Co No. 31114

Report of the Directors

For the year ended 31 December 2007

Business activities and development

The Chairman's Statement and Business Review on pages 2 to 13 include information about the company's business and financial performance during the year and indications of likely future developments and should be read in conjunction with this report

The principal activities of the company are brewing, retailing and wholesaling beer, wines, spirits and minerals, property ownership and hotel management

Trading results and dividends	£000
Company profit on ordinary activities after taxation	6,809
Dividends to ordinary shareholders	
Final 117% (paid 30 April 2007)	552
Interim 61% (paid 1 October 2007)	288
Retained profits	5,969

Proposed final dividend of £576,000 (122%) to be paid 28 April 2008

Principal risks and uncertainties

The company's principal risks and uncertainties, particularly around the financial risks and treasury policy are detailed within the business review on pages 5 to 13

Properties

In the opinion of the Directors the market value of the properties considerably exceeds the amount included in the Balance Sheet.

The Directors are unable to quantify this excess in the absence of a professional valuation, the costs of which are not considered justifiable in view of the company's intention to retain ownership of its existing properties for use in its activities for the foreseeable future

Directors

The Directors who held office at 31 December 2007 and their beneficial interests in the share capital of the company at the beginning and end of the Financial Year, are shown below

S P D Loftus and S C Pugh retire by rotation and being eligible offer themselves for re-election

	'A' Ordinary 25p		'B' Ordinary £1	
Directors' interests	**2007**	2006	**2007**	2006
J P A Adnams	168,953	163,632	3,263	3,263
S D Curzon	481	385	–	–
W B Kendall*	2,644	2,644	–	–
S P D Loftus*	51,339	51,339	–	–
R J Nicholson* (retired 31 May 2007)	400	400	–	–
S C Pugh	1,309	1,192	–	–
S M Sharp* (appointed 1 June 2007)	304	–	–	–
A C Wood	4,680	4,558	–	–

* Denotes non-executive Director at 31 December 2007

The company has a Share Incentive Plan (SIP) in which the Executive Directors are eligible to participate

Directors' interests in shares attributed under the terms of this scheme are included above

Employee matters

Involvement

Adnams is committed to involving employees in the performance and development of the company by encouraging them to discuss with the management matters of interest and subjects affecting day to day operations Most employees, including Executive Directors, benefit from the company's success through a profit sharing scheme, through incentive schemes linked to achievement of key performance indicators and through a share incentive plan which distributes shares to employees during their period of service with the company

Health welfare and development of employees

For many years Adnams has operated schemes for the welfare and benefit of employees As well as pension and life assurance, we provide cover for illness and we make available to employees qualified specialists to cover medical welfare, pension advice and any counselling needs Health and safety policies are given a high profile in all areas with wide representation throughout the company on the Health & Safety Committee It is our policy to train and develop the knowledge and skills of employees at every level and to provide long term secure and fulfilling employment We are proud achievers of the Investors in People award

Disabled persons

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 their employment or to be trained for other positions

Independence

Adnams continues to value and work for its independence as a regional family brewer

Charitable donations

Adnams is committed to giving not less than 1% of its annual profits to charitable causes Charitable donations during the year amount to £40,000 (2006 £39,000)

Supplier payment

It is the company's policy to make every effort to agree terms of payment with suppliers in advance, to ensure that suppliers are made aware of the terms and to abide by them At 31 December 2007, the company had an average of 22 days (2006 20 days) purchases outstanding in trade creditors

Directors' qualifying third party indemnity provisions

The company has granted an indemnity to its Directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985 Such qualifying third party indemnity provision remains in force as at the date of approving the Directors' report

Statement as to disclosure of information to auditors

In so far as the Directors are aware

- there is no relevant audit information of which the company's auditors are unaware, and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information

Auditors

Ernst & Young LLP resigned as auditors on 27 November 2007 Grant Thornton UK LLP were appointed in their place Grant Thornton UK LLP offer themselves for reappointment as auditor in accordance with section 385 of the Companies Act 1985

By Order of the Board
S C Pugh
Secretary
20 March 2008

Notice of meeting

Notice is hereby given that the One Hundred and Eighteenth Annual General Meeting will be held at St Edmunds Hall, Southwold on the 28 April 2008 at 12 o'clock noon for the following purposes

1 To consider the Accounts and Directors' report
2 To declare a final dividend
3 To re-elect the Directors retiring by rotation namely S P D Loftus and S C Pugh
4 To re-appoint Grant Thornton UK LLP as Auditor
5 To authorise the Directors to fix the remuneration of the Auditor
6 To transact any other business

A member entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and vote

By Order of the Board
S C Pugh
Secretary
20 March 2008

Registered Office
Sole Bay Brewery, Southwold, Suffolk, IP18 6JW
Registered Number 31114

Profit and loss account

For the year ended 31 December 2007

	Notes	2007 £000	2006 £000
Turnover	1	**47,368**	**46,075**
Operating Expenses	2	**(43,162)**	**(41,974)**
Operating Profit		**4,206**	**4,101**
Profit on disposal of properties	5	3,943	360
Interest receivable	7	86	8
Interest payable	8	(915)	(788)
Other finance income on pension scheme	26	135	114
Profit on Ordinary Activities before Taxation		**7,455**	**3,795**
Tax on Profit on Ordinary Activities	9	(646)	(1,153)
Profit for the financial year after taxation		**6,809**	**2,642**
Earnings per Share Basic and Diluted	11		
'A' Shares of 25p each		**360.8p**	**140.0p**
'B' Shares of £1 each		**1,443.1p**	**559.9p**

All amounts relate to continuing activities

Statement of total recognised gains and losses

For the year ended 31 December 2007

	Notes	2007 £000	2006 £000
Profit for the financial year		6,809	2,642
Actuarial gain on pension scheme	26	2,802	75
Movement on deferred tax relating to actuarial gain		(785)	(23)
Total recognised gains and losses relating to the year		**8,826**	**2,694**

Balance sheet

As at 31 December 2007

	Notes	**2007 £000**	2006 £000
Fixed assets			
Tangible Assets	12	33,819	33,145
Investments and Loans	13	217	146
		34,036	**33,291**
Current assets			
Stocks	14	3,515	2,912
Debtors	15	6,173	6,770
Cash at bank and in hand		10	21
		9,698	**9,703**
Creditors: amounts falling due within one year	16	**(17,626)**	**(22,250)**
Net current liabilities		**(7,928)**	**(12,547)**
Total assets: less current liabilities		**26,108**	**20,744**
Creditors amounts falling due after more than one year	17	(286)	(293)
Provision for liabilities and charges	18	(1,005)	(1,433)
		(1,291)	**(1,726)**
Net assets excluding pension liabilities		**24,817**	**19,018**
Pension Liability	26	**(71)**	**(2,258)**
Net assets including pension liabilities		**24,746**	**16,760**
Capital and reserve			
Called up Share Capital	19	472	472
Share Premium	20	144	144
Profit & Loss Account	20	24,130	16,144
		24,746	**16,760**

The financial statements were approved by the Board of Directors on 20 March 2008 and signed on its behalf by

S C Pugh
Director

Cash flow statement

For the year ended 31 December 2007

	Notes	2007 £000	2006 £000
Net cash inflow from operating activites	22	**6,361**	**5,049**
Returns on investments and servicing of finance			
Interest Received		86	8
Interest Paid		(738)	(786)
		(652)	**(778)**
Taxation			
Corporation Tax paid		(1,449)	(563)
Corporation Tax received		983	–
		(466)	**(563)**
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(3,466)	(9,807)
Receipts from sales of tangible fixed assets		4,533	725
Payments to acquire investments		(151)	(60)
Receipts from investments/ deposits		73	140
		989	**(9,002)**
Equity dividends paid		**(840)**	**(793)**
Net cash inflow/(outflow)		**5,392**	**(6,087)**
Financing – new loans		–	8,000
Increase in cash		**5,392**	**1,913**
Reconcilation of net cash flow to movement in net debt			
Increase in cash	23	5,392	1,913
Cash inflow from increase in loans	23	–	(8,000)
Movement in net debt	23	**5,392**	**(6,087)**
Net Debt at 1 January		(16,301)	(10,214)
Net debt at 31 December	23	**(10,909)**	**(16,301)**

Statement of accounting policies

Basis of Preparation
The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards The policies remain unchanged from the prior year

Turnover
Turnover is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on despatch of the goods, or on provision of services Rental income received from the tied estate properties is recognised in the period in which it arises

Tangible Fixed Assets
Depreciation is provided on all tangible fixed assets other than freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its estimated useful life, as follows

Freehold buildings	2% to 4% p a
Leasehold property	
– long lease	2% p a.
– short lease	period of lease
Plant, equipment, fixtures and fittings and motor vehicles	8% to 25% p a

Fixed assets in the course of construction are not depreciated until they are bought into use

Impairment Reviews
In accordance with FRS 11, asset values are reviewed for impairment should it appear that their value might not be recoverable In assessing the potential impairment of assets or income generating units (those assets affected by the same economic factors) returns are forecast and compared to the carrying value of the assets Any shortfall is recognised as an impairment loss

Stocks
Stocks have been valued on a consistent basis at the lower of cost or net realisable value on a first-in, first-out basis Cost of beer stocks includes relevant production and storage expenses Net realisable value is based on estimated selling price less any further costs expected

Deferred Taxation
Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax with the following exceptions

- Provision is made for tax on gains on disposal of fixed assets only to the extent that at the balance sheet date, there is a binding agreement to dispose of the assets concerned However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only when the replacement assets are sold,
- Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Foreign Currencies
Transactions denominated in foreign currencies are recorded at the rates of exchange ruling at the dates of the transactions and any differences arising are taken to the profit and loss account

Statement of accounting policies continued

Pension Costs – Defined Benefit Scheme
The service cost of providing defined benefit pension entitlements to employees during the year is charged to operating profit This scheme closed to future accrual on 30 June 2005 The cost of providing amendments to benefits in respect of past service is also charged to operating profit The expected return on the assets of the scheme during the year based on the market value of scheme assets at the start of the financial year is included within interest on pension deficit This also includes a charge representing the expected increase in liabilities of the scheme during the year, arising from the liabilities of the scheme being one year closer to payment Differences between actual and expected returns on assets during the year are recognised in the statement of total recognised gains and losses, together with differences from changes in assumptions The deficit on the defined benefit pension scheme is reported on the balance sheet, net of related deferred tax Additional information is included in note 26

Pension Costs – Defined Contribution Scheme
In respect of the defined contribution pension scheme, the amounts charged to the profit and loss account are the contributions payable in the year

Leasing
Total rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the lease term taking into account any rent free periods

Fixed asset investments
Fixed asset investments are stated at historic cost and include unlisted investments and trade loans to customers The carrying values of the fixed asset investments are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable

Dividends
Dividends payable on ordinary shares are shown as a movement in reserves when approved Dividends payable on preference shares are shown as an interest cost in accordance with the payments date attaching to those shares

Financial instruments
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities Financial liabilities are presented as such in the balance sheet Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account Finance costs are calculated so as to produce a constant rate of return on the outstanding liability Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument Dividends and distributions relating to equity instruments are debited direct to equity

Share Incentive Plan and Employee Benefit Trust
For many years the company has encouraged employee participation through incentive schemes under which shares are allocated to employees Throughout 2006 and 2007, the company used a tax-approved Share Incentive Plan for this purpose The company does not issue shares for such schemes and so has to arrange the purchase of shares It does this through an Employee Benefit Trust The Employee Benefit Trust buys shares as required during the year and passes them annually to the Share Incentive Plan, at a valuation approved by the tax authorities The shares held by the Share Incentive Plan are not consolidated in the company's accounts as they are already allocated to employees Shares held by the Employee Benefit Trust are a mixture of those already earned by employees, and which are awaiting transfer to the Share Incentive Plan, and those not yet allocated The unallocated shares are small in number and accordingly the company does not consolidate the Employee Benefit Trust on grounds of materiality

Notes to the accounts

For the year ended 31 December 2007

1. Turnover

Represents the fair value (excluding VAT) for sales (net of discounts), rents, commissions and royalties in the United Kingdom

2. Operating expenses		2007 £000	2006 £000
Raw materials, consumables and duty		24,630	23,776
Change in stock of finished goods and work in progress		(576)	127
Staff costs (see note 4)		7,832	7,704
SIP Scheme for employees (note 28)		68	80
Depreciation		2,308	1,889
(Profit)/loss on routine disposal of plant and vehicles		(46)	6
Auditors' remuneration	– Audit services	31	41
	– Audit of pension schemes	–	7
	– Taxation services	20	3
	– Valuation service	–	20
	– Other services	–	2
Operating lease rent	– Land and buildings	259	226
Defined benefit scheme costs (note 26)		24	(25)
Foreign exchange loss/(gain)		7	(50)
Other operating costs		8,605	8,168
		43,162	**41,974**

3. Segmental analysis

The company's business segments are Adnams Brewing & Brands, which comprises brewing and distribution of beer and other products and Adnams Retail which comprises tenanted pubs, the Swan and Crown Hotels and Cellar & Kitchen stores together with home delivery and web sales

	Brewing & Brands		Retail		Central Management		Total	
	2007 £000	2006 £000	2007 £000	2006 £000	2007 £000	2006 £000	2007 £000	2006 £000
Total sales	27,886	27,606	19,599	18,596	179	174	47,664	46,376
Inter-segment sales	(296)	(301)					(296)	(301)
Sales to third parties	**27,590**	**27,305**	**19,599**	**18,596**	**179**	**174**	**47,368**	**46,075**
Operating expenses	(25,928)	(25,537)	(15,663)	(14,773)	(1,571)	(1,664)	(43,162)	(41,974)
Operating Profit	**1,662**	**1,768**	**3,936**	**3,823**	**(1,392)**	**(1,490)**	**4,206**	**4,101**
Profit on disposal of properties					3,943	360	3,943	360
Interest receivable					86	8	86	8
Interest payable					(915)	(788)	(915)	(788)
Other finance income on pension scheme					135	114	135	114
Profit on Ordinary Activities before Taxation	**1,662**	**1,768**	**3,936**	**3,823**	**1,857**	**(1,796)**	**7,455**	**3,795**
Net assets employed	**19,858**	**20,306**	**18,142**	**16,827**	**(13,254)**	**(20,373)**	**24,746**	**16,760**

4. Staff costs	2007 £000	2006 £000
Wages and salaries	6,745	6,626
Social Security costs	672	655
Other pension costs (note 26)	415	423
	7,832	**7,704**

The average monthly number of persons employed by the company, including Executive Directors, was as follows	Number	Number
Trading	26	25
Customer Services	66	63
Production	27	27
Wine/Shops	41	25
Hotels	105	114
Corporate Services	36	36
	301	**290**
Total number of part-time workers included in above	63	55

5. Profit on disposal of properties	2007 £000	2006 £000
Profit on sale of properties	**3,943**	**360**

The effect on the current tax charge for the year of the above items is nil

6. Directors' remuneration	2007 £000	2006 £000
Fees	78	63
Basic salaries	560	637
Benefits	3	5
Car allowance	52	59
Performance related pay	25	31
	718	**795**

	Salaries and fees £000	Benefits £000	Car allowance £000	Performance related bonus £000	2007 £000	2006 £000
S P D Loftus	26	–	–	–	26	124
J P A Adnams	171	–	13	7	191	182
R J Nicholson	11	–	–	–	11	25
A C Wood	160	1	13	7	181	167
S C Pugh	126	1	13	6	146	141
S D Curzon	103	1	13	5	122	118
D M Woodhall CBE	–	–	–	–	–	13
S M Sharp	15	–	–	–	15	–
W B Kendall	26	–	–	–	26	25
	638	**3**	**52**	**25**	**718**	**795**

All bonus payments in the year relate to existing arrangements No amounts have been paid out under the new senior management and Director scheme

6. Directors' remuneration continued

J P A Adnams and A C Wood are members of the company's defined benefit pension scheme which closed to future accrual on 30 June 2005 The following disclosures are made in respect of that scheme

	Accumulated total accrued pension at 31 Dec 2007 £	31 Dec 2006 £
J P A Adnams	75,048	72,450
A C Wood	22,088	21,334

Accumulated total accrued pension normally represents scheme service to retirement, but for 31 December 2007 this figure reflects the scheme closure in June 2005

The transfer value of the highest paid Directors' accrued benefits in the defined benefit pension scheme amounted to £974,000 (2006 £800,000)

The following contributions were paid to the Adnams defined contribution pension scheme in respect of the Directors

	2007 £	2006 £
J P A Adnams	18,763	17,600
S D Curzon	10,337	9,875
S C Pugh	12,613	12,050
A C Wood	17,627	16,115

The company has an approved Share Incentive Plan in which the Executive Directors participated Allocated shares, which are included in Directors' Interests in the Report of the Directors, were as follows

	2007 'A' shares	2006 'A' shares
J P A Adnams	147	171
S D Curzon	96	95
S P D Loftus	–	171
S C Pugh	117	139
A C Wood	122	145

There were no share option arrangements in place

7. Interest receivable	**2007 £000**	2006 £000
Trade Loans	13	8
Corporation tax interest	73	–
	86	**8**

8. Interest payable	**2007 £000**	2006 £000
Bank Loans and Overdraft	913	774
Other	–	12
Preference share dividends paid 3 85% cumulative £10 shares	1	1
Preference share dividends paid 4 9% non-cumulative £5	1	1
	915	**788**

9. Taxation	2007 £000	2006 £000
The charge based on the profit for the year comprises		
UK Corporation Tax @ 30%	919	642
Tax over provided in prior years	–	(956)
Total Current Tax	**919**	**(314)**
Deferred Taxation (see note 18)		
Origination and reversal of timing differences (ACA and other)	135	408
Pension cost relief in excess of pension cost charge	155	103
Removal of IBAs from deferred tax	(563)	-
Adjustment in respect of prior periods	-	956
	(273)	**1,467**
Tax on profit on ordinary activities	**646**	**1,153**

Factors affecting the current tax charge

The tax assessed on the profit on ordinary activities for the year is lower (2006 – lower) than the standard rate of corporation tax in the UK of 30% The differences are reconciled below

Profit on ordinary activities before tax	7,455	3,795
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2006 – 30%)	2,237	1,139
Disallowed expenses and non-taxable income	165	13
IBAs received with no balancing charge	(92)	–
Capital allowances in excess of depreciation	(209)	(393)
Rollover relief claimed on property disposal	(1,183)	–
Other timing differences	1	(117)
Adjustment relating to prior years	–	(956)
Current tax charge/(credit) for the period	**919**	**(314)**

Factors that may affect future tax charges

No provision has been made for deferred tax on gains recognised on the sale of properties where potential gains will be rolled over into replacement assets Such tax would become payable only if the property were sold without it being possible to claim rollover relief The total amount unprovided for the year is £4,057,000 (2006 £535,000) At present it is not envisaged that any tax will become payable in the foreseeable future

10. Dividends	2007 £000	2006 £000
Equity dividends on Ordinary Shares		
Interim Paid 1 October 2007 61% (2006 2 October 2006 58%)	288	274
Final Paid 30 April 2007 117% (2006 24 April 2006 110%)	552	519
	840	**793**

The Directors propose a final dividend of £1 22 per £1 nominal share (totalling £576,000) for the year ended 31 December 2007 The dividend will be submitted for formal approval at the Annual General Meeting, to be held on 28 April 2008 This dividend has not been accounted for within the current year financial statements as it has yet to be approved

11. Earnings per share	2007 £000	2006 £000
'A' Ordinary shares	360 8p	140 0p
'B' Ordinary shares	1,443 1p	559 9p

Basic and diluted earnings per share for 'A' Ordinary shares are calculated by dividing the earnings available for 'A' Ordinary shareholders of £2,684,000 (2006 £1,041,000) by the number of issued 25p 'A' Ordinary shares (note 19) 744,000 (2006 744,000)

Basic and diluted earnings per share for 'B' Ordinary shares are calculated by dividing the earnings available for 'B' Ordinary shareholders of £4,125,000 (2006 £1,601,000) by the number of issued £1 'B' Ordinary shares (note 19) 285,842 (2006 285,842)

12. Tangible fixed assets	Freehold and leasehold land and buildings £000	Plant, equipment fixtures and fittings and motor vehicles £000	Total £000
Cost			
At 1 January 2007	24,421	23,052	47,473
Additions	841	2,625	3,466
Transfer between categories	596	(596)	–
Disposals at cost	(406)	(1,376)	(1,782)
At 31 December 2007	**25,452**	**23,705**	**49,157**
Depreciation			
At 1 January 2007	2,345	11,983	14,328
Provided in the year	485	1,823	2,308
Disposals	(3)	(1,295)	(1,298)
At 31 December 2007	**2,827**	**12,511**	**15,338**
Net book value at 31 December 2007	**22,625**	**11,194**	**33,819**
Net book value at 31 December 2006	**22,076**	**11,069**	**33,145**

The transfer between categories relates to the final categorisation of the distribution centre once all information was available
At 31 December 2007 £180,000 (2006 £3,297,000) of assets were in the course of construction

	2007 £000	2006 £000
The cost of Land and Buildings comprises		
Freehold Land	2,385	2,471
Freehold Buildings	22,027	20,962
Long Leasehold	373	321
Short Leasehold	667	667
	25,452	**24,421**

The company carries out an annual impairment review of its pub estate in line with the accounting policy disclosed on page 19 This is assessed by comparing the carrying value of pubs to the value in use or if necessary fair value As at 31 December 2007 and 31 December 2006, no impairment losses were recognised

13. Fixed asset investments	2007 £000	2006 £000
Unlisted investments at cost and net book value	101	1
Trade Loans	116	145
Total Investment	**217**	**146**

The £100,000 addition in the year in investments relates to 10,000 £10 nominal value shares in Century Projects Limited, registered address 18, Bedford Row, London, EC1R 4EQ

Unlisted investments
In the opinion of the Directors the value of these investments is not less than book value

13. Fixed asset investments continued

Trade loans	2007 £000	2006 £000
Cost		
At 1 January	145	220
Loans advanced during the year	44	65
Repayments	(73)	(140)
At 31 December	**116**	**145**

Further details on trade loans are contained in note 27

14. Stocks	2007 £000	2006 £000
Raw materials	290	263
Work in progress	56	43
Finished goods and goods for resale	3,169	2,606
	3,515	**2,912**

The difference between purchase price or production cost of stocks and their replacement cost is not material

15. Debtors	2007 £000	2006 £000
Trade Debtors	4,811	5,467
Prepayments	960	448
Corporation Tax	402	855
	6,173	**6,770**

16. Creditors: amounts falling due within one year	2007 £000	2006 £000
Bank Overdraft and Loans	10,919	16,322
Trade Creditors	3,122	3,341
Taxation & Social Security	1,324	960
Other Creditors	98	167
Accruals	2,163	1,460
	17,626	**22,250**

The bank overdraft and loan are unsecured

17. Creditors: amounts falling due after more than one year	2007 £000	2006 £000
Tenants' Deposits	240	247
3 85% cumulative preference shares of £10 each (3,100 shares)	31	31
4 9% non-cumulative preference shares of £5 each (3,100 shares)	15	15
	286	**293**

See note 19 for full details of these preference shares

18. Provision for liabilities and charges	2007 Provided £000	2007 Full Potential Liability £000	2006 Provided £000	2006 Full Potential Liability £000
Deferred taxation				
Accelerated Capital Allowances	1,028	1,028	1,456	1,456
Other timing differences	(23)	(23)	(23)	(23)
Chargeable Gains	–	4,057	–	535
Deferred tax excluding that relating to pension liability	**1,005**	**5,062**	**1,433**	**1,968**
Deferred tax on pension scheme deficit (note 26)	(28)	(28)	(968)	(968)
Total provision for deferred tax	**977**	**5,034**	**465**	**1,000**
Movement in the provision				
At 1 January 2007	1,433			
Reduction in brought forward provision arising from change in future tax rates	(96)			
Deferred tax credit to the profit & loss account	(332)			
31 December 2007	**1,005**			
Deferred tax asset relating to pension deficit				
At 1 January 2007	968			
Reduction in brought forward provision arising from change in future tax rates	(64)			
Deferred tax charge in the profit & loss account	(91)			
Deferred tax charged to the STRGL	(785)			
31 December 2007	**28**			

Of the deferred tax liability of £977,000 (2006 liability £465,000), £28,000 (2006 £968,000) has been deducted in arriving at the net pension liability on the balance sheet (note 26)

The Finance Act 2007 abolished most balancing charges and allowances for Industrial Buildings Allowances (IBAs) where the disposal is on or after 21 March 2007 As a result timing differences in respect of IBAs are no longer recognised and this gave rise to a deferred tax reversal during the year of £563,000

19. Share Capital	Authorised 2007 £000	Authorised 2006 £000	Allotted Called Up and Fully Paid 2007 £000	Allotted Called Up and Fully Paid 2006 £000
Ordinary Shares				
'A' of 25p each (744,000 shares)	186	186	186	186
'B' of £1 each (285,842 shares)	288	288	286	286
Called up share capital	**474**	474	**472**	**472**

Profits distributed by the company are applied first to the 3 85% cumulative preference shares, then to the 4 9% non-cumulative preference shares before distribution on the ordinary shares The preference shares carry no votes at meetings the ordinary shares have a single vote for each 'A' or 'B' share On a winding up of the company, the surplus assets will be applied first to repay capital on the 3 85% cumulative preference shares, then capital plus any dividend arrears on the 4 9% non cumulative preference shares, the remaining surplus is applied to the 'A' and 'B' ordinary shares in proportion to the amounts paid up.

20. Reserves	Share Capital £000	Share Premium Account £000	Profit and Loss Account £000	Total £000
1 January 2007	**472**	**144**	**16,144**	**16,760**
Profit for the year	–	–	6,809	6,809
Actuarial gain on pension scheme (note 26)	–	–	2,802	2,802
Movement on deferred tax relating to pension scheme (note 18)	–	–	(785)	(785)
Dividends	–	–	(840)	(840)
31 December 2007	**472**	**144**	**24,130**	**24,746**
Pension deficit			**71**	
Profit and loss reserve excluding pension liability			**24,201**	

All reserves relate to equity

21. Reconciliation of shareholders' funds	2007 £000	2006 £000
Profit for the year	6,809	2,642
Dividends	(840)	(793)
Actuarial gain on pension scheme (note 26)	2,802	75
Movement on deferred tax relating to pension scheme (note 18)	(785)	(23)
Net addition to shareholders' funds	**7,986**	**1,901**
Opening shareholders' funds	16,760	14,859
Closing shareholders' funds	**24,746**	**16,760**

22. Net cash inflow from operating activities	2007 £000	2006 £000
Operating profit	4,206	4,101
Depreciation charges	2,308	1,889
Profit on sales of fixed asset disposals	(46)	–
Difference between pension charge and cash contributions	(190)	(231)
(Increase)/decrease in stock	(603)	73
Decrease/(increase) in debtors	144	(562)
Increase/(decrease) in creditors	542	(221)
	6,361	**5,049**

23. Analysis of net debt	At 1 Jan 2007 £000	Cash Flow £000	At 31 Dec 2007 £000
Cash at bank and in hand	21	(11)	10
Bank overdraft	(8,322)	5,403	(2,919)
Increase in cash		5,392	
Bank loan	(8,000)	–	(8,000)
Net debt	**(16,301)**	**5,392**	**(10,909)**

24. Capital commitments and contingent liabilities	2007 £000	2006 £000
Contracted for	**1,264**	**900**

The amount for 2007 reflects capital commitments for the C&K store in Southwold (prior year commitment relates to new brewstream)

The final settlement for the construction of the Reydon Distribution Centre has not yet been agreed

Operating lease commitments	2007 Land & Buildings £000	2006 Land & Buildings £000
On Leases expiring		
Within one year	44	51
In 2-5 years	–	–
In over 5 years	299	254
	343	**305**

At the year-end Barclays Bank held a bond guarantee on behalf of Adnams plc with Her Majesty's Revenue and Customs for £720,000 (2006 £720,000)

25. Related party transactions

During the year the company carried out trading activities with the following Directors and/or organisations in which Directors have an interest.

Nicholsons £130,000 (2006 £89,000) of which R J Nicholson is a partner £11,000 (2006 £25,000) of these amounts are included within salaries and fees in note 6 £nil was outstanding at 31 December 2007 (2006 £20,000)

Mr D M Woodhall CBE £nil (2006 £8,000) for property consulting services This amount is included within salaries and fees in note 6 £nil was outstanding at 31 December 2007 (2006 £nil)

Mr W B Kendall £21,000 (2006 £21,000) for consultancy services These amounts are included within salaries and fees in note 6 £6,000 was outstanding at 31 December 2007 (2006 £6,000)

Mr S P D Loftus £nil (2006 £10,000) for advisory services

The Employee Benefit Trust (EBT) held 9,496 Adnams PLC 'A' shares at 31 December 2007 (2006 9,922 'A' shares) During 2007 the EBT received dividends of £5,000 on its Adnams shares (2006 £4,000)

The Directors are granted a discount of 25% on purchases from the company, in line with the discount given to all other staff

26. Pension scheme

The assets of the defined benefit pension scheme are held seperately from those of the company, being invested with a fund manager

The contributions are determined by a qualified actuary on the basis of triennial valuations using the defined accrued benefit method The most recent valuation was at 1 April 2007 The assumptions that have the most significant effect on the results of the valuation are those relating to the rate of return on investments

It was assumed that the pre-retirement investment returns would be 6 5% per annum and that post-retirement returns would be 5% per annum

The most recent actuarial valuation showed that the market value of the scheme's assets was £20,105,000 and that the actuarial value of these assets was sufficient to cover 94% of the benefits that have accrued to members

The contributions of the company and employees have been at least equal to the rates recommended by the actuary

26. Pension scheme continued

The disclosures required by FRS17 are set out below

Valuation of the scheme has been updated to 31 December 2007 by a qualified actuary in order to assess the following

The major assumptions used by the actuary were (in nominal terms)

	Valuation at 31 Dec 2007	Valuation at 31 Dec 2006	Valuation at 31 Dec 2005
Pensionable salary growth	N/A	N/A	4 3%pa
Pension escalation in payment			
Benefits accrued prior to 1 October 1999	4 0%pa	4 0%pa	4 0%pa
Benefits accrued after 1 October 1999	3 4%pa	3 2%pa	2 8%pa
Discount rate for liabilities	5 9%pa	5 1%pa	4 8%pa
Inflation assumption	3 4%pa	3 2%pa	2 8%pa
Pension revaluation in deferment	3 4%pa	3 2%pa	2 8%pa

The assets and liabilities of the scheme and the expected rate of return were:

	Expected return for 2008	**Value at 31 Dec 2007 £000**	Expected return for 2007	Value at 31 Dec 2006 £000	Expected return for 2006	Value at 31 Dec 2005 £000
Equities	8 0%	10,767	775%	10,605	8 0%	10,203
Bonds	5 5%	7,763	5 0%	6,636	5 0%	5,849
Property	7 0%	1,269	7 0%	1,600	7 0%	1,457
Cash	5 0%	1,616	4 5%	1,152	4 75%	3,282
Total market value of assets		**21,415**		**19,993**		**20,791**
Present value of scheme liabilities		(21,514)		(23,219)		(24,437)
Deficit in the scheme		**(99)**		**(3,226)**		**(3,646)**
Related deferred tax asset		28		968		1,094
Net pension liability		**(71)**		**(2,258)**		**(2,552)**

Analysis of the amount charged to operating profit	**For year to 31 Dec 2007 £000**	For year to 31 Dec 2006 £000
Current service cost	(24)	(26)
Past Service cost – in respect of enhanced commutation benefits	–	(530)
– on expected increased commutations on retirement	–	581
Total operating (charge)/income	**(24)**	**25**

The projected unit valuation method has been used to arrive at the above service cost To produce a stable future contribution rate this valuation method assumes that the average age of the scheme membership will remain broadly constant in future due to a flow of new entrants to the scheme As the scheme is closed to new members this will not be the case and the costs of benefits accruing, as a percentage of salaries, will be expected to increase over time

26. Pension scheme continued

Analysis of the amount included as other finance income	For year to 31 Dec 2007 £000	For year to 31 Dec 2006 £000
Expected return on pension scheme assets	1,319	1,287
Interest on pension scheme liabilities	(1,184)	(1,173)
Other finance income	**135**	**114**
Analysis of the amount recognised in the statement of Total recognised gains and losses (STRGL)		
Actual return less expected return on pension assets	67	349
Experience gains/(losses) arising on the scheme liabilities	25	(41)
Changes in assumptions underlying the present value of the scheme liabilities	2,710	(233)
Actuarial gain recognised in STRGL	**2,802**	**75**
Movement in deficit during the year		
Deficit in scheme at beginning of the year	(3,226)	(3,646)
Movements in year		
– Current service cost	(24)	(26)
– Contributions paid by the employer	214	206
– Past service – in respect of enhanced commutation benefits	–	(530)
– on expected increased commutations on retirement	–	581
– Other finance income	135	114
– Actuarial gain	2,802	75
Deficit in scheme at the end of the year	**(99)**	**(3,226)**

History of experience gains and losses	2007	2006	2005	2004	2003
Difference between the expected and actual return on scheme assets amount £000	67	349	1,678	204	981
% of scheme assets	<1%	2%	8%	2%	8%
Experience gains and losses on scheme liabilities amount £000	25	(41)	(335)	(420)	67
% of present value of scheme liabilities	<1%	(<1%)	(1%)	(2%)	<1%
Total amount recognised in STRGL amount £000	2,802	75	(783)	(1,979)	(1,898)
% of present value of scheme liabilities	13%	<1%	(3%)	(9%)	(10%)

Defined contribution scheme

The company also operates a defined contribution pension scheme The assets of the scheme are held separately from those of the company in an independently administered fund During the year the company contributed £415,000 (2006 £423,000) to the scheme There was £50,000 outstanding at the year end (2006 £nil) This amount is included within accruals in note 16

27. Financial Instruments

The company's financial instruments comprise a bank loan, trade loans to customers, cash and bank overdraft The 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, which arise directly from its operations, which have not been included in the following disclosures

Details of the company's policies in respect of borrowings, treasury management, interest rate and liquidity risk are included within the business review

Financial assets

The company funds certain free trade customers with loans Amounts at the balance sheet date are disclosed in note 13 to the accounts The maturity profile of these assets is £33,000 (2006 £55,000) recoverable within one year and £75,000 (2006 £71,000) recoverable within one to five years The balance is due after five years

Of these loans £34,000 (2006 £73,000) is expected to be repaid in cash and £82,000 (2006 £72,000) is expected to be repaid by discounts The level of discounts awarded and the interest charged depends on the trading performance of each customer against set targets

Interest rate profile

Bank loans of £8,000,000 (2006 £8,000,000) bear interest at 7 66% at 31 December 2007 (2006 6 2825%) This rate is fixed for part of the year and then reverts to a variable rate on a month to month basis

Bank overdrafts of £2,919,000 (2006 £8,322,000) bear interest at 1% above Barclays Bank base rate which was 5 5% at 31 December 2007 (2006 1% above Barclays Bank base rate of 5%)

Fair values of financial assets and liabilities

Trade loans are financial assets carried at book value It is not practicable for the company to estimate the fair value of these loans with sufficient reliability given the cash flows are based upon improved sales revenues in future years There is no difference between book value and fair value in respect of the cash, bank loan and bank overdraft

28. Share Incentive Plan

The Adnams Share Incentive Plan (SIP) is open to all employees with 18 months service at the award date A free award of shares based upon profitability of the company is made based upon employees' salary and capped at a maximum of £3,000 per person The awarded shares are held in trust for five years with dividends accruing to employees during this period Leavers before this time do not necessarily lose their right to these shares In the opinion of the Directors the 2007 and 2006 share awards vest unconditionally at the balance sheet date and the total value of free shares awarded under the SIP scheme for 2007 and 2006 is disclosed in note 2 to the accounts These amounts also represent the year end liability and are included within accruals in note 16

Shares are transferred to the SIP at an annual value approved by Her Majesty's Revenue and Customs share valuation team

Report of the Independent Auditor

to the members of Adnams plc

We have audited the financial statements (the 'financial statements') of Adnams plc for the year ended 31 December 2007 which comprise the principal accounting policies, the profit and loss account, the statement of total recognised gains and losses, the balance sheet, the cash flow statement and notes 1 to 28 These financial statements have been prepared under the accounting policies set out therein

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

Respective responsibilities of Directors and auditors

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements

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

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the company financial statements It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, 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 parent company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

Grant Thornton UK LLP
Registered Auditor
Chartered Accountants
Norwich
20 March 2008

Corporate governance

Standards

The company is committed to high standards of corporate governance incorporating best practice

The workings of the Board and its committees

During 2007 the Board comprised four Executive Directors and three Non-Executive Directors The Board is responsible to shareholders for the proper management of the company It meets monthly, setting and monitoring strategy, reviewing trading performance, ensuring adequate funding, examining acquisition possibilities, formulating policy on key issues and reporting to shareholders

An Audit Committee has been appointed, which consists of the Non-Executive Directors and meets not less than twice annually The Committee provides a forum for the company's external auditors The Finance Director attends meetings at the invitation of the Committee The Committee is responsible for reviewing a wide range of financial matters including the annual figures and reports and monitoring the controls which are in force in the company to ensure the integrity of the financial information reported to shareholders The same Non-Executive Directors form the Remuneration Committee

Internal financial control

The Board acknowledges its responsibility for maintaining a system of internal control which can provide reasonable, albeit not absolute, assurance against mis-statement or loss

To meet this responsibility, the board relies upon

- an organisation structure with clearly defined lines of authority and responsibility, limits for authorisation of transactions and segregation of duties
- the production and review of regular monthly management information to agreed timescales
- the identification of key performance indicators with explanations of variances
- a formalised process for reviewing all company activities during the year
- detailed annual operating budgets for all businesses
- formal authorisation procedures for all investment and capital expenditure

The Audit Committee considers the system of internal financial control operated effectively during the year

Going concern

The Directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future For this reason they continue to adopt the going concern basis in preparing the accounts

Directors' responsibilities in respect of the accounts

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

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

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

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

The Directors are responsible for the maintenance of the corporate and financial information included on the company's website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Contact information

Adnams plc
Sole Bay Brewery
Southwold
Suffolk IP18 6JW
adnams.co.uk

Hotels
The Swan
Market Place
Southwold
Suffolk IP18 6EG
T 01502 722186

The Crown
High Street
Southwold
Suffolk IP18 6DP
T 01502 722275

Cellar & Kitchen stores
Southwold
Victoria Street
Southwold
IP18 6JW
T 01502 727 244

Holkham
The Old School House
Park Road
Holkham
Wells-next-the-Sea
Norfolk
NR23 1AB
T 01328 711714

Woodbridge
Station Road
Woodbridge
Suffolk
IP12 4AU
T 01394 386594

Stamford
Bath Row Warehouse
St Mary's Passage
Stamford
PE9 2HG
T 01780 753127

Harleston
The Cardinal's Hat
23 The Thoroughfare
Harleston
Norfolk
IP20 9AS
T 01379 854788

Saffron Walden
Old Auction Rooms
1 Market Street
Saffron Walden
Essex
CB10 1HZ
T 01799 527281

Holt
23a Lees Yard
Off Bull Street
Holt
Norfolk
NR25 6HS
T 01263 715558

Hadleigh
73/75 High Street
Hadleigh
Suffolk
IP7 5DY
T 01473 827796

Richmond
26 Hill Rise
Richmond
Surrey
TW10 6UA
T 0208 9408684