	17	6	49
Cash at bank and in hand		5	4
		1,225	1,284
CREDITORS: amounts falling due within one year	20	(4,107)	(4,836)
NET CURRENT LIABILITIES		(2,882)	(3,552)
TOTAL ASSETS LESS CURRENT LIABILITIES		26,413	25,544
CREDITORS: amounts falling due after more than one year	21	(205)	(179)
PROVISIONS FOR LIABILITIES AND CHARGES			
Deferred taxation	22	(100)	(42)
		26,108	25,323
CAPITAL AND RESERVES			
Called up share capital	23	319	324
Capital redemption reserve	24	630	626
Revaluation reserve	24	20,412	20,442
Profit and loss account	24	4,747	3,931
		26,108	25,323
Attributable to non-equity interests		12	13
Attributable to equity interests		26,096	25,310
TOTAL SHAREHOLDERS' FUNDS		26,108	25,323

The notes on pages 19 to 31 form part of the Accounts.

On behalf of the Board

L WOOD)
G J CROCKER) Directors
5 February 1999

L Wood
G.J.Crocker

ERNST & YOUNG

GROUP STATEMENT OF CASHFLOWS
for the year ended 31 October 1998

	Notes	*1998* *£000*	*1997* *£000*
NET CASH INFLOW FROM OPERATING ACTIVITIES	4(b)	2,348	2,470
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest paid		(198)	(234)
Interest received		13	18
Dividends received		7	6
Preference dividend paid		(1)	(1)
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(179)	(211)
TAXATION			
Corporation tax paid		(614)	(413)
CAPITAL EXPENDITURE AND INVESTING ACTIVITIES			
Payments to acquire fixed assets		(493)	(497)
Receipts from sales of fixed assets		452	214
Loans to Employee Benefits Trusts		(135)	(48)
Purchase of investments		(12)	(2)
Receipts from sale or repayment of fixed asset investments		4	41
		(184)	(292)
EQUITY DIVIDENDS PAID		(498)	(441)
FINANCING			
Purchase of own shares		(217)	(192)
Movement in short term borrowings	18	14	(93)
INCREASE IN CASH	18	670	828

NOTES TO THE ACCOUNTS
at 31 October 1998

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 1998.

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 cost less estimated residual 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 the portfolio valuation amount. 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 operated a defined contribution pension scheme until 31 March 1997. On 1 April 1997 benefits were transferred to 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/arrangement.

Post Retirement Benefits other than Pensions
The Company provides optional additional post-retirement benefits to retired employees. The benefits paid are charged to the profit and loss account during the year.

NOTES TO THE ACCOUNTS
at 31 October 1998

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 £2,226,000 (1997 - £2,202,000) together with managed houses retail sales and accommodation receipts of £3,406,000 (1997 - £3,228,000). All turnover is destined and sourced in the United Kingdom.

3 OTHER OPERATING INCOME

	1998	*1997*
	£000	*£000*
Rents from unlicensed properties	38	34

4 OPERATING PROFIT

(a) This is stated after charging:

	1998	*1997*
	£000	*£000*
Auditors' remuneration - audit services	22	21
- non-audit services	21	7
Depreciation of owned fixed assets	259	238
Repairs and maintenance of properties	701	666

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

	1998	*1997*
	£000	*£000*
Operating profit	2,098	2,143
Depreciation	259	238
(Increase) in stocks	(7)	(5)
Decrease/(increase) in debtors	114	(49)
(Decrease)/increase in creditors	(116)	143
Net cash inflow from continuing operating activities	2,348	2,470

NOTES TO THE ACCOUNTS
at 31 October 1998

4 **OPERATING PROFIT (continued)**
(c) Directors' remuneration

	1998	*1997*
	£000	*£000*
Fees	37	36
Other emoluments:		
salaries	156	149
performance-related bonuses	29	19
benefits	54	50
	276	254

The performance-related bonuses comprise payments under the Company's profit related pay scheme or an equivalent amount for those Directors who are not eligible to join the scheme and is dependent upon the level of profits in the year.

Four directors are accruing benefits in the defined benefit pension scheme.

The emoluments of the highest-paid Director totalled £79,638 (1997 - £72,205).

The highest-paid Director has an accrued pension entitlement of £48,867 (1997 - £48,165) per annum as at 31 October 1998.

ERNST & YOUNG

5 **STAFF COSTS**

	1998	*1997*
	£000	*£000*
Wages and salaries	1,327	1,180
Social security costs	98	84
Other pension costs	229	224
	1,654	1,488

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

	No.	*No.*
Average monthly number of employees	170	154

NOTES TO THE ACCOUNTS
at 31 October 1998

6 EXCEPTIONAL ITEMS

Included within the overall net profit on sale of tangible fixed assets of £263,000 is a profit of £215,000 arising on the sale of land owned by Heavitree Inc., the Company's subsidiary undertaking in the USA.

7 OTHER INTEREST RECEIVABLE

	1998	*1997*
	£000	*£000*
Loan interest receivable	10	8
Other interest	3	-
	13	8

8 INTEREST PAYABLE

	1998	*1997*
	£000	*£000*
Bank interest on loans and overdrafts	193	225
Other interest	5	6
	198	231

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

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, with the exception of the profit arising on land in the USA as detailed in note 6. The profit, before taxation, from Heavitree Inns Limited amounted to £47,000 (1997 - £168,000) and there was a profit of £209,000 (1997 - £9,000 loss) from Heavitree Inc, the Company's subsidiary undertaking in the USA.

10 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	1998	*1997*
	£000	*£000*
Based on the profit for the year:		
Corporation tax	620	634
Prior year adjustments	(1)	1
Deferred tax movement	13	38
Taxation credits attributable to dividends received	1	1
	633	674

The tax effect in the profit and loss account relating to the sale of fixed assets recognised below operating profit is insignificant in both years.

NOTES TO THE ACCOUNTS
at 31 October 1998

11 DIVIDENDS

	1998	*1997*
	£000	*£000*
Non-equity interests:		
£1 11.5% Preference	1	1
Equity interest:		
Ordinary - interim 3.5p per share (1997 - 3.0p)	79	68
'A' Limited Voting Ordinary - interim 3.5p per share (1997 - 3.0p)	139	121
Ordinary - proposed final 5.0p per share (1997 - 4.5p)	113	102
'A' Limited Voting Ordinary - proposed final 5.0p per share (1997 - 4.5p)	195	178
	526	469
	527	470

12 EARNINGS PER SHARE

Earnings per share are calculated by dividing the profits on ordinary activities after tax (after deducting preference dividends) of £1,549,000 (1997 - £1,195,000) by the weighted average of issued Ordinary and 'A' Limited Voting Ordinary Shares totalling 6,219,556 (1997 - 6,291,727).

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 1997	30,255	319	30,574
Exchange adjustment	1	-	1
Additions	406	87	493
Disposals	(158)	(69)	(227)
At 31 October 1998	30,504	337	30,841
At 1989 valuation	23,964	-	23,964
At cost	6,540	337	6,877
Depreciation:			
At 31 October 1997	1,095	85	1,180
Provided during the year	198	61	259
Disposals	(15)	(25)	(40)
At 31 October 1998	1,278	121	1,399
Net book value			
At 31 October 1998	29,226	216	29,442
At 31 October 1997	29,160	234	29,394

NOTES TO THE ACCOUNTS
at 31 October 1998

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 1997	28,683	319	29,002
Additions	250	87	337
Disposals	(151)	(69)	(220)
At 31 October 1998	28,782	337	29,119
At 1989 Valuation	23,964	-	23,964
At cost	4,818	337	5,155
Depreciation			
At 31 October 1997	417	85	502
Providing during the year	129	60	189
Disposals	(15)	(25)	(40)
At 31 October 1998	531	120	651
Net book value:			
At 31 October 1998	28,251	217	28,468
At 31 October 1997	28,266	234	28,500

Revaluation of freehold land and buildings.

Palmer Snell Limited, Chartered Surveyors, 151 Whiteladies Road, Clifton, Bristol, 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.

If these properties were included in the accounts at historical cost, the cost and accumulated depreciation would be as follows:

		Group		*Company*
	1998	*1997*	*1998*	*1997*
	£000	*£000*	*£000*	*£000*
Historical cost	10,092	9,813	8,370	8,241
Revaluation	20,412	20,442	20,412	20,442
	30,504	30,255	28,782	28,683
Depreciation on historical cost and revalued amounts	1,278	1,095	531	417

NOTES TO THE ACCOUNTS
at 31 October 1998

13 TANGIBLE FIXED ASSETS (continued)

Future capital expenditure (Group and Company)	*1998* *£000*	*1997* *£000*
Contracted	48	75

Included within freehold land and buildings is an aggregate cost of £617,000 relating to licensed property with short leases granted to tenants. Freehold land and buildings are not depreciated.

14 FIXED ASSET INVESTMENTS

Group	*Unlisted Investments £000*	*Other Loans £000*	*Own Shares £000*	*Total £000*
Cost 31 October 1997	237	348	-	585
Additions	-	12	178	190
Disposals	-	(4)	-	(4)
Cost at 31 October 1998	237	356	178	771
Provision for diminution in value				
At 31 October 1997	142	343	-	485
Movements in year	-	-	-	-
At 31 October 1998	142	343	-	485
Net book amounts:				
At 31 October 1998	95	13	178	286
At 31 October 1997	95	5	-	100

Company	*Subsidiary Undertakings £000*	*Unlisted Investments £000*	*Other Loans £000*	*Own Shares £000*	*Total £000*
Cost at 31 October 1997	1,115	237	348	-	1,700
Additions	-	-	12	178	190
Disposals	-	-	(4)	-	(4)
Repayment of loan from subsidiary	(169)	-	-	-	(169)
Cost at 31 October 1998	946	237	356	178	1,717
Provision for diminution in value					
At 31 October 1997	618	142	343	-	1,103
Movements in year	(213)	-	-	-	(213)
At 31 October 1998	405	142	343	-	890
Net book amounts					
At 31 October 1998	541	95	13	178	827
At 31 October 1997	496	95	5	-	596

NOTES TO THE ACCOUNTS
at 31 October 1998

14 FIXED ASSETS INVESTMENTS (continued)

Own shares represent shares held by the employee share option scheme details of which are given in note 28.

The company's subsidiary undertakings are as follows:

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

Each subsidiary undertaking is directly owned by the Company.

15 STOCKS

	Group		*Company*	
	1998	*1997*	*1998*	*1997*
	£000	*£000*	*£000*	*£000*
Fine wines	26	27	26	27
Stocks in managed houses	83	75	-	-
	109	102	26	27

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*	
	1998	*1997*	*1998*	*1997*
	£000	*£000*	*£000*	*£000*
Due within one year:				
Trade debtors	810	923	938	1,034
Amounts owed by subsidiary company	-	-	169	86
Other debtors	41	44	40	43
Prepayments and accrued income	100	98	41	41
	951	1,065	1,188	1,204

NOTES TO THE ACCOUNTS
at 31 October 1998

17 INVESTMENTS

	Group and Company	
	1998	*1997*
	£000	*£000*
Employee Benefits Trust - loan	6	49

18 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT (NOTE 19)

	Group	
	1998	*1997*
	£000	*£000*
Increase in cash in the period	670	828
Cash (inflow)/outflow on loans from directors (note 26)	(14)	93
	656	921
Net debt at 1 November 1997	(2,791)	(3,712)
Net debt at 31 October 1998	(2,135)	(2,791)

19 ANALYSIS OF CHANGES IN NET DEBT

		Group	
		Cashflows	
	1998	*in year*	*1997*
	£000	*£000*	*£000*
Cash	395	-	395
Overdraft	(2,460)	670	(3,130)
Loans from directors	(70)	(14)	(56)
	(2,135)	656	(2,791)

20 CREDITORS: amounts falling due within one year

	Group		*Company*	
	1998	*1997*	*1998*	*1997*
	£000	*£000*	*£000*	*£000*
Bank overdrafts (unsecured)	2,460	3,130	2,460	3,130
Trade creditors	497	597	355	387
Other taxation and social security	106	100	19	19
Other creditors	245	262	202	246
Accruals	287	304	265	247
Proposed dividend	308	280	308	280
Corporation tax	507	571	498	527
	4,410	5,244	4,107	4,836

NOTES TO THE ACCOUNTS
at 31 October 1998

21 CREDITORS: amounts falling due after more than one year

	Group and Company	
	1998	*1997*
	£000	*£000*
Tenants' and managers' deposits	205	179

22 DEFERRED TAXATION

Provided	*Group* *£000*	*Company* *£000*
At 1 November 1997	69	42
ACT movement	70	70
Arising during the year	13	(12)
At 31 October 1998	152	100

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

	Provided		*Not provided*	
	1998	*1997*	*1998*	*1997*
Group	*£000*	*£000*	*£000*	*£000*
Capital allowances in advance of depreciation	152	139	-	-
Revaluation of properties	-	-	1,395	1,627
Rollover relief	-	-	141	141
	152	139	1,536	1,768
Less: Advance corporation tax	-	(70)	-	-
	152	69	1,536	1,768

	Provided		*Not provided*	
	1998	*1997*	*1998*	*1997*
Company	*£000*	*£000*	*£000*	*£000*
Capital allowances in advance of depreciation	100	112	-	-
Revaluation of properties	-	-	1,395	1,627
Rollover relief	-	-	141	141
	100	112	1,536	1,768
Less: Advance corporation tax	-	(70)	-	-
	100	42	1,536	1,768

NOTES TO THE ACCOUNTS
at 31 October 1998

23 SHARE CAPITAL

	1998 £	1997 £
Authorised		
Non-equity interests:		
11.5% Cumulative Preference Shares of £1 each	11,695	12,770
Equity interests:		
Ordinary Shares of 5p each	113,048	113,048
'A' Limited Voting Ordinary Shares of 5p each	194,618	198,372
Unclassified Shares of 5p each	880,639	875,810
	1,188,305	1,187,230
	1,200,000	1,200,000

Allotted, called up and fully paid	*1998 No.*	*1997 No.*	*1998 £*	*1997 £*
Non-equity interests:				
11.5% Cumulative Preference Shares of £1 each	11,695	12,770	11,695	12,770
Equity interests:				
Ordinary Shares of 5p each	2,260,964	2,260,964	113,048	113,048
'A' Limited Voting Ordinary Shares of 5p each	3,892,365	3,967,436	194,618	198,372
			307,666	311,420
			319,361	324,190

During the year the Company purchased 75,071 (1997 - 73,848) 5p 'A' Limited Voting Ordinary Shares at a cost of £215,000 (1997 - £192,000) under an authority granted at an Extraordinary General Meeting held on 13 June 1985 and renewed at the Annual General Meeting in 1998. A further 1,075 £1 11.5% Cumulative Preference Shares were purchased at a cost of £2,000 under an authority granted at an Extraordinary General Meeting held on 10 April 1996 and renewed at the Annual General Meeting in 1998.

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, 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.

NOTES TO THE ACCOUNTS
at 31 October 1998

24 RESERVES

Group	*Capital redemption reserve £000*	*Revaluation reserve £000*	*Other reserves £000*	*Profit and loss account £000*
At 31 October 1997	626	20,442	45	4,176
Arising on purchase of own shares	4	-	-	(217)
Exchange differences on retranslation of net assets of subsidiary undertaking	-	-	4	-
Realised on sale of properties	-	(30)	-	30
Retained profit for year	-	-	-	1,023
At 31 October 1998	630	20,412	49	5,012

Company	*Capital redemption reserve £000*	*Revaluation reserve £000*	*Profit and loss account £000*
At 31 October 1997	626	20,442	3,931
Arising on purchase of own shares	4	-	(217)
Realised on sale of properties	-	(30)	30
Retained profit for year	-	-	1,003
At 31 October 1998	630	20,412	4,747

In accordance with the exemption allowed by Section 230(3) of the Companies Act 1985 the Company has not separately presented its own profit and loss account. The profit for the financial year dealt with in the accounts of the Company was £1,530,000 (1997 - £1,061,000).

25 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 using the projected unit method modified by the use of a control period of 20 years. The most recent valuation was at 31 December 1995. 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 £228,528 (1997 - £221,786). This includes £94,929 (1997 - £99,964) optional pension payments paid directly to past employees by the Company.

The most recent actuarial valuation stated that the market value of the scheme's assets would be sufficient to cover 98% of the liabilities arising. This corresponds to a deficit of £61,700. The contributions to the fund are made solely by the Company and are currently at 24.40% of pensionable earnings. This level of contribution spreads the deficit over the expected remaining service lifetimes of the active members.

NOTES TO THE ACCOUNTS
at 31 October 1998

25 PENSION SCHEME (continued)

The subsidiary company, Heavitree Inns Limited, operated a defined contribution pension scheme until 31 March 1997. On 1 April 1997 benefits were transferred to 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 £1,334 (1997 - £1,554).

26 PARTICULARS OF TRANSACTIONS INVOLVING DIRECTORS AND OTHERS

Two Directors made loans to the Company during the year. They are repayable on demand and carry an interest rate of ¾ % over base.

	1998	*Movement in year*	*1997*
	£000	*£000*	*£000*
W P Tucker	70	33	37
S M Duncan	-	(19)	19
	70	14	56

The balance is included in creditors falling due within one year. W P Tucker received £1,107 and S M Duncan received £944 interest from the Company during the year. There were no other transactions during the year which require disclosure under Part II of Schedule 6 to the Companies Act 1985.

27 OTHER RELATED PARTY TRANSACTIONS

The Company regularly makes interest free loans to and has loans repaid by the Employee Benefits Trust.

The Trust exists for the benefit of the employees and principally uses its funds to purchase Heavitree Brewery PLC shares from which it derives dividend income.

The Trustees consist of senior employees, but not the directors, of The Heavitree Brewery PLC.

The balance due to the Company is shown in note 17.

28 EMPLOYEE SHARE OPTION SCHEME

During the year, the Company set up a discretionary employee share option scheme. The scheme was approved by the Inland Revenue on 24 July 1998. The costs incurred in establishing the scheme have been expensed in the profit and loss account. The value of shares over which options are granted is limited to £30,000 per employee. The scheme's rules allow that qualifying employees may exercise their options between the third and tenth anniversary of the option being granted.

As at 31 October 1998, the scheme had granted options over 62,301 'A' Limited Voting Ordinary Shares. These shares had an aggregate nominal value of £3,115. The mid-market value was £2.95 per share, giving a total market value of £183,788 for the shares within the scheme.