

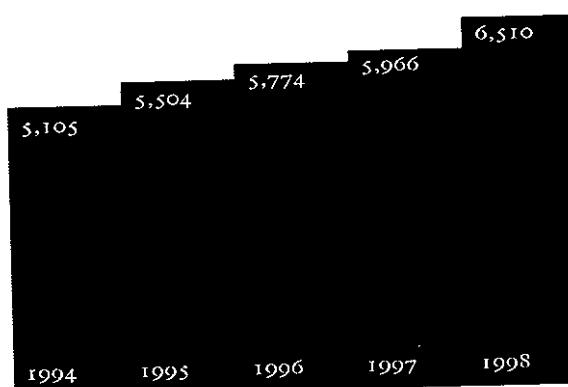
Financial highlights

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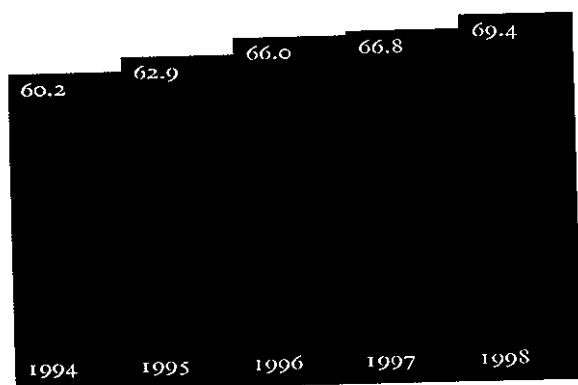
Turnover £000



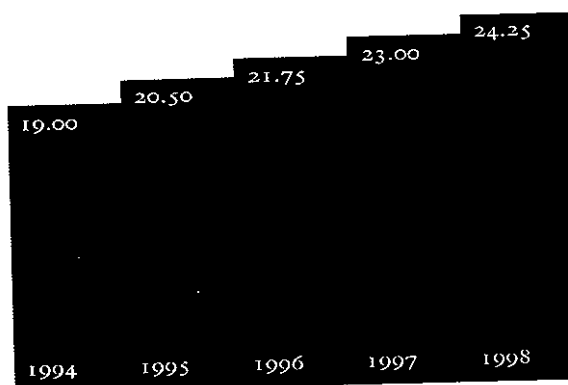
Group profit before tax £000



Earnings per share pence



Dividends per £1 nominal share capital pence



Chairman's statement

Results for 1997/98

The Company has enjoyed a further period of steady growth with turnover 9.3% higher at £58.7 million. Profit before tax increased by 9.1% to £6.51 million.

Earnings per share increased to 69.4p and the Directors are recommending a final dividend of 19.25% making a total of 24.25% for the year, an increase of 5.4% over last year.

I believe that these results reflect the strength of our management team and our strategy of improving our estate and focusing on premium beers.

We have continued to improve the quality of our tied estate by purchasing suitable new sites which extend our trading area and by selling poorer sites which are no longer viable.

Our premium beer sales account for 35% of total production as opposed to the UK average of 26%, and premium lagers account for 63% as opposed to the UK average of 20%. The strength of our product range with its strong bias in premium ale and lager production establishes the main difference between Shepherd Neame and other regional brewers who specialise solely in regional ales.

Shares

To celebrate our tercentenary, the Directors feel that it is appropriate to

recommend a bonus share issue on a 1:1 basis out of the accumulated capital reserve.

Board

Rodney Mann, who joined the Board in 1995, has decided not to seek re-election. His commitments to Avebury Group, where he is Non-Executive Chairman, have considerably increased and because both Shepherd Neame and Avebury are likely to be looking at the same expansion opportunities a conflict of interest is almost certain to arise in the future. We have valued his contribution to the Company over the past three years.

Legislation and Regulation

We have continued our court case against the Government's decision to increase duty on beer and were granted leave in the High Court to appeal, which is scheduled to be heard during January 1999. Our case is now supported and funded by the whole Brewing Industry. Recent market research showed that Shepherd Neame has gained widespread respect and recognition nationally among trade and opinion formers for the position we have taken.

We have also received confirmation from Brussels that the petition I delivered to the European Parliament on behalf of the Independent Family

Brewers of Britain in January 1997 has now been considered by the Commission and has been referred to the Council of Finance Ministers at their next biannual Summit Meeting.

Whilst the abolition of duty free concessions in July 1999 is likely to result in increased ferry fares, it does not address the fundamental problem that market forces will continue to be distorted in a Single Market if EU Governments do not move towards a harmonisation of excise duty rates.

Royal Visit and Royal Warrant

We were honoured by His Royal Highness the Prince of Wales visiting the brewery on 16 July. He spent a considerable amount of time touring the plant and spoke to many of the workforce including licensees and pensioners who had been invited for the occasion. He also added hops to the start of our millennium brew and at the end of the visit he pulled a traditional pint of draught Celebration Ale and unveiled a plaque in the Visitor Centre. He was presented with a pair of gold cufflinks shaped in the form of a single hop cone that had been specially commissioned for the occasion. I believe he enjoyed his visit and certainly all those who met him felt he took a genuine interest in what they had to say.

On 1 January 1998 we were delighted to be granted a Royal

Warrant by His Royal Highness the Prince of Wales for our Grants Morella Cherry Brandy.

Tercentenary

During the year there have been a number of tercentenary dinners held at Mount Ephraim for employees and licensees, and at Leeds Castle for our export partners and fellow-brewers. These events were greatly appreciated and enjoyed by all those attending.

We were delighted to receive the Kent Company of the Year Award and special mention was made of the Company's development over the past 300 years. I am confident



that it is now very well-positioned to continue its success into the next millennium.

Strategy for the Future

The strategy we have adopted over the past few years has been extremely successful and it is one which we intend to continue.

We will continue to invest in our estate through acquisitions, major projects and lower cost redevelopments which can produce a high return. We will also continue to dispose of back-street and isolated country houses which do not have a viable long term future.

We remain committed to a strong tenanted estate based on the traditional three year tenancy agreement where a fair rent can offer a good return to both the tenant and the brewery.

We will continue to develop our managed estate with those houses where the in-going investment and economic rent are too high for all but a few prospective tenants. Direct management allows the brewery to continue to improve standards and to try out new concepts ensuring that we give value for money to our customers.

Our product portfolio is extremely strong and offers our customers a range of beers which compares favourably with any of our competitors. This has led to an increase in the opportunities for

investment in good free trade accounts where there is a high return on capital. The development of specialist premium ale and lager brands has enabled us to generate a good return from brewing and I am confident that our continuing commitment to brewing and operating as a vertically integrated company is the correct policy for the future.

During the past few years we have had to make radical changes to adapt to changes in the market and to lay the foundations for future growth. We now have in place an excellent infrastructure to allow us to go forward with confidence, developing our brands and new channels of trade.

Staff

I would like to pay special tribute to all our employees who have worked hard to maintain the highest standards of quality and service and have met the increased demands arising from our 300th Anniversary. Their loyalty, dedication and professionalism are an example to many other companies.

Robert Neame Chairman



Above The Wharf represents a substantial investment in one of Kent's prime development areas. It was built on a greenfield site close to the Queen Elizabeth II Bridge at Crossways Business Park, near Dartford.

Business review

Tied Estate

During the year we completed the purchase of five freehold properties and the leases of a further four houses. We sold ten houses and the number of houses trading at the year end stood at 361.

The overall contribution from the tied estate increased by 5.4% as a consequence of improved margins combined with growth in food, wine and mineral sales as well as machine income. We have arrested the slow decline in beer volumes and these remained the same as the previous year.

We carried out 17 redevelopments during the year, 15 in the tenanted estate and two in the managed estate. We invested £0.6 million in lower cost alterations averaging between £50,000 and £80,000 as these give the most profitable return on our capital investment. We extended our contemporary café-bar concept with the successful opening of the Grapes in Gravesend and Oranges in Ashford. We continue to make substantial investments in prime areas in the South East, the latest being the Wharf at Dartford.

During the year we have made substantial improvements to our tenancy support services and have

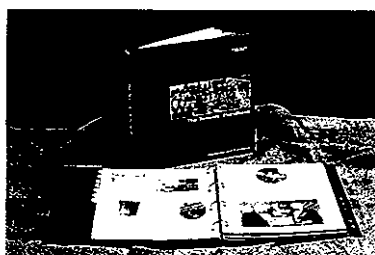
produced a new comprehensive Tenants Handbook and extended the range of our training services. We recognise the importance of providing our tenants with help and advice in order to maximise the potential of each outlet. The measures we have taken have improved standards and strengthened the partnership between tenants and the brewery.

Free On Trade

We achieved 16.6% growth in sales volumes. This has been achieved as a result of our carefully focused loan investment policy and reflects the demand for our beers as well as the quality and service we provide. We have continued with our local and county sports sponsorships.

Take Home

Sales volumes increased by 19.5%.



Bishops Finger remains our best selling product in this sector and sales were enhanced by the introduction of an 8-pack. Sales of our Christmas Ale were double those of last year and 1698 Celebration Ale has already achieved significant volumes.

Wholesale

A substantial increase in sales volumes included an increase of 16.2% for our own beers. There was growth of 18.1% in our cask ale sales which was helped by the introduction of Celebration Ale and a new range of seasonal beers.

In the lager sector, Oranjeboom has been very successful and Sun Lik, our Chinese beer, has been very well received by the wholesalers specialising in the ethnic restaurant market.





Export

Sales volumes were marginally ahead of last year despite the strength of the pound. We have arrested the decline in sales volumes in Sweden and we anticipate that sales will recover to their previous level. We expect this channel of trade to continue to make a useful, albeit small, contribution to our profits.

Brands

This was the first full year for Oranjeboom Pilsner which has been extremely well received by our customers, both in the tied and free trade. The product won a silver medal at the 1998 International Brewing Awards held in Burton-on-Trent. There has been some substitution for our existing brands, particularly Steinbock, but the introduction of Oranjeboom has

made a significant contribution to our overall sales growth.

Spitfire won a bronze medal at the International Brewing Awards and remains our biggest selling beer in the wholesale market. Distribution continues to expand on a national basis both in bottle and on draught and recognition of the brand was further enhanced by our successful advertising campaign on the London Underground which attracted considerable attention.

1698 Celebration Ale was introduced as part of the tercentenary programme and has proved so popular that it is likely to remain a permanent part of our product portfolio. The bottled product won a gold medal at this year's British Bottling Industry Awards.

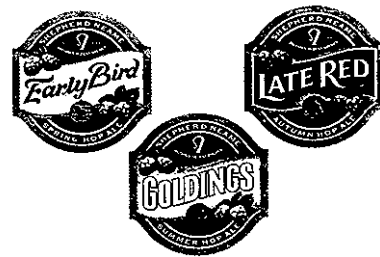
In order to further enhance our range of beers we launched a

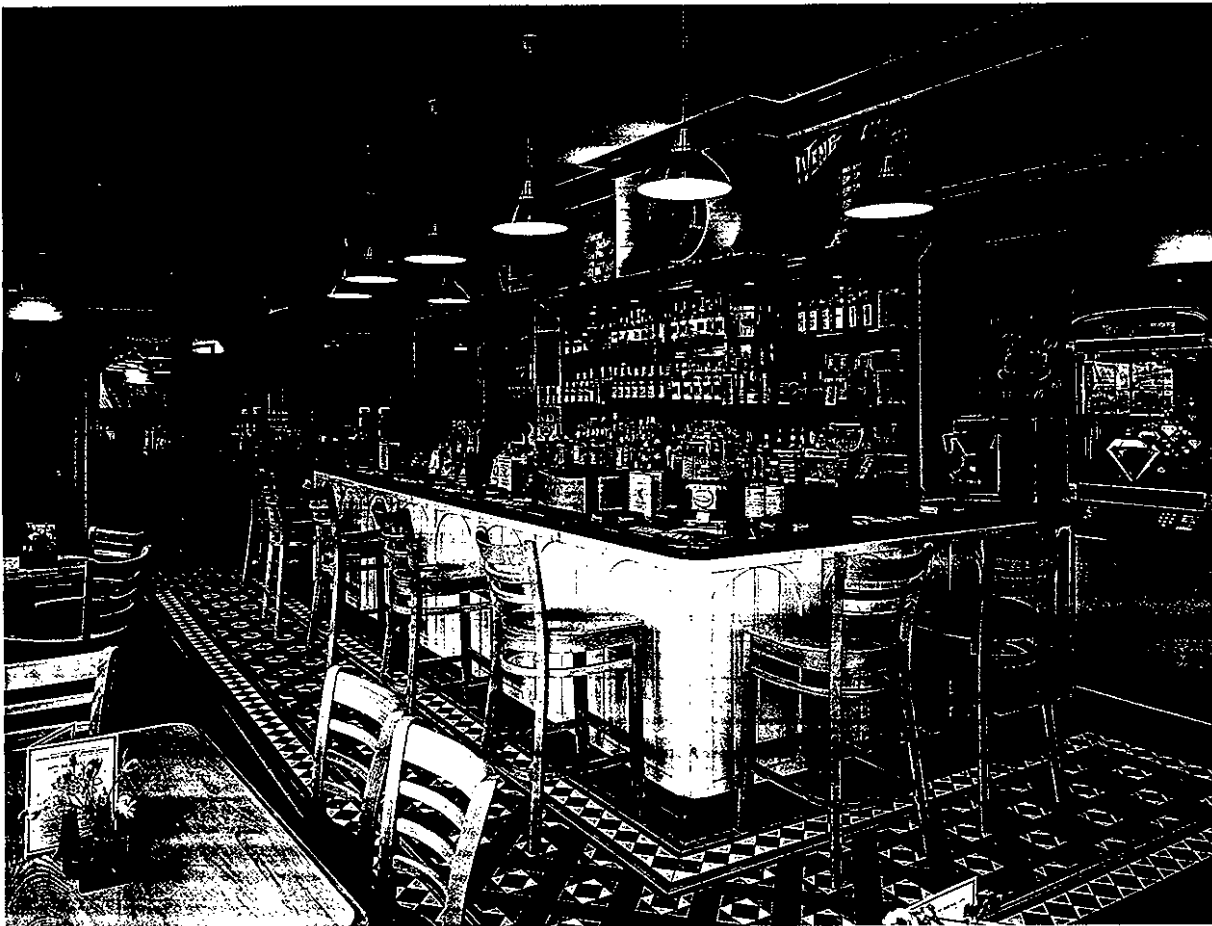
selection of seasonal ales. Each beer is sold for a limited part of the year and is available in cask and bottle. These beers have proved very popular with our wholesalers who are keen to offer their customers a wider choice of beers whilst still being able to deal with a brewer with whom they have established a good relationship.

Our wine, spirits and minerals trade continues to expand with a full range of quality products at competitive prices. The introduction of our own label whisky, Master Blend, has proved a considerable success with our licensees and the public and so we have recently added 1698 London Dry Gin to our range.

Brewery

We continue to increase brewing capacity as demand for our products





Above The interior of The Grapes is a good example of a relatively low cost redevelopment which has substantially increased sales



grows. This has resulted in the need to install additional 5 x 500 bbl. conical fermenters with associated chilling equipment and this work will be carried out in 1998/99. We are also carrying out a review of our boiler capacity which needs to be increased to meet the continuing demand.

During 1997/98 we moved the laboratory to be in the centre of production operations and installed a gas chromatograph to monitor and control beer flavours. In order to improve our technical services operations the workshop, stores and administration were moved to the former church hall on the brewery perimeter. To further add to our Customer Care structure, the warehousing, distribution and beer ordering functions have been awarded ISO 9002 accreditation. In the next year this accreditation

will be extended to packaging operations and sales administration.

Merrydown

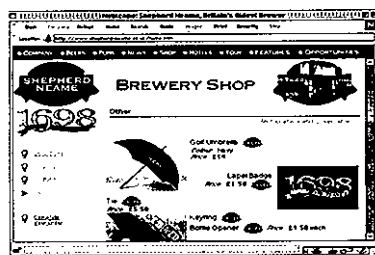
During the year we won a contract to bottle and keg Merrydown. This contract will run for several years, and following our review of the potential future prospects of Merrydown, we decided to cement our relationship by investing £500,000 in shares in the company.

IT and the Internet

We have made considerable progress towards ensuring that our computer systems remain operational as we cross to the next millennium.

Our Internet site is now promoting the brewery, our beers and our pubs and is also offering our promotional merchandise and memorabilia for sale. The introduction of our new range

of merchandise for 1998 has produced substantial annual sales reflecting the quality and interest in these items.



Directors and advisers



Above: 1st row from left to right R. H. B. Neame, S. F. B. Neame, J. B. Neame. 2nd row E. R. Johnston, M. B. Bunting, P. J. Bentley; 3rd row I. R. Mann, G. H. A. Barnes, M. P. Cousins; and 4th row I. J. Dixon, M. J. McJennett and D. T. Udell.

Directors

R. H. B. Neame (64) Chairman and Chief Executive. Joined the Company in 1956 and 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 Chairman of Folkestone Racecourse, Vice-President of the South East England Tourist Board and a Non-Executive Director of Mendocino Brewing Company, Ukiah, USA.

S. F. B. Neame (53) 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.

J. B. Neame (34) Tenanted Trade. Joined the Company in 1991 and was Company Secretary until July 1994. He is a Barrister-at-law and was a Management Consultant with the COBA Group from 1987 to 1991.

E. R. Johnston (63) Non-Executive Director. Was appointed to the Board in 1980. He was a Director of West India Rum Company Limited from 1976 to 1982, and a Director of Caribbean Distillers Limited from 1970 until 1976. He is currently a Director of Johnston Associates Limited.

M. B. Bunting (64) 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 (59) Non-Executive Director. Was appointed to the Board in 1995. He brings with him 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 is currently a Non-Executive Director of Marstons.

I. R. Mann (56) Non-Executive Director. Was appointed to the Board in 1995. Joined Watney Mann in 1966 and has been Managing Director of Norwich Brewery, Ushers Brewery, IDV (UK) Wholesale Limited and Grand Metropolitan Innentrepreneur and Tenanted Estate. He is currently Non-Executive Chairman of Avebury Group Limited, a Non-Executive Director of CCI Holdings Ltd and a Council Member of the British Institute of Innkeeping.

Technical Board

G. H. A. Barnes (43) Property. Joined the Company in 1978. He is a qualified valuer and auctioneer and has held various management positions within the Company.

M. P. Cousins (49) Finance. Joined the Company in 1991. He is a qualified accountant and corporate treasurer. Formerly with Total Oil Great Britain Limited from 1976 to 1991 where he was Head of Finance from 1989 to 1991. Previously with the tax department of Schlumberger Limited from 1973 to 1976.

I. J. Dixon (55) Production. 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 largest in the UK. He was with Courage for 18 years and has 30 years' experience in the brewery industry.

M. J. McJennett (43) Sales. 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.

D. T. Udell (51) Retail. Joined the Company in 1992. He was Managing Director of Buccaneer Holdings Ltd from 1990 to 1992 and Director of Norfolk Capital Hotels Ltd from 1987 to 1990. He has also held management positions with Tollemache & Cobbold Ltd, Nicholsons Free Houses and Chef and Brewer Limited.

Company Secretary **G. H. A. Barnes**
Registered office
17 Court Street, Faversham, Kent
ME13 7AX

Auditors
Ernst & Young
Becket House, 1 Lambeth Palace Road
London SE1 7EU

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

Stockbrokers
Cazenove & Company
12 Tokenhouse Yard
London EC2R 7AN

Report of the directors

The Directors have pleasure in presenting their eighty-fourth annual report and accounts for the 52 weeks ended 27 June 1998.

Activities and review of business

The principal activities of the Group 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 Business Review give full details of the Group's business for the 52 weeks ended 27 June 1998.

Dividends

The Directors recommend the payment of a final dividend of 19.25% (1997 – 18.25%) on the "A" and "B" ordinary shares amounting to £1,226,000 (1997 – £1,160,000) making a total for the year of 24.25%, £1,545,000 (1997 – 23.00%, £1,462,000), and leaving retained profits of £2,871,000 (1997 – £2,762,000).

Directorate

Mr P J Bentley and Mr I R. Mann retire from the Board by rotation. Mr Bentley will offer himself for re-election.

The names of the Directors are set out on page 11. Particulars of their interests in the Company's shares are detailed in note 24 to the accounts.

Board responsibilities

Both the Audit Committee and the Remuneration Committee have met during the year. The Remuneration Committee has made an award equivalent to 5% of salary to 19 executives (including the three 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 of 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.

Year 2000 compliance

As is well known, many computer and digital storage systems express dates using only the last two digits of the year and will thus require modification or replacement to accommodate the Year 2000 and beyond in order to avoid malfunctions and resulting widespread commercial disruption. This is a complex and pervasive issue. The operation of our business depends not only on our own computer systems, but also to some degree on those of our suppliers and customers. This could expose us to further risk in the event that there is a failure by other parties to remedy their own Year 2000 issues.

The Company has replaced its mainstream accounting software with millennium compliant systems over the last two years at a cost of over £500,000. A programme is under way to identify and replace other critical and non-compliant systems by 1 July 1999. The cost of the outstanding work is expected to be considerably less than the costs incurred to date, and will be subsumed into the recurring activities of the departments involved.

Employees

It is the Group'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 Group's employment.

The Group 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 Group's profit sharing scheme.

Charitable and political contributions

In the year the Group donated £2,400 for charitable purposes.

Payment to suppliers

The Group aims to comply with suppliers' agreed payment terms whenever possible. Trade creditors on 27 June 1998 represent 37 days' average purchases.


Auditors

Ernst & Young have expressed their willingness to continue in office as auditors and a resolution proposing their appointment will be submitted to the Annual General Meeting.

By Order of the Board

G H A Barnes
Secretary
17 Court Street
Faversham
Kent

24 September 1998



Statement of directors' responsibilities

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

The Directors are responsible for maintaining adequate accounting records, safeguarding the assets of the Group 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 14 to 26 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and on the basis of the accounting policies set out on page 18.

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.

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 Group'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 the affairs of the Company and of the Group as at 27 June 1998 and of the profit of the Group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young
Registered Auditor
London
24 September 1998



Group profit and loss account

52 weeks ended 27 June 1998

	Note	1998 £000	1997 £000
Turnover	1	58,676	53,703
Operating charges	2	(50,160)	(45,552)
Operating profit		8,516	8,151
Share of profit in associated undertaking	10a	37	135
Profits on sale of property		329	172
Profits on sale of investment		82	—
Profit on ordinary activities before interest		8,964	8,458
Interest receivable and similar income		92	13
Interest payable and similar charges	3	(2,546)	(2,505)
Profit on ordinary activities before taxation		6,510	5,966
Taxation	4	(2,094)	(1,742)
Profit after taxation		4,416	4,224
Dividends	5	(1,545)	(1,462)
Retained profit	22	2,871	2,762
Earnings per £1 nominal share value (p)		69.4	66.8

Movements on reserves are set out in notes 20 to 23.

Statement of total recognised gains and losses

52 weeks ended 27 June 1998

	1998 £000	1997 £000
Profit for the financial period	4,416	4,224
Revaluation surplus	—	312
Total gains and losses relating to the year	4,416	4,536

Note of historical cost profits and losses

52 weeks ended 27 June 1998

	1998 £000	1997 £000
Profit on ordinary activities before taxation	6,510	5,966
Realisation of property revaluation	(266)	837
Historical cost profit on ordinary activities before taxation	6,244	6,803
Historical cost profit for the period retained after taxation and dividends	2,605	3,599

Balance sheets

as at 27 June 1998

	Note	Group 1998 £000	Group 1997 £000	Company 1998 £000	Company 1997 £000
Fixed assets					
Tangible fixed assets	9	92,579	89,108	92,579	89,108
Investments	10	2,937	1,911	2,750	1,750
		95,516	91,019	95,329	90,858
Current assets					
Stock	11	3,878	3,634	3,878	3,634
Debtors	12	9,885	8,341	9,885	8,341
Cash		44	43	44	43
		13,807	12,018	13,807	12,018
Creditors: amounts falling due within one year					
Bank overdrafts and loans		(4,900)	(5,335)	(4,900)	(5,335)
Creditors	13	(16,078)	(12,197)	(16,078)	(12,197)
		(20,978)	(17,532)	(20,978)	(17,532)
Net current liabilities		(7,171)	(5,514)	(7,171)	(5,514)
Total assets less current liabilities		88,345	85,505	88,158	85,344
Creditors: amounts falling due after more than one year	14	(19,968)	(20,145)	(19,968)	(20,145)
		68,377	65,360	68,190	65,199
Capital and reserves					
Called up share capital	19	6,372	6,357	6,372	6,357
Share premium account	20	1,258	1,127	1,258	1,127
Revaluation reserve	21	24,978	24,712	24,978	24,712
Profit and loss account	22	35,769	33,164	35,582	33,003
Equity shareholders' funds	23	68,377	65,360	68,190	65,199

These financial statements were approved by the Board of Directors on 24 September 1998 and were signed on its behalf by:

Robert H B Neame
Stuart F B Neame
Directors

Robert H B Neame
S. F. B. Neame

Group cash flow statement

52 weeks ended 27 June 1998

	1998 £000	1997 £000
Net cash inflow from operating activities	13,145	9,479
Returns on investment and servicing of finance		
Interest paid	(2,659)	(2,593)
Taxation	(1,790)	(1,539)
Capital expenditure and financial investment		
Purchase of property, plant and equipment	(7,635)	(9,236)
Purchase of investment	(500)	-
Proceeds of sale of assets	1,626	2,654
Proceeds from sale of investments	107	-
Additional loans to customers	(856)	(552)
Customer loan redemptions	331	306
	(6,927)	(6,828)
Equity dividends paid	(1,479)	(1,376)
Net cash outflow before use of liquid resources and financing	290	(2,857)
Financing		
Proceeds of sale of shares for cash	146	541
Increase/(decrease) in cash during the year	436	(2,316)

Notes to the cash flow statement

52 weeks ended 27 June 1998

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

	1998 £000	1997 £000
Operating profit	8,516	8,151
Depreciation and other non-cash expenses	2,861	2,659
Increase in debtors and prepayments	(1,475)	(912)
Increase in stocks	(244)	(360)
Increase/decrease in creditors and accruals	3,482	(34)
Profit on sale of assets (excluding property)	5	(25)
	4,629	1,328
Net cash inflow from operating activities	13,145	9,479

Note 2: Reconciliation of net cash flow to movement in net debt

	1998 £000	1997 £000
Increase/(decrease) in cash during the year	436	(2,316)
Amortisation of loan premium	177	178
Movement in net debt during the year	613	(2,138)
Net debt at 28 June 1997	(25,437)	(23,299)
Net debt at 27 June 1998	(24,824)	(25,437)

Note 3: Analysis of changes in net debt

	1997 £000	Cash flow £000	Amortisation of loan premium £000	1998 £000
Cash at bank and in hand	43	1	—	44
Bank overdrafts	(5,335)	435	—	(4,900)
	(5,292)	436	—	(4,856)
Debt due after more than one year	(20,145)	—	177	(19,968)
Total	(25,437)	436	177	(24,824)

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 **Basis of consolidation**
The consolidated accounts incorporate the accounts of the Company and its associated undertaking, UBSN Limited, for the 52 weeks ended 27 June 1998. Accounts are made up to the nearest Saturday to 30 June.
The results of the associated undertaking, which has its statutory accounts made up to 31 December each year, are consolidated based on its latest statutory accounts and management information from that date.
- c **Tangible assets**
The freehold licensed and associated properties, excluding brewery premises, are included at open market value on an existing use basis as at 28 June 1997. Additions since that date are included at cost. Brewery premises and all other fixed assets are shown at cost less accumulated depreciation.
- d **Depreciation**
Depreciation is provided on brewery freehold buildings. Other freehold buildings and land are not depreciated. It is the Group's policy to maintain licensed properties so that a decrease in the value of the properties will not arise as a result of any deterioration of their condition. Having regard to this policy any element of depreciation of these premises would, in the opinion of the Directors, be immaterial.
Short leaseholds are amortised over the terms of the leases; other fixed assets are depreciated at varying rates based upon their expected useful lives.
The valuation or cost of the main categories of assets, other than non-brewery freehold properties, is written off by equal annual instalments commencing from the date that the assets are brought into use, as shown below.
Brewery buildings: 25 to 30 years
Fixed plant: 5 to 13 years
Vehicles: 5 to 7 years
Fixtures: 5 to 20 years
Containers: 6 to 10 years
- e **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.
- f **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.
- g **Repairs to properties**
The charge in the accounts includes provision for the estimated cost of completion for all work which had commenced before the year end, and was planned to be completed within three months of commencing the work. The estimated charge in respect of major projects expected to exceed three months' duration is apportioned on a time basis over the period of the work.
- h **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.
- i **Employee Profit Share Scheme**
The allocation from profits is charged to the profit and loss account in the year of allocation.
- j **Property disposals**
The surplus and deficiencies on property disposals are shown by reference to their balance sheet values and are included in the profit on ordinary activities.
- k **Leasing commitments**
Rentals paid under operating leases are charged to income on a straight line basis over the term of the lease.
- l **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

27 June 1998

1 Turnover

Turnover comprises sales net of discounts, rents received and services rendered from trading activities, excluding value added tax. The export sales during the year were £1,223,000 (1997 – £1,239,000).

2 Operating charges

	1998 £000	1997 £000
Change in stocks of finished goods & WIP	(37)	(127)
Factored goods	12,031	11,406
Raw materials, duty and consumables	13,988	12,346
Staff costs: Wages and salaries	8,753	8,390
Social security costs	703	693
Other pension costs	494	395
Depreciation	2,861	2,659
Auditors' remuneration: Audit services	54	59
Non-audit services	20	19
Property repairs	1,126	898
Operating lease rentals: Land & buildings	247	229
Other operating charges	9,920	8,585
	50,160	45,552

3 Interest payable and similar charges

	1998 £000	1997 £000
Pubco PLC loan	1,929	1,907
Bank loans and overdrafts	418	405
Other	199	193
	2,546	2,505

4 Taxation

	1998 £000	1997 £000
UK Corporation tax	2,083	1,708
Tax on profits of associated company	11	34
Tax credits on franked investment income	—	—
	2,094	1,742

The corporation tax charge for the period has been increased by prior year under provisions of £230,000 (1997 – nil). It has been reduced by accelerated capital allowances for which no deferred tax provision is required and by capital gains rolled over of £207,000 (1997 – £116,000).

Notes to the accounts

27 June 1998

5 Dividends

	1998 £000	1997 £000
"A" and "B" ordinary shares		
Interim paid 5.00% (1997 – 4.75%)	319	302
Final proposed 19.25% (1997 – 18.25%)	1,226	1,160
	1,545	1,462

6 Profit and loss account

In accordance with the exemption allowed by Section 230 of the Companies Act 1985, the Company has not presented its own profit and loss account. The profit for the financial year dealt with in the accounts of the Company was £4,390,000 (1997 – £4,123,000).

7 Directors' remuneration

	1998 £000	1997 £000
Aggregate amount		
Directors' emoluments	396	378
Pension contributions	239	132
Pensions to past Directors or their widows	–	3
	635	513
	£	£
Highest paid Director		
Emoluments	141,987	135,718
Pension contributions	154,600	104,100
	296,587	239,818

The accrued pension at 27 June 1998 of the highest paid Director amounted to £91,466 per annum.

Details of share options are shown in note 24. Details of participation in share schemes are shown in note 25.

8 Employees

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

	Number of employees 1998	Number of employees 1997
Brewery	268	264
Retailing	646	667
	914	931

9 Tangible assets – Group and Parent Company

	Freehold properties £000	Leasehold properties under 50 years £000	Plant vehicles and containers £000	Fixtures and fittings £000	Total £000
Valuation or cost:					
At 28 June 1997	75,094	357	13,448	18,720	107,619
Additions	3,574	183	1,559	2,319	7,635
Disposals	(819)	—	(426)	(426)	(1,671)
Revaluation					
At 27 June 1998	77,849	540	14,581	20,613	113,583
Accumulated depreciation:					
At 28 June 1997	379	41	7,930	10,161	18,511
Charge for year	32	21	1,115	1,693	2,861
On disposals	—	—	(283)	(85)	(368)
At 27 June 1998	411	62	8,762	11,769	21,004
Net book amounts:					
At 27 June 1998	77,438	478	5,819	8,844	92,579
At 28 June 1997	74,715	316	5,518	8,559	89,108

Included in additions is £26,000 (1997 – £71,000) of own work capitalised.

The freehold licensed and associated properties were revalued as at 28 June 1997. Valuations of £71,111,000 are included in the valuation or cost of freehold properties at 27 June 1998.

If they had not been revalued, freehold properties would have been carried in the balance sheet at 27 June 1998 at:

	1998 £000	1997 £000
Cost	49,874	47,385
Accumulated depreciation	(411)	(379)
Net book amount	49,463	47,006

Notes to the accounts

27 June 1998

10 Investments and loans

	Group 1998 £000	Group 1997 £000	Company 1998 £000	Company 1997 £000
a Associated undertakings				
At 28 June 1997	216	115	55	55
Share of profit for the year	37	135	—	—
Share of tax charge for the year	(11)	(34)	—	—
Release of provision	—	—	—	—
At 27 June 1998	242	216	55	55

The Company holds 50% of the ordinary share capital of UBSN Limited, a company registered in England and Wales. The main activity of this associated undertaking is the development of the Kingfisher brands both in the UK and Overseas. The Company has had the following transactions with UBSN Limited during the year:

	1998 £000	1997 £000
Sales	3,804	3,237
Management charges receivable	167	144
Purchases	(641)	(754)

The Company holds 20% 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 Neames share of these have not been included in the accounts as the amounts would not be material. The interest payable to Pubco PLC during the year is shown in note 3.

	Group 1998 £000	Group 1997 £000	Company 1998 £000	Company 1997 £000
b Securities				
At 28 June 1997	34	34	34	34
Additions	500	—	500	—
Disposals	(25)	—	(25)	—
At 27 June 1998	509	34	509	34
Market value or Director's valuation	470	34	470	34

Listed securities held by the Group and Company at 27 June 1998 at cost were £500,000 (market value £461,000). No listed securities were held at 28 June 1997.

	Group 1998 £000	Group 1997 £000	Company 1998 £000	Company 1997 £000
c Loans to customers				
At 28 June 1997	1,661	1,415	1,661	1,415
Additions	856	552	856	552
Redemptions	(331)	(306)	(331)	(306)
At 27 June 1998	2,186	1,661	2,186	1,661
Total investments and loans	2,937	1,911	2,750	1,750

- d The Company has guaranteed mortgages totalling £1,536,000 (1997 – £1,289,000) 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

	Group and Company 1998 £000	Group and Company 1997 £000
Raw materials and consumables	1,446	1,271
Work in progress	228	312
Finished goods including factored goods	2,204	2,051
	3,878	3,634

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

12 Debtors

	Group and Company 1998 £000	Group and Company 1997 £000
Trade debtors	6,279	5,848
Amounts due from associated undertaking	1,177	1,058
Other debtors	754	446
Prepayments	1,675	989
	9,885	8,341

13 Creditors: amounts falling due within one year

	Group and Company 1998 £000	Group and Company 1997 £000
Trade creditors	6,663	3,745
Corporation tax	2,406	1,902
Other tax and social security	2,468	2,367
Accruals	1,493	1,338
Trade deposits	1,307	1,274
Proposed dividend	1,226	1,160
Other creditors	515	411
	16,078	12,197

14 Creditors: amounts falling due after more than one year

	Group and Company 1998 £000	Group and Company 1997 £000
Loan from associated undertaking	18,500	18,500
Balance of premium received on loan from associated undertaking	1,468	1,645
	19,968	20,145

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 debenture interest payable in accordance with accounting policy 1.

Notes to the accounts

27 June 1998

15 Capital commitments

Contracts for capital expenditure not provided for in the accounts amounted to £176,000 (1997 – £154,000).

16 Other financial commitments

At 27 June 1998 the Company had annual commitments under non-cancellable operating leases as set out below:

	Group and Company Land and buildings 1998 £000	Group and Company Land and buildings 1997 £000
Operating leases which expire: Within 1 year	—	—
Within 2 to 5 years	23	20
After 5 years	320	143
	343	163

17 Contingent liabilities

£75,000 remains uncalled on the 125,000 £1 ordinary shares held by the Company in its associate UBSN Limited.

£15,000 remains uncalled on the 20,000 £1 ordinary shares held by the Company in its associate Pubco PLC.

18 Deferred taxation

	Group and Company Provided in the accounts 1998 £000	Group and Company Provided in the accounts 1997 £000	Group and Company Full potential liability 1998 £000	Group and Company Full potential liability 1997 £000
Capital allowances	307	290	2,007	1,974
Short term differences	—	—	(83)	—
Recoverable ACT	(307)	(290)	(307)	(290)
	—	—	1,617	1,684

The full potential liability includes the amount provided and has been calculated at a corporate tax rate of 30% (1997 – 31%).

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 is considered remote.

19 Share capital

	Group and Company 1998 £000	Group and Company 1997 £000
a Authorised:		
6,437,200 "A" ordinary shares of £1 each	6,437	6,437
34,000,000 "B" ordinary shares of 2p each	680	680
	7,117	7,117
b Allotted and fully paid:		
5,691,789 "A" ordinary shares of £1 each	5,692	5,677
34,000,000 "B" ordinary shares of 2p each	680	680
	6,372	6,357

"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

	Group and Company 1998	Group and Company 1997
Balance at 28 June 1997	1,127	716
Premium on shares issued during the year	131	411
Balance at 27 June 1998	1,258	1,127

Premiums were received of £131,000 on 15,075 "A" ordinary shares subscribed to by the trustees of the Employee Profit Sharing Scheme.

21 Revaluation reserve

	Group and Company 1998	Group and Company 1997
Balance at 28 June 1997	24,712	25,237
Transfer of realised deficit/(surplus) to profit and loss account	266	(837)
Revaluation surplus	—	312
Balance at 27 June 1998	24,978	24,712

22 Profit and loss account

	Group 1998 £000	Group 1997 £000	Company 1998 £000	Company 1997 £000
Balance at 28 June 1997	33,164	29,565	33,003	29,505
Retained profit for the year	2,871	2,762	2,845	2,661
Transfer of realised revaluation	(266)	837	(266)	837
Balance at 27 June 1998	35,769	33,164	35,582	33,003

23 Reconciliation of movements in shareholders' funds

	Group 1998 £000	Group 1997 £000
Profit for the period	4,416	4,224
Ordinary dividends	(1,545)	(1,462)
New share capital subscribed	146	541
Revaluation surplus	—	312
Movement during the year	3,017	3,615
Shareholders' funds at 28 June 1997	65,360	61,745
Shareholders' funds at 27 June 1998	68,377	65,360

Notes to the accounts

27 June 1998

24 Directors' interests

The interests of the Directors in the Company's shares at 27 June 1998 (28 June 1997) are as follows:

	"A" Ordinary Shares		"B" Ordinary Shares	
	Beneficial	As Trustees	Beneficial	As Trustees
R H B Neame	55,436	222,645	3,401,250	386,066
	63,436	327,798	3,401,250	—
S F B Neame	92,340	118,736	1,862,250	—
	88,540	121,285	1,862,250	—
J B Neame	30,501	148,045	853,400	386,066
	34,101	162,748	853,400	—
E R Johnston	50,206	—	1,134,700	—
	50,200	—	1,134,700	—
M B Bunting	200	—	100,000	—
	200	—	100,000	—
P J Bentley	—	—	—	—
	—	—	—	—
I R Mann	—	—	—	—
	—	—	—	—

No options were granted to any Director during the year. There are no further outstanding share options available to Directors as at the year end.

25 Share schemes

a The Shepherd Neame Employee Profit Sharing Scheme.

The Board has allocated £200,000 out of profits for the year which will be applied in acquiring "A" ordinary shares either by purchase or subscription. The 1997 allocation was applied in acquiring 15,075 "A" ordinary shares by subscription in October 1997 at £9.70 per share.

Currently 218 (1997 – 200) employees, including the highest paid Director and two 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 14,900 "A" ordinary shares as follows:

Date granted	Exercisable at per share	Until	Number of shares
April 1992	£4.35	March 2002	14,900

c The Shepherd Neame Restricted Share Scheme.

The Company operates a restricted share scheme for executives, including the highest paid Director and two other Directors. It is anticipated that options to acquire shares to the value of approximately £35,000 will be issued for a nominal sum under the scheme in the year 2000 and that options to acquire shares to the value of approximately £53,000 will be issued for a nominal sum under the scheme in the year 2001.

26 Pension commitments

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 pension cost charge represents contributions payable by the Company to the funds and amounts to £494,000 (1997 – £395,000). Contributions of £85,000 (1997 – £147,000) were payable to the schemes at the year end.

All the Executive Directors are members of one of the Company's defined contribution schemes. Two, however, including the highest paid Director, are effectively entitled to defined benefit pensions by the terms of their contracts of employment.

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-fourth Annual General Meeting of the Company will be held at the Brewery, 17 Court Street on 30 October 1998 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 re-elect a Director.

Resolution 4

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

7 October 1998

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

	1998 £000	1997 £000	1996 £000	1995 £000	(53 week- 1994) £000
Profit and loss					
Turnover	58,676	53,703	51,485	48,156	43,806
Group operating profit	8,553	8,286	7,735	7,553	7,173
Net finance charges	(2,454)	(2,492)	(2,245)	(2,232)	(2,217)
Profit on sale of property	329	172	165	114	149
Profit on sale of investment	82	—	119	69	—
Group profit before taxation	6,510	5,966	5,774	5,504	5,105
Taxation	(2,094)	(1,742)	(1,670)	(1,613)	(1,389)
Earnings available to shareholders	4,416	4,224	4,104	3,891	3,716
Dividends	(1,545)	(1,462)	(1,354)	(1,272)	(1,174)
Retained profit	2,871	2,762	2,750	2,619	2,542
Dividends					
Percentage on shares	24.25%	23.00%	21.75%	20.50%	19.00%
Dividend cover	2.9	2.9	3.0	3.1	3.2
Earnings per £1 nominal share value (p) based on:					
Earnings available to shareholders	69.4	66.8	66.0	62.9	60.2
Earnings before profit on sale of property net of tax	64.5	64.1	63.3	61.1	57.7
Shareholders' funds employed					
Share capital	6,372	6,357	6,227	6,207	6,177
Share premium	1,258	1,127	716	584	445
Revaluation reserve	24,978	24,712	25,237	25,058	25,634
Revenue reserve	35,769	33,164	29,565	26,994	24,230
	68,377	65,360	61,745	58,843	56,486
Represented by:					
Assets					
Fixed assets	95,516	91,019	85,958	77,775	75,504
Current assets	13,807	12,018	11,100	10,439	8,657
	109,323	103,037	97,058	88,214	84,161
Liabilities					
Short term	20,978	17,532	14,990	19,371	17,455
Long term	19,968	20,145	20,323	10,000	10,202
Deferred tax	—	—	—	—	18
	40,946	37,677	35,313	29,371	27,675
Net assets	68,377	65,360	61,745	58,843	56,486