Registered No 30800

The Heavitree Brewery PLC

Financial Statements

31 October 2019

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*	
C J Bush*	

*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

WBW Solicitors
Exeter

Nominated advisor and broker

Shore Capital and Corporate Limited
Cassini House
57 St James's Street
London
SW1A 1LD

Shore Capital Stockbrokers Limited
Cassini House
57 St James's Street
London
SW1A 1LD

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 Thirtieth Annual General Meeting of The Heavitree Brewery PLC will be held at the Company's offices, Trood Lane, Matford, Exeter on 15 April 2020 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 2019 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 T Wheatley as a Director of the Company.
4. To re-elect T P Duncan as a Director of the Company.
5. To elect C J Bush as a Director of the Company.
6. To re-appoint PKF Francis Clark as auditor of the Company for the period prescribed in section 489 of the Companies Act 2006.
7. To authorise the Directors to determine the remuneration of the auditor.

Special business

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

8. 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 2021 (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
10 March 2020

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 17 April 2020 to shareholders on the register on 20 March 2020.

Strategic report

Chairman's statement

Although Turnover for the Group has decreased by £86,000 to £7,528,000, I am pleased to report that Group Operating Profit has increased by £207,000 to £1,839,000. The drop in Turnover has, in most part, been as a result of rents not being received at two houses which are being operated by external management companies while new tenants are being sought. These houses are The Lysley Arms in Pewsham, near Chippenham and The Traveller's Rest in Whitestone, near Exeter. A new Tenant has now been found for The Traveller's Rest.

The increase in Group Operating Profit has been aided by a reduction in the bad debt provision of £68,000 following another year of efficient credit control. There has also been a reduction in Superannuation costs against the previous year of £86,000.

Results

Group Turnover decreased by £86,000 to £7,528,000. Group Operating Profit has increased by £207,000 to £1,839,000, an increase of 12.68% on the previous year.

Heavitree Inns remained dormant throughout the year.

Heavitree Inc. generated an operating profit of £30,000 following the sale of a small parcel of development land during the year under review (2018 - £12,000).

Dividend

The Directors recommend a final dividend of 4.25p per Ordinary and 'A' Limited Voting Ordinary Share (2018 - 4.25p) making a total for the year of 7.925p (2018 - 7.925p). The dividend will be paid on 17 April 2020, subject to shareholder approval at the Annual General Meeting on 15 April 2020, to those shareholders on the Register at 20 March 2020.

Sale of Property

Since the end of the financial year The Maltsters Arms in Harbertonford and the adjoining cottage, Bridge House, and also Rose Cottage in Strete have been marketed for sale. The Maltsters Arms has been closed since September 2018 and is subject to an Asset of Community Value listing. I hope to report further on these properties at the half-year.

Capital Investments

Listed Building consent and Planning Permission has been granted at The Ley Arms in Kenn to demolish the function room area and build a block of eight bedrooms to allow for an offer of bed and breakfast. This is a wonderful house being traded exceptionally well by our tenant Karen Bayliss. The addition of bedrooms will obviously compliment the quality offer at this house and contractors' quotes for the project are currently being sought.

Strategic report

Corporate Governance

The Board adopted the Corporate Governance Code of the Quoted Companies Alliance in September 2018 when this became a requirement under the AIM Rules. I, and the other Members of our Board, are collectively accountable to you, the shareholders for ensuring good corporate governance. My specific role and responsibility as Chairman is to make sure that all aspects of corporate governance are covered and adhered to. Historically this Company has always strived to conduct business responsibly to the benefit of all stakeholders. The Code gives the Directors a structure to help them to deliver good governance to all shareholders and, in turn, to all our tenants and employees. Further details can be seen in the Directors Report from Page 12.

Personnel

It was announced to the London Stock Exchange on 29th August 2019 that Chris Bush had been appointed to the Board as an Independent Non-Executive Director and it gave me great pleasure at the time to extend my personal welcome. He commenced his role with us on 1st September 2019. Chris is an Institute of Chartered Accountants in England and Wales professional and he has many years' experience in leadership roles within audit practice. He also fills the Independent Non-Executive role required by our QCA Corporate Governance Code with specific responsibility for Corporate Governance and Audit oversight.

Pension Scheme

The Company continues to operate its Final Salary Pension Scheme for retired Members and their dependents. As I reported last year the final three deferred Members transferred out of the Scheme during the previous financial year. Since then, and following the High Court's ruling in October 2018 that all Guaranteed Minimum Pension (GMP) benefits in UK pension plans must be equalised for male and female members, the Scheme's actuary has been working on establishing the GMP liability to the Scheme. This process is not yet complete but as at 31 October 2019 the liability has been estimated at £52,000 and this has been accrued in the financial statements for the year under review.

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

I am pleased to report that since the year end our expiring banking facilities with Barclays, with whom we have enjoyed an excellent relationship and who have provided us with facilities for nearly 40 years, have been revised and renewed for a further term of five years.

After the prolonged period of political uncertainty endured by business and the country as a whole. The hope has to be that the result of the December General Election will deliver some much needed stability. While we await this and monitor the effects of the departure from the European Union, the Directors feel it prudent to leave the final Dividend unchanged from the previous year.

N H P TUCKER
Chairman
13 February 2020

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 £7,528,000 (2018: £7,614,000).

The combined result of sales of non-current assets and assets held for sale realised a profit before tax of £185,000 (2018: £824,000).

Parent Company – operating profit after consolidation adjustments £1,809,000 (2018: £1,620,000).

Heavitree Inc. – operating profit £30,000 (2018: £12,000).

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.

Group operating profit before Taxation of £1,839,000 was up 12.68 %.

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.

Interest costs were covered 10.21 times.

Strategic report

Strategic review

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. 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.

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 Group's 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.

Strategic report

Strategic review

Principal risks and uncertainties (continued)

Operations

We rely on a number of key suppliers to provide our Tenanted estate with tied products. Supply disruption could affect customer satisfaction, leading to a reduction in our revenue. The contracts for our wet trade are sourced from a number of suppliers and formal contracts are in place. The products and variety across the estate for our Tenants to choose from are regularly evaluated with our suppliers to be able to give the best choice to our Tenants across the estate to maximise revenue from this income stream.

As a Tenanted pub operation estate, we rely on attracting and retaining the best tenants for our pubs in order to maximise the potential of each of our pubs. Not attracting the right Tenants has a direct impact on the running of the relevant pub and reduces the revenue received and in turn may reduce profits. In order to minimise the risk, the Trade Director works closely with the Tenanted Operation Managers and monitors carefully the candidates which come forward for our Tenanted vacancies.

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 2020

Directors' report

The Directors have pleasure in submitting their report for the year ended 31 October 2019.

Results and dividends

The Boards' policy is to continue a progressive dividend policy 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 £1,531,000 (2018: £1,927,000). The total comprehensive income for the year is £1,527,000 (2018: £1,715,000).

The Directors propose a final dividend of 4.25p (2018: 4.25p) per share on the Ordinary and 'A' Limited Voting Ordinary Shares. An interim dividend of 3.675p (2018: 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 2019 the Group's total bank borrowings were £6,054,000 (2018: £6,801,000).

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 2019 were those listed on page 2. C J Bush was appointed a Director on 1 September 2019.

T Wheatley and T P Duncan are the Directors retiring by rotation under Article 14 and, being eligible, offer themselves for re-election. C J Bush is to be elected as a new Director.

Directors' report

Directors' interests

The interests of the Directors and their spouses in the Company's shares as at 31 October 2019 were as follows:

	Ordinary Shares		*'A' Limited Voting Ordinary Shares*	
	31 October 2019	*31 October 2018*	*31 October 2019*	*31 October 2018*
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	-	-	43,853	52,144
T P Duncan	150,335	150,335	196,992	196,992
K Pease-Watkin	27,088	27,088	50,638	50,638
T Wheatley	-	-	59,656	55,580
C J Bush	-	-	2,223	-

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

(a) W P Tucker's interest in 53,750 (2018: 53,750) Ordinary Shares; and

(b) N H P Tucker's interest in 53,750 (2018: 53,750) Ordinary Shares.

Included in these interests are the following joint holdings:

(a) 53,750 (2018: 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 2019 the following interests of shareholders in excess of 3% of each class of ordinary share capital, other than Directors, had been notified to the Company:

	Ordinary	*Ordinary %*	*'A'-Limited Voting Ordinary*	*'A' Limited Voting Ordinary %*
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. Since the year end the Group's banking facilities have been renewed and refinanced for a term of five years, incorporating an overdraft of £2.5m and a term loan of £4.5m.

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 provide annual updates about our compliance with the code, any updates are uploaded to our website and dated accordingly. 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. During the year the code has been updated and a full version of this can be found on our website. 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.

Board of Directors

At 31 October 2019, the Board consisted of an Executive Chairman, two Executive Directors and four Non-Executive Directors. During the year the Board appointed an Independent Non-Executive Director from 1 September 2019. The Directors will continue to 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, C J Bush is an Independent Non-Executive responsible for corporate governance and audit oversight.

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.

Directors' report

Corporate governance (*continued)*

Audit Committee
Given the size of the Group, the Board does not consider it appropriate to have a separate audit committee, however an Independent Non-Executive Director has now been appointed and part of his role is audit oversight. 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.

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 within the financial year

	Board Meetings Entitled to attend	**Attended**
N H P Tucker	12	12
G J Crocker	12	10
T Wheatley	12	12
W P Tucker	12	11
T P Duncan	12	9
K Pease-Watkins	12	9
C J Bush	2	2

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.

Directors' report

Corporate governance (*continued)*

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' 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 2020

Ten year review of profits and dividends

Year ended 31 October	*Operating profit £000*	*Profit before tax £000*	*Earnings per 5p share p*	*Dividends per 5p share p*
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
2019	1,839	1,844	32.0	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 2019, 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 2019 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 £17.1m (2018: £16.7m). 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, a key audit risk is the Group's assessment of whether there is any permanent impairment to the carrying value 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 and other relevant local market data.

We also performed our own value in use calculation for all properties, setting expectations for future cash flows by reference to both rental income and wet sales. We made assumptions in relation to growth and discount rates and assessed the sensitivity of the calculation to these rates. Where our work highlighted any properties with a value in use lower than carrying value, we challenged management's assertions and sought to understand and corroborate assumptions such as alternate uses for those properties.

As a result of the procedures performed, we are satisfied with the Group's assessment that there is no permanent impairment to the carrying value of the trading properties.

Risk: revenue recognition

The Group's primary revenue streams are outlined in the accounting policies and note 3. The Group derives most of its revenue from wet sales to, and rent receivable from, licenced premises. Sales are routine and no judgement is applied. Based on our understanding of the business and the environment in which it operates, we identified completeness and cut-off as key audit risks for these revenue streams. We also considered other industry relevant areas of potential misstatement such as volume rebates and lease incentives.

The Group adopted IFRS 15 for revenue recognition from 1 November 2018. Given the nature of the Group's revenue, with the majority of the transactions being wet sales where control passes at a point in time (on delivery of goods), management have concluded that there is no material impact on the Group from the introduction of the new standard.

Our work on completeness and cut-off included substantive analytical procedures on the main revenue streams, a review of post year end credit notes and the use of data analytics software to match all wet purchases to the resulting wet sale. 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.

We have reviewed the criteria in IFRS 15 for recognition of sales and concluded that IFRS 15 has been appropriately applied by the Group, with wet sales and gaming machine revenue being recognised at a point in time in line with the new standard and rental income being specifically excluded from IFRS 15.

As a result of the procedures performed, we are satisfied that revenue has been appropriately recorded and that the adoption of IFRS 15 has no material impact on the prior year comparatives.

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: £80k
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, none were identified for this year.
During the course of the audit, we reassessed initial materiality and did not consider any changes to materiality necessary based on the final results.
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.

Independent auditor's report

To the members of The Heavitree Brewery PLC

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 directors' report have been prepared in accordance with applicable legal requirements.

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. 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.

Christopher Hicks BA FCA DChA (Senior Statutory Auditor)

For and on behalf of

PKF Francis Clark

Statutory Auditor
Centenary House
Peninsula Park
Rydon Lane
Exeter
EX2 7XE

Group income statement

For the year ended 31 October 2019

	Notes	*Total 2019 £'000*	*Total 2018 £'000*
Revenue	3	7,528	7,614
Change in stocks		-	-
Other operating income	5	302	279
Purchase of inventories		(3,100)	(3,109)
Staff costs	10	(1,385)	(1,407)
Depreciation of property, plant and equipment		(222)	(235)
Other operating charges		(1,284)	(1,510)
		(5,689)	(5,982)
Group operating profit	6	1,839	1,632
Profit on sale of property, plant and equipment	8	185	824
Group profit before finance costs and taxation		2,024	2,456
Finance income		4	5
Finance costs	11	(184)	(175)
Other finance costs – pensions	30	-	(35)
		(180)	(205)
Profit before taxation		1,844	2,251
Tax expense	12a	(313)	(324)
Profit for the year attributable to equity holders of the parent		1,531	1,927
Basic earnings per share	13	32.0p	39.6p
Diluted earnings per share	13	32.0p	39.6p

Group statement of comprehensive income

for the year ended 31 October 2019

	Notes	2019 £'000	2018 £'000
Profit for the year		1,531	1,927
Items that will not be reclassified to profit or loss			
Fair value adjustment on investment in equity	27	(6)	(4)
Actuarial (losses) on defined benefit scheme on defined benefit pension plans	30	-	(248)
Tax relating to items that will not be reclassified	12a	-	42
		(6)	(210)
Items that may be reclassified to profit or loss			
Exchange rate differences on translation of subsidiary undertaking		2	(2)
		2	(2)
Other comprehensive income for the year, net of tax		1,527	1,715
Total comprehensive income attributable to:			
Equity holders of the parent		1,527	1,715

Group balance sheet

at 31 October 2019

	Notes	2019 £'000	2018 £'000
Non-current assets			
Property, plant and equipment		17,692	17,812
Investment property		1,485	1,094
	16	19,177	18,906
Financial assets	18	41	47
Deferred tax asset	12c	16	38
		19,234	18,991
Current assets			
Inventories	19	10	10
Trade and other receivables	20	1,344	1,292
Cash and cash equivalents	21	51	44
		1,405	1,346
Assets held for sale	17	-	62
Total assets		20,639	20,399
Current liabilities			
Trade and other payables	22	(953)	(1,078)
Financial liabilities	23	(6,087)	(818)
Income tax payable		(231)	(131)
		(7,271)	(2,027)
Non-current liabilities			
Other payables	22	(284)	(311)
Financial liabilities	23	(37)	(6,067)
Deferred tax liabilities	12c	(394)	(300)
Defined benefit pension plan deficit	30	(92)	(39)
		(807)	(6,717)
Total liabilities		(8,078)	(8,744)
Net assets		12,561	11,655

Group balance sheet

at 31 October 2019

	Notes	2019 £'000	2018 £'000
Capital and reserves			
Equity share capital	27	264	264
Capital redemption reserve	27	673	673
Treasury shares	27	(1,562)	(1,317)
Fair value adjustments reserve	27	17	23
Currency translation	27	17	15
Retained earnings	27	13,152	11,997
Total equity		12,561	11,655

The notes on pages 34 to 66 form part of the financial statements.

These accounts were approved by the Board of Directors and authorised for issue on 13 February 2020 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 2019

	Equity share capital £'000	*Capital redemption reserve £'000*	*Treasury shares £'000*	*Fair value adjustment reserve £'000*	*Currency translation £'000*	*Retained earnings £'000*	*Total equity £'000*
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)
Total comprehensive income for the year	-	-	-	(4)	(2)	1,721	1,715
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

Group statement of changes in equity

for the year ended 31 October 2019

	Equity share capital £'000	*Capital redemption reserve £'000*	*Treasury shares £'000*	*Fair value adjustment reserve £'000*	*Currency translation £'000*	*Retained earnings £'000*	*Total equity £'000*
At 1 November 2018	264	673	(1,317)	23	15	11,997	11,655
Profit for the year	-	-	-	-	-	1,531	1,531
Other comprehensive income for the year, net of income tax	-	-	-	(6)	2	-	(4)
Total comprehensive income for the year	-	-	-	(6)	2	1,531	1,527
Consideration received by EBT on sale of shares	-	-	56	-	-	-	56
Consideration paid by EBT on purchase of shares	-	-	(298)	-	-	-	(298)
Loss by EBT on sale of shares	-	-	(3)	-	-	3	-
Equity dividends paid	-	-	-	-	-	(379)	(379)
At 31 October 2019	264	673	(1,562)	17	17	13,152	12,561

Details of the reserves can be found in note 27.

Group statement of cash flows

For the year ended 31 October 2019

	Notes	2019 £'000	2018 £'000
Operating activities			
Profit for the year		1,531	1,927
Tax expense		313	324
Net finance costs		180	206
Profit on disposal of non-current assets and assets held for sale		(185)	(824)
Depreciation and impairment of property, plant and equipment		222	235
Exchange gain on cash, liquid resources and loans		-	5
Difference between pension contributions paid and amounts recognised in the income statement		52	(1,544)
(Increase)/decrease in trade and other receivables		(72)	284
(Decrease)/increase in trade and other payables		(145)	380
Cash generated from operations		1,896	993
Income taxes paid		(97)	(188)
Interest paid		(184)	(176)
Net cash inflow from operating activities		1,615	629
Investing activities			
Interest received		4	6
Proceeds from sale of property, plant and equipment and assets held for sale		278	1,454
Payments to acquire property, plant and equipment		(506)	(777)
Net cash (outflow)/inflow from investing activities		(224)	683
Financing activities			
Preference dividend paid		(1)	(1)
Equity dividends paid	14	(379)	(373)
Consideration received by EBT on sale of shares		56	54
Consideration paid by EBT on purchase of shares		(298)	(145)
Capital element of finance lease rental payments		(15)	(68)
Net cash outflow from financing activities		(637)	(533)
Increase in cash and cash equivalents		754	779
Cash and cash equivalents at the beginning of the year	21	(757)	(1,536)
Cash and cash equivalents at the year end	21	(3)	(757)

Company balance sheet

at 31 October 2019

	Notes	2019 £'000	2018 £'000
Non-current assets			
Property, plant and equipment		17,649	17,767
Investment property		1,485	1,094
	16	19,134	18,861
Financial assets	18	75	81
Deferred tax asset	12c	16	38
		19,225	18,980
Current assets			
Inventories	19	10	10
Trade and other receivables	20	1,344	1,292
Cash and cash equivalents	21	51	44
		1,405	1,346
Assets held for sale	17	-	62
Total assets		20,630	20,388
Current liabilities			
Trade and other payables	22	(1,071)	(1,162)
Financial liabilities	23	(6,087)	(818)
Income tax payable		(231)	(131)
		(7,389)	(2,111)
Non-current liabilities			
Other payables	22	(284)	(311)
Financial liabilities	23	(37)	(6,067)
Deferred tax liabilities	12c	(394)	(300)
Defined benefit pension plan deficit	30	(92)	(39)
		(807)	(6,717)
Total liabilities		(8,196)	(8,828)
Net assets		12,434	11,560

Company balance sheet

at 31 October 2019

	Notes	2019 £'000	2018 £'000
Capital and reserves			
Equity share capital	27	264	264
Capital redemption reserve	27	673	673
Treasury shares	27	(1,562)	(1,317)
Fair value adjustments reserve	27	17	23
Cash flow hedging reserve	27	-	-
Retained earnings	27	13,042	11,917
Total equity		12,434	11,560

The notes on pages 34 to 66 form part of the financial statements.

These accounts were approved by the Board of Directors and authorised for issue on 13 February 2020 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 2019

	Equity share capital £'000	*Capital redemption reserve £'000*	*Treasury shares £'000*	*Fair value adjustment reserve £'000*	*Retained earnings £'000*	*Total equity £'000*
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)
Total comprehensive income for the year	-	-	-	(4)	1,709	1,705
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	11,917	11,560

Company statement of changes in equity

for the year ended 31 October 2019

	Equity share capital £'000	*Capital redemption reserve £'000*	*Treasury shares £'000*	*Fair value adjustment reserve £'000*	*Retained earnings £'000*	*Total equity £'000*
At 1 November 2018	264	673	(1,317)	23	11,917	11,560
Profit for the year	-	-	-	-	1,501	1,501
Other comprehensive income for the year, net of income tax	-	-	-	(6)	-	(6)
Total comprehensive income for the year	-	-	-	(6)	1,501	1,495
Consideration received by EBT on sale of shares	-	-	56	-	-	56
Consideration paid by EBT on purchase of shares	-	-	(298)	-	-	(298)
Loss by EBT on sale of shares	-	-	(3)	-	3	-
Equity dividends paid	-	-	-	-	(379)	(379)
At 31 October 2019	264	673	(1,562)	17	13,042	12,434

Details of the reserves can be found in note 27.

Company statement of cash flows

for the year ended 31 October 2019

	Notes	2019 £'000	2018 £'000
Operating activities			
Profit for the year		1,501	1,915
Tax expense		313	324
Net finance costs		180	206
Profit on disposal of non-current assets and assets held for sale		(185)	(824)
Depreciation and impairment of property, plant and equipment		222	235
Difference between pension contributions paid and amounts recognised in the income statement		52	(1,544)
(Increase)/decrease in trade and other receivables		(72)	285
Increase/(decrease) in trade and other payables		(115)	380
Cash generated from operations		1,896	977
Income taxes paid		(97)	(188)
Interest paid		(184)	(176)
Net cash inflow from operating activities		1,615	613
Investing activities			
Interest received		4	6
Proceeds from sale of property, plant and equipment and assets held for sale		278	1,458
Payments to acquire property, plant and equipment		(506)	(765)
Payments to acquire fixed asset investments		-	-
Receipts from fixed asset investments		-	-
Net cash (outflow)/inflow from investing activities		(224)	699
Financing activities			
Preference dividend paid		(1)	(1)
Equity dividends paid	14	(379)	(373)
Consideration received by EBT on sale of shares		56	54
Consideration paid by EBT on purchase of shares		(298)	(145)
Capital element of finance lease rental payments		(15)	(68)
Net movement in long-term borrowings		-	-
Net cash outflow from financing activities		(637)	(533)
Increase in cash and cash equivalents		754	779
Cash and cash equivalents at the beginning of the year	21	(757)	(1,536)
Cash and cash equivalents at the year end	21	(3)	(757)

Notes to the financial statements

for the year ended 31 October 2019

1. Authorisation of financial statements

The financial statements of The Heavitree Brewery PLC and its subsidiaries (the "Group") for the year ended 31 October 2019 were authorised for issue by the board of Directors on 13 February 2020. 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 2019 the financial statements 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.

Notes to the financial statements

for the year ended 31 October 2019

2. Accounting policies (continued)

New standards, interpretations and amendments to existing standards

Impact of the adoption of IFRS 9: Financial Instruments

IFRS 9: Financial instruments became effective for the financial period starting on 1 November 2018. The main impact on Heavitree Brewery is the introduction of a new impairment model for financial assets. The Group does not have any significant financial assets other than trade and other receivables. Under IFRS 9, trade and other receivables are carried at amortised cost less impairment as their sole purpose is the collection of contract cash flows. Due to the short-term nature of the Group's trade receivables the requirement under IFRS 9 to use an expected loss method of impairment of financial assets has not had a material effect on the Group's financial statements.

The Group has applied the simplified approach permitted by IFRS 9 in relation to the impairment of trade receivables. A loss allowance is recognised on initial recognition of financial assets held at amortised cost, based on expected credit losses, and is remeasured annually with changes reflected in profit or loss. Where there has been a significant increase in credit risk of the financial instrument since initial recognition, the loss allowance is measured based on lifetime expected losses. In all other cases, the loss allowance is measured based on 12-month expected losses. Expected credit losses are assessed by considering the Group's historical credit loss experience, factors specific for each receivable, the current economic climate and expected changes in forecasts of future events.

The adoption of the new standard did not have a material impact on the Group's financial performance or financial position but has had an impact on the Group's financial statements with extended disclosures being required. Quoted investments previously held as available for sale financial asset have been re-designated as financial assets measured at fair value through other comprehensive income. There has been no change to the accounting treatment as a result.

Impact of the adoption of IFRS 15: Revenue Recognition

The new standard on revenue became effective for the financial period starting on 1 November 2018. IFRS 15 introduces a five-step approach to the timing of revenue recognition based on performance obligations in customer contracts. The principles in the standard are that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to customers. The majority of Heavitree Brewery's revenue is from drink and food sales to tenants and machine income. This revenue has simple performance obligations with a low level of judgement applied in determining the transaction price, and the timing of transfer of control of the goods occurs at a specific point in time, ie when the goods are delivered to the customer. The remainder of the Group's revenue is made up of rental income received from tenanted and unlicensed properties, which are outside of the scope of IFRS 15.

The adoption of IFRS 15 has not had a material impact on the group's financial performance but has had an impact on the Group's financial statements with extended disclosures being required.

The Directors have considered all IFRS and IFRIC interpretations issued but not yet in force. These include IFRS 16 on Leases which has an effective date for accounting periods starting on or after 1 January 2019 and therefore will apply to the 31 October 2020 financial statements. IFRS 16 treats operating leases in the same way as finance leases and, therefore, all leases (other than a small exempt number) will be recognised on the balance sheet as a lease liability and a right of use asset. The Group holds a small number of immaterial operating leases as a lessee and as a result, the Directors do not expect that adoption in future periods will have a material impact on the balance sheet or reported EBITDA.

Notes to the financial statements

for the year ended 31 October 2019

2. Accounting policies (continued)

Revenue recognition (continued)

Revenue is measured at transaction price when control passes to the customer in respect of goods and services provided, net of discounts and VAT. The Group has transitioned to IFRS 15 and, due to the nature of the goods and services sold, the judgements made in identifying performance obligations and prices have not had an impact on revenue recognition. The following criteria must 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.

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. Rents are all outside of the scope of IFRS15.

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 $33^1/_3$%
- 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 losses. The depreciation policy is consistent with that described for property, plant and equipment.

Notes to the financial statements

for the year ended 31 October 2019

2. Accounting policies (continued)

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.

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

Trade receivables are initially recognised at the transaction price less impairment. In measuring the impairment, the group has applied the simplified approach to expected credit losses as permitted by IFRS 9. Expected credit losses are assessed by considering the Group's historical credit loss experience, factors specific for each receivable, the current economic climate and expected changes in forecasts of future events. Changes in expected credit losses are recognised in the Group income statement.

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.

Notes to the financial statements

for the year ended 31 October 2019

2. Accounting policies (continued)

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.

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.

Impairment of assets

As discussed in the accounting policies above, the Directors assesses impairment of assets at each reporting date, on a property by property basis. The Directors' take into consideration trade performance during the year and open market value as to whether there is an indication that an asset may be permanently impaired. When necessary external valuations are carried out.

Pension benefits

The cost of defined benefit pension plans are determined using actuarial valuations. While the Company continues to operate its Final Salary Pension Scheme, the final three deferred members transferred out of the scheme during the previous financial year. Accordingly, the net liability for the company is now solely the rectification and the more recent GMP equalisation of benefits for all qualifying retired members. These have been estimated by the Scheme's Actuary, as at 31 October 2019 at £92,000. Further details are given in note 30.

Notes to the financial statements

for the year ended 31 October 2019

2. Accounting policies (continued)

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.

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.

Notes to the financial statements

for the year ended 31 October 2019

3. Revenue

Revenue recognised in the income statement is analysed as follows.

	2019	*2018*
	£'000	*£'000*
Sale of goods	5,273	5,286
Machine revenue	90	89
Revenue recognised under contracts with customers	5,363	5,375
Rents from licensed properties	2,165	2,239
Total revenue recognised	**7,528**	**7,614**

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 2019 and 2018. Revenue is based on the geographical location of customers and assets are based on the geographical location of the asset.

Secondary reporting format – geographical segments

Year ended 31 October 2019	*UK*	*United States*	*Total*
	£'000	*£'000*	*£'000*
Revenue			
Sales to external customers	7,528	-	7,528
Other segment information			
Segment assets	20,596	43	20,639
Total assets	20,596	43	20,639
Capital expenditure			
Property, plant and equipment	505	-	505

Notes to the financial statements

for the year ended 31 October 2019

4. Segment information (continued)

Year ended 31 October 2018	*UK*	*United States*	*Total*
	£'000	*£'000*	*£'000*
Revenue			
Sales to external customers	7,614	-	7,614
Other segment information			
Segment assets	20,356	43	20,399
Total assets	20,356	43	20,399
Capital expenditure			
Property, plant and equipment	839	-	839

5. Other operating income

	2019	*2018*
	£'000	*£'000*
Rents from unlicensed properties	262	257
Heavitree Inc	40	22
	302	279

6. Operating profit

This is stated after charging:

	2019	*2018*
	£'000	*£'000*
Depreciation of property, plant and equipment	222	235
Repairs and maintenance of properties	713	746
Cost of inventories recognised as an expense (included in purchase of inventories)	3,100	3,109

Notes to the financial statements

for the year ended 31 October 2019

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.

		2019	*2018*
		£'000	*£'000*
Audit of the group financial statements		43	42
Other fees to auditors	- audit of the group pension scheme	2	2
	- tax compliance services	6	6
	- other services	4	4
		12	12
		55	54

Other services relate to a review of the Group's Interim Report of £4,000 (2018: £4,000).

8. Profit on sale of property, plant and equipment

	2019	*2018*
	£'000	*£'000*
Profits on sale of property, plant and equipment	185	824

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.

9. Movements in valuation of estate and related assets

	2019	*2018*
	£'000	*£'000*
Write down of non-current assets held for sale to fair value less costs to sell (note 17)	-	-

Notes to the financial statements

for the year ended 31 October 2019

10. Staff costs and Directors' emoluments

(a) Staff costs

	2019	*2018*
	£'000	*£'000*
Wages and salaries	1,149	1,093
Social security costs	129	121
Other pension costs	107	193
	1,385	1,407

Included in other pension costs is £57,802 (2018: £51,729) in respect of the defined contribution scheme. Other pension costs include those defined benefit scheme costs included within operating costs and any defined contribution scheme charge.

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

	2019	*2018*
	No.	*No.*
Average monthly number of employees	16	15

(b) Directors' emoluments

	Basic salary and fees	*Performance related bonus*	*Benefits*	*Pension contributions*	*Total 2019*	*Total 2018*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
N H P Tucker	173	28	14	-	215	211
G J Crocker	162	13	12	-	187	185
T Wheatley	159	12	12	-	183	179
W P Tucker	28	-	2	-	30	29
T P Duncan	18	-	-	-	18	17
K Pease-Watkin	18	-	-	-	18	17
C J Bush	3	-	-	-	3	-
	561	53	40	-	654	638

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 £215,000 (2018: £211,000).

The number of Directors accruing pension benefits is nil (2018: nil). The highest paid Director has an accrued pension entitlement of £nil (2018: £nil) arising from past membership of the defined benefit scheme.

Notes to the financial statements

for the year ended 31 October 2019

11. Finance costs

	2019	*2018*
	£'000	*£'000*
Interest on bank loans and overdrafts	181	169
Interest on other loans (including cumulative preference shares)	3	6
Total finance costs	184	175

12. Taxation

(a) Tax on profit on ordinary activities

Tax expensed in the income statement

	2019	*2018*
	£'000	*£'000*
Current income tax:		
UK corporation tax	231	131
(Over)/under provision of tax in prior years	(45)	(2)
Tax paid by Employee Benefits Trust	11	13
Total current income tax	197	142
Deferred tax:		
Origination and reversal of temporary differences	116	182
Total deferred tax	116	182
Tax expense in the income statement	313	324

	2019	*2018*
	£'000	*£'000*
Tax relating to items expensed or credited to equity		
Deferred tax:		
Deferred tax on defined benefit pensions scheme	-	42
Total deferred tax	-	42
Tax expense in the statement of comprehensive income	-	42

Notes to the financial statements

for the year ended 31 October 2019

12. Taxation (continued)

(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% (2018: 19%). The differences are reconciled below:

	2019	*2018*
	£'000	*£'000*
Accounting profit before income tax	1,844	2,251
Accounting profit multiplied by the UK standard rate of corporation tax of 19% (2018: 19 %)	350	428
Expenses not deductible for tax purposes	33	26
Adjustment in respect of prior years	(43)	(38)
Short term timing differences	(34)	-
Tax paid by Employee Benefits Trust	11	13
Capital gain rebasing/indexation	(4)	(105)
Total tax expense reported in the income statement	313	324

(c) Deferred tax

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

	2019	*2018*
	£'000	*£'000*
Deferred tax liability		
Accelerated capital allowances	269	252
Short term timing differences	-	(77)
Rolled over gain	125	125
	394	300
Deferred tax asset		
Pension plans	16	38

Notes to the financial statements

for the year ended 31 October 2019

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:

	2019	*2018*
	£'000	*£'000*
Deferred tax in the income statement		
Accelerated capital allowances	55	(43)
Pension plans	61	225
Rolled over gain	-	-
Deferred income tax expense	116	182

A potential deferred tax asset of £6,112 (2018: £6,112) 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:

	2019	*2018*
	£'000	*£'000*
Profit for the year	1,531	1,927

	2019	*2018*
	No.	*No.*
	('000)	*('000)*
Basic weighted average number of shares (excluding treasury shares)	4,786	4,866

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 2019

14. Dividends paid and proposed

	2019 £'000	2018 £'000
Declared and paid during the year:		
Equity dividends on ordinary shares:		
Final dividend for 2018: 4.25p (2017: 4.00p)	224	211
First dividend for 2019: 3.675p (2018: 3.675p)	194	198
Less: dividends on shares held within employee share schemes	(39)	(36)
Dividends paid	379	373
Proposed for approval at AGM (not recognised as a liability as at 31 October)		
Final dividend for 2019: 4.25p (2018: 4.25p)	224	224
Cumulative preference dividends	1	1

15. Profit attributable to members of the parent company

The profit dealt with in the financial statements of the parent company is £1,501,000 (2018: £1,915,000).

16. Property, plant and equipment

Group	*Land and buildings* £'000	*Furniture and fittings* £'000	*Equipment and vehicles* £'000	*Assets under construction* £'000	*Investment properties* £'000	*Total* £'000
Cost:						
At 1 November 2017	16,307	4,091	512	-	1,094	22,004
Additions	538	70	244	-	-	852
Transfer to assets held for sale	266	-	-	-	-	266
Disposals	-	(26)	(212)	-	-	(238)
At 31 October 2018	17,111	4,135	544	-	1,094	22,884
Additions	415	66	24	-	-	505
Transfer to assets held for sale	-	-	-	-	-	-
Transfer to investment properties		(391)	-	-	391	-
Transfer from current assets	-	88	-	-	-	88
Disposals	-	-	(94)	-	-	(94)
At 31 October 2019	17,135	4,289	474	-	1,485	23,383

Notes to the financial statements

for the year ended 31 October 2019

16. Property, plant and equipment (continued)

Group	*Land and buildings*	*Furniture and fittings*	*Equipment and vehicles*	*Assets under construction*	*Investment properties*	*Total*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Depreciation and impairment:						
At 1 November 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
Provided during the year	-	146	76	-	-	222
Transfer from current assets	-	69	-	-	-	69
Disposals	-	-	(63)	-	-	(63)
At 31 October 2019	427	3,501	278	-	-	4,206
Net book value At 31 October 2019	16,708	788	196	-	1,485	19,177
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

In the Directors' opinion the investment properties have a fair value as at 31 October 2019 of £3,070,000 (2018: £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 2019

16. Property, plant and equipment (continued)

Company	*Land and buildings*	*Furniture and fittings*	*Equipment and vehicles*	*Assets under construction*	*Investment properties*	*Total*
	'£000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Cost:						
At 1 November 2017	16,274	4,091	512	-	1,094	21,971
Additions	526	70	244	-	-	840
Transfer to assets held for sale	266	-	-	-	-	266
Disposals	-	(26)	(212)	-	-	(238)
At 31 October 2018	17,066	4,135	544	-	1,094	22,839
Additions	415	66	24	-	-	505
Transfer to assets held for sale	-	-	-	-	-	-
Transfer to investment properties	(391)	-	-	-	391	-
Transfer from current assets	-	88	-	-	-	88
Disposals	-	-	(93)	-	-	(93)
At 31 October 2019	17,090	4,289	475	-	1,485	23,339
Depreciation and impairment:						
At 1 November 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
Provided during the year	-	146	76	-	-	222
Transfer from assets	-	69	-	-	-	69
Disposals	-	-	(64)	-	-	(64)
At 31 October 2019	427	3,501	277	-	-	4,205
Net book value at At 31 October 2019	16,663	788	198	-	1,485	19,134
Net book value at 31 October 2018	16,639	849	279	-	1,094	18,861
Net book value at 1 November 2017	15,847	963	179	-	1,094	18,083

In the Directors' opinion the investment properties have a fair value as at 31 October 2019 of £3,070,000 (2018: £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 2019

17. Non-current assets held for sale

Group and Company	*2019*	*2018*
	£'000	*£'000*
At 1 November	62	890
Transfer (to)/from property, plant and equipment (note 16)	-	(266)
Additions	-	-
Disposals	(62)	(562)
Impairment	-	-
Transfer (to)/from current assets	-	-
At 31 October 2019	-	62

As at 31 October 2019 no properties were being actively marketed for sale (2018 – one property).

18. Financial assets

Group	*2019*	*2018*
	£'000	*£'000*
Financial assets – non-current		
Financial assets measured at fair value through Other comprehensive income	41	47

Financial assets, measured at fair value through other comprehensive income consist of an investment in ordinary shares of a company listed on PLUS markets.

Company	*Subsidiary undertakings*	*Investments*	*Total*
	£'000	*£'000*	*£'000*
Cost:			
At 1 November 2018	86	55	141
Loan advance	-	-	-
At 31 October 2019	86	55	141
Amounts provided:			
At 1 November 2018	(52)	(8)	(60)
Revaluation	-	(6)	(6)
At 31 October 2019	(52)	(14)	(66)
Net book value:			
At 31 October 2019	34	41	75
At 31 October 2018	34	47	81

Notes to the financial statements

for the year ended 31 October 2019

18. Financial assets (continued)

The Company's subsidiary undertakings are as follows:

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

Each subsidiary undertaking is directly owned by the Company.

19. Inventories

	2019	*2018*
Group and Company	*£'000*	*£'000*
Fine wines	6	6
Merchandising inventory	4	4
	10	10

20. Trade and other receivables

	2019	*2018*
Group	*£'000*	*£'000*
Trade receivables	735	849
Prepayments and accrued income	230	83
Other receivables	15	15
Finance leases	364	345
	1,344	1,292

	2019	*2018*
Company	*£'000*	*£'000*
Trade receivables	735	849
Prepayments and accrued income	230	83
Other receivables	15	15
Finance leases	364	345
	1,344	1,292

Notes to the financial statements

for the year ended 31 October 2019

20. Trade and other receivables (continued)

Trade receivables are all denominated in sterling.

An allowance has been made for estimated irrecoverable amounts of £159,067 (2018: £227,000). The estimated irrecoverable amount is arrived at by considering the historic loss rate and adjusting for current expectations, client base and economic conditions. Both historic losses and expected future losses being very low, the Directors consider it appropriate to apply a single average rate for expected credit losses to the overall population of trade receivables and accrued income. The single expected loss rate applied is 22% (2018 27%). The difference between the incurred loss method applied in the 2018 annual report and the new lifetime expected loss rate method under IFRS 9 is considered immaterial and comparatives have not been restated. The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

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 2019, trade receivables at nominal value of £159,067 (2018: £227,000) were impaired and fully provided. Movements in the provision for impairment of receivables were as follows:

	2019	*2018*
	£'000	*£'000*
At 1 November	227	498
(Credit)/charge for the year	(68)	39
Amounts written off	-	(310)
At 31 October	159	227

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

	Total	*Neither past due nor impaired*	*Past due but not impaired 0-30 days*	*30-90 days*	*90+ days*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*
2019	736	555	66	19	96
2018	849	589	110	22	128

21. Cash and cash equivalents

	2019	*2018*
Group and Company	*£'000*	*£'000*
Cash at bank and in hand	51	44
	51	44

Notes to the financial statements

for the year ended 31 October 2019

21. Cash and cash equivalents (continued)

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

	2019	*2018*
	£'000	*£'000*
Cash at bank and in hand	51	44
Bank overdrafts	(54)	(801)
	(3)	(757)

22. Trade and other payables

Group	*2019*	*2018*
	£'000	*£'000*
Current		
Trade payables	394	382
Other taxation and social security	181	226
Accruals	218	257
Other payables	160	213
	953	1,078

Company	*2019*	*2018*
	£'000	*£'000*
Current		
Trade payables	394	382
Other taxation and social security	181	226
Accruals	218	257
Other payables	160	213
Amount owed to subsidiary	118	84
	1,071	1,162
Non-current		
Other payables - tenants' deposits	284	311

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.

Notes to the financial statements

for the year ended 31 October 2019

23. Financial liabilities

Group and Company	*2019*	*2018*
	£'000	*£'000*
Current		
Bank overdrafts	54	801
Bank loan	6,000	-
Finance lease liabilities	33	17
	6,087	818

Since the year end the facility has been refinanced for a term of five years and therefore will revert to a non-current liability in 2020.

	2019	*2018*
	£'000	*£'000*
Non-current		
11.5% cumulative preference shares (note 26)	11	11
Bank loan	-	6,000
Finance lease liabilities	26	56
	37	6,067

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 (2018: £15,125,000).

Obligations under finance leases	*2019*	*2018*
	£'000	*£'000*
Amounts payable under finance lease:		
Within one year	33	17
Within two to five years	26	56
After five years	-	-
Present value of lease obligation	59	73

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:

	2019	*2018*
	£'000	*£'000*
Not later than one year	458	472
After one year but not more than five years	1,728	1,841
After five years	2,802	3,373
	4,988	5,686

Notes to the financial statements

for the year ended 31 October 2019

24. Operating lease agreements where the group is a lessor (continued)

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. Comparative numbers have been amended to include additional leases.

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.

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.

	Increase/ decrease in basis points	*Effect on profit before tax £000*
2019		
Sterling	+100	(66)
Sterling	-100	66
2018		
Sterling	+100	(69)
Sterling	-100	69

Notes to the financial statements

for the year ended 31 October 2019

25. Financial instruments and derivatives (continued)

Interest rate risk profile of non-equity shares

The Company has in issue 11,695 £1 cumulative preference shares with a fixed coupon rate of 11.5%. These represent the remaining preference shares in issue following the offer made by the Company in 1996 to repurchase these shares. They are no longer listed on any public market and have no fixed maturity date.

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.

The table below summarises the maturity profile of the Group's financial liabilities at 31 October 2019 and 2018 based on contractual undiscounted payments.

Year ended 31 October 2019

	On demand	*Less than 3 months*	*3-12 months*	*1-5 years*	*More than 5 years*	*Total*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Bank loan/overdraft	54	-	6,000	-	-	6,054
Tenants' deposits	-	-	-	284	-	284
Trade payables	394	-	-	-	-	394
Finance leases	33	-	-	26	-	59

Year ended 31 October 2018

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

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.

Notes to the financial statements

for the year ended 31 October 2019

25. Financial instruments and derivatives (continued)

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.

Foreign currency risk

As a result of the investment in operations in the United States of America, 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:

	Hierarchical classification	*Book value 2019 £'000*	*Fair value 2019 £'000*	*Book value 2018 £'000*	*Fair value 2018 £'000*
Financial assets					
Cash	Level 1	51	51	44	44
Assets held at fair value through other comprehensive income	Level 1	41	41	47	47
		92	92	91	91
Financial liabilities					
Bank loan/overdraft	Level 2	(6,054)	(6,054)	(6,801)	(6,801)
Interest-bearing loans and borrowings:					
Floating rate borrowings					
Tenants' deposits	Level 3	(284)	(284)	(311)	(311)
Cumulative preference shares	Level 3	(11)	(11)	(11)	(11)
Finance leases	Level 2	(59)	(59)	(74)	(74)
		(6,408)	(6,408)	(7,197)	(7,197)

Notes to the financial statements

for the year ended 31 October 2019

25. Financial instruments and derivatives (continued)

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 assets held at fair value through other comprehensive income 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.

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 2019 and 31 October 2018 there were no transfers between level 1, 2 or 3 fair value measurements.

Notes to the financial statements

for the year ended 31 October 2019

26. Authorised and issued share capital

Group and Company

(i) Ordinary shares

Authorised	*2019*	*2018*
	£	£
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
	1,188,305	1,188,305

Allotted, called up and fully paid	*2019*	*2018*	*2019*	*2018*
	No.	*No.*	£	£
Ordinary Shares of 5p each				
At 1 November	1,994,699	1,994,699	99,735	99,735
Purchases	-	-	-	-
At 31 October	1,994,699	1,994,699	99,735	99,735

	2019	*2018*	*2019*	*2018*
	No.	*No.*	£	£
'A' Limited Voting Ordinary Shares of 5p each				
At 1 November	3,282,478	3,282,478	164,124	164,124
Purchases	-	-	-	-
At 31 October	3,282,478	3,282,478	164,124	164,124

The Ordinary Shares and 'A' Limited Voting Ordinary Shares are entitled equally to dividends, and rank equally on a winding up, after the Cumulative Preference Shares. The Ordinary Shares carry one vote for every £1 in nominal amount and the 'A' Limited Voting Ordinary Shares carry one vote for every £10 in nominal amount. There are no Unclassified Shares in issue; shares purchased by the Company become authorised (but unissued) Unclassified Shares.

Notes to the financial statements

for the year ended 31 October 2019

26. Authorised and issued share capital (continued)

(ii) Preference shares classified as non-current liability

Authorised	*2019* £	*2018* £
11.5% Cumulative Preference Shares of £1 each	11,695	11,695

Allotted, called up and fully paid

	2019 *No.*	*2018* *No.*	*2019* £	*2018* £
11.5% Cumulative Preference Shares of £1 each	11,695	11,695	11,695	11,695

The Cumulative Preference Shares are entitled to a fixed cumulative preferential dividend at 11.5% per annum. On a return of capital on a winding up, these shares will rank first for their nominal amount and any arrears of dividend. The Cumulative Preference Shares do not normally carry voting rights.

An explanation of the Group's capital management process and objectives is set out in the discussion of 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.

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 2019, the Group held 179,053 Ordinary Shares and 300,002 'A' Limited Voting Ordinary Shares (2018: 146,082 Ordinary Shares and 262,885 'A' Limited Voting Ordinary Shares) of its own shares. During the year there were purchases of 32,971 Ordinary Shares and 62,737 'A' Limited Voting Ordinary Shares and sales of 25,620 'A' Limited Voting Ordinary Shares.

Notes to the financial statements

for the year ended 31 October 2019

27. Reconciliation of movements in equity (continued)

Fair value adjustments reserve

The fair value adjustments reserve is used to record differences in the year on year fair value of the investment classified as fair value through comprehensive income.

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:

	Other 2019 £'000	*Other 2018 £'000*
Within one year	9	9
Within two to five years	2	11
	11	20

29. Capital commitments

Group and Company

At 31 October 2019, amounts contracted for but not provided in the financial statements amounted to £nil (2018: £nil).

Notes to the financial statements

for the year ended 31 October 2019

30. Pensions and post-retirement benefits

Group and Company

(i) Optional pension payments

During the year the Group made discretionary pension payments of £35,226 (2018: £33,900) 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 £57,802 (2018: £51,729).

(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 2019. There have been no changes in the valuation methodology adopted for this period compared to the previous period.

Notes to the financial statements

for the year ended 31 October 2019

30. Pensions and post-retirement benefits (continued)

Amounts included in the Balance Sheet

	31 October 2019 £'000	*31 October 2018 £'000*	*31 October 2017 £'000*
Fair value of plan assets	18	59	6,670
Present value of defined benefit obligation	(110)	(98)	(7,970)
Surplus/(deficit) in scheme	(92)	(39)	(1,300)

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 £110,000.

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 2019.

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

	2019 £'000	*2018 £'000*
As at 1 November	98	7,970
Current service cost	-	-
Interest cost	2	126
Actuarial losses due to scheme experience	-	201
Actuarial gains due to changes in demographic assumptions	-	(1)
Actuarial losses due to changes in financial assumptions	-	3
Benefits paid	(4)	(567)
Past service costs	52	-
Liabilities extinguished on settlement	(38)	(7,634)
At 31 October	110	98

The past service costs represent best estimate of GMP equalisation as outlined in the Chairman's statement.

Notes to the financial statements

for the year ended 31 October 2019

30. Pensions and post-retirement benefits (continued)

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

	2019	*2018*
	£'000	*£'000*
As at 1 November	59	6,670
Interest	(3)	91
Return on plan assets (excluding amounts included in interest income)	-	(45)
Employer contributions	4	1,609
Assets distributed on settlement	(38)	(7,699)
Benefits paid	(4)	(567)
At 31 October	18	59

The actual return on the plan assets over the period ended 31 October 2019 was £nil.

Defined benefit costs recognised in profit or loss

	2019	*2018*
	£'000	*£'000*
Past service costs and loss on settlements	52	65
Net interest cost	-	35
Defined benefit cost recognised in profit or loss	52	100

Defined benefit costs recognised in Other Comprehensive Income

	2019	*2018*
	£'000	*£'000*
Return on plan assets (excluding amounts included in net interest cost) –loss	-	(45)
Experience losses arising on the defined benefit obligation	-	(201)
Effects of changes in the demographic assumptions - gain	-	1
Effects of changes in the financial assumptions - loss	-	(3)
Total amount recognised in other comprehensive income	-	(248)

Notes to the financial statements

for the year ended 31 October 2019

30. Pensions and post-retirement benefits (continued)

Plan assets

	31 October 2019 *£'000*	*31 October 2018* *£'000*	*31 October 2017* *£'000*
Corporate Bonds	-	-	4,440
Government Bonds	-	-	588
Cash	18	21	1,608
Insured Contract	-	38	34
Total assets	18	59	6,670

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; 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 2019.

There are no asset-liability matching strategies in place for the scheme.

Significant Actuarial Assumptions

	31 October 2019 *% per annum*	*31 October 2018* *% per annum*	*31 October 2017* *% per annum*
Rate of discount	1.90	2.50	2.80
Allowance for commutation of pension for cash at retirement	N/A	N/A	N/A

It is not considered necessary to disclose details of mortality rates and sensitivity to principal actuarial assumptions 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 2019

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.

A close family member of one of the Directors is a tenant of one of the licensed properties and rents one of the unlicensed properties. Transactions with this related party are as follows:

	Sales to related parties £'000	*Trading amounts owed from related parties £'000*	*Purchases from related parties £'000*
31 October 2019	152	23	-
31 October 2018	214	15	-

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. The loan advanced in the year totalled £30,000 (2018: £130,000). Repayments were made of £80,702 (2018: £nil). The balance outstanding at the year end was £81,736 (2018: £131,041). Interest is accrued on the loans at 2.75%.

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 2019, the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2018: £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

	At 1 November 2018 £'000	*Financing cash flows £'000*	*New finance leases £'000*	*Other changes £'000*	*At 31 October 2019 £'000*
Bank loans	6,000	-	-	-	6,000
Finance lease liabilities	73	(14)	-	-	59
11.5% cumulative preference shares	11	-	-	-	11
Total liabilities	6,084	(14)	-	-	6,070