

FINANCIAL HIGHLIGHTS

Turnover

£3.7%
to £52.4 million

Operating profit

£0.7%
to £5.7 million

Profit before tax

DOWN 2.3%
to £4.7 million

Profit before tax
and exceptionals

DOWN 2.9%
to £5.0 million

Earnings per £1 share

DOWN 3.5%
to 27.5p

Dividend per £1 share

£5.8%
to 4.55p

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MILES TEMPLEMAN CHAIRMAN

Results

Turnover for the 26 weeks to 29 December was up 3.7% to £52.4m. Operating profit after exceptional items was up 0.7% to £5.7m. Profit on ordinary activities before tax was £4.7m, down 2.3% on the previous year and profit before tax and exceptional items was down 2.9% to £5.0m. Basic earnings per share decreased by 3.5% to 27.5p.

Dividend

The directors have declared an interim dividend for the year ending 28 June 2008 of 4.55p (2006 – 4.30p) on the £1 'A' Ordinary Shares and 0.091p (2006 – 0.086p) on the 2p 'B' Ordinary Shares, an increase of 5.8%. The dividend will be paid to shareholders on the register as at 1 April 2008.

Investment

We have continued to invest in developing the quality and profile of our pub estate including substantial work to outside areas following the smoking ban. At 29 December we had also acquired three freehold pubs for £2.9m which will be tenanted and in March 2008 we acquired the prestigious George Hotel in Cranbrook which will be operated as a managed house.

We have disposed of three smaller pubs for net proceeds of £1.0m and will make further disposals in the second half.

We have continued with the modernisation of our brewery and commissioned our new cask racking plant. We have also installed a new palletiser/de-palletiser, which will increase bottling capacity, and invested in state of the art technology to reduce energy consumption in the brewery.

We are now entering the final stages of deployment of our Enterprise project. We will move onto the new system and new processes after the year end and are confident that this substantial business change will deliver considerable benefits to the company in the future. As with last year, we have charged the revenue costs of this project as an exceptional item.

Operations

This has been an extremely challenging period in the beer and pub sector because of the combination of increased input costs and softer consumer demand. As a producer, we have experienced significant increases in the cost of raw materials and utilities, and further increases are expected in the second half. Many of our on trade customers have suffered a downturn in trade through a combination of weak consumer confidence, the smoking ban and the wet weather in the summer of 2007. The trade during the winter months has been more challenging than previously expected.

In spite of this, I am pleased to report that the business has proved very resilient to these difficult conditions. Like for like contribution in the tenanted estate was up 0.6%. Like for like sales in the total managed estate were down 1.7%, although in London they were up by 6.3%. Total food sales were up by 7.3% and total accommodation sales improved by 11.2%.

Our total beer volume was down marginally. During the period the national on trade market declined by 7.2%. However our sales to supermarkets, national sales and export, including sales of Asahi, have been very strong.

We continue to make good progress with Asahi and have opened a number of new accounts with significant national multiple outlet customers. Our principal ale brands, Spitfire and Bishops Finger, have also performed well.

I am pleased to report that we are finalists in a number of categories in the Annual Publican Awards including Regional Brewer of the Year.

Outlook

We expect the difficult trading conditions and the impact of cost base inflation to persist throughout 2008 but we also expect the company's brands and pubs to continue to outperform the market and to benefit as the short term pressures ease.

Summary

The company's performance has been resilient during this challenging period. We anticipate that current market conditions will lead to further changes in the supply of beer and ownership of pubs and produce opportunities for the company to expand. We will continue to pursue our strategy of investing in the business for the long term and to ensure that we are in the best possible position to take advantage of opportunities as they arise.

M H Templeman

Chairman

26 March 2008

AWARDS

This year we have been recognised for our commitment to the quality of our products and pubs.

The Taste of Britain Awards

1698 – **Silver Award**
Best UK drink/beverage

The Publican Awards

Finalist
Regional Brewery of the Year

Finalist
Pub Company of the Year
Managed (20 – 99 outlets)

Finalist
Pub Company of the Year
Tenanted (200+ outlets)

CONSOLIDATED PROFIT AND LOSS ACCOUNT

26 weeks ended 29 December 2007

	Unaudited 26 weeks ended 29 December 2007 before exceptional items £'000	Unaudited 26 weeks ended 29 December 2007 Exceptional items £'000	Unaudited 26 weeks ended 29 December 2007 Total £'000	Unaudited 26 weeks ended 30 December 2006 £'000	Audited 52 weeks ended 30 June 2007 £'000
Turnover	52,419	–	52,419	50,569	100,047
Operating charges before exceptional item	(45,806)	–	(45,806)	(43,758)	(86,196)
Operating exceptional (note 3)	–	(940)	(940)	(1,177)	(1,778)
Operating profit	6,613	(940)	5,673	5,634	12,073
Profit on sale of property	–	681	681	881	3,031
Profit on ordinary activities before interest	6,613	(259)	6,354	6,515	15,104
Interest receivable and similar income	66	–	66	9	21
Interest payable and similar charges	(1,699)	–	(1,699)	(1,692)	(3,553)
Profit on ordinary activities before taxation	4,980	(259)	4,721	4,832	11,572
Taxation (note 4)	(1,525)	277	(1,248)	(1,238)	(2,280)
Profit after taxation for the period	3,455	18	3,473	3,594	9,292
Earnings per £1 nominal share value (p) (note 5)					
Basic			27.5p	28.5p	73.4p
Diluted			27.2p	28.2p	72.8p
Basic before exceptional items			27.4p	28.4p	60.5p

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

26 weeks ended 29 December 2007

	Unaudited 26 weeks ended 29 December 2007 £'000	Unaudited 26 weeks ended 30 December 2006 £'000	Audited 52 weeks ended to 30 June 2007 £'000
Total recognised gains and losses in the period	3,473	3,594	9,292
Prior year adjustment:			
FRS 20 – share-based payment	–	(40)	(40)
Total gains and losses recognised since the last annual report	3,473	3,554	9,252

CONSOLIDATED BALANCE SHEET

As at 29 December 2007

	Unaudited 29 December 2007 £'000	Unaudited 30 December 2006 £'000	Audited 30 June 2007 £'000
Fixed assets			
Intangible fixed assets	146	184	164
Tangible fixed assets	167,526	155,509	162,578
Investments	2,029	2,215	2,029
	169,701	157,908	164,771
Current assets			
Stock	5,325	5,592	5,542
Debtors (note 7)	16,041	16,085	14,873
Cash	293	96	96
	21,659	21,773	20,511
Creditors: amounts falling due within one year			
Bank overdrafts and loans	–	(18,675)	(4,112)
Creditors	(19,333)	(17,459)	(20,387)
	(19,333)	(36,134)	(24,499)
Net current assets/(liabilities)	2,326	(14,361)	(3,988)
Total assets less current liabilities	172,027	143,547	160,783
Creditors: amounts falling due after more than one year (note 7)	(59,390)	(37,220)	(49,380)
Provision for liabilities	(3,980)	(4,047)	(3,743)
	108,657	102,280	107,660
Capital and reserves			
Called up share capital	12,818	12,818	12,818
Share premium account	1,439	1,439	1,439
Revaluation reserve	16,108	16,694	16,228
Reserve for own shares held	(2,008)	(1,951)	(1,515)
Profit and loss account	80,300	73,280	78,690
Equity shareholders' funds	108,657	102,280	107,660

These financial statements have not been audited (see note 1).

CONSOLIDATED CASH FLOW STATEMENT

26 weeks ended 29 December 2007

	Unaudited 26 weeks ended 29 December 2007		Unaudited 26 weeks ended 30 December 2006		Audited 52 weeks ended 30 June 2007	
	£'000	£'000	£'000	£'000	£'000	£'000
Net cash inflow from operating activities		6,160		6,893		20,719
Returns on investment and servicing of finance						
Interest paid	(96)		(2,166)		(4,081)	
Interest received	<u>302</u>		<u>–</u>		<u>21</u>	
		206		(2,166)		(4,060)
Taxation paid		(1,065)		(1,079)		(2,313)
Capital expenditure and financial investment						
Purchase of tangible fixed assets	(9,263)		(18,766)		(30,052)	
Proceeds of sales of tangible fixed assets	<u>1,220</u>		<u>1,869</u>		<u>5,631</u>	
Additional loans to customers	(264)		(253)		(434)	
Customer loan redemptions	<u>48</u>		<u>141</u>		<u>349</u>	
		(8,259)		(17,009)		(24,506)
Equity dividends paid		(2,198)		(2,033)		(2,587)
Net cashflow before financing		(5,156)		(15,394)		(12,747)
Financing						
Purchase of own shares		(535)		(441)		(468)
Repayment of long term loan		–		(18,500)		(18,500)
Repayment of short term loan		(2,000)		–		–
New short term loan		–		–		2,000
New long term loan		10,000		18,500		31,000
Issue cost of new long term loans (including exceptional interest charge)		–		–		(557)
Movement in cash during the period		2,309		(15,835)		728

NOTES TO THE CASH FLOW STATEMENT

26 weeks ended 29 December 2007

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

	26 weeks ended 29 December 2007 before exceptional item £'000	26 weeks ended 29 December 2007 exceptional item £'000	26 weeks ended 29 December 2007 total £'000	26 weeks ended 30 December 2006 £'000	52 weeks ended 30 June 2007 £'000
Operating profit	6,613	(940)	5,673	5,634	12,073
Depreciation and amortisation	2,639	–	2,639	2,473	5,089
Charge for share-based payments credited to reserves	255	–	255	167	429
Decrease/(increase) in stocks	217	–	217	(661)	(611)
Increase in debtors and prepayments	(1,226)	–	(1,226)	(1,669)	(933)
(Decrease)/increase in creditors and accruals	(1,614)	–	(1,614)	76	3,720
Free trade loan discounts	216	–	216	146	305
Loss on sale of assets (excluding property)	–	–	–	93	13
Pre-project costs	–	–	–	634	634
	487	–	487	1,259	8,646
Net cash inflow from operating activities	7,100	(940)	6,160	6,893	20,719

2 Reconciliation of cash flows to movement in net debt

	26 weeks ended 29 December 2007 £'000	26 weeks ended 30 December 2006 £'000	52 weeks ended 30 June 2007 £'000
Opening cash and overdraft	(2,016)	(2,744)	(2,744)
Closing cash and overdraft	293	(18,579)	(2,016)
Increase/(decrease) in cash during the period	2,309	(15,835)	728
Repayment of loan from associated undertaking	–	18,500	18,500
New long term loan	(10,000)	(18,500)	(31,000)
Issue costs capitalised	–	–	351
New short term loans	–	–	(2,000)
Repayment of short term loan	2,000	–	–
Amortisation of loan premium	–	44	44
Amortisation of loan issue costs	(10)	(7)	(18)
Movement in net debt during the period	(5,701)	(15,798)	(13,395)
Net debt at beginning of period	(53,396)	(40,001)	(40,001)
Net debt at end of period	(59,097)	(55,799)	(53,396)

3 Analysis of changes in net debt

	June 2007 £'000	Cash flow £'000	Amortisation of issue costs £'000	December 2007 £'000
Cash	96	197	–	293
Bank overdrafts	(2,112)	2,112	–	–
Debt due within one year	(2,000)	2,000	–	–
	(4,016)	4,309	–	293
Debt due after more than one year	(49,380)	(10,000)	(10)	(59,390)
Total	(53,396)	(5,691)	(10)	(59,097)

These financial statements have not been audited (see note 1).

NOTES TO THE ACCOUNTS

26 weeks ended 29 December 2007

1 Interim statement

The financial information contained in this interim statement, which is unaudited, does not constitute statutory accounts as defined in S240 of the Companies Act 1985. Statutory accounts for the 52 weeks ended 30 June 2007, upon which the auditors issued an unqualified opinion, have been delivered to the Registrar of Companies.

2 Accounting policies

The interim accounts have been prepared on the basis of the accounting policies set out in the statutory accounts for the 52 weeks ended 30 June 2007. The Group financial statements consolidate the financial statements of Shepherd Neame Limited and all 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.

3 Operating exceptional

This cost in both periods relates to own labour and consulting charges in respect of a fundamental business process review associated with the implementation of SAP software, including the cost of change management, training, data migration and software implementation.

4 Taxation

	29 December 2007 £'000	30 December 2006 £'000	30 June 2007 £'000
Corporation tax	1,011	1,113	2,459
Deferred tax	237	125	(179)
	1,248	1,238	2,280

Taxation before exceptional items has been provided at 32% (2006 – 30%) based on the estimated effective tax rate for the 52 weeks to 28 June 2008. The tax effect of exceptional items has been recognised in the same period as the exceptional items.

5 Earnings per share

The earnings per share are calculated on profit after taxation of £3,473,000 (2006 – £3,594,000) and on 12,613,000 shares (2006 – 12,605,000) being the weighted average number of ordinary shares in issue during the period, adjusted for shares held in respect of employee incentive plans and options. The diluted earnings per share are calculated on the average number of shares in issue during the period adjusted by 151,000 shares (2006 – 147,000).

The earnings per share before exceptional items are calculated on profit after tax and before exceptional items of £3,455,000 (2006 – £3,582,000 being profit after tax of £3,594,000 plus operating exceptionals after tax of £869,000 less profit on sale of property of £881,000).

6 Dividends

Declared and paid in the period	29 December 2007 £'000	30 December 2006 £'000	30 June 2007 £'000
£1 "A" ordinary shares			
Final dividend for 2007: 17.20p (2006 – 15.95p)	1,964	1,820	1,820
Interim dividend for 2007: 4.30p	–	–	492
	1,964	1,820	2,312
2p "B" ordinary shares			
Final dividend for 2007: 0.344p (2006 – 0.319p)	234	217	217
Interim dividend for 2007: 0.086p	–	–	58
	234	217	275

7 Debtors

As at 30 December 2006, £280,000 of loan issue costs in respect of long term bank loans, previously included in prepayments, has been reclassified as a reduction in creditors falling due after more than one year.

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