Registered No 30800

The Heavitree Brewery PLC

Group financial statements

31 October 2008

Annual report and financial statements

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Directors

N H P Tucker Chairman
G J Crocker Managing and Finance
R J Glanville Estate
T Wheatley Trade
W P Tucker DL*
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 LLP
Exeter

Michael Conn Goldsobel
London

Nominated advisor 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 Nineteenth Annual General Meeting of The Heavitree Brewery PLC will be held at the Company's offices, Trood Lane, Matford, Exeter on 24 April 2009 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 2008 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 R J Glanville as a Director of the Company.
4. To re-elect T Wheatley as a Director of the Company.
5. To re-elect M C Pease-Watkin as a Director of the Company.
6. To re-elect W P Tucker (aged 74) as a Director of the Company.
7. To re-appoint Ernst & Young LLP as auditors of the Company for the period prescribed in section 489 of the Companies Act 2006.
8. 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 Resolutions 10 and 11 will be proposed as Special Resolutions:

9. THAT the Company be hereby authorised to purchase up to an aggregate of 299,204 Ordinary Shares of 5p each and/or 492,371 '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 2010 (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 the Articles of Association produced to the meeting and signed by the Chairman for the purposes of identification be hereby adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association.
11. THAT a General Meeting other than an Annual General Meeting may be called on not less than 14 clear days' notice.

By order of the Board

R.J. Glanville

R J GLANVILLE
Secretary
20 March 2009

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, a copy of the proposed new Articles of Association of the Company and a copy of the existing Articles of Association marked to show the changes being proposed in Resolution 10 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 29 April 2009 to shareholders on the register on 27 March 2009.

Special Business at Annual General Meeting

There are three items of Special Business at this year's AGM.

The first - Resolution 9 - is the usual authority to the Directors for the Company to purchase up to 15% of each class of Ordinary Shares; as always, the Directors will only utilise this authority if and when they consider it beneficial to shareholders generally to do so.

The second - Resolution 10 - is to adopt new Articles of Association in order to update the Company's current Articles of Association, primarily to take account of changes in English company law brought about by the Companies Act 2006 ("the 2006 Act").

The principal changes introduced in the New Articles are summarised on the next two pages. Other changes, which are of a minor, technical or clarifying nature and also some more minor changes which merely reflect changes made by the 2006 Act, have not been specifically noted. The New Articles, and a version showing all the changes to the Current Articles, are available for inspection, as noted on page 4 of this document.

The third - Resolution 11 - arises because the EU Shareholder Rights Directive is intended to be implemented in the UK in August this year. One of the requirements of the Directive is that all General Meetings must be held on 21 days' notice unless shareholders agree to a shorter notice period. We are currently able to call general meetings (other than annual general meetings) on 14 days' notice, and wish to continue to have the flexibility to do so after the Directive is implemented.

Explanatory Notes of Principal Changes to the Company's Articles of Association

1. Articles which duplicate statutory provisions

Provisions in the Current Articles which replicate provisions contained in the 2006 Act are in the main amended to bring them into line with the 2006 Act. Certain examples of such provisions include provisions as to the form of resolutions, the requirement to keep accounting records and provisions regarding the period of notice required to convene general meetings.

2. Convening annual general meetings and other general meetings

The provisions in the Current Articles dealing with the convening of general meetings and the length of notice required to convene general meetings are being amended to conform with new provisions in the 2006 Act. In particular a general meeting (other than an Annual General Meeting) to consider a special resolution can be convened on 14 days' notice whereas previously 21 days' notice was required.

3. Votes of members

Under the 2006 Act proxies are entitled to vote on a show of hands, whereas under the Current Articles proxies are only entitled to vote on a poll. The time limits for the appointment or termination of a proxy appointment have been altered by the 2006 Act so that the articles cannot provide that they should be received more than 48 hours before the meeting (or, in the case of a poll taken more than 48 hours after the meeting, more than 24 hours before the time for the taking of a poll), with weekends and bank holidays being permitted to be excluded for this purpose. Multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to a different share held by the shareholder. The New Articles reflect all these new provisions.

4. Electronic and web communications

Provisions of the 2006 Act which came into force in January 2007 enable companies to communicate with members by electronic and/or website communications. The New Articles continue to allow communications to members in electronic form and, in addition, they also permit the Company to take advantage of the new provisions relating to website communications. Before the Company can communicate with a member by means of website communication, the relevant member must be asked individually by the Company to agree that the Company may send or supply documents or information to him by means of a website, and the Company must either have received a positive response or have received no response within the period of 28 days beginning with the date on which the request was sent. The Company will notify the member (either in writing, or by other permitted means) when a relevant document or information is placed on the website, and a member can always request a hard copy version of the document or information.

5. Scrip Dividends

The New Articles set out a framework under which Directors may, with the prior approval of shareholders, offer shareholders the opportunity to receive newly-issued "A" Limited Voting Ordinary Shares by way of dividend rather than cash. The Directors have no present intention of seeking such authority, but thought it wise to include these provisions.

6. Age of directors on appointment

The Current Articles contain a provision requiring a director's age to be disclosed if he has attained the age of 70 years or more in the notice convening a meeting at which the director is proposed to be elected or re-elected. Such a provision could now fall foul of the Employment Equality (Age) Regulations 2006, and so does not appear in the New Articles.

Explanatory Notes of Principal Changes to the Company's Articles of Association

7. Conflicts of interest

The 2006 Act sets out directors' general duties which largely codify the existing law but with some changes. Under the 2006 Act, a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the company's interests. The requirement is very broad and could apply, for example, if a director becomes a director of another company or a trustee of another organisation. The 2006 Act allows directors of public companies to authorise conflicts and potential conflicts, where appropriate, where the articles of association contain a provision to this effect. The 2006 Act also allows the articles of association to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty. The amended articles of association give the directors authority to approve such situations, and include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position.

There are safeguards which will apply when directors decide whether to authorise a conflict or potential conflict. Firstly, only directors who have no interest in the matter being considered will be able to take the relevant decision; and secondly, in taking any such decision, the directors must act in the way they consider, in good faith, will be most likely to promote the company's success. The directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

The New Articles also contain provisions relating to confidential information, attendance at board meetings and availability of board papers, in order to protect a director being in breach of duty if a conflict of interest or potential conflict of interest arises. These provisions will only apply where the position giving rise to the potential conflict has previously been authorised by the directors.

8. Notice of board meetings

Under the Current Articles, when a director is abroad he can request that notice of directors' meetings are sent to him at a specified address and if he does not do so he is not entitled to receive notice while he is away. This provision has been removed, as modern communications mean that there may be no particular obstacle to giving notice to a director who is abroad. It has been replaced with a more general provision that a director is treated as having waived his entitlement to notice, unless he supplies the Company with the information necessary to ensure that he receives notice of a meeting before it takes place.

9. Directors' indemnities and defence expenditure

The 2006 Act has in some areas widened the scope of the powers of a company to indemnify directors and to fund expenditure incurred in connection with certain actions against directors. In particular, a company that is a trustee of an occupational pension scheme can now indemnify a director against liability incurred in connection with the company's activities as trustee of the scheme. In addition, the existing exemption allowing a company to provide money for the purpose of funding a director's defence in court proceedings now expressly covers regulatory proceedings and applies to associated companies.

Chairman's statement

My statement that accompanied our Interim Report and Accounts 2008 followed a trading statement issued in June 2008, announcing that the Company was to conduct a strategic review of its business. The outcome of that review was the decision announced in November to close the Managed House operation (Heavitree Inns) and return the pubs operated by this subsidiary to tenancy or leasehold.

This restructure of our business sadly brought with it a number of redundancies both in the pubs and at Head Office. At the time of writing fourteen houses out of the twenty formerly operated by Heavitree Inns have been successfully moved to our tenanted and leased operation.

The Group has not been immune from the well-documented difficulties facing our industry specifically and the economy generally. Accordingly, a drop in operating profit was expected. However, the severity of the costs incurred dealing with the associated operational problems was disappointing and much greater than anticipated. This was exacerbated by a poor summer and the economic downturn.

In what has been an extremely challenging year, the further substantial costs imposed as a result of the transition to International Financial Reporting Standards is regrettable but unavoidable.

Results

Turnover for the Group decreased by 1.4% with an operating profit before tax of £554,000 (2007: £1,679,000).

Heavitree Inns Limited generated an operating profit of £86,000 before tax (2007: £488,000).

Heavitree Inc generated an operating loss of £9,000 before tax (2007: loss of £6,000).

Dividend

Having decided not to pay an interim dividend, the Directors recommend a final dividend of 7p per Ordinary and 'A' Limited Voting Ordinary Share (2007: 7p) making a total dividend for the year of 7p (2007: 11.5p). The dividend will be paid on 29 April 2009, subject to shareholder approval at the Annual General Meeting on 24 April 2009, to shareholders on the Register at 27 March 2009.

Property Sales

The following houses have been sold during the year:

The Heavitree Arms, Newton Abbot.

The Windsor Castle, Heavitree.

The Cowley Bridge Inn, Exeter.

The Castle Inn, Lydford.

Together with the sale of a small unlicensed property, these sales realised a gross book profit, before tax, of £928,000.

Since the year end we have completed the sale of The Steam Packet Inn, Topsham and the following houses are currently being marketed for sale:

The Heavitree Arms, Bideford.

The Dawlish Inn, Teignmouth.

The King's Arms, South Zeal.

The Old Rydon, Kingsteignton.

Chairman's statement

Refinancing

I am happy to report that we have negotiated secured financing with Barclays until 2012.

Capital Investments

At the beginning of the year a refurbishment at The Church House Inn, Stokenham was completed. When it became clear that the need to preserve cash was of paramount importance, further potential large projects were postponed.

Pension Scheme

Against the market background of increased difficulty in raising additional finance, it has been decided that is now more appropriate for the Company to meet its funding obligations to its closed final salary Pension Scheme through an annualised deficit correction payment, as opposed to the earlier preference for a full purchase of bulk annuity contracts. The amount of the required annual payment will be determined as part of the triennial actuarial funding review which the Scheme is currently undergoing. This review is due for completion by the end of March 2009.

Repurchase of Shares

During the year, The Company has continued to exercise its right to buy back its own shares, purchasing a further 73,583 'A' Limited Voting Ordinary Shares (2007: 79,000) at a cost of £754,226 (2007: £868,150) and 103,563 Ordinary Shares (2007: 28,000) at a cost of £1,144,371 (2007: £323,400).

Although there are no current plans to repurchase any further shares, the Directors are nevertheless seeking to renew the Company's authority to do so.

Personnel

I am sorry to report the sad deaths of two retired members of staff. Tony Davidson was with the Company from 1953 to 1995 and Cliff Dummett joined the Company in 1973 and retired as Company Secretary in 1989.

I would like to thank all of our staff for their hard work during a difficult year.

Outlook

I believe the measures we have taken, and are continuing to take, will ensure the Company is best placed to deal with the undoubted problems that lie ahead. Although it is difficult to foresee any upturn in the coming year the strength of any pub business is in its pubs and operators. I have every confidence that we have quality in both.

N.H.P. Tucker.

N H P TUCKER
Chairman
26 February 2009

Directors' report

The directors have pleasure in submitting their report for the year ended 31 October 2008.

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

Parent Company - operating profit after consolidation adjustments £477,000 (2007: £1,197,000).

Heavitree Inns Limited - operating profit £86,000 (2007: £488,000).

Heavitree Inc. - operating loss £9,000 (2007: loss of £6,000).

Group turnover for the year is £13,114,000 (2007: £13,296,000) a decrease of £182,000 (1.4%).

During the year under review the following properties were sold: Heavitree Arms, Newton Abbot; Windsor Castle, Heavitree; Cowley Bridge Inn, Exeter; Castle Inn, Lydford; 14a Church Street, Exeter.

The combined result of sales of non current assets and assets held for sale realised a profit before tax of £928,000.

For further review of the business see the Chairman's statement on pages 8 and 9.

Principal risks and uncertainties

As with all other retailers, the Group has been and will continue to be affected by the downturn in the economy, with the consequent reduction in 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 2008 the Group's total borrowings were £6,479,000 (2007: £5,376,000) 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 and management of financial risk refer to note 23.

The Group's capital management strategy is to maintain gearing as low as possible while still ensuring that borrowing requirements are sufficient to service its needs and allow it to invest in its houses at an appropriate level.

When monitoring gearing the Group uses the Directors valuation as the basis of its asset value and also takes the view that the current unsecured overdraft is longer term finance.

Post year-end the Group has been in negotiation with its bankers and has restructured borrowings into longer term debt.

The effect of this will be to move circa £5 million from Current liabilities to Non-current liabilities thus strengthening the Balance Sheet.

The Group currently has no intention of re-valuing its assets and will continue to use the Directors' valuation in monitoring gearing.

Directors' report

Future developments

On 27 June 2008 the company announced it was embarking on a strategic review of the business and on 14 November 2008 announced the closure of its managed house operation (currently within Heavitree Inns Limited). This process is well underway and should be completed by the end of April 2009.

The Steam Packet Inn at Topsham was sold on 10 November ~~2009.~~ 2008

Post year-end the Company has been in negotiation with its bankers and has restructured its borrowings into longer term secured debt until 2012.

The effect of this will be to move circa £5 million from Current liabilities to Non-current liabilities within the Balance sheet.

Results and dividends

The profit for the year, after taxation, attributable to shareholders amounts to £1,133,000 (2007: £2,081,000).

The directors propose a final dividend of 7p per share on the Ordinary and 'A' Limited Voting Ordinary Shares. 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 2008 was £44.1m (2007: £47.3m). This figure includes houses currently marketed for sale, with a combined market value of £1.7m, which are held separately on the balance sheet at the lower of carrying value and fair value less costs to sell of £795,000.

Purchase of own shares

During the year the Company purchased 73,583 5p 'A' Limited Voting Ordinary Shares (2007: 79,000) at a cost of £754,226 (2007: £868,150) and 103,563 Ordinary Shares (2007: 28,000) at a cost of £1,144,371 (2007: £323,400). The purchases accounted for 2.2% of the issued 'A' Limited Voting Ordinary Shares and 4.9% of the issued Ordinary Shares. The Company considers that the purchase of these shares will be beneficial to shareholders generally.

Environment

The Group is committed to the care of the environment and encourages its contractors and tenants to use energy efficient materials and practices wherever and whenever possible. In due course the Group intends to pilot an energy-efficient outlet including the use of energy-efficient lighting and heating. Data gained will be used across the estate to assist tenants to manage better the use of lighting and heating to maximise their profits. Work will commence once a suitable project has been identified.

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 £5,600.

The majority of this was given to the Heavitree Brewery Charitable Trust which administers donations to various charities in its own right.

Directors' report

Staff

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

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

Directors

The directors of the Company during the year ended 31 October 2008 were those listed on page 2.

R J Glanville, T Wheatley and M C Pease-Watkin 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 74), who also retires by age under the current Articles, will offer himself for re-election under Article 14.

Directors' interests

The interests of the directors and their spouses in the Company's shares as at 31 October 2008 were as follows:

	Ordinary Shares		*'A' Limited Voting Ordinary Shares*	
	31 October 2008	*31 October 2007*	*31 October 2008*	*31 October 2007*
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	180,777	180,858
T P Duncan	150,335	150,335	118,992	118,992
R J Glanville	-	-	41,869	49,586
M C Pease-Watkin	34,564	17,064	82,740	82,740
T Wheatley	-	-	12,645	12,055

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

(a) W P Tucker's interest in 53,750 (2007: 53,750) Ordinary Shares;

(b) N H P Tucker's interest in 111,142 (2007: 111,142) Ordinary Shares and 307,000 (2007: 307,000) 'A' Limited Voting Ordinary Shares;

(c) G J Crocker's interest in 57,392 (2007: 57,392) Ordinary Shares and 151,000 (2007: 151,000) 'A' Limited Voting Ordinary Shares; and

(d) R J Glanville's interest in 25,669 (2007: 32,589) 'A' Limited Voting Ordinary Shares.

Included in these interests are the following joint holdings:

(a) 53,750 (2007: 53,750) Ordinary Shares held jointly by W P Tucker and N H P Tucker; and

(b) 57,392 (2007: 57,392) Ordinary Shares and 151,000 (2007: 151,000) 'A' Limited Voting Ordinary Shares held jointly by G J Crocker and N H P Tucker.

Directors' report

Directors' interests (continued)

At 31 October 2008, the following Directors held options to subscribe 'A' Limited Voting Ordinary Shares of the Company:

	2008 *No.*	*2007* *No.*
G J Crocker	2,999	2,999
R J Glanville	2,295	2,295
T Wheatley	2,295	2,295

During the period from the end of the financial year to 23 February 2009 the following transaction affecting the interests of the directors took place. R J Glanville's interest in 41,869 'A' Limited Voting Ordinary Shares has been reduced to 39,907 'A' Limited Voting Ordinary Shares (23,707 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 23 February 2009 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
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	127,992
Mrs E M A Pease-Watkin	125,105	-
J F H Pease-Watkin	130,205	-

Supplier payment policy and practice

It is the Company's policy that payments to suppliers are made in accordance with the terms and conditions agreed between the Company and its suppliers, provided that all trading terms and conditions have been complied with.

The number of days' purchases represented by trade creditors for the Company as at 31 October 2008 is 37 (2007: 38).

Directors' report

Directors' statement as to disclosure of information to auditors

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

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

Implementation of International Financial Reporting Standards

This is the first Annual Report in which we present consolidated financial statements under International Financial Reporting Standards. The company's own accounts continue to be prepared under UK GAAP and are presented on pages 67 to 85.

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
26 February 2009

Ten year review of profits and dividends

Year ended 31 October	*Profit before tax £000*	*Earnings per 5p share p*	*Dividends per 5p share p*
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	2,195	34.0	11.0
2007 *	2,653	38.9	11.5
2007 **	2,680	39.4	11.5
2008	1,133	21.9	7.0

Notes:

1. Dividends per 5p share for all years include interim dividends and dividends proposed and subsequently declared in respect of the profits of each year.

2. From 1999 to 2005 the earnings per share figures are both basic and diluted.

3. For 2006 the diluted earnings per share are 33.9p.

4. For 2007 the diluted earnings per share are 38.7p under UK GAAP and 39.2p under IFRS. For 2008 the diluted earning per share are 21.9p.

5. Figures up to 2006 are stated under UK GAAP, 2007 is stated under UK GAAP (*) and IFRS (**) and 2008 is under IFRS.

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union.

The directors are required to prepare Group financial statements for each financial year which present fairly the financial position of the Group and the financial performance and cash flows of the Group for that period. In preparing those Group financial statements the directors are required to:

- select suitable accounting policies in accordance with IAS 8: *Accounting Policies, Changes in Accounting Estimates and Errors* and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- state that the Group has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements.

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 Group financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

to the members of The Heavitree Brewery PLC

We have audited the Group financial statements of The Heavitree Brewery PLC for the year cnded 31 October 2008 which comprise the Group income statement, the Group balance sheet, the Group statement of cash flows, the Group statement of recognised income and expense and the related notes 1 to 32. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of The Heavitree Brewery PLC for the year ended 31 October 2008.

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 auditor's 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 group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the group 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 group financial statements give a true and fair view and whether the group financial statements have been 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. The information given in the Directors' report includes that specific information presented in the Chairman's statement that is cross referenced from the Directors' report.

In addition we report to you if, in our opinion, 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 other information contained in the Annual Report and consider whether it is consistent with the audited group financial statements. The other information comprises only Directors and other information, Notice of annual general meeting, Chairman's statement, Directors' 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 with the group 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 group financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the group financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

Independent auditors' report

to the members of The Heavitree Brewery PLC

Basis of audit opinion (continued)

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the group 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 group financial statements.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with International Financial Reporting Standards as adopted by the European Union, of the state of the Group's affairs as at 31 October 2008 and of its profit for the year then ended;
- the Group 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 group financial statements.

Ernst & Young LLP

Ernst & Young LLP
Registered auditor
Exeter
26 February 2009

Group income statement

for the year ended 31 October 2008

	Notes	*2008* *£000*	*2007* *£000*
Revenue	3	13,114	13,296
Change in stocks		(46)	69
Other operating income	5	63	64
Purchase of inventories		(4,886)	(4,904)
Staff costs	9	(3,789)	(3,189)
Depreciation of property, plant and equipment		(562)	(614)
Other operating charges		(3,340)	(3,043)
		(12,560)	(11,617)
Group operating profit	6	554	1,679
Profit on disposal of non-current assets and assets held for sale	8	928	1,435
Group profit before finance costs and taxation		1,482	3,114
Finance income	10	34	7
Finance costs	11	(420)	(403)
Other finance costs – pensions	29	(74)	(38)
		(460)	(434)
Profit before taxation		1,022	2,680
Tax credit/(expense)	12	111	(599)
Profit for the year attributable to equity holders of the parent		1,133	2,081
Basic earnings per share	13	21.9p	39.4p
Diluted earnings per share	13	21.9p	39.2p

Group statement of recognised income and expense

for the year ended 31 October 2008

	Notes	*2008 £000*	*2007 £000*
Income and expense recognised directly in equity			
Actuarial gains on defined benefit pension plans	29	386	572
Tax on items taken directly to or transferred from equity	12	(92)	(140)
Tax relating to change in tax rates	12	-	(44)
Exchange difference on retranslation of subsidiary	26	2	1
Fair value adjustment	26	(54)	(16)
Net income recognised directly in equity		242	373
Profit for the year		1,133	2,081
Total recognised income and expense for the year		1,375	2,454

Group balance sheet
at 31 October 2008

	Notes	*2008* *£000*	*2007* *£000*
Non-current assets			
Property, plant and equipment	15	14,682	15,277
Financial assets	16	58	112
Deferred tax asset	12	295	419
		15,035	15,808
Current assets			
Trade and other receivables	17	1,796	1,497
Inventories	18	163	210
Cash and short-term deposits	19	324	738
		2,283	2,445
Assets held for sale	15	795	733
Total assets		18,113	18,986
Current liabilities			
Trade and other payables	20	(1,582)	(1,633)
Financial liabilities	21	(6,479)	(5,376)
Income tax payable		(104)	(521)
		(8,165)	(7,530)
Non-current liabilities			
Other payables	20	(232)	(272)
Financial liabilities	21	(11)	(11)
Deferred tax liabilities	12	(367)	(263)
Defined benefit pension plan deficit	29	(1,005)	(1,475)
		(1,615)	(2,021)
Total liabilities		(9,780)	(9,551)
Net assets		8,333	9,435

Group balance sheet
at 31 October 2008

	Notes	2008 £000	2007 £000
Capital and reserves			
Equity share capital	26	264	273
Capital redemption reserve	26	673	664
Treasury shares	26	(1,248)	(963)
Fair value adjustments reserve	26	38	92
Currency translation	26	3	1
Retained earnings	26	8,603	9,368
Total equity		8,333	9,435

The notes on pages 24 to 66 form part of the financial statements.

These accounts were approved by the Board of Directors and authorised for issue on 26 February 2009 and were signed on its behalf by

N H P TUCKER)
G J CROCKER Directors

N.H.P. Tucker.
G.J. Crocker

Group statement of cash flows

for the year ended 31 October 2008

	Notes	2008 £000	2007 £000
Operating activities			
Profit for the year		1,133	2,081
Tax on continuing operations		(111)	599
Net finance costs		460	434
Profit on disposal of non current assets and assets held for sale		(928)	(1,435)
Depreciation and impairment of property, plant and equipment		767	614
Share-based payments	25	13	5
Difference between pension contributions paid and amounts recognised in the income statement		(158)	(158)
Decrease/(increase) in inventories		47	(53)
(Increase)/decrease in trade and other receivables		(297)	129
Decrease in trade and other payables		(17)	(293)
Cash generated from operations		909	1,923
Income taxes paid		(169)	(380)
Net cash flow from operating activities		740	1,543
Investing activities			
Interest received		32	6
Proceeds from sale of property, plant and equipment and assets held for sale		2,252	2,972
Payments to acquire property, plant and equipment		(1,558)	(1,558)
Dividends received		1	1
Net cash flow from investing activities		727	1,421
Financing activities			
Interest paid		(419)	(403)
Preference dividend paid		(1)	(1)
Dividends paid	14	(370)	(607)
Loans from Directors		-	20
Repayment of Directors' loans		(74)	(2)
Consideration received by EBT on sale of shares		145	314
Consideration paid by EBT on purchase of shares		(366)	(481)
Repurchase of share capital		(1,899)	-
Net cash flow from financing activities		(2,984)	(1,160)
(Decrease)/increase in cash and cash equivalents		(1,517)	1,804
Effect of exchange rates on cash and cash equivalents		-	-
Cash and cash equivalents at the beginning of the year	19	(4,638)	(6,442)
Cash and cash equivalents at the year end	19	(6,155)	(4,638)

Notes to the financial statements

for the year ended 31 October 2008

1. Authorisation of financial statements

The financial statements of The Heavitree Brewery PLC and its subsidiaries (the "Group") for the year ended 31 October 2008 were authorised for issue by the board of directors on 26 February 2009 and the balance sheet was signed on the board's behalf by N H P Tucker and G J Crocker. The Heavitree Brewery PLC is a public limited company incorporated and domiciled in England. The Company's ordinary shares are traded on the AIM market of the London Stock Exchange.

The principal accounting policies adopted by the Group are set out in note 2.

2. Accounting policies and statement of compliance

Basis of preparation

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union as they apply to the financial statements of the Group for the year ended 31 October 2008 and applied in accordance with the Companies Act 1985. The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 October 2008.

The Group's financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Pension benefits

The cost of defined benefit pensions plans are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. The net employee liability at 31 October 2008 is £1,005,000 (2007: £1,475,000). Further details are given in note 29.

Share-based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Judgement is required in determining the most appropriate valuation model for a grant of equity instruments, depending on the terms and conditions of the grant. Management are also required to use judgement in determining the most appropriate inputs to the valuation model including expected life of the option, volatility and dividend yield. The assumptions and models used are disclosed in note 25.

Basis of consolidation

The Group financial statements consolidate the financial statements of The Heavitree Brewery PLC and the entities it controls (its subsidiaries) drawn up to 31 October each year.

Subsidiaries are consolidated from the date on which the Group obtains control and continue to be consolidated until the date that such control ceases. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities and is achieved through direct or indirect ownership of voting rights; currently exercisable or convertible potential voting rights; or by way of contractual agreement. The financial statements of subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting year as the parent company and are based on consistent accounting policies. All intragroup balances and transactions, including unrealised profits arising from them, are eliminated.

Notes to the financial statements

for the year ended 31 October 2008

2. Accounting policies (continued)

Basis of consolidation (continued)

The assets of the Employee Share Option Scheme and the Employee Benefits Trust are fully consolidated within the financial statements.

Foreign currency

On consolidation, the financial statements of the overseas subsidiary undertaking are translated at the year end rate of exchange, with the results translated at the average rate. Exchange differences arising on consolidation are dealt with in the currency translation reserve.

Cumulative translation differences for the overseas subsidiary undertaking were deemed to be zero as at the date of the transition to IFRS.

Property, plant and equipment

Buildings, furniture and fittings, equipment and vehicles are stated at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is provided on all property, plant and equipment, other than freehold land, on a straight-line basis at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

- Buildings - 2%
- Fixtures and fittings - 10% to 20%
- Computer equipment - 20% to $33^1/_3$%
- Office equipment - 20%
- Vehicles - 25%

Freehold land is not depreciated.

An annual assessment of residual values is performed and there is no depreciable amount if residual values are the same as, or more than, book value. Residual values are based on the estimated amount which would be currently obtainable from disposal of the asset net of disposal costs if the asset were already of the age and condition expected at the end of its useful life.

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset is included in the income statement in the period of derecognition.

Notes to the financial statements

for the year ended 31 October 2008

2. Accounting policies (continued)

Leases – lessor accounting

Leases where the lessor retains a significant portion of the risks and benefits of ownership of the asset are classified as operating leases and rentals payable are charged in the income statement on a straight line basis over the lease term.

Assets leased out under operating leases are included in property, plant and equipment and depreciated over their estimated useful lives. Rental income, including the effect of lease incentives, is recognised on a straight line basis over the lease term.

Where the Group transfers substantially all the risks and benefits of ownership of the asset, the arrangement is classified as a finance lease and a receivable is recognised for the initial direct costs of the lease and the present value of the minimum lease payments. As payments fall due, finance income is recognised in the income statement so as to achieve a constant rate of return on the remaining net investment in the lease.

Where the Group determines an arrangement, that does not take the legal form of a lease but conveys a right to use an asset, is or contains a lease, that arrangement is accounted for in accordance with IAS 17.

Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell and are not depreciated.

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale and completion should be expected within one year from the date of classification.

Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used, these calculations corroborated by valuation multiples, or other available fair value indicators. Impairment losses are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Notes to the financial statements

for the year ended 31 October 2008

2. Accounting policies (continued)

Financial assets

Financial assets are cash or a contractual right to receive cash or another financial asset from another entity or to exchange financial assets or liabilities with another entity under conditions that are potentially favourable to the entity. In addition, contracts that result in another entity delivering a variable number of its own equity instruments are financial assets. The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Trade and other receivables

Trade receivables, which generally have 30 day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost. Provision is made when there is objective evidence that the Group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Fair values

The fair value of quoted investments is determined by reference to bid prices at the close of business on the balance sheet date. Where there is no active market, fair value is determined using valuation techniques. These include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis and pricing models. Otherwise assets will be carried at cost.

Financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

A financial liability exists where there is a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities under potentially unfavourable economic conditions. In addition contracts which result in the Group delivering a variable number of its own equity instruments are financial liabilities. Equity instruments containing such obligations are classified as financial liabilities.

Trade and other payables

Trade payables are recognised and carried at their original invoiced value. Payables are not discounted to take into account the time value of money, as the effect is immaterial.

Preference shares

Preference shares are recognised as a liability in the balance sheet, net of transaction costs. The corresponding dividends on those shares are charged as interest expense in the income statement.

Preference shares are classified as a financial liability measured at amortised cost until they are extinguished on redemption.

Notes to the financial statements

for the year ended 31 October 2008

2. Accounting policies (continued)

Interest-bearing loans and borrowings

Obligations for loans and borrowings are recognised when the Group becomes party to the related contracts and are measured initially at the fair value of consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance revenue and finance cost.

Derecognition of financial assets and liabilities

A financial asset or liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes purchase cost on a first-in, first-out basis. Net realisable value is based on estimated selling price less any further costs expected to be incurred to disposal.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of three months or less.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Income taxes

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Notes to the financial statements

for the year ended 31 October 2008

2. Accounting policies (continued)

Income taxes (continued)

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the group to make a single net payment.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the income statement.

Pensions and other post-retirement benefits

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.

The cost of providing benefits under the defined benefit scheme is determined using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligation) and is based on actuarial advice. A full actuarial valuation is obtained at least triennially and is updated at each balance sheet date. Past service costs are recognised in the income statement on a straight-line basis over the vesting period or immediately if the benefits have vested. When a settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement) occurs, the obligation and related plan assets are re-measured using current actuarial assumptions and the resultant gain or loss recognised in the income statement during the period in which the settlement or curtailment occurs.

The interest element of the defined benefit cost represents the change in present value of scheme obligations resulting from the passage of time, and is determined by applying the discount rate to the opening present value of the benefit obligation, taking into account material changes in the obligation during the year. The expected return on plan assets is based on an assessment made at the beginning of the year of long-term market returns on scheme assets, adjusted for the effect on the fair value of plan assets, of contributions received and benefits paid during the year. The difference between the expected return on plan assets and the interest cost is recognised in the income statement as other finance revenue or cost.

The group has applied the option in IAS 19 to recognise actuarial gains and losses in full in the statement of recognised income and expense in the period in which they occur.

The defined benefit pension asset or liability in the balance sheet comprises the total of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less any past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published bid price. The value of a net pension benefit asset is restricted to the sum of any unrecognised past service costs and the present value of any amount the Group expects to recover by way of refunds from the plan or reductions in the future contributions.

Contributions to defined contribution schemes are recognised in the income statement in the period in which they become payable.

Notes to the financial statements

for the year ended 31 October 2008

2. Accounting policies (continued)

Pensions and other post-retirement benefits (continued)

Both the Company and Heavitree Inns Limited operate an employer-sponsored personal pension arrangement. Contributions are charged to the income statement as they become payable in accordance with the rules of the scheme.

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 income statement during the year.

Treasury shares

The Heavitree Brewery PLC shares held by the Group are classified in equity as "treasury shares" and are recognised at cost. Consideration received for the sale of such shares is also recognised in equity, with any difference between the proceeds from sale and the original cost being taken to revenue reserves. No gain or loss is recognised in the performance statements on the purchase, sale, issue or cancellation of equity shares.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes. The following criteria must also be met before revenue is recognised:

Drink and food sales

Revenue in respect of drink and food sales is recognised at the point at which the goods are provided, net of any discounts or volume rebates allowed.

Rents receivable

Rents receivable are recognised on a straight-line basis over the lease term.

Machine income

The Group's share of net machine income is recognised in the period to which it relates.

Dividends

Revenue is recognised when the Group's right to receive payment is established.

Finance income

Revenue is recognised as interest accrues using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to its net carrying amount.

Exceptional items

The Group presents as exceptional items on the face of the income statement, those material items of income and expense which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess better trends in financial performance.

Borrowing costs

Borrowing costs are recognised as an expense when incurred.

Notes to the financial statements

for the year ended 31 October 2008

2. Accounting policies (continued)

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 income statement, 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.

The Group has taken advantage of the exemption in IFRS 1 in respect of equity-settled awards so as to apply IFRS 2 only to those equity-settled awards granted after 7 November 2002 that had not vested before 1 November 2006, the Group's date of transition to IFRS.

New standards and interpretations not applied

The IASB and IFRIC have issued the following standards and interpretations with an effective date after the date of these financial statements:

International Accounting Standards (IAS/IFRSs)		Effective date *
IFRS 2	Amendment to IFRS 2 – Vesting Conditions and Cancellations	1 January 2009
IFRS 3	Business Combinations (revised)	1 July 2009
IFRS 8	Operating Segments	1 January 2009
IAS 1	Presentation of Financial Statements (revised)	1 January 2009
IAS 23	Amendment - Borrowing Costs	1 January 2009
IAS 27	Consolidated and Separate Financial Statements (revised)	1 July 2009
IAS 32	Amendment – Puttable Financial Instruments and Obligations Arising on Liquidation	1 January 2009
IAS 39	Amendment – Eligible Hedged Items	1 July 2009

Notes to the financial statements

for the year ended 31 October 2008

2. Accounting policies (continued)

New standards and interpretations not applied *(continued)*		**Effective date ***
Annual improvements to IFRS		1 January 2009
IAS 39 and IFRS 7	Amendment – Reclassification of Financial Assets	1 October 2008
IFRS 1 and IAS 27	Amendment – Cost of Investment in separate financial statements	1 January 2009
International Financial Reporting Interpretations Committee (IFRIC)		
IFRIC 12	Service Concession Arrangements	1 January 2008
IFRIC 13	Customer Loyalty Programmes	1 July 2008
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum	
Funding requirements and their interaction		1 January 2008
IFRIC 15	Agreements for the Construction of Real Estate	1 January 2009
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	1 October 2008
IFRIC 17	Distributions of Non-Cash Assets to Owners	1 July 2009

* The effective dates stated here are those given in the original IASB/IFRIC standards and interpretations.

IAS 23 has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional provisions in the Standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date of 1 January 2009. No changes will be made for borrowing costs incurred prior to this date that have been expensed.

Whilst the revised IAS 1 will have no impact on the measurement of the Group's results or net assets it is likely to result in certain changes in the presentation of the Group's financial statements from 2010 onwards.

IFRS 8 requires disclosure based on information presented to the board. This is not expected to change the business segments about which information is given.

The amendment to IFRS 2 restricts the definition of vesting conditions to include only service conditions (requiring a specified period of service to be completed) and performance conditions (requiring the other party to achieve a personal goal or contribute to achieving a corporate target). All other features are non-vesting conditions which are to be reflected in the grant date fair value of the award. Failure to achieve such a condition was previously regarded as a forfeiture (giving rise to a reversal of amounts previously charged to profit). Under the amended version of IFRS 2, if the failure to meet a non-vesting condition is within the control of the entity or the counterparty it must be treated as a cancellation which results in an acceleration of the expected charge. If the failure is not within the control of either party and all other vesting conditions have been met, the award will continue to be expensed over the remaining vesting period. The amendment is mandatory for periods beginning on or after 1 January 2009 with full retrospective effect and the Group is currently assessing its impact on the financial statements, although it is not expected to be material.

The Group does not anticipate early adopting the revised IFRS 3 and so will apply it prospectively to all business combinations on or after 1 November 2009.

Notes to the financial statements

for the year ended 31 October 2008

2. Accounting policies (continued)

New standards and interpretations not applied (continued)

IAS 27 revised is effective for annual periods beginning on or after 1 July 2009, with earlier application only permitted when the revised IFRS 3 is applied. The revised standard applies retrospectively with some exceptions. IAS 27 revised no longer restricts the allocation to minority interest of losses incurred by a subsidiary to the amount of the non-controlling equity investment in the subsidiary. A partial disposal of an equity interest in a subsidiary that does not result in a loss of control will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to any gain or loss. Where there is loss of control of a subsidiary, any retained interest will have to be re-measured to fair value, which will impact the gain or loss recognised on disposal. The Group is currently assessing the impact on its financial statements from adopting IAS 27 revised.

The Directors do not anticipate that the adoption of the remaining standards and interpretations will have a material impact on the Group's financial statements in the period of initial application.

As the Group has elected to prepare its financial statements in accordance with IFRS as adopted by the European Union, the application of new standards and interpretations will be subject to their having been endorsed for use in the EU via the EU Endorsement mechanism. In the majority of cases this will result in an effective date consistent with that given in the original standard or interpretation but the need for endorsement restricts the Group's discretion to early adopt standards.

3. Revenue

Revenue recognised in the income statement is analysed as follows.

	2008 *£000*	*2007* *£000*
Sale of goods	4,295	4,734
Rendering of services	6,838	6,346
Rents from licensed properties	1,981	2,216
	13,114	13,296

Sale of goods comprises the invoiced values of beers and ciders supplied by the Group to tenants, together with gaming machine revenue. Rendering of services comprises managed houses retail sales and accommodation receipts. All revenue is derived from the United Kingdom. No revenue was derived from exchanges of goods or services (2007: £nil).

4. Segment information

Primary reporting format – business segments

The primary segmental reporting format is determined to be business segments as the Group's risks and rates of return are affected predominantly by differences in the products and services provided.

The Group operates in two business segments; leased estate and managed estate.

Leased estate represents properties which are leased to tenants to operate independently from the Group.

Managed estate represents properties which are owned, operated and maintained by the Group.

Notes to the financial statements

for the year ended 31 October 2008

4. Segment information (continued)

Year ended 31 October 2008	*Leased*	*Managed*	*Eliminations*	*Total*
	£000	*£000*	*£000*	*£000*
Revenue				
Sales to external customers	6,276	6,838	-	13,114
Inter-segment sales	1,262	-	(1,262)	-
Segment revenue	7,538	6,838	(1,262)	13,114
Results				
Segment result	1,319	89	-	1,408
Unallocated expenses				(386)
Profit before taxation				1,022
Tax credit				111
Profit for the year				1,133
Assets and liabilities				
Segment assets	17,184	1,462	(828)	17,818
Unallocated assets				295
Total assets				18,113
Segment liabilities	(8,741)	(1,396)	828	(9,309)
Unallocated liabilities				(471)
Total liabilities				(9,780)

Notes to the financial statements

for the year ended 31 October 2008

4. Segment information (continued)

Primary reporting format – business segments *(continued)*

	Leased	*Managed*	*Eliminations*	*Total*
	£000	*£000*	*£000*	*£000*
Other segment information				
Capital expenditure:				
Property, plant and equipment	1,304	254	-	1,558
Depreciation	318	244	-	562
Impairment of assets held for sale	205	-	-	205

Year ended 31 October 2007	*Leased*	*Managed*	*Eliminations*	*Total*
	£000	*£000*	*£000*	*£000*
Revenue				
Sales to external customers	6,950	6,346	-	13,296
Inter-segment sales	1,209	-	(1,209)	-
Segment revenue	8,159	6,346	(1,209)	13,296
Results				
Segment result	2,553	523	-	3,076
Unallocated expenses				(396)
Profit before taxation				2,680
Tax expense				(599)
Profit for the year				2,081
Assets and liabilities				
Segment assets	17,836	1,568	(837)	18,567
Unallocated assets				419
Total assets				18,986
Segment liabilities	(8,041)	(1,563)	837	(8,767)
Unallocated liabilities				(784)
Total liabilities				(9,551)

Notes to the financial statements

for the year ended 31 October 2008

4. Segment information (continued)

Other segment information

Capital expenditure:				
Property, plant and equipment	1,254	304	-	1,558
Depreciation	365	249	-	614

Secondary reporting format – geographical segments

The following tables present revenue, expenditure and certain asset information regarding the Group's geographical segments for the years ended 31 October 2008 and 2007. Revenue is based on the geographical location of customers and assets are based on the geographical location of the asset.

Year ended 31 October 2008	*UK*	*United States*	*Total*
	£000	*£000*	*£000*
Revenue			
Sales to external customers	13,114	-	13,114
Other segment information			
Segment assets	17,753	65	17,818
Unallocated assets			295
Total assets			18,113
Capital expenditure			
Property, plant and equipment	1,537	21	1,558

Year ended 31 October 2007	*UK*	*United States*	*Total*
	£000	*£000*	*£000*
Revenue			
Sales to external customers	13,296	-	13,296
Other segment information			
Segment assets	18,515	52	18,567
Unallocated assets			419
Total assets			18,986
Capital expenditure			
Property, plant and equipment	1,558	-	1,558

Notes to the financial statements

for the year ended 31 October 2008

5. Other operating income

	2008 £000	2007 £000
Rents from unlicensed properties	63	64

6. Operating profit

This is stated after charging:

	2008 £000	2007 £000
Depreciation of property, plant and equipment	562	614
Impairment of assets held for sale (included within other operating charges)	205	-
Repairs and maintenance of properties	659	857
Cost of inventories recognised as an expense (included in cost of sales)	4,886	4,904

An impairment loss has been recognised on a property recorded in assets held for sale on which an offer has been received post year end at less than its previous carrying value. The revised value is at fair value less costs to sell and was determined by reference to an active market.

7. Auditors' remuneration

The Group paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the Group.

		2008 £000	2007 £000
Audit of the group financial statements		42	36
Other fees to auditors	- auditing the accounts of subsidiaries	8	8
	- audit of the group pension schemes	3	3
	- other services relating to taxation	8	8
	- all other services	74	26
		93	45
		135	81

Notes to the financial statements

for the year ended 31 October 2008

8. Exceptional items

	2008 £000	2007 £000
Recognised in arriving at operating profit:		
Profit on disposal of non-current assets	198	1,198
Profit on disposal of assets held for sale	730	237
	928	1,435

Profit on disposal of non-current assets in this case represents gains and losses on disposal of property, plant and equipment. Gains and losses on disposal of property, plant and equipment are classified as exceptional on the basis that they arise from transactions to dispose of assets other than at the end of their expected useful lives or at values significantly different to their previously assessed residual value.

Profit on disposal of assets held for sale represents gains on disposal of assets held for sale. As such, the amounts earned or charged in any given year is not indicative of a trend in financial performance.

See note 15 for further details of assets held for sale.

9. Staff costs and directors' emoluments

(a) Staff costs

	2008 £000	2007 £000
Wages and salaries	3,187	2,609
Social security costs	246	210
Other pension costs (note 29)	356	370
	3,789	3,189

Included in wages and salaries is a total expense of share-based payments of £13,488 (2007: £5,632) of which £13,488 (2007: £5,632) arises from transactions accounted for as equity-settled share-based payment transactions.

Included in other pension costs is £242,813 (2007: £227,005) in respect of the defined contribution scheme.

The average monthly number of employees during the year was made up as follows:

	2008 No.	2007 No.
Average monthly number of employees	211	193

Notes to the financial statements

for the year ended 31 October 2008

9. Staff costs and directors' emoluments (continued)

(b) Directors' emoluments

	2008	*2007*
	£000	*£000*
Salaries	342	299
Fees	47	50
Performance-related bonuses	-	58
Benefits	64	65
	453	472
Company contributions paid in respect of money purchase schemes	147	135
Aggregate gains made by directors on the exercise of options	-	177
Share based payments	5	2
Number of directors accruing benefits under:		
Defined benefit schemes	-	-
Defined contribution schemes	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 £120,976 (2007: £123,661).

The highest paid director has an accrued pension entitlement of £87,865 as at 31 October 2008 (2007: £87,865), arising from past membership of the defined benefit scheme which is no longer active.

10. Finance income

	2008	*2007*
	£000	*£000*
Interest on income tax receivable	11	5
Other interest	22	1
Income from financial assets	1	1
	34	7

Notes to the financial statements

for the year ended 31 October 2008

11. Finance costs

	2008	*2007*
	£000	*£000*
Interest on bank loans and overdrafts	404	386
Interest on other loans (including cumulative preference shares)	16	17
Total finance costs	420	403

12. Taxation

(a) Tax on profit on ordinary activities

Tax charged in the income statement

	2008	*2007*
	£000	*£000*
Current income tax:		
UK corporation tax	104	576
Amounts (overprovided)/underprovided in previous years	(352)	10
Total current income tax	(248)	586
Deferred tax:		
Origination and reversal of temporary differences	137	13
Total deferred tax	137	13
Tax charge in the income statement	(111)	599
Tax relating to items charged or credited to equity		
Deferred tax:		
Deferred tax on defined benefit pensions scheme	108	160
Deferred tax on gain on financial asset	(16)	(20)
Impact of change in deferred tax rate (30% to 28%)	-	44
Total deferred tax	92	184
Tax charge in the statement of recognised income and expense	92	184

Notes to the financial statements

for the year ended 31 October 2008

12. Taxation (continued)

(b) Reconciliation of the total tax (credit)/charge

The tax (credit)/expense in the income statement for the year is lower than the standard rate of corporation tax in the UK of 28.83% (2007: 30%). The differences are reconciled below:

	2008 *£000*	*2007* *£000*
Accounting profit before income tax	1,022	2,680
Accounting profit multiplied by the UK standard rate of corporation tax of 28.83% (2007: 30%)	295	804
Expenses not deductible for tax purposes	52	27
Tax overprovided in previous years	(352)	(18)
Other	(20)	2
Capital gains (effects of indexation and rebasing)	(86)	(216)
Total tax credit/(expense) reported in the income statement	(111)	599

(c) Deferred tax

The deferred tax included in the balance sheet is as follows:

	2008 *£000*	*2007* *£000*
Deferred tax liability		
Accelerated capital allowances	223	243
Gain on financial assets	4	20
Rolled over gain	140	-
	367	263
Deferred tax asset		
Pension plans	282	413
Holiday pay	13	6
	295	419

Notes to the financial statements

for the year ended 31 October 2008

12. Taxation (continued)

The deferred tax included in the Group income statement is as follows:

	2008 £000	2007 £000
Deferred tax in the income statement		
Accelerated capital allowances	(20)	(19)
Holiday pay	(7)	(2)
Pension plans	24	34
In respect of rolled over gain	140	-
Deferred income tax expense	137	13

A potential deferred tax asset of £150,000 (2007: £151,000) 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.

13. Earnings per ordinary share

Basic earnings per share amounts are calculated by dividing profit for the year attributable to ordinary equity holders of the parent by the weighted average number of Ordinary shares and 'A' Limited Voting Ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the profit attributable to ordinary equity holders of the parent by the weighted average number of Ordinary shares and 'A' Limited Voting Ordinary shares outstanding during the year as diluted for the share options in issue.

The following reflects the income and shares data used in the basic and diluted earnings per share computations:

	2008 £000	2007 £000
Profit for the year	1,133	2,081

	2008 No. (000)	2007 No. (000)
Basic weighted average number of shares (excluding treasury shares)	5,165	5,279
Dilutive potential ordinary shares:		
Employee share options	-	28
Diluted weighted average number of shares	5,165	5,307

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

Employee share options could potentially dilute basic earnings per share in the future but are not included in the 2008 calculation of dilutive earnings per share because they are antidilutive for the period presented.

Notes to the financial statements

for the year ended 31 October 2008

14. Dividends paid and proposed

	2008	*2007*
	£000	*£000*
Declared and paid during the year:		
Equity dividends on ordinary shares:		
Final dividend for 2007: 7p (2006: 7p)	381	389
First dividend for 2008: £nil (2007: 4.5p)	-	248
Less: dividends on shares held within employee share schemes	(11)	(30)
Dividends paid	370	607
Proposed for approval at AGM (not recognised as a liability as at 31 October)		
Final dividend for 2008: 7p (2007: 7p)	357	371
Cumulative preference dividends	1	1

Notes to the financial statements

for the year ended 31 October 2008

15. Property, plant and equipment

	Land and buildings £000	Furniture and fittings £000	Equipment and vehicles £000	Total £000
Cost:				
At 1 November 2006	14,401	4,441	958	19,800
Additions	517	841	200	1,558
Disposals	(1,277)	(622)	(188)	(2,087)
Transfers to assets classified as held for sale	(641)	(229)	-	(870)
At 31 October 2007	13,000	4,431	970	18,401
Additions	851	528	179	1,558
Disposals	(825)	(1,132)	(346)	(2,303)
Transfers to assets classified as held for sale	(874)	(141)	-	(1,015)
Transfers from assets classified as held for sale	370	149	-	519
At 31 October 2008	12,522	3,835	803	17,160
Depreciation and impairment:				
At 1 November 2006	215	2,439	591	3,245
Provided during the year	-	445	169	614
Disposals	(23)	(468)	(121)	(612)
Transfers to assets classified as held for sale	(10)	(113)	-	(123)
At 31 October 2007	182	2,303	639	3,124
Provided during the year	-	427	135	562
Disposals	(15)	(914)	(259)	(1,188)
Transfers to assets classified as held for sale	(21)	(47)	-	(68)
Transfers from assets classified as held for sale	6	42	-	48
At 31 October 2008	152	1,811	515	2,478
Net book value at 31 October 2008	12,370	2,024	288	14,682
Net book value at 31 October 2007	12,818	2,128	331	15,277
Net book value at 1 November 2006	14,186	2,002	367	16,555

As at 31 October 2008 certain licensed and unlicensed properties including land and buildings and furniture and fittings were actively being marketed for sale. These properties have been presented separately on the balance sheet as 'assets held for sale'. At 31 October 2008 these properties had a carrying amount of £795,000 (2007: £733,000). Two properties and their related fixtures and fittings have been transferred from assets held for sale to property, plant and equipment during the year as they are no longer being actively marketed for sale due to offers for the tenancy of these properties. Both properties are within the leased segment in note 4.

Notes to the financial statements

for the year ended 31 October 2008

16. Financial assets

	2008 £000	2007 £000
Financial assets – non-current		
Available-for-sale financial assets	58	112
	58	112

Available-for-sale financial assets consist of an investment in ordinary shares of a company listed on PLUS markets.

The fair value of the ordinary shares is based on observable market prices or rates.

17. Trade and other receivables

	2008 £000	2007 £000
Trade receivables	928	1,049
Prepayments and accrued income	698	322
Other receivables	92	13
Finance leases	78	113
	1,796	1,497

Trade receivables are denominated in the following currencies:

	2008 £000	2007 £000
Sterling	928	1,049
Other currencies	-	-
	928	1,049

Trade receivables are non-interest bearing and are generally on 30 days' terms and are shown net of a provision for impairment. As at 31 October 2008, trade receivables at nominal value of £325,000 (2007: £288,000) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

	2008 £000	2007 £000
At 1 November	288	372
Charge for the year	135	150
Amounts written back/paid	(98)	(234)
At 31 October	325	288

Notes to the financial statements

for the year ended 31 October 2008

17. Trade and other receivables (continued)

As at 31 October, the analysis of trade receivables that were past due but not impaired is as follows:

	Total	Neither past due nor impaired	Past due but not impaired 0-30 days	30-90 days	90+ days
	£000	*£000*	*£000*	*£000*	*£000*
2008	928	447	241	125	115
2007	1,049	489	265	142	153

The credit quality of counterparts is assessed through the use of credit agencies at the outset of the business relationship. Credit checks are taken out on new tenants where the Group considers this to be appropriate. Monthly checks are made and credit terms altered where appropriate.

18. Inventories

	2008	*2007*
	£000	*£000*
Fine wines	15	15
Merchandising inventory	4	18
Inventory in managed houses	144	177
	163	210

19. Cash and short-term deposits

	2008	*2007*
	£000	*£000*
Cash at bank and in hand	324	738
Short-term deposits	-	-
	324	738

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise the following at 31 October:

	2008	*2007*
	£000	*£000*
Cash at bank and in hand	324	738
Short-term deposits	-	-
Bank overdrafts	(6,479)	(5,376)
	(6,155)	(4,638)

Notes to the financial statements

for the year ended 31 October 2008

20. Trade and other payables

	2008 £000	2007 £000
Current		
Trade payables	692	818
Other taxation and social security	536	246
Accruals	341	454
Other payables	13	115
	1,582	1,633
Non-current		
Other payables - tenants' deposits	232	272
	232	272

Tenants deposits mature when the tenant leaves the property or if trading terms are altered at which point they are repaid. Interest is based on the base rate and negotiations with tenants.

21. Financial liabilities

	2008 £000	2007 £000
Current		
Bank overdrafts	6,479	5,376
Non-current		
11.5% cumulative preference shares (note 24)	11	11

22. Operating lease agreements where the group is a lessor

The Group is a lessor of licensed properties to tenants. The leases have various terms, escalation clauses and renewal rights.

Future minimum rentals receivable under non-cancellable operating leases are as follows:

	2008 £000	2007 £000
Not later than one year	211	211
After one year but not more than five years	663	709
After five years	1,235	1,401
	2,109	2,321

The above figures are based on current rents which are subject to three yearly review. Leases have between one year and eighteen years remaining but are subject to the Landlord and Tenant Act. All figures quoted are for assignable leases. No figures are quoted for non-assignable leases (tenancies) as the complexity of the varying terms of notice under these agreements make it impossible to calculate future life expectancy for these properties.

Notes to the financial statements

for the year ended 31 October 2008

23. Financial instruments and derivatives

The Group's principal financial instruments comprise bank overdrafts, cash, tenants' 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 receivables and trade payables that arise directly from its operations.

Short-term trade receivables and trade payables

Short-term trade receivables and trade payables have been excluded from the numerical disclosures on fair values below.

Interest rate risk

The Group operates with cash and borrowings denominated in sterling. Interest is paid on cash and 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.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on cash and floating rate borrowings). There is no impact on the Group's equity.

The sensitivity analysis excludes all non-derivative fixed rate financial instruments carried at amortised cost and includes all non-derivative floating rate financial instruments. 100 basis points has been used as movements are linear.

	Increase/ decrease in basis points	*Effect on profit before tax £000*
2008		
Sterling	+100	(64)
Sterling	-100	64
2007		
Sterling	+100	(49)
Sterling	-100	49

Liquidity risk

Short term flexibility on Group borrowings is achieved by overdraft facilities.

The table over summarises the maturity profile of the Group's financial liabilities at 31 October 2008 and 2007 based on contractual undiscounted payments.

Notes to the financial statements

for the year ended 31 October 2008

23. Financial instruments and derivatives (continued)

Year ended 31 October 2008

	On demand	*Less than 3 months*	*3-12 months*	*1-5 years*	*More than 5 years*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*
Bank overdraft	6,479	-	-	-	-	6,479
Tenants' deposits	-	3	8	232	-	243
Trade payables	692	-	-	-	-	692
Directors' loans	8	-	-	-	-	8

Year ended 31 October 2007

	On demand	*Less than 3 months*	*3-12 months*	*1-5 years*	*More than 5 years*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*
Bank overdraft	5,376	-	-	-	-	5,376
Tenants' deposits	-	3	10	272	-	285
Trade payables	818	-	-	-	-	818
Directors' loans	82	-	-	-	-	82

Credit risk

There are no significant concentrations of credit risk within the Group. The maximum credit risk exposure relating to financial assets is represented by their carrying value as at the balance sheet date.

The group has established procedures to minimise the risk of default on trade receivables including detailed credit checks undertaken before a customer is accepted. Historically, these procedures have proved effective in minimising the level of impaired and past due debtors.

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.

Notes to the financial statements

for the year ended 31 October 2008

23. Financial instruments and derivatives (continued)

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.

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 2008 £000	*Fair value 2008 £000*	*Book value 2007 £000*	*Fair value 2007 £000*
Financial assets				
Cash	324	324	738	738
Available-for-sale investments	58	58	112	112
	382	382	850	850
Financial liabilities				
Bank overdraft	(6,479)	(6,479)	(5,376)	(5,376)
Interest-bearing loans and borrowings:				
Floating rate borrowings				
Tenants' deposits	(232)	(232)	(272)	(272)
Directors' loans	(8)	(8)	(82)	(82)
Cumulative preference shares	(11)	(11)	(11)	(11)
	(6,730)	(6,730)	(5,741)	(5,741)

Fair value of available-for-sale investments is based on market value (see note 16).

The fair value of the bank overdraft is the same as the book value as this is an on demand facility. This is also the case for directors' loans.

The carrying value of tenants' deposits and cumulative preference shares are assumed to approximate their fair value.

Notes to the financial statements

for the year ended 31 October 2008

24. Authorised and issued share capital

(i) Ordinary shares

Authorised	*2008*	*2007*
	£	*£*
Ordinary shares of 5p each	99,735	104,913
'A' limited voting ordinary shares of 5p each	164,124	167,803
Unclassified shares of 5p each	924,446	915,589
	1,188,305	1,188,305

	2008	*2007*	*2008*	*2007*
Allotted, called up and fully paid	*No.*	*No.*	*£*	*£*
Ordinary shares of 5p each				
At 1 November	2,098,262	2,126,262	104,913	106,313
Purchases	(103,563)	(28,000)	(5,178)	(1,400)
At 31 October	1,994,699	2,098,262	99,735	104,913

'A' Limited Voting Ordinary Shares of 5p each	*2008*	*2007*	*2008*	*2007*
	No.	*No.*	*£*	*£*
Ordinary shares of 5p each				
At 1 November	3,356,061	3,435,061	167,803	171,753
Purchases	(73,583)	(79,000)	(3,679)	(3,950)
At 31 October	3,282,478	3,356,061	164,124	167,803

During the year the Company purchased 73,583 5p 'A' Limited Voting Ordinary Shares (2007: 79,000) at a cost of £ 754,226 (2007: £868,150) and 103,563 Ordinary Shares (2007: 28,000) at a cost of £1,144,371 (2007: £323,400).

The Ordinary shares and 'A' limited voting Ordinary shares are entitled equally to dividends, and rank equally on a winding up, after the cumulative 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 2008

24. Authorised and issued share capital (continued)

(ii) Preference shares classified as non-current liability

Authorised	*2008* £	*2007* £
11.5% cumulative preference shares of £1 each	11,695	11,695

Allotted, called up and fully paid

	2008 No.	*2007* No.	*2008* £	*2007* £
11.5% cumulative preference shares of £1 each	11,695	11,695	11,695	11,695

The cumulative 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 cumulative preference shares do not normally carry voting rights.

An explanation of the Group's capital management process and objectives is set out in the discussion of capital management on page 10 in the Directors' report.

25. Share-based payments

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 30 October 2007, options were granted under the Scheme over 19,454 '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 £4.125 per share at 31 October 2008 (2007: £10.975), giving a total market value of £80,248 (2007: £213,508) 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.

	2008 No.	*2008 WAEP* £	*2007* No.	*2007 WAEP* £
Outstanding at 1 November	19,454	10.975	38,581	3.50
Granted during the year	-	-	19,454	10.975
Forfeited during the year	-	-	-	-
Exercised	-	-	(38,581)	(3.50)
Expired during the year	-	-	-	-
Outstanding at 31 October	19,454	10.975	19,454	10.975
Exercisable 31 October	-	-	-	-

Notes to the financial statements

for the year ended 31 October 2008

25. Share-based payments (continued)

The weighted average share price of the options exercised in the year at the date of exercise is £nil (2007: £10.975).

For the share options outstanding at 31 October 2008, the weighted average remaining contractual life is 2 years (2007: 3 years).

The weighted average fair value of options granted during the year was £nil (2007: £2.08). The exercise price for options outstanding at 31 October 2008 was £10.975.

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

	2008	*2007*
	£	*£*
Fair value of options	13,488	5,632

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

	2007
Share price	£10.975
Exercise price	£10.975
Expected volatility	20%
Historical volatility	20%
Expected life	3 years
Risk free interest rate	5%
Expected dividend yield	1%

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.

Notes to the financial statements

for the year ended 31 October 2008

26. Reconciliation of movements in equity

	Equity share capital	*Capital redemption reserve*	*Treasury shares*	*Fair value adjustments reserve*	*Currency translation*	*Retained earnings*	*Total equity*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*
At 1 November 2006	278	659	(1,335)	108	-	8,040	7,750
Total recognised income and expense for the year	-	-	-	(16)	1	2,469	2,454
Transfer in respect of the buy back of own shares	(5)	5	611	-	-	(611)	-
Consideration paid by EBT on purchase of shares	-	-	(481)	-	-	-	(481)
Consideration received by EBT on sale of shares	-	-	314	-	-	-	314
Gain by EBT on sale of shares	-	-	(72)	-	-	72	-
Share based payment	-	-	-	-	-	5	5
Equity dividends paid	-	-	-	-	-	(607)	(607)
At 31 October 2007	273	664	(963)	92	1	9,368	9,435

Notes to the financial statements

for the year ended 31 October 2008

26. Reconciliation of movements in equity (continued)

	Equity share capital £000	*Capital redemption reserve £000*	*Treasury shares £000*	*Fair value adjustments reserve £000*	*Currency translation £000*	*Retained earnings £000*	*Total equity £000*
At 31 October 2007	273	664	(963)	92	1	9,368	9,435
Total recognised income and expense for the year	-	-	-	(54)	2	1,427	1,375
Transfer in respect of the buy back of own shares	(9)	9	-	-	-	(1,899)	(1,899)
Consideration paid by EBT on purchase of shares	-	-	(366)	-	-	-	(366)
Consideration received by EBT on sale of shares	-	-	145	-	-	-	145
Gain by EBT on sale of shares	-	-	(64)	-	-	64	-
Share based payment	-	-	-	-	-	13	13
Equity dividends paid	-	-	-	-	-	(370)	(370)
At 31 October 2008	264	673	(1,248)	38	3	8,603	8,333

Equity share capital

The balance classified as share capital includes the total net proceeds (both nominal value and share premium) on issue of the Company's equity share capital, comprising 5p ordinary shares.

Treasury shares

Treasury shares represents the cost of The Heavitree Brewery PLC shares purchased in the market and held by The Heavitree Brewery PLC Employee Benefit Trust ('EBT').

At 31 October 2008 the Group held 58,779 ordinary shares and 120,393 'A' limited voting ordinary shares (2007: 63,183 ordinary shares and 94,358 'A' limited voting ordinary shares) of its own shares at an average cost of £6.81 (2007: £5.80). The market value of these shares as at 31 October 2008 was £776,000 (2007: £1,765,000).

Fair value adjustments reserve

The fair value adjustments reserve is used to record differences in the market value of the available-for-sale investment year on year.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Notes to the financial statements

for the year ended 31 October 2008

27. Post balance sheet event

On 27 June 2008 the company announced it was embarking on a strategic review of the business and on 14 November 2008 announced the closure of its managed house operation (currently within Heavitree Inns Limited). This process is well underway and should be completed by the end of April 2009.

The Steam Packet Inn at Topsham was sold on 10 November 2009.

Post year-end the Company has been in negotiation with its bankers and has restructured its borrowings into longer term secured debt until 2012.

The effect of this will be to move circa £5 million from Current liabilities to Non-current liabilities within the Balance sheet.

28. Capital commitments

At 31 October 2008, amounts contracted for but not provided in the financial statements for the acquisition of property, plant and equipment amounted to £nil for the Group (2007: £300,000).

29. Pensions and post-retirement benefits

(i) Optional pension payments

During the year the Group made discretionary pension payments of £112,510 (2007: £142,795) directly to past employees.

(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 £242,813 (2007: £227,005).

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 (2007: £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 pension scheme assets are held in a separate Trustee administered fund to meet long-term pension liabilities to past and present employees. The trustees of the fund are required to act in the best interest of the fund's beneficiaries. The appointment of trustees to the fund is determined by the scheme's trust documentation.

The assets and liabilities of the scheme at 31 October are:

Notes to the financial statements

for the year ended 31 October 2008

29. Pensions and post-retirement benefits (continued)

	Expected long term rate of return at 31 October 2008	*Value at 31 October 2008*	*Expected long term rate of return at 31 October 2007*	*Value at 31 October 2007*
	%	*£000*	*%*	*£000*
Scheme assets at fair value				
Equities	-		-	-
Fixed Interest Securities	6.90	1,259		
Cash	4.50	272	5.75	1,684
Other scheme assets	6.00	3,304	6.00	3,835
Fair value of scheme assets	-	4,835	-	5,519
Present value of scheme liabilities	-	(5,840)	-	(6,994)
Defined benefit pension plan deficit	-	(1,005)	-	(1,475)

The fair value of the scheme assets as a percentage of total scheme assets are set out below:

	2008	*2007*	*2006*
Equities	0%	0%	21%
Cash	6%	31%	3%
Other scheme assets	94%	69%	76%

The majority of the assets of the scheme as at 31 October 2008 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 IAS 19 100% of these assets are classed as 'other'. This was also the case at 31 October 2007. 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 2008

29. Pensions and post-retirement benefits (continued)

The amounts recognised in the Group income statement and in the Group statement of recognised income and expense for the year are analysed as follows:

	2008	*2007*
	£000	*£000*
Recognised in the income statement		
Current service cost	-	-
Recognised in arriving at operating profit	-	-

	2008	*2007*
	£000	*£000*
Expected return on scheme assets	331	354
Interest cost on scheme liabilities	(405)	(392)
Other finance cost	(74)	(38)
Total charge to the income statement	(74)	(38)

	2008	*2007*
	£000	*£000*
Taken to the statement of recognised income and expense		
Actual return on scheme assets	(634)	(301)
Less: expected return on scheme assets	(331)	(354)
	(965)	(655)
Other actuarial gains	1,351	1,227
Actuarial gains recognised in the statement of recognised income and expense	386	572

Pension contributions are determined with the advice of independent qualified actuaries, Jardine Lloyd Thompson, on the basis of triennial valuations using the projected unit credit method. The projected unit credit method is an accrued benefits valuation method in which the scheme liabilities make allowance for future earnings. Scheme assets are stated at their market values at the respective balance sheet dates and overall expected rates of return are established by applying published brokers' forecasts to each category of scheme assets.

Notes to the financial statements

for the year ended 31 October 2008

29. Pensions and post-retirement benefits (continued)

	2008	*2007*
	%	*%*
Main assumptions		
Rate of salary increases	n/a	n/a
Rate of increase in pensions in payment	3.00-5.00	3.00-5.00
Discount rate	6.90	5.80
Expected rates of return on scheme assets		
Equities	-	-
Cash	4.50	5.75
Other scheme assets	6.00-6.90	6.00
Inflation assumption	3.00	3.00
Mortality (in years)		
Current pensioners at 65 – male	20	20
Current pensioners at 65 – female	23	23
Future pensioners at 40 – male	44	44
Future pensioners at 40 – female	47	47

The post-retirement mortality assumptions allow for expected changes in longevity. The 'current' disclosures above relate to assumptions based on longevity (in years) following retirement at the balance sheet date, with 'future' being the assumed longevity at the balance sheet date of an employee currently aged 40 and retiring in 2033.

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Assumption	*Change in assumption*	*Impact on scheme liabilities*
Discount rate	Increase/decrease by 0.5%	Decrease/increase by 10.0%
Inflation assumption	Increase/decrease by 0.5%	No impact as fixed increases
Post retirement mortality	Increase by 1 year	Increase by 3.0%

The most recently completed actuarial valuation of the Group's main retirement benefits fund was carried out as at 1st January 2005. Following the valuation, the Group's ordinary contributions rate increased, with effect from 2006 to £158,000 in respect of the deficit for the initial 3 years, decreasing to £120,000 thereafter. The Group will monitor funding levels on an annual basis. The next valuation is due to be completed as at 1 January 2008 and is in progress. The Group considers that the contribution rates agreed with trustees at the last valuation date are sufficient to eliminate the deficit over the agreed period and that regular contributions, which are based on service costs, will not increase significantly. The total contributions to the defined benefit scheme in 2009 are expected to be £120,000 (2008: £158,000) for the Group.

The Group has agreed the following funding objective with trustees:

1. Once the funding level of the scheme is 100% of the projected past service liabilities to maintain funding at least at this level; and
2. To meet the liabilities of the scheme in the event that the scheme is wound-up.

The levels of contributions are based on the current service costs and the expected future cash flows of the defined benefit scheme. The Group estimates the present value of the duration of scheme liabilities on average fall due over 20 years.

Notes to the financial statements

for the year ended 31 October 2008

29. Pensions and post-retirement benefits (continued)

Changes in the present value of the defined benefit pension obligations are analysed as follows:

	2008	*2007*
	£000	*£000*
As at 1 November	6,994	7,842
Current service cost	-	-
Interest cost	405	392
Benefits paid	(208)	(13)
Actuarial gains and losses	(1,351)	(1,227)
At 31 October	5,840	6,994

Changes in the fair value of plan assets are analysed as follows:

	2008	*2007*
	£000	*£000*
As at 1 November	5,519	5,675
Expected return on plan assets	331	354
Employer contributions	158	158
Contributions by employees	-	-
Benefits paid	(208)	(13)
Actuarial gains and losses	(965)	(655)
At 31 October	4,835	5,519

	2008	*2007*	*2006*
	£000	*£000*	*£000*
Fair value of scheme assets	4,835	5,519	5,675
Present value of defined benefit obligation	(5,840)	(6,994)	(7,842)
(Deficit)/surplus in the scheme	(1,005)	(1,475)	(2,167)
Experience adjustments arising on plan liabilities	-	-	-
Experience adjustments arising on plan assets	(965)	(655)	11

The cumulative amount of actuarial gains and losses recognised since 1 November 2006 in the Group statement of recognised income and expense is £1,132,000 (2007: £746,000). The directors are unable to determine how much of the pension scheme deficit recognised on transition to IFRSs and taken directly to equity in the Group is attributable to actuarial gains and losses since inception of those pension schemes. Consequently, the directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the Group statement of recognised income and expense before 1 November 2006.

Notes to the financial statements

for the year ended 31 October 2008

30. Directors' loans and other directors' interests

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.

	2008 *£000*	*Movement in year* *£000*	*2007* *£000*
W P Tucker	-	(67)	67
G J Crocker	8	(3)	11
R J Glanville	-	(4)	4
	8	(74)	82

The above balances are included in other payables falling due within one year.

31. Other related party transactions

During the year the Group entered into transactions, in the ordinary course of business, with other related parties. Those transactions with directors are disclosed in note 30. Transactions between The Heavitree Brewery PLC and Heavitree Inns Limited are disclosed in note 4.

Terms and conditions of transactions with related parties
Sales and purchases between related parties are made at normal market prices. Outstanding balances with entities other than subsidiaries are unsecured, interest free and cash settlement is expected within 30 days of invoice. Terms and conditions for transactions with subsidiaries are the same, with the exception that balances are placed on intercompany accounts with no specified credit period. The Group has not provided or benefited from any guarantees for any related party receivables or payables. During the year ended 31 October 2008, the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2007: £nil).

Compensation of key management personnel (including directors)

The only key management personnel are directors and their compensation is disclosed in note 9.

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 House

Notes to the financial statements

for the year ended 31 October 2008

32. Transition to IFRS

For all periods up to and including the year ended 31 October 2007, the group prepared its financial statements in accordance with United Kingdom generally accepted accounting practice (UK GAAP). Financial statements for the year ended 31 October 2008 are the first the Group is required to prepare in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

Accordingly, the Group has prepared financial statements which comply with IFRSs applicable for periods beginning on or after 1 November 2007 and the significant accounting policies meeting those requirements are described in note 2.

In preparing the financial statements, the Group has started from an opening balance sheet as at 1 November 2006, the Group's date of transition to IFRS, and made those changes in accounting policies and other restatements required by IFRS 1 for the first time-adoption of IFRS. This note explains the principal adjustments made by the Group in restating its UK GAAP balance sheet as at 1 November 2006 and its previously published UK GAAP financial statements for the year ended 31 October 2007. The adjustments to IFRSs are classified below under two headings: "IFRS reclassifications" and "IFRS remeasurements". In addition the Group identified some adjustments as part of this process that do not arise from a GAAP difference and have therefore been classified as 'reclassifications' rather than IFRS reclassifications or remeasurements.

There is no change to the cashflows under IFRS but there are some presentational changes to the cash flow statement.

Exemptions applied

IFRS 1 allows first-time adopters certain exemptions from the general requirement to apply IFRSs retrospectively. The Group has taken the following exemption:

- Cumulative translation differences for all foreign operations are deemed to be zero as at 1 November 2006;
- IFRS 2 Share-based Payment has not been applied to any equity instruments that were granted on or before 7 November 2002, nor has it been applied to equity instruments granted after 7 November 2002 that vested before 1 November 2006, the Group's date of transition to IFRS;
- Cumulative actuarial gains and losses are recognised in full in equity at the date of transition to IFRS. This represents no change from the previous policy.

Summary of major impacts of adoption of IFRS

Property, Plant and Equipment (IAS 16)

An entity must adopt either a cost or valuation model for valuing its property, plant and equipment. Consistent with its approach under UK GAAP the Group has decided to continue with a cost model.

Freehold buildings are depreciated to write off the difference between their carrying value and residual value over their useful economic life of 50 years. However no depreciation charge arises in respect of 2006 or 2007 as the residual value of freehold properties is at least equal to their carrying value.

The impact of this is to increase net assets by £80,000 at 31 October 2006 and £127,000 at 31 October 2007.

Notes to the financial statements

for the year ended 31 October 2008

32. Transition to IFRS (continued)

Non-current Assets Held for Sale and Discontinued Operations (IFRS 5)

A reclassification has been made at 31 October 2006 and 30 April 2007 for property, plant and equipment being marketed for sale. This reclassification had already been made in the accounts for the year ended 31 October 2007.

Holiday pay accrual (IAS 19)

The standard requires liabilities for employee benefits to be recognised on the basis of a legal or constructive obligation. Liabilities and expenses are generally recognised in the period in which the services are rendered. In accordance with the standard the Group has recognised a provision for employee holiday pay earned but not taken at the end of each accounting period.

The impact of this is to reduce net assets by £15,000 at 31 October 2006 and £20,000 at 31 October 2007.

Financial Instruments : Recognition and Measurement (IAS 39)

Our unlisted investment is now stated at fair value rather than cost in accordance with IAS 39. This investment is categorised as available for sale under IAS 39.

The impact of this is to increase net assets by £108,000 at 31 October 2006 and £92,000 at 31 October 2007.

Pensions (IAS 19)

We have chosen to recognise all actuarial gains and losses immediately through equity in accordance with our previous UK GAAP policy.

Under IFRS, the pension deficit is shown on the balance sheet gross of deferred tax. This is a change in presentation from UK GAAP which required the liability to be shown net of the related deferred tax asset.

Income taxes (IAS 12)

The unlisted investment has been revalued to fair value. This is not a 10% holding therefore does not qualify for substantial shareholdings exemption. The increase in value will create a temporary difference between the carrying value and the tax base and therefore a deferred tax liability has been recognised in respect of this.

Cash flows

There is no change to the cash flows under IFRS but there will be some presentational changes to the cash flow statement in the accounts for the year ended 31 October 2008

Reclassification

During the course of the IFRS conversion exercise we noted that certain assets which were included within property, plant and equipment were leased under finance leases and therefore should have been classified as lease debtors. We have taken the opportunity to correct the classification of these assets. This has no impact on the income statement.

Notes to the financial statements

for the year ended 31 October 2008

Consolidated balance sheet at 1 November 2006

	UK GAAP	*Re-classification*	*IFRS Re-classification*	*IFRS Re-measurement*	*IFRS*
	£000	*£000*	*£000*	*£000*	*£000*
Non-current assets					
Property, plant and equipment	16,650	(161)	(14)	80	16,555
Financial assets	20	-	-	108	128
Deferred tax asset	-	-	650	4	654
	16,670	(161)	636	192	17,337
Current assets					
Trade and other receivables	1,493	161	-	-	1,654
Inventories	142	-	-	-	142
Cash and short-term deposits	435	-	-	-	435
Assets held for sale	-	-	14	-	14
Total assets	18,740	-	650	192	19,582
Current liabilities					
Trade and other payables	(1,875)	-	-	(15)	(1,890)
Financial liabilities	(6,877)	-	-	-	(6,877)
Income tax payable	(315)	-	-	-	(315)
Provisions	-	-	-	-	-
	(9,067)	-	-	(15)	(9,082)
Non-current liabilities					
Other payables	(285)	-	-	-	(285)
Financial liabilities	(11)	-	-	-	(11)
Deferred tax liabilities	(262)	-	-	(25)	(287)
Defined benefit pension plan deficit	(1,517)	-	(650)	-	(2,167)
	(2,075)	-	(650)	(25)	(2,750)
Total liabilities	(11,142)	-	(650)	(40)	(11,832)
Net assets	7,598	-	-	152	7,750
Capital and reserves					
Equity share capital	278	-	-	-	278
Capital redemption reserve	659	-	-	-	659
Treasury shares	(1,335)	-	-	-	(1,335)
Fair value adjustments reserve	-	-	-	108	108
Currency translation	69	-	(69)	-	-
Retained earnings	7,927	-	69	44	8,040
Total equity	7,598	-	-	152	7,750

Notes to the financial statements

for the year ended 31 October 2008

Consolidated balance sheet at 31 October 2007

	UK GAAP	Re-classification	IFRS Re-classification	IFRS Re-measurement	IFRS
	£000	*£000*	*£000*	*£000*	*£000*
Non-current assets					
Property, plant and equipment	15,263	(113)	-	127	15,277
Financial assets	20	-	-	92	112
Deferred tax asset	-	-	413	6	419
	15,283	(113)	413	225	15,808
Current assets					
Trade and other receivables	1,384	113	-	-	1,497
Inventories	210	-	-	-	210
Cash and short-term deposits	738	-	-	-	738
Assets held for sale	733	-	-	-	733
Total assets	18,348	-	413	225	18,986
Current liabilities					
Trade and other payables	(1,613)	-	-	(20)	(1,633)
Financial liabilities	(5,376)	-	-	-	(5,376)
Income tax payable	(521)	-	-	-	(521)
Provisions	-	-	-	-	-
	(7,510)	-	-	(20)	(7,530)
Non-current liabilities					
Other payables	(272)	-	-	-	(272)
Financial liabilities	(11)	-	-	-	(11)
Deferred tax liabilities	(243)	-	-	(20)	(263)
Defined benefit pension plan deficit	(1,062)	-	(413)	-	(1,475)
	(1,588)	-	(413)	(20)	(2,021)
Total liabilities	(9,098)	-	(413)	(40)	(9,551)
Net assets	9,250	-	-	185	9,435
Capital and reserves					
Equity share capital	273	-	-	-	273
Capital redemption reserve	664	-	-	-	664
Treasury shares	(963)	-	-	-	(963)
Fair value adjustments reserve	-	-	-	92	92
Currency translation	70	-	(69)	-	1
Retained earnings	9,206	-	69	93	9,368
Total equity	9,250	-	-	185	9,435

Notes to the financial statements

for the year ended 31 October 2008

Consolidated income statement for the year ended 31 October 2007

	UK GAAP £000	IFRS Re-classification £000	IFRS Re-measurement £000	IFRS £000
Revenue	13,296	-	-	13,296
Change in stocks	69	-	-	69
Other operating income	64	-	-	64
Purchase of inventories	(4,904)	-	-	(4,904)
Staff costs	(3,169)	-	(20)	(3,189)
Depreciation of property, plant and equipment	(661)	-	47	(614)
Other operating charges	(3,043)	-	-	(3,043)
	(11,644)	-	27	(11,617)
Group operating profit	1,652	-	27	1,679
Profit on disposal of non-current assets	1,435	-	-	1,435
Group profit before finance costs and taxation	3,087	-	27	3,114
Finance income	7	-	-	7
Finance costs	(403)	-	-	(403)
Other finance costs – pensions	(38)	-	-	(38)
	(434)	-	-	(434)
Profit before taxation	2,653	-	27	2,680
Tax (expense)/credit	(601)	-	2	(599)
Profit for the year	2,052	-	29	2,081

The Heavitree Brewery PLC

Company financial statements

31 October 2008

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 law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of 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 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 parent company financial statements of the Heavitree Brewery PLC for the year ended 31 October 2008 which comprise the Company balance sheet and the related notes 1 to 14. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the group financial statements of The Heavitree Brewery PLC for the year ended 31 October 2008.

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 auditor's 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 parent company 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 parent company 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 parent company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the parent company directors' report is consistent with the financial statements. The information given in the Directors' report includes that specific information presented in the Chairman's statement that is cross referenced from the Directors' report.

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 other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only Directors and other information, Notice of annual general meeting, Chairman's statement, Directors' 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 with the parent company 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 parent company financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company 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 parent company financial statements are free from material misstatement, whether caused by fraud or

Independent auditors' report

to the members of The Heavitree Brewery PLC

other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements.

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 October 2008;
- the parent company 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 parent company financial statements.

Ernst & Young LLP

Ernst & Young LLP
Registered auditor
Exeter
26 February 2009

Company balance sheet

at 31 October 2008

	Notes	2008 £000	2007 £000
Fixed assets			
Tangible assets	3	13,926	14,465
Investments	4	84	76
		14,010	14,541
Current assets			
Stocks	5	19	33
Assets held for sale		795	733
Debtors:	6		
amounts falling due after more than one year		828	767
amounts falling due within one year		1,221	1,062
		2,049	1,829
Cash at bank and in hand		77	413
		2,940	3,008
Creditors: amounts falling due within one year	7	(7,594)	(6,784)
Net current liabilities		(4,654)	(3,776)
Total assets less current liabilities		9,356	10,765
Creditors: amounts falling due after more than one year	8	(243)	(283)
Provisions for liabilities and charges			
Deferred taxation	9	(167)	(168)
Net assets excluding pension liability		8,946	10,314
Pension liability	12	(724)	(1,062)
		8,222	9,252
Capital and reserves			
Called up share capital	10	264	273
Capital redemption reserve	11	673	664
Own shares reserve	11	(1,248)	(963)
Profit and loss account	11	8,533	9,278
Total shareholders' funds		8,222	9,252

The notes on pages 72 to 85 form part of the financial statements.

These accounts were approved by the Board of Directors and authorised for issue on 26 February 2009 and were signed on its behalf by

N H P TUCKER)
G J CROCKER) Directors

N.H.P. Tucker
G.J. Crocker

Notes to the financial statements

for the year ended 31 October 2008

1. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention, as modified by the revaluation of the Company's investment in its US subsidiary, and in accordance with applicable accounting standards.

No profit and loss account is presented by the Company as permitted by Section 230 of the Companies Act 1985.

In preparing the financial statements for the current year, the group has adopted the amendment to FRS 17 'Retirement Benefits'. The amendment to FRS 17 results in a change in accounting policy for the valuation of quoted securities included in plan assets. There has been no impact on the profit and loss account or balance sheet.

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.

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 when 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.

Notes to the financial statements

for the year ended 31 October 2008

1. Accounting policies (continued)

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.

Employee share option scheme and Employee benefits trust

The assets of the Employee Share Option Scheme and the Employee Benefits Trust are fully consolidated within the financial statements of the Company. Shares held in the Scheme and Trust are deducted from shareholders' funds and are stated at cost.

Pension schemes

The Company maintains a defined benefit pension scheme for the funding of retirement benefits for scheme members during their working lives in order to pay benefits to them after retirement and to their dependants after their death. The scheme was closed to new members on 18 July 2002 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.

The Company operates an employer-sponsored personal pension arrangement. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

Notes to the financial statements

for the year ended 31 October 2008

1. Accounting policies (continued)

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.

The Company 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.

The Company has adopted UITF 44 'Group and Treasury Share Transactions' in the year but this has had no impact.

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.

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.

Notes to the financial statements

for the year ended 31 October 2008

2. Profit attributable to members of the parent company

The profit dealt with in the financial statements of the parent company is £799,000 (2007: £1,445,000).

3. Tangible fixed assets

	Freehold land and buildings and fixtures and fittings £000	*Equipment and vehicles £000*	*Total £000*
Cost:			
At 1 November 2007	16,149	650	16,799
Additions	1,102	179	1,281
Disposals	(1,935)	(343)	(2,278)
Transfer from group companies	145	-	145
Transfer to current assets	(1,015)	-	(1,015)
Transfer from current assets	519	-	519
At 31 October 2008	14,965	486	15,451
Depreciation:			
At 1 November 2007	1,966	368	2,334
Provided during the year	272	116	388
Disposals	(918)	(259)	(1,177)
Transfer to current assets	(68)	-	(68)
Transfer from current assets	48	-	48
At 31 October 2008	1,300	225	1,525
Net book value:			
At 31 October 2008	13,665	261	13,926
At 31 October 2007	14,183	282	14,465

Freehold land and buildings are included in the above at a cost of £12,513,000 (2007 - £13,655,000) and at a net book value of £12,164,000 (2007: £13,336,000).

Included within freehold land and buildings is an aggregate cost of £89,652 (2007: £89,652) relating to licensed property with short leases granted to tenants. The net book value of these assets was £87,582 at 31 October 2008 (2007: £87,831).

As at 31 October 2008 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 2008 these properties had a net realisable value of £795,000 (2007: £733,000).

Future capital expenditure

	2008 £000	*2007 £000*
Contracted	-	300

Notes to the financial statements

for the year ended 31 October 2008

4. Fixed asset investments

	Subsidiary undertakings £000	*Unlisted investments £000*	*Total £000*
At 1 November 2007	61	20	81
Revaluation	8	-	8
At 31 October 2008	69	20	89
Amounts provided:			
At 1 November 2007	(5)	-	(5)
Impairment	-	-	-
At 31 October 2008	(5)	-	(5)
Net book value:			
At 31 October 2008	64	20	84
At 31 October 2007	56	20	76

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.

5. Stocks

	2008 £000	*2007 £000*
Fine wines	15	15
Merchandising stocks	4	18
Stocks in managed houses	-	-
	19	33

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

Notes to the financial statements

for the year ended 31 October 2008

6. Debtors

	2008	2007
	£000	£000
Trade debtors	863	993
Amounts owed by subsidiary company	828	767
Other debtors	92	13
Prepayments and accrued income	266	56
	2,049	1,829

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

	2008	2007
	£000	£000
Amounts owed by subsidiary company	828	767
Other debtors	-	-
	828	767

7. Creditors: amounts falling due within one year

	2008	2007
	£000	£000
Bank overdrafts (unsecured)	6,479	5,376
Trade creditors	510	547
Other taxation and social security	277	57
Other creditors	13	88
Accruals	244	356
Corporation tax	71	360
	7,594	6,784

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

	2008	2007
	£000	£000
Tenants' deposits	232	272
11.5% Cumulative Preference Shares (note 10)	11	11
	243	283

Notes to the financial statements

for the year ended 31 October 2008

9. Deferred taxation

	£000
Provided	
At 1 November 2007	168
Credit for the year	(1)
At 31 October 2008	167

Deferred taxation provided in the financial statements is as follows:

	2008	Provided 2007
	£000	£000
Capital allowances in advance of depreciation	167	168

The amount of deferred taxation not provided in the accounts is £140,000 in respect of rolled over gains. No provision has been made for this amount as no liability is expected to arise.

10. Share capital

	2008	2007
	£	£
Authorised		
11.5% Cumulative Preference Shares of £1 each	11,695	11,695
Ordinary Shares of 5p each	99,735	104,913
'A' Limited Voting Ordinary Shares of 5p each	164,124	167,803
Unclassified Shares of 5p each	924,446	915,589
	1,188,305	1,188,305
	1,200,000	1,200,000

Notes to the financial statements

for the year ended 31 October 2008

10. Share capital (continued)

Allotted, called up and fully paid	*2008* *No.*	*2007* *No.*	*2008* *£*	*2007* *£*
11.5% Cumulative Preference Shares of £1 each	11,695	11,695	11,695	11,695
Ordinary Shares of 5p each	1,994,699	2,098,262	99,735	104,913
'A' Limited Voting Ordinary Shares of 5p each	3,282,478	3,356,061	164,124	167,803
			263,859	272,716

During the year the Company purchased 73,583 5p 'A' Limited Voting Ordinary Shares (2007: 79,000) at a cost of £ 754,226 (2007: £868,150) and 103,563 Ordinary Shares (2007: 28,000) at a cost of £1,144,371 (2007: £323,400).

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.

Under the Company's Approved Share Option Scheme the following options were held at 31 October 2008:

Number of shares at 31 October 2007	*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 2008*	*Price*	*Exercise period*
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.

Notes to the financial statements

for the year ended 31 October 2008

10. Share capital (continued)

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 2008, the Trust held the following shares. 19,454 of these shares are held under option (note 14).

	Nominal amount 2008 £	*Nominal amount 2007 £*	*Market value 2008 £000*	*Market value 2007 £000*
5p Ordinary Shares				
58,779 shares (2007: 63,183 shares)	2,939	3,159	279	730
5p 'A' Limited Voting Ordinary				
120,393 shares (2007: 94,358 shares)	6,020	4,718	497	1,035

The Trust also holds 1,104 (2007: 854) Preference Shares. The purchase of these shares has resulted in a reduction in the liability arising under FRS 25.

11. Reserves

	Capital redemption reserve £000	*Own shares reserve £000*	*Profit and loss account £000*
At 31 October 2007	664	(963)	9,278
Actuarial gain recognised on pension scheme	-	-	386
Deferred tax relating to actuarial gain on pension scheme	-	-	(108)
Transfer in respect of the buy back of own shares	9	-	(1,899)
Consideration paid by EBT on purchase of shares	-	(366)	-
Consideration received by EBT on sale of shares	-	145	-
Gain by EBT on sale of shares	-	(64)	64
Share-based payment	-	-	13
Profit for year	-	-	1,169
Dividends	-	-	(370)
At 31 October 2008	673	(1,248)	8,533

The investment in own shares relates to 58,779 Ordinary Shares (2007: 63,183), and 120,393 'A' Limited Voting Ordinary Shares (2007: 94,358) 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 2008 was £776,000 (2007: £1,765,000). The own shares reserve relates solely to the Ordinary and 'A' Limited Voting Ordinary Shares.

Notes to the financial statements

for the year ended 31 October 2008

12. Pension schemes

(i) Optional pension payments

During the year the Company made discretionary pension payments of £112,510 (2007: £142,795) 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 £242,813 (2007: £227,005).

(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 2008. 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 next valuation is due to be completed as at 1 January 2008 and is in progress.

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.

The assets and liabilities of the scheme at 31 October 2008 are:

	2008	*2007*
	£000	*£000*
Scheme assets at fair value		
Scheme assets		
Equities		-
Cash	272	1,684
Other	4,563	3,835
Fair value of scheme assets	4,835	5,519
Present value of scheme liabilities	(5,840)	(6,994)
Defined benefit pension scheme deficit	(1,005)	(1,475)
Related deferred tax asset	281	413
Net liability in the balance sheet	(724)	(1,062)

Notes to the financial statements

for the year ended 31 October 2008

12. Pensions (continued)

The amount recognised in the profit and loss account and in the statement of total recognised gains and losses for the year are analysed as follows:

	2008	*2007*
	£000	*£000*
Recognised in the profit and loss account		
Current service cost	-	-
Recognised in arriving at operating profit	-	-
Expected return on pension scheme assets	331	354
Interest on obligation	(405)	(392)
Other finance cost	(74)	(38)
Total recognised in the Profit and Loss account	(74)	(38)

Taken to the Statement of total recognised gains and losses

	2008	*2007*
	£000	*£000*
Actual return on scheme assets	(634)	(301)
Less: expected return on scheme assets	(331)	(354)
	(965)	(655)
Other actuarial gains	1,351	1,227
Actuarial gains recognised in the Statement of total recognised gains and losses	386	572

	2008	*2007*
	%	*%*
Main assumptions:		
Rate of increase in pensions in payment	3.00-5.00	3.00-5.00
Discount rate	6.90	5.80
Expected rates of return on scheme assets:		
Equities	-	-
Cash	4.50	5.75
Other scheme assets	6.00-6.90	6.00
Inflation assumption	3.00	3.00
Mortality (in years):		
Current pensioners at 65 – male	20	20
Current pensioners at 65 – female	23	23
Future pensioners at 40 – male	44	44
Future pensioners at 40 – female	47	47

Notes to the financial statements

for the year ended 31 October 2008

12. Pension contributions (continued)

Changes in the present value of the defined benefit obligations are analysed as follows:-

	£000
At 1 November 2006	7,842
Interest cost	392
Service cost	-
Benefits paid	(13)
Actuarial gains and losses	(1,227)
At 31 October and 1 November 2007	6,994
Interest cost	405
Benefits paid	(208)
Actuarial gains and losses	(1,351)
At 31 October 2008	5,840

Changes in the fair value of plan assets are analysed as follows:

	£000
At 1 November 2006	5,675
Expected return on plan assets	354
Employer contributions	158
Benefits paid	(13)
Actuarial gains and losses	(655)
At 31 October and 1 November 2007	5,519
Expected return on plan assets	331
Employer contributions	158
Benefits paid	(208)
Actuarial gains and losses	(965)
At 31 October 2008	4,835

	2008	*2007*	*2006*	*2005*	*2004*
	£000	*£000*	*£000*	*£000*	*£000*
Fair value of scheme assets	4,835	5,519	5,675	5,248	4,598
Present value of defined benefit obligation	(5,840)	(6,994)	(7,842)	(7,642)	(6,768)
(Deficit)/surplus in the scheme	(1,005)	(1,475)	(2,167)	(2,394)	(2,170)
Experience adjustments arising on plan liabilities	-	-	-	80	75
Experience adjustments arising on plan assets	(965)	(655)	11	190	222

Notes to the financial statements

for the year ended 31 October 2008

12. Pension contributions (continued)

Assets have been stated at market prices, where available, otherwise at appropriate fair value. The total contributions to the defined benefit scheme in 2009 are expected to be £120,000 (2008: £158,000) for the Company.

The cumulative amount of actuarial gains and losses recognised since 1 November 2003 in the Statement of Total Recognised Gains and Losses is a net gain of £924,000 (2007: £538,000).

The fair value of the scheme assets as a percentage of total scheme assets are set out below:

	2008	*2007*	*2006*
Equities	0%	0%	21%
Cash	6%	31%	3%
Other scheme assets	94%	69%	76%

The majority of the assets of the scheme at 31 October 2008 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 2007 and 31 October 2006. 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.

13. 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.

	2008	*Movement in year*	*2007*
	£000	*£000*	*£000*
W P Tucker	-	(67)	67
G J Crocker	8	(3)	11
R J Glanville	-	(4)	4
	8	(74)	82

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.

14. 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 30 October 2007, options were granted under the Scheme over (2007: 19,454) '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 £4.125 per share at 31 October 2008, giving a total market value of £80,248 (2007: £213,508) for the shares under option.

Notes to the financial statements

for the year ended 31 October 2008

14. Employee share option scheme (continued)

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

	2008 Number	*2008 WAEP*	*2007 Number*	*2007 WAEP*
Outstanding at 1 November	19,454	£10.975	38,581	£3.50
Granted during the year	-	-	19,454	£10.975
Lapsed	-	-	-	-
Exercised	-	-	(38,581)	(£3.50)
Outstanding at 31 October	19,454	£10.975	19,454	£10.975
Exercisable 31 October			-	-

The weighted average share price of the options exercised in the year at the date of exercise is £nil (2007: £10.975).

For the share options outstanding at 31 October 2008, the weighted average remaining contractual life is 2 years (2007: 3 years).

The weighted average fair value of options granted during the year was £nil (2007: £2.08). The exercise price for options outstanding at 31 October 2008 was £10.975.

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

	2008 £	*2007 £*
Fair value of options	13,488	5,632

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
Share price	£10.975
Exercise price	£10.975
Expected volatility	20%
Historical volatility	20%
Expected life	3 years
Risk free interest rate	5.0%
Expected dividend yield	1.0%

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.