SHEPHERD NEAME LIMITED

ANNUAL REPORT 2008

Shepherd Neame is a family controlled brewery and pub operator.

We believe that characteristics central to our success include:

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

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

FINANCIAL HIGHLIGHTS

Turnover

2008

£101.7 million

2007

£100.0 million

Operating profit before exceptionals

2008

£12.6 million

2007

£13.9 million

Profit before tax and exceptionals

2008

£9.1 million

2007

£10.5 million

Earnings per £1 share

2008

49.3 pence

2007

73.4 pence

Dividend per £1 share

2008

22.5 pence

2007

21.5 pence

Net assets per share

2008

£8.67

2007

£8.40

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Miles Templeman CHAIRMAN

Results

This has been a very challenging year for our industry. There has been a sharp downturn in economic activity and consumer confidence in the UK, particularly in the final quarter of our financial year. Our performance has nonetheless been resilient and compares well against a record result in 2007. In spite of the market pressures we have maintained our strategic focus in improving the business. We have modernised our plant and infrastructure, invested in our pubs and brand portfolios, and completed the installation of a new fully integrated IT system.

Turnover has increased by 1.7% to £101.7m. Margins have, however, been squeezed by significant increases in our input costs, such as malt, glass, utilities and food. As a consequence, our operating profit margin before exceptional items has fallen from 13.8% to 12.3%. Operating profit before exceptionals is £12.6m against £13.9m in 2007 and profit before tax and exceptionals for the year is £9.1m against £10.5m in 2007.

During the year the Company incurred exceptional costs of £1.7m in relation to the testing and implementation of our project to install SAP computer software and re-engineer our business processes. The system went live successfully on 30 June and we will incur our final charge related to this project in the first half of our next financial year.

Earnings per share before exceptionals are 48.6p, compared with 60.5p in 2007. Basic earnings per share are 49.3p, down from 73.4p in 2007 when the result benefited from an unusually large property profit, including the sale of the Belvedere Road site, and a one off tax credit of £0.65m due to a change in legislation.

Dividends

A final dividend of 17.9p 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 22.5p per £1 'A' ordinary share and 0.45p per 2p 'B' ordinary share. This represents a 4.1% increase in the final dividend per share and a 4.7% increase in the total dividend per share for both classes of shares for the full year.

The final dividend will be paid on 31 October 2008 to shareholders on the register as at the close of business on 17 October 2008.

Directors

We are pleased to welcome Tom Falcon, who joined the Board on 24 July 2008 as Production and Distribution Director, following Ian Dixon's retirement after 17 years with the Company. Tom joins us from The Maersk Company Ltd (London), part of the A.P. Moller-Maersk Group, where he was Director of Strategy and Process Excellence, responsible for business and process improvement. Tom also held senior positions at Maersk in asset management and procurement and directed a portfolio of transport and distribution companies. We thank Ian for his tremendous contribution. During his time with the Company he has overseen a significant expansion and modernisation of the brewery and the opening of the new distribution centre. This has enabled us to expand our lager portfolio and maintain our enviable levels of quality.

The Market

The beer industry continues to consolidate at the global level with InBev and Anheuser-Busch being the latest to announce merger plans. At the regional and local level I believe there are significant opportunities for smaller operators in the gaps left open by this consolidation. We will continue to exploit the capability of a relatively small scale operation to sell our products more effectively into niche distribution channels. The premium sector of the market is still strong and this is where we focus our attention.

The breadth and quality of our tenanted and managed estate goes from strength to strength. At the same time, however, increasing price differentials have encouraged growth in the take home market and decline in on trade beer consumption. The business is well prepared to take advantage of this change in sales distribution.

The alcohol industry in general continues to face ever increasing political interference. It is particularly disappointing that the Government does not recognise the important social, cultural and community role of British beer and British pubs and also fails to recognise the economic value of our sector. Rather, it sees the industry as a tax collection point on one hand and a social problem on the other. We have to continue to take a leading role in pointing out the error of that perception and to keep the incremental regulatory and tax burden to a minimum in the future.

We do, as with most operators in the sector, take our responsibilities as producers and retailers very seriously and I am pleased to report that during the year we won the Kent Business Award for Corporate Social Responsibility in further recognition of our efforts in this area.

Strategy and Business

The difficult economic environment combined with the smoking ban has clearly hurt the national pub trade, but we still achieve good returns with the right management and the right investment.

The changing landscape reaffirms the need to pursue the niche orientated beer business and to look for further brand opportunities, as well as improving our efficiency and cost effectiveness. The planned investment in our bottling plant will further enhance our capabilities and efficiencies.

The Board strongly believes that our strategy is right for the long term. The investments we have made this year in the brewery, our brands, our sales force and business processes have improved the quality of our operations and will make us stronger for the future.

Current Trading

The immediate outlook remains difficult to predict. We are, as with all businesses, subject to ongoing cost inflation and the state of the UK economy as a whole. There are many indicators that there will be further pressures on UK consumers during the coming year. However, revenue at the start of the year is in line with expectations, with a particularly strong performance from our take home team and robust sales in managed houses.

Summary

The Board has great confidence that the investments and improvements we have made to the Company in this year will continue to move the business forward, and when a more positive consumer outlook returns, we will be even better placed to exploit it.

I should like to take this opportunity to express the Board's thanks for the tremendous efforts made by all members of the Company and our licensees, all of whom have handled a difficult environment well.

M H Templeman
Chairman

The long term success of Shepherd Neame has been the breadth and balance of the vertically integrated business.

Jonathan Neame CHIEF EXECUTIVE

Overview

This year the industry has faced a set of considerable challenges but the Company has responded to them well. The first year of the smoking ban was always going to be difficult for many pubs but for this to coincide with a very wet summer in 2007, spiralling supply chain costs and a sharp drop in consumer confidence in the second half of the year was unprecedented.

Within this context I am pleased to report that the Company was able to grow revenues by 1.7% and for EBITDA to remain strong. Our performance compares well with our record year in 2007.

The market for beer nationally declined by 2.8% in the year to June 2008. There was an accelerated shift in beer consumption from on trade to off trade within the year, with off trade now accounting for 44% of the total market. Overall beer consumption is forecast to decline further and home consumption to increase its share of the market as the price differential between on and off trade grows, exacerbated by the unnecessary and misguided duty increases in the 2008 Budget.

The long term success of Shepherd Neame has been the breadth and balance of the vertically integrated business model. This gives us the strength to be flexible and adaptable in the rapidly changing market. The challenges that the Company faces are similar to those faced by many other companies in the wider economy and are likely to persist throughout the next year. Our focus is to ensure that we pursue the right strategy for the Company for the long term, to continue to enhance our reputation for quality beer, for premium pubs and for customer service, as well as implementing initiatives to mitigate cost increases where possible.

It is particularly pleasing that this year we have been judged *The Publican* Regional Brewer of the Year and been rated *ontrack* Drinks Retailer of the Year in independent consumer research.

Pub Business

Our strategy remains to develop pubs with individual character, a distinct image, good internal and external presentation, with interesting and attractive gardens and a premium product offer.

Pub going habits are changing. Pub visits are becoming more reliant on food and weekend or family occasions. Fine weather, particularly at leisure time, has a large influence. A good cask ale offer too is becoming increasingly important and in this we already have a particular strength.

The UK smoking ban came into effect on 1 July 2007. This adversely affected beer volumes in some pubs and benefited others. The main areas of downturn were in lager, spirits and machine income. Cask ale and wine have performed satisfactorily. The overall impact of the smoking ban has been confused by many other economic factors.

Our pubs have individual character, excellent internal and external presentation, with attractive gardens and a premium product offer.

The quality of food served in our tenanted and managed estate is generally very high with many excellent and diverse offers. Particular mention should be made of The Sportsman at Seasalter, which achieved a Michelin star.

During the year we invested £5.6m in acquiring five new pubs including the prestigious George Hotel, Cranbrook. This is down from our record spend levels in 2007 of £16.4m. It is our strategy to grow the business by selective acquisition of high class individual outlets but we believe there will be limited opportunities to do so in the coming year. We will concentrate on accelerating smaller projects in our tenanted estate and prepare the Company to be able to take advantage of market opportunities that are expected to arise in the longer term. We disposed of seven pubs for total proceeds of £2.4m, bringing our year end total to 375 pubs.

In spite of the challenging conditions we achieved a satisfactory result from our estate. Revenues from the tenanted estate fell by 1.7% with like-for-like contribution down 2.2%. Rental income was strong, increasing by 7.4%.

Licensee recruitment has been encouraging with the number of applications in line with last year. We have noticed applicants coming to take pubs specifically because smoking has been banned and this gives us considerable optimism for the future. We believe that our tenanted model offers a very fair deal for our licensees and is more resilient to downturn than lease alternatives. However, in the short term we are cautious that the general economic situation may make it harder for applicants to raise sufficient funds to take on pubs.

Our retail revenue grew by 0.7%. At the year end we were operating 47 pubs under management. Our like-for-like sales declined by 1.7%. Our London pubs remained very strong with like-for-like growth of 5.1%. After a difficult winter we experienced a recovery in May and June, with like-for-like sales up 2.3%. This continued in the first nine weeks of the new financial year with like-for-like sales growth of 1.2%, which is very encouraging in the light of another wet summer.

Our food sales grew by 4.3% during the year with like-for-like sales down by 0.6%. Food now accounts for 28.3% of total retail turnover, up from 27.4%. Accommodation sales in the managed estate grew by 4.8% and we operated 210 bedrooms under management at the year end. There are a further 189 letting rooms in our tenanted estate.

All pubs have experienced substantial cost increases in the last year, in particular in food and utilities. We work continuously to optimise our food offer to ensure high quality and value for money and to review the energy efficiency of our pubs.

Brands

Our sales volume to the year end was 248,000 barrels, down 2.7% on 2007.

Our ale portfolio has proved very resilient to the difficult market conditions. Spitfire draught was down 4.9%, whilst 500ml bottle sales grew by 15.7%. Bishops Finger total volume grew by 8.3% and our smaller brands such as Whitstable Bay and 1698 Bottled Conditioned have performed very well off a lower base. Since the year end we have launched a new lighter, refreshing cask ale, Canterbury Jack, to fill a gap in our national sales portfolio for a standard strength bitter. Initial response has been very positive.

Asahi Super Dry has had an outstanding year with volume growth of 11.2%, strong brand awareness and positive consumer reaction.

In our lager portfolio, Asahi Super Dry has had an outstanding year with volume growth of 11.2%. We have gained a number of high profile listings in premium bars, restaurants and hotels. Brand awareness is high and consumer reaction is very positive. We expect this growth to continue into 2009. Asahi has considerably enhanced our portfolio and gives us the opportunity to develop other brands into new channels. We have grown our distribution in London and other major cities and have also developed new business with outside events. Our mainstream lagers have, however, performed less well with Oranjeboom and Holsten Export down by 12.0% in line with the difficult market conditions.

We focus on maintaining high awareness of our brands through good PR, sponsorship and promotional events. Activity of note this year was the "Help for Heroes" Spitfire promotion and our support for the European Golf Open. We were also particularly pleased with the high profile achieved in one day cricket through our sponsorship of Kent and Essex. At the year end we launched the "Mr Asahi" robot to conduct taste trials on a national basis. This received very considerable profile.

Our take home team grew revenue by 14.6%. We have gained further distribution with a variety of customers and have also strengthened our sales team. We have, however, struggled with bottling capacity all year and need to invest in the new year to enable us to maximise our potential in this area. As part of this plan we will move to lightweight glass to reduce our impact on the environment. Export has performed extremely well with revenue up 26.2%. Sweden has again been the key performer. Our local free trade business enjoyed a strong year with revenues solid in a very challenging market. National On Sales grew revenues by 12.1% in spite of several major customers experiencing a downturn in business.

The market for beer is changing fast. To take advantage of these opportunities and to build the distribution of our brands we have strengthened and expanded our sales force on a national and regional basis. Key factors for success in the future will be a high quality specialist portfolio, a premium account base, a highly motivated and skilled sales team, a dedicated customer service and an astute use of marketing funds. We have made progress to strengthen each of these areas in the last year.

Brewery

The brewery has experienced spiralling costs - as have other operators – in energy and core raw materials, such as malt and glass. We have, however, focused on maintaining the highest standard of quality in our beers, packaging and supply chain.

Raw material cost per unit has increased by 45% since 2005/6 and we will experience further substantial rises into 2009. In order to mitigate these cost increases we are reviewing all energy intensive plant and have installed state-of-the-art technology in the brewhouse. We have also acquired two Volvo low emission trucks, as part of our new efficient truck fleet.

As the market shifts towards home consumption, we have upgraded our palletiser/de-palletiser, as the first part of a bottling plant modernisation, and brought co-packing in-house. Since the year end we have committed to the final stages of this programme to install a new filler and packing plant. This project will increase the capacity, quality and flexibility of our bottling line and will also reduce energy consumption. This will be completed by mid 2009.

Our project to modernise the bottling line will increase the capacity, quality and flexibility of our packaging, as well as reduce energy consumption.

I am delighted that the quality of our production continues to be recognised by *The Daily Telegraph* Taste of Britain Award and with Kingfisher winning the highly prestigious Monde World Selection Grand Gold Award.

Enterprise Project

I am pleased to report that we went live on the SAP system at the beginning of the new financial year. It has been an enormous undertaking to move from our outdated business processes and fragmented IT platform to a fully integrated ERP system. We have upgraded all our hardware, software and third party interfaces and streamlined our working practices. After many years of underinvestment we have, since 2004, invested £6.7m to modernise our systems and business processes. This gives us a secure, flexible and first class information platform with which to drive operational improvements and efficiencies in the future.

Summary

This has been as difficult a year as anyone in the industry can remember. We have had to contend with significant cost inflation at a time of weakening demand. These conditions are likely to persist into 2009. We remain naturally cautious about the coming year as the precise impact of cost pressures and consumer spending remains uncertain.

In the longer term we remain very positive about the Company's prospects as the changing market is likely to produce a number of opportunities in the future for expanding both our beer and pub business. We continue to invest in the business to ensure that we have the right pubs, the right brand portfolio, the right people skills and production and supply chain capability to take advantage of them as they arise.

J B Neame
Chief Executive

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We focus on maintaining high awareness of our brands through good PR, sponsorship and promotional events.

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

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

Community

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

- Kent Messenger/Shepherd Neame Sponsored Walk in support of the Hospices of Kent has raised £800,000 over 11 years
- Faversham Hop Festival
- Annual Hop Blessing Service
- Faversham Food and Drink Festival
- Various sporting, social and community events throughout Kent
- We raise money through a variety of initiatives associated with the Spitfire brand for the RAFBF Battle of Britain Memorial Trust and other service charities
- This year we have supported the Help for Heroes campaign
- 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 AND COMPANY SECRETARY

1. M H Templeman (60)
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, a Non-Executive Chairman of Yo! Sushi Group Limited and a Non-Executive Director of Melrose plc.

2. J B Neame (44)
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 Brand Owners & Brewers Group of the British Beer & Pub Association.

3. R L Nicol (61)
NON-EXECUTIVE DIRECTOR
PENSION TRUSTEE
Appointed to the Board in November 2003. He is a Scottish qualified solicitor working as a private client lawyer with Brodies LLP, Edinburgh, and previously served in the Scots Guards.

4. J H Leigh-Pemberton (51)
NON-EXECUTIVE DIRECTOR
CHAIRMAN OF THE AUDIT COMMITTEE
Appointed to the Board in September 2004. He is Chief Executive of Credit Suisse in the UK. He is also a Non-Executive Director of RIT Capital Partners.

5. O W A Barnes (57)
NON-EXECUTIVE DIRECTOR
CHAIRMAN OF THE REMUNERATION COMMITTEE
Appointed to the Board in October 2005. He is a solicitor and has been a corporate partner in the City law firm Travers Smith for over 25 years. He is a member of the Law Society's Company Law Committee.

6. K R Littlefair (61)
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 (54)
PROPERTY AND TENANTED TRADE DIRECTOR
Joined the Company in 1978. He is a chartered surveyor and was appointed to the Board in January 2001.

8. N J Bunting (41)
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 (37)
SALES AND MARKETING DIRECTOR
Joined the Company in May 2006 and was appointed to the Board in July 2006. He was previously Convenience Director at PepsiCo, responsible for Walkers, Quaker and Tropicana products throughout the 16,000 stores in the UK Fascia Convenience Channel.

10. T W Falcon (38)
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 (74)
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 (60)
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 United Kingdom in 1986, she initially worked in the same sector and then in the leisure industry as Company Secretary for the Tussauds Group.

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

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

The Board

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

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

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

Committees of the Board

Executive

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

Nomination

The 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 plan with the auditors and recommends approval of the financial statements to the Board.

Remuneration

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

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

The Company aims to ensure that remuneration packages for Executive Directors are competitive and comparable with companies of a similar size, complexity and activity and are designed to attract, retain and motivate Executive Directors with appropriate skills and capabilities. Remuneration comprises fixed remuneration (salary and other benefits) and performance related remuneration (primary and secondary share options in accordance with the rules of the 2005 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 market (www.plusmarketsgroup.com).

Employees and Pensioners

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

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

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

Results
Turnover for the year to 28 June 2008 was £101.7m, an increase of 1.7% on last year.

Operating profit before exceptional items for the year has fallen by 9.3% to £12.6m, with profit before tax and exceptional items falling by 13.6% to £9.1m. The operating profit margin before exceptional items decreased from 13.8% to 12.3%. This reflects the significant increase in the cost of labour, raw material inputs and utilities. Labour costs before exceptional items increased by 6.3% as a result of salary rises in line with inflation and a small increase in headcount, largely in the salesforce. Raw material and utility costs per barrel brewed increased by 23.1% in the year.

Basic earnings per £1 'A' ordinary share decreased by 32.8% to 49.3p, and before exceptional items decreased by 19.7% to 48.6p.

Exceptional Items
The operating exceptional charge of £1.7m related to the cost of re-modelling the Company's business processes in connection with the installation of SAP computer software.

The exceptional profit relating to the sale of seven pubs amounted to £1.3m.

The tax attributable to exceptional items amounted to a credit of £0.5m as a result of rollover relief on the property profit, to give a total exceptional profit after tax of £0.1m.

Taxation
The tax charge after exceptional items was £2.4m, an effective rate of 28.0% (2007 – £2.3m and 19.7%). 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 29.4% (2007 – 26.4%). The prior year tax charge was also reduced by a release of a deferred tax provision of £0.7m as a result of the then prospective reduction in the corporation tax rate and changes to the capital allowance regime introduced in the Finance Act 2007.

Dividends
Dividends paid and proposed in respect of the year increased by 4.4% to £2,868,000 (2007 – £2,748,000). Dividend cover was 2.2 (2007 – 3.4).

Cash Flow and Financing
Earnings before interest, tax, depreciation and amortisation (EBITDA) and before exceptional charges and free trade loan discounts was £18.1m (2007 – £19.3m) and after exceptional charges was £16.4m (2007 – £18.1m). Net cash inflow from operating activities was £15.7m (2007 – £20.7m).

There was a net cash outflow before financing of £7.0m compared with a net cash outflow of £12.7m in 2007.

The 20 year term loan of £60.0m was fully drawn down in the year in accordance with the loan agreement. The Group's net borrowing increased from £53.4m to £60.9m and balance sheet gearing is now 55% (2007 – 50%).

Term loan interest has been fixed by swap contracts to give an effective rate of interest of just under 6%. Net interest has remained at £3.5m.

Interest cover before exceptional items is 3.5 times (2007 – 4.1 times) and the ratio of net debt to EBITDA before exceptional items is 3.4 (2007 – 2.8).

Fixed Assets
During the year expenditure on tangible fixed assets amounted to £15.3m, including the purchase of five new pubs. The company has also disposed of or written off assets with a net book value of £1.2m, including seven pubs, for proceeds of £2.5m.

The charge for depreciation was £5.2m (2007 – £5.1m) and the net increase in tangible assets amounted to £8.9m.

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

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

Borrowings comprise a mixture of long term borrowings, a revolving credit facility and a committed multi-option overdraft facility. In order to protect itself from upward movements in interest rates, the Company has entered into interest rate swap contracts covering the 20 year term loan. The short term borrowings carry floating rates of interest based on LIBOR and National Westminster Bank base rate.

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

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

The Directors have pleasure in presenting their ninety-fourth Annual Report and Accounts for the year ended 28 June 2008.

Activities and Review of Business

The principal activities of the Company are the brewing and packaging of beer; the wholesaling and retailing of beer, cider, wines, spirits and minerals; property ownership and public house and hotel management. This report should be read in conjunction with the Chairman's Statement, Chief Executive's Review and Financial Review which provide further details of the Company's activities for the year ended 28 June 2008 including comments on sales, sales volumes and contribution and the key performance indicators (KPIs) used by the Directors to monitor the business. Those KPIs include profit margin, EPS, interest cover, gearing and net debt to EBITDA (earnings before interest, tax, depreciation, amortisation and free trade loan discounts). The principal risks and uncertainties in the business include the effect of the current economic downturn, the effect of increasing regulation, and the price of raw materials and utilities, as discussed in those statements.

Dividends

The Company paid an interim dividend of 4.55% (2007 – 4.30%) on the 'A' and 'B' ordinary shares and the Directors now recommend a final dividend of 17.90% (2007 – 17.20%) on both classes of shares. This makes a total dividend for the year of 22.45% (2007 – 21.50%).

The total proposed final dividend on ordinary shares will be £2,288,000 (2007 – £2,198,000) which together with the 2008 interim dividend paid of £580,000 (2007 – £550,000) will make total dividends of £2,868,000 (2007 – £2,748,000).

Directors

The names of the Directors at 28 June 2008 are those set out on page 15 except for Mr T W Falcon who was appointed to the Board on 24 July 2008 and Mr I J Dixon who retired on the same date. Particulars of the Directors' interests in the Company's shares are set out in note 25 to the accounts.

Mr M H Templeman, Mr O W A Barnes and Mr N J Bunting retire from the Board by rotation and will be offering themselves for re-election.

Mr I J Dixon, who was a director of the Company throughout the year, retired on 24 July 2008 and was replaced by Mr T W Falcon, who was appointed to the Board on the same date. Mr Falcon will offer himself for election at the forthcoming AGM.

Fixed Assets

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

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

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

Purchase of Own Shares

During the year 31,768 £1 'A' ordinary shares, representing 0.28% of that class of share, were purchased at a cost of £517,000 (2007 – 29,470 £1 'A' ordinary shares, being 0.26% of that class at a cost of £468,000). These shares were acquired in connection with the Company's obligations under the Shepherd Neame Limited Employee Share Incentive Plan and the 1995 Restricted Share Scheme. The maximum number of shares held in the year was 230,881 representing 2.0% of the £1 'A' ordinary shares in issue at a cost of £2,353,000 (2007 – 206,750 shares being 1.8% of the £1 'A' ordinary shares in issue at a cost of £1,889,000).

Directors' responsibilities for the financial statements

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

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

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

The maintenance and integrity of the Shepherd Neame web site 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 web site. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

Directors' Statement as to Disclosure of Information to the Auditors

The Directors who were members of the Board at the time of approving the Directors' Report are listed on page 15. Having made enquiries of fellow Directors, each of these Directors confirms that:

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

Use of Financial Instruments

A statement in relation to the use of financial instruments by the Company is given in the Financial Review and also in note 27 to the accounts on pages 40 and 41.

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 £22,000 (2007 – £20,000) for charitable purposes.

Auditors

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

By order of the Board
F J Lester
Company Secretary
17 Court Street
Faversham
Kent

25 September 2008

We have audited the Group and Parent Company's financial statements (the "financial statements") of Shepherd Neame Limited for the year ended 28 June 2008 which comprise the Consolidated Profit and Loss Account, the Group and Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses, the Consolidated Note of Historical Cost Profits and Losses and the related notes 1 to 28. These financial statements have been prepared under the accounting policies set out therein.

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

Respective Responsibilities of Directors and Auditors

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

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

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

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

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

Basis of Audit Opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the Parent Company's affairs as at 28 June 2008 and of the Group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Ernst & Young LLP
Registered auditor
London

25 September 2008

CONSOLIDATED PROFIT AND LOSS ACCOUNT

52 weeks ended 28 June 2008

	note	2008 before exceptional items £'000	2008 exceptional items £'000	2008 total £'000	2007 £'000
Turnover	1	101,718	–	101,718	100,047
Operating charges	2, 3	(89,157)	(1,696)	(90,853)	(87,974)
Operating profit		12,561	(1,696)	10,865	12,073
Profit on sale of property	3	–	1,279	1,279	3,031
Profit on ordinary activities before interest		12,561	(417)	12,144	15,104
Interest receivable and similar income		84	–	84	21
Interest payable and similar charges	3, 4	(3,552)	–	(3,552)	(3,553)
Profit on ordinary activities before taxation		9,093	(417)	8,676	11,572
Taxation	5	(2,925)	500	(2,425)	(2,280)
Profit for the year after taxation		6,168	83	6,251	9,292
Earnings per £1 nominal share value (p)					
Basic	7			49.3p	73.4p
Diluted	7			48.9p	72.8p
Basic before exceptional items	7			48.6p	60.5p

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

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2008 £'000	2007 £'000
Total recognised gains and losses in the year	6,251	9,292
Prior year adjustments:		
FRS 20 – share-based payment	–	(40)
Total gains and losses recognised since the last annual report	6,251	9,252

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

NOTE OF CONSOLIDATED HISTORICAL COST PROFITS AND LOSSES

	2008 £'000	2007 £'000
Profit on ordinary activities before taxation	8,676	11,572
Realisation of property revaluation	(41)	466
Historical cost profit on ordinary activities before taxation	8,635	12,038
Historical cost profit for the year retained after taxation	6,210	9,758

As at 28 June 2008

	note	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Fixed assets					
Intangible fixed assets	10	**128**	164	**128**	164
Tangible fixed assets	11	**171,458**	162,578	**171,458**	162,578
Investments and loans	12	**1,929**	2,029	**2,030**	6,181
		173,515	164,771	**173,616**	168,923
Current assets					
Stock	13	**5,870**	5,542	**5,870**	5,542
Debtors	14	**16,301**	14,873	**16,301**	14,873
Cash		**86**	96	**86**	96
		22,257	20,511	**22,257**	20,511
Creditors: amounts falling due within one year					
Bank loans and overdrafts		**(1,605)**	(4,112)	**(1,605)**	(4,112)
Creditors	15	**(19,023)**	(20,387)	**(19,120)**	(24,539)
		(20,628)	(24,499)	**(20,725)**	(28,651)
Net current assets/(liabilities)		**1,629**	(3,988)	**1,532**	(8,140)
Total assets less current liabilities		**175,144**	160,783	**175,148**	160,783
Creditors: amounts falling due after more than one year	16	**(59,409)**	(49,380)	**(59,409)**	(49,380)
Provisions for liabilities – deferred tax	20	**(4,563)**	(3,743)	**(4,563)**	(3,743)
Net assets		**111,172**	107,660	**111,176**	107,660
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	**16,269**	16,228	**16,269**	16,228
Reserve for own shares held	22	**(1,587)**	(1,515)	**(1,587)**	(1,515)
Profit and loss account	22	**82,233**	78,690	**82,237**	78,690
Equity shareholders' funds	23	**111,172**	107,660	**111,176**	107,660

These accounts were approved by the Board of Directors on 25 September 2008 and were signed on its behalf by:

M H Templeman
J B Neame
Directors

CONSOLIDATED CASH FLOW STATEMENT

52 weeks ended 28 June 2008

	£'000	2008 £'000	£'000	2007 £'000
Net cash inflow from operating activities		15,738		20,719
Returns on investment and servicing of finance				
Interest paid	(2,692)		(4,081)	
Interest received	84		21	
		(2,608)		(4,060)
Taxation paid		(2,111)		(2,313)
Capital expenditure and financial investment				
Purchase of tangible fixed assets	(17,240)		(30,052)	
Proceeds of sales of tangible fixed assets	2,201		5,631	
Receipt on dissolution of associated company	13		–	
Additional loans to customers	(423)		(434)	
Customer loan redemptions	222		349	
		(15,227)		(24,506)
Equity dividends paid		(2,778)		(2,587)
Net cash flow before financing		(6,986)		(12,747)
Financing				
Purchase of own shares		(517)		(468)
Repayment of loan from associated undertaking		–		(18,500)
New short term loan		–		2,000
Repayment of short term loan		(1,000)		–
New long term loan		10,000		31,000
Issue cost of new long term loans (including exceptional interest charge)		–		(557)
Movement in cash during the year		1,497		728

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

	2008 before exceptional items £'000	2008 exceptional items £'000	**2008 total £'000**	2007 £'000
Operating profit	12,561	(1,696)	**10,865**	12,073
Depreciation and amortisation	5,268	–	**5,268**	5,089
Charge for share-based payments credited to reserves	556	–	**556**	429
Increase in stocks	(328)	–	**(328)**	(611)
Increase in debtors and prepayments	(1,163)	–	**(1,163)**	(933)
Increase in creditors and accruals	245	–	**245**	3,720
Free trade loan discounts	293	–	**293**	305
Loss on sale of assets (excluding property)	2	–	**2**	13
Pre-project costs	–	–	**–**	634
	4,873	–	**4,873**	8,646
Net cash inflow from operating activities	17,434	(1,696)	**15,738**	20,719

2 Reconciliation of cash flows to movement in net debt

	2008 £'000	2007 £'000
Opening cash and overdraft	**(2,016)**	(2,744)
Closing cash and overdraft	**(519)**	(2,016)
Increase in cash during the year	**1,497**	728
Repayment of loan from associated undertaking	**–**	18,500
New long term loan	**(10,000)**	(31,000)
Issue costs capitalised	**–**	351
New short term loans	**–**	(2,000)
Repayment of short term loan	**1,000**	–
Amortisation of loan premium	**–**	44
Amortisation of loan issue costs	**(29)**	(18)
Movement in net debt during the year	**(7,532)**	(13,395)
Net debt at beginning of year	**(53,396)**	(40,001)
Net debt at end of year	**(60,928)**	(53,396)

3 Analysis of changes in net debt

	2007 £'000	Cash flow £'000	Repayment of short term loan £'000	New loans £'000	Amortisation of issue costs £'000	**2008 £'000**
Cash at bank	96	(10)	–	–	–	**86**
Bank overdrafts	(2,112)	1,507	–	–	–	**(605)**
Debt due within one year	(2,000)	–	1,000	–	–	**(1,000)**
	(4,016)	1,497	1,000	–	–	**(1,519)**
Debt due after more than one year	(49,380)	–	–	(10,000)	(29)	**(59,409)**
Total	(53,396)	1,497	1,000	(10,000)	(29)	**(60,928)**

a Basis of preparation and change in accounting policies

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

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; and
- deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

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

i Turnover

Turnover is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on despatch of the goods; or on provision of services. Rental income received from the tied estate properties is recognised 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 date is recognised in the income statement, with a corresponding entry in equity.

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

1 Turnover

Turnover comprises sales net of discounts, rents receivable and services rendered from continuing trading activities, excluding value added tax. The Directors consider that the business carried on by the Group is that of a fully integrated regional brewer operating in the UK and that this constitutes one class of business.
The export sales during the year were £1,684,000 (2007 – £1,334,000).

2 Operating charges

	Before exceptional items 2008 £'000	Exceptional items 2008 £'000	Total 2008 £'000	2007 £'000
Change in stocks of finished goods and work in progress	(195)	–	(195)	(517)
Goods for resale	16,891	–	16,891	16,349
Raw materials, duty and consumables	26,435	–	26,435	25,722
Staff costs:				
Wages and salaries	18,701	567	19,268	17,979
Social security costs	1,602	35	1,637	1,567
Other pension costs	875	21	896	803
Depreciation and amortisation	5,268	–	5,268	5,089
Loss on sale of fixed assets (excluding properties)	2	–	2	13
Property repairs	970	–	970	1,538
Operating lease rentals – land & buildings	2,023	–	2,023	1,909
Other operating charges	16,585	1,073	17,658	16,888
Pre-contract cost written off	–	–	–	634
	89,157	1,696	90,853	87,974

The auditors' remuneration for the year amounted to £81,000 for audit services of the Company (2007 – £75,500) and £4,000 for local statutory audits for subsidiary companies (2007 – £8,000) and £6,000 for the audit of the company pension scheme (2007 – £6,000).

3 Exceptional items

	2008 £'000	2007 £'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 (2007 – also included charges associated with pre-contract costs and mapping the existing business processes)	(1,696)	(1,778)
Interest payable and similar charges – arrangement fees and legal and professional charges in respect of renegotiating and extending the term of the existing bank loan	–	(206)
	(1,696)	(1,984)
Non operating items:		
Profit on sale of property	1,279	3,031
Total exceptional items before tax	(417)	1,047
Taxation	500	595
Total exceptional items after tax	83	1,642

4 Interest payable and similar charges

	2008 £'000	2007 £'000
Pubco plc loan	–	478
Bank loans and overdrafts	3,450	2,787
Other	102	82
	3,552	3,347
Exceptional charges in respect of re-financing (see note 3)	–	206
	3,552	3,553

5 Taxation

a) Tax on profit on ordinary activities

	2008 £'000	2007 £'000
Current tax:		
UK corporation tax at average statutory rate 29.5% (2007 – 30%)	1,734	2,339
Prior year (over)/under provision	(129)	120
Total current tax	1,605	2,459
Deferred tax:		
Origination and reversal of timing differences	563	478
Prior year under/(over) provision	257	(2)
Impact of prospective reduction in the rate of corporation tax	–	(248)
Impact of changes in the IBA regime introduced by Finance Act 2007	–	(407)
Total deferred tax	820	(179)
Total tax charge	2,425	2,280

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 29.5% (2007 – 30%).

The differences are reconciled below.

	2008 £'000	2007 £'000
Profit on ordinary activities before tax	8,676	11,572
UK corporation tax at average statutory rate 29.5% (2007 – 30%)	2,559	3,472
Expenses not deductible for tax purposes and non-taxable income	(103)	118
Capital allowances in excess of depreciation	(590)	(498)
Short term timing differences	(3)	20
Rolled over gains on asset disposals	(129)	(773)
Prior year (over)/under provision	(129)	120
	1,605	2,459

The exceptional profit on the disposal of properties of £1,279,000 (2007 – £3,031,000) does not give rise to a tax charge (2007 – £nil) due to rollover relief.

c) Factors that may affect future tax charges

No provision is made for the taxation liability which would arise on the disposal of properties at their revalued amounts or on gains rolled over into replacement assets. Such tax would become payable only if the property were sold without it being possible to claim rollover relief. The total amount unprovided is estimated at £6.7m (2007 – £6.6m), based on a corporation tax rate of 28% (2007 – 28%). At present it is not envisaged that any such tax will become payable in the foreseeable future.

6 Dividends

	2008 £'000	2007 £'000
Declared and paid during the year		
£1 'A' ordinary shares:		
Final dividend for 2007: 17.20p (2006 – 15.95p)	1,964	1,820
Interim dividend for 2008: 4.55p (2007 – 4.30p)	518	492
	2,482	2,312
2p 'B' ordinary shares:		
Final dividend for 2007: 0.344p (2006 – 0.319p)	234	217
Interim dividend for 2008: 0.091p (2007 – 0.086p)	62	58
	296	275
Dividends paid	2,778	2,587
Proposed for approval at the AGM:		
Final dividend for 2008 on £1 'A' ordinary shares: 17.90p (2007 – 17.20p)	2,045	1,964
Final dividend for 2008 on 2p 'B' ordinary shares: 0.358p (2007 – 0.344p)	243	234
	2,288	2,198

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

Based on £1 nominal share value	2008 £'000	2007 £'000
Profit attributable to equity shareholders	6,251	9,292
Weighted average share capital	12,680	12,651
Dilutive outstanding options	106	110
Adjusted weighted average share capital	12,786	12,761
Basic	49.3p	73.4p
Diluted	48.9p	72.8p
Basic before exceptional items	48.6p	60.5p

The earnings per share before exceptional items are calculated on profit after tax and before exceptional items of £6,168,000 (2007 – £7,650,000 being profit after tax of £9,292,000 less exceptional profit of £1,642,000 – see note 3).

8 Directors' remuneration

	2008 £'000	2007 £'000
Aggregate amount:		
Directors' emoluments	1,174	1,132
Pension contributions	181	166
	1,355	1,298

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

Six Directors had pension benefits accruing under money purchase schemes (2007 – six)

	2008 £'000	2007 £'000
Highest paid Director:		
Emoluments	232	231
Pension contributions	38	37
	270	268

9 Employees

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

	2008 Number of employees	2007 Number of employees
Brewery	313	304
Retailing	829	829
	1,142	1,133

10 Intangible fixed assets

Group and Company	Licences and trade marks £'000
Cost	
At 30 June 2007 and 28 June 2008	**364**
Amortisation	
At 30 June 2007	200
Provided during the year	36
At 28 June 2008	**236**
Net book value at 28 June 2008	**128**
Net book value at 30 June 2007	164

11 Tangible fixed assets

Group and Company	Freehold properties £'000	Leasehold properties under 50 years £'000	Plant vehicles and containers £'000	Fixtures and fittings £'000	Assets under construction £'000	Total £'000
Valuation or cost:						
At 30 June 2007	131,670	5,509	23,165	34,959	4,698	200,001
Additions	5,236	273	2,329	5,230	2,266	15,334
Disposals	(796)	–	(390)	(1,072)	–	(2,258)
Transfers	3,041	–	–	–	(3,041)	–
At 28 June 2008	**139,151**	**5,782**	**25,104**	**39,117**	**3,923**	**213,077**
Accumulated depreciation						
At 30 June 2007	2,128	1,458	13,053	20,784	–	37,423
Charge for year	329	232	1,938	2,733	–	5,232
On disposals	(9)	–	(319)	(708)	–	(1,036)
At 28 June 2008	**2,448**	**1,690**	**14,672**	**22,809**	**–**	**41,619**
Net book values						
At 28 June 2008	**136,703**	**4,092**	**10,432**	**16,308**	**3,923**	**171,458**
At 30 June 2007	129,542	4,051	10,112	14,175	4,698	162,578

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 £61,605,000 are included in the valuation or cost of the freehold properties at 28 June 2008 (2007 – £61,564,000).

If they had not been revalued, freehold properties would have been carried in the balance sheet at 28 June 2008 at:

	2008 £'000	2007 £'000
Cost	**113,449**	105,967
Accumulated depreciation	**(1,788)**	(1,495)
Net book amount	**111,661**	104,472

Included in additions is £18,000 (2007 – £24,000) of own labour capitalised.

The Company has entered into certain operating leases as lessor. The gross cost of assets held for use under these leases amounted to £977,000 (2007 – £178,000) and the related accumulated depreciation charges amounted to £95,000 (2007 – £13,000) and the aggregate rentals receivable amounted to £64,000 (2007 – £1,000).

12 Investments and loans

	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Investment in subsidiaries	–	–	101	4,152
Investment in associated undertaking	–	8	–	8
Loans to customers	1,929	2,021	1,929	2,021
	1,929	2,029	2,030	6,181

a Company investments in subsidiaries

	Cost £'000	Provision £'000	Net book value £'000
At 30 June 2007	4,152	–	4,152
Provision against investment	–	(4,008)	(4,008)
Adjustment to purchase consideration	(43)	–	(43)
At 28 June 2008	4,109	(4,008)	101

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 investment in associated undertakings

The Company held 33.3% of the ordinary share capital of Pubco plc, a company registered in England and Wales. Pubco plc was liquidated during the year. A final distribution of £13,000 was received from the liquidator.

c Group and Company – Loans to customers

	2008 £'000	2007 £'000
At 30 June 2007	2,021	2,241
Additions	334	627
Redemptions	(426)	(847)
At 28 June 2008	1,929	2,021

13 Stock

Group and Company	2008 £'000	2007 £'000
Raw materials and consumables	1,635	1,541
Work in progress	377	452
Finished goods including goods for resale	3,858	3,549
	5,870	5,542

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

14 Debtors

Group and Company	2008 £'000	2007 £'000
Trade debtors	13,381	11,754
Other debtors	795	1,210
Prepayments	2,125	1,909
	16,301	14,873

15 Creditors: amounts falling due within one year

	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Trade creditors	**6,646**	7,835	**6,646**	7,835
Amounts due to subsidiary undertakings	**–**	–	**101**	4,152
Corporation tax	**1,098**	1,604	**1,094**	1,604
Other tax and social security	**4,707**	4,149	**4,707**	4,149
Accruals and deferred income	**4,135**	4,439	**4,135**	4,439
Trade deposits	**2,151**	2,167	**2,151**	2,167
Other creditors	**286**	193	**286**	193
	19,023	20,387	**19,120**	24,539

16 Creditors: amounts falling due after more than one year

Group and Company	2008 £'000	2007 £'000
Bank loan	**60,000**	50,000
Less: loan issue costs	**(591)**	(620)
	59,409	49,380

The bank loan is a 20 year term loan of £60.0m funded by the Royal Bank of Scotland plc and Lloyds TSB Bank plc, which was arranged in April 2007.

The 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. This gives a repayment profile as follows:

Group and Company	2008 £'000	2007 £'000
Amounts payable in over five years	**60,000**	50,000

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 £180,000 (2007 – £1,210,000).

18 Other financial commitments

Group and Company	Land and buildings 2008 £'000	Land and buildings 2007 £'000
Annual commitments under operating leases which expire:		
Within 1 year	**–**	11
Within 2-5 years	**257**	74
After 5 years	**1,758**	1,853
	2,015	1,938

19 Contingent liabilities

The Company has guaranteed a mortgage totalling £53,000 (2007 – £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 30 June 2007	3,743
Charged in the year	820
As at 28 June 2008	**4,563**

Analysis of deferred taxation

	2008 £'000	2007 £'000
Accelerated capital allowances	**4,656**	3,787
Other timing differences	**(93)**	(44)
	4,563	3,743

21 Share capital

Group and Company	**2008 £'000**	2007 £'000
a Authorised:		
12,874,400 'A' ordinary shares of £1 each	**12,874**	12,874
68,000,000 'B' ordinary shares of 2p each	**1,360**	1,360
	14,234	14,234
b Allotted and fully paid:		
11,457,500 'A' ordinary shares of £1 each	**11,458**	11,458
68,000,000 'B' ordinary shares of 2p each	**1,360**	1,360
	12,818	12,818

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

22 Reserves

Group	Share premium £'000	Revaluation reserve £'000	Own shares held £'000	Profit & loss account £'000	Total £'000
Balance at 30 June 2007	1,439	16,228	(1,515)	78,690	94,842
Profit for the period	–	–	–	6,251	6,251
Dividends paid	–	–	–	(2,778)	(2,778)
Transfer of realised revaluation	–	41	–	(41)	–
Accrued share-based payments	–	–	–	556	556
Purchase of own shares	–	–	(517)	–	(517)
Distribution of own shares	–	–	194	(194)	–
Unconditionally vested	–	–	251	(251)	–
Balance at 28 June 2008	**1,439**	**16,269**	**(1,587)**	**82,233**	**98,354**

22 Reserves continued

Company	Share premium £'000	Revaluation reserve £'000	Own shares held £'000	Profit & loss account £'000	Total £'000
Balance at 30 June 2007	1,439	16,228	(1,515)	78,690	94,842
Profit for the period	–	–	–	1,910	1,910
Dividends paid	–	–	–	(2,778)	(2,778)
Dividends received	–	–	–	4,345	4,345
Transfer of realised revaluation	–	41	–	(41)	–
Accrued share-based payments	–	–	–	556	556
Purchase of own shares	–	–	(517)	–	(517)
Distribution of own shares	–	–	194	(194)	–
Unconditionally vested	–	–	251	(251)	–
Balance at 28 June 2008	**1,439**	**16,269**	**(1,587)**	**82,237**	**98,358**

The Group and the Company held 201,760 £1 'A' ordinary shares at 28 June 2008 with a market value of £2,219,000 (2007 – 204,188 and £3,854,000). 167,346 of the own shares held are allocated to employees under the Share Incentive Plan, of which 81,383 have vested unconditionally and as such are no longer treated as own shares held (2007 – 165,296 and 63,252 respectively). 21,700 of these shares can be distributed to the employees free of tax (2007 – nil).

23 Reconciliation of movements in shareholders' funds

	Group 2008 £'000	Group 2007 £'000	**Company 2008 £'000**	Company 2007 £'000
Shareholders' funds at the beginning of the year as previously reported	**107,660**	100,994	**107,660**	100,994
Profit after taxation	**6,251**	9,292	**1,910**	9,292
Ordinary dividends paid	**(2,778)**	(2,587)	**(2,778)**	(2,587)
Ordinary dividends received	**–**	–	**4,345**	–
Accrued share-based payments	**556**	429	**556**	429
Purchase of own shares	**(517)**	(468)	**(517)**	(468)
Movement during the year	**3,512**	6,666	**3,516**	6,666
Shareholders' funds at the end of the year	**111,172**	107,660	**111,176**	107,660

24 Profit attributable to members of the parent company

A separate company income statement has not been prepared in accordance with Section 230 of the Companies Act 1985.
Profit attributable to members of the parent company was £1,910,000 (2007 – £9,292,000).

25 Directors' interests

The interests of the Directors in the Company's shares at 28 June 2008 (30 June 2007 or date of appointment if later) are as follows:

		'A' ordinary shares			'B' ordinary shares	
		Beneficial	As trustees	Under SIP*	Beneficial	As trustees
J B Neame	**2008**	**64,355**	**208,010**	**1,991**	**1,737,800**	**779,182**
	2007	65,855	175,910	1,805	1,731,050	772,132
O W A Barnes	**2008**	**55,396**	**–**	**–**	**610,130**	**–**
	2007	55,396	–	–	604,930	–
R L Nicol	**2008**	**104,000**	**340,268**	**–**	**369,150**	**3,907,012**
	2007	104,000	356,268	–	368,300	4,387,720
G H A Barnes	**2008**	**15,884**	**–**	**1,371**	**55,900**	**–**
	2007	15,139	–	1,805	52,050	–
N J Bunting	**2008**	**4,962**	**–**	**1,619**	**–**	**–**
	2007	4,962	–	1,433	–	–
I J Dixon	**2008**	**9,111**	**–**	**1,991**	**–**	**–**
	2007	8,330	–	1,805	–	–
K R Littlefair	**2008**	**–**	**–**	**1,991**	**–**	**–**
	2007	–	–	1,805	–	–
G R Craig	**2008**	**250**	**–**	**186**	**–**	**–**
	2007	250	–	–	–	–

The beneficial holdings of 'A' ordinary shares includes shares awarded under the Employee Profit Share Scheme that have not been transferred into the Directors' names but are held in trust. The holdings under the SIP were allocated in January 2003, 2004, 2005, 2006 and November 2006 and 2007 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 28 June 2008 (30 June 2007 or date of appointment if later) are as follows:

	At 2007	Granted	Exercised	Forfeited	At 2008		Price at exercise date £	Exercise price £	Date from which exercisable	Expiry date
J B Neame	381	–	–	–	**381**	*		0.0001	29/10/07	31/10/11
	381	–	–	(190)	**191**	**		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
	2,006	3,878	–	(190)	**5,694**					
G H A Barnes	250	–	(250)	–	**–**	*	16.15	0.0001	29/10/07	31/10/11
	250	–	(125)	(125)	**–**	**	16.15	0.0100	29/10/07	31/10/11
	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
	1,276	2,419	(375)	(125)	**3,195**					

25 Directors' interests continued

	At 2007	Granted	Exercised	Forfeited	**At 2008**		Price at exercise date £	Exercise price £	Date from which exercisable	Expiry date
I J Dixon[1]	446	–	(446)	–	**–**	*	12.88	0.0001	26/10/06	24/01/09
	335	–	(335)	–	**–**	**	12.88	0.0100	26/10/06	24/01/09
	252	–	–	–	**252**	*		0.0001	29/10/07	24/01/09
	252	–	–	(126)	**126**	**		0.0100	29/10/07	24/01/09
	388	–	–	–	**388**	***		1.0000	24/07/08	24/01/09
	388	–	–	–	**388**	****		1.0000	24/07/08	24/01/09
	–	468	–	–	**468**	***		1.0000	24/07/08	24/01/09
	–	1,951	–	–	**1,951**	****		1.0000	24/07/08	24/01/09
	2,061	2,419	(781)	(126)	**3,573**					
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
	296	–	–	(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
	2,424	2,909	–	(148)	**5,185**					
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
	1,011	2,116	–	–	**3,127**					
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
	132	2,419	–	–	**2,551**					
Total	8,910	16,160	(1,156)	(589)	**23,325**					

* 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.
Performance options in respect of 589 shares held at 1 July 2007 lapsed during the year on failure to achieve certain performance criteria.
The market price of the shares at 28 June 2008 was £11.00 (30 June 2007 – £18.875) and the range during the year was £9.175 to £18.875 (2007 – £12.90 to £19.125)

[1] Mr I J Dixon retired on 24 July 2008 and in accordance with the terms of the option schemes, the options granted to him are exercisable on his retirement and expire on 24 January 2009.

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 and 2007. Participants are entitled to these free shares from three years after the date of the award if they remain in the Company's employment.

During the year the Company purchased 27,416 'A' ordinary shares at an average cost of £16.07 per share (2007 – 27,532 shares at an average cost of £16.03).

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

	2008 Number	2007 Number
Outstanding shares at 30 June 2007	**165,296**	160,596
Granted during the year	**35,062**	27,917
Forfeited during the year	**(6,233)**	(5,557)
Distributed during the year	**(26,779)**	(17,660)
Outstanding shares at 28 June 2008	**167,346**	165,296
Distributable at 28 June 2008	**81,383**	63,252

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 £12.944 (2007 – £16.909).
The weighted average fair value of the shares granted during the year was £16.125 (2007 – £18.725). The fair value, taking into account the terms and conditions upon which the shares were granted, equates to the market price as at the date of grant.
The expense recognised for share-based payments made under SIP in respect of employee services during the year to 28 June 2008 is £503,000 (2007 – £393,000).

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 4,352 'A' ordinary shares at an average cost of £17.63 per share (2007 – 1,938 shares at an average cost of £13.47).

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

	2008 Number	2008 Weighted average exercise price	2007 Number	2007 Weighted average exercise price
Outstanding brought forward	**14,320**	**£0.00315**	19,099	£0.00313
Exercised	**(7,417)**	**£0.00447**	(4,152)	£0.00200
Forfeited during the year	**(856)**	**£0.01000**	(627)	£0.01000
Outstanding options at 28 June 2008	**6,047**	**£0.00150**	14,320	£0.00315
Exercisable at 28 June 2008	**6,047**	**£0.00150**	9,758	£0.00311

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 28 June 2008 is £4,000 (2007 – £22,000).
The weighted average share price at date of exercise for options exercised is £13.36 (2007 – £18.09).

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.

26 Share-based payment continued

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

	2008 Number	2008 Weighted average exercise price	2007 Number	2007 Weighted average exercise price
Outstanding options at 30 June 2007	**7,313**	**£1.00**	–	–
Granted during the year	**19,085**	**£1.00**	7,313	£1.00
Outstanding options at 28 June 2008	**26,398**	**£1.00**	7,313	£1.00

None of these options were exercisable at 28 June 2008.

The weighted average fair value of the options granted during the year was £15.38 (2007 – £17.55). The exercise price for all options outstanding at the end of the year was £1.00.

The fair value of the equity settled share options granted under the scheme is estimated at the date of grant using the Black-Scholes option pricing model taking into account the terms and conditions upon which the instruments were granted. The following table lists the inputs to the model used for the years ended 28 June 2008 and 30 June 2007.

	2008	2007
Expected share price volatility	**40 to 50%**	12 to 18%
Risk-free interest rate	**5.75%**	4.75%
Expected life of option (years)	**6.5**	6.5
Weighted average share price	**£15.38**	£17.55

The expense recognised for share-based payments made under the Shepherd Neame 2005 Restricted Share Scheme in respect of employee services during the year to 28 June 2008 is £49,000 (2007 – £14,000).

27 Financial instruments

Group and Company

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

Interest rate risk

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

Liquidity risk

It is currently the Group's policy to finance the majority of its business needs by means of a long term bank loan of £60.0m which was fully drawn at the year end. The balance of its requirement is financed through a five year revolving credit loan facility of £10.0m, which matures in April 2012 and a committed overdraft facility of £5.0m, which matures in April 2009. The size of the facilities is regularly reviewed and the overdraft facility is renewed annually. At the year end £1.0m (2007 – £2.0m) of the revolving credit loan facility and £0.6m (2007 – £2.1m) of the overdraft facility was being utilised.

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. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in note 14. There is no significant concentrations of credit risk within the Group.

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

27 Financial instruments continued

Financial assets

The Group also funds certain free trade customers with loans. At the balance sheet date these loans amounted to £1,929,000 (2007 – £2,021,000).

The maturity profile of these assets is:	2008 £'000	2007 £'000
Recoverable < 1 year	**23**	116
Recoverable 1-5 years	**720**	615
Recoverable > 5 years	**1,186**	1,290
	1,929	2,021

Of these loans £597,000 is expected to be repaid in cash and £1,332,000 is expected to be repaid by discounts (2007 – £554,000 and £1,467,000 respectively). The level of discounts awarded, and the interest and fees charged, depends on the trading performance of each customer against individual targets.

Interest rate profile

The interest rate profile of the borrowing is:

	2008 Notional principal £'000	2008 Weighted average interest rate (%)	2008 Weighted average period for which rate fixed (years)	2007 Notional principal £'000	2007 Weighted average interest rate (%)	2007 Weighted average period for which rate fixed (years)
Bank loan	**60,000**	**5.79**	**18.75**	50,000	5.76	19.75

Short term borrowings outstanding at 28 June 2008 amounted to £1,605,000 (30 June 2007 – £4,112,000) comprising £605,000 (2007 – £2,112,000) overdraft bearing interest at 0.75% above National Westminster Bank base rate which was 5% at 28 June 2008 (2007 – 5.5%) and £1,000,000 (2007 – £2,000,000) revolving credit facility bearing interest at between 0.56% and 1.65% above LIBOR. 3 month LIBOR was 5.945% at 28 June 2008 (2007 – 6.00375%).

Fair values of financial assets and liabilities

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

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

	Book value 2008 £'000	Fair value 2008 £'000	Book value 2007 £'000	Fair value 2007 £'000
Primary financial instruments:				
Variable rate bank loan	**(60,000)**	**(60,000)**	(50,000)	(50,000)
Short term borrowings	**(1,605)**	**(1,605)**	(4,112)	(4,112)
Cash	**86**	**86**	96	96
Derivative financial instruments held to manage the interest rate profile:				
Interest rate swaps – deferred	**–**	**(393)**	–	(2,282)

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

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

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 £896,000 (2007 – £803,000). Contributions of £106,000 (2007 – £100,000) 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

2008	
28 June	Financial year end
15 October	Shares traded ex-dividend
17 October	Record date for final dividend *
31 October	Annual General Meeting and payment of final dividend
27 December	Half year end

2009	
March	Announcement of interim results
March	Record date for interim dividend
April	Payment of interim dividend
27 June	Financial year end
Early October	Preliminary results announcement
Early October	Annual results to be mailed
Late October	Annual General Meeting
26 December	Half year end

* Shareholders on the register at this date

Company Advisors

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

Financial PR
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Bankers
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13 Market Place
Faversham
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ME13 7EF

Stockbrokers
JP Morgan Cazenove Limited
20 Moorgate
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EC2 6DA

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

Notice is hereby given that the ninety-fourth Annual General Meeting of the Company will be held at the Brewery, 17 Court Street, Faversham on 31 October 2008 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 M H Templeman as a Director.

Resolution 4
To propose the re-election of Mr O W A Barnes as a Director.

Resolution 5
To propose the re-election of Mr N J Bunting as a Director.

Resolution 6
To propose the election of Mr T W Falcon as a Director.

Resolution 7
From 1 October 2008, a new statutory regime for dealing with directors' conflicts of interest has been introduced under the Companies Act 2006 (the **"Act"**). To take advantage of this regime the following resolution is required to be proposed as an Ordinary Resolution:

THAT, the Directors be and they are hereby permitted to authorise any conflict or potential conflict situation proposed to them under section 175(5)(a) of the Companies Act 2006 (the **"Act"**), such authorisation to be given subject to the Act on such terms and conditions as may be set out in the Company's Articles of Association from time to time or otherwise as the Directors shall think fit.

Resolution 8
To reappoint the Auditors and authorise the Directors to fix their remuneration.

By Order of the Board
F J Lester
Secretary
17 Court Street
Faversham
Kent

8 October 2008

Members entitled to attend and vote are entitled to appoint a proxy to attend and, on a poll, vote instead of them 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.

	2008 £'000	2007 £'000	2006 (as restated) £'000	2005 (as restated) £'000	2004 £'000
Profit and loss					
Turnover	**101,718**	100,047	95,343	91,354	90,328
Operating profit before exceptional items	**12,561**	13,851	12,951	12,109	11,999
Net finance charges	**(3,468)**	(3,326)	(3,373)	(3,081)	(2,987)
Exceptional charges	**(1,696)**	(1,984)	–	–	(1,466)
Profit on sale of property	**1,279**	3,031	1,627	841	1,350
Profit on sale of investment	**–**	–	–	–	406
Profit before taxation	**8,676**	11,572	11,205	9,869	9,302
Taxation	**(2,425)**	(2,280)	(3,089)	(2,513)	(2,564)
Earnings available to shareholders	**6,251**	9,292	8,116	7,356	6,738
Dividends					
Interim and finals for the year	**(2,868)**	(2,748)	(2,556)	(2,375)	(2,248)
Percentage on shares	**22.5%**	21.5%	20.0%	18.6%	17.6%
Dividend cover	**2.2**	3.4	3.2	3.1	3.0
Earnings per £1 nominal share value (p) based on:					
Earnings available to shareholders	**49.3**	73.4	64.2	58.1	53.0
Earnings (excluding exceptional items)	**48.6**	60.5	51.3	51.3	50.7
Shareholders' funds employed					
Share capital	**12,818**	12,818	12,818	12,818	12,818
Share premium	**1,439**	1,439	1,439	1,439	1,439
Revaluation reserve	**16,269**	16,228	16,694	16,852	17,314
Revenue reserves	**80,646**	77,175	70,043	64,760	57,477
	111,172	107,660	100,994	95,869	89,048
Represented by assets					
Fixed assets	**173,515**	164,771	143,959	138,513	132,027
Current assets	**22,257**	20,511	18,595	18,329	16,101
	195,772	185,282	162,554	156,842	148,128
Liabilities					
Short term	**20,628**	24,499	38,925	19,348	26,595
Long term	**59,409**	49,380	18,713	37,722	28,900
Provisions	**4,563**	3,743	3,922	3,903	3,585
	84,600	77,622	61,560	60,973	59,080
Net assets	**111,172**	107,660	100,994	95,869	89,048
Net assets per share (£)	**8.67**	8.40	7.88	7.48	6.95

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.

This year we have welcomed record numbers to our visitor centre to discover our unique history and heritage.

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