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Shepherd Neame
Annual Report 2001

52 weeks ended 30 June

Shepherd Neame operates 358 pubs in the South East.

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We intend to be the leading independent brewer in the South East. We will achieve this by remaining a vertically integrated business, responding to changing customer needs and building on the quality of our beers, brands and pubs through excellence and innovation.

Financial Highlights

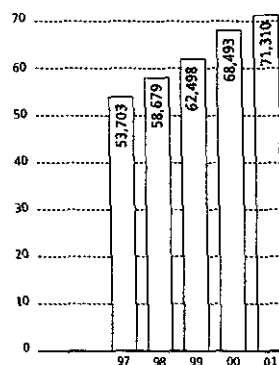
Turnover up 4.1% to £71.3 million

Profit before tax up 8.8% to £8.2 million

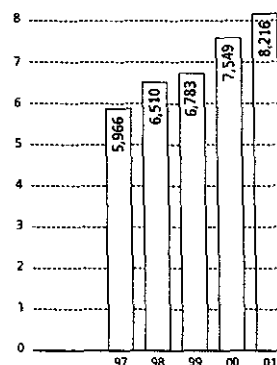
Earnings per share up 11% to 46.6p

Dividends per share up 6%

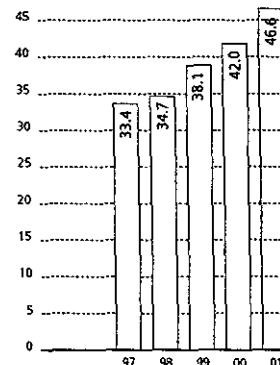
Turnover (£000)



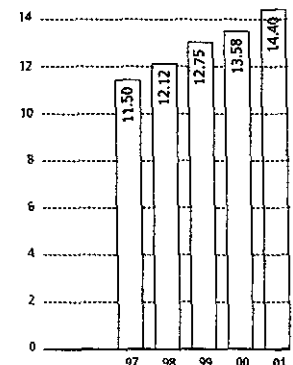
Profit before tax (£000)



Earnings per share (pence)



Dividends per £1 nominal share capital (pence)



Chairman's Statement

We have no doubt that by remaining an independent integrated family brewing company there is considerable scope for expansion.

Results

We have had another year of continued growth. Turnover has increased by 4.1% to £71.3m. Profit before tax is up 8.8%, which includes profit from the sale of former allotment land at Preston, near Faversham.

This year trading conditions were affected by severe weather and flooding and to a lesser extent by the outbreak of foot and mouth disease. Under the circumstances the results compare favourably to last year which included a 53rd week.

The Directors are therefore recommending a final dividend of 11.325%, giving a total dividend of 14.4% for the year.

Directors

George Barnes joined the Board on 29th January as Property Director and Company Secretary, and has recently taken on the responsibility for the Tenanted Trade Department.

Peter Bentley is retiring from the Board after six years as a Non-Executive Director. His previous experience of the Industry has been of great value to the Board and we thank him for his contribution.

The Industry

The Brewing Industry continues to go through a period of massive change. Last year I referred to the acquisition of both the Whitbread and Bass brewing interests by Interbrew.

Following a recent announcement, it is now likely that Carling Brewers will be disposed of in the near future, leaving Interbrew UK retaining its Scottish and Northern Irish interests as well as the Bass Ale brand.

During the year, Whitbread sold the majority of its pub estate and there has been a continuing consolidation of larger pub companies resulting in some owning more than 2,000 houses with the intention of doubling the size of their estates. Meanwhile, the Government decided to rescind the Beer Orders, which restricted brewery ownership of pubs, thus reversing one of the major recommendations of the Monopolies and Mergers Commission which did so much damage to the original structure of the Industry and achieved exactly the opposite result to that which was intended.

There is now a clear division between pub companies and some of the larger managed houses groups, brewers and independent brewing companies. The long term future for traditional draught beers is very dependent on the independent brewers who will be the main source of providing a high quality alternative to the diminishing number of national beer brands. The continuing growth of our main draught beer brands confirms our view that the public still require a variety of premium quality products when visiting a pub or supermarket.

We have continued our opposition to the tax regime that encourages substantial imports of beer from France and we continue to try to persuade Brussels to support our cause.

We have had another year of continued growth. The Directors are recommending a final dividend of 11.325%.

We have also made representations to Government in respect of their proposals to change the Licensing Laws. We are not in favour of licences being controlled by local authorities and were relieved that the White Paper proposals are unlikely to be introduced in this Parliamentary session. We believe that improvements could be better achieved by deregulation, which would avoid the many problems of the White Paper proposals.

The Future

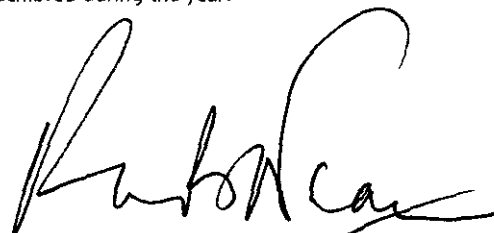
We have no doubt that by remaining an independent integrated family brewing company there is considerable scope for expansion. We believe that there will be opportunities to acquire small groups of houses and to develop our estate. We have considerably increased capital investment in our estate, particularly in respect of the development of Mulberry Inns and of new sites in the main growth areas of Kent – such as Chatham Dockyard and Kings Hill. In addition we have acquired a number of long leases on properties that are suitable for management, and these are beginning to produce a substantial improvement in managed houses' profitability.

Property profits tend to be less even, but over the longer term our policy of acquiring good individual sites and developing them has shown an excellent return. The cost of freeholds, however, inevitably puts some constraints on the rate at which we can expand our property interests.

Major development is taking place in Kent at the present time and the strength of our representation in areas of development gives us a firm base for the future, whilst, at the same time, we are expanding our estate in London, Essex and Sussex.

There is no doubt that the investment we have made in the brewery over the past five years confirms our belief that a well managed small brewery can be very profitable and can establish brands on a national basis if we use innovative marketing techniques.

I am certain that we have a great opportunity in the future but this will not be realised unless we continue to make substantial capital investment in our properties, plant and brands. None of this can be achieved without the loyal support and hard work of our staff and I would like to thank them for all they have achieved during the year.



Robert Neame
Chairman

The public still require a variety of premium quality products when visiting a pub or supermarket.

Managed pubs' turnover increased by 9% and like for like sales grew by 4%.

The Mulberry design is intended to attract a younger customer to the traditional country pub with a lighter more contemporary feel.

The Granville at Lower Hardres opened in November 2000.

We have increased our stock of letting accommodation to 145 rooms.

Managing Director's Review of Operations

Highlights are strong growth of Spitfire, the launch of Mulberry Inns, the completion of the brewhouse project and further awards for our brands, pubs and people.

We have again achieved record turnover, volume and profit in very difficult trading circumstances. Highlights include the continuing strong growth of Spitfire, the launch of Mulberry Inns, the completion of the brewhouse project and further awards for our brands, pubs and people.

We have spent record capital expenditure of £10.8m on the business, up from £10.2m last year. Of this we have invested £7.7m in pubs – an increase of 19% – although our numbers have reduced by a net 4 to 358 at the year end.

Managed Pubs

Managed pubs' turnover increased by 9% and like for like sales grew by 4%, which compares favourably with other operators. Profits grew by 5%, with improved food and liquor margins, and staff costs were contained despite the introduction of the minimum wage.

In our Half Year statement we reported the launch of our Casual Dining concept – Mulberry Inns – at The Granville, Lower Hardres. We have since refurbished a further four outlets, and two more are committed for investment. The design is intended to attract a younger customer to the traditional country pub with a lighter, more contemporary feel. All Mulberry Inns are enjoying significant sales growth.

We have increased our stock of letting accommodation, adding 26 bedrooms and refurbishing a further 45, bringing the total rooms under management to 145. We intend to look for opportunities to extend our accommodation facilities and to achieve the BTA 4-Diamond standard.

We are also investing in new pub sites and pursuing several further opportunities for new build. The Ship and Trades in Chatham Maritime opened successfully in November 2000. The Spitfire at Kingshill and the Manor Farm Barn at Southfleet are scheduled for completion in December 2001. The huge infrastructure investment in North Kent should continue to yield further high quality opportunities.

We have, in the last two years, acquired 5 London pubs and continue to seek further representation. We believe there is strong demand for well run traditional pubs with our product range.

We have successfully piloted an EPOS system which we will roll out to the whole estate in the next eighteen months.

The quality of training and recruitment of our staff remains crucially important, and we were delighted to win the Kent Business 'Investors in People Award' as well as being a finalist

We have again spent record capital expenditure of £10.8m.

in the NITA Awards. We will develop our training and recruitment capability further in the coming year.

Tenanted Pubs

Contribution to profit from the Tenanted Estate grew by 3% despite poor Autumn trade. Although the total number of tenanted houses remains relatively constant, we continue to improve the quality by replacing smaller pubs with new acquisitions and by continued investment. There was a 5% increase in rental income, but amusement machine income fell slightly.

Our new Tenancy Agreement launched last year has been well received by our licensees with over half taking it up along with our Ale Miles Incentive Scheme during the year.

We have recently appointed Nigel Bunting as Tenanted Trade Operations Manager and he will report to George Barnes, our Tenanted and Property Director.

Beer Brands

Our total sales volume topped 200,000 barrels and we now brew approximately one million pints per week. 85% of our total beer sales is produced at Faversham and we are independent of reciprocal arrangements. It is a testimony to the strength of

our brands and the balance of our portfolio that more than half of our production is sold outside the tied estate.

Our local Free On-Trade maintained volumes in spite of many sport and leisure clubs being closed due to the adverse weather. Our Take Home business increased volumes by 15% with many new listings achieved. National Accounts sales were also 15% ahead in volume, helped by a major promotion in J D Wetherspoon pubs in the Spring. All sectors reported improved profitability, albeit at some reduction in margin per barrel.

We have, in the last two years, acquired five London pubs and continue to seek further representation.

We have won the prestigious Tesco Beer Challenge.

Our total sales volume topped 200,000 barrels and we now brew approximately one million pints per week.

Managing Director's Review of Operations

continued

We are currently drawing up plans for further warehousing to gain extra space for additional capacity.

Spitfire was again our most successful brand and grew by 44%, with the new 25cl 'stubby' bottles performing particularly well. Our advertising campaign continues to amuse and occasionally shock. In spite of prior approval, London Underground decided to withdraw our December 2000 campaign after 10 days. Objections to the humour were not upheld by the ASA and we will, I am pleased to say, be able to run a further campaign in December 2001. We won two awards at the Advertising Industry Awards including Best Alcohol or Tobacco Poster and have been nominated for four more this year. We have subsequently won the Kent Business 'Creative Advertising Award'. There is no doubt that the campaign, which is in its fourth year, has helped enormously to raise the profile of the brand and the Company at relatively modest cost.

In an increasingly competitive premium ale sector **Bishops Finger** maintained its market share as a leading premium bottled ale. We have recently gained several national listings for our newly launched **Whitstable Bay Organic**. We have also taken on the agency for **Samuel Adams** of Boston, which we believe complements our portfolio.

I am delighted to report that the efforts of our brewers and Take Home team have been rewarded by winning the

prestigious **Tesco Beer Challenge** against 100 other beers. This will result in the launch of a special new beer to be named **Sun and Planet Steam Ale** after our original 1789 steam engine.

Oranjeboom Pilsener continues to perform well in a competitive marketplace and in spite of the poor summer weather in 2000 has a high local profile through sponsorship including Kent county cricket. We are planning increased promotional activity in the coming year.

Kingfisher continues to perform well with 6% volume growth in the Indian restaurant business. **UBSN** has, at the year end, taken on the sole distributorship for our Chinese brand **Sun Lik** in this specialist sector. The production of **Kingfisher** for export to the U.S. has now transferred to the **Mendocino Brewing Company**, part of the **UB Group**.

Export

We have further developed our market in Sweden and **Whitstable Bay** has received national listing in **System Bolaget** alongside **Bishops Finger**. We are looking to enhance sales in Finland, Norway and Denmark, but we will rationalise our costs by withdrawing from markets where demand for U.K. beer is reducing.

We were the first brewery to be awarded ISO14001 'Green' accreditation for good environmental practice.

Production and Distribution

We were the first brewery to be awarded ISO14001 'Green' accreditation for good environmental practice. There is increasing legislation in this area, such as Climate Change Levy and Packaging Waste Regulations which all add to the cost of production. We are currently embarking on further investment to monitor and reduce energy and water usage where possible. To meet the need of our Take Home business, we have invested a further £0.4 million in small packaging plant. This gives us additional capabilities for 'shrink', 'cluster' and 'wrap-around' packaging which compare with the highest standards of the national brewers.

In the On Trade we have launched a new Beer Quality initiative, Shepglass, and appointed a Trade Quality Advisor to focus on the clarity, quality and temperature of beer in glass.

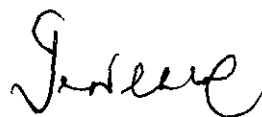
We have ensured that our existing site will not restrict our medium term expansion by contracting to purchase the Francis Davis Site adjacent to the brewery. Completion is deferred to May 2002. We are currently drawing up plans for further warehousing on this site and this will enable us to gain extra space for additional capacity.

Shepherd Neame in the Community

The Company plays a large part in the local community with considerable involvement in The Charity Walk for Kent Hospices, The Faversham Hop Festival and with support of organisations such as The Kent People's Trust, which is aimed at combatting local crime.

Summary

We have made good progress in a difficult year, and we remain confident that the on-going re-structuring of the industry will continue to offer opportunities for high quality niche operators such as ourselves.



Jonathan Neame
Managing Director

We have launched a new beer quality initiative to focus on the clarity, quality and temperature of beer in glass.

The new 25ml Spitfire stubby bottle has performed particularly well.

We have additional capabilities for 'shrink', 'cluster' and 'wrap-around' packaging, which compare with the highest standards of the national brewers.

Our new packaging investment was completed in February 2001.

Directors and Advisors

1 R H B Neame; 2 S F B Neame; 3 J B Neame; 4 M B Bunting; 5 P J Bentley

Directors

R H B Neame (67) CBE DL Chairman

Joined the Company in 1956 and appointed to the Board in 1957. Was appointed Chairman in 1971. He was a Director of National Westminster Bank plc Southern Advisory Board, 1982 to 1991, Chairman of the Gatwick Airport Consultative Committee, 1990 to 1995, and a member of Kent County Council, 1965 to 1989. He is currently Vice-President of the South East England Tourist Board, a Non-Executive Director of Mendocino Brewing Company, Ukiah, USA and a Non-Executive Director of Merrydown PLC.

S F B Neame (56) Vice Chairman and Director of Information Technology

Joined the Company in 1972 and appointed to the Board in 1976. He was a Systems Engineer with IBM from 1967 to 1972 and a Director of Quotient plc from 1987 to 1992. He is an active member of brewing industry panels concerning the beer duty campaign and media communications.

J B Neame (37) Managing Director

Joined the Company in 1991. Was Company Secretary until July 1994 and Tied Trade Director until June 1999 when he was appointed Managing Director. He is a Barrister-at-law and was a Management Consultant with the COBA Group from 1987 to 1991. He is also non-executive Chairman of Radio Invicta Ltd, part of the Capital Radio Group plc.

M B Bunting (67) Non-Executive Director

Was appointed to the Board in 1986. Formerly Vice-Chairman, Managing Director of Courage Limited from 1975 to 1985. He is currently a Non-Executive Director of George Gale & Co Limited.

P J Bentley (62) Non-Executive Director

Was appointed to the Board in 1995. He has over 30 years of experience in the drinks industry. Formerly Chief Executive of Skol International and Managing Director of both Benskins Brewery and Joshua Tetley, all companies within the Allied Domecq Group. Latterly he was Managing Director of Bairds Malt and Non-Executive Director of Marstons. He will retire from the Board at the AGM.

M B J Kimmins (64) Non-Executive Director

Was appointed to the Board in 1999. He recently retired as Chairman of Corney & Barrow Group Limited, but remains a Director. He was previously with Distillers Company as Chairman and Managing Director of William Sanderson & Son. He is also a Trustee of the Ascot Authority, a Member of the Jockey Club, a Director of Newbury Racecourse plc and Laurent Perrier UK, and a Council Member of St. John, Berkshire.

6 M B J Kimmins; 7 K R Littlefair; 8 I J Dixon; 9 M J McJennett; 10 G H A Barnes

K R Littlefair (54) Finance

Joined the Company in April 2000. 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.

I J Dixon (58) Production and Distribution

Joined the Company in 1991. He was previously Group Production Director of Courage Breweries, and was responsible for the development of the Berkshire Brewery, the then largest in the UK. He was with Courage 18 years and has over 30 years' experience in the brewing industry. He is a Non-Executive Director of Brewing Research International.

M J McJennett (47) Sales and Marketing

Joined the Company in 1991. Formerly a Director of Bass North, a subsidiary of Bass PLC. He was with Bass for 18 years and held several senior sales positions during that time.

G H A Barnes (47) Property and Tenanted Trade Director and Company Secretary

Joined the Company in 1978. He is a chartered surveyor and has held various management positions within the Company. He has been Company Secretary since 1994 and was appointed to the Board in January 2001.

**Company Advisors
Registrars**

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Bristol BS99 7NH
Tel: 0870 702 0000

Auditors

Ernst & Young LLP
Wessex House, 19 Threefield Lane
Southampton SO14 3QB

Bankers

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

Stockbrokers

Cazenove & Company
12 Tokenhouse Yard
London EC2R 7AN

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

Financial PR

Gavin Anderson & Company
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London EC2M 7LD

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Report of the directors

The Directors have pleasure in presenting their eighty-seventh annual report and accounts for the 52 weeks ended 30 June 2001.

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. The Chairman's Statement and Managing Director's Review of Operations give full details of the Company's business for the 52 weeks ended 30 June 2001.

Dividends

The Directors recommend the payment of a final dividend of 11.325% on the "A" and "B" ordinary shares amounting to £1,450,000 (2000 – £1,374,000) making a total for the year of 14.4%, £1,843,000 (2000 – 13.575%, £1,736,000) and leaving retained profits of £4,118,000 (2000 – £3,639,000).

Directorate

The names of the Directors at 30 June 2001 are set out on pages 14 & 15. Particulars of their interests in the Company's shares are detailed in note 24 to the accounts.

Mr E R Johnston retired from the Board on 27 October 2000.
Mr S F B Neame retires from the Board by rotation and will be offering himself for re-election.
Mr P J Bentley retires from the Board by rotation and will not be offering himself for re-election.
Mr G H A Barnes was appointed to the Board on 29 January 2001.

Board responsibilities

Both the Audit Committee and the Remuneration Committee have met during the year. The Remuneration Committee has made an award, in respect of the 53 weeks ended 1 July 2000, equivalent to 4% of salary to 21 executives (including five Executive Directors) under the Restricted Share Scheme.

Fixed assets

The freehold licensed and associated properties of the Company were revalued individually at open market value on an existing use basis as at 28 June 1997 by the Company's own professionally qualified staff. These figures were incorporated into the accounts as at 28 June 1997 and subsequent additions have been included at cost. The brewery premises and other fixed assets remain in the accounts at historical cost. The Directors have considered the value of all the fixed assets of the Company and are satisfied that their aggregate value is not less than the amount in the balance sheet.

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 are able to participate directly in the success of the business through the Company's profit sharing scheme.

Charitable and political contributions

In the year the Company donated £8,000 for charitable purposes.

Payment to suppliers

The Company aims to comply with suppliers' agreed payment terms whenever possible. Trade creditors at 30 June 2001 represent 37 days' average purchases.

Auditors

On 28 June 2001, Ernst & Young, the Company's auditor, transferred its entire business to Ernst & Young LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Directors consented to treat the appointment of Ernst & Young as extending to Ernst & Young LLP with effect from 28 June 2001. 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

G H A Barnes
Secretary
17 Court Street
Faversham
Kent



25 September 2001

Statement of directors' responsibilities and Report of the auditors

Statement of directors' responsibilities

The Directors are required by law to prepare accounts each period which give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for the year.

The Directors are responsible for maintaining adequate accounting records, safeguarding the assets of the Company and preventing and detecting fraud and other irregularities.

The Directors confirm that the accounts have been prepared using suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates. The Directors also confirm that the accounts have been prepared following applicable accounting standards, and have been prepared on the going concern basis.

Report of the auditors

to the members of Shepherd Neame Limited

We have audited the accounts on pages 18 to 34, which have been prepared under the historical cost convention as modified by the revaluation of freehold land and buildings and on the basis of the accounting policies set out on page 22.

Respective responsibilities of directors and auditors

As described above the Company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit on those accounts and to report our opinion to you. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, and by our profession's ethical guidance.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company as at 30 June 2001 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor
Southampton



25 September 2001

Profit and loss account

52 weeks ended 30 June 2001

	note	2001 £'000	2000 £'000
Turnover	1	71,310	68,493
Operating charges	2	(61,837)	(59,220)
Operating Profit		9,473	9,273
Profits on sale of property		1,479	867
Profit on sale less provision for diminution in value of investments		(77)	—
Profit on ordinary activities before interest		10,875	10,140
Interest receivable and similar income		42	70
Interest payable and similar charges	3	(2,701)	(2,661)
Profit on ordinary activities before taxation		8,216	7,549
Taxation	4	(2,255)	(2,174)
Profit after taxation		5,961	5,375
Dividends	5	(1,843)	(1,736)
Retained Profit	22	4,118	3,639
Earnings per £1 nominal share value (p)			
Basic	6	46.6	42.0
Diluted	6	46.4	41.9

Movements on reserves are set out in notes 20 to 23

Statement of total recognised gains and losses

52 weeks ended 30 June 2001

There are no recognised gains or losses other than the profit attributable to the shareholders of the Company of £5,961,000 for the year ended 30 June 2001 and the profit of £5,375,000 for the period ended 1 July 2000.

Note of historical cost profits and losses

52 weeks ended 30 June 2001

	2001 £'000	2000 £'000
Profit on ordinary activities before taxation	8,216	7,549
Realisation of property revaluation	460	375
Historical cost profit on ordinary activities before taxation	8,676	7,924
Historical cost profit for the period retained after taxation and dividends	4,578	4,014

Balance sheet

as at 30 June 2001

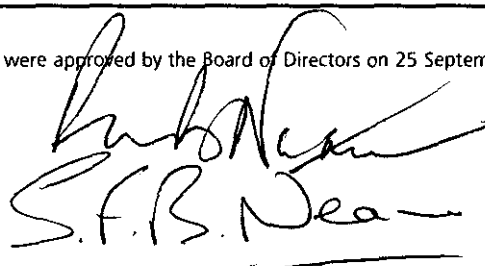
	note	2001 £'000	2000 £'000
Fixed assets			
Tangible fixed assets	9	107,367	101,586
Investments	10	2,775	2,954
		110,142	104,540
Current assets			
Stock	11	4,237	3,520
Debtors	12	10,982	11,473
Cash		53	49
		15,272	15,042
Creditors: amounts falling due within one year			
Bank overdrafts and loans		(10,390)	(9,477)
Creditors	13	(15,700)	(14,745)
		(26,090)	(24,222)
Net current liabilities		(10,818)	(9,180)
Total assets less current liabilities		99,324	95,360
Creditors: amounts falling due after more than one year	14	(19,434)	(19,612)
Provision for liabilities and charges: Deferred taxation	18	(307)	(307)
		79,583	75,441
Capital and reserves			
Called up share capital	19	12,798	12,787
Share premium account	20	1,413	1,400
Revaluation reserve	21	18,009	18,469
Profit and loss account	22	47,363	42,785
Equity shareholders' funds	23	79,583	75,441

These financial statements were approved by the Board of Directors on 25 September 2001 and were signed on its behalf by:

Robert H B Neame

Stuart F B Neame

Directors



The block contains two handwritten signatures. The top signature is in cursive and appears to be 'R.H.B. Neame'. The bottom signature is also in cursive and appears to be 'S.F.B. Neame'.

Cash flow statement

52 weeks ended 30 June 2001

	2001 £'000	2000 £'000
Net cash inflow from operating activities	13,533	13,151
Returns on investment and servicing of finance		
Interest paid	(2,832)	(2,777)
Taxation paid	(2,319)	(2,261)
Capital expenditure and financial investment		
Purchase of property, plant and equipment	(10,831)	(10,232)
Purchase of investment	(2)	(1)
Proceeds of sales of assets	3,181	2,313
Additional loans to customers	(772)	(766)
Customer loan redemptions	852	518
	(7,572)	(8,168)
Acquisitions and disposals		
Proceeds of sale of associated undertaking	24	-
Equity dividends paid	(1,767)	(1,656)
Net cash outflow before use of liquid resources and financing	(933)	(1,711)
Financing		
Issue of ordinary share capital	24	-
Decrease in cash during the year	(909)	(1,711)

Notes to the cash flow statement

52 weeks ended 30 June 2001

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

	2001 £'000	2000 £'000
Operating profit	9,473	9,273
Depreciation	3,921	3,600
(Increase)/decrease in stocks	(717)	344
Increase in debtors and prepayments	(164)	(206)
Increase in creditors and accruals	938	74
Loss on sale of assets (excluding property)	82	66
	4,060	3,878
Net cash inflow from operating activities	13,533	13,151

2 Reconciliation of net cash flow to movement in net debt

	2001 £'000	2000 £'000
Decrease in cash during the year	(909)	(1,711)
Amortisation of loan premium	178	178
Movement in net debt during the year	(731)	(1,533)
Net debt at 1 July 2000	(29,040)	(27,507)
Net debt at 30 June 2001	(29,771)	(29,040)

3 Analysis of changes in net debt

	2000 £'000	Cash flow £'000	Amortisation of loan premium £'000	2001 £'000
Cash at bank	49	4	—	53
Bank overdrafts	(9,477)	(913)	—	(10,390)
	(9,428)	(909)	—	(10,337)
Debt due after more than one year	(19,612)	—	178	(19,434)
Total	(29,040)	(909)	178	(29,771)

Accounting policies

a Basis of preparation

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

b 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 Company has carried forward the book value of these freehold properties, adjusted for subsequent disposals.

All tangible fixed 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	4%
Other freehold and long leasehold buildings	2%
Short leaseholds	over the lease term
Fixed plant	10%–20%
Vehicles	14%–20%
Fixtures	5%–20%
Containers	10%–16.6%

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

c Stocks

Stocks are valued on a consistent basis at the lower of cost and net realisable value. Cost for own beers includes materials and variable production expenses.

d Deferred taxation

Provision is made for deferred taxation using the liability method on timing differences to the extent that it is probable that the liability will crystallise.

e 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.

f Employee Profit Share Scheme

The allocation from profits is charged to the profit and loss account in the year of allocation.

g Property disposals

The surplus and deficit on property disposals are shown by reference to their balance sheet values and are included in the profit on ordinary activities.

h Leasing commitments

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

i Pubco PLC loan

The finance cost, including the loan premium, recognised in the profit and loss account in respect of the Pubco PLC loan is calculated so as to spread its net cost evenly over the period to repayment.

Notes to the accounts

30 June 2001

1 Turnover

Turnover comprises sales net of discounts, rents received and services rendered from trading activities, excluding value added tax. The Directors consider that the business carried on by the Company is that of a fully integrated regional brewer and that this constitutes one class of business. The export sales during the year were £940,000 (2000 – £1,017,000).

2 Operating charges

	2001 £'000	2000 £'000
Change in stocks of finished goods & WIP	(389)	162
Factored goods	14,356	14,023
Raw materials, duty and consumables	17,041	15,445
Staff costs:		
Wages and salaries	11,187	10,584
Social security costs	979	856
Other pension costs	517	739
Depreciation	3,921	3,600
Auditors' remuneration:		
Audit services	62	58
Non-audit services	8	7
Property repairs	986	985
Operating lease rentals:		
Land & buildings	596	539
Other operating charges	12,573	12,222
	61,837	59,220

3 Interest payable and similar charges

	2001 £'000	2000 £'000
Pubco PLC loan	1,917	1,933
Bank loans and overdrafts	598	535
Other	186	193
	2,701	2,661

Notes to the accounts

30 June 2001

4 Taxation

	2001 £'000	2000 £'000
UK Corporation tax at 30% (2000 – 30%)	2,060	2,109
Prior year underprovision	195	65
	2,255	2,174

The corporation tax charge for the year has been reduced by £430,000 (2000 – £420,000) for accelerated capital allowances, for which no deferred tax provision is required and by capital gains rolled over.

5 Dividends

	2001 £'000	2000 £'000
"A" and "B" ordinary shares		
Interim paid 3.075% (2000 – 2.825%)	393	362
Final proposed 11.325% (2000 – 10.750%)	1,450	1,374
	1,843	1,736

6 Earnings per share

	2001 £'000	2000 £'000
Profit attributable to equity shareholders	5,961	5,375
Weighted average share capital	12,794	12,787
Dilutive outstanding options	47	47
Adjusted weighted average share capital	12,841	12,834
Basic	46.6p	42.0p
Diluted	46.4p	41.9p

7 Directors' remuneration

	2001 £'000	2000 £'000
Aggregate amount		
Directors' emoluments	849	551
Pension contributions	167	374
	1,016	925
	£'000	£'000
Highest paid Director		
Emoluments	158	167
Pension Contributions	92	283
	250	450

The accrued annual pension at 30 June 2001 of the highest paid Director amounted to £81,000 (2000 – £101,051).

Details of Directors' share options are shown in note 24.

8 Employees

	2001 Number of employees	2000 Number of employees
The average number of persons with contracts of employment, including Directors, during the year, was as follows:		
Brewery	282	265
Retailing	752	743
	1,034	1,008

9 Tangible assets

	Freehold Properties £'000	Leasehold properties under 50 years £'000	Plant vehicles and containers £'000	Fixtures and fittings £'000	Assets under construction £'000	Total £'000
Valuation or cost:						
At 1 July 2000	81,910	1,632	18,682	25,384	776	128,384
Additions	3,007	677	2,018	3,477	1,652	10,831
Transfers	1,155	-	-	339	(1,494)	-
Disposals	(780)	-	(443)	(335)	-	(1,558)
At 30 June 2001	85,292	2,309	20,257	28,865	934	137,657
Accumulated depreciation						
At 1 July 2000	588	178	10,777	15,255	-	26,798
Charge for year	158	81	1,553	2,129	-	3,921
On disposals	(1)	-	(312)	(116)	-	(429)
At 30 June 2001	745	259	12,018	17,268	-	30,290
Net book amounts:						
At 30 June 2001	84,547	2,050	8,239	11,597	934	107,367
At 1 July 2000	81,322	1,454	7,905	10,129	776	101,586

The freehold licensed and associated 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 £67,499,000 are included in the valuation or cost of the freehold properties at 30 June 2001.

If they had not been revalued, freehold properties would have been carried in the balance sheet at 30 June 2001 at:

	2001 £'000	2000 £'000
Cost	59,551	55,068
Accumulated depreciation	(745)	(588)
Net book amount	58,806	54,480

Included in additions is £48,000 (2000 - £107,000) of own work capitalised.

Notes to the accounts

30 June 2001

10 Investments and loans

	2001 £'000	2000 £'000
a Associated undertakings		
At 1 July 2000	6	5
Addition	2	1
At 30 June 2001	8	6

The Company holds 33.3% of the ordinary share capital of Pubco PLC, a company registered in England and Wales. The main activity of this associated undertaking is to raise funds by the issue of loan stock and to on-lend the proceeds to its shareholders. Pubco PLC does not have significant net income or net assets and therefore Shepherd Neame's share of these have not been included in the accounts as the amounts would not be material. The interest payable to Pubco PLC is shown in note 3.

	2001 £'000	2000 £'000
b Securities		
At 1 July 2000	509	509
Sale of investment	(1)	-
At 30 June 2001	508	509
Provision for diminution in value of investment – charged in the year	(100)	-
Net book value at 30 June 2001	408	509
Market value or Director's valuation	441	303

Listed securities held by the Company at 30 June 2001 at cost were £500,000 (market value £433,000, 2000 – £294,000)

	2001 £'000	2000 £'000
c Loans to customers		
At 1 July 2000	2,439	2,191
Additions	772	766
Redemptions	(852)	(518)
At 30 June 2001	2,359	2,439
Total investments and loans	2,775	2,954

- d** The Company has guaranteed mortgages totalling £956,000 (2000 – £1,083,000) advanced by a Building Society to Free Trade licencees. The Company has charges over the mortgaged properties, the values of which exceed the guarantees provided.

11 Stock

	2001 £'000	2000 £'000
Raw materials and consumables	1,554	1,267
Work in progress	324	315
Finished goods including factored goods	2,359	1,938
	4,237	3,520

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

12 Debtors

	2001 £'000	2000 £'000
Trade debtors	8,006	7,782
Other debtors	924	927
Prepayments	2,052	2,764
	10,982	11,473

13 Creditors: amounts falling due within one year

	2001 £'000	2000 £'000
Trade creditors	5,266	4,606
Corporation tax	1,688	1,752
Other tax and social security	2,863	2,692
Accruals	2,155	2,128
Trade deposits	1,559	1,521
Proposed dividend	1,450	1,375
Other creditors	719	671
	15,700	14,745

Notes to the accounts

30 June 2001

14 Creditors: amounts falling due after more than one year

	2001 £'000	2000 £'000
Loan from associated undertaking	18,500	18,500
Balance of premium received on loan from associated undertaking	934	1,112
	19,434	19,612

The loan from associated undertaking is from Pubco PLC and is repayable on 30 September 2006. The loan is secured by a first floating charge over the Company's registered property and assets. Interest payable is at a fixed rate of 11.25%. The loan premium received is being offset against the loan interest payable in accordance with accounting policy i.

15 Capital commitments

Contracts for capital expenditure not provided for in the accounts amounted to £1,269,000 (2000 – £1,431,000).

16 Other financial commitments

	Land and buildings 2001 £'000	Land and buildings 2000 £'000
Operating leases which expire:		
Within 2 – 5 years	18	–
After 5 years	795	608
	813	608

17 Contingent Liabilities

£25,000 remains uncalled on the 33,333 £1 ordinary shares held by the Company in its associate Pubco PLC.

18 Deferred taxation

	Provided in the accounts 2001 £'000	Provided in the accounts 2000 £'000	Full potential liability 2001 £'000	Full potential liability 2000 £'000
Capital allowances	307	307	2,899	2,128
Short term differences	–	–	(69)	(37)
	307	307	2,830	2,091

The full potential liability includes the amount provided and has been calculated at a corporation tax rate of 30.00% (2000 – 30.00%).

No provision is made, or included in the full potential liability above, for the taxation liability which would arise on the disposal of properties at their revalued amounts, or as a result of gains rolled over, as the likelihood of such liabilities crystallising is considered remote.

Financial Reporting Standard 19 "Deferred Tax" will be adopted with effect from the next financial year and will require full provision for deferred tax liabilities in the accounts.

19 Share capital

	2001 £'000	2000 £'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:		
11,437,738 "A" ordinary shares of £1 each	11,438	11,427
68,000,000 "B" ordinary shares of 2p each	1,360	1,360
	12,798	12,787

The increase in share capital in the year arose from the issue of 11,200 "A" ordinary shares in respect of share options exercised under the Shepherd Neame Executive Share Option Scheme (see note 25b).

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

20 Share premium account

	2001 £'000	2000 £'000
Balance at 1 July 2000	1,400	1,400
Premium on shares issued during the year	13	—
Balance at 30 June 2001	1,413	1,400

21 Revaluation reserve

	2001 £'000	2000 £'000
Balance at 1 July 2000	18,469	18,844
Transfer of realised surplus to profit and loss account	(460)	(375)
Balance at 30 June 2001	18,009	18,469

22 Profit and loss account

	2001 £'000	2000 £'000
Balance at 1 July 2000	42,785	38,771
Retained profit for the year	4,118	3,639
Transfer of realised revaluation	460	375
Balance at 30 June 2001	47,363	42,785

Notes to the accounts

30 June 2001

23 Reconciliation of movements in shareholders' funds

	2001 £'000	2000 £'000
Profit for the year	5,961	5,375
Ordinary dividends	(1,843)	(1,736)
New share capital subscribed	24	—
Movement during the year	4,142	3,639
Shareholders' funds at 1 July 2000	75,441	71,802
Shareholders' funds at 30 June 2001	79,583	75,441

24 Directors' interests

The interests of the Directors in the Company's shares at 30 June 2001 (1 July 2000) are as follows:

		"A" Ordinary shares		"B" Ordinary shares	
		Beneficial	As trustees	Beneficial	As trustees
R H B Neame	2001	108,761	519,342	6,861,600	772,132
	2000	108,761	506,784	6,861,600	772,132
S F B Neame	2001	184,080	318,856	3,668,800	—
	2000	184,080	300,694	3,668,800	—
J B Neame	2001	63,093	369,342	1,716,800	772,132
	2000	67,593	357,584	1,716,800	772,132
M B Bunting	2001	400	—	200,000	—
	2000	400	—	200,000	—
P J Bentley	2001	1,120	—	—	—
	2000	1,120	—	—	—
M B J Kimmins	2001	66,812	—	656,900	—
	2000	66,812	—	656,900	—
G H A Barnes	2001	12,256	—	21,900	—
	*	8,446	—	21,900	—
I J Dixon	2001	1,012	—	—	—
	2000	1,012	—	—	—

* at date of appointment.

24 Directors' interests continued

Options over the Company's shares held by Directors at 30 June 2001 (1 July 2000) are as follows:

	At 2000	Exercised	Granted	At 2001	Price at exercise date £	Exercise price £	Date from which exercisable	Expiry date
R H B Neame	998	—	—	998	—	0.0001	01.11.00	31.10.04
	1,518	—	—	1,518	—	0.0001	30.10.01	29.10.05
	—	—	2,274	2,274	—	0.0001	28.10.03	27.10.07
	2,516	—	2,274	4,790				
S F B Neame	874	—	—	874	—	0.0001	01.11.00	31.10.04
	1,325	—	—	1,325	—	0.0001	30.10.01	29.10.05
	—	—	1,973	1,973	—	0.0001	28.10.03	27.10.07
	2,199	—	1,973	4,172				
J B Neame	536	—	—	536	—	0.0001	01.11.00	31.10.04
	843	—	—	843	—	0.0001	30.10.01	29.10.05
	—	—	1,520	1,520	—	0.0001	28.10.03	27.10.07
	1,379	—	1,520	2,899				
G H A Barnes	1,600*	—	—	1,600	—	2.1750	30.04.95	30.03.02
	1,466*	(1,466)	—	—	3.10	0.0001	01.11.00	31.10.04
	711*	—	—	711	—	0.0001	30.10.01	29.10.05
	—	—	1,040	1,040	—	0.0001	28.10.03	27.10.07
	3,777*	(1,466)	1,040	3,351				
I J Dixon	9,000	—	—	9,000	—	2.1750	30.04.95	30.03.02
	478	—	—	478	—	0.0001	01.11.00	31.10.04
	759	—	—	759	—	0.0001	30.10.01	29.10.05
	—	—	1,248	1,248	—	0.0001	28.10.03	27.10.07
	10,237	—	1,248	11,485				
M J McJennett	9,000	(9,000)	—	—	3.10	2.1750	30.04.95	30.03.02
	494	—	—	494	—	0.0001	01.11.00	31.10.04
	783	—	—	783	—	0.0001	30.10.01	29.10.05
	—	—	1,384	1,384	—	0.0001	28.10.03	27.10.07
	10,277	(9,000)	1,384	2,661				
Total	30,385	(10,466)	9,439	29,358				

* at date of appointment.

18,758 of the share options held by Directors at 30 June 2001 (2000 – 8,608) relate to the Shepherd Neame Restricted Share Scheme, which is described in note 25c. The exercise of these options is conditional upon Directors remaining in employment with the Company for three years from the date of grant of the options.

No options lapsed during the year. The market price of the shares at 30 June 2001 was £3.45 and the range during the year was £2.40 to £3.75.

Notes to the accounts

30 June 2001

25 Share schemes

a The Shepherd Neame Employee Profit Sharing Scheme.

The Board has allocated £185,000 out of profits for the year which will be applied in acquiring "A" ordinary shares either by purchase or subscription. The 2000 allocation was applied in purchasing 49,434 "A" ordinary shares in October 2000 at £3.55 per share. Currently 232 (2000 – 223) employees, including the highest paid Director and five other Directors, qualify to participate in this scheme.

b The Shepherd Neame Executive Share Option Scheme.

There are outstanding options available to executives, to subscribe for 18,600 "A" ordinary shares as follows:

Date granted	Exercisable at per share	Until	Number of shares
April 1992	£2.175	March 2002	18,600

c The Shepherd Neame Restricted Share Scheme.

The Company operates a restricted share scheme for executives, including the highest paid Director and five other Directors.

Options to acquire shares to the value of approximately £24,000 became available for exercise for a nominal sum during the year. Options to acquire shares to the value of approximately £42,000 will be available for exercise for a nominal sum under the scheme in the year 2001. Further options to acquire shares to the value of approximately £54,000 will be available for exercise for a nominal sum under the scheme in the year 2003. These options expire in October 2004, October 2005 and October 2007 respectively.

26 Financial instruments

The Company's financial instruments comprise a loan, loans to customers, cash and short term borrowings. The main purpose of the financial instruments is to raise finance for the Company's operations. The Company 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 Company's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Company's financial instruments are interest rate risk and liquidity risk. The policies for managing these risks are regularly reviewed and agreed by the Board. There is also a foreign currency risk which is considered immaterial and is therefore excluded from the disclosures.

Interest Rate Risk

Debt is represented by a fixed rate loan and short term borrowings. The fixed rate loan, because of its nature is not capped. Short term borrowings are not capped as it is currently Company policy to have a proportion of total borrowings on a variable basis.

Liquidity Risk

It is currently the Company's policy to finance the majority of its business needs by means of long term fixed rate finance. The balance of its requirement is financed through overdraft and money market facilities. At the year end the Company had short term facilities of £16 million (2000 – £16 million) of which £10.4 million (2000 – £9.5 million) were being utilised. The size of the facility is regularly reviewed.

26 Financial instruments continued

Financial assets

The Company funds certain free trade customers with loans. At the balance sheet date these loans amounted to £2,359,000 (2000 – £2,439,000). The maturity profile of these assets is:

Recoverable < 1 year	£79,000
Recoverable 1–5 years	£780,000
Recoverable > 5 years	£1,500,000

Interest rate profile

The interest rate profile of the borrowing is:

	2001 Weighted average interest rate (%)	2001 Weighted average period for which rate fixed (years)	2000 Weighted average interest rate (%)	2000 Weighted average period for which rate fixed (years)
Loan from associated undertaking	10.29	5.25	10.29	6.25

Short term borrowings bear interest at rates fixed in advance for periods between one day and three months by reference to bank base rate.

Fair Values of Financial Assets and Liabilities

Loans to the free trade are financial assets carried at book value in the balance sheet. It is not practicable for the Company 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 periods.

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 2001 £'000	Fair value 2001 £'000	Book value 2000 £'000	Fair value 2000 £'000
Fixed rate loan	(18,500)	(21,779)	(18,500)	(22,304)
Short term borrowings	(10,390)	(10,390)	(9,477)	(9,477)
Fixed asset investments	408	441	509	303
Cash	53	53	49	49

Market values have been used to determine the fair values of fixed asset investments. The fair value of all other items has been calculated by calculating the expected future cash flows at prevailing interest rates.

The objective of the Company to fund its operations through floating rate borrowings, with exception of the fixed rate Pubco loan, has been achieved in the year.

Notes to the accounts

30 June 2001

27 Pension commitments

The Company operates two defined contribution pension schemes. The assets of the schemes are held separately from those of the Company in independently administered funds. The pension charge represents contributions payable by the Company to the funds and amounts to £517,000 (2000 – £739,000). Contributions of £118,000 (2000 – £49,000) were payable to the scheme at the year end. All Executive Directors are members of one of the Company's defined contribution schemes.

In addition to this the Company has a contractual obligation to meet certain final salary pension promises in respect of one of its directors. Under current accounting standards (SSAP24) the cost to the Company of meeting this liability is equal to its contributions, there being no prepayment or provision.

An actuarial review of this liability was carried out as at 1 July 2001, for the purposes of determining any prepayment or provision under the revised accounting standard (FRS17).

At the date of calculation the market value of the pension assets was equal to the assessed liabilities. No prepayment or provision under FRS17 is therefore required.

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.

Notice of meeting

Notice is hereby given that the Eighty-seventh Annual General Meeting of the Company will be held at the Brewery, 17 Court Street on 26 October 2001 at 12 noon for the following purposes.

Resolution 1

To receive and adopt the Annual Statement of Accounts and Balance Sheet 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 S F B Neame as a Director.

Resolution 4

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

Resolution 5

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

By Order of the Board

G H A Barnes
Secretary
17 Court Street
Faversham
Kent

4 October 2001

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.

Five year summary

	2001 £'000	2000 £'000	1999 £'000	1998 £'000	1997 £'000
Profit and loss					
Turnover	71,310	68,493	62,498	58,679	53,703
Operating profit	9,473	9,273	8,931	8,553	8,286
Net finance charges	(2,659)	(2,591)	(2,453)	(2,454)	(2,492)
Profit on sale of property	1,479	867	305	329	172
Profit on sale of investment	(77)	-	-	82	-
Profit before taxation	8,216	7,549	6,783	6,510	5,966
Taxation	(2,255)	(2,174)	(1,913)	(2,094)	(1,742)
Earnings available to shareholders	5,961	5,375	4,870	4,416	4,224
Dividends	(1,843)	(1,736)	(1,630)	(1,545)	(1,462)
Retained profit	4,118	3,639	3,240	2,871	2,762
Dividends					
Percentage on shares	14.40%	13.58%	12.75%	12.12%	11.50%
Dividend cover	3.2	3.1	3.0	2.9	2.9
Earnings per £1 nominal share value (p) based on:					
Earnings available to shareholders	46.6	42.0	38.1	34.7	33.4
Earnings before profit on sale of property net of tax	35.0	35.3	35.7	32.3	32.1
Shareholders' funds employed					
Share capital	12,798	12,787	12,787	6,372	6,357
Share premium	1,413	1,400	1,400	1,258	1,127
Revaluation reserve	18,009	18,469	18,844	24,978	24,712
Revenue reserve	47,363	42,785	38,771	35,769	33,164
	79,583	75,441	71,802	68,377	65,360
Represented by:					
Assets					
Fixed assets	110,142	104,540	99,826	95,516	91,019
Current assets	15,272	15,042	14,525	13,807	12,018
	125,414	119,582	114,351	109,323	103,037
Liabilities					
Short term	26,090	24,222	22,452	20,978	17,532
Long term	19,434	19,612	19,790	19,968	20,145
Deferred tax	307	307	307	-	-
	45,831	44,141	42,549	40,946	37,677
Net assets	79,583	75,441	71,802	68,377	65,360
Net assets per share (£)	6.22	5.90	5.62	5.36	5.14

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