

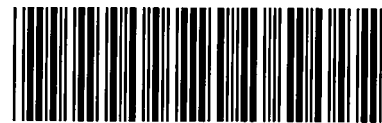
Registered No 30800

# The Heavitree Brewery PLC

## Financial Statements

31 October 2018

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# Annual report and financial statements

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**Directors**

N H P Tucker                      Chairman  
G J Crocker                        Managing and Finance  
T Wheatley                         Trade  
W P Tucker DL\*  
T P Duncan\*  
K Pease-Watkin\*  
\*Non-executive

**Secretary and registered office**

N J McLean  
The Heavitree Brewery PLC  
Trood Lane  
Matford  
Exeter EX2 8YP

**Bankers**

Barclays Bank PLC  
High Street  
Exeter

National Westminster Bank PLC  
St Thomas  
Exeter

**Solicitors**

Woolcombe Beer Watts incorporating Ford Simey  
Exeter

**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

**Auditor**

PKF Francis Clark  
Centenary House  
Peninsula Park  
Rydon Lane  
Exeter EX2 7XE

**Registrars**

Computershare Investor Services PLC  
The Pavilions  
Bridgwater Road  
Bristol BS13 8AE

Shareholders' dedicated telephone number: 0370 707 1063

## Notice of annual general meeting

NOTICE IS HEREBY GIVEN that the One Hundred and Twenty Ninth Annual General Meeting of The Heavitree Brewery PLC will be held at the Company's offices, Trood Lane, Matford, Exeter on 10 April 2019 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 2018 and the strategic report and the report of the Directors thereon.
2. To declare final dividends on the Ordinary Shares and the 'A' Limited Voting Ordinary Shares.
3. To re-elect N H P Tucker as a Director of the Company.
4. To re-elect K Pease-Watkin as a Director of the Company.
5. To re-appoint PKF Francis Clark as auditor of the Company for the period prescribed in section 489 of the Companies Act 2006.
6. To authorise the Directors to determine the remuneration of the auditor.

### Special business

To consider and, if thought fit, pass the following Resolutions.

7. 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 2020 (except in relation to the purchase of shares the contract for which was concluded before such date and might be executed wholly or partly after such date).

By Order of the Board

  
N J MCLEAN

Secretary

07 March 2019

Trood Lane  
Matford  
Exeter  
EX2 8YP

## Notice of annual general meeting

Notes:

1. Any member entitled to attend and vote at the above meeting may appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company.
2. Only holders of Ordinary Shares and 'A' Limited Voting Ordinary Shares are entitled to attend and vote at the meeting. On a poll the Ordinary Shares carry one vote for every £1 in nominal amount and the 'A' Limited Voting Ordinary Shares carry one vote for every £10 in nominal amount.
3. The Directors' service contracts will be available for inspection at the registered office of the Company during normal business hours on any weekday, and at the place of the Annual General Meeting for fifteen minutes prior to, and during, the meeting.
4. The dividend, if approved, will be paid on 18 April 2019 to shareholders on the register on 22 March 2019.

## Strategic report

### Chairman's statement

Turnover for the Group has increased by £315,000 to £7,614,000 returning a Group operating profit of £1,632,000 for the year under review. This is a reduction in Group operating profit of £146,000 against the previous year. When making a comparison with the previous year, it should be noted that the Group operating profit line in 2017 had been increased by over 25% as a result of one-off transactions which included £104,000 from the sale of development land held by Heavitree Inc., £107,000 for a write back after an over provision in expense for bad debts and a further £36,000 for compensation and a repayment of legal fees following a land dispute.

Having considered these one-off transactions to the previous year before making comparisons, I am pleased with the results in this report.

#### Results

Group Turnover increased by £315,000 to £7,614,000. Group Operating Profit has decreased by £146,000 to £1,632,000.

Heavitree Inns remained dormant throughout the year.

Heavitree Inc. generated an operating profit of £12,000 (2017 - £104,000).

#### Key Performance Indicators

Group operating profit before Taxation of £1,632,000 was down 8.21% on last year.

Interest costs were covered 9.60 times.

#### Dividend

The Directors recommend a 6.25% increase in the final dividend to 4.25p per Ordinary and 'A' Limited Voting Ordinary Share (2017 – 4.00p) making a total for the year of 7.925p (2017-7.675p). The dividend will be paid on 18 April 2019, subject to shareholder approval at the Annual General Meeting on 10 April 2019, to those shareholders on the Register at 22 March 2019.

#### Sale of Property

The King of Prussia in Bovey Tracey was sold in November 2017, The Kings Arms in Strete was sold in March 2018, The Crown and Sceptre in Newton St.Cyres was sold in April 2018 together with a small block of four flats in Exeter. I reported on these at the half year. The total book profit realised on the sale of these sites was £814,000.

A house on the same site as the above-mentioned block of flats has been sold subject to contract and I hope to report further on this at the upcoming half year.

#### Capital Investments

Significant investments during the year include £85,000 on improvements and upgrades to the kitchen, lavatories and baby-changing facilities at The Cleave in Lustleigh, £30,000 on a new bar and installation of a central heating system at The Green Dragon in Stoke Fleming and £158,000 on part one of a refurbishment of The Church House in Stokenham.

## Strategic report

### Pension Scheme

Following the completion of the actuarial triennial valuation of the Final Salary Pension Scheme deficit that had fallen due in December 2016, a new set of correction payments were issued and approved in March 2018. These correction payments were to start at £588,000 and be subject to a 3% uplift year on year. Since the approval of this new set of correction payments three deferred members have transferred out of the scheme as detailed in note 30. Consequently, the Scheme's independent actuary has issued a replacement schedule of correction payments and this confirms that the Company is no longer required to make contributions to fund the Scheme's deficit.

The Company continues to operate the Scheme for the remaining retired members and their dependants.

### Repurchase of shares

The Company did not repurchase any of its own shares during the year under review but the Directors intend to seek shareholder approval at the forthcoming Annual General Meeting for the continuing authority to do so.

### Outlook

Another pleasing performance of good progress has created the platform for a further increase in the final Dividend.

At the time of writing it is hard to avoid making mention of the political uncertainty the Country is facing. Despite this, the quality of our houses and of our tenants and leaseholders who operate them and the dedicated support they receive from all of our staff at Head Office, have combined to help deliver this year's strong set of results.



N H P TUCKER  
Chairman  
13 February 2019

## Strategic report

### Strategic review

#### Business review

During the year the Group carried on the business of the lease and operation of public houses. Throughout this period, we have worked hard at maintaining our business model through continuing support for our estate, investment in the estate to maintain its quality, prudent management of its capital structure and investment in overhead to improve services to our estate, in order to maximise the full potential of its houses.

Heavitree Inc is a wholly-owned subsidiary owning land in the United States of America. Heavitree Inns Limited is a dormant wholly-owned subsidiary company.

Group revenue for the year was £7,614,000 (2017: £7,299,000).

The combined result of sales of non-current assets and assets held for sale realised a profit before tax of £824,000 (2017: £6,000).

Parent Company – operating profit after consolidation adjustments £1,620,000 (2017: £1,674,000).

Heavitree Inc. – operating profit £12,000 (2017: £104,000).

Heavitree Inns Limited – dormant throughout the year.

For a further review of the business please see the Chairman's statement on pages 5 and 6 which forms part of this report.

#### Key performance indicators

The Directors measure the development, performance and position of the Group's business by reference to a number of factors including the following:

##### *Adjusted operating profit before tax*

This is the operating profit before tax adjusted to reflect continuing operations only. This provides useful insight into the Group's activities before allowing for finance costs.

##### *Interest cover*

This is the Group's adjusted operating profit before tax, as detailed above, divided by the net finance costs, adjusted to exclude finance costs relating to the valuation of the pension scheme under IAS19. This is a useful tool in determining whether the Group can maintain its current level of debt and its capacity to increase that level.

#### Principal risks and uncertainties

The Group is exposed to a variety of financial, operational, economic and regulatory risks and uncertainties. The Group has risk management processes in place which are designed to identify and evaluate these risks and uncertainties based on the probability of them occurring and the impact they may have on the business. The Board has overall responsibility for ensuring that there is a robust assessment of the principal risks facing the group and they are aware that these risks and uncertainties may, either singularly or, collectively, affect the Group's revenue, costs, asset value, reputation or ability to meet its business objectives.

Some of the risks the Group faces are external and therefore beyond our control. Some risks may not be known at present or may be considered to be currently immaterial but could develop into material risks in the future. The risk management processes are therefore designed to manage the risks which may have a material impact on our ability to meet our corporate objectives, rather than fully obviate all risks.

## Strategic report

### Strategic review

#### Principal risks and uncertainties (continued)

The Directors review the material or emerging risks on an ongoing basis. Our main risks and how we manage them are shown below; however, this is not an exhaustive list of all the risks which we may face.

##### *General economic conditions*

The economic conditions over the past few years have affected both consumer confidence and the levels of consumer spending across our industry. This can negatively impact the Group's revenues and we continue to look at ways of making varying economic conditions work in a positive way to minimise the impact on our trading figures.

The Group carries out regular reviews of the economic and changing consumer spending patterns within its estate. As the group operates a tenanted and leased estate the Trade Director and the Tenanted Operations managers actively work with our Tenants and Leaseholders on a monthly basis to assess what, if any, impact may occur due to changing economic conditions and consumer trends. The types of pubs and the way in which people visit pubs continues to change for the industry as a whole and being able to work closely with our Tenants in this way provides us with the ability to minimise any negative impact to the estate and the Groups revenue, while still being able to maintain and support the estate as a whole.

Whilst the nature of our principal risks have remained largely unchanged during the year the uncertainty over Brexit continues. Whilst any direct impact from trading directly with the EU is not considered a significant risk to our estate, The Board recognises that any fall out from Brexit may impact on our estate due to changes in consumer spending. This is being reviewed by the Board on an ongoing basis while the Tenanted operations team continue working with Tenants to minimise any negative impact that Brexit may bring.

##### *Property valuations*

The UK property market continues to fluctuate and any variations in valuations due to market conditions could reduce the value of the Group's property portfolio over time. These economic factors could also lead to a reduction in the value realised by the Group on the disposal of pubs and have an impact on the amount of property held as security for the loan facility. However, as the Groups strategy is to retain its better performing and more profitable pubs over the longer term, any such risk would be mitigated accordingly.

The Group continues to realise appropriate returns from disposals by disposing of less sustainable or less profitable pubs where appropriate. Where impairment indicators are identified, the Group carries out an impairment review on an individual pub basis. The Group carries out regular reviews of the property portfolio and is in regular contact with its debt provider.

##### *Pensions*

The Group continues to operate a defined benefit pension scheme. However, all remaining Deferred Members have now transferred their remaining benefits out of the Scheme. The only remaining Members of the scheme are now Retired Members and their dependents. The Trustees have purchased annuities held in the Trustees' names with insurers for pensions in payment. However, recent legislation regarding equalisation of the pensions between men and women mean the Group continues to be liable and will have to pay any balance of the cost of securing such equalised benefit for these Retired Members as well as ongoing management and administration expenses, as before. Therefore, whilst the Directors acknowledge an element of risk continues, it is substantially reduced from the previous exposure with the scheme's actuary having issued a replacement to the previous schedule of contributions issued on the 27 March 2018, confirming, no further contributions are now required in respect of the shortfall in funding. Further details are shown in note 30.

## Strategic report

### *Licensing*

The Group is committed to ensuring that properties meet all required licensing and other property regulatory requirements. Failure of our Tenants to comply with licensing requirements could result in licenses being revoked which would have a direct impact on the Tenants' ability to trade. This is closely monitored by our Tenanted team overseen by the Trade Director to ensure compliance with licensing and trading regulations. The Group works closely with appropriate local Licensing Authorities to ensure that all licensing requirements are met, and any changes are closely monitored.

By Order of the Board



N J McLean

Secretary

13 February 2019

## Directors' report

The Directors have pleasure in submitting their report for the year ended 31 October 2018.

### Results and dividends

The Board's policy is to continue a progressive dividend within the framework of sustainability and relative to trading performance in any one year. When determining the level of dividend each year, the Board considers the ability of the Group to generate cash, the level of distributable reserves and the level of reserves required to invest in the business to ensure the policy can continue on a long-term basis.

The profit for the year, after taxation, attributable to shareholders amounts to £1,927,000 (2017: £1,328,000). The total comprehensive income for the year is £1,715,000 (2017: £1,688,000).

The Directors propose a final dividend of 4.25p per share on the Ordinary and 'A' Limited Voting Ordinary Shares. An interim dividend of 3.675p (2017: 3.675p) was paid in the year. The fixed dividend of 11.5p per share was paid on the preference shares in the year.

### Financial Instruments

As at 31 October 2018 the Group's total borrowings were £6,801,000 (2017: £7,592,000).

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 further details of the Group's policy on financial instruments and management of financial risk, please refer to note 25.

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.

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

Information on borrowings and strategies surrounding managing interest rate risk, liquidity risk, capital risk and credit risk can also be found in note 25.

### Future developments

The Group continues to concentrate fully on the running and development of its tenanted and leased estate with the intention of maximising the full potential of its houses. This may include development for alternative use where appropriate.

Further information in relation to the business activities, together with the factors likely to affect its future development, performance and position is set out in the Chairman's statement on pages 5 and 6.

### Directors

The Directors of the Company during the year ended 31 October 2018 were those listed on page 2.

N H P Tucker and K Pease-Watkin are the Directors retiring by rotation under Article 14 and, being eligible, offer themselves for re-election.

## Directors' report

### Directors' interests

The interests of the Directors and their spouses in the Company's shares as at 31 October 2018 were as follows:

	<i>Ordinary Shares</i>		<i>'A' Limited Voting Ordinary Shares</i>	
	<i>31 October 2018</i>	<i>31 October 2017</i>	<i>31 October 2018</i>	<i>31 October 2017</i>
W P Tucker	53,750	53,750	184,480	184,480
N H P Tucker	742,215	742,215	79,385	79,385
G J Crocker	-	-	52,144	47,214
T P Duncan	150,335	150,335	196,992	196,992
K Pease-Watkin	27,088	27,088	50,638	50,638
T Wheatley	-	-	55,580	51,335

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

- (a) W P Tucker's interest in 53,750 (2017: 53,750) Ordinary Shares; and
- (b) N H P Tucker's interest in 53,750 (2017: 53,750) Ordinary Shares.

Included in these interests are the following joint holdings:

- (a) 53,750 (2017: 53,750) Ordinary Shares held jointly by W P Tucker and N H P Tucker.

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 31 October 2018 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:

	<i>Ordinary</i>		<i>'A'-Limited Voting Ordinary</i>	
		<i>%</i>		<i>%</i>
P A Benett	135,380	6.7%	270,740	8.2%
R A Duncan	-	-	101,369	3.0%
R H Duncan	151,643	7.6%	177,611	5.4%
J E M Duncan	133,545	6.7%	186,637	5.6%
S T Tucker	-	-	109,000	3.3%
Mrs T C Yule	78,010	3.9%	178,205	5.4%
Mrs T D Tucker	125,840	6.3%	-	-

## Directors' report

### Going concern

The Directors have considered the Group's financial resources including a review of the medium-term financial plan, and cash flow forecasts for at least 12 months from the date of approval of these financial statements. The Board is satisfied that the Group's forecasts and projections, taking account of reasonably anticipatable changes in the trading performance of the Group, show that the Group will be able to operate within the level of its current facilities for the foreseeable future. For this reason, the Group continues to adopt the going concern basis in preparing its financial statements.

### Corporate governance

The Board of The Heavitree Brewery PLC ("Heavitree") is collectively accountable to the Company's shareholders for good corporate governance. Accordingly, the Board has adopted the Quoted Companies Alliance (QCA) Corporate Governance Code (Code). The information below and the statement on our website sets out in broad terms how we comply with the Code. We intend to provide annual updates about our compliance with the Code. The Board is responsible for ensuring that Heavitree is managed for the long-term benefit of all shareholders, through effective and efficient decision-making. Corporate governance is an important part of the Board's role by providing oversight and control to manage risk and build long-term value.

At Heavitree, the Board has adopted the principles of the 2018 QCA Code to support the Company's governance framework which is set out below. The Directors acknowledge the importance of the ten principles set out in the QCA Code and the statement in full on our website sets out how we currently comply with the provisions of the QCA Code and the reasons for any departures from it.

A full copy of the QCA Code is available from the QCA's website: [www.theqca.com](http://www.theqca.com).

#### *Board of Directors*

At 31 October 2018, the Board consisted of an Executive Chairman, two Executive Directors and three Non-Executive Directors. The Directors periodically re-consider the structure of the Board and believe the current structure remains appropriate.

N H P Tucker is the Executive Chairman; G J Crocker is the Managing Director and is also responsible for the finance function; T Wheatley is the Estates Director and is responsible for the Group's estate. W P Tucker, T P Duncan and K Pease-Watkin are Non-Executive Directors and are considered to be independent of management.

The business and management of the Group is the collective responsibility of the Board. At each meeting the Board considers and reviews the Group's financial and trading performance. It has a formal written schedule of matters reserved for its review and approval. The Board meets every month with additional meetings arranged as required. Formal agendas and reports are provided to the Board on a timely basis, along with other information to enable it to discharge its duties.

#### *Audit Committee*

Given the size of the Group, the Board does not consider it appropriate to have a separate audit committee. The Board considers matters relating to the reporting of results, financial controls, and the cost and effectiveness of the audit process at the monthly board meetings and meets at least once a year with the auditors in attendance.

## Directors' report

### Corporate governance (*continued*)

The Board is satisfied that the Group's auditors, PKF Francis Clark, have been objective and independent of the Group. The Group's auditors performed non-audit services for the Group as outlined in Note 7 but the Board is satisfied that their objectivity and independence were not impaired by such work.

#### *Remuneration Committee*

Given the size of the Group, the Board does not consider it appropriate to have a separate remuneration committee. The Board considers and determines the remuneration of the Executive and Non-Executive Directors. No Director is involved in setting his or her own remuneration.

Details of Directors Remuneration can be found in Note 10 to the financial statements.

#### *Summary of Directors' Attendance*

	<b>Board Meetings</b>	
	<b>Entitled to attend</b>	<b>Attended</b>
N H P Tucker	12	12
G J Crocker	12	12
T Wheatley	12	12
W P Tucker	12	12
T P Duncan	12	9
K Pease-Watkins	12	8

#### *Shareholder Communication*

The Company believes in good communication with shareholders and encourages shareholders to attend its Annual General Meeting.

#### *Internal Financial Control*

The Board is responsible for ensuring that the Group maintains a system of internal financial controls. The objective of the system is to safeguard Group assets, ensure proper accounting records are maintained and that the financial information used within the business and for publication is timely and reliable. Any such system can only provide reasonable, but not absolute, assurance against material loss or misstatement.

Given the size of the Group, the Board does not consider it appropriate to have its own internal audit function.

All the day to day operational decisions are taken initially by the Executive Directors, in accordance with the Group's strategy. The Executive Directors are also responsible for initiating commercial transactions and approving payments, save for those relating to their own employment.

The key internal controls include specific levels of delegated authority and the segregation of duties; the review of pertinent commercial, financial and other information by the Board on a regular basis; the prior approval of all significant strategic decisions; and maintaining a formal strategy for business activities.

## Directors' report

### Directors' statement as to disclosure of information to auditor

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.

### Auditor

A resolution to re-appoint PKF Francis Clark as the Company's auditor will be put to the forthcoming Annual General Meeting.

By Order of the Board



N J McLean

Secretary

13 February 2019

## Ten year review of profits and dividends

<i>Year ended 31 October</i>	<i>Operating profit £000</i>	<i>Profit before tax £000</i>	<i>Earnings per 5p share p</i>	<i>Dividends per 5p share p</i>
2009	1,046	1,253	21.7	7.0
2010	1,427	1,225	16.7	7.0
2011	1,408	1,232	16.4	7.0
2012	1,245	927	12.5	7.0
2013	1,345	1,014	14.8	7.0
2014	1,404	1,642	28.0	7.35
2015	1,412	1,173	18.8	7.35
2016	1,420	1,653	28.0	7.425
2017	1,778	1,554	27.0	7.675
2018	1,632	2,251	39.6	7.925

### Notes:

1. Dividends per 5p share for all years include interim dividends and dividends proposed or subsequently declared in respect of the profits of each year.
2. The earnings per share figures are both basic and diluted.

## **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 prepared the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of affairs of the Group and the Company and of the profit or loss of the Group and Company for that period. In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and accounting estimates that are reasonable and prudent
- State whether applicable IFRSs as adopted by the EU have been followed, subject to any material departures disclosed and explained in the financial statements, and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statement comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

## **Independent auditor's report**

### **to the members of The Heavitree Brewery PLC**

#### **Opinion**

We have audited the financial statements of The Heavitree Brewery PLC and its subsidiaries for the year ended 31 October 2018, which comprise the Group income statement, the Group statement of comprehensive income, the Group and Parent Company balance sheet, the Group and Parent Company statement of changes in equity, the Group and Parent Company statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 October 2018 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements in not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for at least twelve months from the date when the financial statements are authorised for issue.

#### **Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Independent auditor's report

### to the members of The Heavitree Brewery PLC

#### **Risk: impairment of property**

As detailed in the accounting policies and note 16, the Group has a large portfolio of trading properties with a net book value of £16.7m (2017: £15.9m). Given the age of the portfolio the individual property carrying values are relatively low. Notwithstanding this, given the size and value of the portfolio and the nature of the industry, the key audit risk is the Group's assessment of impairment of trading properties.

Our work focussed on management's assessment of the need for any impairment on an individual property basis. We paid particular attention to any closed houses in the year, being a potential indicator of impairment. We reviewed and challenged the assumptions used by management in making their assessment, as well as comparing their consideration of market value to the latest bank valuations, other external data and a comparison to our own value in use expectations.

As a result of the procedures performed, we are satisfied with the Group's assessment that trading properties are not impaired.

#### **Risk: revenue recognition**

The Group's primary income streams are outlined in the accounting policies and note 3. The Group derives most of its income from wet sales to and rent receivable from licenced premises. Based on our understanding of the business and the environment in which it operates, we identified completeness and cut-off as the key audit risks for these income streams. We also considered other industry relevant areas of potential misstatement such as volume rebates and lease incentives.

Our work on completeness and cut-off included substantive analytical procedures on the main income streams, a review of post year end credit notes and the use of data analytics software to review all purchases in the year and ensure that there was a resulting sale for each. In addition, we performed tests of detail on a sample of transactions, including those around the year end to test cut off. We also reviewed the level of volume rebates and lease incentives and concluded these are not material to the financial statements.

As a result of the procedures performed, we are satisfied that revenue has been correctly recorded.

#### **Risk: valuation of the defined benefit pension obligation**

As detailed in the accounting policies and note 30, the Group operates a defined benefit pension scheme with a deficit at 31 October 2018 of £39k (2017: £1.3m). The scheme is closed to new members and future accrual. During the year the three remaining non-insured deferred members transferred out of the scheme which is reflected in the financial statements.

The valuation is complex and dependent on external market conditions as well as the application of significant assumptions such as discount rates, life expectancies and inflation predictions. Management, using the support of third party actuaries, are required to make judgements in determining the valuation and therefore it is regarded as a key audit risk.

We considered the consistency of judgements with previous years and the appropriateness of any changes. We then reviewed and benchmarked the key actuarial assumptions used against external market data. We also compared the disclosures in the financial statements to the IAS19 report prepared by the actuary.

We discussed the key movements in the year (as a result of the three remaining non-insured members taking Cash Equivalent Transfer Values) with the actuary and concur with the treatment as shown in the financial statements. Effectively the transfers were deemed to be a settlement which form part of the pension charge in the profit and loss account.

As a result of the procedures performed, we are satisfied that the methodology and assumptions used in determining the pension valuation are appropriate, and with the accounting treatment for the transfers out during the year.

## **Independent auditor's report**

### **to the members of The Heavitree Brewery PLC**

#### **Our application of materiality**

Misstatements, including omissions, are considered to be material if individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Materiality is applied in planning the scope of our audit, determining the nature, timing and extent of our audit procedures and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality: £54k

Basis for determination: 5% of profit before tax, excluding profits or losses on property disposals. The basis of determination is reviewed each year taking into account current market conditions and levels set across similar companies in the industry. We also consider whether there are any additional risk factors which this year included the significant transactions involved in the settlement of the pension scheme.

Rationale for the benchmark applied: We consider adjusted profit before tax to be the most appropriate measure for materiality as it best reflects the Group's underlying trading profitability and is a key metric used by both management and other stakeholders in assessing the Group's performance.

#### **An overview of the scope of our audit**

We planned and performed our audit by obtaining an understanding of the Group and its environment, including the accounting processes and controls, and the industry in which it operates. The Group comprises one trading entity and a dormant subsidiary in the UK, with an immaterial subsidiary in the US. The US subsidiary represents nil% of Group turnover and 0.9% of Group total assets. Accordingly, our audit work is focussed on the trading entity, The Heavitree Brewery PLC, and the detailed scope in relation to the key audit matters is explained above. We performed a limited amount of work on the US subsidiary, Heavitree Inc, which included agreement of any significant transactions to source documentation.

#### **Other information**

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the director's report have been prepared in accordance with applicable legal requirements.

## **Independent auditor's report**

### **to the members of The Heavitree Brewery PLC**

#### **Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

#### **Responsibilities of Directors**

As explained more fully in the directors' responsibilities statement [set out on page 16], the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or Parent Company or to cease operations, or have no realistic alternative but to do so.

#### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

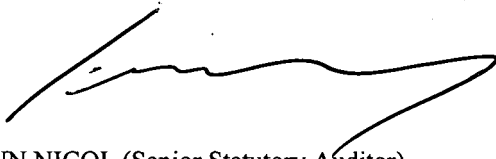
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## **Independent auditor's report**

**to the members of The Heavitree Brewery PLC**

### **Use of our report**

This report is made solely to the Company's shareholders, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken, so that we might state to the Company's shareholders those matters we are required to state to them in an audit 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 shareholders as a body, for our audit work, for this report, or for the opinions we have formed.



GLENN NICOL (Senior Statutory Auditor)

For and on behalf of

**PKF Francis Clark**

Statutory Auditor

Centenary House

Peninsula Park

Rydon Lane

Exeter

EX2 7XE

13 February 2019

## Group income statement

For the year ended 31 October 2018

	<i>Notes</i>	<i>Total 2018 £'000</i>	<i>Total 2017 £'000</i>
<b>Revenue</b>	3	7,614	7,299
Change in stocks		-	-
Other operating income	5	279	384
Purchase of inventories		(3,109)	(2,968)
Staff costs	10	(1,407)	(1,353)
Depreciation of property, plant and equipment		(235)	(248)
Other operating charges		(1,510)	(1,336)
		<u>(5,982)</u>	<u>(5,521)</u>
<b>Group operating profit</b>	6	1,632	1,778
Profit on sale of property, plant and equipment	8	824	6
Movements in valuation of estate and related assets	9	-	-
<b>Group profit before finance costs and taxation</b>		<u>2,456</u>	<u>1,784</u>
Finance income		5	7
Finance costs	11	(175)	(182)
Other finance costs – pensions	30	(35)	(55)
		<u>(205)</u>	<u>(230)</u>
<b>Profit before taxation</b>		2,251	1,554
Tax expense	12a	(324)	(226)
<b>Profit for the year attributable to equity holders of the parent</b>		<u>1,927</u>	<u>1,328</u>
<b>Basic earnings per share</b>	13	<u>39.6p</u>	<u>27.0p</u>
<b>Diluted earnings per share</b>	13	<u>39.6p</u>	<u>27.0p</u>

All amounts in 2018 and 2017 relate to continuing operations.

## Group statement of comprehensive income

for the year ended 31 October 2018

	<i>Notes</i>	<i>2018</i> £'000	<i>2017</i> £'000
<b>Profit for the year</b>		1,927	1,328
<b>Items that will not be reclassified to profit or loss</b>			
Actuarial (losses)/gains on defined benefit pension plans	30	(248)	428
Tax relating to items that will not be reclassified	12a	42	(74)
		(206)	354
<b>Items that may be reclassified to profit or loss</b>			
Fair value adjustment	27.	(4)	6
Exchange rate differences on translation of subsidiary undertaking		(2)	-
		(6)	6
<b>Other comprehensive income for the year, net of tax</b>		1,715	1,688
<b>Total comprehensive income attributable to:</b>			
Equity holders of the parent		1,715	1,688

**Group balance sheet**

at 31 October 2018

	<i>Notes</i>	<i>2018</i> £'000	<i>2017</i> £'000
<b>Non-current assets</b>			
Property, plant and equipment		17,812	17,022
Investment property		1,094	1,094
	16	<u>18,906</u>	<u>18,116</u>
Financial assets	18	47	46
Deferred tax asset	12c	38	221
		<u>18,991</u>	<u>18,383</u>
<b>Current assets</b>			
Inventories	19	10	10
Trade and other receivables	20	1,292	1,696
Cash and cash equivalents	21	44	56
		<u>1,346</u>	<u>1,762</u>
Assets held for sale	17	62	890
<b>Total assets</b>		<u>20,399</u>	<u>21,035</u>
<b>Current liabilities</b>			
Trade and other payables	22	(1,078)	(871)
Financial liabilities	23	(818)	(1,624)
Income tax payable		(131)	(190)
		<u>(2,027)</u>	<u>(2,685)</u>
<b>Non-current liabilities</b>			
Other payables	22	(311)	(256)
Financial liabilities	23	(6,067)	(6,045)
Deferred tax liabilities	12c	(300)	(345)
Defined benefit pension plan deficit	30	(39)	(1,300)
		<u>(6,717)</u>	<u>(7,946)</u>
<b>Total liabilities</b>		<u>(8,744)</u>	<u>(10,631)</u>
<b>Net assets</b>		<u>11,655</u>	<u>10,404</u>



**Group balance sheet**

at 31 October 2018

	<i>Notes</i>	<i>2018</i> £'000	<i>2017</i> £'000
<b>Capital and reserves</b>			
Equity share capital	27	264	264
Capital redemption reserve	27	673	673
Treasury shares	27	(1,317)	(1,223)
Fair value adjustments reserve	27	23	27
Currency translation	27	15	17
Retained earnings	27	11,997	10,646
<b>Total equity</b>		<u>11,655</u>	<u>10,404</u>

The notes on pages 34 to 65 form part of the financial statements.

These accounts were approved by the Board of Directors and authorised for issue on 13 February 2019 and were signed on its behalf by

  
  
 N H P TUCKER )  
 G J CROCKER ) Directors

**Group statement of changes in equity**

for the year ended 31 October 2018

	<i>Equity share capital £'000</i>	<i>Capital redemption reserve £'000</i>	<i>Treasury shares £'000</i>	<i>Fair value adjustment reserve £'000</i>	<i>Currency translation £'000</i>	<i>Retained earnings £'000</i>	<i>Total equity £'000</i>
At 1 November 2016	264	673	(1,254)	21	17	9,323	9,044
Profit for the year						1,328	1,328
Other comprehensive income for the year, net of income tax	-		-	6	-	354	360
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6</b>	<b>-</b>	<b>1,682</b>	<b>1,688</b>
Consideration received by EBT on sale of shares	-	-	49	-	-	-	49
Consideration paid by EBT on purchase of shares	-	-	(15)	-	-	-	(15)
Loss by EBT on sale of shares	-	-	(3)	-	-	3	-
Equity dividends paid	-	-	-	-	-	(362)	(362)
At 31 October 2017	264	673	(1,223)	27	17	10,646	10,404

**Group statement of changes in equity**

for the year ended 31 October 2018

	<i>Equity share capital £'000</i>	<i>Capital redemption reserve £'000</i>	<i>Treasury shares £'000</i>	<i>Fair value adjustment reserve £'000</i>	<i>Currency translation £'000</i>	<i>Retained earnings £'000</i>	<i>Total equity £'000</i>
At 1 November 2017	264	673	(1,223)	27	17	10,646	10,404
Profit for the year						1,927	1,927
Other comprehensive income for the year, net of income tax	-		-	(4)	(2)	(206)	(212)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(4)</b>	<b>(2)</b>	<b>1,721</b>	<b>1,715</b>
Consideration received by EBT on sale of shares	-	-	54	-	-	-	54
Consideration paid by EBT on purchase of shares	-	-	(145)	-	-	-	(145)
Loss by EBT on sale of shares	-	-	(3)	-	-	3	-
Equity dividends paid	-	-	-	-	-	(373)	(373)
At 31 October 2018	264	673	(1,317)	23	15	11,997	11,655

Details of the reserves can be found in note 27.

## Group statement of cash flows

For the year ended 31 October 2018

	Notes	2018 £'000	2017 £'000
<b>Operating activities</b>			
Profit for the year		1,927	1,328
Tax expense		324	151
Net finance costs		206	231
Profit on disposal of non-current assets and assets held for sale		(824)	(6)
Depreciation and impairment of property, plant and equipment		235	248
Exchange gain/(loss) on cash, liquid resources and loans		5	(3)
Difference between pension contributions paid and amounts recognised in the income statement		(1,544)	(438)
Decrease/(increase) in trade and other receivables		284	(76)
Increase/(decrease) in trade and other payables		380	(170)
		<hr/>	<hr/>
Cash generated from operations		993	1,265
Income taxes paid		(188)	(110)
Interest paid		(176)	(182)
		<hr/>	<hr/>
<b>Net cash flow from operating activities</b>		629	973
<b>Investing activities</b>			
Interest received		6	6
Proceeds from sale of property, plant and equipment and assets held for sale		1,454	193
Payments to acquire property, plant and equipment		(777)	(1,117)
		<hr/>	<hr/>
<b>Net cash inflow/(outflow) from investing activities</b>		683	(918)
<b>Financing activities</b>			
Preference dividend paid		(1)	(1)
Equity dividends paid	14	(373)	(333)
Consideration received by EBT on sale of shares		54	49
Consideration paid by EBT on purchase of shares		(145)	(15)
Capital element of finance lease rental payments		(68)	(21)
Net movement in long-term borrowings			-
		<hr/>	<hr/>
<b>Net cash flow from financing activities</b>		(533)	(321)
<b>Increase/(decrease) in cash and cash equivalents</b>			
Cash and cash equivalents at the beginning of the year	21	(1,536)	(1,270)
		<hr/>	<hr/>
<b>Cash and cash equivalents at the year end</b>	21	(757)	(1,536)
		<hr/> <hr/>	<hr/> <hr/>

## Company balance sheet

at 31 October 2018

	<i>Notes</i>	<i>2018</i> £'000	<i>2017</i> £'000
<b>Non-current assets</b>			
Property, plant and equipment		17,767	16,989
Investment property		1,094	1,094
	16	<u>18,861</u>	<u>18,083</u>
Financial assets	18	81	114
Deferred tax asset	12c	38	221
		<u>18,980</u>	<u>18,418</u>
<b>Current assets</b>			
Inventories	19	10	10
Trade and other receivables	20	1,292	1,576
Cash and cash equivalents	21	44	56
		<u>1,346</u>	<u>1,642</u>
Assets held for sale	17	62	890
<b>Total assets</b>		<u>20,388</u>	<u>20,950</u>
<b>Current liabilities</b>			
Trade and other payables	22	(1,162)	(871)
Financial liabilities	23	(818)	(1,624)
Income tax payable		(131)	(190)
		<u>(2,111)</u>	<u>(2,685)</u>
<b>Non-current liabilities</b>			
Other payables	22	(311)	(256)
Financial liabilities	23	(6,067)	(6,045)
Deferred tax liabilities	12c	(300)	(345)
Defined benefit pension plan deficit	30	(39)	(1,300)
		<u>(6,717)</u>	<u>(7,946)</u>
<b>Total liabilities</b>		<u>(8,828)</u>	<u>(10,631)</u>
<b>Net assets</b>		<u>11,560</u>	<u>10,319</u>

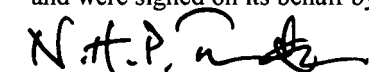
## Company balance sheet

at 31 October 2018

	<i>Notes</i>	<i>2018</i> £'000	<i>2017</i> £'000
<b>Capital and reserves</b>			
Equity share capital	27	264	264
Capital redemption reserve	27	673	673
Treasury shares	27	(1,317)	(1,223)
Fair value adjustments reserve	27	23	27
Cash flow hedging reserve	27	-	-
Retained earnings	27	11,917	10,578
<b>Total equity</b>		<u>11,560</u>	<u>10,319</u>

The notes on pages 34 to 65 form part of the financial statements.

These accounts were approved by the Board of Directors and authorised for issue on 13 February 2019 and were signed on its behalf by




N H P TUCKER )  
G J CROCKER ) Directors

## Company statement of changes in equity

for the year ended 31 October 2018

	<i>Equity share capital</i> £'000	<i>Capital redemption reserve</i> £'000	<i>Treasury shares</i> £'000	<i>Fair value adjustment reserve</i> £'000	<i>Retained earnings</i> £'000	<i>Total equity</i> £'000
At 1 November 2016	264	673	(1,254)	21	9,358	9,062
Profit for the year	-	-	-	-	1,225	1,225
Other comprehensive income for the year, net of income tax	-	-	-	6	354	360
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6</b>	<b>1,579</b>	<b>1,585</b>
Consideration received by EBT on sale of shares	-	-	49	-	-	49
Consideration paid by EBT on purchase of shares	-	-	(15)	-	-	(15)
Loss by EBT on sale of shares	-	-	(3)	-	3	-
Equity dividends paid	-	-	-	-	(362)	(362)
<b>At 31 October 2017</b>	<b>264</b>	<b>673</b>	<b>(1,223)</b>	<b>27</b>	<b>10,578</b>	<b>10,319</b>

## Company statement of changes in equity

for the year ended 31 October 2018

	<i>Equity share capital £'000</i>	<i>Capital redemption reserve £'000</i>	<i>Treasury shares £'000</i>	<i>Fair value adjustment reserve £'000</i>	<i>Retained earnings £'000</i>	<i>Total equity £'000</i>
At 1 November 2017	264	673	(1,223)	27	10,578	10,319
Profit for the year	-	-	-	-	1,915	1,915
Other comprehensive income for the year, net of income tax	-	-	-	(4)	(206)	(210)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(4)</b>	<b>1,709</b>	<b>1,705</b>
Consideration received by EBT on sale of shares	-	-	54	-	-	54
Consideration paid by EBT on purchase of shares	-	-	(145)	-	-	(145)
Loss by EBT on sale of shares	-	-	(3)	-	3	-
Equity dividends paid	-	-	-	-	(373)	(373)
<b>At 31 October 2018</b>	<b>264</b>	<b>673</b>	<b>(1,317)</b>	<b>23</b>	<b>11,917</b>	<b>11,560</b>

Details of the reserves can be found in note 27.

## Company statement of cash flows

for the year ended 31 October 2018

	2018	2017
<i>Notes</i>	<i>£'000</i>	<i>£'000</i>
<b>Operating activities</b>		
Profit for the year	1,915	1,225
Tax expense	324	151
Net finance costs	206	231
Profit on disposal of non-current assets and assets held for sale	(824)	(6)
Depreciation and impairment of property, plant and equipment	235	248
Difference between pension contributions paid and amounts recognised in the income statement	(1,544)	(438)
Decrease/increase in trade and other receivables	285	42
(Decrease)/increase in trade and other payables	380	(171)
	<hr/>	<hr/>
Cash generated from operations	977	1,282
Income taxes paid	(188)	(110)
Interest paid	(176)	(182)
	<hr/>	<hr/>
<b>Net cash flow from operating activities</b>	613	990
<b>Investing activities</b>		
Interest received	6	6
Proceeds from sale of property, plant and equipment and assets held for sale	1,458	193
Payments to acquire property, plant and equipment	(765)	(1,117)
Payments to acquire fixed asset investments	-	(17)
Receipts from fixed asset investments	-	-
	<hr/>	<hr/>
<b>Net cash Inflow/(outflow) from investing activities</b>	699	(935)
<b>Financing activities</b>		
Preference dividend paid	(1)	(1)
Equity dividends paid	14 (373)	(333)
Consideration received by EBT on sale of shares	54	49
Consideration paid by EBT on purchase of shares	(145)	(15)
Capital element of finance lease rental payments	(68)	(21)
Net movement in long-term borrowings	-	-
	<hr/>	<hr/>
<b>Net cash flow from financing activities</b>	(533)	(321)
<b>Increase/(decrease) in cash and cash equivalents</b>		
Cash and cash equivalents at the beginning of the year	21 (1,536)	(1,270)
	<hr/>	<hr/>
<b>Cash and cash equivalents at the year end</b>	21 (757)	(1,536)
	<hr/> <hr/>	<hr/> <hr/>

## Notes to the financial statements

for the year ended 31 October 2018

### 1. Authorisation of financial statements

The financial statements of The Heavitree Brewery PLC and its subsidiaries (the "Group") for the year ended 31 October 2018 were authorised for issue by the board of Directors on 13 February 2019. The Heavitree Brewery PLC is a public company incorporated and domiciled in England. The Company's ordinary shares are traded on the AIM market of the London Stock Exchange.

### 2. Accounting policies and statement of compliance

#### *Basis of preparation*

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and as regards the Parent Company financial statements, as applied in accordance with the Companies Act 2006.

The financial statements have been prepared on the historical cost basis except for certain items that are measured at fair value at the end of each reporting period as explained in the accounting policies below.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 October 2018 and are presented in Sterling. All values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated.

No income statement or statement of comprehensive income is prepared by the Company as permitted by Section 408 of the Companies Act 2006.

The financial statements have been prepared on a going concern basis. In determining the appropriate basis of preparation of the financial statements, the Directors are required to consider whether the Group and the Company can continue in operational existence for the foreseeable future. The Directors are of the opinion that the Group and the Company has adequate resources to continue in operational existence for the foreseeable future and continue to adopt the going concern basis in preparing this annual report and financial statements.

Further information on principal risks and uncertainties and financial instruments can be found in the Strategic Report, Directors' Report and in note 25.

#### *Basis of consolidation*

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

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

#### *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)*

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.

## Notes to the financial statements

for the year ended 31 October 2018

### 2. Accounting policies (continued)

#### *Revenue recognition (continued)*

*Rents receivable from licenced properties (Revenue) and Rents receivable from investment properties (Other operating income)*

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

#### *Machine income (Revenue)*

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

#### *Property, plant and equipment*

Buildings, furniture and fittings, equipment and vehicles are stated at cost less accumulated depreciation and accumulated impairment losses.

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 $\frac{1}{3}$ %
- Office equipment - 20%
- Motor vehicles - 25%

Freehold land and assets under construction are 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.

Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

#### *Investment property*

Unlicensed property held to earn rental income is classified as investment property and is recorded at cost less accumulated depreciation and any recognised impairment loss. The depreciation policy is consistent with that described for property, plant and equipment.

#### *Non-current assets held for sale*

Properties identified for disposal which are classified in the Balance Sheet as non-current assets held for sale are held at the lower of carrying value on transfer to non-current assets held for sale, as assessed at the time of transfer, and fair value less costs to dispose. The fair value less costs to dispose is based on the net estimated realisable disposal proceeds (ERV) which are provided by third party property agents who have been engaged to sell the properties. Licensed land and buildings are classified as held for sale when they have been identified for disposal by the Group. They must be available for immediate sale in their present condition and the sale should be highly probable. These conditions are met when management are committed to the sale, the property is actively marketed, and the sale is expected to occur within one year. Licensed land and buildings held for sale are not depreciated.

## Notes to the financial statements

for the year ended 31 October 2018

### 2. Accounting policies (continued)

#### *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. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised immediately in the income statement in those expense categories consistent with the function of the impaired asset.

#### *Financial instruments*

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument and are initially measured at fair value.

#### *Trade receivables and trade payables*

Trade receivables and trade payables are held at amortised cost.

#### *Preference shares*

Preference shares are measured at amortised cost and recognised as a liability in the balance sheet, net of transaction costs. Preference shares are classified as a financial liability measured at amortised cost until they are extinguished on redemption. The corresponding dividends on those shares are charged as finance costs in the income statement.

#### *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 income and finance cost.

#### *Fair value measurement*

The fair value of quoted investments is determined by reference to bid prices at the close of business on the balance sheet date.

#### *Leases – Lessee accounting*

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss.

## Notes to the financial statements

for the year ended 31 October 2018

### 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, or contains a lease, that arrangement is accounted for in accordance with IAS 17 Leases.

#### *Key sources of estimation uncertainty*

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 pension 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 2018 was £39,000 (2017: £1,300,000). Further details are given in note 30.

#### *Valuation of financial instruments*

As described in note 25, the Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Note 25 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments. The Directors believe that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

#### *Impairment of assets*

As discussed in the accounting policies above, the Group assesses at each reporting date, on a property by property basis, whether there is an indication that an asset may be impaired.

#### *Pensions and other post-retirement benefits*

The Group has both defined contribution and defined benefit pension arrangements.

The cost of defined contribution payments is charged to the income statement as incurred.

The Group 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 in which they are made available.

## Notes to the financial statements

for the year ended 31 October 2018

### 2. Accounting policies (continued)

#### *Pensions and other post-retirement benefits*

As described in note 30, the Group maintains a defined benefit pension scheme that was closed to new members on 18 July 2002 and there has been no future accrual since 5 April 2006.

In respect of the defined benefit pension scheme the amount recognised in the Balance Sheet comprises the difference between the present value of the scheme's liabilities and the fair value of the scheme's assets determined by qualified actuaries using the projected unit credit method. The financing charge is determined by applying the discount rate used to measure the defined benefit obligation to both the scheme liabilities and plan assets and is recognised within net finance costs. Remeasurement gains and losses are recognised in full in the period in which they occur in Other Comprehensive Income.

#### *Income taxes*

The tax expense comprises both the tax payable based on taxable profits for the year end deferred tax. Deferred tax is provided using the balance sheet liability method in respect of temporary differences between the carrying value of assets and liabilities for accounting and tax purposes. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Income tax is charged or credited to equity or to other comprehensive income if it relates to items that are charged or credited to equity or to other comprehensive income. Otherwise income tax is recognised in the income statement. Tax is calculated using tax rates and laws that are enacted or substantively enacted at the balance sheet date.

#### *Foreign currency*

There are no transactions in currencies other than the individual entity's functional 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 and reported in Other Comprehensive Income.

#### *Treasury shares*

The cost of own shares held by The Heavitree Brewery PLC Employee Benefits Trust and Employee Share Option Scheme are deducted from shareholders' equity until the shares are cancelled, re-issued or disposed of. Consideration received for the sale of such shares is also recognised in shareholder's equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of own shares held.

#### *New standards, interpretations and amendments to existing standards*

There are no material impacts arising from standards and interpretations applicable for the first time to these financial statements, as detailed in the prior year financial statements. Additional disclosure in note 32 been included in this year's financial statements in accordance with IAS 7.

The Directors have considered all IFRS and IFRIC interpretations issued but not yet in force. IFRS9 Financial Instruments and IFRS15 Revenue Recognition will apply to the Group's 2019 financial statements and IFRS16 Leases will apply to the Group's 2020 financial statements.

The Directors have considered the potential impact arising from changes under IFRS9 which affects the Group's calculation of the bad debt provision and impairment of property. The changes are not expected to have a material impact on the financial statements. The impact of IFRS15 has been considered and the revenue recognition policy currently applied is compliant with the amended standard. As a result, the Directors do not anticipate a material impact on the financial statements. The group holds a small number of immaterial operating leases as a lessee and as a result, there is not expected to be a material impact on the balance sheet or reported EBITDA when applying IFRS 16.

## Notes to the financial statements

for the year ended 31 October 2018

### 3. Revenue

Revenue recognised in the income statement is analysed as follows.

	2018	2017
	£'000	£'000
Sale of goods	5,375	5,074
Rents from licensed properties	2,239	2,225
	<u>7,614</u>	<u>7,299</u>

Sale of goods comprises the invoiced values of beers and ciders supplied by the Group to tenants, together with gaming machine revenue. All revenue is derived from the United Kingdom.

### 4. Segment information

#### *Primary reporting format – business segments*

During the year the Group operated in one business segment - leased estates.

Leased estate represents properties which are leased to tenants to operate independently from the Group, under tied and free of tie tenancies.

#### *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 2018 and 2017. Revenue is based on the geographical location of customers and assets are based on the geographical location of the asset.

## Notes to the financial statements

for the year ended 31 October 2018

### 4. Segment information (continued)

*Secondary reporting format – geographical segments*

<i>Year ended 31 October 2018</i>	<i>UK</i> <i>£'000</i>	<i>United</i> <i>States</i> <i>£'000</i>	<i>Total</i> <i>£'000</i>
<b>Revenue</b>			
Sales to external customers	7,614	-	7,614
<b>Other segment information</b>			
Segment assets	20,542	43	20,585
<b>Total assets</b>	20,542	43	20,585
Capital expenditure Property, plant and equipment	839	-	839
 <b>Year ended 31 October 2017</b>	 <i>UK</i> <i>£'000</i>	 <i>United</i> <i>States</i> <i>£'000</i>	 <i>Total</i> <i>£'000</i>
<b>Revenue</b>			
Sales to external customers	7,299	-	7,299
<b>Other segment information</b>			
Segment assets	20,885	150	21,035
<b>Total assets</b>	20,885	150	21,035
Capital expenditure Property, plant and equipment	1,117	-	1,117

### 5. Other operating income

	<i>2018</i> <i>£'000</i>	<i>2017</i> <i>£'000</i>
Rents from unlicensed properties	257	266
Heavitree Inc	22	118
	279	384

## Notes to the financial statements

for the year ended 31 October 2018

### 6. Operating profit

This is stated after charging:

	2018 £'000	2017 £'000
Depreciation of property, plant and equipment	235	248
Impairment of estate assets	-	-
Repairs and maintenance of properties	746	720
	<u>          </u>	<u>          </u>
Cost of inventories recognised as an expense (included in purchase of inventories)	3,109	2,968
	<u>          </u>	<u>          </u>

### 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.

	2018 £'000	2017 £'000
Audit of the group financial statements	42	41
Other fees to auditors		
- audit of the group pension scheme	2	2
- tax compliance services	6	6
- other services	4	4
	<u>          </u>	<u>          </u>
	12	12
	<u>          </u>	<u>          </u>
	54	53
	<u>          </u>	<u>          </u>

Other services relate to a review of the Group's Interim Report of £4,000 (2017: £4,000).

### 8. Profit on sale of property, plant and equipment

	2018 £'000	2017 £'000
Profits on sale of property, plant and equipment	824	6
	<u>          </u>	<u>          </u>

Profit on disposal of non-current assets represents gains/(losses) on disposal of property, plant and equipment. They are classified as non-operating 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.

## Notes to the financial statements

for the year ended 31 October 2018

### 9. Movements in valuation of estate and related assets

	2018 £'000	2017 £'000
Write down of non-current assets held for sale to fair value less costs to sell (note 17)	-	-

### 10. Staff costs and Directors' emoluments

#### (a) Staff costs

	2018 £'000	2017 £'000
Wages and salaries	1,093	1,069
Social security costs	121	115
Other pension costs (note 30)	193	169
	<u>1,407</u>	<u>1,353</u>

Included in other pension costs is £51,729 (2017: £48,550) in respect of the defined contribution scheme.

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

	2018 No.	2017 No.
Average monthly number of employees	15	14

#### (b) Directors' emoluments

	<i>Basic salary and fees</i> £'000	<i>Performance related bonus Benefits</i> £'000    £'000		<i>Pension contributions</i> £'000	<i>Total 2018</i> £'000	<i>Total 2017</i> £'000
N H P Tucker	169	28	14	-	211	212
G J Crocker	147	13	25	-	185	179
T Wheatley	156	12	11	-	179	185
W P Tucker	27	-	2	-	29	28
T P Duncan	17	-	-	-	17	16
K Pease-Watkin	17	-	-	-	17	16
	<u>533</u>	<u>53</u>	<u>52</u>	<u>-</u>	<u>638</u>	<u>636</u>

## Notes to the financial statements

for the year ended 31 October 2018

### 10. Staff costs and Directors' emoluments (continued)

#### (b) Directors' emoluments (continued)

The performance-related bonuses comprise payments under the Company's bonus scheme and are dependent upon the level of profits.

The emoluments (excluding pension contributions) of the highest paid Director totalled £211,000 (2017: £212,000).

The number of Directors accruing pension benefits is nil (2017: three). Further details are provided in note 30. The highest paid Director has an accrued pension entitlement of £nil (2017:£89,180) arising from past membership of the defined benefit scheme.

### 11. Finance costs

	2018 £'000	2017 £'000
Interest on bank loans and overdrafts	169	176
Interest on other loans (including cumulative preference shares)	6	6
Total finance costs	<u>175</u>	<u>182</u>

### 12. Taxation

#### (a) Tax on profit on ordinary activities

Tax expensed in the income statement

	2018 £'000	2017 £'000
<i>Current income tax:</i>		
UK corporation tax	131	190
(Over)/under provision of tax in prior years	(2)	(50)
Tax paid by Employee Benefits Trust	13	11
Total current income tax	<u>142</u>	<u>151</u>
<i>Deferred tax:</i>		
Origination and reversal of temporary differences	182	75
Total deferred tax	<u>182</u>	<u>75</u>
<b>Tax expense in the income statement</b>	<u><u>324</u></u>	<u><u>226</u></u>

## Notes to the financial statements

for the year ended 31 October 2018

12. Taxation (continued)	2018	2017
<i>(a) Tax on profit on ordinary activities (continued)</i>	£'000	£'000
<i>Tax relating to items expensed or credited to equity</i>		
<i>Deferred tax:</i>		
Deferred tax on defined benefit pensions scheme	42	(74)
Deferred tax on fair value re-measurement of hedging instruments entered into for cash flow hedges	-	-
Total deferred tax	<u>42</u>	<u>(74)</u>
Tax expense in the statement of comprehensive income	<u>42</u>	<u>(74)</u>

### *(b) Reconciliation of the total tax expense*

The tax expense in the income statement for the year is lower than the standard rate of corporation tax in the UK of 19% (2017: 19.41%). The differences are reconciled below:

	2018	2017
	£'000	£'000
Accounting profit before income tax	2,251	1,554
Accounting profit multiplied by the UK standard rate of corporation tax of 19% (2017: 19.41%)	428	302
Expenses not deductible for tax purposes	26	37
Other	(38)	(16)
Tax paid by Employee Benefits Trust	13	11
Capital gain rebasing/indexation	(105)	(108)
Total tax expense reported in the income statement	<u>324</u>	<u>226</u>

### *(c) Deferred tax*

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

	2018	2017
	£'000	£'000
<i>Deferred tax liability</i>		
Accelerated capital allowances	175	218
Rolled over gain	125	127
	<u>300</u>	<u>345</u>
<i>Deferred tax asset</i>		
Pension plans	38	221
	<u>38</u>	<u>221</u>

## Notes to the financial statements

for the year ended 31 October 2018

### 12. Taxation (continued)

#### (c) Deferred tax (continued)

The deferred tax asset has been provided for on the basis that it will be relieved against future profits anticipated to arise in the foreseeable future.

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

	2018 £'000	2017 £'000
<b>Deferred tax in the income statement</b>		
Accelerated capital allowances	(43)	14
Pension plans	225	65
Rolled over gain	-	(4)
	<u>182</u>	<u>75</u>
Deferred income tax expense	<u>182</u>	<u>75</u>

A potential deferred tax asset of £6,112 (2017: £23,000) 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 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.

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

	2018 £'000	2017 £'000
Profit for the year	1,927	1,328
	<u>1,927</u>	<u>1,328</u>
	2018 No. ( '000)	2017 No. ( '000)
Basic weighted average number of shares (excluding treasury shares)	4,866	4,877
	<u>4,866</u>	<u>4,877</u>

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

## Notes to the financial statements

for the year ended 31 October 2018

### 14. Dividends paid and proposed

	2018 £'000	2017 £'000
<i>Declared and paid during the year:</i>		
Equity dividends on ordinary shares:		
Final dividend for 2017: 4.00p (2016: 3.75p)	211	198
First dividend for 2018: 3.675p (2017: 3.675p)	198	194
Less: dividends on shares held within employee share schemes	(36)	(30)
Dividends paid	<u>373</u>	<u>362</u>
<i>Proposed for approval at AGM (not recognised as a liability as at 31 October)</i>		
Final dividend for 2018: 4.25p (2017: 4.0p)	<u>224</u>	<u>211</u>
Cumulative preference dividends	<u>1</u>	<u>1</u>

### 15. Profit attributable to members of the parent company

The profit dealt with in the financial statements of the parent company is £1,915,000 (2017: £1,225,000).

### 16. Property, plant and equipment

<i>Group</i>	<i>Land and buildings</i>	<i>Furniture and fittings</i>	<i>Equipment and vehicles</i>	<i>Assets under construction</i>	<i>Investment properties</i>	<i>Total</i>
	£'000	£'000	£'000	£'000	£'000	£'000
<i>Cost:</i>						
At 1 November 2016	15,821	3,889	489	167	1,312	21,678
Additions	263	191	52	630	18	1,154
Transfer to assets held for sale	(574)	-	-	-	(236)	(810)
Transfer to assets under construction	797	-	-	(797)	-	-
Transfer from/(to) current assets	-	11	-	-	-	11
Disposals	-	-	(29)	-	-	(29)
At 31 October 2017	<u>16,307</u>	<u>4,091</u>	<u>512</u>	<u>-</u>	<u>1,094</u>	<u>22,004</u>
Additions	538	70	244	-	-	852
Transfer to assets held for sale	266	-	-	-	-	266
Transfer from assets under construction	-	-	-	-	-	-
Transfer from/(to) current assets	-	-	-	-	-	-
Disposals	-	(26)	(212)	-	-	(238)
At 31 October 2018	<u>17,111</u>	<u>4,135</u>	<u>544</u>	<u>-</u>	<u>1,094</u>	<u>22,884</u>

## Notes to the financial statements

for the year ended 31 October 2018

### 16. Property, plant and equipment (continued)

<i>Group</i>	<i>Land and buildings</i> <i>£'000</i>	<i>Furniture and fittings</i> <i>£'000</i>	<i>Equipment and vehicles</i> <i>£'000</i>	<i>Assets under construction</i> <i>£'000</i>	<i>Investment properties</i> <i>£'000</i>	<i>Total</i> <i>£'000</i>
<i>Depreciation and impairment:</i>						
At 1 November 2016	427	2,951	288	-	-	3,666
Provided during the year	-	177	71	-	-	248
Disposals	-	-	(26)	-	-	(26)
At 31 October 2017	427	3,128	333	-	-	3,888
Provided during the year	-	158	77	-	-	235
Disposals	-	-	(145)	-	-	(145)
At 31 October 2018	427	3,286	265	-	-	3,978
Net book value						
At 31 October 2018	16,684	849	279	-	1,094	18,906
Net book value at 31 October 2017	15,880	963	179	-	1,094	18,116
Net book value at 31 October 2016	15,394	938	201	167	1,312	18,012

In the Directors' opinion the investment properties have a fair value as at 31 October 2018 of £2,265,000 (2017: £2,265,000). The investment properties were valued by the Directors based on current market prices for similar properties within a similar area. The fair value disclosure of investment property is categorised as a level 2 recurring fair value disclosure in accordance with IFRS 13.

## Notes to the financial statements

for the year ended 31 October 2018

### 16. Property, plant and equipment (continued)

<i>Company</i>	<i>Land and buildings</i>	<i>Furniture and fittings</i>	<i>Equipment and vehicles</i>	<i>Assets under construction</i>	<i>Investment properties</i>	<i>Total</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<i>Cost:</i>						
At 1 November 2016	15,788	3,889	489	167	1,312	21,645
Additions	263	191	52	630	18	1,154
Transfer to assets held for sale	(574)	-	-	-	(236)	(810)
Transfer from assets under construction	797	-	-	(797)	-	-
Transfer from current assets	-	11	-	-	-	11
Disposals	-	-	(29)	-	-	(29)
At 31 October 2017	16,274	4,091	512	-	1,094	21,971
Additions	526	70	244	-	-	840
Transfer to assets held for sale	266	-	-	-	-	266
Transfer from assets under construction	-	-	-	-	-	-
Transfer from current assets	-	-	-	-	-	-
Disposals	-	(26)	(212)	-	-	(238)
At 31 October 2018	17,066	4,135	544	-	1,094	22,839

## Notes to the financial statements

for the year ended 31 October 2018

### 16. Property, plant and equipment (continued)

<i>Company</i>	<i>Land and buildings</i>	<i>Furniture and fittings</i>	<i>Equipment and vehicles</i>	<i>Assets under construction</i>	<i>Investment properties</i>	<i>Total</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<i>Depreciation and impairment:</i>						
At 1 November 2016	427	2,951	288	-	-	3,666
Provided during the year	-	177	71	-	-	248
Disposals	-	-	(26)	-	-	(26)
At 31 October 2017	427	3,128	333	-	-	3,888
Provided during the year	-	158	77	-	-	235
Disposals	-	-	(145)	-	-	(145)
At 31 October 2018	427	3,286	265	-	-	3,978
Net book value at At 31 October 2018	16,639	849	279	-	1,094	18,861
Net book value at 31 October 2017	15,847	963	179	-	1,094	18,083
Net book value at 1 November 2016	15,361	938	201	167	1,312	17,979

In the Directors' opinion the investment properties have a fair value as at 31 October 2018 of £2,265,000 (2017: £2,265,000). The investment properties were valued by the Directors based on current market prices for similar properties within a similar area. The fair value disclosure of investment property is categorised as a level 2 recurring fair value disclosure in accordance with IFRS 13.

### 17. Non-current assets held for sale

<i>Group and Company</i>	<i>2018</i>	<i>2017</i>
	<i>£'000</i>	<i>£'000</i>
At 1 November	890	219
Transfer (to)/from property, plant and equipment (note 16)	(266)	810
Additions	-	11
Disposals	(562)	(185)
Impairment	-	-
Transfer (to)/from current assets	-	35
At 31 October	62	890

As at 31 October 2018 one property was being actively marketed for sale (2017 – five properties).

## Notes to the financial statements

for the year ended 31 October 2018

### 18. Financial assets

<i>Group</i>	<i>2018</i>	<i>2017</i>
	<i>£'000</i>	<i>£'000</i>
<b><i>Financial assets – non-current</i></b>		
Available-for-sale financial assets	47	46

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

<i>Company</i>	<i>Subsidiary</i>		
	<i>undertakings</i>	<i>Investments</i>	<i>Total</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Cost:			
At 1 November 2017	86	50	136
Loan advance	-	5	5
At 31 October 2018	86	55	141
Amounts provided:			
At 1 November 2017	(18)	(4)	(22)
Revaluation	(34)	(4)	(38)
At 31 October 2018	(52)	(8)	(60)
Net book value:			
At 31 October 2018	34	47	81
At 31 October 2017	68	46	114

The Company's subsidiary undertakings are as follows:

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

Each subsidiary undertaking is directly owned by the Company.

## Notes to the financial statements

for the year ended 31 October 2018

### 19. Inventories

	2018	2017
	£'000	£'000
<i>Group and Company</i>		
Fine wines	6	6
Merchandising inventory	4	4
	<u>10</u>	<u>10</u>
	<u><u>10</u></u>	<u><u>10</u></u>

### 20. Trade and other receivables

	2018	2017
	£'000	£'000
<i>Group</i>		
Trade receivables	849	839
Prepayments and accrued income	83	378
Other receivables	15	139
Finance leases	345	340
	<u>1,292</u>	<u>1,696</u>
	<u><u>1,292</u></u>	<u><u>1,696</u></u>

	2018	2017
	£'000	£'000
<i>Company</i>		
Trade receivables	849	839
Prepayments and accrued income	83	378
Other receivables	15	19
Finance leases	345	340
	<u>1,292</u>	<u>1,576</u>
	<u><u>1,292</u></u>	<u><u>1,576</u></u>

Trade receivables are all denominated in sterling.

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 2018, trade receivables at nominal value of £227,000 (2017: £498,000) were impaired and fully provided. Movements in the provision for impairment of receivables were as follows:

	2018	2017
	£'000	£'000
At 1 November	498	512
Charge for the year	39	(14)
Amounts written off	(310)	-
	<u>227</u>	<u>498</u>
At 31 October	<u><u>227</u></u>	<u><u>498</u></u>

## Notes to the financial statements

for the year ended 31 October 2018

### 20. Trade and other receivables (continued)

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

	<i>Total</i> £'000	<i>Neither past due nor impaired</i> £'000	<i>Past due but not impaired</i>		
			<i>0-30 days</i> £'000	<i>30-90 days</i> £'000	<i>90+ days</i> £'000
2018	849	589	110	22	128
2017	839	529	133	61	116

Management estimates the provision for doubtful debts based on a review of all individual receivable accounts, experience and known factors at the balance sheet date, taking into account any form of security or collateral held, which is quantified. Receivables are written off against the doubtful debt provision when management deems the debt no longer recoverable.

### 21. Cash and cash equivalents

	<i>2018</i> £'000	<i>2017</i> £'000
<i>Group and Company</i>		
Cash at bank and in hand	44	56
	<u>44</u>	<u>56</u>

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

	<i>2018</i> £'000	<i>2017</i> £'000
Cash at bank and in hand	44	56
Bank overdrafts	(801)	(1,592)
	<u>(757)</u>	<u>(1,536)</u>

## Notes to the financial statements

for the year ended 31 October 2018

### 22. Trade and other payables

<i>Group</i>	<i>2018</i>	<i>2017</i>
	<i>£'000</i>	<i>£'000</i>
<b>Current</b>		
Trade payables	382	408
Other taxation and social security	226	210
Accruals	257	240
Other payables	213	13
	<u>1,078</u>	<u>871</u>
	<u><u>1,078</u></u>	<u><u>871</u></u>
 <i>Company</i>	 <i>2018</i>	 <i>2017</i>
	<i>£'000</i>	<i>£'000</i>
<b>Current</b>		
Trade payables	382	408
Other taxation and social security	226	210
Accruals	257	240
Other payables	213	13
Amount owed to subsidiary	84	
	<u>1,162</u>	<u>871</u>
	<u><u>1,162</u></u>	<u><u>871</u></u>
 <b>Non-current</b>		
Other payables - tenants' deposits	311	256
	<u>311</u>	<u>256</u>
	<u><u>311</u></u>	<u><u>256</u></u>

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 an appropriate margin.

### 23. Financial liabilities

<i>Group and Company</i>	<i>2018</i>	<i>2017</i>
	<i>£'000</i>	<i>£'000</i>
<b>Current</b>		
Bank overdrafts	801	1,592
Finance lease liabilities	17	32
	<u>818</u>	<u>1,624</u>
	<u><u>818</u></u>	<u><u>1,624</u></u>
	 <i>2018</i>	 <i>2017</i>
	<i>£'000</i>	<i>£'000</i>
<b>Non-current</b>		
11.5% cumulative preference shares (note 26)	11	11
Bank loan	6,000	6,000
Finance lease liabilities	56	34
	<u>6,067</u>	<u>6,045</u>
	<u><u>6,067</u></u>	<u><u>6,045</u></u>

The bank loan and overdraft are secured over certain of the Group's freehold properties by a first legal charge to the value of £15,125,000 (2017: £15,125,000).

## Notes to the financial statements

for the year ended 31 October 2018

<b>Obligations under finance leases</b>	2018 £'000	2017 £'000
Amounts payable under finance lease:		
Within one year	17	32
Within two to five years	56	35
After five years		-
Present value of lease obligation	73	67
	73	67

It is the Group's policy to lease certain motor vehicles under finance leases. The Group's obligations under finance lease are secured over leased assets.

### 24. Operating lease agreements where the group is a lessor

#### *Group and Company*

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:

	2018 £'000	2017 £'000
Not later than one year	252	252
After one year but not more than five years	546	715
After five years	265	444
	1,063	1,411
	1,063	1,411

The above figures are based on current rents which are generally subject to three-yearly reviews. Leases have between one year and fifteen 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.

### 25. Financial instruments and derivatives

#### *Group and Company*

The Group's principal financial instruments comprise 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.

## Notes to the financial statements

for the year ended 31 October 2018

### 25. Financial instruments and derivatives (continued)

#### *Interest rate risk*

As the Group has no significant interest-bearing assets, other than cash and cash equivalents, the Group's income and operating cash flows are substantially independent of changes in market interest rates. Income and cash flows from cash and cash equivalents fluctuate with interest rates.

The Group finances its operations through a mixture of equity shareholders' funds, preference shares and a secured term loan and overdraft.

Cash and borrowings are denominated in sterling and interest is paid on cash and borrowings at a floating rate. The interest rate risk exposure is managed by the use of interest rate swap contracts when considered appropriate, and the Group continually monitors its interest rate risk exposure. 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 of interest rates on bank borrowings is as follows. 100 basis points has been used as movements are linear.

	<i>Increase/ decrease in basis points</i>	<i>Effect on profit before tax £000</i>
<b>2018</b>		
Sterling	+100	(69)
Sterling	-100	69
<b>2017</b>		
Sterling	+100	(76)
Sterling	-100	76

#### *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.

#### *Liquidity risk*

The Group is primarily financed by equity shareholders' funds and a secured term loan, subject to relevant covenants being met.

Cash flow forecasts are produced to assist management in identifying liquidity requirements and are stress tested for possible scenarios. Cash balances are invested in the short-term such that they are readily available to settle short-term liabilities or fund capital additions.

## Notes to the financial statements

for the year ended 31 October 2018

### 25. Financial instruments and derivatives (continued)

The table below summarises the maturity profile of the Group's financial liabilities at 31 October 2018 and 2017 based on contractual undiscounted payments.

#### Year ended 31 October 2018

	<i>Less than</i>	<i>3-12</i>		<i>More</i>		
	<i>On demand</i>	<i>3 months</i>	<i>months</i>	<i>1-5 years</i>	<i>5 years</i>	<i>Total</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Bank loan/overdraft	801	-	-	6,000	-	6,801
Tenants' deposits	-	-	-	311	-	311
Trade payables	382	-	-	-	-	382
Finance leases	17	-	-	56	-	73

#### Year ended 31 October 2017

	<i>Less than</i>	<i>3-12</i>		<i>More</i>		
	<i>On demand</i>	<i>3 months</i>	<i>months</i>	<i>1-5 years</i>	<i>5 years</i>	<i>Total</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Bank loan/overdraft	1,592	-	-	6,000	-	7,592
Tenants' deposits	-	-	-	256	-	256
Trade payables	408	-	-	-	-	408
Finance leases	32	-	-	34	-	66

#### Capital Risk

The Group's capital structure is made up of net debt, issued share capital and reserves. These are managed effectively to minimise the Group's cost of capital, to add value to shareholders and to service debt obligations, ultimately ensuring that the Group continues as a going concern.

The securitised debt is monitored by a variety of measures which are reported to debt providers on a quarterly basis. The Group assesses the performance of the business; the level of available funds and the short to medium-term plans concerning capital spend as well as the need to meet financial covenants. Such assessment influences the level of dividends payable.

#### 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.

Trade and other receivables, as shown on the consolidated balance sheet, comprise a large number of individually small amounts from unrelated customers and are shown net of a provision for doubtful debts.

The Group has established procedures to minimise the risk of default on trade receivables including, when considered appropriate, undertaking detailed credit checks before a customer is accepted. The credit quality of counterparts is assessed through the use of credit agencies at the outset of the business relationship.

Monthly checks are made and credit terms altered where appropriate. Historically, these procedures have proved effective in minimising the level of impaired and past due debtors.

## Notes to the financial statements

for the year ended 31 October 2018

### 25. Financial instruments and derivatives (continued)

#### 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 as foreign currency exposure is not material to the Group.

The Group does not face transactional currency exposure as all transactions are denominated in the functional currency.

#### 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:

	<i>Hierarchical classification</i>	<i>Book value 2018 £'000</i>	<i>Fair value 2018 £'000</i>	<i>Book value 2017 £'000</i>	<i>Fair value 2017 £'000</i>
<b>Financial assets</b>					
Cash	Level 1	44	44	56	56
Available-for-sale investments	Level 1	47	47	46	46
		91	91	102	102
<b>Financial liabilities</b>					
Bank loan/overdraft	Level 2	(6,801)	(6,801)	(7,592)	(7,592)
Interest-bearing loans and borrowings:					
Floating rate borrowings					
Tenants' deposits	Level 3	(311)	(311)	(256)	(256)
Cumulative preference shares	Level 3	(11)	(11)	(11)	(11)
Finance leases	Level 2	(74)	(74)	(66)	(66)
		(7,197)	(7,197)	(7,925)	(7,925)

The fair value of financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced liquidation or sale.

The following methods and assumptions were used to estimate the fair values:

The fair value of short-term loans and overdrafts approximates to the carrying amount because of the short maturity of these instruments.

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

The fair value of available-for-sale investments is based on market value (see note 18).

#### Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

## Notes to the financial statements

for the year ended 31 October 2018

### 25. Financial instruments and derivatives (continued)

#### *Hierarchical classification of financial assets and liabilities measured at fair value*

IFRS 13 requires that the classification of financial instruments at fair value be determined by reference to the source of inputs used to derive fair value.

The classification uses the following three-level hierarchy:

Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 – other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3 – techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

During the years ending 31 October 2018 and 31 October 2017 there were no transfers between level 1, 2 or 3 fair value measurements.

### 26. Authorised and issued share capital

#### *Group and Company*

#### *(i) Ordinary shares*

##### *Authorised*

	2018	2017
	£	£
Ordinary shares of 5p each	99,735	99,735
'A' limited voting ordinary shares of 5p each	164,124	164,124
Unclassified shares of 5p each	924,446	924,446
	<u>1,188,305</u>	<u>1,188,305</u>

<i>Allotted, called up and fully paid</i>	2018	2017	2018	2017
	No.	No.	£	£
Ordinary Shares of 5p each				
At 1 November	1,994,699	1,994,699	99,735	99,735
Purchases	-	-	-	-
At 31 October	<u>1,994,699</u>	<u>1,994,699</u>	<u>99,735</u>	<u>99,735</u>

## Notes to the financial statements

for the year ended 31 October 2018

### 26. Authorised and issued share capital (continued)

	2018	2017	2018	2017
	No.	No.	£	£
'A' Limited Voting Ordinary Shares of 5p each				
At 1 November	3,282,478	3,282,478	164,124	164,124
Purchases	-	-	-	-
	<u>3,282,478</u>	<u>3,282,478</u>	<u>164,124</u>	<u>164,124</u>
At 31 October	<u>3,282,478</u>	<u>3,282,478</u>	<u>164,124</u>	<u>164,124</u>

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.

#### (ii) Preference shares classified as non-current liability

<i>Authorised</i>			2018	2017
			£	£
11.5% Cumulative Preference Shares of £1 each			11,695	11,695
			<u>11,695</u>	<u>11,695</u>
<i>Allotted, called up and fully paid</i>				
	2018	2017	2018	2017
	No.	No.	£	£
11.5% Cumulative Preference Shares of £1 each	11,695	11,695	11,695	11,695
	<u>11,695</u>	<u>11,695</u>	<u>11,695</u>	<u>11,695</u>

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 financial instruments on page 10 in the Directors' report.

### 27. Reconciliation of movements in equity

#### *Group and Company*

The reconciliations of movements in equity are shown in the group statement of changes in equity and the company statement of changes in equity on pages 26 and 31 respectively.

#### **Equity share capital**

The balance classified as share capital includes the total net proceeds (nominal amount only) arising or deemed to arise on the issue of the Company's equity share capital, comprising Ordinary Shares of 5p each and 'A' Limited Voting Ordinary Shares of 5p each.

## Notes to the financial statements

for the year ended 31 October 2018

### 27. Reconciliation of movements in equity (continued)

#### *Capital redemption reserve*

The capital redemption reserve arises on the repurchase and cancellation by the Company of Ordinary Shares.

#### *Treasury shares*

Treasury shares represent the cost of The Heavitree Brewery PLC shares purchased in the market and held by The Heavitree Brewery PLC Employee Benefits Trust and Employee Share Option Scheme ('EBT').

At 31 October 2018, the Group held 146,082 Ordinary Shares and 262,885 'A' Limited Voting Ordinary Shares (2017: 142,082 Ordinary Shares and 232,643 'A' Limited Voting Ordinary Shares) of its own shares. During the year there were purchases of 4,000 Ordinary Shares and 55,352 'A' Limited Voting Ordinary Shares and sales of 25,110 'A' Limited Voting Ordinary Shares.

#### *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.

### 28. Financial Commitments

#### *Group and Company*

At 31 October, the Group and Company had total commitments under non-cancellable operating leases that expire as follows:

	<i>Other</i>	<i>Other</i>
	<i>2018</i>	<i>2017</i>
	<i>£'000</i>	<i>£'000</i>
Within one year	9	9
Within two to five years	11	20
	<u>20</u>	<u>29</u>

### 29. Capital commitments

#### *Group and Company*

At 31 October 2018, amounts contracted for but not provided in the financial statements amounted to £nil (2017: £nil).

## Notes to the financial statements

for the year ended 31 October 2018

### 30. Pensions and post-retirement benefits

*Group and Company*

**(i) Optional pension payments**

During the year the Group made discretionary pension payments of £33,900 (2017: £35,026) 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 £51,729 (2017: £48,550).

**(iii) Defined benefit scheme**

The Company sponsors the plan which is a funded defined benefit arrangement. This is a separate trustee administered fund holding the pension plan assets to meet long term pension liabilities for past and present employees. The scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator, and Guidance Notes adopted by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension plans in the UK.

The scheme was closed to new members on 18 July 2002 and there has been no future accrual since 5 April 2006.

The Trustees of the scheme are required to act in the best interest of the scheme's beneficiaries. The appointment of the Trustees is determined by the scheme's trust documentation. It is policy that one third of all Trustees should be nominated by the members and there must be a minimum of one such trustee.

A full actuarial valuation was carried out as at 31 December 2016 in accordance with the scheme funding requirements of the Pensions Act 2004 and the funding of the scheme is agreed between the Company and the Trustees in line with those requirements. These in particular require the surplus/deficit to be calculated using prudent, as opposed to best estimate actuarial assumptions.

For the purposes of IAS 19 the actuarial valuation as at 31 December 2016, which was carried out by a qualified independent actuary, has been updated on an approximate basis to 31 October 2018, there have been no changes in the valuation methodology adopted for this period's disclosure compared to the previous period's disclosures.

During the year all remaining Deferred Members have transferred their remaining benefits out of the Scheme, which included the three Directors previously accruing pension benefits (note 10). The only remaining Members of the scheme are now Retired Members and their dependents. The Trustees have purchased annuities held in the Trustees' names with insurers for pensions in payment. However, recent legislation regarding equalisation of the pensions between men and women mean the Group continues to be liable and will have to pay any balance of the cost of securing such equalised benefit for these Retired Members as well as ongoing management and administration expenses, as before. Therefore, the Schemes actuary has issued a replacement to the previous schedule of contributions issued on the 27 March 2018, confirming, no further contributions are now required in respect of the shortfall in funding.

## Notes to the financial statements

for the year ended 31 October 2018

### 30. Pensions and post-retirement benefits (continued)

#### Amounts included in the Balance Sheet

	<i>31 October</i> 2018 £'000	<i>31 October</i> 2017 £'000	<i>31 October</i> 2016 £'000
Fair value of plan assets	59	6,670	8,761
Present value of defined benefit obligation	(98)	(7,970)	(10,872)
Surplus/(deficit) in scheme	<u>(39)</u>	<u>(1,300)</u>	<u>(2,111)</u>

The present value of scheme liabilities is measured by discounting the best estimate of future cash flows to be paid out by the scheme using the projected unit credit method. The value calculated in this way is reflected in the net liability in the balance sheet as shown above.

The projected credit method is an accrued benefits valuation method in which allowance is made for projected earnings increases. The accumulated benefit obligation is an alternative actuarial measure of the plan liabilities, whose calculation differs from that under the projected unit credit method in that it includes no assumption for future earnings increases. In assessing this figure for the purpose of these disclosures allowance has been made for future statutory revaluation of benefits up to retirement. At the balance sheet date the accumulated benefit obligation was £98,000.

All actuarial gains and losses will be recognised in the year in which they occur in other comprehensive income.

#### **Reconciliation of the impact of the asset ceiling**

The Company has reviewed the implications of the guidance provided by IFRIC 14 and has concluded that it is not necessary to make any adjustments to the IAS 19 figures in respect of an asset ceiling or Minimum Funding requirement as at 31 October 2018.

#### **Reconciliation of opening and closing present value of the defined benefit obligation**

	<i>2018</i> £'000	<i>2017</i> £'000
As at 1 November	7,970	10,872
Current service cost	-	-
Interest cost	126	280
Actuarial losses due to scheme experience	201	277
Actuarial gains due to changes in demographic assumptions	(1)	(1,226)
Actuarial losses due to changes in financial assumptions	3	245
Benefits paid	(567)	(2,594)
Past service costs	-	116
Liabilities extinguished on settlement	(7,634)	-
At 31 October	<u>98</u>	<u>7,970</u>

## Notes to the financial statements

for the year ended 31 October 2018

### 30. Pensions and post-retirement benefits (continued)

The three remaining non-insured deferred members transferred out of the plan on 9 May 2018 and 5 June 2018. A settlement has been measured using an average payment date of 31 May 2018 based on actuarial assumptions consistent with market conditions at this date. In particular a discount rate of 2.8% p.a. has been used.

There have been no plan amendments, or curtailments in the accounting period.

#### *Reconciliation of opening and closing values of the fair value of plan assets*

	2018 £'000	2017 £'000
As at 1 November	6,670	8,761
Interest income	91	225
Return on plan assets (excluding amounts included in interest income)	(45)	(276)
Employer contributions	1,609	554
Assets distributed on settlement	(7,699)	-
Benefits paid	(567)	(2,594)
	<u>59</u>	<u>6,670</u>

The actual return on the plan assets over the period ended 31 October 2018 was £46,000.

#### *Defined benefit costs recognised in profit or loss*

	2018 £'000	2017 £'000
Past service costs and loss on settlements	65	116
Net interest cost	35	55
	<u>100</u>	<u>171</u>

#### *Defined benefit costs recognised in Other Comprehensive Income*

	2018 £'000	2017 £'000
Return on plan assets (excluding amounts included in net interest cost) –loss	(45)	(276)
Experience losses arising on the defined benefit obligation	(201)	(277)
Effects of changes in the demographic assumptions - gain	1	1,226
Effects of changes in the financial assumptions - loss	(3)	(245)
	<u>(248)</u>	<u>428</u>

## Notes to the financial statements

for the year ended 31 October 2018

### 30. Pensions and post-retirement benefits (continued)

#### Plan assets

	<i>31 October</i> 2018 £'000	<i>31 October</i> 2017 £'000	<i>31 October</i> 2016 £'000
Corporate Bonds	-	4,440	7,067
Government Bonds	-	588	899
Cash	21	1,608	661
Insured Contract	38	34	134
Total assets	<u>59</u>	<u>6,670</u>	<u>8,761</u>

None of the fair values of the assets shown above include any direct investments in the company's own financial instruments or any property occupied by, or other assets used by, the company. The scheme assets consist of the Trustee bank account, the value of the insurance contract held for the remaining deferred member and an amount due to the company, therefore the scheme assets do not have a quoted market price in an active market. There are no additional assets pledged, and no additional arrangements agreed between the company and trustees to secure members benefits under the plan.

It is the policy of the Trustees and the Company to review the investment strategy at the time of each funding valuation. The Trustees' investment objectives and the processes undertaken to measure and manage the risks inherent in the plan investment strategy are illustrated by the allocation as at 31 October 2018.

The Trustees have secured a deferred annuity for the one remaining deferred member with Zurich in the name of the scheme.

#### Significant Actuarial Assumptions

	<i>31 October</i> 2018 % per annum	<i>31 October</i> 2017 % per annum	<i>31 October</i> 2016 % per annum
Rate of discount	2.50	2.80	2.90
Allowance for commutation of pension for cash at retirement	N/A	N/A	N/A

Details of mortality rates and sensitivity to principal actuarial assumptions are no longer considered necessary to disclose given the scheme has only retired members and their dependants at the year end, where the benefits are substantially covered by purchased annuities.

## Notes to the financial statements

for the year ended 31 October 2018

### 31. Related party transactions

#### *Group and Company*

During the year the Group entered into transactions, in the ordinary course of business, with other related parties.

Two of the licensed properties are tenanted by close family members of two of the Directors. Transactions with these related parties are as follows:

	<i>Sales to related parties</i>	<i>Trading amounts owed from related parties</i>	<i>Purchases from related parties</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
31 October 2018	214	15	-
31 October 2017	317	26	-

During the year the company received a loan amount from a Director of the company and a close family member of one of the Directors totalling £131,041 (including accrued interest at 2.5%).

#### *Terms and conditions of transactions with related parties*

Sales and purchases between related parties are made on normal commercial terms. Outstanding balances with entities other than subsidiaries are unsecured, interest free and cash settlement is expected within 30 days of month end. 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 2018, the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2017: £nil).

#### **Compensation of key management personnel (including Directors)**

The only key management personnel are Directors and their compensation is disclosed in note 10.

### 32. Notes to the cashflow statement

#### **Changes in liabilities arising from financing activities**

#### *Group and Company*

	<i>At 1 November 2017</i>	<i>Financing cash flows</i>	<i>New finance leases</i>	<i>Other changes</i>	<i>At 31 October 2018</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Bank loans	6,000	-	-	-	6,000
Finance lease liabilities	66	(68)	75	-	73
11.5% cumulative preference shares	11	-	-	-	11
Total liabilities	6,077	(68)	75	-	6,084