

Shepherd Neame Limited

Annual report 09

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.

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Financial highlights

Turnover

2009

£109.5 million

2008

£101.7 million

Operating profit before exceptionals

2009

£9.5 million

2008

£12.6 million

Profit before tax

2009

£6.9 million

2008

£8.7 million

Earnings per £1 share

2009

44.7 pence

2008

49.3 pence

Dividend per £1 share

2009

22.45 pence

2008

22.45 pence

Net assets per share

2009

£8.93

2008

£8.67

Key milestones of 2009

- The acquisition of 15 high turnover pubs at attractive prices.
- The installation of a new bottling line.
- The implementation of the SAP IT system.

Key milestones in the Brewery's history

1147

Faversham Abbey

Faversham Abbey founded by King Stephen. The monks' brew-house was established just yards from the present brewery site.

1570

Faversham Brewery

John Castlocke transferred brewing from the Abbey to the present brewery site.

1732

Samuel Shepherd

Samuel Shepherd married the widow of Richard Marsh and took over the brewery. He acquired two tied pubs.

Public houses: 2

1844

Shepherd's Brilliant

Henry Shepherd ran the brewery in partnership with his brother-in-law, John Henry Mares.

Production: 12,000 barrels a year

Public houses: 37

1327

Faversham Tallage

Brewing in Faversham was carried on by at least 86 women, known as 'ale wives'. They are named in a town tax list.

1698

Richard Marsh

Richard Marsh leased the brewery from the Castlocke family and then bought it outright in 1698.

1789

Steam Power

Julius Shepherd modernised the brewery with the first 'Sun and Planet' steam engine to be fitted to a brewery outside London.

Production: 5,000 barrels a year

Public houses: 29

1876

Henry Shepherd Jnr

Henry Shepherd Jnr died and his family sold their share in the brewery to Percy Beale Neame, who became the sole proprietor.

Production: 42,000 barrels a year

Public houses: 98

1936

Mechanisation

Shepherd Neame gave up hand bottling and invested considerable sums in extending, updating and mechanising the bottled beer department.

Production: 67,000 barrels a year

Public houses: 120

1990

Spitfire

Spitfire ale was first produced to commemorate the 50th anniversary of the Battle of Britain.

1899

Bottling

Shepherd Neame established its own bottling plant in the brewery in response to growing demand for bottled beers.

Production: 40,000 barrels a year

Public houses: 110

1864

Percy Beale Neame

Percy Beale Neame joined the firm as a partner, forming Shepherd Neame & Co. The brew-house was rebuilt.

Production: 27,000 barrels a year

Public houses: 129

1958

Bishops Finger

Bishops Finger was first produced. The beer was named after a Kentish signpost pointing the way to the tomb of Thomas à Becket.

2004

Production Upgrade

Installation of new keg plant and opening of new distribution centre.

“The recession has presented an excellent opportunity to acquire some very high quality pubs at attractive prices.”

Miles Templeman Chairman

Chairman's statement

Results

This has clearly been one of the most challenging and difficult years in the Company's long and successful history. The UK economy has suffered greatly and this has had an impact on our performance. However, we are already seeing the benefits of the investment and management action taken over the last year to reduce our cost base, improve our efficiency and enhance the quality of our pub estate. The recession has also presented an excellent opportunity to acquire some very high quality pubs at attractive prices.

Our brands and core pub estate have generally performed well in this challenging market and our continued investment in the Company has strengthened our ability to grow as the economy recovers.

Our trading has been resilient with turnover up by 7.6% to £109.5m but our profit before tax is down 20% to £6.9m.

Operating profit before exceptionals has fallen from £12.6m to £9.5m. We have also recognised a number of exceptional charges.

We went live with the SAP system at the start of the financial year and incurred costs of £0.3m for consulting and other support in the period immediately thereafter.

We have carried out an impairment review on all our pub assets and recognised a charge of £0.5m in respect of five pubs, of which four were acquired in 2006 and 2007.

We also undertook a company reorganisation and redundancy programme at a cost of £0.8m.

Basic earnings per share were down 9.3% to 44.7p. Earnings per share before exceptionals are 32.6p, compared with 48.6p in 2008.

Capital Expenditure and Financing

Total capital expenditure was £28.0m. Our principal investment was the acquisition of 13 Punch pubs for £14.8m. We disposed of the freehold of 14 pubs raising cash proceeds of £7.2m. This investment and disposal is in line with our long term strategy of

buying higher end pubs with excellent facilities and selling our smaller pubs to improve quality over time.

The Punch purchase was financed by a new five year term loan of £15m arranged by The Royal Bank of Scotland and Lloyds Banking Group plc. At the same time, the Company's existing £10m revolving credit facility has been extended from 2012 to 2014. The pricing of the existing £60m term loan, maturing in 2026, remains unchanged. We retain a strong balance sheet following the acquisition and a robust long term financing package.

Dividends

A final dividend of 17.90p per £1 'A' ordinary share and 0.36p per 2p 'B' ordinary share has been proposed by the Board, giving total dividends for the year of 22.45p per £1 'A' ordinary share (2008: 22.45p) and 0.45p per 2p 'B' ordinary share (2008: 0.45p).

The final dividend will be paid on 30 October 2009 to shareholders on the register as at the close of business on 14 October 2009.

The Market

The market for beer and pubs has faced enormous pressures in recent years. The cumulative effect of the smoking ban, punitive duty rates, cost inflation and the recession has accelerated changes that were already happening in consumer behaviour and lifestyles.

National beer consumption is falling. In the year to June 2008 it fell by 2.8%, and to June 2009 by 7.0%. It is likely to continue to fall albeit at a slower rate. The decline in the On Trade has been steepest, with a fall of 8.3% in 2008 and 7.3% in 2009. Nationally, this is the sharpest contraction in pub volumes since the 1930s and, for the first time this year, draught beer sales account for less than 50% of total UK beer sales.

The first year of the smoking ban (2007/08) was always likely to be the worst, but recent research indicates that 45% of consumers are, in fact, positive about the ban and are now more likely to visit pubs, although a similar number at present are going to pubs less often than a year ago as households cut back on expenditure. Regular consumers in particular are now

much more likely to buy their alcohol in supermarkets than two years ago (source: A C Nielsen).

Those pubs which rely mostly on drinks with a limited range of facilities or entertainment have had to pass on duty and cost increases to consumers at a time of increased price sensitivity and of heavy discounting by the supermarkets. As a consequence the national rate of pub closures has accelerated to more than 50 per week.

Business Review

Beer sales will in future increasingly be concentrated in fewer and better pubs; speciality ale and lager are likely to continue to out-perform the market.

In many ways the recession has only accelerated the pre-existing market trends and reaffirmed that an integrated strategy with a focus on quality and value in our brands and pubs, with a strong regional presence, is the right direction for the future.

Our overall profit this year was adversely affected by factors which have cost us in the short term but are not expected to recur in the coming year.

The operating profit margin has reduced from 12.3% to 8.7%. Our sales have grown particularly strongly in the National Off Trade but in this year our raw material, production and overhead costs were at a peak. We expect margins to improve in 2009/10.

With a strengthened sales force we were able to build our position in the growing Off Trade sector, albeit with lower margins than in our more traditional business. This market trend is likely to continue and we are focused on the opportunity to drive sales in our bottled beers. This sales growth has given us much increased distribution and a strong platform to build on.

We have faced extra short term costs to meet this high demand but a new bottling line will enable us to supply the market more effectively in the future.

In the pub market existing trends have become even more accentuated by the recession. Good quality pubs, whether managed or tenanted, are doing well but some smaller pubs have declined significantly. In our case the decline in the bottom 10% of our pubs has impacted our overall performance and consequently we are taking action to dispose of up to 35 pubs in the next two to three years according to market conditions. This programme is well underway and we are achieving satisfactory disposal prices as demonstrated by profit on book value seen to date.

The major IT and business process programme we have been engaged in for the last three years has continued to place significant demands and costs on the business. The system is now working well and we can now begin to exploit the benefits to make our business more efficient and better able to respond to the fast-changing marketplace.

Auditors

In accordance with good practice, the Audit Committee has conducted a tender process for audit services. As a result of this process, Deloitte LLP have been appointed as auditors and tax advisers. We would like to thank Ernst & Young for the service they have given the Company over many years.

Summary

Despite the difficult trading conditions and profit downturn this year, we have made an encouraging start to the new year. However, we must remain cognisant of the continuing uncertainty over the general economic outlook in the short term but we remain confident in the quality of our pub estate, the strength of our brands, our overall market position and our future prospects.

M H Templeman
Chairman

Bishops Finger – now in its 50th year of production – saw volume growth of 14%.

“This has been a year of strong sales and significant achievement but we have incurred high short term costs. We have made an encouraging start to the new year.”

Jonathan Neame Chief Executive

Chief Executive's review

Overview

This has been a year of strong sales and significant achievement but we have incurred high costs which have resulted in lower profits.

Milestones of particular note this year include the acquisition of 15 high turnover pubs at attractive prices, the installation of a new bottling line and the completion of our SAP IT project.

Key sales indicators are strong: turnover is up 7.6%; total beer volume is up 6.3%; like-for-like managed sales are up 1.6% and tenanted sales revenue was up 0.4%.

Our operating profit before exceptional items however has declined by £3.1m for a variety of reasons:

- Raw material unit costs have again increased substantially;
- Sales declined in the bottom 10% of our tenanted estate and bad debts increased;
- We exceeded our bottle plant capacity and had to outsource;
- We have experienced high overhead costs as we restructured the business.

These issues are short term, non-recurring or, as a consequence of the actions set out below, should reduce substantially in 2009/10.

Key Management Actions

Our managed house and core tenanted estate have performed well in this difficult market. The estate has been further strengthened by this year's acquisitions. We have identified 35 pubs that we consider are non-core and will be disposed of in due course to help fund the purchase. These transactions will strengthen our estate in accordance with our long term strategy.

The premium bottled ale (PBA) market has grown substantially and this is forecast to continue. We have taken advantage of this trend and built a strong market position whilst the opportunity exists. Our total bottled sales have grown by 29% but this volume has exceeded the capacity of our old plant by 25%. The additional cost of meeting this demand was £0.5m. This will not recur in the coming year, as we have installed a new higher speed bottling line.

We went live with the SAP system at the start of the financial year. This implementation has not been without its challenges and has been costly but the transition is now successfully completed. This, together with our new bottling line, will provide us with a first-class platform with which to drive further cost reduction in the business.

In completing the redirection of our business we carried out a reorganisation of roles in May 2009 which resulted in a number of positions being made redundant at a total exceptional cost of £0.8m. We estimate that overheads in 2009/10 will reduce by £1m as a result.

Outlook and Current Trading

We have enjoyed an encouraging start to the new financial year and we can already see the benefits of the actions that we have taken. Like-for-like retail sales in the first nine weeks are up 2.7%. Beer volume, and in particular our bottled sales, have

This year we purchased 15 new pubs, including the Jamaica Wine House in Cornhill, the City of London.

We were scored as the “Best Overall Pub Retailer” and “Best Retailer for Quality of Serve”.

Chief Executive’s review (continued)

continued to grow. Our new pubs are performing well and our raw material costs and overheads are reducing in line with expectations. We have made good progress in disposing of our non-core estate.

Pub Business

At the year end, our estate comprised 49 managed and 331 tenanted and leased pubs.

Our total tied trade beer volume was down 4.6% year on year, against an On Trade market decline of 7.3%.

Our retail performance was strong with total revenue up 2.1% and margins have been maintained. Like-for-like sales for the year ended 27 June were up 1.6% with liquor up 2.8%, food up 0.4% and accommodation down 4.1%. The last 13 weeks of the year were the strongest with total like-for-like sales up 2.8% and this improvement has continued into the new year. The London market has again proved remarkably resilient and our like-for-like sales for the year were up 2.7%.

We have carried out a full review of our food purchasing and menu development during the year which was implemented in March. This has resulted in an improved offer to our customers. Following this we enjoyed 3.4% like-for-like sales growth in the final quarter and an uplift in margin. This has also continued into the new year.

The weakest part of our retail business was accommodation sales which were poor during the worst of the economic downturn in the winter.

I am pleased to advise that in the recent industry-wide HIM *OnTrack* survey we were scored as the “Best Overall Pub Retailer” and “Best Retailer for Quality of Serve”.

Our tenanted trade revenue was up 0.4%. Like-for-like EBITDA per pub fell by only 3.3%, a strong performance compared to many of our peers. Excluding the 35 pubs identified for disposal the like-for-like EBITDA per pub in our core tenanted estate fell by 2.0%.

Rental and wholesale income were marginally down on last year, but AWP machine income has been declining for several years and was down again by 12.9%. Bad debt increased by £0.3m as the banks withdrew or restricted their facilities to many licensees during the worst period of the credit crisis.

We decided to support our tenants through this difficult economic period with increased investment in promotional activity and a £0.5m increase in revenue investment in external decorations.

We have reviewed our support services and carried out independent research with our licensees. The results are generally favourable, particularly with regard to the quality of advice and support from our Business Development Managers.

In the coming year we will further enhance the support we provide to our tenants with the introduction of online advisory and marketing services, development of a new website to improve pub and accommodation marketing and further traffic building promotional activity.

Since the year end we have announced a price freeze on own brewed products to our licensees until 2011, together with a scheme to match investment in their business pound for pound up to £25k. In addition we have made the popular Late Red ale exclusively available in our pub estate all year round. These initiatives have been very well received.

Sales in the National
Off Trade have been
particularly strong with
revenues up by 58%.

We enjoy a 6% share of the total PBA market. Both Spitfire and Bishops Finger are in the top 10 brands.

Chief Executive's review (continued)

We have acquired 15 new pubs, of which 13 are freehold and two leasehold. Of these, five are managed: The Old Jamaica Wine House and Westminster Arms in central London; The Crown, Blackheath and The Star and The Britannia in Guildford.

The 13 freeholds were acquired in a single transaction from Punch Taverns plc of which 10 are trading under lease agreements. These pubs have high barrelage and high food turnover and were individually selected to give us improved representation in the wealthier areas of Greater London, Surrey and Essex. The pubs were acquired for £14.8m before expenses and are expected to generate in excess of £1.9m EBITDA in the first full year to June 2010.

We have also acquired one site for conversion into a licensed premises: the Repton Manor Barn which is part of a major retail and residential development in Ashford. This will open as a managed house in 2011.

During the year we disposed of the freehold of 14 pubs, for total proceeds of £7.2m at a profit of £3.0m including one transaction where we sold the freehold of four low yielding pubs which we have leased back and acquired the freehold of one other that had previously been leased. Since the year end we have a further 13 properties contracted or under offer for sale for gross proceeds of £3.4m.

Brands

Our beer sales volumes grew by 6.3% to 264,000 barrels.

The star performer was again Asahi Super Dry which grew by 38% with growth in keg and bottle in all channels. The brand enjoys good distribution in key metropolitan areas, in bars, restaurants and nightclubs. Its reputation is very strong and the brand enjoys premium pricing. At this stage in its lifecycle we are investing heavily in advertising, promotions and brand activity. We believe sales of this brand will continue to grow into 2010 and beyond.

Total sales of Spitfire were flat. We have seen growth in National Off sales but a decline in cask as many national customers have traded down. In August 2009 we reduced the ABV on draught to 4.2% to reposition the brand to sit alongside other premium ales.

Bishops Finger, now in its 50th year of production, enjoyed growth of 14%. Newer brands, such as Canterbury Jack and Whitstable Bay, have also performed well but off a smaller base.

Sales in the National Off Trade have been particularly strong with revenues up by 58%. We have outperformed this growing market and now enjoy a 6% share of the total PBA market. Both Spitfire and Bishops Finger are in the top 10 brands.

Local Free On Trade sales were strong with total revenues up by 9%. We have increased distribution within our heartland and our enlarged salesforce has won a substantial number of new accounts.

National On sales have, however, fared less well, with many of our key customers experiencing decline. As part of the Company reorganisation we have consolidated the field salesforce of our National Sales businesses under the same management.

Brewery

Since 2004 we have fully redeveloped and modernised our production and distribution facilities. This period of investment is now complete.

The new bottling line
was fully commissioned
in July 2009.

We have won four gold medals in the prestigious Monde World Selection Awards.

Chief Executive's review (continued)

The task in the brewery has changed to reflect the opportunities in the marketplace. Bottle sales now account for more than 40% of total sales, up from 33% last year.

The new bottling line was fully commissioned in July 2009. The investment included the installation of a new filler, flash pasteuriser, and a high speed packer. This follows our investment in a new palletiser/de-palletiser in 2007/08. We have reconfigured existing equipment to improve throughput. We have increased the capacity to meet demand, improved the packaging quality and reduced energy utilisation. As part of this project we have also upgraded our electrical network and CO₂ capacity and converted all bottle products to lightweight glass. The total project was completed at a cost of £3.5m.

We went live with the new SAP system at the beginning of the year. After difficulties in the first few months post implementation, we have begun to see the benefits of an integrated and robust information platform. We have now far greater visibility and control on the business. One of the early benefits is that we have managed to reduce inventory levels by more than £1m, maintain stock availability and improve the freshness of our product in the supply chain. Another of the early benefits is greater efficiency in the way we load drays and plan distribution routes.

Raw material unit costs were again very high, up 67% per unit since 2005/06. However, we are now seeing prices come down and expect overall unit costs of production to reduce in 2009/10.

Throughout the year, beer quality has been excellent. We have won four gold medals in the prestigious Monde World Selection Awards. Spitfire achieved a Grand Gold Award and Bishops Finger a Gold. Kingfisher won two Gold Awards.

Summary

This year the Company has faced significant challenges posed by the economic downturn, the underlying changes in the market place and implementing SAP and upgrading the bottling line simultaneously. This has made the management of the business unusually demanding.

The brewery and pub estate is well invested. We have taken positive action to redirect parts of our business and believe that many of the factors influencing this year's result are temporary or short term. The objective for the new year is to consolidate and build from this platform. We firmly believe that the investment and strategies we have put in place will allow shareholders to benefit in the medium term.

I would like to pay particular tribute to the management team for steering the Company through this challenging period and I would like to thank our staff and licensees for their hard work, commitment and adaptability to change.

J B Neame
Chief Executive

In 2009 Shepherd Neame has faced major challenges in the market and seen major changes in the Company. The brewing and pub business is very different to the time when Shepherd Neame was established. Chief Executive Jonathan Neame discusses the state of the industry today.

Market overview

Q. Why is alcohol consumption increasing in the UK?

A. It is not; in fact, it is declining. Contrary to common perception, total UK alcohol consumption has fallen by over 6% since 2004. Average consumption by men fell from 15.9 units per week in 1997 to 15.2 units in 2007 and dropped a further 4.3% in 2008. Average consumption by women grew from 6.9 to 7.9 units per week in 2000 but fell back to 6.8 in 2007 and saw a further 22% reduction in 2008. Consumption amongst the young is sharply down. However, within this mix, alcohol-related liver disease has steadily increased since the mid 1980s partly as a consequence of alcohol misuse amongst a small minority and partly a shift in consumption pattern from lower alcohol beverages such as beer to higher strength wine, cider and vodka.

The British, in fact, drink far less than their EU neighbours and of 20 EU countries where comparable data is available, the UK ranks only 14th in alcohol consumption per head. On average, Britons drink 17% less than the French and 19% less than the Germans (source: BBPA). The vast majority of individuals drink responsibly and in moderation, and the vast majority of licensees are responsible individuals.

Q. What can be done to stop "binge drinking" and alcohol misuse?

A. The Government has come up with a variety of initiatives, some of which we fully support and others we think go too far. Blanket measures will not be as effective as targeted local enforcement and improved education. Essentially we believe that individuals must take responsibility for their own behaviour but must be provided with all the relevant information and awareness to do so.

We fully support the Drinkaware Trust and are a founding signatory in the Campaign for Smarter Drinking that also has the full support of the Home Office and the Department of Health. We operate the Challenge 21 initiative to tackle underage drinking. However, we do not support the proposed Mandatory Code of Practice for Alcohol Retailers as we believe this imposes further unnecessary cost and administrative burden on responsible licensees. There is already a significant array of controls within the law. We believe that the Government should enforce existing laws rather than create new ones.

Q. Excise duty has gone up by 20% since March 2008 and is scheduled to increase by 2% above inflation each year to 2012/13. Is this the right way to control alcohol misuse?

A. The purpose of taxation is to raise revenue. In spite of these very significant increases, HM Treasury has not increased its tax take on beer.

Beer tax in the UK is already the third highest in the EU and beer has seen significant increases since 1997. We find it hard to understand why the lowest alcohol product – beer – has such an unfavourable regime when compared to hard liquor such as vodka or high strength cider. We believe that social and economic policy would be better served by having a more favourable tax regime for lower alcohol beverages such as beer, and in particular cask ale, which can only be consumed in the controlled environment of a pub.

Q. Why does beer deserve special treatment?

A. Beer is our national drink. Beer is almost exclusively produced from UK raw materials such as hops and barley. Beer is far more labour intensive to produce and distribute than other forms of alcohol. Cask ale is unique to Britain.

Q. More than 50 pubs per week are closing in the UK. Why is this happening?

A. Declining On Trade consumption is a trend seen in most mature beer markets around the world. Long term socio-economic trends stimulated the market in the 1970s and 1980s. These have now reversed to take us back to the levels of total consumption last seen in the 1960s. At the peak of the market in 1979, there were 70,000 pubs in the UK; there are now 53,000. The rate of pub closures is accelerating as a result of recent legislation such as the smoking ban, as well as high operational costs, including utilities and rates. There have been 299 pieces of regulation since 1997 which have had a cumulative adverse effect on the ability of small pubs to compete. Furthermore, every time duty goes up, pubs have to pass that on to their customers whilst supermarkets are big enough to absorb the cost. Thereby the price differential increases between the two.

Q. Some campaigners believe that the tied house system is to blame for the decline of pubs and needs urgent reform. Do you agree?

A. The Tie is a flexible and varied business model. The model offers a very low cost entry into the business.

There are many different types of agreement in existence. Good operators are constantly evolving and adapting their agreements to reflect the changes in the marketplace. We are continuously looking at ways of enhancing the service and support we provide to our licensees and have recently introduced several favourable amendments. The Tied House System is currently under review by both the UK and EU Competition Authorities with consultations set for 2010. Even opponents of the current system recognise that the Tie as operated by many small and regional brewers can be of considerable benefit to licensees and consumers.

Q. Why do pubs deserve special treatment?

A. Pubs are the heart of the local community and often the last remaining social amenity. They are good for jobs and good for tourism. Furthermore pubs are licensed and regulated environments where the livelihood of the licensee is dependent on them keeping an orderly house. In previous recessions eating and drinking out have historically been one of the first sectors to recover, generating significant employment opportunities

and investment. This was undoubtedly the case after the 1991 recession and I hope the Government will give this sector a chance to grow as the economy recovers.

Q. What future trends do you anticipate in the market and how can Shepherd Neame benefit from the opportunities that this creates?

A. The On Trade market for beer will continue to decline but at a slower rate and the number of outlets will contract accordingly. The best pubs in each area are likely to thrive in these conditions as weaker competition closes. We are very focused on buying and developing premium outlets and disposing of those most exposed to market forces. We firmly believe in retaining a strong local franchise in Kent, but we also see opportunities for expanding our beer sales away from traditional outlets and building our presence in restaurants, bars and supermarkets on a national basis. Our recent investments in new pubs, plant and salesforce give us the platform to succeed.

MAINTAINING OUR PROFILE

Sustainable development

Marketplace

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

- We won the 2008 Kent 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 are founding signatories for the Campaign for Smarter Drinking

Workplace

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

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

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 ISO 14001 for Environmental Best Practice
- We have reduced our water consumption to one of the lowest in the industry
- We are investing to reduce energy usage
- 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 support local food producers and thereby reduce food miles
- We use lightweight glass and packaging in our new bottling line

Community

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

- Faversham Hop Festival
- Annual Hop Blessing Service
- Various sporting, social and community events throughout Kent
- We raise money through a variety of initiatives associated with the Spitfire brand for the RAF Benevolent Fund, Battle of Britain Memorial Trust and other service charities
- We have a Next Generation programme to engage and involve members of the Neame family in the activities of the Company

Board of directors

President

Company Secretary

1. M H Templeman (61)

CHAIRMAN

CHAIRMAN OF THE NOMINATION COMMITTEE

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, where he was responsible for developing Stella Artois into the leading premium lager in the UK. In 2001 he took up a variety of directorships and consultancy roles. He is currently Director General of the Institute of Directors and a Non-Executive Director of Melrose plc.

2. J B Neame (45)

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 and Chairman of the Future Beer Group of the British Beer & Pub Association.

3. R L Nicol (62)

NON-EXECUTIVE DIRECTOR

PENSION TRUSTEE

Appointed to the Board in November 2003. He is a retired Scottish qualified solicitor and previously served in the Scots Guards. He has other business interests in agriculture, forestry, insurance and leisure.

4. J H Leigh-Pemberton (52)

NON-EXECUTIVE DIRECTOR

CHAIRMAN OF THE AUDIT COMMITTEE

Appointed to the Board in September 2004. He is Chief Executive of Credit Suisse UK. He is also a Non-Executive Director of RIT Capital Partners plc.

5. O W A Barnes (58)

NON-EXECUTIVE DIRECTOR

CHAIRMAN OF THE REMUNERATION COMMITTEE

Appointed to the Board in October 2005. He is a consultant to the City law firm Travers Smith where he was previously a partner for over 25 years. He is a member of the Law Society's Company Law Committee.

6. K R Littlefair (62)

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. G H A Barnes (55)

PROPERTY AND TENANTED

TRADE DIRECTOR

Joined the Company in 1978. He is a chartered surveyor and was appointed to the Board in January 2001. He is also a Director of the Institute of Licensing.

8. N J Bunting (42)

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. He is a Non-Executive director of Davy & Co Ltd.

9. G R Craig (38)

SALES AND MARKETING DIRECTOR

Joined the Company in May 2006 and was appointed to the Board in July 2006. He was previously at PepsiCo for 12 years, latterly as Convenience Director, responsible for Walkers, Quaker and Tropicana products.

10. T W Falcon (39)

PRODUCTION AND

DISTRIBUTION DIRECTOR

Appointed to the Board 24 July 2008, he worked for Maersk Company Ltd, part of the A.P. Moller-Maersk group, the world-leader in shipping, where he was Director of Strategy and Process Excellence. Prior to Maersk he spent three years with A T Kearney management consultants. He has an MBA from INSEAD.

11. R H B Neame CBE DCL DL (75)

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 and retired from the Board on 30 June 2006. He is now the Company's first President and is Chairman of the trustees of the Shepherd Neame Company Retirement Account. In July 2008 he received an Honorary Doctorate in Civil Law at the University of Kent.

12. F J Lester (61)

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.

Corporate governance

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 high 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 19 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 Nominations 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 appointment periodically, discusses the audit plan with the auditors and recommends approval of the financial statements to the Board.

This year the Committee decided that the incumbent auditors should tender for the audit appointment in competition with several other firms. Following a full and formal tender process the Committee recommended to the Board that Deloitte LLP be appointed as auditors in place of Ernst & Young LLP. There were no contractual obligations that restricted the Committee's choice of auditor.

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 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 staff and management. 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 markets 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.

Financial review

Results

Turnover for the year ended 27 June 2009 increased by 7.6% to £109.5m. The principal driver for growth was in the National Off Trade.

Operating profit before exceptional items fell by 24.5% from £12.6m to £9.5m and operating profit percentage before exceptional items decreased from 12.3% to 8.7%. The fall in operating profit was due to a number of factors, including the general economic recession, which are discussed in the Chairman's Statement and the Chief Executive's Review.

Exceptional Items

Operating exceptional charges amounted to £1.6m (2008 – £1.7m in respect of installing SAP), comprising £0.3m final costs of installing SAP computer software, £0.8m restructuring costs and an impairment charge of £0.5m on five licensed premises.

The exceptional profit amounted to £3.0m (2008 – £1.3m) from the sale of 10 pubs and the sale and leaseback of a further four pubs.

Interest includes an exceptional write off of £0.1m in respect of previously capitalised arrangement fees following the re-negotiation of the terms of the revolving credit facility.

The tax attributable to exceptional items amounted to a credit of £0.3m as a result of rollover relief on the property profit, to give a total exceptional profit after tax of £1.5m.

Finance Charges

Net interest before exceptional items was £3.8m (2008 – £3.5m) due to increased borrowings during the year.

Interest cover before exceptional items is 2.5 times (2008 – 3.5 times).

Taxation

The tax charge after exceptional items was £1.3m, an effective rate of 18.1% (2008 – £2.4m and 28.0%). The tax charge for both years was reduced by the application of rollover relief on property disposals, which if excluded would give an effective rate of tax of 28.8% (2008 – 29.4%).

Earnings per Share

Basic earnings per £1 'A' ordinary share decreased by 9.3% to 44.7p, and before exceptional items decreased by 32.9% to 32.6p.

Dividends

Dividends per share paid and proposed in respect of the year were unchanged from last year at 22.45p per 'A' ordinary share and 0.45p per 'B' ordinary share to give a total of £2,875,000 (2008 – £2,868,000). Dividend cover is 2.0 times (2008 – 2.2 times).

Cash Flow and Financing

Earnings before interest, tax, depreciation and amortisation (EBITDA) and before exceptional charges and free trade loan discounts was £15.8m (2008 – £18.1m) and after exceptional charges was £14.6m (2008 – £16.4m). Net cash inflow from operating activities was £13.3m (2008 – £15.7m).

There was a cash outflow of £19.5m (2008 – £15.2m) on capital expenditure and financial investment to give a net cash outflow before financing of £14.2m compared with a net cash outflow of £7.0m in 2008.

The principal investment was the acquisition of 13 freehold pubs from Punch Taverns plc which occurred at the end of the year and was funded by a £15m five year term loan arranged with the Company's principal bankers. At the same time, the Company's existing five year multi-option revolving credit facility was refinanced and extended to May 2014. The pricing of the existing 20 year term loan was not affected by the new finance facilities. As a result, the Group's net borrowing increased from £60.9m to £75.3m and gearing at the year end was 66% (2008 – 55%).

Interest on the 20 year term loan has been fixed by swap contracts when it was drawn down to give an effective rate of interest of just under 6%. Interest on the £15m term loan is based on LIBOR plus a margin of between 2.75% and 5%. It has not been fixed by swap contract.

The ratio of debt to EBITDA before exceptional items at the year end was 4.8 times compared to 3.4 times in 2008. However, this ratio becomes 4.3 times when adjusted in accordance with our bank loan covenants for the annualised EBITDA from the pubs acquired from Punch Taverns plc.

Fixed Assets

During the year expenditure on tangible fixed assets amounted to £28.0m. The Company has also disposed of or written off assets with a net book value of £4.6m, including 10 pubs and the freeholds of a further four pubs which have then been leased back. As part of that transaction the Company acquired the freehold of a pub which had previously been leased. The total proceeds from pub disposals amounted to £7.2m.

An impairment charge of £0.5m was recognised in respect of five properties. Depreciation on tangible fixed assets was £5.8m (2008 – £5.2m) and the net increase in tangible assets amounted to £17.1m.

Treasury Policy and Financial Risk Management

The policy for managing treasury and financial risk is as set out in note 27. The key risk noted there, interest rate risk, is managed by maintaining a balanced portfolio of loans with long term loans on fixed rates and medium loans on floating rates. The £60m loan matures in 2026 and £25m of medium term facilities mature in 2014. At the year end there were unutilised facilities available of £13.5m.

Accounting Standards

The Company has not adopted any new Financial Reporting Standards during the year.

Report of the directors

The Directors have pleasure in presenting their ninety-fifth Annual Report and Accounts for the year ended 27 June 2009.

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, Market Overview and Financial Review which provide further details of the Company's activities for the year ended 27 June 2009 including comments on sales, sales volumes and contribution.

Risks and Uncertainties

The principal risks and uncertainties in the business (other than the key financial risks which are set out in note 27c) are noted below and are discussed further in the Chairman's Statement, the Chief Executive's Review and the Market Overview.

- **Economic and Market Conditions**
The success of the Company's operations is partly reliant upon the strength of the UK economy and, although we would expect to outperform many of our competition, performance could be adversely affected by reduced consumer spending as a result of a weakening in the economy, rising unemployment or increases in personal taxation.
- **Regulation and taxation of the sale of alcohol**
The drinks industry is heavily regulated and heavily taxed through excise duty. The government increased excise duty in 2009 and has stated that it intends to increase duty by two percentage points above the rate of inflation for the next three years. There is a risk that this, or other changes in taxation or regulation to address health issues or binge drinking could affect the market and our sales and sales margins.
- **The Beer Tie**
The beer tie is currently under review by the authorities and although Regional Brewers such as Shepherd Neame are not the main target of the reviews, any change to the tie could affect the Company.
- **Brand and Reputation**
The Company has a range of strong brands and an excellent reputation in the market. There is a risk that unexpected events or incidents could damage our brands or our reputation. This risk is mitigated by staff training, adherence to high quality standards throughout the business, management review and internal control.
- **Raw Material and other Input Costs**
In recent years the Company has suffered from significant increases in the cost of inputs such as utilities, malt and food for resale. Whilst we expect the cost of certain inputs such as malt to reduce significantly in the next year, there is a risk that overall input costs could increase again in the future.

Dividends

The Company paid an interim dividend of 4.55% (2008 – 4.55%) on the 'A' and 'B' ordinary shares and the Directors now recommend a final dividend of 17.90% (2008 – 17.90%) on both classes of shares. This makes a total of dividend for the year of 22.45% (2008 – 22.45%).

The total proposed final dividend on ordinary shares will be £2,292,000 (2008 – £2,288,000) which together with the 2009 interim dividend paid of £583,000 (2008 – £580,000) will make total dividends of £2,875,000 (2008 – £2,868,000).

Directors

The names of the Directors at 27 June 2009 are set out on pages 18-19. Particulars of the Directors' interests in the Company's shares are set out in note 25 to the accounts.

In addition Mr I J Dixon served on the Board until 24 July 2008 when he retired. He was replaced by Mr T W Falcon, who was appointed to the Board on this date.

Mr J H Leigh-Pemberton, Mr R L Nicol and Mr G R Craig retire from the Board by rotation and will be offering themselves for re-election.

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.

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 2,500 £1 'A' ordinary shares, representing 0.02% of that class of share, were purchased at a cost of £20,475. These shares were acquired in connection with the Company's obligations under the 1995 Restricted Share Scheme. (2008: 31,768 £1 'A' ordinary shares, being 0.28% of that class at a cost of £517,000). The maximum number of shares held in the year was 212,657 representing 1.9% of the £1 'A' ordinary shares in issue at a cost of £1,953,000 (2008 – 230,881 shares being 2.0% of the £1 'A' ordinary shares in issue at a cost of £2,353,000).

Directors' responsibilities for the financial statements

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for

Report of the directors (continued)

that period. 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 2006. 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 United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Going Concern

The Directors have reviewed the financial projections, together with the Group's bank facilities, as discussed in the Cash Flow and Financing section of the Financial Review on page 22 and in accordance with the capital and risk management process set out in note 27; and, on the basis of reasonable expectation, have concluded that the Group and Company have adequate financial resources to continue in operation as a going concern for the foreseeable future and accordingly consider that it is appropriate to prepare the accounts 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 pages 18–19. 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.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

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 27 to the accounts on pages 43 and 44.

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 £18,000 (2008 – £22,000) for charitable purposes.

Auditors

During the year Ernst & Young LLP resigned as the Company's auditors and the Directors appointed Deloitte LLP in their place. A resolution to reappoint Deloitte 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
24 September 2009

Independent auditors' report to the members of Shepherd Neame Limited

We have audited the financial statements of Shepherd Neame Limited for the year ended 27 June 2009 which comprise the Consolidated Profit and Loss Account, the Consolidated and Parent Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses, the Note of Consolidated Historical Cost Profit and Losses, the accounting policies, the notes to the cash flow statement and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with sections 495 and 496 of the Companies Act 2006. 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

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group and Company's affairs as at 27 June 2009 and of its consolidated profit for the year ending 27 June 2009;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

Timothy Steel (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom

24 September 2009

Consolidated profit and loss account year ended 27 June 2009

	note	2009 before exceptional items £'000	2009 exceptional items £'000	2009 total £'000	2008 £'000
Turnover	1	109,468	–	109,468	101,718
Operating charges	2, 3	(99,984)	(1,632)	(101,616)	(90,853)
Operating profit		9,484	(1,632)	7,852	10,865
Profit on sale of property	3	–	2,989	2,989	1,279
Profit on ordinary activities before interest		9,484	1,357	10,841	12,144
Interest receivable and similar income		32	–	32	84
Interest payable and similar charges	3, 4	(3,815)	(117)	(3,932)	(3,552)
Profit on ordinary activities before taxation		5,701	1,240	6,941	8,676
Taxation	5	(1,560)	302	(1,258)	(2,425)
Profit for the year after taxation		4,141	1,542	5,683	6,251
Earnings per £1 nominal share value					
Basic	7			44.7p	49.3p
Diluted	7			44.5p	48.9p
Basic before exceptional items	7			32.6p	48.6p

Movements in reserves are set out in notes 22 and 23.

The results and earnings per share measures above are all in respect of continuing operations of the Group.

Consolidated statement of total recognised gains and losses

There are no recognised gains or losses other than the profit attributable to the shareholders of the Company of £5,683,000 for the year ended 27 June 2009 (year ended 28 June 2008 – £6,251,000).

Note of consolidated historical cost profits and losses

	2009 £'000	2008 £'000
Profit on ordinary activities before taxation	6,941	8,676
Realisation of property revaluation	1,463	(41)
Historical cost profit on ordinary activities before taxation	8,404	8,635
Historical cost profit for the year retained after taxation	7,146	6,210

Balance sheets As at 27 June 2009

	note	Group 2009 £'000	Group 2008 £'000	Company 2009 £'000	Company 2008 £'000
Fixed assets					
Intangible fixed assets	10	91	128	91	128
Tangible fixed assets	11	188,546	171,458	188,546	171,458
Investments and loans	12	2,009	1,929	2,110	2,030
		190,646	173,515	190,747	173,616
Current assets					
Stock	13	4,759	5,870	4,759	5,870
Debtors	14	16,806	16,301	16,806	16,301
Cash		215	86	215	86
		21,780	22,257	21,780	22,257
Creditors: amounts falling due within one year					
Bank loans and overdrafts	16	(1,500)	(1,605)	(1,500)	(1,605)
Creditors	15	(17,487)	(19,023)	(17,588)	(19,120)
		(18,987)	(20,628)	(19,088)	(20,725)
Net current assets		2,793	1,629	2,692	1,532
Total assets less current liabilities		193,439	175,144	193,439	175,148
Creditors: amounts falling due after more than one year					
Bank loans	16	(74,056)	(59,409)	(74,056)	(59,409)
Provision for liabilities – deferred tax	20	(4,878)	(4,563)	(4,878)	(4,563)
Net assets		114,505	111,172	114,505	111,176
Capital and reserves					
Called up share capital	21	12,818	12,818	12,818	12,818
Share premium account	22	1,439	1,439	1,439	1,439
Revaluation reserve	22	14,806	16,269	14,806	16,269
Reserve for own shares held	22	(1,254)	(1,587)	(1,254)	(1,587)
Profit and loss account	22	86,696	82,233	86,696	82,237
Equity shareholders' funds	23	114,505	111,172	114,505	111,176

These accounts were approved by the Board of Directors on 24 September 2009 and were signed on its behalf by:

M H Templeman
J B Neame
Directors

Consolidated cash flow statement year ended 27 June 2009

	2009 £'000	2009 £'000	2008 £'000	2008 £'000
Net cash inflow from operating activities		13,328		15,738
Returns on investment and servicing of finance				
Interest paid	(3,798)		(2,692)	
Interest received	32		84	
		(3,766)		(2,608)
Taxation paid		(1,415)		(2,111)
Capital expenditure and financial investment				
Purchase of tangible fixed assets	(26,448)		(17,240)	
Proceeds of sales of tangible fixed assets	7,303		2,201	
Receipt on dissolution of associated company	–		13	
Additional loans to customers	(462)		(423)	
Customer loan redemptions	124		222	
		(19,483)		(15,227)
Equity dividends paid		(2,868)		(2,778)
Net cash outflow before financing		(14,204)		(6,986)
Financing				
Purchase of own shares		(21)		(517)
Repayment of short term loan		(1,000)		(1,000)
New short term loan		1,500		–
New long term loan		15,000		10,000
Issue cost of new long term loans		(541)		–
Movement in cash during the year		734		1,497

Notes to the consolidated cash flow statement year ended 27 June 2009

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

	2009 before exceptional items £'000	2009 exceptional items £'000	2009 total £'000	2008 £'000
Operating profit	9,484	(1,632)	7,852	10,865
Depreciation and amortisation	5,877	–	5,877	5,268
Impairment provision	–	487	487	–
Charge for share-based payments credited to reserves	539	–	539	556
Decrease/(increase) in stocks	1,333	–	1,333	(328)
Increase in debtors and prepayments	(625)	–	(625)	(1,163)
Increase/(decrease) in creditors and accruals	(2,536)	–	(2,536)	245
Free trade loan discounts	258	–	258	293
Loss on sale of assets (excluding property)	143	–	143	2
	4,989	487	5,476	4,873
Net cash inflow from operating activities	14,473	(1,145)	13,328	15,738

2 Reconciliation of cash flows to movement in net debt

	2009 £'000	2008 £'000
Opening cash and overdraft	(519)	(2,016)
Closing cash and overdraft	215	(519)
Increase in cash during the year	734	1,497
New long term loan	(15,000)	(10,000)
Issue costs capitalised	541	–
New short term loans	(1,500)	–
Repayment of short term loan	1,000	1,000
Amortisation of loan issue costs	(188)	(29)
Movement in net debt during the year	(14,413)	(7,532)
Net debt at beginning of year	(60,928)	(53,396)
Net debt at end of year	(75,341)	(60,928)

3 Analysis of changes in net debt

	2008 £'000	Cash flow £'000	Repayment of short term loan £'000	New loans £'000	Amortisation of issue costs £'000	2009 £'000
Cash	86	129	–	–	–	215
Bank overdrafts	(605)	605	–	–	–	–
Debt due within one year	(1,000)	–	1,000	(1,500)	–	(1,500)
	(1,519)	734	1,000	(1,500)	–	(1,285)
Debt due after more than one year	(59,409)	–	–	(14,459)	(188)	(74,056)
Total	(60,928)	734	1,000	(15,959)	(188)	(75,341)

Accounting policies

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 law and applicable accounting standards (UK GAAP).

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
- Computer hardware and software 3 to 10 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;
- 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 Turnover

Turnover is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods; or on provision of service. Turnover comprises the invoice value of goods inclusive of excise duty and services net of VAT and discounts. Rental income received from the tied estate properties is recognised in turnover in the period in which it arises.

j 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.

k Dividends

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

l 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.

m 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.

n 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 is recognised in the income statement, with a corresponding entry in equity.

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

Notes to the accounts 27 June 2009

1 Turnover

Turnover comprises sales including excise duty, rents receivable and services rendered from continuing trading activities, net of discounts and 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 £1,795,000 (2008 – £1,684,000).

2 Operating charges

	Before exceptional items 2009 £'000	Exceptional items 2009 £'000	Total 2009 £'000	2008 £'000
Change in stocks of finished goods and work in progress	866	–	866	(195)
Goods for resale	18,168	–	18,168	16,891
Raw materials, duty and consumables	30,842	–	30,842	26,435
Staff costs:				
Wages and salaries	18,255	654	18,909	19,268
Social security costs	1,728	8	1,736	1,637
Other pension costs	765	159	924	896
Depreciation and amortisation	5,877	–	5,877	5,268
Impairment loss on properties	–	487	487	–
Loss on sale of fixed assets (excluding properties)	143	–	143	2
Property repairs	1,511	–	1,511	970
Operating lease rentals – land & buildings	2,285	–	2,285	2,023
Other operating charges	19,544	324	19,868	17,658
	99,984	1,632	101,616	90,853

The auditors' remuneration for the year amounted to £75,000 for audit services of the Company (2008 – £81,000), £nil for local statutory audits for subsidiary companies (2008 – £4,000) and £6,000 for the audit of the company pension scheme (2008 – £6,000).

3 Exceptional items

	2009 £'000	2008 £'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 change management, training, redundancies, data migration and software implementation	(334)	(1,696)
Re-organisation costs following completion of the SAP implementation project, principally in respect of redundancy and other staff costs	(811)	–
Impairment charge in respect of five licensed freehold properties to write them down to recoverable amount (see note 11)	(487)	–
	(1,632)	(1,696)
Interest payable and similar charges – write off of previously capitalised arrangement fees and legal and professional charges following the renegotiation and extension of the term of the existing revolving credit facility	(117)	–
Non operating items:	(1,749)	(1,696)
Profit on sale of property	2,989	1,279
Total exceptional items before tax	1,240	(417)
Taxation credit in respect of the operating items (see note 5)	302	500
Total exceptional items after tax	1,542	83

4 Interest payable and similar charges

	2009 £'000	2008 £'000
Bank loans and overdrafts	3,779	3,450
Other	36	102
	3,815	3,552
Exceptional charges in respect of re-financing (see note 3)	117	–
	3,932	3,552

5 Taxation

a) Tax on profit on ordinary activities

	2009 £'000	2008 £'000
Current tax:		
UK Corporation tax at 28% (2008 – 29.5%)	1,246	1,734
Prior year over provision	(303)	(129)
Total current tax	943	1,605
Deferred tax:		
Origination and reversal of timing differences	242	563
Prior year under provision	73	257
Total deferred tax	315	820
Total tax charge	1,258	2,425

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 average statutory rate of corporation tax in the UK of 28% (2008 – 29.5%).

The differences are reconciled below.

	2009 £'000	2008 £'000
Profit on ordinary activities before tax	6,941	8,676
UK corporation tax at average statutory rate 28% (2008 – 29.5%)	1,943	2,559
Expenses not deductible for tax purposes and non-taxable income	302	(103)
Capital allowances in excess of depreciation	(137)	(590)
Short term timing differences	(119)	(3)
Rolled over gains on asset disposals	(743)	(129)
Prior year over provision	(303)	(129)
	943	1,605

The exceptional profit on the disposal of properties of £2,989,000 (2008 – £1,279,000) does not give rise to a tax charge (2008 – £nil) due to rollover relief, other than a £40,000 tax charge suffered on the profit on disposal of land of £143,000.

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 £7.9m (2008 – £6.7m), based on a corporation tax rate of 28% (2008 – 28%). At present it is not envisaged that any such tax will become payable in the foreseeable future.

Notes to the accounts 27 June 2009

6 Dividends

	2009 £'000	2008 £'000
Declared and paid during the year		
£1 'A' ordinary shares:		
Final dividend for 2008: 17.90p (2007 – 17.20p)	2,042	1,964
Interim dividend for 2009: 4.55p (2008 – 4.55p)	521	518
	2,563	2,482
2p 'B' ordinary shares:		
Final dividend for 2008: 0.358p (2007 – 0.344p)	243	234
Interim dividend for 2009: 0.091p (2008 – 0.091p)	62	62
	305	296
Dividends paid	2,868	2,778
Proposed for approval at the 2009 AGM:		
Final dividend for 2009 on £1 'A' ordinary shares: 17.90p (2008 – 17.90p)	2,049	2,045
Final dividend for 2009 on 2p 'B' ordinary shares: 0.358p (2008 – 0.358p)	243	243
	2,292	2,288

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

	2009 £'000	2008 £'000
Based on £1 nominal share value		
Profit attributable to equity shareholders	5,683	6,251
Weighted average share capital	12,712	12,680
Dilutive outstanding options	58	106
Adjusted weighted average share capital	12,770	12,786
Basic	44.7p	49.3p
Diluted	44.5p	48.9p
Basic before exceptional items	32.6p	48.6p

The earnings per share before exceptional items are calculated on profit after tax and before exceptional items of £4,141,000 (2008 – £6,168,000 being profit after tax of £6,251,000 less exceptional profit of £83,000 – see note 3).

8 Directors' remuneration

	2009 £'000	2008 £'000
Aggregate amount:		
Directors' emoluments	1,158	1,174
Pension contributions	182	181
	1,340	1,355

	2009 Number	2008 Number
The number of Directors who:		
Had pension benefits accruing under money purchase schemes	6	6
Exercised options over shares in the Company	1	2
Had awards receivable in the form of shares under a long term incentive plan	6	6

Details of Directors' share options are shown in note 25.

	2009 £'000	2008 £'000
Highest paid Director:		
Emoluments	227	232
Pension contributions	42	38
	269	270

During the year the highest paid director was granted primary and secondary option rights over 8,240 'A' ordinary shares under the long term incentive plan (2008 – 3,878 shares) and exercised options over 572 'A' ordinary shares (2008 – nil).

9 Employees

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

	2009 Number of employees	2008 Number of employees
Brewery	325	313
Retailing	810	829
	1,135	1,142

10 Intangible fixed assets

Group and Company	Licences and trade marks £'000
Cost	
At 28 June 2008 and 27 June 2009	364
Amortisation	
At 28 June 2008	236
Provided during the year	37
At 27 June 2009	273
Net book value at 27 June 2009	91
Net book value at 28 June 2008	128

Notes to the accounts 27 June 2009

11 Tangible fixed assets

Group and Company	Freehold properties £'000	Leasehold properties over 50 years £'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 28 June 2008	139,151	–	5,782	25,104	39,117	3,923	213,077
Additions	17,351	890	498	4,193	4,151	890	27,973
Disposals	(3,624)	–	(127)	(611)	(2,161)	–	(6,523)
Transfers	(45)	–	(21)	–	3,933	(3,867)	–
At 27 June 2009	152,833	890	6,132	28,686	45,040	946	234,527
Accumulated depreciation							
At 28 June 2008	2,448	–	1,690	14,672	22,809	–	41,619
Charge for year	327	13	228	2,082	3,190	–	5,840
Impairment loss	462	–	25	–	–	–	487
On disposals	(88)	–	(28)	(364)	(1,485)	–	(1,965)
At 27 June 2009	3,149	13	1,915	16,390	24,514	–	45,981
Net book values							
At 27 June 2009	149,684	877	4,217	12,296	20,526	946	188,546
At 28 June 2008	136,703	–	4,092	10,432	16,308	3,923	171,458

Included in additions is £50,000 (2008 – £18,000) of own labour capitalised.

The freehold licensed properties 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. In accordance with the transitional provisions set out in FRS 15, the revalued amounts, adjusted for subsequent disposals, have been retained. Valuations of £58,905,000 are included in the valuation or cost of the freehold properties at 27 June 2009 (2008 – £61,605,000).

If they had not been revalued, freehold properties would have been carried in the balance sheet at 27 June 2009 at:

	2009 £'000	2008 £'000
Cost	128,593	113,449
Accumulated depreciation	(2,488)	(1,788)
Net book amount	126,105	111,661

The Company has entered into certain operating leases as lessor. The gross cost of assets held for use under these leases amounted to £978,000 (2008 – £977,000) and the related accumulated depreciation charges amounted to £107,000 (2008 – £95,000) and the aggregate rentals receivable amounted to £63,000 (2008 – £64,000).

An impairment loss of £487,000 was recognised in the year in respect of five individual licensed premises. Impairment was assessed at the income generating unit level, considered to be on the basis of each individual pub. Whether an asset was impaired or not was determined by comparing the carrying value against its estimated 'recoverable amount'. The recoverable amount was taken as the higher of either the net realisable value or its value in use. The value in use was determined by conducting a net present value review of all relevant cash flows from the asset. The pre-tax discount rate used in this review was 9.91%.

12 Investments and loans

	Group 2009 £'000	Group 2008 £'000	Company 2009 £'000	Company 2008 £'000
Investment in subsidiaries	–	–	101	101
Loans to customers	2,009	1,929	2,009	1,929
	2,009	1,929	2,110	2,030

a Company investments in subsidiaries

Principal subsidiary undertakings	Holding	Proportion Held	Nature of business
Royal Albion Hotel (Broadstairs) Limited	£1 ordinary shares	100%	Dormant
Caremill Limited	£1 ordinary shares	100%	Dormant

Both the Royal Albion Hotel (Broadstairs) Limited and Caremill Limited are registered companies in England and Wales.

b Group and Company – Loans to customers

	2009 £'000	2008 £'000
At 28 June 2008	1,929	2,021
Additions	462	423
Repayments	(124)	(222)
Loan discounts	(258)	(293)
At 27 June 2009	2,009	1,929

c The maturity profile of the loans is:

	2009 £'000	2008 £'000
Recoverable < 1 year	155	23
Recoverable 1-5 years	991	720
Recoverable > 5 years	863	1,186
	2,009	1,929

Of these loans £556,000 is expected to be repaid in cash and £1,453,000 is expected to be repaid by discounts (2008 – £597,000 and £1,332,000 respectively). The level of discounts awarded, and the interest and fees charged, depends on the trading performance of each customer against individual targets.

13 Stock

Group and Company	2009 £'000	2008 £'000
Raw materials and consumables	1,925	1,635
Work in progress	331	377
Finished goods including goods for resale	2,503	3,858
	4,759	5,870

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

14 Debtors

Group and Company	2009 £'000	2008 £'000
Trade debtors	14,409	13,858
Other debtors	202	318
Prepayments	2,195	2,125
	16,806	16,301

The 2008 comparatives have been adjusted to reflect the reclassification of £477,000, in respect of tenancy charges from other debtors to trade debtors.

Notes to the accounts 27 June 2009

15 Creditors: amounts falling due within one year

	Group 2009 £'000	Group 2008 £'000	Company 2009 £'000	Company 2008 £'000
Trade creditors	3,927	6,646	3,927	6,646
Amounts due to subsidiary undertakings	–	–	101	101
Corporation tax	626	1,098	626	1,094
Other tax and social security	4,840	4,707	4,840	4,707
Accruals and deferred income	5,777	4,135	5,777	4,135
Trade deposits	2,115	2,151	2,115	2,151
Other creditors	202	286	202	286
	17,487	19,023	17,588	19,120

16 Bank loans – Group and Company

Amounts falling due after more than one year

Group and Company	2009 £'000	2008 £'000
Bank loans	75,000	60,000
Less: loan issue costs	(944)	(591)
	74,056	59,409

The bank loans comprise a 20 year term loan of £60.0m arranged in April 2007 and a five year term loan of £15.0m arranged in May 2009. Both loans were provided by the Royal Bank of Scotland plc and Lloyds Banking Group plc.

The £60.0m loan is repayable in five instalments of £1.6m payable every year commencing on 31 December 2021 with the outstanding balance being repayable on 31 December 2026. The £15.0m loan is repayable in three instalments of £0.9m payable every year commencing on 22 May 2011 with the outstanding balance being repayable on 22 May 2014.

The bank loans and overdrafts are repayable as follows:

Group and Company	2009 £'000	2008 £'000
Amounts payable on demand or within one year	1,500	1,605
Amounts payable in 2–5 years	15,000	–
Amounts payable in over five years	60,000	60,000
	76,500	61,605

The amounts payable on demand or within one year represent drawings on the Group's £10.0m five year revolving credit facility that matures in May 2014. The Group also has a £5.0m committed overdraft facility that is renewable in June 2010. At the year end there were no drawings on the overdraft.

All the Group's bank loans and overdrafts are secured by a first floating charge over the Group's assets.

The 20 year term loan is hedged by interest rate swap contracts which are referred to in note 27.

17 Capital commitments – Group and Company

Contracts for capital expenditure not provided for in the accounts amounted to £296,000 (2008 – £180,000).

18 Other financial commitments

Group and Company	Land and buildings 2009 £'000	Land and buildings 2008 £'000
Annual commitments under non-cancellable operating leases which expire:		
Within 1 year	–	–
Within 2–5 years	245	257
After 5 years	2,199	1,758
	2,444	2,015

19 Contingent liabilities – Group and Company

The Company has guaranteed a mortgage totalling £51,000 (2008 – £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.

20 Provision for liabilities – deferred tax

Group and Company	£'000	
At 28 June 2008		4,563
Charged in the year		315
As at 27 June 2009		4,878
Analysis of deferred taxation	2009 £'000	2008 £'000
Accelerated capital allowances	4,856	4,656
Other timing differences	22	(93)
	4,878	4,563

21 Share capital

Group and Company	2009 £'000	2008 £'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 'B' ordinary shares may only be transferred to a shareholder's immediate family or existing holders of 'B' ordinary shares.

22 Reserves

a) Group	Share premium £'000	Revaluation reserve £'000	Own shares held £'000	Profit & loss account £'000	Total £'000
Balance at 28 June 2008	1,439	16,269	(1,587)	*82,233	98,354
Profit for the period	–	–	–	*5,683	5,683
Dividends paid	–	–	–	(2,868)	(2,868)
Transfer of realised revaluation	–	(1,463)	–	1,463	–
Accrued share-based payments	–	–	–	539	539
Purchase of own shares	–	–	(21)	–	(21)
Distribution of own shares	–	–	88	(88)	–
Unconditionally vested	–	–	266	(266)	–
Balance at 27 June 2009	1,439	14,806	(1,254)	86,696	101,687

b) Company

*The profit and loss account for the Company is as stated above other than that the Company profit and loss account at 28 June 2008 was £82,237,000 and the profit for the year was £5,679,000.

The Group and Company held 177,729 £1 'A' ordinary shares at 27 June 2009 with a market value of £1,324,000 (2008 – 201,760 and £2,219,000). 78,672 of the own shares held are allocated to employees under the Share Incentive Plan and a further 90,363 shares have vested unconditionally and as such are no longer treated as own shares held (2008 – 85,963 and 81,383 respectively). 39,695 of these shares can be distributed to the employees free of tax (2008 – 21,700).

Notes to the accounts 27 June 2009

23 Reconciliation of movements in shareholders' funds

	Group 2009 £'000	Group 2008 £'000	Company 2009 £'000	Company 2008 £'000
Shareholders' funds at the beginning of the year	111,172	107,660	111,176	107,660
Profit after taxation	5,683	6,251	5,679	1,910
Ordinary dividends paid	(2,868)	(2,778)	(2,868)	(2,778)
Ordinary dividends receivable	–	–	–	4,345
Accrued share-based payments	539	556	539	556
Purchase of own shares	(21)	(517)	(21)	(517)
Movement during the year	3,333	3,512	3,329	3,516
Shareholders' funds at the end of the year	114,505	111,172	114,505	111,176

24 Profit attributable to members of the parent company

A separate company income statement has not been prepared in accordance with section 408 of the Companies Act 2006.

Profit attributable to members of the parent company was £5,679,000 (2008 – £1,910,000).

25 Directors' interests

The interests of the Directors in the Company's shares at 27 June 2009 (28 June 2008 or date of appointment if later) are as follows:

		'A' ordinary shares			'B' ordinary shares	
		Beneficial	As trustees	Under SIP*	Beneficial	As trustees
G H A Barnes	2009	14,884	–	1,712	59,700	–
	2008	15,884	–	1,371	55,900	–
O W A Barnes	2009	55,396	–	–	610,130	–
	2008	55,396	–	–	610,130	–
N J Bunting	2009	4,962	–	1,927	–	–
	2008	4,962	–	1,619	–	–
G R Craig	2009	250	–	472	–	–
	2008	250	–	186	–	–
T W Falcon	2009	390	–	–	–	–
	2008	–	–	–	–	–
K R Littlefair	2009	–	–	2,343	–	–
	2008	–	–	1,991	–	–
J B Neame	2009	61,927	173,615	2,369	1,737,800	779,182
	2008	64,355	208,010	1,991	1,737,800	779,182
R L Nicol	2009	117,800	336,170	–	371,150	3,907,012
	2008	104,000	340,268	–	369,150	3,907,012

The holdings under the Share Incentive Plan (SIP) were allocated in January 2003, 2004, 2005, 2006 and November 2006, 2007 and 2008 and are held in trust for a qualifying period of three years before ownership vests unconditionally (see note 26a).

* beneficially held

Options over the Company's 'A' ordinary shares held by Directors at 27 June 2009 (28 June 2008 or date of appointment if later) are as follows:

	At 2008	Granted	Exercised	Forfeited	At 2009	Price at exercise date £	Exercise price £	Date from which exercisable	Expiry date	
G H A Barnes	388	–	–	–	388	***	1.0000	27/10/09	27/10/16	
	388	–	–	–	388	****	1.0000	27/10/09	27/10/16	
	468	–	–	–	468	***	1.0000	26/10/10	26/10/17	
	1,951	–	–	–	1,951	****	1.0000	26/10/10	26/10/17	
	–	4,437	–	–	4,437	****	1.0000	31/10/11	31/10/18	
	3,195	4,437	–	–	7,632	****	1.0000	31/10/11	31/10/15	
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	27/10/16	
	308	–	–	–	308	****	1.0000	27/10/09	27/10/16	
	409	–	–	–	409	***	1.0000	26/10/10	26/10/17	
	1,707	–	–	–	1,707	****	1.0000	26/10/10	26/10/17	
	–	4,437	–	–	4,437	****	1.0000	31/10/11	31/10/18	
	3,127	4,437	–	–	7,564					
G R Craig	66	–	–	–	66	***	1.0000	27/10/09	27/10/16	
	66	–	–	–	66	****	1.0000	27/10/09	27/10/16	
	468	–	–	–	468	***	1.0000	26/10/10	26/10/17	
	1,951	–	–	–	1,951	****	1.0000	26/10/10	26/10/17	
	–	4,437	–	–	4,437	****	1.0000	31/10/11	31/10/18	
	2,551	4,437	–	–	6,988					
T W Falcon	–	610	–	–	610	****	1.0000	31/10/11	31/10/18	
	–	610	–	–	610					
K R Littlefair	514	–	–	–	514	*	0.0001	26/10/06	31/10/10	
	386	–	–	–	386	**	0.0100	26/10/06	31/10/10	
	296	–	–	–	296	*	0.0001	29/10/07	31/10/11	
	148	–	–	–	148	**	0.0100	29/10/07	31/10/11	
	466	–	–	–	466	***	1.0000	27/10/09	27/10/16	
	466	–	–	–	466	****	1.0000	27/10/09	27/10/16	
	563	–	–	–	563	***	1.0000	26/10/10	26/10/17	
	2,346	–	–	–	2,346	****	1.0000	26/10/10	26/10/17	
	–	423	–	–	423	***	1.0000	31/10/11	31/10/18	
	–	5,335	–	–	5,335	****	1.0000	31/10/11	31/10/18	
	5,185	5,758	–	–	10,943					
J B Neame	381	–	(381)	–	–	*	8.67	0.0001	29/10/07	31/10/11
	191	–	(191)	–	–	**	8.67	0.0100	29/10/07	31/10/11
	622	–	–	–	622	***	1.0000	27/10/09	27/10/16	
	622	–	–	–	622	****	1.0000	27/10/09	27/10/16	
	750	–	–	–	750	***	1.0000	26/10/10	26/10/17	
	3,128	–	–	–	3,128	****	1.0000	26/10/10	26/10/17	
	–	1,121	–	–	1,121	***	1.0000	31/10/11	31/10/18	
	–	7,119	–	–	7,119	****	1.0000	31/10/11	31/10/18	
	5,694	8,240	(572)	–	13,362					
Total	19,752	27,919	(572)	–	47,099					

* Primary share option rights under the Shepherd Neame 1995 Restricted Share Scheme (see note 26b).

** Performance share option rights under the Shepherd Neame 1995 Restricted Share Scheme (see note 26b).

*** Primary share option rights under the Shepherd Neame 2005 Restricted Share Scheme (see note 26c).

**** Secondary share option rights under the Shepherd Neame 2005 Restricted Share Scheme (see note 26c).

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 and secondary 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.

The market price of the shares at 27 June 2009 was £7.45 (28 June 2008 – £11.00) and the range during the year was £5.75 to £11.125 (2008 – £9.175 to £18.875).

26 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 of £3,000, was made to all eligible employees in January 2003, 2004, 2005, 2006 and November 2006, 2007 and 2008. 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 did not purchase any shares for this scheme (2008 – 27,416 shares purchased at an average cost of £16.07).

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

	2009 Number	2008 Number
Outstanding shares at 28 June 2008	167,346	165,296
Granted during the year	31,607	35,062
Forfeited during the year	(3,959)	(6,233)
Distributed during the year	(25,959)	(26,779)
Outstanding shares at 27 June 2009	169,035	167,346
Distributable at 27 June 2009	90,363	81,383

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 £8.031 (2008 – £12.944).

The weighted average fair value of the shares granted during the year was £7.925 (2008 – £16.125). The fair value, taking into account the terms and conditions upon which the shares were granted, equates to the market price at the date of grant.

The expense recognised for share-based payments made under SIP in respect of employee services during the year to 27 June 2009 is £475,000 (2008 – £503,000).

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 are 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 2,500 'A' ordinary shares at an average cost of £8.19 per share (2008 – 4,352 shares at an average cost of £17.63).

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

	2009 Number	2009 Weighted average exercise price	2008 Number	2008 Weighted average exercise price
Outstanding brought forward	6,047	£0.00150	14,320	£0.00315
Exercised	(572)	£0.01000	(7,417)	£0.00447
Forfeited during the year	(378)	£0.00340	(856)	£0.01000
Outstanding options at 27 June 2009	5,097	£0.00110	6,047	£0.00150
Exercisable at 27 June 2009	5,097	£0.00110	6,047	£0.00150

The range of exercise prices for options outstanding at the end of the year was £0.0001 – £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 27 June 2009 is £nil (2008 – £4,000).

The weighted average share price at date of exercise for options exercised is £8.67 (2008 – £13.36).

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 contractual life of each option granted is 10 years.

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

	2009 Number	2009 Weighted average exercise price	2008 Number	2008 Weighted average exercise price
Outstanding options at 28 June 2008	26,398	£1.00	7,313	£1.00
Granted during the year	27,919	£1.00	19,085	£1.00
Forfeited during the year	(3,195)	£1.00	–	–
Outstanding options at 27 June 2009	51,122	£1.00	26,398	£1.00

None of these options were exercisable at 27 June 2009.

The weighted average fair value of the options granted during the year was £6.747 (2008 – £14.94). 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 years ended 27 June 2009 and 28 June 2008.

	2009	2008
Expected share price volatility	50%	50%
Risk-free interest rate	5.475%	5.75%
Expected life of option (years)	6.5	6.5
Weighted average share price	£7.10	£15.38

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 27 June 2009 is £63,000 (2008 – £49,000).

27 Financial instruments – Group and Company

a) Capital management

The capital structure of the Group consists of bank loans (see note 16), cash and shareholders' equity in the parent company, comprising share capital, reserves and retained earnings (see notes 21, 22 and 23). In managing its capital the Group's main objectives are to ensure that it is able to continue to operate as a going concern as noted in the Report of the Directors and to maximise its return to its shareholders through a combination of capital growth and distributions. The Group seeks to maintain a ratio of debt to equity that balances the risks and returns at an acceptable level and maintains sufficient funds to meet its working capital and investments requirements and comply with bank lending covenants.

The Board of Directors review the Group's dividend policy and funding requirements regularly throughout the year.

b) Categories of financial assets and liabilities

The Group's financial assets include loans to customers designated as financial assets (see note 12), cash and trade debtors and other receivables in current assets (see note 14). Its financial liabilities include trade creditors and other payables in current liabilities (see note 15) and short and long term bank borrowings (see note 16).

c) Financial risks

The main risks associated with the Group's financial assets and liabilities are interest rate risk, liquidity risk, credit risk and foreign currency risk, as note below. The policies for managing these risks are regularly reviewed and agreed by the Board of Directors.

In certain limited circumstances the Group uses derivative instruments to change the economic characteristics of its financial instruments. It is Group policy not to enter into or trade in financial instruments for speculative purposes.

Notes to the accounts 27 June 2009

Interest rate risk

Currently it is Group policy to manage the cost of its borrowings by using a mixture of fixed and variable interest rates. Debt is represented by a twenty year term loan, a five year term loan, a five year revolving credit facility and a short term committed overdraft facility all of which are secured by a first floating charge over the assets of the Group. They all bear interest at variable rates based on LIBOR and National Westminster Bank base rate. The interest 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 is not fixed on the five year term loan in order to take advantage of the current low short term rates of interest and allow early repayment of the loan should the opportunity or need arise, without the risk of a charge to profit from early termination of swap contracts. Interest on drawings on the revolving credit facility and short term overdraft facility are not fixed as it is Group policy to have short term borrowings on a variable rate basis.

In order to benefit from the differential between the cost of borrowing for one month and three months which appeared during the year, the Group entered into an interest rate swap for a one year term where it paid interest at three month LIBOR and received interest at one month LIBOR plus a margin. The Group has borrowed at one month LIBOR rates.

Liquidity risk

The Group manages its liquidity risk by monitoring cash receipts and payments and preparing rolling cash flow forecasts from which to predict short and long term funding requirements and ensure that borrowing facilities are available, if required, and that covenants in respect of bank loans are not contravened. Capital expenditure is approved by the Board and investment appraisal models used to evaluate proposed expenditure. It is currently the Group's policy to finance the majority of its business needs by means of long term bank loans amounting to £75.0m which were fully drawn at the year end. The balance of its requirement is provided by a five year revolving credit loan facility of £10.0m, which matures in May 2014 and a committed overdraft facility of £5.0m, which matures in June 2010. The size of the facility is regularly reviewed and the overdraft facility is renewed annually. At the year end £1.5m (2008 – £1.0m) of the revolving credit loan facility and none (2008 – £0.6m) of the overdraft facility was being utilised, leaving £13.5m of these facilities unutilised.

Credit risk

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures and are subject to credit limits to control debt exposure. Credit insurance is maintained to cover certain debts where appropriate. In addition, receivable balances are monitored on an ongoing basis. The growth of the Group's business with National retailers and as a contract brewer has increased the concentration of credit risk. However, the Board of Directors consider that the credit risks from these customers is relatively low.

With respect to credit risk arising from other financial assets of the Group, which comprise cash and cash equivalents, the Group's exposure to credit risk arises from the default of a counterparty, with a maximum exposure equal to the carrying value amount of these instruments.

Foreign currency risk

The principal financial instruments are denominated in sterling and the vast majority of the Group's operations are undertaken within the UK. Consequently the foreign currency risk is immaterial, except for those infrequent occasions when the Group purchases plant and equipment denominated in foreign currency. In these circumstances it is the policy of the Group to enter into forward exchange contracts to fix future payments as they fall due. At the year end the Group had outstanding contracts to purchase €1.6m for £1.3m, maturing in July 2009 (2008 – nil). The sterling equivalent at the year end was £1.4m.

Interest rate profile

The interest rate profile of the borrowing is:

	2009 Notional principal £'000	2009 Weighted average interest rate (%)	2009 Weighted average period for which rate fixed (years)	2008 Notional principal £'000	2008 Weighted average interest rate (%)	2008 Weighted average period for which rate fixed (years)
Bank loan	60,000	5.79	17.75	60,000	5.79	18.75

Medium term borrowings outstanding at 27 June 2009 amounted to £15,000,000 (2008 – £nil) comprising a five year term loan bearing interest at between 2.75% and 5% above LIBOR in years 1-3 and between 2.75% and 5.5% above LIBOR in years 4 and 5.

Short term borrowings outstanding at 27 June 2009 amounted to £1,500,000 (29 June 2008 – £1,605,000) and comprising £nil (2008 – £605,000) overdraft bearing interest at 2.5% (2008 – 0.75%) above National Westminster Bank base rate which was 0.5% at 27 June 2009 (28 June 2008 – 5.0%) and £1,500,000 (2008 – £1,000,000) revolving credit facility bearing interest at between 2.75% and 5.00% above LIBOR. 3 month LIBOR was 1.20% at 27 June 2009 (2008 – 5.945%).

d) Fair values of financial assets and liabilities

The fair value of trade debtors and creditors included in net current assets is equivalent to the balance sheet carrying values. Loans to customers (see note 12) 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 2009 £'000	Fair value 2009 £'000	Book value 2008 £'000	Fair value 2008 £'000
Primary financial instruments:				
Variable rate bank loan	(75,000)	(75,000)	(60,000)	(60,000)
Short term borrowings	(1,500)	(1,500)	(1,605)	(1,605)
Cash	215	215	86	86
Derivative financial instruments held to manage the interest rate profile:				
Interest rate swaps – deferred	–	(6,827)	–	(393)

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

28 Pension commitments

Group and Company

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 £924,000 (2008 – £896,000). Contributions of £110,000 (2008 – £106,000) 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.

Financial calendar and company advisors

Financial Calendar

2009		2010	
27 June	Financial year end	March	Announcement of interim results
7 October	Results announcement	March	Record date for interim dividend
9 October	Shares traded ex-dividend	April	Payment of interim dividend
14 October	Record date for final dividend *	26 June	Financial year end
30 October	Annual General Meeting and payment of final dividend	Early October	Preliminary results announcement
26 December	Half year end	Early October	Annual results to be mailed
		Late October	Annual General Meeting
		25 December	Half year end

* Shareholders on the register at this date

Company Advisors

Registrars

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Tel: 0870 702 0000
Dedicated Shareholder Tel: 0870 707 1291

Financial PR

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Scandinavian House
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Auditors

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Hill House
1 Little New Street
London
EC4A 3TR

Bankers

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

Stockbrokers

JP Morgan Cazenove Limited
20 Moorgate
London
EC2 6DA

James Sharp & Co
Exchange House
39 Knowsley Street
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Lancashire
BL9 0ST

Notice of meeting

Notice is hereby given that the ninety-fifth Annual General Meeting of the Company will be held at the Parish Church of St Mary of Charity, Church Road, Faversham on Friday 30 October 2009 at 12.00 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 H Leigh-Pemberton as a Director.

Resolution 4

To propose the re-election of Mr R L Nicol as a Director.

Resolution 5

To propose the re-election of Mr G R Craig as a Director.

Resolution 6

To appoint Deloitte LLP as Auditors of the Company and to authorise the Directors to fix their remuneration.

By Order of the Board

F J Lester
Secretary
17 Court Street
Faversham
Kent

7 October 2009

Members entitled to attend and vote are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting and that proxy need not also be a member.

Members may appoint more than one proxy in relation to a meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held.

Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided they do not do so in relation to the same shares.

The Voting Record Date is Wednesday 28 October 2009 and shareholders should be registered in the books of the Company by the close of business on that date in order to vote at the meeting.

The Notice of the Meeting together with other information for the shareholders as regards the Annual General Meeting will be displayed on the Company's website www.shepherdname.co.uk

Five year financial summary

	2009 £'000	2008 £'000	2007 £'000	2006 (as restated) £'000	2005 (as restated) £'000
Profit and loss					
Turnover	109,468	101,718	100,047	95,343	91,354
Operating profit before exceptional items	9,484	12,561	13,851	12,951	12,109
Net finance charges	(3,783)	(3,468)	(3,326)	(3,373)	(3,081)
Exceptional charges	(1,749)	(1,696)	(1,984)	–	–
Profit on sale of property	2,989	1,279	3,031	1,627	841
Profit before taxation	6,941	8,676	11,572	11,205	9,869
Taxation	(1,258)	(2,425)	(2,280)	(3,089)	(2,513)
Earnings available to shareholders	5,683	6,251	9,292	8,116	7,356
Dividends					
Interim and finals for the year	(2,875)	(2,868)	(2,748)	(2,556)	(2,375)
Percentage on shares	22.5%	22.5%	21.5%	20.0%	18.6%
Dividend cover	2.0	2.2	3.4	3.2	3.1
Earnings per £1 nominal share value (p) based on:					
Earnings available to shareholders	44.7	49.3	73.4	64.2	58.1
Earnings (excluding exceptional items)	32.6	48.6	60.5	51.3	51.3
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	14,806	16,269	16,228	16,694	16,852
Revenue reserves	85,442	80,646	77,175	70,043	64,760
	114,505	111,172	107,660	100,994	95,869
Represented by assets					
Fixed assets	190,646	173,515	164,771	143,959	138,513
Current assets	21,780	22,257	20,511	18,595	18,329
	212,426	195,772	185,282	162,554	156,842
Liabilities					
Short term	18,987	20,628	24,499	38,925	19,348
Long term	74,056	59,409	49,380	18,713	37,722
Provisions	4,878	4,563	3,743	3,922	3,903
	97,921	84,600	77,622	61,560	60,973
Net assets	114,505	111,172	107,660	100,994	95,869
Net assets per share (£)	8.93	8.67	8.40	7.88	7.48

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.

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