

OUR COMPANY

Shepherd Neame is a family controlled brewery and pub operator.

We believe that characteristics central to our success include:

- An integrated brewing and pub business
- A commitment to quality and integrity
- The passionate interest of the many people who have dedicated themselves to Shepherd Neame
- A commitment to Faversham and the wider community of Kent
- A long term view of the business

We are extremely proud to be Britain's Oldest Brewer.

FINANCIAL HIGHLIGHTS

Profit before tax
and exceptionals

£ 9.9%
to £10.5 million

Earnings per £1 share

£ 14.3%
to 73.4p

Dividend per £1 share

£ 7.5%
to 21.5p

Turnover

£ 4.9%
to £100.0 million

Operating profit
before exceptionals

£ 6.9%
to £13.9 million

Barrels brewed

£ 1.8%
to 221,000

CONTENTS

1	Financial highlights	22	Consolidated profit and loss account	26	Accounting policies
2	Chairman's statement	22	Consolidated statement of total recognised gains and losses	28	Notes to the accounts
5	Chief executive's review	22	Consolidated note of historical cost profits and losses	42	Financial calendar
13	Sustainable development	23	Balance sheets	42	Company advisors
14	Board of directors	24	Consolidated cash flow statement	43	Notice of meeting
16	Corporate governance	25	Notes to the consolidated cash flow statement	44	Five year financial summary
18	Financial review				
19	Report of the directors				
21	Report of the independent auditors				

MILES TEMPLEMAN CHAIRMAN

Results

I am pleased to announce that profit before tax and exceptional items has grown by 9.9% to £10.5m, and profit before tax after exceptional items has increased to £11.6m, a good result in a year of considerable change. This has also been a year of record capital investment for the business that will provide a strong platform for growth in the future.

Turnover has increased by 4.9% to £100.0m and operating profit before exceptional items by 6.9% to £13.9m. Operating profit margin before exceptional items also increased from 13.6% to 13.8%.

During the year the Company incurred exceptional costs before tax of £2.0m. £1.8m of this related to the re-engineering of our business processes in association with the installation of SAP computer software. The remaining £0.2m related to fees in connection with the refinancing of our bank facilities in April 2007, which has provided the Company with secure funding for the long term.

Basic earnings per share grew 14.3% to 73.4p and earnings per share before exceptional items grew by 17.9% to 60.5p.

Dividends

A final dividend of 17.2p per £1 'A' ordinary share and 0.344p per 2p 'B' ordinary share has been proposed by the Board, giving total dividends for the year of 21.5p per £1 'A' ordinary share and 0.43p per 2p 'B' ordinary share. This represents a 7.8% increase in the final dividend, and a 7.5% increase in the total dividend for both classes of shares.

The final dividend will be paid on 26 October 2007 to shareholders on the register as at the close of business on 10 October 2007.

Cash Flow and Investments

Earnings before interest, tax, depreciation and amortisation (EBITDA) before exceptional items has increased from £18.7m to £19.3m. Cash outflow on capital expenditure was at a record level of £30.1m with the acquisition of 12 freehold pubs, improvements in our existing estate and investment in the brewery, business processes and information systems.

We have realised £5.6m from the sale of seven pubs, other property and our former warehouse site in Faversham, giving a net cash outflow on capital expenditure of £24.4m.

Re-financing

The 1991 Pubco loan matured in September 2006 and was replaced by existing bank facilities at that time. Given the then favourable climate for long term interest rates, and the need to fund our expansion, the Company took the opportunity to re-finance the business in April 2007.

We have extended our bank facilities to £75m. This comprises a £60m 20 year term loan, a £10m five year revolving credit facility, and a £5m committed overdraft facility. £50m was drawn on the term loan at the end of the year, with a further £10m draw down due on 20 September 2007. This loan is fully hedged at an average interest rate, including bank margin, of just under 6%.

The balance sheet gearing now stands at a conservative 50%. Total debt to EBITDA before exceptional items is 2.8 (2006 – 2.1) and interest cover before exceptional items is 4.1 (2006 – 3.8).

Basic earnings per share grew 14.3% to 73.4p and earnings per share before exceptional items grew by 17.9% to 60.5p.

Articles of Association

The Board is proposing a number of changes to the Articles of Association, the majority of which result from the partial implementation of the Companies Act 2006. These are set out in my letter to shareholders dated 19 September 2007 and a special resolution to adopt the necessary changes will be proposed to the shareholders at the AGM.

Strategy

Our business strategy remains to build our brands, invest to improve our pub estate, remain focused on our strengths and to improve the overall efficiency of our operations.

We continue to improve the brewery, drive quality improvements and make our production more cost efficient. This drive for efficiency is the major force behind the business process change that the Company is undergoing with the implementation of the new IT system purchased from SAP. The effort of the whole team to introduce the system whilst meeting the ongoing needs of the business has been outstanding.

Current Trading

Trading performance since the year end continues to be satisfactory and in line with our expectations, despite poor summer weather, the smoking ban and pressure on the consumer from interest rate rises.

The full impact of the smoking ban will not become apparent for several months but early reaction from customers has been encouraging.

Summary

I am pleased to report another strong performance and significant investment for the future.

Our results have been driven by very effective management and an excellent contribution by all the staff and licensees throughout the Company. I know you share my appreciation for all their efforts throughout the year.

Although we will face continuing external regulatory pressure concerning alcohol, environmental and social responsibility, I have great confidence in our ability to continue to grow in the future.

M H Templeman
Chairman

We have extended our 20 year term loan to £60m and fixed the rate of interest at just under 6%.

The company's strategy is to be a modern, high quality, highly efficient brewer, wholesaler and retailer of premium speciality beers, wines, spirits and minerals.

JONATHAN NEAME CHIEF EXECUTIVE

Overview

I am pleased to be able to report on another year of significant progress for the Company. We have achieved improved efficiency, higher standards of quality in our operations and very satisfactory growth in a 52-week year compared with the 53-week period in 2006. We traded strongly throughout the year and our business has proved remarkably resilient despite the wet summer weather.

We have continued to implement our strategy as a modern, efficient brewer and operator of premium quality pubs. We have strengthened our portfolio of brands with the addition of the Asahi sales and marketing licence. We have made a record capital investment in our estate and in modernising our plant and business processes.

I am particularly pleased that the Company won the National Business Award for Corporate Social Responsibility, recognising our leadership in this area. This follows the Queen's Award for Sustainable Development in 2006: a unique double achievement.

Pub Business

Our strategy is to acquire and develop pubs to be the leaders in their local market. We aspire to provide excellent and friendly service in unique individual outlets. We aim to have a distinct image, a good external presentation, interesting and attractive gardens and a premium product offer. Each pub operates in its own micro marketplace and we aim to provide our licensees with the best platform to gain market share from their local competitors.

At the year end we owned 376 pubs of which 338 were freehold. More than 200 of our pubs are listed buildings or in conservation areas, a unique heritage. During the year we acquired 12 outstanding freehold pubs for £16.4m and sold seven for £2.9m. Half of our new pubs were closed for a period of upgrade and refurbishment.

We are particularly pleased with some of our acquisitions this year. A notable addition is The Royal Albion Hotel, a landmark site in Broadstairs. This expands further our accommodation business and enables us to provide a distinctive range of high quality inns and hotels for our customers. We will look to expand that side of the business further should the right opportunities arise.

Our acquisitions have taken us further away from our Kent heartland with four new pubs in Sussex, one in Surrey, two in Hampshire and two in Central London. Our style of operation and our product range has been well received in all the new areas in which we trade.

We invested a further £6.8m in developing our existing estate, including the modernisation of The Marine Hotel at Tankerton for £0.8m. We carried out a number of smaller developments, including investment in outside space in readiness for the smoking ban on 1 July. In each case we have implemented long term solutions such as installing new terraces, gazebos and heated umbrellas or in some cases completely re-landscaping the gardens. This has added a new dimension of quality and attractiveness to our pubs such that they stand out from local competitors. We had completed 200 projects by the year end and will have completed a further 50 by October 2007 at an average cost of £9,000.

I am pleased to say the smoking ban was implemented with no compliance issues. There is no doubt that creating high quality outside environments has helped us retain our customer base. However, at this stage, it is too early to draw firm conclusions about longer term trends, which will not become apparent until we have gone through the winter period.

Pubs continue to suffer from excessive regulation and Government initiatives all of which bear a cost. We have now completed the first full year under the new Licensing Act. In general we have established

During the year we have
acquired 12 outstanding
freehold pubs for £16.4m.

We have made a record capital investment in our estate. Our strategy is to acquire and develop pubs to be the leader in their local market.

a good working relationship with the relevant authorities and a much closer engagement with the communities that our pubs serve. The new regime cost us £100,000 during the year. However, the excellent support that our team has provided in the licensing reform and smoking transition is well recognised and appreciated.

Managed Pubs

Our retail business has had an excellent year and once again performed above expectations.

Our total sales grew by 5.7% with liquor up 4.6%, food up 7.1%, and accommodation up 12.5%. At the year end, 49 pubs were operated under management and our average take per week for the estate has increased by 8.4% compared to the same period last year.

Our annualised like-for-like sales grew by 4.3% based on 42 outlets trading for a full two years. This is a good result achieved despite poor weather in May and June, and compared with the benefits of the World Cup and excellent weather the previous year.

Total profitability also grew by 9.8% in spite of significant growth in utility, rates and Sky TV costs and the minimum wage.

Our accommodation sales have been strong all year as investments and refurbishments of recent years mature. Our booking and reservations system is well developed and our website and marketing has continued to improve. Our revenue per available room has increased by 8.8%.

Like other operators, we continue to review and improve our food offer. Food now accounts for 27% of sales across our managed estate. We have made considerable progress in the last two years to refine our offer, to improve menus, to instil a service culture in our staff and to continue to promote local food where appropriate. We have undertaken market research to assess customer attitudes and this shows a positive response to our offering.

Tenanted Pubs

Our tenanted pubs enjoyed an excellent year. Total beer volumes were up 2.9%, wine up 8.1%, minerals up 3.2%, and traditional spirits up 5.3%. Rent was up 5.7% and AWP income improved after a poor 2006, rising by 3.4%.

Our annualised like-for-like contribution per pub was up 6.2% and total contribution was up 7.9%.

The presentation of our pubs and the support we provide our licensees help to build the reputation of the Company as a good partner and I have no doubt that we attract and develop some of the best licensees in the industry. Following our design review in 2006, we have increased investment in signage, external decoration and repairs.

The tenanted estate is the largest profit contributor to the business. We believe it can continue to grow in an on trade market that has declined nationally by 5.5% as we continue to focus on the needs of our customers in their local marketplaces.

Beer and Brands

Once again we have substantially out-performed national market trends, with growth in total beer volumes of 2.6% and in own brewed beer volumes of 1.8% against a total market decline of 4.6%.

In the current market, the consumer is drinking less of mainstream brands but seeking the more discerning offer which includes speciality lagers and local ales. The growing trend in eating out and using pubs for a family occasion is likely to accelerate under the smoking ban. We believe our portfolio of brands is well positioned to take advantage of these trends.

We carried out extensive market research during the year and received a very positive response towards Shepherd Neame, its beers and its pubs.

Our annualised like-for-like contribution grew by 6.2% in the tenanted estate.

We have strengthened our portfolio of brands, expanded our sales team and improved our marketing support, to give us national reach to support our product listings.

Consumers are showing more interest in local, natural, traditional products than a few years ago and appear to feel a strong connection to the values, standards and products of a traditional family brewer.

On 1 January 2007, we strengthened our portfolio of brands by entering an arrangement for the exclusive licence for the sale and marketing of Asahi Super Dry in the UK, which replaces the brewing agreement of 2005. We have installed draught Asahi in a significant number of locations since this change and expect this trend to continue in the current year. Asahi was supported by a national press advertising campaign carried out in conjunction with the brand owner during summer 2007.

We have strengthened our sales team by appointing five regional account managers, which gives us national reach to support our product listings in the major pubcos and multiples and thereby drive growth. We have also restructured our marketing team and appointed three brand managers to give tighter focus to our brand development.

Our brands have performed well with Spitfire cask ale growing by 4.5%. Spitfire and Bishops Finger both performed very strongly in the distinctive 500ml bottle, with growth of 17.3% and 6.9% respectively.

We promoted Sun Lik for the first time to Chinese restaurants and sales grew by 10.1%.

Our national off trade total sales volumes grew by 9.8%, national on trade by 18.6% and export by 31.4%.

The local free on trade market was again very competitive and volume has declined marginally. The second half of the year has been much stronger with new accounts coming on stream. We have expanded our business into sporting clubs and invested more in outside events as part of our strategy to move the mix of our business away from its more traditional base.

Brewery

To compete effectively as a brewer and to maximise the potential of our brand portfolio, we need to continue to modernise our brewing plant and update our business processes.

In the brewery, our major investment was the installation of a new cask plant which increases capacity and the level of automation in this area, as well as reducing energy costs. This follows investment in recent years in a new distribution centre and new keg plant. We are currently implementing phase one of an upgrade to our bottling line which will increase its capacity and speed. We intend to complete phase two within the next 18 months, which includes the installation of a new filler. We have installed a micro brewery to enable us to test and develop new products more efficiently. We continue to invest in our plant and refine our brewing processes to reduce energy consumption.

Our quality standards throughout the year have been excellent but the cost of raw materials and utilities continues to rise substantially. Compared to three years ago our unit costs are 60% higher for electricity, 91% more for gas and 33% more for malted barley. Our investment in the brewery has, however, helped us to offset some of these cost increases.

During the second half of the year we sold our former warehouse site on Belvedere Road for £2.4m. We also acquired the former ATS site in the centre of our brewery. This now gives us an integrated town centre site.

Our newly refurbished Visitor Centre has seen strong growth in visitor numbers. This now competes very well with other local visitor attractions. The brewery is now also licensed for weddings.

Our total beer volumes grew by 2.6% and own brewed volumes by 1.8%, against a total market decline of 4.6%.

To compete effectively as a brewer and to maximise the potential of our brand portfolio, we need to continue to modernise our brewing plant and update our business processes.

Business Process Review

Our current systems and procedures have evolved over many years and no longer meet the needs of the business or our customers. The systems are highly fragmented and create inefficiency and additional administration. Throughout the year we have been working on our Enterprise Project to modernise our business processes and IT platform. We are implementing SAP software to create an integrated, secure and flexible IT platform and modern business processes which we believe will deliver substantial benefits for our business in the future and pay back within five years. We have been reviewing our options for change since 2003 and at the year end our total investment since the start of this project was £3.4m including exceptional charges of £1.8m. As part of the exceptional charge, we have prudently written off £0.6m of pre-contract costs associated with this initial review and the costs of mapping our current processes.

We have defined new processes and have extended the original remit so that there will now be no need for a phase two. This has extended the timescale but will lead to greater efficiency from the outset. We have now started an extensive company wide communications and training programme and we will incur significant further costs in 2007/8 in order to complete this project.

A Sustainable and Responsible Business

There is widespread public concern surrounding the misuse of alcohol and the Government has recently undertaken a far-reaching review of alcohol policy. This may lead to more onerous requirements for alcohol producers and retailers in the future. The review will continue into 2008. The Company takes its responsibilities as an alcohol producer very seriously and has undertaken a variety of initiatives with local schools to improve alcohol education and awareness of the dangers of alcohol consumption in excess. In the pubs we now have robust systems in place to prevent sales to underage drinkers.

Summary

The Company's strategy is to be a modern, high quality, highly efficient brewer, wholesaler and retailer of premium speciality beers, wines, spirits and minerals. We aim to have a clear, distinct and sustainable market position. We have made significant steps this year in modernising our operation and together with the new banking facilities mentioned in the Chairman's statement, created a strong platform for continued development and success of the Company. The Enterprise Project has been a major but necessary undertaking for all in the business and I would wish to record special thanks to our employees and pay tribute to the flexibility and adaptability of all in responding to the changes within the business.

J B Neame
Chief Executive

We have made significant steps in modernising our operation, and created a strong platform for continued development.

Consumers have renewed interest in natural, traditional products and feel a strong connection to the values, standards and products of a traditional family brewer.

Marketplace

Shepherd Neame believes strongly in a responsible approach to the consumption and retailing of alcohol:

- We won the 2006 National Business Award for Corporate Social Responsibility
- We require our licensees to sign the Company's Social Responsibility Charter
- We promote the Challenge 21 initiative to reduce underage sales
- We support the activities of the Portman Group, The Drinkaware Trust, Pubwatch, Pub is the Hub, the BII and other industry initiatives to promote responsible drinking
- We apply the BBPA Code of Practice on promotion of alcohol
- We work with local schools and teachers to raise awareness of the dangers of alcohol abuse

Workplace

We believe in maintaining good working relationships with our employees. We aim to provide an active, healthy and supportive working environment:

- We reward longevity of service for both our staff and licensees
- We encourage share ownership and more than 50% of our employees hold shares in the company
- We run an active sports and social club for our employees
- We support our pensioners in their retirement with an annual events programme
- We have a good health and safety record and have reduced accidents at work in the last year to a record low
- We have introduced back to work training programmes for the long term sick
- We offer a confidential stress counselling service
- We encourage a healthy lifestyle, offering group membership to a local gym and sports facilities and provide free bicycles to get to work

Environment

As long-standing manufacturers we believe it is essential to protect the environment:

- We hold the Queen's Award for Enterprise for Sustainable Development
- We are accredited with ISO14001 for Environmental Best Practice
- We have reduced our water consumption to one of the lowest in the industry
- We are investing heavily to reduce energy usage and effluent discharge from the brewery
- Our water is classified as natural mineral water
- We recycle more than 90% of our raw materials and are reviewing ways to process our by-products more effectively
- We source local food where possible and thereby reduce food miles, and we support Fairtrade
- We have mapped our carbon footprint in the brewery and created a strategy to reduce consumption over the next five years

Community

Shepherd Neame plays an active role with our stakeholders and our community. On an annual basis, the Company supports a variety of activities:

- Kent Messenger/Shepherd Neame Sponsored Walk in support of the Hospices of Kent has raised £750,000 over 10 years
- Faversham Hop Festival
- Annual Hop Blessing Service
- Faversham Food and Drink Festival
- Faversham Classic Car Rally
- Various sporting, social and community events throughout Kent
- We raise money through a variety of initiatives associated with the Spitfire brand for the RAFBF Battle of Britain Memorial Trust and other service charities
- We have initiated a Next Generation programme to engage the younger members of the Neame family in the business

We won the 2006 National Business Award for Corporate Social Responsibility.

BOARD OF DIRECTORS

PRESIDENT AND COMPANY SECRETARY

1. M H Templeman (59)

CHAIRMAN
CHAIRMAN OF THE NOMINATION COMMITTEE

Was appointed to the Board in March 2002 and became Chairman in October 2005. He was formerly Group Marketing Director of Whitbread and Managing Director of the Whitbread Beer Company, now part of Inbev, where he was responsible for developing Stella Artois into the leading premium lager in the UK. He left Inbev in 2001 to take up a variety of directorships and consultancy roles. He is currently Director General of the Institute of Directors, a Non-Executive Chairman of Yo! Sushi Group Limited, and a Non-Executive Director of Melrose plc.

2. J B Neame (43)

CHIEF EXECUTIVE
PENSION TRUSTEE

Joined the Company in 1991. Was Company Secretary until July 1994 and Tied Trade Director until 1999 when he was appointed Managing Director; he was appointed Chief Executive in 2003. He is a Barrister-at-law and was a Management Consultant with the COBA Group from 1987 to 1991. He is a Non-Executive Director of the St Austell Brewery Company Ltd.

3. R L Nicol (60)

NON-EXECUTIVE DIRECTOR
PENSION TRUSTEE

Appointed to the Board in November 2003. He is a Scottish qualified solicitor working as a private client lawyer with Brodies LLP, Edinburgh, and previously served in the Scots Guards. He also has interests in farming, forestry, leisure and insurance and is Chairman of the River Dee Trust.

4. J H Leigh-Pemberton (51)

NON-EXECUTIVE DIRECTOR
CHAIRMAN OF THE AUDIT
COMMITTEE

Appointed to the Board in September 2004. He is Chairman of European Investment Banking at Credit Suisse Limited. He is also a Non-Executive Director of RIT Capital Partners plc.

5. O W A Barnes (56)

NON-EXECUTIVE DIRECTOR
CHAIRMAN OF THE
REMUNERATION COMMITTEE

Appointed to the Board in October 2005. He is a solicitor and has been a corporate partner in the City law firm Travers Smith for over 25 years. He is a member of the Law Society's Company Law Committee.

6. K R Littlefair (60)

FINANCE AND IT DIRECTOR

Joined the Company and was appointed to the Board as Finance Director in April 2000. He took on responsibility for IT in 2003. He is a chartered accountant who gained extensive experience with Ernst & Young before joining London International Group plc, where he was Finance Director of the European Division and then the Operations Division.

7. I J Dixon (64)

PRODUCTION AND DISTRIBUTION
DIRECTOR

Joined the Company in 1991 and was appointed to the Board in March 2000. He was previously Group Production Director of Courage Breweries, and was responsible for the development of the Berkshire Brewery, the then largest in the UK. He was with Courage for 18 years and has over 36 years of experience in the brewing industry. He is a Non-Executive Director of Brewing Research International.

8. G H A Barnes (53)

PROPERTY AND TENANTED
TRADE DIRECTOR

Joined the Company in 1978. He is a chartered surveyor and held various management positions within the Company and he was appointed to the Board in January 2001.

9. N J Bunting (40)

RETAIL DIRECTOR

Joined the Company in 1993. He has held various management positions including responsibility for the Free-on trade and National Sales. Most recently he was operations manager for Tenanted pubs from 2001 and Managed pubs from 2003. He was appointed to the Board in August 2005.

10. G R Craig (36)

SALES AND MARKETING DIRECTOR

Joined the Company in May 2006 and was appointed to the Board in July 2006. He was previously Convenience Director at PepsiCo, responsible for Walkers, Quaker and Tropicana products throughout the 16,000 stores in the UK Fascia Convenience Channel.

11. R H B Neame CBE DL (73)

PRESIDENT
CHAIRMAN OF PENSION TRUSTEES

Joined the Company in 1956 and was appointed to the Board in 1957. Was appointed Chairman in 1971 and served in this role until October 2005 when he became a Non-Executive Director. He retired from the Board on 30 June 2006. He was a Non-Executive Director of Merrydown plc, 1998 to 2004. He was a member of Kent County Council, 1965 to 1989 and Leader of the Council, 1982 to 1984. He is now the Company's first President and is Chairman of the trustees of the Shepherd Neame Company Retirement Account.

12. F J Lester (59)

COMPANY SECRETARY

Joined the Company as Company Secretary in September 2004. She qualified as a Chartered Secretary in South Africa where she worked in the manufacturing sector. On return to the UK in 1986, she initially worked in the same sector and then in the leisure industry as Company Secretary for the Tussauds Group, now part of Merlin Entertainments Group Limited.

The Board has put in place a framework for corporate governance which it believes is appropriate to the Company.

The Company is a private company and its 'A' shares are listed on PLUS market, which enjoys certain personal tax advantages for our shareholders compared to a full stock market listing. The Company's 'B' shares are owned by direct descendants of Percy Beale Neame and their spouses. These shares can only be transferred to direct relatives of the holder or other 'B' shareholders. They account for 86% of the voting rights of the company.

As a PLUS market company, Shepherd Neame is not required to comply with all aspects of The Combined Code on Corporate Governance. However the Board is committed to maintaining the highest standards within the Company.

The Board

The Board currently comprises the Non-Executive Chairman, the Chief Executive, three Non-Executive and five Executive Directors. The biographical details on page 15 show the broad range of experience and skills the Directors bring to the Board.

One third of the Directors are subject to re-election by rotation at the Annual General Meeting each year. All newly appointed Directors stand for election at the Annual General Meeting following their appointment.

The Board meets regularly throughout the year. Its responsibilities include approving the Company's strategy and annual budget, authorising major investments, acquisitions and capital expenditure, and monitoring the performance of the business.

Committees of the Board

Executive

The Executive Committee of the Board comprises the Executive Directors and is chaired by the Chief Executive. It meets monthly to review operating performance and has delegated authority from the Board to deal with operational matters.

Nomination

The Nomination Committee is chaired by Miles Templeman and comprises the Non-Executive Directors. The committee is responsible for identifying and proposing prospective candidates for Directors for consideration and appointment by the Board as a whole.

Audit

The Audit Committee is chaired by James Leigh-Pemberton and comprises the Non-Executive Directors. The Chief Executive, Finance Director and external auditors attend its meetings by invitation. The Committee has defined terms of reference, reviews the audit plan with the auditors and recommends approval of the financial statements to the Board.

Remuneration

The Remuneration Committee is chaired by Oliver Barnes and comprises the Non-Executive Directors. It meets regularly and determines on behalf of the Board the remuneration package of the Executive Directors. The remuneration of the Non-Executive Directors is decided by the Board as a whole. The Remuneration Committee is also responsible for approving the bonus payments and targets for the Company's Directors and Senior Managers.

In coming to these decisions the Remuneration Committee considers the overall performance of the Company and of the individual Directors and Senior Managers and the performance of our national and regional competitors. External consultants are used periodically to help with these decisions.

The Company aims to ensure that remuneration packages for Executive Directors are competitive and comparable with companies of a similar size, complexity and activity and are designed to attract, retain and motivate Executive Directors with appropriate skills and capabilities. Remuneration comprises fixed remuneration (salary and other benefits) and performance-related remuneration (primary and secondary share options in accordance with the rules of the 2005 Restricted Share Scheme and cash bonuses), designed to motivate to obtain maximum performance. Details of remuneration and share options are in the notes to the financial statements.

Internal Control

The Board acknowledges its ultimate responsibility for the system of internal control within the Company and for its effectiveness. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has carried out an assessment of the key operational and financial risks for the Company, the control exercised at Board level, the controls relied upon by the Board and the exceptions for consideration by the Board. This review is updated on a regular basis.

The responsibility for the implementation and day to day operation of the systems of internal control within the business is delegated to the Chief Executive and Executive Directors and through them to members of management and staff. Key features of the system of internal control include a detailed review of performance against detailed budgets and forecasts which are subject to scrutiny and approval, reports to the Board from each operating area, a requirement for authorisation of capital expenditure following formal investment appraisals and a close involvement of the Executive Directors in the operation of the business.

The Company does not have an internal audit function and the Board does not consider that one is required for a business of our size. Ongoing quality visits and counts by independent stocktakers provide assurance over activities in the managed pub estate. Within the brewery, the quality control procedures, ISO 9001 certification and internal reviews by management provide similar assurance.

Investor Relations

The Board believes in an open and regular dialogue with its shareholders. Information is provided to shareholders in the interim and annual financial statements. The Chairman, Chief Executive and Finance Director make an annual presentation of the Company's results to City investors and analysts. This presentation is simultaneously posted on the Company's website. The Board offers to hold individual briefings with its major shareholders twice a year if required. All shareholders are encouraged to attend the Annual General Meeting.

All formal Company announcements are posted on the company website (www.shepherdneame.co.uk) and on PLUS market (www.plusmarketsgroup.com).

Employees and Pensioners

The health and wellbeing of our employees is paramount. We strive to improve their safety at work by undertaking regular risk assessments and training. We believe in open and transparent communication with our employees and hold regular briefings on relevant matters such as the performance of the business, forthcoming events, initiatives and targets.

We encourage employees to participate in activities beyond their daily jobs and to contribute to the Company's community involvement. We are supportive of their participation in local government, as justices of the peace and in other voluntary services and we support various sporting and social activities for employees. We place an emphasis on longevity of service and loyalty and reward it.

We believe strongly in supporting our former employees. In addition to funding a pension, the Company maintains an active social programme for pensioners, which enables them to maintain contact with former colleagues.

Results

Turnover for the 52 weeks to 30 June 2007 was £100.0m, an increase of 4.9% on the 53-week period last year.

Operating profit before exceptional items for the 52-week period has increased by 6.9% to £13.9m, with profit before tax and exceptional items increasing by 9.9% to £10.5m. The operating profit percentage before exceptional items increased from 13.6% to 13.8%.

Basic earnings per £1 'A' ordinary share increased by 14.3% to 73.4p, and before exceptional items increased by 17.9% to 60.5p.

Exceptional Items

The operating exceptional charge of £1.8m related to the cost of the re-modelling of the Company's business processes in connection with the installation of SAP computer software, including £0.6m of pre-contract cost.

The exceptional profit relating to the sale of seven pubs and a former warehouse site amounted to £3.0m.

We incurred £0.2m in respect of fees in connection with the re-financing of our bank facilities in April 2007.

The tax attributable to exceptional items amounted to a credit of £0.6m as a result of rollover relief on the property profit, to give a total exceptional profit after tax of £1.6m.

Taxation

The tax charge after exceptional items was £2.3m, an effective rate of 19.7% (2006 – £3.1m and 27.6%). The tax charge for the year has been reduced by a release of deferred tax provision of £0.7m as a result of the prospective reduction in the corporation tax rate and changes to the capital allowances regime introduced in the Finance Act 2007. The tax charge for both years was also reduced by the application of rollover relief on property disposals, which if excluded would give an effective rate of tax of 26.4% (2006 – 33.3%).

Dividends

Dividends paid and proposed in respect of the year increased by 7.5% to £2,748,000 (2006 – £2,556,000). Dividend cover was 3.4 (2006 – 3.2).

Cash Flow and Financing

EBITDA before exceptional charges and free trade loan discounts was £19.3m (2006 – £18.7m) and after exceptional charges was £18.1m (2006 – £18.1m). Working capital fell by £2.2m during the year to give a net cash inflow from operating activities of £20.7m (2006 – £18.1m).

There was a net cash outflow before financing of £12.7m compared with a net inflow of £0.4m in 2006, mainly as a result of increased capital expenditure, as the Company took the opportunity arising to acquire 12 exceptional pubs.

The Pubco loan of £18.5m matured in September 2006 and was replaced by drawing on existing long term bank facilities. These facilities were extended in April 2007 and now comprise a 20 year term loan of £60.0m, a five year revolving credit facility of £10.0m and £5.0m of committed overdraft. At the year end the company had drawn £50.0m of the term loan, with the remaining £10.0m due to be drawn down on 20 September 2007.

The Group's net borrowing increased from £40.0m to £53.4m as a result of funding increased capital expenditure and gearing is now 50% (2006 – 40%).

Term loan interest has been fixed by swap contract to give an effective rate of interest of just under 6%. The re-financing of the Pubco loan has resulted in a reduction in average interest rates to give a saving in interest payable of £0.6m during the year (£0.8m annually). This saving has been offset by additional charges resulting from the growth in total borrowings to give a net interest saving of £0.1m in 2007.

Interest cover before exceptional items is 4.1 x (2006 – 3.8 x) and the ratio of debt to EBITDA before exceptional items is 2.8 compared to 2.1 in 2006.

Fixed Assets

During the year expenditure on tangible fixed assets amounted to £29.3m, including the purchase of 12 new pubs, two of which were acquired through purchase of subsidiary companies (see note 11). The Company has also disposed of or written off assets with a net book value of £3.2m, including seven pubs and our former warehouse site for proceeds of £5.6m.

The charge for depreciation remained at £5.1m and the net increase in tangible fixed assets amounted to £21.1m.

Net Current Liabilities

Net current liabilities have fallen by £16.3m to £4.0m as a result of the repayment of the Pubco loan, which had been reclassified as a short term liability last year pending settlement.

Treasury Policy and Financial Risk Management

In order to minimise credit risk relating to financial loss resulting from a customer's failure to meet their liabilities, checks are carried out to establish credit worthiness before deferred terms are granted. Credit limits are applied for each customer to control debt exposure. Credit insurance is maintained to cover certain debts where appropriate.

The Company manages liquidity risk by monitoring daily cash balances and producing monthly rolling cash flow forecasts. Capital expenditure is approved by the Board with investment appraisal models used to evaluate proposed expenditure.

Borrowings comprise a mixture of long term borrowings, a revolving credit facility and a committed multi-option overdraft facility. These borrowings and facilities carry interest at LIBOR related floating rates. In order to protect itself from upward movements in interest rates, the Company has entered into an interest rate swap contract covering the 20 year term loan, which is utilised for the purchase of fixed assets.

At present, the Company does not hedge against foreign exchange exposure as it is considered low risk with low levels of transactions.

Accounting Standards

The Company has adopted FRS 20, 'share based payment' during the year. The effect on the prior year charge recognised in the accounts is minimal with operating charges increased by £40,000 (see page 26 – accounting policies a).

The Directors have pleasure in presenting their ninety-third Annual Report and Accounts for the 52 weeks ended 30 June 2007.

Activities and Review of Business

The principal activities of the Company are the brewing and packaging of beer; the wholesaling and retailing of beer, cider, wines, spirits and minerals; property ownership and public house and hotel management. This report should be read in conjunction with the Chairman's Statement, Chief Executive's Review and Financial Review which provide further details of the Company's activities for the 52 weeks ended 30 June 2007 including comments on sales, sales volumes and contribution. The principal risks and uncertainties in the business include the effect of the smoking ban, the effect of increasing regulation, and the price of raw materials and utilities, as discussed in those statements.

Dividends

The Company paid an interim dividend of 4.30% (2006 – 4.05%) on the 'A' and 'B' ordinary shares and the Directors now recommend a final dividend of 17.20% (2006 – 15.95%) on both classes of shares. This makes a total dividend for the year of 21.5% (2006 – 20.0%).

The total proposed final dividend on ordinary shares will be £2,198,000 (2006 – £2,037,000) which together with the 2007 interim dividend paid of £550,000 (2006 – £519,000) will make total dividends of £2,748,000 (2006 – £2,556,000).

Directors

The names of the Directors at 30 June 2007 are set out on page 15. Particulars of the Directors' interests in the Company's shares are set out in note 26 to the accounts.

Mr JB Neame, Mr KR Littlefair and Mr GHA Barnes retire from the Board by rotation and will be offering themselves for re-election.

Mr GR Craig was appointed to the Board on 1 July 2006 and his appointment was confirmed by election at the AGM on 27 October 2006.

Fixed Assets

The freehold licensed properties of the Company were revalued individually at open market value on an existing use basis as at 28 June 1997 by the Company's own professionally qualified staff. These figures were incorporated into the accounts as at 28 June 1997 and subsequent additions have been included at cost. During the year ended 26 June 2004 the Company carried out a revaluation of these assets on the same basis. This showed a surplus of £25 million over the book value which has not been recorded in the accounts.

The Directors intend to commission regular revaluations of the Company's freehold and leasehold licensed premises on the same basis as in 2004. Under current and prospective accounting practice it is currently unlikely that any future revaluation will be incorporated in the Company's accounts.

The brewery premises and other fixed assets remain in the accounts at historical cost. The Directors have considered the value of all fixed assets of the Company and believe that their aggregate value is significantly more than the amount in the balance sheet.

Purchase of Own Shares

During the year 29,470 £1 'A' ordinary shares, representing 0.26% of that class of share, were purchased at a cost of £468,000. These shares were acquired in connection with the Company's obligations under the Shepherd Neame Limited Employee Share Incentive Plan and the 1995 Restricted Share Scheme (2006 – 69,702 £1 'A' ordinary shares, being 0.6% of that class at a cost of £786,000). The maximum number of shares held in the year was 206,750 representing 1.8% of the £1 'A' ordinary shares in issue at a cost of £1,889,000 (2006 – 196,705 shares being 1.7% of the £1 'A' ordinary shares in issue at a cost of £1,538,000).

Directors' Responsibilities for the Financial Statements

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

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

The maintenance and integrity of the Shepherd Neame website is the responsibility of the Directors: the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors have satisfied themselves that the Company is a going concern, and as such the accounts are prepared on a going concern basis.

Directors' Statement as to Disclosure of Information to the Auditors

The Directors who were members of the Board at the time of approving the Directors' Report are listed on page 15. Having made enquiries of fellow Directors, 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 this report of which the Company's auditors are unaware; and
- each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Use of Financial Instruments

A statement in relation to the use of financial instruments by the Company is given in the Financial Review and also in note 28 to the accounts on pages 39 and 40.

Employees

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

The Company provides employees with a summary of its financial position and is continually aiming to provide them with information on matters of concern to them as employees.

Employees continue to participate directly in the success of the business through the Share Incentive Plan.

Third Party Indemnity Provisions

The Company has in place a Directors and Officers Liability Insurance Policy which indemnifies the Directors and Officers from any claim or claims on them in the course of their business activities to the extent that they do not relate to acts of fraud or dishonesty. The total cover under the policy is £5 million.

Charitable Donations

In the year the Company donated £20,000 (2006 – £16,000) for charitable purposes.

Auditors

A resolution to reappoint Ernst & Young LLP as the Company's auditor will be put to the forthcoming Annual General Meeting.

By order of the Board

F J Lester
Company Secretary
17 Court Street
Faversham
Kent

19 September 2007

We have audited the Group and Parent Company's financial statements (the "financial statements") of Shepherd Neame Limited for the year ended 30 June 2007 which comprise the Consolidated Profit and Loss Account, the Group and Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses, the Consolidated Note of Historical Cost Profit and Losses and the related notes 1 to 29. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable UK law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement, Chief Executive's Review and Financial Review that is cross referred from the Activities and Review of Business section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Financial Highlights, Chairman's Statement, Financial Review, Chief Executive's Review, Corporate Governance Statement and Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the Parent Company's affairs as at 30 June 2007 and of the Group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Ernst & Young LLP

Registered auditor
London

19 September 2007

CONSOLIDATED PROFIT AND LOSS ACCOUNT

52 weeks ended 30 June 2007

	note	52 weeks to 30 June 2007 before exceptional items £'000	52 weeks to 30 June 2007 exceptional items £'000	52 weeks to 30 June 2007 total £'000	53 weeks to 1 July 2006 restated £'000
Turnover	1	100,047	–	100,047	95,343
Operating charges	2, 3	(86,196)	(1,778)	(87,974)	(82,392)
Operating profit		13,851	(1,778)	12,073	12,951
Profit on sale of property	3	–	3,031	3,031	1,627
Profit on ordinary activities before interest		13,851	1,253	15,104	14,578
Interest receivable and similar income		21	–	21	52
Interest payable and similar charges	3, 4	(3,347)	(206)	(3,553)	(3,425)
Profit on ordinary activities before taxation		10,525	1,047	11,572	11,205
Taxation	5	(2,875)	595	(2,280)	(3,089)
Profit for the year after taxation		7,650	1,642	9,292	8,116
Earnings per £1 nominal share value (p)					
Basic	7			73.4p	64.2p
Diluted	7			72.8p	63.5p
Basic before exceptional items	7			60.5p	51.3p

Movements in reserves are set out in notes 23 and 24.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	52 weeks to 30 June 2007 £'000	53 weeks to 1 July 2006 £'000
Profit for the year	9,292	8,116
Actual return less expected return on pension scheme assets	–	131
Experience gains and losses arising on the present value of the scheme liabilities	–	(382)
Deferred tax on items charged to reserves	–	75
Total recognised gains and losses in the year	9,292	7,940
Prior year adjustments:		
FRS 17 retirement benefits		
– restatement of provision	–	53
– related deferred tax	–	(16)
FRS 20 – share-based payment	(40)	–
Total gains and losses recognised since the last annual report	9,252	7,977

Movements in reserves are set out in notes 23 and 24.

CONSOLIDATED NOTE OF HISTORICAL COST PROFITS AND LOSSES

	52 weeks to 30 June 2007 £'000	53 weeks to 1 July 2006 £'000
Profit on ordinary activities before taxation	11,572	11,205
Realisation of property revaluation	466	158
Historical cost profit on ordinary activities before taxation	12,038	11,363
Historical cost profit for the year retained after taxation	9,758	8,274

BALANCE SHEETS

As at 30 June 2007

	note	Group 30 June 2007 £'000	Group 1 July 2006 restated £'000	Company 30 June 2007 £'000	Company 1 July 2006 restated £'000
Fixed assets					
Intangible fixed assets	10	164	202	164	202
Tangible fixed assets	11	162,578	141,508	162,578	141,508
Investments and loans	12	2,029	2,249	6,181	2,249
		164,771	143,959	168,923	143,959
Current assets					
Stock	13	5,542	4,931	5,542	4,931
Debtors	14	14,873	13,571	14,873	13,571
Cash		96	93	96	93
		20,511	18,595	20,511	18,595
Creditors: amounts falling due within one year					
Bank loans and overdrafts		(4,112)	(2,837)	(4,112)	(2,837)
Loan from associated undertaking	15	–	(18,544)	–	(18,544)
Creditors	16	(20,387)	(17,544)	(24,539)	(17,544)
		(24,499)	(38,925)	(28,651)	(38,925)
Net current liabilities					
		(3,988)	(20,330)	(8,140)	(20,330)
Total assets less current liabilities					
		160,783	123,629	160,783	123,629
Creditors: amounts falling due after more than one year					
Provisions for liabilities – deferred tax	21	(3,743)	(3,922)	(3,743)	(3,922)
Net assets					
		107,660	100,994	107,660	100,994
Capital and reserves					
Called up share capital	22	12,818	12,818	12,818	12,818
Share premium account	23	1,439	1,439	1,439	1,439
Revaluation reserve	23	16,228	16,694	16,228	16,694
Reserve for own shares held	23	(1,515)	(1,538)	(1,515)	(1,538)
Profit and loss account	23	78,690	71,581	78,690	71,581
Equity shareholders' funds					
	24	107,660	100,994	107,660	100,994

These accounts were approved by the Board of Directors on 19 September 2007 and were signed on its behalf by:

M H Templeman

J B Neame

Directors

CONSOLIDATED CASH FLOW STATEMENT

52 weeks ended 30 June 2007

	£'000	52 weeks ended 30 June 2007 £'000	£'000	53 weeks ended 1 July 2006 £'000
Net cash inflow from operating activities		20,719		18,059
Returns on investment and servicing of finance				
Interest paid	(4,081)		(3,510)	
Interest received	21		52	
		(4,060)		(3,458)
Taxation paid		(2,313)		(2,252)
Capital expenditure and financial investment				
Purchase of tangible fixed assets	(30,052)		(13,783)	
Proceeds of sales of tangible fixed assets	5,631		4,800	
Additional loans to customers	(434)		(917)	
Customer loan redemptions	349		346	
		(24,506)		(9,554)
Equity dividends paid		(2,587)		(2,407)
Net cash flow before financing		(12,747)		388
Financing				
Purchase of own shares		(468)		(786)
Repayment of loan from associated undertaking		(18,500)		–
New short term loan		2,000		–
New long term loan		31,000		–
Issue cost of new long term loans (including exceptional interest charge)		(557)		–
Movement in cash during the year		728		(398)

1 Reconciliation of operating profit to net cash inflow from operating activities

	52 weeks ended 30 June 2007 before exceptional items £'000	52 weeks ended 30 June 2007 exceptional items £'000	52 weeks ended 30 June 2007 total £'000	53 weeks ended 1 July 2006 restated £'000
Operating profit	13,851	(1,778)	12,073	12,951
Depreciation and amortisation	5,089	–	5,089	5,117
Charge for share-based payments credited to reserves	429	–	429	376
Increase in stocks	(611)	–	(611)	(46)
Increase in debtors and prepayments	(933)	–	(933)	(763)
Increase in creditors and accruals	3,720	–	3,720	429
Free trade loan discounts	305	–	305	419
Loss on sale of assets (excluding property)	13	–	13	239
Settlement of exceptional pension liability	–	–	–	(663)
Pre-project costs	–	634	634	–
	8,012	634	8,646	5,108
Net cash inflow from operating activities	21,863	(1,144)	20,719	18,059

2 Reconciliation of cash flows to movement in net debt

	52 weeks ended 30 June 2007 £'000	53 weeks ended 1 July 2006 restated £'000
Opening cash and overdraft	(2,744)	(2,346)
Closing cash and overdraft	(2,016)	(2,744)
Increase/(decrease) in cash during the year	728	(398)
Repayment of loan from associated undertaking	18,500	–
New long term loan	(31,000)	–
Issue costs capitalised	351	–
New short term loans	(2,000)	–
Amortisation of loan premium	44	178
Amortisation of loan issue costs	(18)	(16)
Movement in net debt during the year	(13,395)	(236)
Net debt at beginning of year	(40,001)	(39,765)
Net debt at end of year	(53,396)	(40,001)

3 Analysis of changes in net debt

	2006 restated £'000	Cash flow £'000	Repayment of short term loan £'000	New loans £'000	Amortisation of loan premium £'000	Amortisation of issue costs £'000	2007 £'000
Cash at bank	93	3	–	–	–	–	96
Bank overdrafts	(2,837)	725	–	–	–	–	(2,112)
Debt due within one year	(18,544)	–	18,500	(2,000)	44	–	(2,000)
	(21,288)	728	18,500	(2,000)	44	–	(4,016)
Debt due after more than one year	(18,713)	–	–	(30,649)	–	(18)	(49,380)
Total	(40,001)	728	18,500	(32,649)	44	(18)	(53,396)

a Basis of preparation and change in accounting policies

The accounts are prepared under the historical cost convention modified by the revaluation of freehold licensed and associated properties and are prepared in accordance with UK applicable accounting standards (UK GAAP).

In preparing the accounts for the current year, the Group has adopted FRS 20, "Share-based payment" (policy (m) below). All other accounting policies remain the same.

The adoption of FRS 20 has resulted in a change in accounting policy for share-based payment transactions. FRS 20 requires the fair value of options and share awards which ultimately vest to be charged to the profit and loss account over the vesting or performance period. For equity-settled transactions, the fair value is determined at the date of the grant using an appropriate pricing model. If an award fails to vest as the result of certain types of performance condition not being satisfied, the charge to the income statement will be adjusted to reflect this.

The prior year adjustment recorded in the Consolidated Statement of Total Recognised Gains and Losses and the Profit and Loss Account amounting to £40,000, reflects the cumulative profit and loss effect of FRS 20 at 1 July 2006. The corresponding entry to the pre FRS 20 charge is recorded through the profit and loss reserve. Therefore, there is no impact of the restatement for FRS 20 in the profit and loss account reserve at 1 July 2007.

b Basis of consolidation

The group financial statements consolidate the financial statements of Shepherd Neame Limited and all of its subsidiaries. Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of subsidiaries are prepared using consistent accounting policies to those of the parent company. All intercompany balances and transactions, including unrealised profits arising from them, are eliminated.

c Intangible assets

Intangible assets acquired separately from a business are capitalised at cost and are amortised on a straight line basis over their estimated useful lives as follows:

- Licences and Trade marks 10 to 20 years

The carrying value of intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

d Tangible fixed assets and depreciation

Tangible fixed assets are included at cost less accumulated depreciation, except in the case of certain licensed freehold properties, which were revalued before the adoption of FRS 15. In accordance with the transitional provisions set out in FRS 15, the Group has carried forward the book value of these properties, adjusted for subsequent disposals.

Assets under construction are not depreciated until they are brought into use. All other tangible assets are depreciated at varying rates calculated to write off their carrying value, less estimated residual value, evenly over their expected useful lives as follows:

- Freehold brewery buildings 25 years
- Other freehold and long leasehold buildings 50 years
- Short leaseholds over the lease term
- Other plant, equipment, fixtures and vehicles 3 to 20 years

The carrying value of tangible fixed assets is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

e Fixed asset investments

Fixed asset investments are stated at historic cost. The carrying values of the fixed asset investments are reviewed for impairment in periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

f Stocks

Stocks are valued on a consistent basis at the lower of cost and net realisable value. Cost of own beers produced includes materials and directly attributable fixed and variable production overheads.

g Accounting for leases

(i) As Lessor:

Rentals receivable under operating leases are included in turnover on an accruals basis.

(ii) As Lessee:

Rentals payable under operating leases are charged to income on a straight line basis over the term of the lease.

h Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- provision is not made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets unless there is a binding agreement to dispose of the assets concerned at the balance sheet date. Provision is not made if it is probable that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold; and
- deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on the tax rate at the balance sheet date.

i Pensions

The Company operates defined contribution pension schemes. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

j Dividends

In accordance with FRS 21, dividends payable are shown as a movement in reserves when declared (interim dividend) or approved (final dividend).

k Loans

The finance cost, including any loan premium, recognised in the profit and loss account in respect of loans is calculated at a constant rate on the carrying amount so as to spread the net cost evenly over the period to repayment.

l Derivative instruments

The Group uses interest rate swaps to adjust interest rate exposures. The Group's criteria for interest rate swaps are:

- the instrument must be related to an asset or a liability; and
- it must change the character of the interest rate by converting a variable rate to a fixed rate or vice versa.

Gains and losses arising on these instruments are recognised in the profit and loss account at the same time as the charge arising from the related asset or liability.

m Share-based payment

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions). No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

The Group has taken advantage of the transitional provisions of FRS 20 in respect of equity-settled awards so as to apply FRS 20 only to those equity-settled awards granted after 7 November 2002 that had not vested before 1 January 2006.

1 Turnover

Turnover comprises sales net of discounts, rents received and services rendered from continuing trading activities, excluding value added tax. The Directors consider that the business carried on by the Group is that of a fully integrated regional brewer operating in the UK and that this constitutes one class of business. The export sales during the year were £1,334,000 (2006 – £1,077,000).

2 Operating charges

	52 weeks ended 30 June 2007			53 weeks ended 1 July 2006 restated £'000
	Before exceptional items £'000	Exceptional items £'000	Total £'000	
Change in stocks of finished goods and work in progress	(517)	–	(517)	159
Goods for resale	16,349	–	16,349	16,296
Raw materials, duty and consumables	25,722	–	25,722	23,696
Staff costs:				
Wages and salaries	17,597	382	17,979	15,888
Social security costs	1,541	26	1,567	1,436
Other pension costs	788	15	803	736
Depreciation and amortisation	5,089	–	5,089	5,117
Loss on sale of fixed assets (excluding properties)	13	–	13	239
Property repairs	1,538	–	1,538	1,518
Operating lease rentals – land & buildings	1,909	–	1,909	1,841
Other operating charges	16,167	721	16,888	15,466
Pre-contract cost written off	–	634	634	–
	86,196	1,778	87,974	82,392

The auditor's remuneration for the period amounted to £75,500 for audit services of the Company (2006 – £67,000), £8,000 for local statutory audits for subsidiary companies (2006 – nil), £6,000 for the audit of the company pension scheme (2006 – £5,000) and £nil for management consultancy (2006 – £10,000).

3 Exceptional items

	52 weeks ended 30 June 2007 £'000	53 weeks ended 1 July 2006 £'000
Operating items:		
Operating charges – own labour and consulting charges in respect of a fundamental business process review associated with the implementation of SAP computer software, to include pre contract costs, mapping existing business processes, change management, training, redundancies, data migration and software implementation	(1,778)	–
Interest payable and similar charges – arrangement fees and legal and professional charges in respect of renegotiating and extending the term of the existing bank loan	(206)	–
	(1,984)	–
Non operating items:		
Profit on sale of property	3,031	1,627
Total exceptional items before tax	1,047	1,627
Taxation	595	–
Total exceptional items after tax	1,642	1,627

4 Interest payable and similar charges

	52 weeks ended 30 June 2007 £'000	53 weeks ended 1 July 2006 £'000
Pubco plc loan	478	1,949
Bank loans and overdrafts	2,787	1,405
Other	82	71
	3,347	3,425
Exceptional charges in respect of re-financing (see note 3)	206	–
	3,553	3,425

5 Taxation

a) Tax on profit on ordinary activities

	52 weeks ended 30 June 2007 £'000	53 weeks ended 1 July 2006 £'000
Current tax:		
UK corporation tax at 30% (2006 – 30%)	2,339	2,586
Prior year under provision	120	100
Total current tax	2,459	2,686
Deferred tax:		
Origination and reversal of timing differences	478	403
Prior year overprovision	(2)	–
Impact of prospective reduction in the rate of corporation tax	(248)	–
Impact of changes in the IBA regime introduced by Finance Act 2007	(407)	–
Total deferred tax	(179)	403
Total tax charge	2,280	3,089

b) Factors affecting the current tax charge

The tax assessed on the profit on ordinary activities before taxation for the year is lower than the standard rate of corporation tax in the UK of 30% (2006 – 30%). The differences are reconciled below.

	52 weeks ended 30 June 2007 £'000	53 weeks ended 1 July 2006 restated £'000
Profit on ordinary activities before tax	11,572	11,205
UK corporation tax at 30% (2006 – 30%)	3,472	3,361
Expenses not deductible for tax purposes	118	101
Capital allowances in excess of depreciation	(498)	(323)
Short term timing differences	20	91
Rolled over gains on asset disposals	(773)	(644)
Prior year under provision	120	100
	2,459	2,686

The exceptional profit on the disposal of properties of £3,031,000 (2006 – £1,627,000) does not give rise to a tax charge (2006 – £nil) due to rollover relief.

c) Factors that may affect future tax charges

No provision is made for the taxation liability which would arise on the disposal of properties at their revalued amounts or on gains rolled over into replacement assets. Such tax would become payable only if the property were sold without it being possible to claim rollover relief. The total amount unprovided is estimated at £6.6m (2006 – £6.4m), based on a corporation tax rate of 28% (2006 – 30%). At present it is not envisaged that any such tax will become payable in the foreseeable future.

6 Dividends

	52 weeks ended 30 June 2007 £'000	53 weeks ended 1 July 2006 £'000
Declared and paid during the year		
£1 'A' ordinary shares:		
Final dividend for 2006: 15.95p (2005 – 14.80p)	1,820	1,687
Interim dividend for 2007: 4.30p (2006 – 4.05p)	492	464
	2,312	2,151
2p 'B' ordinary shares:		
Final dividend for 2006: 0.319p (2005 – 0.296p)	217	201
Interim dividend for 2007: 0.086p (2006 – 0.081p)	58	55
	275	256
Dividends paid	2,587	2,407
Proposed for approval at the AGM:		
Final dividend for 2007 on £1 'A' ordinary shares: 17.20p (2006 – 15.95p)	1,964	1,820
Final dividend for 2007 on 2p 'B' ordinary shares: 0.344p (2006 – 0.319p)	234	217
	2,198	2,037

Shares held by the Company (and not allocated to employees under the Share Incentive Plan) are treated as cancelled when calculating dividends and earnings per share.

7 Earnings per share

	52 weeks ended 30 June 2007 £'000	53 weeks ended 1 July 2006 restated £'000
Based on £1 nominal share value		
Profit attributable to equity shareholders	9,292	8,116
Weighted average share capital	12,651	12,644
Dilutive outstanding options	110	143
Adjusted weighted average share capital	12,761	12,787
Basic	73.4p	64.2p
Diluted	72.8p	63.5p
Basic before exceptional items	60.5p	51.3p

The earnings per share before exceptional items are calculated on profit after tax and before exceptional items of £7,650,000 (2006 – £6,489,000 being profit after tax of £8,116,000 less profit on sale of property of £1,627,000).

8 Directors' remuneration

	52 weeks ended 30 June 2007 £'000	53 weeks ended 1 July 2006 £'000
Aggregate amount:		
Directors' emoluments	1,132	944
Pension contributions	166	159
	1,298	1,103

Details of Director's share options are shown in note 26.

Six Directors had pension benefits accruing under money purchase schemes (2006 – six).

8 Directors' remuneration continued

	52 weeks ended 30 June 2007 £'000	53 weeks ended 1 July 2006 £'000
Highest paid Director:		
Emoluments	231	202
Pension contributions	37	32
	268	234

9 Employees

The average number of persons with contracts of employment, including Directors, during the year, was as follows:

	52 weeks ended 30 June 2007 Number of employees	53 weeks ended 1 July 2006 Number of employees
Brewery	304	293
Retailing	829	732
	1,133	1,025

10 Intangible fixed assets

Group and Company	Licences and trade marks £'000
Cost	
At 1 July 2006 and 30 June 2007	364
Amortisation	
At 1 July 2006	162
Provided during the year	38
At 30 June 2007	200
Net book value at 30 June 2007	164
Net book value at 1 July 2006	202

11 Tangible fixed assets

Group and Company	Freehold properties £'000	Leasehold properties under 50 years £'000	Plant vehicles and containers £'000	Fixtures and fittings £'000	Assets under construction £'000	Total £'000
Valuation or cost:						
At 1 July 2006	113,902	5,490	20,470	30,992	3,901	174,755
Additions	16,866	19	2,956	5,023	4,447	29,311
Disposals	(2,114)	–	(261)	(1,056)	(634)	(4,065)
Transfers	3,016	–	–	–	(3,016)	–
At 30 June 2007	131,670	5,509	23,165	34,959	4,698	200,001
Accumulated depreciation						
At 1 July 2006	1,852	1,227	11,394	18,774	–	33,247
Charge for year	313	231	1,872	2,635	–	5,051
On disposals	(37)	–	(213)	(625)	–	(875)
At 30 June 2007	2,128	1,458	13,053	20,784	–	37,423
Net book values						
At 30 June 2007	129,542	4,051	10,112	14,175	4,698	162,578
At 1 July 2006	112,050	4,263	9,076	12,218	3,901	141,508

11 Tangible fixed assets continued

The freehold licensed properties were revalued individually at open market value on an existing use basis as at 28 June 1997 by the Group's own professionally qualified staff. In accordance with the transitional provisions set out in FRS 15, the revalued amounts, adjusted for subsequent disposals, have been retained. Valuations of £61,564,000 are included in the valuation or cost of the freehold properties at 30 June 2007 (2006 – £62,029,000).

If they had not been revalued, freehold properties would have been carried in the balance sheet at 30 June 2007 at:

	2007 £'000	2006 £'000
Cost	105,967	88,199
Accumulated depreciation	(1,495)	(1,213)
Net book amount	104,472	86,986

Included in additions is £24,000 (2006 – £21,000) of own labour capitalised.

The Company has entered into certain operating leases as lessor. The gross cost of assets held for use under these leases amounted to £178,000 (2006 – £176,000) and the related accumulated depreciation charges amounted to £13,000 (2006 – £13,000) and the aggregate rentals receivable amounted to £1,000 (2006 – £1,000).

12 Investments and loans

	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Investments in subsidiaries	–	–	4,152	–
Investment in associated undertaking	8	8	8	8
Loans to customers	2,021	2,241	2,021	2,241
	2,029	2,249	6,181	2,249

a Company investments in subsidiaries

	Cost £'000	Provision £'000	Net book value £'000
At 1 July 2006	–	–	–
Additions in the year	4,152	–	4,152
Total investments	4,152	–	4,152

Principal subsidiary undertakings

	Holding	Proportion Held	Nature of business
Royal Albion Hotel (Broadstairs) Limited	£1 ordinary shares	100%	Hoteliers and Caterers
Caremill Limited	£1 ordinary shares	100%	Publicans

During the year, the entire share capital of the Royal Albion Hotel (Broadstairs) Limited and Caremill Limited was acquired by Shepherd Neame Limited. Both companies are registered in England and Wales. Following acquisition, the trade, assets and liabilities of both companies were transferred to Shepherd Neame Limited. Both companies were dormant at 30 June 2007.

b Group and Company investment in associated undertaking

The Company holds 33.3% of the ordinary share capital of Pubco plc, a company registered in England and Wales. The net book value of this investment at 30 June 2007 was £8,000 (2006: £8,000). The primary activity of this associated undertaking was to raise funds by the issue of loan stock and to on-lend the proceeds to its shareholders. The Pubco plc loan stock and its loans to its shareholders matured on 30 September 2006 and Shepherd Neame Limited repaid its loan from Pubco plc in full on that date. Pubco plc applied for voluntary liquidation on 13 April 2007. No significant profit or loss is expected to be realised when it is liquidated. Pubco plc does not have significant net income or net assets and therefore Shepherd Neame's share of these have not been included in the accounts as the amounts would not be material. The interest payable to Pubco plc is shown in note 4.

c Group and Company – Loans to customers

	2007 £'000	2006 £'000
At 1 July 2006	2,241	2,089
Additions	627	917
Redemptions	(847)	(765)
At 30 June 2007	2,021	2,241

13 Stock

Group and Company	2007 £'000	2006 £'000
Raw materials and consumables	1,541	1,454
Work in progress	452	394
Finished goods including goods for resale	3,549	3,083
	5,542	4,931

The replacement cost of stocks approximates to the value at which they are stated in the accounts.

14 Debtors

Group and Company	2007 £'000	2006 restated £'000
Trade debtors	11,754	11,148
Other debtors	1,210	682
Prepayments	1,909	1,741
	14,873	13,571

£287,000 of loan issue costs in respect of long term bank loans, previously included in prepayments, has been reclassified as a reduction in creditors falling due after more than one year (see note 17).

15 Loan from associated undertaking

Group and Company	2007 £'000	2006 £'000
Loan	–	18,500
Balance of premium received	–	44
	–	18,544

The loan from the associated undertaking, Pubco plc, matured and was repaid on 30 September 2006. The loan was secured by a floating charge over the Company's registered property and assets, which was released on repayment. Interest payable was at a fixed rate of 11.25%. The loan premium received was offset against the loan interest payable in accordance with accounting policy k.

16 Creditors: amounts falling due within one year

	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Trade creditors	7,835	5,243	7,835	5,243
Amounts due to subsidiary undertakings	–	–	4,152	–
Corporation tax	1,604	1,453	1,604	1,453
Other tax and social security	4,149	4,401	4,149	4,401
Accruals and deferred income	4,439	4,353	4,439	4,353
Trade deposits	2,167	1,971	2,167	1,971
Other creditors	193	123	193	123
	20,387	17,544	24,539	17,544

17 Creditors: amounts falling due after more than one year

Group and Company	2007 £'000	2006 restated £'000
Bank loan	50,000	19,000
Less: loan issue costs	(620)	(287)
	49,380	18,713

On 20 April 2007 the Company agreed a revised £70.0m bank loan facility with the Royal Bank of Scotland plc and Lloyds TSB Bank plc comprising a 20 year term loan of £60.0m, of which £50.0m was drawn at the year end, and a five year revolving credit loan of £10.0m, of which £2.0m was drawn at the year end. These loans were secured by a first floating charge over the assets of the Company.

Interest is payable on the 20 year term loan at LIBOR plus a margin of between 0.65% and 1.75%, and on the revolving credit loan at LIBOR plus a margin of between 0.55% and 1.60%, both margins depending on performance against financial covenants.

The undrawn balance of the term loan must be drawn down by 20 September 2007 and the entire loan is repayable in five installments of £1.6m payable every year commencing on 31 December 2021 with the outstanding balance being repayable on 31 December 2026. This gives a repayment profile as follows:

Group and Company	2007 £'000	2006 £'000
Amounts payable in over five years	50,000	19,000

The 20 year term loan is hedged by an interest rate swap contract which is referred to in note 28.

The amount drawn on the revolving credit loan at the year end is repayable within one month and has been included in bank loans and overdrafts.

18 Capital commitments – Group and Company

Contracts for capital expenditure not provided for in the accounts amounted to £1,210,000 (2006 – £343,000).

19 Other financial commitments

Group and Company	Land and buildings 2007 £'000	Land and buildings 2006 £'000
Annual commitments under operating leases which expire:		
Within 1 year	11	11
Within 2-5 years	74	65
After 5 years	1,853	1,801
	1,938	1,877

20 Contingent liabilities

£25,000 remains uncalled on the 33,333 £1 ordinary shares held by the Company in its associate Pubco plc (2006 – £25,000).

The Company has guaranteed a mortgage totalling £53,000 (2006 – £53,000) advanced by a building society to a free trade licensee. The Company has a charge over the mortgaged property, the value of which exceeds the guarantee provided.

21 Provision for liabilities – deferred tax

Group and Company	£'000
At 1 July 2006	3,922
Credited in the year	(179)
As at 30 June 2007	3,743

Analysis of deferred taxation

	2007 £'000	2006 £'000
Accelerated capital allowances	3,787	4,050
Other timing differences	(44)	(128)
	3,743	3,922

Of the £3.7m deferred tax balance at the year end, approximately £0.4m will reverse in the period ending 28 June 2008 and the remaining £3.3m will reverse in the periods ending after 28 June 2008. A number of changes to the UK corporation tax system were announced in the March 2007 Budget Statements, some of which have been substantially enacted and are reflected in these financial statements. Others expected to be enacted in the 2008 Finance Acts had not been substantively enacted at the balance sheet date and therefore are not included in these financial statements.

22 Share capital

Group and Company	2007 £'000	2006 £'000
a Authorised:		
12,874,400 'A' ordinary shares of £1 each	12,874	12,874
68,000,000 'B' ordinary shares of 2p each	1,360	1,360
	14,234	14,234
b Allotted and fully paid:		
11,457,500 'A' ordinary shares of £1 each	11,458	11,458
68,000,000 'B' ordinary shares of 2p each	1,360	1,360
	12,818	12,818

'A' and 'B' ordinary shares have the same rights except that there are restrictions on the transfer of the 'B' ordinary shares as set out in paragraphs 24 to 26 of the Articles of Association.

23 Reserves

Group and Company	Share premium £'000	Revaluation reserve £'000	Own shares held £'000	Profit & loss account £'000	Total £'000
Balance at 1 July 2006 and restated	1,439	16,694	(1,538)	71,581	88,176
Profit for the period	–	–	–	9,292	9,292
Dividends paid	–	–	–	(2,587)	(2,587)
Transfer of realised revaluation	–	(466)	–	466	–
Accrued share-based payments	–	–	–	429	429
Purchase of own shares	–	–	(468)	–	(468)
Distribution of own shares	–	–	136	(136)	–
Unconditionally vested	–	–	355	(355)	–
Balance at 30 June 2007	1,439	16,228	(1,515)	78,690	94,842

204,188 £1 'A' ordinary shares were held at 30 June 2007 with a market value of £3,854,000 (2006 – 196,705 and £2,537,000). 165,296 of the own shares held are allocated to employees under the Share Incentive Plan, of which 63,252 have vested unconditionally and as such are no longer treated as own shares held. These shares cannot be distributed to the employees free of tax (2006 – 160,596 and 37,250 respectively).

24 Reconciliation of movements in shareholders' funds

Group and Company	2007	2006
	£'000	restated
		£'000
Shareholders' funds at the beginning of the year	100,994	95,869
Profit after taxation	9,292	8,116
Ordinary dividends	(2,587)	(2,407)
Accrued share-based payments	429	378
Amounts for pensions charged to reserves	–	(176)
Purchase of own shares	(468)	(786)
Movement during the year	6,666	5,125
Shareholders' funds at the end of the year	107,660	100,994

25 Profit attributable to members of the parent company

A separate company income statement has not been prepared in accordance with Section 230 of the Companies Act 1985.

Profit attributable to members of the parent company was £9,292,000 (2006 – £8,116,000). There was no dividend from subsidiary companies during the current year (2006 – £nil).

26 Directors' interests

The interests of the Directors in the Company's shares at 30 June 2007 (1 July 2006 or date of appointment if later) are as follows:

		'A' ordinary shares			'B' ordinary shares	
		Beneficial	As trustees	Under SIP*	Beneficial	As trustees
J B Neame	2007	65,855	175,910	1,805	1,731,050	772,132
	2006	65,721	199,765	1,645	1,725,100	772,132
O W A Barnes	2007	55,396	–	–	604,930	–
	2006	55,396	–	–	603,030	–
R L Nicol	2007	104,000	356,268	–	368,300	4,387,720
	2006	104,000	356,268	–	367,100	4,381,070
G H A Barnes	2007	15,139	5,835	1,805	52,250	–
	2006	14,792	5,835	1,645	52,050	–
N J Bunting	2007	4,962	–	1,433	–	–
	2006	4,962	–	1,273	–	–
I J Dixon	2007	8,330	–	1,805	–	–
	2006	8,330	–	1,645	–	–
K R Littlefair	2007	–	5,835	1,805	–	–
	2006	–	5,835	1,645	–	–
G R Craig	2007	250	–	–	–	–
	2006	–	–	–	–	–

The beneficial holdings of 'A' ordinary shares includes shares awarded under the Employee Profit Share Scheme that have not been transferred into the Directors' names but are held in trust. The holdings under the SIP were allocated in January 2003, 2004, 2005, 2006, and November 2006, and will be held in trust for a qualifying period of three years before ownership vests unconditionally (see note 27a).

* beneficially held

26 Directors' interests continued

Options over the Company's 'A' ordinary shares held by Directors at 30 June 2007 (1 July 2006 or date of appointment if later) are as follows:

	At 2006	Granted	Exercised	Forfeited	At 2007		Price at exercise date £	Exercise price £	Date from which exercisable	Expiry date
J B Neame	648	–	(648)	–	–	*	18.55	0.0001	26/10/06	31/10/10
	648	–	(486)	(162)	–	**	18.55	0.0100	26/10/06	31/10/10
	381	–	–	–	381	*		0.0001	29/10/07	31/10/11
	381	–	–	–	381	**		0.0100	29/10/07	31/10/11
	–	622	–	–	622	***		1.0000	27/10/09	31/10/13
	–	622	–	–	622	****		1.0000	27/10/09	31/10/13
	2,058	1,244	(1,134)	(162)	2,006					
G H A Barnes	427	–	(427)	–	–	*	18.60	0.0001	26/10/06	31/10/10
	427	–	(320)	(107)	–	**	18.60	0.0100	26/10/06	31/10/10
	250	–	–	–	250	*		0.0001	29/10/07	31/10/11
	250	–	–	–	250	**		0.0100	29/10/07	31/10/11
	–	388	–	–	388	***		1.0000	27/10/09	31/10/13
	–	388	–	–	388	****		1.0000	27/10/09	31/10/13
	1,354	776	(747)	(107)	1,276					
I J Dixon	446	–	–	–	446	*		0.0001	26/10/06	31/10/10
	446	–	–	(111)	335	**		0.0100	26/10/06	31/10/10
	252	–	–	–	252	*		0.0001	29/10/07	31/10/11
	252	–	–	–	252	**		0.0100	29/10/07	31/10/11
	–	388	–	–	388	***		1.0000	27/10/09	31/10/13
	–	388	–	–	388	****		1.0000	27/10/09	31/10/13
	1,396	776	–	(111)	2,061					
K R Littlefair	514	–	–	–	514	*		0.0001	26/10/06	31/10/10
	514	–	–	(128)	386	**		0.0100	26/10/06	31/10/10
	296	–	–	–	296	*		0.0001	29/10/07	31/10/11
	296	–	–	–	296	**		0.0100	29/10/07	31/10/11
	–	466	–	–	466	***		1.0000	27/10/09	31/10/13
	–	466	–	–	466	****		1.0000	27/10/09	31/10/13
	1,620	932	–	(128)	2,424					
N J Bunting	242	–	–	–	242	*		0.0001	26/10/06	31/10/10
	153	–	–	–	153	*		0.0001	26/10/07	31/10/11
	–	308	–	–	308	***		1.0000	27/10/09	31/10/13
	–	308	–	–	308	****		1.0000	27/10/09	31/10/13
	395	616	–	–	1,011					
G R Craig	–	66	–	–	66	***		1.0000	27/10/09	31/10/13
	–	66	–	–	66	****		1.0000	27/10/09	31/10/13
	–	132	–	–	132					
Total	6,823	4,476	(1,881)	(508)	8,910					

* Primary share option rights under the Shepherd Neame 1995 Restricted Share Scheme (see note 27b).

** Performance share option rights under the Shepherd Neame 1995 Restricted Share Scheme (see note 27b).

*** Primary share option rights under the Shepherd Neame 2005 Restricted Share Scheme (see note 27c).

**** Performance share option rights under the Shepherd Neame 2005 Restricted Share Scheme (see note 27c).

The exercise of the primary share options is conditional upon Directors remaining in employment with the Company for three years from the date of grant of the options.

The exercise of the performance share options is conditional upon the achievement of certain performance criteria in the financial years ending in the three years following the grant and upon Directors remaining in employment with the Company for three years from the date of grant of the options.

Performance options in respect of 508 shares held at 1 July 2006 were forfeited during the year on failure to achieve certain performance criteria.

The market price of the shares at 30 June 2007 was £18.875 (1 July 2006 – £12.90) and the range during the year was £12.90 to £19.125 (2006 – £8.75 to £12.90).

27 Share-based payment**a The Shepherd Neame Employee Share Incentive Plan**

The Shepherd Neame Employee Share Incentive Plan (SIP) is open to all employees with 18 months' service at the award date. A free award of shares, based on length of service and salary and subject to a maximum value of £3,000, was made to all eligible employees in January 2003, 2004, 2005, 2006, and November 2006. Participants are entitled to these free shares from three years after the date of the award if they remain in the Company's employment.

During the year the Company purchased 27,532 'A' ordinary shares at an average cost of £16.03 per share (2006 – 48,703 shares at an average cost of £11.45). There are no cash settlement alternatives.

The following table illustrates the number and movements in shares in the year.

	2007 Number	2006 Number
Outstanding shares at 1 July 2006	160,596	144,580
Granted during the year	27,917	38,185
Forfeited during the year	(5,557)	(6,443)
Distributed during the year	(17,660)	(15,726)
Outstanding shares at 30 June 2007	165,296	160,596
Distributable at 30 June 2007	63,252	37,250

The employees do not have to make any payment for the award of shares under the Plan. As such the weighted average exercise price is nil.

The weighted average share price at date of distribution for the shares distributed is £16.909 (2006 – £10.999).

The weighted average fair value of the shares granted during the year was £18.725 per share (2006 – £12.40). The fair value, taking into account the terms and conditions upon which the shares were granted, equates to the market price as at the date of grant.

The expense recognised for share-based payments made under SIP in respect of employee services during the year to 30 June 2007 is £393,000 (2006 – £348,000).

b The Shepherd Neame 1995 Restricted Share Scheme

The Company has operated a restricted share scheme for Senior Managers and Directors, including the highest paid Director and five other Directors.

Under the scheme, primary options were awarded which are exercisable three years after they were awarded. The Directors were also granted additional performance options which are exercisable three years after they were awarded if the Company achieves certain performance criteria in relation to growth of profits in excess of RPI.

The contractual life of each option granted is seven years. There are no cash settlement alternatives.

During the year, the Company purchased 1,938 'A' ordinary shares (2006 – 20,999) at an average cost of £13.47 per share (2006 – £10.88).

The following table illustrates the number and movements in share options in the year.

	2007 Number	2007 Weighted average exercise price	2006 Number	2006 Weighted average exercise price
Outstanding brought forward	19,099	£0.00313	40,488	£0.003257
Exercised	(4,152)	£0.002	(20,295)	£0.036
Forfeited during the year	(627)	£0.01	(1,094)	£0.01
Outstanding options at 30 June 2007	14,320	£0.00315	19,099	£0.00313
Exercisable at 30 June	9,758	£0.00311	7,215	£0.00269

The range of exercise prices for options outstanding at the end of the year was £0.001 – £0.01.

This scheme ceased in October 2005 and no further awards have been made under it since that date.

The expense recognised for share-based payments made under the Shepherd Neame 1995 Restricted Share Scheme in respect of employee services during the year to 30 June 2007 is £22,000 (2006 – £28,000).

The weighted average share price at date of exercise for options exercised is £18.09.

27 Share-based payment continued

c The Shepherd Neame 2005 Restricted Share Scheme

This scheme replaced the 1995 Restricted Share Scheme following its cessation in 2005. The 2005 scheme provides for the grant of primary and secondary share options under similar terms and restricted to the same maximum limits as those that applied to the 1995 scheme. It has been updated to reflect changes in tax legislation and market practice since the 1995 scheme was adopted.

The following table illustrates the number and movements in share options in the year.

	2007 Number	2007 Weighted average exercise price	2006 Number	2006 Weighted average exercise price
Outstanding options at 1 July 2006	–	–	–	–
Granted during the year	7,313	£1.00	–	–
Outstanding options at 30 June 2007	7,313	£1.00	–	–

None of these options were exercisable at 30 June 2007.

The weighted average fair value of the options granted during the year was £17.55. The exercise price for all options outstanding at the end of the year was £1.00.

The fair value of the equity-settled share options granted under the scheme is estimated at the date of grant using the Black-Scholes option pricing model taking into account the terms and conditions upon which the instruments were granted. The following table lists the inputs to the model used for the year ended 30 June 2007. No options were granted in the period ended 1 July 2006.

	2007
Expected share price volatility	12 to 18%
Risk-free interest rate	4.75%
Expected life of option (years)	6.5
Weighted average share price	£17.55

The expense recognised for share-based payments made under the Shepherd Neame 2005 Restricted Share Scheme in respect of employee services during the year to 30 June 2007 is £14,000 (2006 – £nil).

28 Financial instruments

Group and Company

The Group's financial instruments comprise bank loans, loans to customers, cash and short term borrowings. The main purpose of the financial instruments is to raise finance for the Group's operations. The Group has various other financial instruments such as trade debtors and trade creditors, that arise directly from its operations, which have not been included in the following disclosures. It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Group's financial instruments are interest rate risk and liquidity risk. The policies for managing these risks are regularly reviewed and agreed by the Board. The principal financial instruments are denominated in sterling, consequently the foreign currency risk is immaterial and is therefore excluded from these disclosures.

Interest rate risk

Debt is represented by a 20 year term loan, a five year revolving credit loan and a short term committed overdraft facility, all at variable rates of interest based on LIBOR. The interest rate risk on the total facility of £60.0m available under the 20 year term bank loan is fixed by means of interest rate swap contracts which run for the same period as the loan, as disclosed below. Interest on the revolving credit loan and short term overdraft facility is not capped as it is currently Group policy to have short term borrowings on a variable rate basis.

Liquidity risk

It is currently the Group's policy to finance the majority of its business needs by means of a long term bank loan of £60.0m of which £50.0m was drawn at the year end. The balance of its requirement is financed through a five year revolving credit loan facility of £10.0m, which matures in April 2012 and a committed overdraft facility of £5.0m which matures in April 2008. The size of the facilities is regularly reviewed and the overdraft facility is renewed annually. At the year end £2.0m (2006 – nil) of the revolving credit loan facility and £2.1m (2006 – £2.8m) of the overdraft facility was being utilised.

28 Financial instruments continued**Financial assets**

The Group also funds certain free trade customers with loans. At the balance sheet date these loans amounted to £2,021,000 (2006 – £2,241,000).

The maturity profile of these assets is:	2007	2006
	£'000	£'000
Recoverable < 1 year	116	187
Recoverable 1-5 years	615	320
Recoverable > 5 years	1,290	1,734
	2,021	2,241

Of these loans £554,000 is expected to be repaid in cash and £1,467,000 is expected to be repaid by volume discounts earned by the customer (2006 – £675,000 and £1,566,000 respectively).

The level of discounts awarded, and the interest and fees charged, depends on the trading performance of each customer against individual targets.

Interest rate profile

The interest rate profile of the borrowing is:

	2007 Notional principal £'000	2007 Weighted average interest rate (%)	2007 Weighted average period for which rate fixed (years)	2006 Notional principal £'000	2006 Weighted average interest rate (%)	2006 Weighted average period for which rate fixed (years)
Loan from associated undertaking	–	–	–	18,500	10.29	0.25
Bank loan	50,000	5.76	19.75	19,000	5.97	18.40

Short term borrowings outstanding at 30 June 2007 amounted to £4,112,000 (1 July 2006 – £2,837,000) and bear interest at between 0.55% and 1.60% above National Westminster Bank base rate which was 5.5% at 30 June 2007 (2006 – 4.5%).

Fair values of financial assets and liabilities

Loans to the free trade (see note 12c) are financial assets carried at book value in the balance sheet. It is not practicable for the Group to estimate the fair value of the assets with sufficient reliability as the cash flows inherent in them relate to improved sales revenue in future years, the timing of which cannot be determined.

Set out below is a comparison by category of book values and fair values of all the Group's other financial assets and liabilities.

	Book value 2007 £'000	Fair value 2007 £'000	Book value 2006 £'000	Fair value 2006 £'000
Primary financial instruments:				
Fixed rate loan from associated undertaking	–	–	(18,544)	(18,778)
Variable rate bank loan	(50,000)	(50,000)	(19,000)	(19,000)
Short term borrowings	(4,112)	(4,112)	(2,837)	(2,837)
Cash	96	96	93	93
Derivative financial instruments held to manage the interest rate profile:				
Interest rate swap – deferred	–	(2,282)	–	(1,064)

The fair values have been calculated with reference to the expected future cash flows at prevailing interest rates.

The objective of the Group to fund its operations through long term borrowings hedged by interest rate swap contracts has been achieved in the year.

29 Pension commitments

Group and Company

a Current arrangements

The Company operates two defined contribution schemes. The assets of the schemes are held separately from those of the Company in independently administered funds. The charge for pension cost represents contributions payable by the Company to the funds and amounts to £803,000 (2006 – £736,000). Contributions of £100,000 (2006 – £96,000) were payable to the scheme at the year end. All Executive Directors are members of one of the Company's defined contribution schemes.

The Company also meets the pension costs of certain former employees which have not been funded through the pension schemes. The amount of this unfunded liability is not significant.

b Mr SFB Neame/FRS 17

The following note is included for comparative purposes only. The liability in relation to Mr SFB Neame's pension scheme was settled during the previous year and as such there is no further liability under this scheme. For this reason, it has not been considered necessary to disclose the actuarial assumptions. As the scheme is now redundant, there is no pension liability at the year end, nor are there any amounts recognised in the consolidated statement of recognised gains and losses for the current period.

Movement in deficit during the year

	2007 £'000	2006 £'000
Shortfall at the beginning of the year:	–	(407)
Settlement	–	663
Other financial cost	–	(5)
Actuarial loss	–	(251)
At the end of the year	–	–

Analysis of amount charged to other financial income

	2007 £'000	2006 £'000
Expected return on pension scheme assets	–	63
Interest on pension liabilities	–	(68)
Net finance cost	–	(5)

Amount recognised in the statement of total recognised gains and losses

	2007 £'000	2006 £'000
Actual return less expected return on pension scheme assets	–	131
Experience gains and losses arising on the present value of the scheme liabilities	–	(382)
Actuarial loss recognised in statement of total recognised gains and losses	–	(251)

History of experience gains and losses

	2007 £'000	2006 £'000	2005 £'000	2004 £'000	2003 £'000
Difference between the expected and actual return on scheme assets:					
Amount £'000	–	131	100	(38)	(98)
Percentage of scheme assets	–	–	6%	(3%)	(7%)
Experience gains and losses on scheme liabilities:					
Amount £'000	–	(382)	(100)	–	131
Percentage of scheme liabilities	–	–	(5%)	0%	8%
Total amount recognised in statement of total recognised gains and losses:					
Amount £'000	–	(251)	(22)	9	(28)
Percentage of scheme liabilities	–	–	(1%)	1%	(2%)

Financial Calendar

2007

30 June Financial year end
 5 October Shares traded ex-dividend
 10 October Record date for final dividend *
 26 October Annual General Meeting and payment of final dividend
 29 December Half year end

2008

March Announcement of interim results
 March Record date for interim dividend
 April Payment of interim dividend
 28 June Financial year end
 Early October Preliminary results announcement
 Early October Annual results to be mailed
 Late October Annual General Meeting
 27 December Half year end

* Shareholders on the register at this date

Company Advisors

Registrars

Computershare Investor Services plc
 PO Box 82
 The Pavilions, Bridgwater Road
 Bristol
 BS99 7NH
 Tel: 0870 702 0000
 Dedicated Shareholder Tel: 0870 707 1291

Financial PR

Gavin Anderson & Co
 85 Strand
 London
 WC2R 0DW

Auditors

Ernst & Young LLP
 1 More London Place
 London
 SE1 2AF

Bankers

National Westminster Bank plc
 13 Market Place
 Faversham
 Kent
 ME13 7EF

Stockbrokers

JP Morgan Cazenove Limited
 20 Moorgate
 London
 EC2 6DA
 Tel: 020 7588 2828

James Sharp & Co
 Exchange House
 39 Knowsley Street
 Bury
 Lancashire
 BL9 0ST
 Tel: 0161 764 4043

NOTICE OF MEETING

Notice is hereby given that the ninety-third Annual General Meeting of the Company will be held at the Brewery, 17 Court Street, Faversham on 26 October 2007 at 12 noon for the following purposes:

Resolution 1

To receive the Annual Report and Accounts and the reports of the Directors and Auditors thereon.

Resolution 2

To declare a Final Dividend upon the 'A' and 'B' ordinary shares.

Resolution 3

To propose the re-election of Mr J B Neame as a Director.

Resolution 4

To propose the re-election of Mr K R Littlefair as a Director.

Resolution 5

To propose the re-election of Mr G H A Barnes as a Director.

Resolution 6

To reappoint the Auditors and authorise the Directors to fix their remuneration.

Resolution 7

To propose as a Special Resolution that the regulations contained in the document produced to the meeting and signed by the Chairman for the purposes of identification be adopted as the Articles of Association of the Company in substitution for and to the exclusion of the existing Articles of Association.

By Order of the Board

F J Lester
Secretary
17 Court Street
Faversham
Kent

3 October 2007

Members entitled to attend and vote are entitled to appoint a proxy to attend and to speak and vote instead of them and that proxy need not also be a member.

FIVE YEAR FINANCIAL SUMMARY

	2007 £'000	2006 (as restated) £'000	2005 (as restated) £'000	2004 £'000	2003 (as restated) £'000
Profit and loss					
Turnover	100,047	95,343	91,354	90,328	84,529
Operating profit before exceptional items	13,851	12,951	12,109	11,999	10,951
Net finance charges	(3,326)	(3,373)	(3,081)	(2,987)	(2,663)
Exceptional charges	(1,984)	–	–	(1,466)	–
Profit on sale of property	3,031	1,627	841	1,350	446
Profit on sale of investment	–	–	–	406	–
Profit before taxation	11,572	11,205	9,869	9,302	8,734
Taxation	(2,280)	(3,089)	(2,513)	(2,564)	(2,674)
Earnings available to shareholders	9,292	8,116	7,356	6,738	6,060
Dividends					
Interim and finals for the year	(2,748)	(2,556)	(2,375)	(2,248)	(2,089)
Percentage on shares	21.5%	20.0%	18.6%	17.6%	16.3%
Dividend cover	3.4	3.2	3.1	3.0	2.9
Earnings per £1 nominal share value (p) based on:					
Earnings available to shareholders	73.4	64.2	58.1	53.0	47.3
Earnings (excluding exceptional items)	60.5	51.3	51.3	50.7	43.8
Shareholders' funds employed					
Share capital	12,818	12,818	12,818	12,818	12,818
Share premium	1,439	1,439	1,439	1,439	1,439
Revaluation reserve	16,228	16,694	16,852	17,314	17,547
Revenue reserves	77,175	70,043	64,760	57,477	53,052
	107,660	100,994	95,869	89,048	84,856
Represented by assets					
Fixed assets	164,771	143,959	138,513	132,027	121,246
Current assets	20,511	18,595	18,329	16,101	15,295
	185,282	162,554	156,842	148,128	136,541
Liabilities					
Short term	24,499	38,925	19,348	26,595	19,390
Long term	49,380	18,713	37,722	28,900	29,078
Provisions	3,743	3,922	3,903	3,585	3,217
	77,622	61,560	60,973	59,080	51,685
Net assets	107,660	100,994	95,869	89,048	84,856
Net assets per share (£)					
	8.40	7.88	7.48	6.95	6.62

The summary has not been restated for years prior to 2006 for the adoption of FRS 20 or prior to 2005 for the adoption of FRS 17 and FRS 21.

More than 200 of our pubs are listed buildings or in conservation areas, a unique heritage.

Shepherd Neame Limited
17 Court Street
Faversham, Kent
ME13 7AX

Tel 01795 532206
Fax 01795 538907
Email company@shepherdneame.co.uk
www.shepherdneame.co.uk