Constellation Europe Limited

Directors' report and financial statements
Registered number 137407
For the year ended 29 February 2008

Contents

Directors' report

The directors present their annual report on the affairs of the group, together with the financial statements and auditor's report, for the year ended 29 February 2008

Business Review

Principal Activities

Constellation Europe Limited is the largest wine company in the UK and one of the largest drinks companies in Europe, formed in April 2004 following the integration of Constellation Wines Europe Limited and Matthew Clark plc Constellation Europe is a subsidiary of Constellation Brands Inc, the largest wine company in the world and a leading producer and exporter of wine from the USA, Australia and New Zealand

At the end of the prior financial year, the trade and assets of Constellation Wines Europe Limited and Western Wines Limited were transferred to the company On 1 August 2007, the company sold its South African branch to Constellation Wines South Africa (Pty) Limited (formerly Calaska Trading 56 (Pty) Limited)

The company has a strong portfolio of brands from the wine, cider, fortified wine and wine-style drinks categories These include Hardys, Turner Road, Nobilo and Stowells and a range of premium wine brands, along with Blackthorn cider, Stone's Ginger Wine and Babycham

Legal and Regulatory Environment

The company operates in a highly regulated environment In the areas of health and safety, quality control, environmental obligations and employee welfare the company seeks to ensure that it works in an appropriate manner with the relevant regulatory bodies and encourages a proactive approach to changes in the legal environment

Aims and Objectives

The company's objective is to grow profits and cash flow by increasing value share within our core markets, through superior products, consumer insight and expanding geographic reach

Risk / Uncertainty

The company adopts a moderate approach to risk, taking appropriate mitigation over legal, regulatory and financial exposure It uses a consistent documented approach in its treatment of financial risk and debtor exposure

Measurement

The company's key performance indicators are turnover growth and gross margin The company has a well established performance measurement system that focuses the business on these key levers of sales volume and profit growth, together with cost control and cash flow This is linked to a detailed annual planning process as part of the strategic planning exercise

This target setting is then directly linked to individual employee's remuneration through a variety of incentive schemes across the business that align individual responsibilities with corporate aims and objectives

The annual budget process ensures that targets relating to business growth and development are set in conjunction with the company's long term strategic goals and objectives

Performance

During the current year the company continued to carry on the business of the production and distribution of beverages

The financial year ended 29 February 2008 saw sales growth of 89% across the business as a whole, reflecting the trades hived into the business at the end of the prior year Adjusting for this, and excluding prior year discontinued activities, sales increased by 8% This was in line with expectations for the business, and reflects the achievement of key objectives including increased market share across existing markets, and expanded reach into new geographical markets

Directors' report *(continued)*

Performance *(continued)*

Gross margin for the year was 0 1% This marks a fall from 0 6% in the prior year, before adjusting for the hive overs and discontinued activities On the same basis as above, the fall was from 4 8% in the prior year, and is attributed to duty increases and continued price pressure from major multiple retailers

Trends and Developments

The company is committed to developing the wine market and building the category by gaining consumer insight, developing new products, constantly striving for quality across all product price points and adding value to our brand offering through consumer activity

Our branded wines continue to show impressive growth in the UK market, and our cider business is performing in line with expectations following the launch of The Gaymer Cider Company in 2004

Forward Looking Information

Expectations are for the company to continue to retrench its business in 2008/09 through a series of initiatives aimed at creating consumer awareness, gaining consumer insight, and improving our business processes The company expects the trends of annual duty increases and retailer price pressure to continue, but has created a financial mitigation strategy to respond to these risks

Results and dividends

The profit for the year attributable to shareholders was £3,761,000 *(2007 loss £1,260,000)*

The directors do not recommend the payment of a dividend *(2007 £Nil)*

Post balance sheet events

There were no post balance sheet events requiring disclosure

Directors and directors' interests

The following directors served during the year

J Moramarco	(resigned 1 March 2007)
AT Colquhoun	(resigned 31 March 2008)
MT Cox	
DW Townsend	(resigned 6 April 2007)
M Troutaud	
PH Spencer	
AK McIlwain	
MG Grisman	
T Christensen	
D Klein	(appointed 5 March 2007)
D Malhotra	(appointed 31 March 2008)

Charitable contributions

Charitable contributions made by the company during the year amounted to £19,000 *(2007 £4,000)*

Directors' report *(continued)*

Disabled employees

Full and fair consideration is given to applications for employment made by disabled persons, having regard to their particular aptitude and abilities Every effort is made to continue to employ persons who become disabled while in the company's employment Disabled persons share equally in opportunities for training, career development and promotion

Employee consultation

The company ensures that all employees are kept up to date with major developments and changes within the organisation via the company magazine, notice boards and departmental briefings

Creditor payment policy

The company agrees terms and conditions for its business transactions with suppliers, payment is then made on these terms, subject to the terms and conditions being met by the supplier The company had creditor days at 29 February 2008 of 47 days *(2007 72 days)*

Statement of disclosure to auditors

The directors who held office at the date of approval of the directors' report confirm that so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting

By order of the board

D Malhotra
Secretary

The Guildway
Old Portsmouth Road
Artington
Guildford
GU3 1LR

20 August 2008

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

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 period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

KPMG LLP

100 Temple Street
Bristol
BS1 6AG
United Kingdom

Independent auditors' report to the members of Constellation Europe Limited

We have audited the financial statements of Constellation Europe Limited for the year ended 29 February 2008 which comprise the Profit and Loss Account, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, and the related notes 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 financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 4

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

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

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 the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and 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 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

Independent auditors' report to the members of Constellation Europe Limited *(continued)*

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 29 February 2008 and of its profit for the year then ended, and
- 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

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

20 August 2008

Profit and Loss Account
for the year ended 29 February 2008

	Note	2008 £000	2007 £000
Turnover	2	**629,503**	332,900
Operating costs	3	**(628,010)**	(330,987)
Operating profit		**1,493**	1,913
Profit on sale of fixed assets	6	**2,387**	31
Loss on sale of business	11	**-**	(2,075)
Profit/(loss) on ordinary activities before finance charges	8	**3,880**	(131)
Net interest payable and similar charges	7	**(2,579)**	(1,297)
Profit/(loss) on ordinary activities before taxation		**1,301**	(1,428)
Tax on loss on ordinary activities	9	**2,460**	168
Profit/(loss) for the year		**3,761**	(1,260)

There are no recognised gains and losses in either year other than the result for each year

All operations are continuing

Reconciliation of movements in shareholders' funds
for the year ended 29 February 2008

	Note	2008 £000	2007 £000
Profit/(loss) for the financial year		3,761	(1,260)
Equity adjustment to share based payment liability	1	1,175	-
Net increase / (decrease) in shareholders' funds		**4,936**	**(1,260)**
Opening shareholders' funds		**102,421**	**103,681**
Closing shareholders' funds		**107,357**	**102,421**

The notes on pages 9 to 27 form part of these financial statements

Balance Sheet
at 29 February 2008

	Note	2008 £000	2008 £000	2007 £000	2007 £000
Fixed assets					
Tangible assets	10		62,968		61,337
Current assets					
Stocks	12	66,452		77,063	
Debtors	13	351,678		540,243	
Cash at bank and in hand		13,909		-	
		432,039		617,306	
Creditors: amounts falling due within one year	14	(378,704)		(564,992)	
Net current assets			53,335		52,314
Total assets less current liabilities			116,303		113,651
Creditors amounts falling due after more than one year	15		(171)		(424)
Provisions for liabilities and charges	16		(8,775)		(10,806)
Net assets			107,357		102,421
Capital and reserves					
Called up share capital	17		2,872		2,872
Share premium account	18		119,288		119,288
Profit and loss account	18		(15,978)		(19,739)
Share based payments reserve	18		1,175		-
Equity shareholders' funds	18		107,357		102,421

The notes on pages 9 to 27 form part of these financial statements

These financial statements were approved by the board of directors on 20/8/08 and were signed on its behalf by

David Klein

D Klein
Director

Notes

(forming part of the financial statements)

1 Accounting policies

The principal accounting policies are summarised below They have all been applied consistently throughout the year and the preceding year

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards

The company has taken advantage of the exemption from preparing consolidated financial statements afforded by Section 228A of the Companies Act 1985 because it is a wholly owned subsidiary of Constellation Brands Inc which prepares consolidated financial statements under US Generally Accepted Accounting Practice, and which are demonstrably equivalent to EU Endorsed International Financial Reporting Standards

The company is also, by virtue of Section 228A, exempt from the requirement of FRS 1 to present a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements

Turnover

Revenue from the sale of goods includes excise and import duties which the group pays as principal but excludes amounts collected on behalf of third parties, such as value added tax Sales are recognised depending upon individual customer terms at the time of despatch, delivery or some other specified point when the risk of loss transfers Provision is made for returns where appropriate Sales are stated net of price discounts, allowances for customer loyalty and certain promotional activities and similar terms

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment 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 on a straight line basis over its expected useful life, as follows

Freehold buildings	-	over 33 to 50 years
Leasehold land and building	-	length of lease
Plant, machinery and other equipment	-	over 8 to 25 years
Computer equipment	-	over 3 to 5 years
Motor vehicles	-	over 3 to 7 years

During the year the estimated life of installed dispense equipment included within plant, machinery and other equipment has been revised to write off the residual carrying value of the assets held This is a change in accounting estimate

Notes *(continued)*

1 Accounting policies *(continued)*

Stocks

Stocks are valued at the lower of cost (including Customs and Excise Duty where incurred), determined on a first-in-first-out basis, and net realisable value In the case of beverages produced by the company, cost includes direct materials and labour together with appropriate overheads incurred in bringing the product to its present location and condition Provision is made for obsolete, slow moving or defective items where appropriate

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes

Deferred tax is recognised on all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less, tax have occurred at the balance sheet date Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse, based on tax rates enacted at the balance sheet date

Foreign currency

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account

In relation to forward currency contracts, the company has decided not to follow the optional fair value accounting rules as set out in the Companies Act Consequently, gains and losses relating to cumulative movements on open contracts at the balance sheet date are not recognised unless they represent an onerous commitment

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease

Notes *(continued)*

1 Accounting policies *(continued)*

Post-retirement benefits

The company participates in a group wide pension scheme providing benefits based on final pensionable pay The assets of the scheme are held separately from those of the company The company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 'Retirement benefits', accounts for the scheme as if it were a defined contribution scheme As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period

For money purchase schemes, the amount charged to the profit and loss account in respect of pension costs is the contributions payable in the period Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments in the balance sheet

Share based payments

The company operated two schemes during the year, Constellation Brands UK Sharesave Scheme and Constellation Long Term Stock Incentive Plan Both these plans allowed certain employees to acquire shares in the company's ultimate parent undertaking, Constellation Brands Inc (see note 22)

The fair value of options granted after 7 November 2002 and not yet vested as of 1 March 2006 is recognised as an employee expense with a corresponding increase in equity The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options The fair value of the options granted is measured using the Black-Scholes model, taking into account the terms and conditions upon which the option were granted Constellation Brands Inc makes a recharge for the exercise price intrinsic value of share options when exercised A liability is calculated for these amounts at the balance sheet date, using the Black-Scholes model ,with a corresponding adjustment to equity

2 Analysis of turnover and profitability

The whole of the turnover and profit on ordinary activities before taxation relates to the company's business of production and distribution of beverages

All turnover and profit originates in the UK

Notes *(continued)*

3 Operating costs

	2008 **£000**	2007 £000
Change in stocks of finished goods and work in progress (note 12)	**9,837**	5,826
Raw materials, consumables and other external charges	**565,012**	282,411
Staff costs (note 4)	**38,618**	34,279
Depreciation (note 10)	**11,560**	8,969
Royalties from overseas	**(723)**	(706)
Commissions to overseas	**3,706**	208
	628,010	330,987

Depreciation for the year includes accelerated depreciation of £2,385,000 *(2007 £nil)* relating to installed dispense equipment

4 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows

	Number of employees **2008**	2007
Production	**371**	401
Sales, marketing and distribution	**335**	281
Administration	**262**	272
	968	954

The aggregate payroll costs of these persons were as follows

	2008 **£000**	2007 £000
Wages and salaries	**33,528**	29,396
Social security costs	**3,767**	3,481
Other pension costs	**1,323**	1,402
	38,618	34,279

Notes *(continued)*

5 Directors' remuneration

Remuneration

The remuneration of the directors was as follows

	2008 £000	2007 £000
Directors' emoluments	**2,221**	1,325
Gains made on the exercise of share options	**228**	1,576
Company contributions to money purchase pension schemes	**91**	119
Compensation for loss of office	**270**	199
	2,810	3,219

Group companies bore £474,000 *(2007 £nil)* cost of the directors' emoluments and £26,000 *(2007 £nil)* of the company contributions to money purchase schemes

The emoluments of the highest paid director were £370,000 *(2007 £356,000)* and the contribution to the defined contribution pension scheme was £20,000 *(2007 to their money purchase scheme £45,000)* The highest paid director made £nil *(2007 £688,000)* gain on the exercise of share options and received £nil *(2007 £nil)* for compensation for loss of office No options were issued to the highest paid director under a long term service plan

Pensions

The number of directors who were members of group pension schemes was as follows

	Number of directors 2008	2007 Restated
Defined benefit schemes	7	7
Defined contribution schemes	1	1

Costs incurred during the year were wholly in relation to defined contribution schemes All members of the group defined benefit scheme have transferred onto the defined contribution scheme (see note 21)

6 Profit on sale of fixed assets

	2008 £000	2007 £000
Profit on sale of fixed assets (see note 8)	**2,387**	31

£2,366,000 relates to additional sales proceeds received in respect of a 2005 disposal of land and buildings, for which a contingent asset had not been recognised in prior periods The proceeds are recorded net of £34,000 associated costs, and were conditional upon the successful granting of planning permission to develop

There are no taxable gains arising from these sales

Notes *(continued)*

7 Interest payable and similar charges

	2008 £000	2007 £000
Net exchange (loss)/gain	**(1,109)**	352
Interest payable on loans and overdrafts	**(1,006)**	(591)
Unwinding of discount on provision (note 16)	**(383)**	(386)
Finance charge on finance leases	**(81)**	(19)
Interest on payment of corporation tax	**-**	(718)
Other	**-**	65
	(2,579)	(1,297)

8 Profit/(loss) on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging/(crediting)

	2008 £000	2007 £000
Depreciation (note 10)		
- owned assets	**11,307**	8,848
- held under finance lease	**253**	121
Loss on disposal of business (note 11)	**-**	2,075
Profit on disposal of fixed assets (note 6)	**(2,387)**	(31)
Operating lease rentals		
- plant and machinery	**210**	261
- other	**3,651**	3,513

The audit fee for both years was borne by the ultimate parent company

	2008 £000	2007 £000
Fees for the audit of the company	**157**	88
Fees for other services pursuant to such legislation	**91**	54
	243	142

Notes *(continued)*

9 Tax on profit/(loss) on ordinary activities

The tax credit comprises

	2008 £000	2007 £000
Current tax		
UK corporation tax	**176**	2,277
Adjustments in respect of prior years		
- UK corporation tax	**(643)**	(1,207)
Total current tax	**(467)**	1,070
Deferred tax		
Origination and reversal of timing differences	**724**	(737)
Capital allowances in excess of depreciation	**(2,398)**	(1,306)
Adjustments in respect of prior periods	**(116)**	805
Rate change	**(203)**	-
Total deferred tax (note 16)	**(1,993)**	(1,238)
Total tax credit on profit/(loss) on ordinary activities	**(2,460)**	(168)

Factors affecting the tax charge for the current year

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows

	2008 £000	2007 £000
Profit/(loss) on ordinary activities before taxation	**1,301**	(1,428)
Tax on profit/(loss) on ordinary activities at standard UK corporation tax rate of 30% *(2006 30%)*	**390**	(428)
Effects of		
Origination and reversal of timing differences	**(711)**	736
Group relief not paid for	**-**	251
Capital allowances in excess of depreciation	**2,385**	1,306
Non taxable	**(1,888)**	412
Adjustments to tax charge in respect of previous periods	**(643)**	(1,207)
Current tax (credit)/charge for the year	**(467)**	1,070

Notes *(continued)*

10 Tangible fixed assets

	Freehold Land and Buildings	Assets in course of construction	Plant, Machinery, Fixtures and Fittings	Motor Vehicles	Total
	£000	£000	£000	£000	£000
Cost					
At beginning of year	21,363	1,968	122,836	2,112	148,279
Additions	4,195	12,536	3,553	130	20,414
Disposals	-	-	(13,704)	(254)	(13,958)
Transfer to stock	-	-	(969)	-	(969)
At end of year	25,558	14,504	111,716	1,988	153,766
Depreciation					
At beginning of year	2,478	-	82,465	1,999	86,942
Charge for the year	3,405	-	8,122	33	11,560
Disposals	-	-	(7,427)	(277)	(7,704)
At end of year	5,883	-	83,160	1,755	90,798
Net book value					
At end of year	**19,675**	**14,504**	**28,556**	**233**	**62,968**
At beginning of year	18,885	1,968	40,371	113	61,337

Freehold land and buildings includes £4,239,000 *(2007 £4,239,000)* in respect of land

A £548,000 cost (£nil accumulated depreciation) disposal resulted from the movement of developed software and servers to Matthew Clark Wholesale Limited at net book value

A £109,000 cost transfer *(£80,000 accumulated depreciation)* resulted from the sale of the company's South African branch to Constellation Wines South Africa (Pty) Limited (formerly Calaska Trading 56 (Pty) Limited)

Depreciation for the year includes accelerated depreciation of £2,385,000 This results from a change in accounting estimate with regards to the life of certain dispense assets Uninstallated dispense assets have been reclassified as stock

Net book value of assets held under finance leases within plant and machinery as at 29 February 2008 was £384,000 *(2007 £636,000)* Related depreciation on assets held under finance leases during the year ended 29 February 2008 was £374,000 *(2007 £121,000)*

Notes *(continued)*

11 Loss on sale of business

On 31 May 2006 the Strathmore Mineral Water division of Constellation Europe Limited was sold, comprising £9,725,000 intangible assets and £7,038,000 tangible fixed assets, to AG Barr for net sales proceeds of £14,688,000 The £2,075,000 loss on sale was charged to operations in 2007 (note 8)

12 Stocks

	2008 £000	2007 £000
Raw materials and consumables	**7,553**	8,327
Work in progress	**8,468**	6,198
Finished goods and goods for resale	**50,431**	62,538
	66,452	77,063

There is no material difference between the balance sheet value of stock and its replacement cost

13 Debtors

	2008 £000	2007 £000
Amounts falling due within one year		
Trade debtors	**89,037**	100,776
Amounts owed by group undertakings	**243,143**	434,474
Amounts owed by associated undertakings	**14,918**	-
Other debtors	**13**	85
Prepayments and accrued income	**4,567**	4,731
Other taxes	**-**	177
	351,678	540,243

14 Creditors: amounts falling due within one year

	2008 £000	2007 £000
Bank loans and overdrafts	**-**	25,399
Obligations under finance leases payable within one year	**253**	212
Trade creditors	**36,299**	30,191
Corporation tax	**778**	3,304
Other taxes	**17,410**	13,101
Amounts owed to group undertakings	**260,030**	435,287
Amounts owed to associated undertakings	**826**	-
Other creditors	**8,200**	2,025
Accruals and deferred income	**54,908**	55,473
	378,704	564,992

Other creditors of £8,200,000 relate to consideration received for land and buildings still held under fixed assets since ownership has not been transferred to the buyer as at 29 February 2008

Notes *(continued)*

15 Creditors: amounts falling due after more than one year

	2008 £000	2007 £000
Obligations under finance leases payable between one and five years	**171**	424
	171	424

16 Provisions for liabilities and charges

	2008 £000	2007 £000
Deferred tax	**2,633**	4,553
Provision for restructuring costs	**6,142**	6,253
	8,775	10,806

The balance on the deferred tax account included in provisions for liability and charges represents

	2008 £000	2007 £000
Accelerated capital allowances	**4,994**	7,734
Short term timing differences	**(2,361)**	(3,181)
	2,633	4,553

Deferred tax creditor falling due after one year

	2008 £000	2007 £000
At beginning of year	**4,553**	6,526
S343 transfer to group undertaking	**-**	(257)
Trade and asset transfers from group undertakings	**73**	(478)
Deferred tax charge/(credit) (note 9)	**(1,993)**	(1,238)
At end of year	**2,633**	4,553

It has been announced that the corporation tax rate applicable to the company will change from 30% to 28% from 1 April 2008 The deferred tax asset has been calculated at 28% in accordance with FRS 19 in light of when the deferred tax asset is expected to be realised

There is no unprovided deferred taxation at either year end

Notes *(continued)*

16 Provisions for liabilities and charges (continued)

	2008 £000	2007 £000
Provision for restructuring costs		
At beginning of year	**6,253**	6,349
Unwinding of discount (see note 7)	**383**	386
Utilised during the year	**(494)**	(482)
At end of year	**6,142**	6,253

Restructuring provisions predominantly include vacant property and onerous lease provisions on a lease that will expire in 2026 The restructuring provision in 2008 is discounted at a prevailing market rate

17 Called up share capital

	2008 £000	2007 £000
Authorised		
Ordinary shares of £1 each	**14,604**	14,604
Allotted, called up and fully paid		
Ordinary shares of £1 each	**2,872**	2,872

Notes *(continued)*

18 Reconciliation of movements in reserves

	Share Capital £000	Share Premium Account £000	Profit and Loss Account £000	Share Based Payments Reserve £000	Shareholders' Funds £000
At beginning of year	2,872	119,288	(19,739)	-	102,421
Profit for the year	-	-	3,761	-	3,761
Capital contribution	-	-	-	1,175	1,175
At end of year	**2,872**	**119,288**	**(15,978)**	**1,175**	**107,357**

The profit and loss account reserve includes £68,811,000 *(2007 £68,811,000)* of goodwill arising on the acquisition of businesses taken to reserves This goodwill is being recognised as a realised loss over a period of 20 years, the estimated useful life £19,881,000 *(2007 £23,322,000)* remains unrealised

The share based payments reserve is considered to be distributable The capital contribution arises from the difference between the cumulative share based payment charge to date calculated in accordance with FRS 20 and the recharge liability estimated at the balance sheet as described in note 1

19 Contingent liabilities

In relation to forward currency contracts, the company has decided not to follow the optional fair value accounting rules as set out in the Companies Act (see note 1) Had these open contracts been marked to market at the balance sheet date movements on contracts remaining open at 29 February 2008 total a cumulative loss of £9,468,000 *(2007 gain £293,000)*

The company has a number of leasehold properties in relation to which a year end provision has been made of £210,000 *(2007 £256,000)* for dilapidations The company has no plans to extend their lease terms, therefore to the extent that the properties are not vacated at the expiry date of the leases, no contingent liability exists

The company and certain other group undertakings have entered into a Composite Accounting Agreement under which Barclays Bank Plc may offset money standing to the credit of any company within the agreement and indebtedness to the bank of a company within the agreement The contingent liability at 29 February 2008 of the company in respect of guarantees given to secure the banking facilities of other group undertakings was £Nil *(2007 £Nil)*

Notes *(continued)*

20 Commitments

There were no capital commitments at either year end

Annual commitments under non-cancellable operating leases are as follows

	Plant and Machinery		Land and Buildings	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
				Restated
Operating leases which expire				
- Within one year	**-**	67	**-**	-
- Between two and five years	**181**	70	**860**	904
- After five years	**-**	-	**3,289**	3,325
	181	137	**4,149**	4,229

Rent expense arising from the above operating lease agreements charged to operations amounted to £3,861,000 *(2007 £3,774,000)* (note 8)

The company is a member of the group VAT registration and is therefore jointly liable for the other group companies' outstanding liability of £5,997,000 (*2007 £11,372,000)*

21 Pensions

The company operates a defined contribution scheme The assets of the scheme are held separately from those of the company, being invested with insurance companies The pension cost charge represents contributions payable by the company to the fund and amounted to £1,278,000 *(2007 £1,338,000)*

The company also participates in the Matthew Clark Pension Plan which is a funded defined benefit pension scheme operated by Constellation Europe (Holdings) Limited on behalf of its subsidiaries and for the benefit of its employees The company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 'Retirement benefits' and therefore the scheme has been accounted for as if the scheme was a defined contribution scheme

Contributions to the Matthew Clark Pension Plan are assessed in accordance with the advice of Punter Southall & Co , consulting actuaries The plan was closed to future benefit accrual at 31 March 2003 Although salary linkage will remain on accrued benefits, there is no current service cost A defined contribution arrangement was opened to all active members of the plan and for new employees from 1 April 2003

In accordance with FRS 17, the company will account for its contributions to the scheme as if it were a defined contribution scheme (see note 5) because it is not possible to identify the company's share of the assets and liabilities in the scheme on a consistent and reasonable basis

A full actuarial valuation was carried out as at 31 December 2007 by a qualified independent actuary The contribution made to the Plan by the company in the accounting period was £2,854,000 *(2007 £4,050,000)* Future contributions to the Plan have been agreed to continue at £4,000,000 per annum, towards which a contribution of £1,250,000 is payable by the Matthew Clark Holdings Limited group, a joint venture between Constellation Brands Inc and Punch Taverns Plc This arrangement commenced in April 2007

Notes *(continued)*

22 Share based payments

a) Sharesave scheme

Following a five-year period where no sharesave scheme was offered, a scheme was reintroduced in August 2006 The Constellation Brands UK Sharesave Scheme offers all employees the opportunity to purchase shares in Constellation Brands at a discounted price *(2007 15%)* compared with the market price at the time of grant The scheme allows employees to save between £5 and £250 a month for either 3 or 5 years At the end of the nominated period of saving the employee may either opt to withdraw their savings with interest or use it to buy shares at the option price The last of the previous plans was finalised in August 2006 None of the current plans is exercisable at year end

	2008		2007	
	3 year scheme	***5 year scheme***	*3 year scheme*	*5 year scheme*
Grant date	*3 October 2007*		*28 August 2006*	
Share price at grant date	$24 62		$26 27	
Exercise price	$24 07		$24 41	
Offer price (at 15% discount to exercise price)	$20 46		$20 75	
Shares / Share equivalents under scheme	34,598	35,963	1,894	3,647
Vesting period and expected life of option	3years	5years	3years	5years
Expected volatility	27 2%	26 9%	25 4%	30 8%
Risk free rate	4 0%	4 2%	4 8%	4 7%
Expected dividends expressed as a dividend yield	0 0%	0 0%	0 0%	0 0%
Fair value of call option at 85%	**$5 19**	**$6.90**	**$6 08**	**$8 66**
Value of option at 15% of share price at grant date	$3 69	$3 69	$3 94	$3 94
Fair value of option	**$8 88**	**$10.59**	**$10 02**	**$12.60**

3 year scheme	Outstanding at 1 March 2006	Granted in year	Exercised in year	Forfeited in year	Outstanding at 28 February 2007
August 2006 scheme (exercise price $20 7485)	-	131,435	-	(3,293)	128,142
	-	**131,435**	-	**(3,293)**	**128,142**
Weighted average exercise price	-	$20 75	-	$20 75	$20 75
Weighted average contractual life remaining					3 years

3 year scheme	Outstanding at 1 March 2007	Granted in year	Exercised in year	Forfeited in year	Transferred *	Outstanding at 29 February 2008
August 2006 scheme (exercise price $20 7485)	128,142	-	-	(15,699)	51	112,494
October 2007 scheme (exercise price $20 4595)	-	36,719	-	(2,121)	-	34,598
	128,142	**36,719**	-	**(17,820)**	**51**	**147,092**
Weighted average exercise price	$20 75	$20 46	-	$20 71	$20 75	$20 68
Weighted average contractual life remaining						2 2 years

Notes *(continued)*

22 Share based payments *(continued)*

5 year scheme	Outstanding at 1 March 2006	Granted in year	Exercised in year	Forfeited in year	Outstanding at 28 February 2007
August 2001 scheme (exercise price $7 1050)	39,626	-	(39,560)	(66)	-
August 2006 scheme (exercise price $25 8800)	-	125,418	-	-	125,418
	39,626	**125,418**	**(39,560)**	**(66)**	**125,418**
Weighted average exercise price	$7 11	$25 88	$7 11	$25 88	$25 88
Weighted average contractual life remaining					5 years

5 year scheme	Outstanding at 1 March 2007	Granted in year	Exercised in year	Forfeited in year	Transferred *	Outstanding at 29 February 2008
August 2006 scheme (exercise price $25 8800)	125,418	-	-	(16,395)	294	109,317
October 2007 scheme (exercise price $20 4595)	-	38,052	-	(2,089)	-	35,963
	125,418	**38,052**	-	**(18,484)**	**294**	**145,280**
Weighted average exercise price	$20 75	$20 46	-	$20 72	$20 75	$20 68
Weighted average contractual life remaining						4 2 years

* Net options transferred in/(out) with employees from/(to) other group companies during the year

The group received $Nil proceeds in respect of options exercised during the year *(2007 $281,000 in respect 39,560 options)* $Nil was credited to share capital *(2007 $Nil)* and $Nil to share premium *(2007 $281,000)*

Options exercised in the prior year were in respect of the August 2001 5 year scheme All were exercised during July and August 2006 at a price of $7 11 and average market value $24 59

Notes *(continued)*

22 Share based payments *(continued)*

b) Long term stock incentive plan

The long term stock incentive plan is a performance share plan under which shares are conditionally allocated to selected members of management

Once vested the options grant the right to purchase shares at the market price they were at the date of grant Exercise prices range from $6 44 to $27 23 The options vest after four years and expire ten years after the grant date

There have been five awards that occurred after 7 November 2002, the start date for recognition under FRS 20 Only charges in respect of these grants have been made to the accounts in accordance with FRS 20 Six arrangements granted before 7 November 2002 exist The recognition and measurement principles in FRS 20 have not been applied to these grants in accordance with this standard

	2008		2007		2006	
Grant date	***3 October 2007***	***3 April 2007***	*4 October 2006*	***5 April 2006***	*6 October 2005*	*7 April 2005*
Share price at grant date	$24 26	$20 95	$29 08	$25 88	$24 92	$27 24
Exercise price	$24 26	$20 95	$29 08	$25 88	$24 92	$27 24
Shares / Share equivalents under scheme	90,700	650,700	18,500	325,310	2,000	269,850
Vesting period	4 years	4 years	4 years	4 years	4 years	4 years
Expected life of option	5 5 years	5 5 years	5 5 years	5 5 years	5 years	5 years
Expected volatility	29 4%	30 3%	31 2%	31 7%	31 3%	31 3%
Risk free rate	4 2%	4 6%	4 5%	4 8%	4 1%	4 1%
Expected dividends expressed as a dividend yield	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%
Probability of ceasing employment before vesting	10%	10%	10%	10%	10%	10%
Fair value of option	**$8.65**	**$7.71**	**$9.82**	**$9.02**	**$7.84**	**$8 60**

Notes *(continued)*

22 Share based payments *(continued)*

	Outstanding at 1 March 2006	Granted during year	Transferred in*	Exercised during year	Forfeited during year	Outstanding at 28 February 2007
December 1998 Award (exercise price $6 2032)	45,000	-	-	(45,000)	-	-
April 1999 Award (exercise price $6 5000)	10,100	-	-	(9,600)	-	500
April 2000 Award (exercise price $6 4375)	41,951	-	-	(34,640)	-	7,311
April 2001 Award (exercise price $8 8713)	48,600	-	-	(2,600)	-	46,000
September 2001 Award (exercise price $10 2500)	95,700	-	7,500	(4,000)	-	99,200
April 2002 Award (exercise price $13 7125)	38,800	-	-	(6,300)	-	32,500
April 2003 Awards** (exercise price $11 7676)	230,960	-	-	(124,950)	(6,750)	99,260
April 2004 Award (exercise price $16 6300)	203,020	-	9,800	(31,600)	(8,600)	172,620
June 2004 Award (exercise price $18 5500)	10,000	-	-	-	-	10,000
September 2004 Award (exercise price $18 8600)	2,000	12,000	-	-	-	14,000
December 2004 Awards** (exercise price $23 0200)	26,500	5,000	-	(11,500)	-	20,000
April 2005 Award (exercise price $27 2350)	269,850	8,800	9,200	(24,530)	(35,300)	228,020
October 2005 Award (exercise price $24 9200)	2,000	-	-	-	-	2,000
April 2006 Awards** (exercise price $25 8800)	-	315,760	9,550	-	-	325,310
October 2006 Award (exercise price $27 2350)	-	18,500		-	-	18,500
	1,024,481	**360,060**	**36,050**	**(294,720)**	**(50,650)**	**1,075,221**
Weighted average exercise price	$16 47	$25 71	$20 46	$12 34	$23 37	$20 51
Weighted average contractual life remaining						7 4 years

** Options transferred in with employees from other group companies during the year*
*** summary of awards in month*

	Outstanding at 1 March 2007	Granted during year	Transferred in*	Exercised during year	Forfeited during year	Outstanding at 29 February 2008
April 1999 Award (exercise price $6 5000) ϕ	500	-	-	-	-	500
April 2000 Award (exercise price $6 4375) ϕ	7,311	-	-	-	-	7,311
April 2001 Award (exercise price $8 8713) ϕ	46,000	-	3,200	(22,400)	-	26,800
September 2001 Award (exercise price $10 2500) ϕ	99,200	-	21,800	(50,000)	-	71,000
April 2002 Award (exercise price $13 7125) ϕ	32,500	-	2,400	(2,400)	-	32,500
April 2003 Awards** (exercise price $11 7676) ϕ	99,260	-	53,240	(48,600)	-	103,900
April 2004 Award (exercise price $16 6300) ϕ	172,620	-	63,180	(24,800)	-	211,000
June 2004 Award (exercise price $18 5500) ϕ	10,000	-	-	-	-	10,000
September 2004 Award (exercise price $18 8600) ϕ	14,000	-	-	-	-	14,000
December 2004 Awards** (exercise price $23 0200) ϕ	20,000	-	-	-	-	20,000
April 2005 Award (exercise price $27 2350) ϕ	228,020	-	51,180	-	(25,500)	253,700
October 2005 Award (exercise price $24 9200) ϕ	2,000	-	-	-	-	2,000
April 2006 Awards** (exercise price $25 8800) ϕ	325,310	-	79,990	-	(55,400)	349,900
October 2006 Award (exercise price $27 2350) ϕ	18,500	-	12,500	-	-	31,000
April 2007 Awards** (exercise price $20 9500)	-	677,200	900	-	(27,400)	650,700
October 2007 Awards*** (exercise price $24 2600)	-	90,700	-	-	-	90,700
	1,075,221	**767,900**	**288,390**	**(148,200)**	**(108,300)**	**1,875,011**
Weighted average exercise price	$20 51	$21 20	$20 06	$11 66	$24 91	$21 20
Weighted average contractual life remaining						7 6 years

** Net options transferred in/(out) with employees from/(to) other group companies during the year*
*** summary of awards in month*
**** summary of awards in June 2007/Ocotber 2007/January 2008*

Shares issued under awards marked ϕ are partially or fully exerciseable at year end
For all awards, shares become exercisebale on a straight line and annual basis over the vesting period

Notes *(continued)*

22 Share based payments *(continued)*

Constellation Brands Inc received proceeds of $1,730,000 *(2007 $3,636,000)* in respect of the 148,200 options *(2007 294,720)* exercised during the year $nil *(2007 $3,000)* was credited to share capital

The options were exercised throughout the year at prices between $20 48 and $25 04 *(2007 $24 05 and $28 85)*

The weighted average share price at date of exercise was $22 23 *(2007 $25 84)*

c) Employee expenses

The employee expense included in the profit and loss account can be analysed as follows

	2008 £000	2007 £000
January 2008 share options	**3**	-
October 2007 share options	**21**	-
June 2007 share options	**13**	-
April 2007 share options	**474**	-
October 2006 share options	**38**	10
April 2006 share options	**452**	362
Options from prior years	**(5)**	-
2007 Sharesave Plan – 3 year	**275**	-
2007 Sharesave Plan – 5 year	**220**	-
2006 Sharesave Plan - 3 year	-	121
2006 Sharesave Plan - 5 year	-	82
Schemes from prior years	-	14
	1,491	589

During February 2006, the majority of unvested options were accelerated, becoming vested prior to the new financial year The result of this is that, in the main, only options granted from the start of the new financial year are subject to the recognition and measurement rules of FRS 20 The small amount of unvested options from prior years are not material to the financial statements, hence no prior year adjustment has been made

Notes *(continued)*

23 Related party transactions

The Company is controlled by Constellation Europe (Holdings) Limited The ultimate controlling party is Constellation Brands Inc (see note 24) During the year, a joint venture arrangement between Hertford Cellars Limited, a fellow subsidiary of Constellation Europe (Holdings) Limited, and Punch Taverns Plc was established As a result, three former group companies became associated companies, and transactions for the current year therefore require disclosure under FRS 8 'Related party disclosures' On this basis, comparative information is not required to be disclosed

During the year the group sold goods and services to associated undertakings as summarised below This was in the ordinary course of business

	2008 goods £000	2008 services £000
Matthew Clark Wholesale Limited	164,363	3,289
Forth Wines Limited	1,910	-
The Wine Studio Limited	27	-
	166,300	**3,553**

Amounts owed by and to associated undertakings are disclosed in notes 13 and 14

24 Ultimate parent undertaking

The directors regard Constellation Brands Inc , a company incorporated in the United States of America, as the ultimate parent company Constellation Brands Inc is the parent company of the largest group of which the company is a member Copies of the financial statements are available from Investor Relations of Constellation Brands Inc , at 370 Woodcliff Drive, Third Floor, Fairport, NY 14450, USA