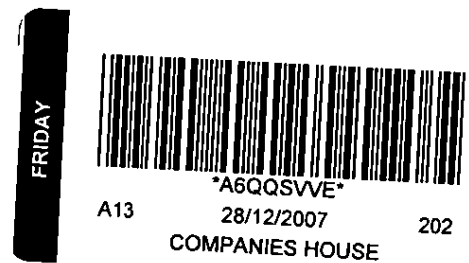


Matthew Clark Wholesale Limited

Directors' report and financial statements

Registered number 2550982

For the year ended 28 February 2007



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Directors' report

The directors present their annual report on the affairs of the company, together with the financial statements and auditor's report, for the year ended 28 February 2007

Business review

Matthew Clark is the leading independent supplier of drinks to the UK on-premise licensed trade. The company supplies both alcoholic and non-alcoholic beverages to a wide variety of customers including pubs, bars, hotels, restaurants and leisure outlets.

Operating with a national call centre and a network of ten regional distribution centres, the company offers a comprehensive wholesale and distribution proposition to the UK on-premise trade. Employing a 200-strong sales force Matthew Clark offers a complete next-day drinks solution to customers, both in the independent free trade sector and the large national multiple operators.

Focusing on the provision of wine and spirits Matthew Clark has established itself as the leading composite drinks supplier to the UK on trade.

Competition

Matthew Clark has placed itself in the market as the leading non-brewer owned distributor with scale and reach to supply the whole on-trade market, from small independent outlets to the major national managed retail chains. The core specialism is the wine range together with a clear preferred brands strategy across the other major drinks sectors such as spirits and beer.

The company's competitors can be broken down into a number of groups:

- *Global brewers* who focus on beer distribution with other drinks as service lines and represent the largest volume operators in the market by virtue of their beer volumes
- *National independent wholesalers* such as Waverly TBS and Bibendum, who offer similar product and service offerings to Matthew Clark
- *Independent regional wholesalers* who, whilst lacking national scope, have strong local distribution and customer bases

Legal and regulatory environment

The company operates in an increasing regulatory 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 objectives are to grow profits and cashflow by focusing on core competencies of service and range, whilst leveraging scale with both suppliers and customers.

The company's strategy is centred around the need to grow the business to acquire scale, whilst delivering higher levels of service to the customer base. Matthew Clark has taken a leadership position to the on-trade through a composite offering with a clear wine specialism.

Over the next 3 years the company will seek to reinforce this position with capital investment into its operations and customer contact areas to improve service levels and customer experiences. This will be linked to attracting and retaining a high quality group of employees recognised within the industry for expertise and service.

Directors' report *(continued)*

Business review *(continued)*

Risk/uncertainty

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

The key uncertainties centre around the overall growth of the UK on trade and the various economic and regulatory factors that impact upon it. Regular management review and strategic exercises seek to identify those areas of risk and uncertainty that need to be addressed and put in place appropriate actions to mitigate them.

Measurement

The company has a well established performance measurement system that focuses the business on the key levers of sales volume and profit growth, together with cost control and cashflow. 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

The financial year ended 28 February 2007 saw strong sales growth with revenues growing by 6.6% over prior year. This exceeded expectations for the business and was driven by strong volume growth in wine, spirits and cider.

On a customer sector perspective, lower than expected independent growth was more than offset by significant national growth driven by new customer wins and organic growth. Much of this national sector gain was in wine and spirits accounts which assisted the gross margin mix.

The volume growth was, in the main, reflected in margin growth with year on year growth of 4.5%. However general price softening in the market and a shift in sales mix towards national customers slightly depressed gross margin.

Distribution costs rose in line with increased sales volumes and general market price pressure. Investment in new depot openings also increased costs above last year.

Administration expenses increased due to a rise in sales and IT costs and share based incentive payments. This was in line with expectations.

Overall profit, whilst lower than prior year, was ahead of budgeted expectations.

Trends and developments

Over the course of the year there have been a number of continuing trends, particularly around the various customer sectors. National accounts continue to consolidate and consequently pressurise the market pricing. However this has presented a series of opportunities as the Company is well placed to meet the demands of these bigger customers. This has been reflected in improved financial performance.

The regional customer sector continues to present challenges due to downward price pressures and low volume growth. This is expected to continue.

From a product perspective wine and spirits growth is ahead of the market reflecting the focus on these areas. In addition the cider category demonstrated growth in line with market performance.

Directors' report *(continued)*

Business review *(continued)*

Forward looking Information

Expectations are for the Company to drive increased operating profits and cashflow in 2007/8. In the short term the Company intends to continue pursuing growth based on servicing quality wine and spirit led accounts, whilst investing in its service capability.

The Company expects the trends of consolidation and price pressure to continue but with opportunity for growth in the major sectors. The ban on smoking in public places on 1 July 2007 is not deemed to be a major issue, as the Company does not have significant exposure to the beer sector, which is deemed most at risk.

Results and dividends

The profit after tax for the year was £14,194,000 (2006 £13,955,000). A dividend of £28,000,000 (2006 £38,000,000) was paid during the year.

Post balance sheet events

On 17 April 2007 Matthew Clark Wholesale was sold to Dubwath Limited which became the immediate parent. Dubwath is a joint venture between Constellation Brands Inc and Punch Taverns Plc. As a result of this, all staff participating in the UK Sharesave scheme that gives employees the option to buy shares in Constellation at the end of a pre-agreed 3 or 5 year saving period were given the option of cash in return for their discontinuing saving in the scheme. 78% of the 319 Matthew Clark Wholesale employees within the UK Sharesave scheme opted to remain in and continue to save.

Directors and directors' interests

The following directors served during the year or were appointed post year end:

AA Ruggeri	(resigned 23 March 2007)
AT Colquhoun	
DW Townsend	(resigned 6 April 2007)
T Creighton	(resigned 8 September 2006)
S Thomson	
MG Grisman	
J Moramarco	(resigned 1 March 2007)
T Christensen	(appointed 8 September 2006)
D Klein	(appointed 5 March 2007)

The directors held no interests in the company during the year that required disclosure.

Supplier payment policy

The company agrees terms and conditions for its business transactions with suppliers and payment is then made on these terms, subject to the terms and conditions being met by the supplier. The company had creditor days at 28 February 2007 of 36 days (2006 39 days).

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.

Health and safety

The company promotes all aspects of safety throughout the company in the interest of employees and users of premises.

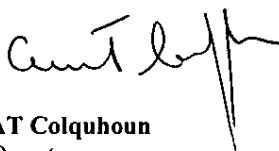
Statement of disclosure to auditors

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



AT Colquhoun
Director

Whitchurch Lane
Bristol
BS14 0JZ

21 December 2007

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 Matthew Clark Wholesale Limited

We have audited the financial statements of Matthew Clark Wholesale Limited for the year ended 28 February 2007 which comprise the Profit and Loss Account, 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 5.

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 Matthew Clark Wholesale 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 28 February 2007 and of its profit for the year then ended, and
- 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

KPMG LLP
KPMG LLP
Chartered Accountants
Registered Auditor

27/12/2007

Profit and loss account
for the year ended 28 February 2007

	<i>Note</i>	2007 £000	2006 £000
Turnover	2	524,164	491,677
Cost of sales		(450,380)	(421,102)
		<hr/>	<hr/>
Gross profit		73,784	70,575
Distribution costs		(24,897)	(23,454)
Administration expenses		(35,345)	(33,025)
		<hr/>	<hr/>
Profit on ordinary activities before taxation	3	13,542	14,096
Tax on profit on ordinary activities	6	652	(141)
		<hr/>	<hr/>
Profit for the financial year		14,194	13,955
		<hr/>	<hr/>

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

These results derive from continuing operations

Balance sheet
at 28 February 2007

	<i>Note</i>	2007	2006
		£000	£000
Fixed assets			
Tangible assets	7	8,323	1,926
Current assets			
Stocks – Goods held for resale		19,076	14,596
Debtors (including £Nil (2006 £380k) due after more than one year)	8	457,599	408,156
Cash at bank and in hand		2,103	3,801
		<u>478,778</u>	<u>426,553</u>
Creditors amounts falling due within one year	9	<u>(450,306)</u>	<u>(378,243)</u>
Net current assets		<u>28,472</u>	<u>48,310</u>
Total assets less current liabilities		<u>36,795</u>	<u>50,236</u>
Provisions for liabilities and charges	10	<u>(1,018)</u>	<u>(653)</u>
Net assets		<u>35,777</u>	<u>49,583</u>
Capital and reserves			
Called up share capital	11	3,000	3,000
Share premium account	12	27,000	27,000
Profit and loss account	12	5,777	19,583
Equity shareholders' funds	12	<u>35,777</u>	<u>49,583</u>

These financial statements were approved by the board of directors on 21 December 2007 and were signed on its behalf by


T Christensen
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.

In these financial statements the following new standards have been adopted for the first time:

- FRS20 'Share-based payments'

The accounting policy under this new standard is set out below. The adoption of the standard has resulted in a current year charge of £301,000. The impact on prior periods is not material to the company and so no prior period adjustment has been recognised.

Basis of preparation

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

Under FRS 1, the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements (see note 17).

As the company is a wholly owned subsidiary of Constellation Brands Inc, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group. The consolidated financial statements of Constellation Brands Inc can be obtained from the address given in note 17.

Turnover

Turnover consists of the value of goods and services supplied to customers including duty and excluding VAT.

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

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	-	between 33 to 50 years
Leasehold land and building	-	length of lease
Computer equipment	-	between 3 to 5 years
Plant, machinery and other equipment	-	between 2 to 15 years
Motor vehicles	-	between 3 to 7 years

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. Provision is made, as appropriate, for obsolete and slow moving stock.

Notes (continued)

1 Accounting policies (continued)

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 without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19

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

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.

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.

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 16).

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 options were granted. Constellation Brands Inc makes a recharge for the exercise price intrinsic value of share options when exercised. A liability is created for these amounts at the balance sheet date with a corresponding adjustment to equity.

Notes (continued)

2 Turnover

Turnover consists of sales in the United Kingdom arising from the company's principal activity

3 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging

	2007 £000	2006 £000
Depreciation and amounts written off tangible fixed assets		
- owned	500	467
Operating lease charges		
- plant and machinery	425	526
- vehicles	1,941	1,919
- land and buildings	2,931	2,035

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

	2007 £000	2006 £000
Fees payable to the company's auditor		
Fees for the audit of these financial statements	72	64
Fees for other services pursuant to legislation	37	30
	109	94

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	
	2007	2006
Selling and distribution	865	876
Administration	337	309
	1,202	1,185

Notes (continued)

4 Staff numbers and costs (continued)

The aggregate payroll costs of these persons were as follows

	2007 £000	2006 £000
Wages and salaries	26,091	25,142
Social security costs	2,691	2,600
Other pension costs	667	627
Share based compensation expense (see note 16)	301	-
	<u>29,750</u>	<u>28,369</u>

5 Directors' remuneration

Remuneration

The remuneration of the directors was as follows

	2007 £000	2006 £000
Emoluments	949	1,040
Gains made on the exercise of share options	1,121	1,085
Pension payments	67	68
Redundancy payments	249	923
	<u>2,386</u>	<u>3,116</u>

Of the amounts shown above, Constellation Europe Limited bore £1,355,000 (2006 £2,780,000) of the cost of the directors' emoluments, and Constellation Brands Inc bore £647,000 (2006 £Nil)

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £236,000 (2006 £231,000) and company pension contributions of £19,000 (2006 £23,000) were made to a money purchase scheme on his behalf. During the year, the highest paid director exercised share options.

The number of directors who

	Number of directors	
	2007	2006
Are members of defined benefit pension schemes	5	8
Exercised options over shares in the company	5	4

Notes (continued)

6 Tax on profit on ordinary activities

The tax charge comprises

	2007 £000	2006 £000
Current tax		
UK corporation tax	-	-
Adjustments in respect of prior years		
- UK corporation tax	(794)	(83)
Total current tax	(794)	(83)
Deferred tax		
Origination and reversal of timing differences	(70)	141
Adjustment in respect of prior years	(195)	83
Capital allowances in excess of depreciation	407	-
Total deferred tax (see note 8)	142	224
Total tax on profit on ordinary activities	(652)	141

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

	2007 £000	2006 £000
Profit on ordinary activities before taxation	13,542	14,096
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2006 30%)	4,063	4,228
<i>Effects of</i>		
Group relief not paid for	(3,880)	(4,241)
Expenses not deductible for tax purposes	154	154
Capital allowances in excess of depreciation	(407)	-
Origination and reversal of timing differences	70	(141)
Adjustments to tax charge in respect of previous periods	(794)	(83)
Current tax credit for the year	(794)	(83)

Notes (continued)

7 Tangible fixed assets

	Freehold land and buildings	Assets in course of construction	Short leasehold	Fixtures and fittings	Computer equipment	Plant, machinery and vehicles	Total
	£000	£000	£000	£000	£000	£000	£000
Cost							
At beginning of year	302	3	1,838	1,155	5,088	997	9,383
Intercompany transfers	-	-	-	-	6,823	-	6,823
Additions	25	-	-	-	-	51	76
Disposals	-	-	-	(2)	-	-	(2)
At end of year	327	3	1,838	1,153	11,911	1,048	16,280
Depreciation							
At beginning of year	208	-	734	834	5,047	634	7,457
Charge for the year	90	-	-	86	279	45	500
Disposals	-	-	-	-	-	-	-
At end of year	298	-	734	920	5,326	679	7,957
Net book value							
At end of year	29	3	1,104	233	6,585	369	8,323
At beginning of year	94	3	1,104	321	41	363	1,926

Intercompany transfers represents the movement of developed software and servers from Constellation Europe Limited. In the year ended 28 February 2006 £257,000 of deferred tax was registered in Constellation Europe Limited in respect of these assets, which has also been transferred (note 8)

Freehold land and buildings includes £Nil (2006 £Nil) in respect of land

8 Debtors

	2007 £000	2006 £000
Amounts falling due within one year		
Trade debtors	61,404	55,945
Amounts owed by group undertakings	387,163	347,270
Other debtors	6,390	4,052
Prepayments and accrued income	2,642	509
	457,599	407,776
Amounts falling due after more than one year		
Deferred tax	-	380
	457,599	408,156

Notes (continued)

8 Debtors (continued)

The movement on the deferred tax account during the year has been as follows

	£000
At beginning of the year	380
Intercompany transfers (see note 7)	(257)
Charged to the profit and loss account (see note 6)	(142)
	<hr/>
At end of the year (see note 10)	(19)
	<hr/>

The balance on the deferred tax account represents

	2007 £000	2006 £000
Differences between accumulated depreciation and capital allowances	(412)	127
Short term timing differences	393	253
	<hr/>	<hr/>
Deferred tax (see above)	(19)	380
	<hr/>	<hr/>

Short term timing differences represent timing differences in relation to amounts provided or accrued for future restructuring costs

There is no unprovided deferred taxation at either year end. The UK tax changes proposed in the Chancellor's budget on 21 March 2007 would, based on the 28 February 2007 balances, reduce the deferred tax creditor by £1,000

9 Creditors: amounts falling due within one year

	2007 £000	2006 £000
Trade creditors	38,024	33,428
Amounts owed to group undertakings	393,390	327,121
Corporation tax creditor	-	794
Other taxes and social security	10,837	10,735
Other creditors	1,902	3,065
Accruals and deferred income	6,153	3,100
	<hr/>	<hr/>
	450,306	378,243
	<hr/>	<hr/>

Notes (continued)

10 Provisions for liabilities and charges

	£000
<i>Deferred tax (see note 8)</i>	
Accelerated capital allowances	413
Other timing differences	(394)
	<hr/> 19
<i>Provision for restructuring costs</i>	
At beginning of year	653
Provided during the year	346
	<hr/> 999
At end of year	<hr/> 1,018 <hr/>

Restructuring provisions relate to a number of vacant properties no longer used in the company's business. They include amounts in respect of rental expenses and dilapidation accruals, for leases expiring between the balance sheet date and 2028.

11 Called up share capital

	2007 £000	2006 £000
<i>Authorised</i>		
Equity 3,000,100 ordinary shares of £1 each	<hr/> 3,000	<hr/> 3,000
<i>Allotted, called up and fully paid</i>		
Equity 3,000,002 ordinary shares of £1 each	<hr/> 3,000	<hr/> 3,000

12 Reconciliation of movements in group shareholders' funds

	Share capital £000	Share premium account £000	Profit and loss account £000	Shareholders' funds £000
At beginning of year	3,000	27,000	19,583	49,583
Profit for the year	-	-	14,194	14,194
Dividends	-	-	(28,000)	(28,000)
At end of year	<hr/> 3,000 <hr/>	<hr/> 27,000 <hr/>	<hr/> 5,777 <hr/>	<hr/> 35,777 <hr/>

Notes (continued)

12 Reconciliation of movements in group shareholders' funds (continued)

The profit and loss account reserve has been charged with £13,816,000 (2006 £13,816,000) of goodwill arising on the acquisition of businesses written off to reserves. This goodwill has been recognised as a realised loss over a period of 20 years, the estimated useful life £6,408,000 (2006 £7,099,000) of the £13,816,000 written off to reserves remains unrealised.

13 Commitments

There were no capital commitments at either year end.

Annual commitments under non-cancellable operating leases are as follows

	Plant and machinery		Vehicles	
	2007	2006	2007	2006
	£000	£000	£000	£000
Operating leases which expire				
- within one year	286	6	545	56
- in the second to fifth years inclusive	119	520	1,295	1,874
- over five years	10	-	30	-
	<u>415</u>	<u>526</u>	<u>1,870</u>	<u>1,930</u>

In addition, the company leases certain land and buildings on short term leases. The annual commitments under these non-cancellable operating leases, which are subject to renegotiation at various intervals specified in the leases and in respect of which the company pays all insurance, maintenance and repairs are as follows

	2007	2006
	£000	£000
Operating leases which expire		
- within one year	-	19
- in second to fifth years inclusive	537	377
- over five years	2,345	1,633
	<u>2,882</u>	<u>2,029</u>

14 Contingent liabilities

The company is a member of the group VAT registration and is therefore jointly liable for the other group companies' outstanding net VAT liability of £Nil (2006 £557,000).

The company had no commitments under forward currency contracts at 28 February 2007 (2006 £Nil).

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 against any indebtedness to the bank of a company within the agreement. The contingent liability at 28 February 2007 of the company in respect of guarantees given to secure the banking facilities of other group undertakings was £8,645,000 (2006 £7,805,000).

Notes (continued)

15 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 £667,000 (2006 £627,000).

The company also participates in the Matthew Clark Pension Plan which is a funded defined benefit pension scheme operated by Matthew Clark 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, and therefore as permitted by FRS 17 'Retirement benefits' 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. A defined contribution arrangement was opened to all active members of the plan and for new employees from 1 April 2003. The latest formal actuarial valuation of the scheme was carried out as at 31 December 2004 and updated to 28 February 2007 by a qualified actuary. The Group contribution for the year was £4,050,000 (2006 £600,000) and was paid entirely by Constellation Europe Limited on behalf of the Group. It has been agreed that in future years the participating employers will in aggregate contribute £4,000,000.

16 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 date of board approval of the scheme. 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 (2001 5-year scheme). None of the current plans is exercisable at year end.

	2007	
	3 year scheme	5 year scheme
Grant date	28 August 2006	
Share price at grant date	\$26.27	
Exercise price (being share price at date of board approval 1 August 2006)	\$24.41	
Offer price (at 15% discount to exercise price)	\$20.75	
Shares / Share equivalents under scheme	74,657	57,925
Vesting period and expected life of option	3 years	5 years
Expected volatility	25.4%	30.8%
Risk free rate	4.8%	4.7%
Expected dividends expressed as a dividend yield	0.0%	0.0%
Fair value of call option at 85%	\$6.08	\$8.66
Value of put option at 15% of share price at grant date	\$3.94	\$3.94
Fair value of option	\$10.02	\$12.60

Expected volatility is based on historical volatility levels of Constellation Brands Inc 's Class A Common Stock

Notes (continued)

16 Share based payments (continued)

a) Sharesave scheme (continued)

3 year scheme	Outstanding at start of year	Granted during year	Exercised during year	Forfeited during year	Outstanding at end of year
August 2006 scheme (exercise price \$20 7485)	-	74,657	-	(1,962)	72,695
	-	74,657	-	(1,962)	72,695
Weighted average exercise price	-	\$20 75	-	\$20 75	\$20 75
Weighted average contractual life remaining					3 years
5 year scheme	Outstanding at start of year	Granted during year	Exercised during year	Forfeited during year	Outstanding at end of year
August 2001 scheme (exercise price \$7 1050)	10,170	-	(10,170)	-	-
August 2006 scheme (exercise price \$20 7485)	-	57,925	-	(588)	57,337
	10,170	57,925	(10,170)	(588)	57,337
Weighted average exercise price	\$7 11	\$20 75	\$7 11	\$20 75	\$20 75
Weighted average contractual life remaining					5 years

Constellation Brands Inc received proceeds of \$72,000 in respect of the 10,170 options exercised during the year \$Nil was credited to share capital and \$72,000 to share premium

The options were all exercised during July and August at a price of \$7 11

The weighted average share price at date of exercise was \$24 58

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

Grant date	2007		2006
	4 October 2006	5 April 2006	7 April 2005
Share price at grant date	\$29 08	\$25 88	\$27 24
Exercise price	\$29 08	\$25 88	\$27 24
Shares / Share equivalents under scheme	12,500	162,650	159,100
Vesting period	4 years	4 years	4 years
Expected life of option	5 5 years	5 5 years	5 years
Expected volatility	31 2%	31 7%	31 3%
Risk free rate	4 5%	4 8%	4 1%
Expected dividends expressed as a dividend yield	0 0%	0 0%	0 0%
Probability of ceasing employment before vesting	10%	10%	10%
Fair value of option	\$9 82	\$9 00	\$8 60

Expected volatility is based on historical volatility levels of Constellation Brands Inc 's Class A Common Stock

Notes (continued)

16 Share based payments (continued)

b) Long term stock incentive plan (continued)

	Outstanding at start of year	Granted during year	Transferred in during year*	Exercised during year	Forfeited during year	Outstanding at end of year
Dec 1998 Award (exercise price \$6 2032)	50,000	-	-	(50,000)	-	-
April 1999 Award (exercise price \$6 5000)	2,000	-	-	(2,000)	-	-
April 2000 Award (exercise price \$6 4375)	40,274	-	-	(22,936)	-	17,338
April 2001 Award (exercise price \$8 8713)	39,400	-	-	(12,400)	-	27,000
Sept 2001 Award (exercise price \$10 2500)	15,000	-	7,500	-	-	22,500
April 2002 Award (exercise price \$13 7125)	33,710	-	-	(4,800)	-	28,910
Sept 2002 Award (exercise price \$11 9750)	2,000	-	-	-	-	2,000
April 2003 Award (exercise price \$11 7950)	50,150	-	-	(9,900)	(7,500)	32,750
April 2004 Award (exercise price \$16 6300)	103,700	-	9,800	(25,600)	-	87,900
June 2004 Award (exercise price \$18 5500)	2,000	-	-	-	-	2,000
Dec 2004 Award (exercise price \$22 9850)	15,000	-	-	(15,000)	-	-
April 2005 Award (exercise price \$27 2350)	159,100	-	9,200	(27,400)	(3,300)	137,600
April 2006 Award (exercise price \$25 8800)	-	153,100	9,550	-	-	162,650
Oct 2006 Award (exercise price \$29 0800)	-	12,500	-	-	-	12,500
	512,334	165,600	36,050	(170,036)	(10,800)	533,148
Weighted average exercise price	\$16 79	\$26 12	\$20 46	\$13 41	\$16 48	\$21 02
Weighted average contractual life remaining						7 years

* Options transferred in with employees from other group companies during the year

Constellation Brands Inc received proceeds of \$2,280,000 in respect of the 170,036 options exercised during the year. \$2,000 was credited to share capital and \$2,278,000 to share premium.

The options were exercised throughout the year at prices between \$24.08 and \$28.94.

The weighted average share price at date of exercise was \$27.14.

c) Employee expenses

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

	2007 £000	2006 £000 <i>restated</i>
April 2006 share options	181	-
October 2006 share options	6	-
Sharesave plan - 3 year	69	-
Sharesave plan - 5 year	38	-
Schemes from prior years	7	-
	301	-

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 FRS20. 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)*

17 Ultimate parent undertaking

The directors regard Constellation Brands Inc, a company incorporated in the United States, 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, New York 14450, USA

18 Post balance sheet events

On 17 April 2007 Matthew Clark Wholesale Limited was sold to Dubwath Limited, which became its immediate parent. Dubwath Limited is a joint venture between Constellation Brands Inc and Punch Taverns Plc. As a result of this, those Matthew Clark Wholesale employees saving in the sharesave scheme were offered cash in return for discontinuing their participation in the scheme. Of the 319 employees who originally elected to save in the scheme, 78% elected to receive cash with 22% continuing to save. On 20 July 2007 Dubwath Limited changed its name to Matthew Clark (Holdings) Limited.