Matthew Clark Wholesale Limited

Directors' report and financial statements
For the year ended 29 February 2008
Registered number 2550982

Contents

Directors' report

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

Principal activity

The company's principal activity during the year has been that of wholesale wine and spirits merchants

On 17 April 2007 the company's entire share capital was sold to Dubwath Limited, a company incorporated in England and Wales, which subsequently changed its name to Matthew Clark (Holdings) Limited Matthew Clark (Holdings) Limited is ultimately jointly owned by Constellation Brands Inc , a company incorporated in the United States of America, and Punch Taverns Plc, a company incorporated in England and Wales

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 who 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

Business structure

During April 2007 Matthew Clark Wholesale Limited was bought by Matthew Clark (Holdings) Limited, a joint venture vehicle owned in equal share by Constellation Europe and Punch Taverns plc As part of the joint venture, Matthew Clark Wholesale Limited received funding in the form of a floating loan, secured on trade debtor balances and capped at £45m

Directors' report *(continued)*

Business review *(continued)*

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 cash flows by focusing on core competencies of service and range, whilst leveraging scale with both suppliers and customers

The company's strategy is centred on 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

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 on the overall growth of the UK on-trade and the various economic and regulatory factors that impact upon it Over the last 18 months there has been increasing pressure on the UK on-trade with the combined impact of the smoking ban in public places, together with the generally weaker economic outlook 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 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 businesses 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 29 February 2008 saw sales growth of 2 4% over prior year driven by growth in wine, spirits and cider

From a customer channel perspective, national growth offset lower than anticipated independent free trade growth The volume growth was, in the main, reflected in year on year gross profit growth of 5 9% This was driven by better purchasing terms and mix changes

Distribution costs rose ahead of margin due to cost increases in labour and fuel, together with replacement depot openings driving up fixed costs Administration expenses increased due to a rise in sales costs, IT costs, pension contributions and share based incentive charges This was in line with expectations

Increased interest costs due to the financing changes and an increased tax charge also contributed to a lower overall profit Although lower than in prior years, this was slightly ahead of expectations

Directors' report *(continued)*

Business review *(continued)*

Trends and developments

Over the course of the year there have been a number of continuing trends within the UK on-trade The smoking ban introduced in July 2007 has had a significant impact upon the trade with pressure building on beer dominated outlets Across the trade most operators have been reporting lower footfall and customer spend, with a decline in drinks spending being offset by an increase in food volumes As a result beer volumes have fallen across the industry with subsequent excess capacity across most product sectors This has kept a downward pressure on prices and volumes, particularly in the independent free trade

Again this year we saw further consolidation of the national sector, which the company remains well placed to take account of However the national customer group is not insulated from the general softening on the market and there were a number of financial restructurings in the sector

The independent free trade remains a soft market with a cautious outlook for the next 12 months Many smaller outlets have struggled post the smoking ban due to limited facilities for smokers and competition from both the on-trade and aggressive off trade pricing

Most product sectors slowed during the year reflecting the market and consumer behaviour

Results and dividends

The profit after tax for the year was £8,650,000 *(2007 £14,194,000)* A dividend of £nil *(2007 £28,000,000)* was paid during the year

Directors

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

AA Ruggeri	(resigned 23 March 2007)
JH Barrass	(resigned 11 March 2007)
AT Colquhoun	(resigned 15 March 2008)
DW Townsend	(resigned 6 April 2007)
S Thomson	
MG Grisman	
J Moramarco	(resigned 1 March 2007)
T Christensen	
D Klein	(appointed 5 March 2007)
D Malhotra	(appointed 31 March 2008)

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 29 February 2008 of 49 days *(2007 36 days)*

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

Directors' report *(continued)*

Employee consultation

The company ensures that all employees are kept up to date with major developments and changes within the organisation via 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 they ought to have taken as a director to make themselves 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

T Christensen
Director

Whitchurch Lane
Bristol
BS14 0JZ

23 June 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

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 29 February 2008 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 29 February 2008 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

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

2 July 2008

Profit and loss account
for the year ended 29 February 2008

	Note	2008 £000	2007 £000
Turnover	2	**536,920**	524,164
Cost of sales		**(458,811)**	(450,380)
Gross profit		**78,109**	73,784
Distribution costs		**(27,117)**	(24,897)
Administration expenses		**(38,317)**	(35,345)
Operating profit		**12,675**	13,542
Interest payable and similar charges	6	**(1,254)**	-
Profit on ordinary activities before taxation	3-5	**11,421**	13,542
Tax on profit on ordinary activities	7	**(2,771)**	652
Profit for the financial year	14	**8,650**	14,194

There were no recognised gains or losses in the current or prior year other than those shown above

No statement of historical cost profits and losses is included as there is no material difference between the historical cost profit and the reported profit in either the current or the prior year

These results derive from continuing operations

Balance sheet
at 29 February 2008

	Note	2008 £000	2008 £000	2007 £000	2007 £000
Fixed assets					
Tangible assets	8		**8,447**		8,323
Current assets					
Stocks	9	**28,104**		19,076	
Debtors	10	**90,255**		457,599	
Cash at bank and in hand		**1,995**		2,103	
		120,354		478,778	
Creditors: amounts falling due within one year	11	**(82,422)**		(450,306)	
Net current assets			**37,932**		28,472
Total assets less current liabilities			**46,379**		36,795
Provisions for liabilities and charges	12		**(659)**		(1,018)
Net assets			**45,720**		35,777
Capital and reserves					
Called up share capital	13		**3,000**		3,000
Share premium account	14		**27,000**		27,000
Capital contribution	14		**1,293**		-
Profit and loss account	14		**14,427**		5,777
Equity shareholders' funds	14		**45,720**		35,777

These financial statements were approved by the board of directors on 23 June 2008 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

Basis of preparation

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

The financial statements have been prepared on a going concern basis The company's funding is based on secured financing which is in place until April 2012 subject to normal banking covenants After making enquiries and reviewing future forecasts, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future Consequently, the accounts have been prepared on a going concern basis

Under FRS1 (revised), 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 financial statements (see note 20)

As the company is a wholly owned subsidiary of Matthew Clark (Holdings) Limited, the company has taken advantage of the exemption contained within FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group The consolidated financial statements of Matthew Clark (Holdings) Limited can be obtained from the address given in note 20

Turnover

Revenue from the sale of goods includes excise and import duties which the company 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

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

Notes *(continued)*

1 Accounting policies *(continued)*

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 buildings and improvements	-	length of lease
Fixtures and fittings	-	between 5 to 15 years
Computer equipment	-	between 3 to 5 years
Plant, machinery and vehicles	-	between 2 to 15 years

No depreciation is provided on assets in the course of constructions until the asset is brought into use

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

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

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

Notes *(continued)*

1 Accounting policies *(continued)*

Share based payments

Participation in the two schemes that had operated within Matthew Clark Wholesale, Constellation Brands UK Sharesave Scheme and Constellation Long Term Stock Incentive Plan, is no longer available to employees of Matthew Clark Wholesale

As a result of the joint venture and resultant change in ownership of Matthew Clark Wholesale during the year, Matthew Clark Wholesale employees saving in the sharesave scheme were offered cash in return for discontinuing their participation in the scheme

Matthew Clark Wholesale employees have not been awarded any new options under the Constellation Long Term Stock Incentive Plan during the year, although those who held options previously are still entitled to hold those options through to vesting date and exercise those options within the vesting period

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

	2008	2007
	£000	£000
Depreciation and amounts written off tangible fixed assets		
- owned	**1,279**	500
Operating lease charges		
- plant and machinery	**1,315**	425
- vehicles	**2,059**	1,941
- land and buildings	**3,671**	2,931

Fees payable to the company's auditor	**2008**	2007
	£000	£000
for the audit of these financial statements	**38**	72
for other services pursuant to legislation	**70**	37
	108	109

Notes *(continued)*

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
Selling and distribution	**853**	865
Administration	**376**	337
	1,229	1,202

The aggregate payroll costs of these persons were as follows

	2008	2007
	£000	£000
Wages and salaries	**27,634**	26,091
Social security costs	**3,005**	2,691
Other pension costs (see note 17)	**1,841**	667
Share based compensation expense (see note 18)	**992**	301
	33,472	**29,750**

5 Directors' remuneration

The remuneration of the directors was as follows

	2008	2007
	£000	£000
Emoluments	**338**	949
Gains made on the exercise of share options	**-**	1,121
Pension payments	**27**	67
Redundancy payments	**-**	249
	365	2,386

Of the amounts shown above, Constellation Europe Limited bore £Nil *(2007 £1,355,000)* of the cost of the directors' emoluments, and Constellation Brands Inc bore £Nil *(2007 £647,000)*

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £236,000 *(2007 £236,000)* and company pension contributions of £15,000 *(2007 £19,000)* were made to a money purchase scheme on his behalf During the year, the highest paid director did not exercise share options

The number of directors who

	Number of directors	
	2008	2007
Are members of defined benefit pension schemes	**4**	5
Exercised options over shares in the company	**-**	5

Notes *(continued)*

6 Interest payable and similar charges

	2008 £000	2007 £000
On bank loans and overdrafts	**1,254**	-

7 Tax on profit on ordinary activities

The tax charge comprises

	2008 £000	2007 £000
Current tax		
UK corporation tax	**2,934**	-
Adjustments in respect of prior years		
- UK corporation tax	-	(794)
Total current tax	**2,934**	(794)
Deferred tax		
Origination and reversal of timing differences	**(111)**	(70)
Adjustment in respect of prior years	**(219)**	(195)
Capital allowances in excess of depreciation	**156**	407
Rate change to 28% *(2007 30%)*	**11**	-
Total deferred tax (see note 10)	**(163)**	142
Total tax on profit on ordinary activities	**2,771**	(652)

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 on ordinary activities before taxation	**11,421**	13,542
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% *(2007 30%)*	**3,426**	4,063
Effects of		
Group relief not paid for	**(829)**	(3,880)
Expenses not deductible for tax purposes	**382**	154
Capital allowances in excess of depreciation	**(156)**	(407)
Origination and reversal of timing differences	**111**	70
Adjustments to tax charge in respect of previous periods	-	(794)
Current tax charge / (credit) for the year	**2,934**	(794)

Notes *(continued)*

8 Tangible fixed assets

	Buildings and building improvements	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	327	3	1,838	1,153	11,911	1,048	16,280
Additions	460	65	-	310	568	-	1,403
At end of year	787	68	1,838	1,463	12,479	1,048	17,683
Depreciation							
At beginning of year	298	-	734	920	5,326	679	7,957
Charge for the year	106	-	-	125	1,048	-	1,279
At end of year	404	-	734	1,045	6,374	679	9,236
Net book value							
At end of year	**383**	**68**	**1,104**	**418**	**6,105**	**369**	**8,447**
At beginning of year	29	3	1,104	233	6,585	369	8,323

9 Stocks

	2008	2007
	£000	£000
Finished goods and goods for resale	**28,104**	19,076

10 Debtors

	2008	2007
	£000	£000
Amounts falling due within one year		
Trade debtors	**61,060**	61,404
Amounts owed by group undertakings	**18,021**	387,163
Other debtors	**8,102**	6,390
Prepayments and accrued income	**2,928**	2,642
Deferred tax	**144**	-
	90,255	457,599

Notes *(continued)*

10 Debtors *(continued)*

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

	£000
At beginning of the year	(19)
Charged to the profit and loss account (see note 7)	163
At end of the year	**144**

	2008 £000	2007 £000
Differences between accumulated depreciation and capital allowances	**(353)**	(412)
Short term timing differences	**497**	393
	144	(19)

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

11 Creditors: amounts falling due within one year

	2008 £000	2007 £000
Trade creditors	**48,927**	38,024
Bank loan (see below)	**14,087**	-
Amounts owed to group undertakings	**1,812**	393,390
Corporation tax creditor	**2,934**	-
Other taxes and social security	**1,830**	10,837
Other creditors	**7,994**	1,902
Accruals and deferred income	**4,838**	6,153
	82,422	450,306

During April 2007, as part of the joint venture, Matthew Clark Wholesale Limited received funding in the form of a floating loan, secured on trade debtor balances and capped at £45m Interest is based on LIBOR +1 1%

Notes *(continued)*

12 Provisions for liabilities and charges

	Deferred tax £000	Property £000	Total £000
Provision for restructuring costs			
At beginning of year	19	999	1,018
Utilised during the year	(19)	(340)	(359)
At end of year	**-**	**659**	**659**

Property provisions relate to a number of properties used in the company's business They include amounts in respect of onerous rental expenses and dilapidations, for leases expiring between the balance sheet date and 2028

13 Called up share capital

	2008 £000	2007 £000
Authorised		
Equity 3,000,100 ordinary shares of £1 each	**3,000**	3,000
Allotted, called up and fully paid		
Equity 3,000,002 ordinary shares of £1 each	**3,000**	3,000

14 Reserves

	Share capital £000	Share premium account £000	Capital contribution £000	Profit and loss account £000	Shareholders' funds £000
At beginning of year	3,000	27,000	-	5,777	35,777
Profit for the year	-	-	-	8,650	8,650
Share-based payments	-	-	1,293	-	1,293
At end of year	**3,000**	**27,000**	**1,293**	**14,427**	**45,720**

The profit and loss account reserve has been charged with £13,816,000 *(2007 £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 Of the £13,816,000 written off to reserves £5,717,000 *(2007 £6,408,000)* remains unrealised

Notes *(continued)*

15 Commitments

There were no capital commitments at either year end

Annual commitments under non-cancellable operating leases are as follows

	Plant and machinery		Vehicles	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Operating leases which expire				
- within one year	**4**	286	**284**	545
- in the second to fifth years inclusive	**1,263**	119	**1,679**	1,295
- over five years	**-**	10	**36**	30
	1,267	415	**1,999**	1,870

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

	2008	2007
	£000	£000
Operating leases which expire		
- within one year	**136**	-
- in second to fifth years inclusive	**558**	537
- over five years	**2,977**	2,345
	3,671	2,882

16 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 £298,000 (*2007 £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 29 February 2008 of the company in respect of guarantees given to secure the banking facilities of other group undertakings was £28,052,000 *(2007 £8,645,000)*

Notes *(continued)*

17 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 £735,000 *(2007 £667,000)*

The company also participates in the Matthew Clark Pension Plan which is a funded defined benefit pension scheme operated by Constellation Europe (Holdings) Limited (formerly Matthew Clark Limited) on behalf of Matthew Clark (Holdings) Limited 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 2007

Following the joint venture on 16 April 2007 as described in the Director's report, the Joint Venture Agreement provided that Matthew Clark (Holdings) Limited will procure that Matthew Clark Wholesale Limited and Forth Wines Limited shall pay £1,250,000 per annum for a period of 10 years to the Matthew Clark Group Pension Plan Trustees The amount is fixed at a Group level regardless of what the pension trust might request Should the Trustees request additional amounts, theses shall be refunded to Matthew Clark Holdings Limited by Hertford Cellars Limited (a subsidiary of Constellation Brands Inc) Should the Trustees request a payment less than £1,250,000 then the difference shall be treated as a distribution from Matthew Clark Wholesale Limited and Forth Wines Limited to Matthew Clark (Holdings Limited) The Group contribution for the year was £1,146,000 and was paid entirely by Matthew Clark Wholesale Limited on behalf of the Group Matthew Clark Wholesale Limited contribution for the year was £1,106,000

18 Share based payments

a) Sharesave scheme

As a result of the joint venture and resultant change in ownership of Matthew Clark Wholesale during the year, Matthew Clark Wholesale employees saving in the sharesave scheme were offered cash in return for discontinuing their participation in the scheme

The Constellation Brands UK Sharesave Scheme offered all employees the opportunity to purchase shares in Constellation Brands at a discounted price compared with the market price at the date of board approval of the scheme The scheme allowed 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

	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)*

18 Share based payments *(continued)*

a) Sharesave scheme *(continued)*

3 year scheme	Outstanding at start of year	Transferred during year *	Exercised during year	Forfeited during year	**Outstanding at end of year**
August 2006 scheme (exercise price $20 7485)	**72,695**	**(392)**	-	**(72,303)**	-
Weighted average exercise price	**$20.75**	-	-	**$20 75**	-

5 year scheme	Outstanding at start of year	Transferred during year *	Exercised during year	Forfeited during year	**Outstanding at end of year**
August 2006 scheme (exercise price $20 7485)	**57,337**	**590**	-	**(57,927)**	-
Weighted average exercise price	**$20.75**	-	-	**$20.75**	-

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

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 Matthew Clark Wholesale employees have not been awarded any new options under the during the Constellation Long Term Stock Incentive Plan during the year, although those who held options previously are still entitled to hold those options through to vesting date and exercise those options within the vesting period

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

As a result of the joint venture and resultant change in ownership of Matthew Clark Wholesale during the year, the vesting of all options under the long term stock incentive plan was accelerated such that all options were fully vested at 16 April 2007

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

**** 4 years was the vesting period assessed when the fair value of the options was calculated at the date of grant. As noted above, the vesting period on all options was accelerated such that the options fully vested as of 16 April 2007***

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

Notes *(continued)*

18 Share based payments *(continued)*

b) Long term stock incentive plan *(continued)*

	Outstanding at start of year	Transferred during year*	Exercised during year	Forfeited during year	**Outstanding at end of year**
April 2000 Award (exercise price $6 4375)	17,338	-	-	-	17,338
April 2001 Award (exercise price $8 8713)	27,000	(1,200)	(8,800)	-	17,000
Sept 2001 Award (exercise price $10 2500)	22,500	(12,500)	(2,500)	-	7,500
April 2002 Award (exercise price $13 7125)	28,910	-	(2,300)	-	26,610
Sept 2002 Award (exercise price $11 9750)	2,000	-	-	-	2,000
April 2003 Award (exercise price $11 7950)	32,750	(6,400)	-	-	26,350
April 2004 Award (exercise price $16 6300)	87,900	(19,800)	-	-	68,100
June 2004 Award (exercise price $18 5500)	2,000	-	-	-	2,000
April 2005 Award (exercise price $27 2350)	137,600	(17,000)	-	(2,200)	118,400
April 2006 Award (exercise price $25 8800)	162,650	(27,650)	-	(3,900)	131,100
Oct 2006 Award (exercise price $29 0800)	12,500	(12,500)	-	-	-
	533,148	**(97,050)**	**(13,600)**	**(6,100)**	**416,398**
Weighted average exercise price	$21 02	$21 49	$9 94	$26 37	$21 20
Weighted average contractual life remaining					**7 years**

Options transferred with employees to other group companies during the year

Constellation Brands Inc received proceeds of $135,000 in respect of the 13,600 options exercised during the year

The options were exercised throughout the year at prices between $24 74 and $24 90

The weighted average share price at date of exercise was $24 87

c) Employee expenses

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

	2008 £000	2007 £000
Year to Feb 2007 share options	**463**	187
Sharesave curtailment – 3 year	**196**	-
Sharesave curtailment – 5 year	**208**	-
Sharesave plan - 3 year	**76**	69
Sharesave plan - 5 year	**49**	38
Schemes from prior years	**-**	7
	992	301

Curtailment charges arose as a result of the buy-out of the scheme members as described in (a)

Notes *(continued)*

19 Related party transactions

During the year the company entered into transactions with companies in the groups headed by Constellation Brands Inc and Punch Taverns Plc No comparatives are given in relation to transactions with companies in the group headed by Constellation Brands Inc as these transactions qualified for the exemption under FRS 8 No comparatives are given in relation to transactions with companies in the group headed by Punch Taverns Plc as these transactions did not meet the definition of related party transactions FRS 8 in the prior year

a) Transactions with the Constellation Brands Inc. group

- The company purchased goods of £162,453,000 and services of £3,025,000 from the group,
- The company made sales of £nil to the group, and
- The balance owing from the company to the group at 29 February 2008 was £13,734,000

b) Transactions with the Punch Taverns Plc group

- The company purchased goods of £nil and services of £nil from the group,
- The company made sales of £15,825,000 the group, and
- The balance owing from the group to the company at 29 February 2008 was £563,000

20 Ultimate parent undertaking

On 17 April 2007 the company's entire share capital was sold to Dubwath Limited a company incorporated in England and Wales, which subsequently changed its name to, Matthew Clark (Holdings) Limited As a result, the company's immediate parent undertaking is Matthew Clark (Holdings) Limited, the consolidated financial statements of which are available from Constellation House, The Guildway, Old Portsmouth Road, Guildford GU3 1LR

Matthew Clark (Holdings) Limited is ultimately jointly owned by Constellation Brands Inc, a company incorporated in the United States of America, and Punch Taverns Plc, a company incorporated in England and Wales