

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): December 1, 1998

COMMISSION FILE NUMBER 0-7570

| | | |
|---|---|--|
| DELAWARE | CANANDAIGUA BRANDS, INC. | 16-0716709 |
| | AND ITS SUBSIDIARIES: | |
| NEW YORK | BATAVIA WINE CELLARS, INC. | 16-1222994 |
| NEW YORK | CANANDAIGUA WINE COMPANY, INC. | 16-1462887 |
| NEW YORK | CANANDAIGUA EUROPE LIMITED | 16-1195581 |
| ENGLAND AND WALES | CANANDAIGUA LIMITED | --- |
| NEW YORK | POLYPHENOLICS, INC. | 16-1546354 |
| NEW YORK | ROBERTS TRADING CORP. | 16-0865491 |
| DELAWARE | BARTON INCORPORATED | 36-3500366 |
| DELAWARE | BARTON BRANDS, LTD. | 36-3185921 |
| MARYLAND | BARTON BEERS, LTD. | 36-2855879 |
| CONNECTICUT | BARTON BRANDS OF CALIFORNIA, INC. | 06-1048198 |
| GEORGIA | BARTON BRANDS OF GEORGIA, INC. | 58-1215938 |
| NEW YORK | BARTON DISTILLERS IMPORT CORP. | 13-1794441 |
| DELAWARE | BARTON FINANCIAL CORPORATION | 51-0311795 |
| WISCONSIN | STEVENS POINT BEVERAGE CO. | 39-0638900 |
| ILLINOIS | MONARCH IMPORT COMPANY | 36-3539106 |
| GEORGIA | THE VIKING DISTILLERY, INC. | 58-2183528 |
| (State or other jurisdiction of incorporation or organization) | (Exact name of registrant as specified in its charter) | (I.R.S. Employer Identification No.) |

300 WillowBrook Office Park, Fairport, New York 14450

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (716) 393-4130

(Former name or former address, if changed since last report)

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ITEM 2. ACQUISITION OR DISPOSITION OF ASSETS.

On November 3, 1998, Canandaigua Limited, a wholly-owned subsidiary of Canandaigua Brands, Inc., announced a cash tender offer for the entire issued and to be issued ordinary share capital of Matthew Clark plc ("Matthew Clark"). The offer valued each Matthew Clark share at 243 pence, valuing the whole of the issued ordinary share capital of Matthew Clark at approximately (pound)215 million. The amount offered for the shares of Matthew Clark was determined on an arms-length basis following negotiations between the Board of Directors of each of Matthew Clark and Canandaigua Brands, Inc. (the "Company") and their respective advisors.

On December 1, 1998, Canandaigua Limited declared the cash tender offer to be wholly unconditional--all conditions to the offer having either been satisfied or waived. Canandaigua Limited thereby acquired control of Matthew Clark. On December 15, 1998, Canandaigua Limited paid for all shares tendered at the time the offer was declared wholly unconditional. The cash tender offer remains open for acceptance by Matthew Clark's shareholders until further notice. By 3:00 p.m. (London Time) on Monday, December 14, 1998, valid acceptances had been received in respect of 84,590,156 Matthew Clark shares, representing approximately 95.6 percent of the existing issued ordinary share capital of Matthew Clark. Therefore, Canandaigua Limited has utilized certain provisions of the UK Companies Act to enable it to compulsorily acquire Matthew Clark shares that have not been tendered pursuant to the offer by the end of a prescribed statutory period.

The purchase price for the Matthew Clark shares was funded with proceeds from loans under a First Amended and Restated Credit Agreement (the "Credit Agreement"), dated as of November 2, 1998, between the Company and The Chase Manhattan Bank, as administrative agent, and a syndicate of 27 other lenders who are parties to the Credit Agreement. The Credit Agreement provides for revolving credit and term loans in an original aggregate principal amount not to exceed \$1,000,000,000 (subject to increase as therein provided to \$1,200,000,000).

Matthew Clark is a major UK drinks group which produces, distributes and wholesales a variety of alcoholic and bottled water beverages in the United Kingdom. Matthew Clark operates through two divisions: Matthew Clark Brands and Matthew Clark Wholesale. Matthew Clark Brands is the branded drinks division which comprises cider products, wine and bottled water products. Cider products include cider sold predominantly under the Blackthorn brand and premium packaged cider sold under the Diamond White and K brands. Wine and bottled water products include Stowell's of Chelsea wine box, QC fortified British wine, light British wine/perry and Strathmore bottled water. New products include Stone's Cream Liqueur, Jinzu and Espri. Matthew Clark Wholesale is the United Kingdom's leading independent drinks wholesaler. Matthew Clark provides a full range of wines, spirits, ciders, beers and soft drinks to over 17,000 on-licensed outlets. Matthew Clark also distributes the Grants of St James's wine list. The Company intends to continue to operate the business of Matthew Clark.

Prior to the transactions described above, there was no material relationship between the officers, directors or shareholders of Matthew Clark and the Company or any of its affiliates, any director or officer of the Company or any associate of any such director or officer, except that certain directors of Matthew Clark and members of their immediate families and certain shareholders made certain irrevocable undertakings to accept the cash offer.

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ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS.

(a) FINANCIAL STATEMENTS OF BUSINESS ACQUIRED.

The Matthew Clark plc Balance Sheets, as of 30 April 1998 and 1997, and the related Consolidated Profit and Loss Accounts and Consolidated Cash Flow Statements for each of the three years in the period ended 30 April 1998, and the report of KPMG Audit Plc, independent auditors, thereon, together with the notes thereto, are located at pages 3 through 27 of this Report.

(b) PRO FORMA FINANCIAL INFORMATION.

The pro forma condensed combined balance sheet (unaudited) as of August 31, 1998, and the pro forma condensed combined statement of income (unaudited) for the year ended February 28, 1998, and the pro forma condensed combined statement of income (unaudited) for the six months ended August 31, 1998, and the notes thereto, are located at pages 28 through 35 of this Report.

(c) EXHIBITS.

See Index to Exhibits.

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MATTHEW CLARK plc
FINANCIAL STATEMENTS
FOR THE YEARS ENDED 30 APRIL 1998, 1997 AND 1996
WITH INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Matthew Clark plc

We have audited the accompanying consolidated balance sheets of Matthew Clark plc and its subsidiaries at 30 April 1998 and 1997, and the related consolidated profit and loss accounts and cash flow statements for each of the years in the three-year period ended 30 April 1998. These consolidated financial statements are the responsibility of the management of Matthew Clark plc. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United Kingdom which are substantially equivalent to generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as

evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Matthew Clark plc and its subsidiaries at 30 April 1998 and 1997, and the results of their operations and their cash flows for each of the years in the three-year period ended 30 April 1998, in conformity with generally accepted accounting principles in the United Kingdom.

Accounting principles generally accepted in the United Kingdom vary in certain significant respects from accounting principles generally accepted in the United States of America. Application of accounting principles generally accepted in the United States would have affected net profit for the two years ended 30 April 1998 and shareholders' equity at 30 April 1998 and 1997, to the extent summarised in Note 26 to the consolidated financial statements.

/s/ KPMG Audit Plc
Chartered Accountants
Registered Auditor
London, England
30 November 1998

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MATTHEW CLARK plc

BALANCE SHEETS
(in (pound) millions)

| | NOTE | 30 APRIL | |
|---|------|----------|---------|
| | | 1998 | 1997(1) |
| | ---- | ----- | ----- |
| Fixed assets | | | |
| Intangible assets..... | 12 | 9.7 | 9.7 |
| Tangible assets..... | 13 | 97.1 | 98.6 |
| | | ----- | ----- |
| | | 106.8 | 108.3 |
| | | ----- | ----- |
| Current assets | | | |
| Stocks..... | 14 | 44.6 | 49.3 |
| Debtors..... | 15 | 115.7 | 123.7 |
| Cash at bank and in hand..... | | 17.3 | 5.8 |
| | | ----- | ----- |
| | | 177.6 | 178.8 |
| | | ----- | ----- |
| Creditors: amounts falling due within one year | | | |
| Trade and other creditors..... | 16 | (105.2) | (116.3) |
| Proposed dividend..... | 10 | (7.1) | (13.3) |
| Bank loans and overdrafts..... | | - | (56.4) |
| | | ----- | ----- |
| | | (112.3) | (186.0) |
| | | ----- | ----- |
| Net current assets/(liabilities) | | | |
| Amounts due within one year..... | | 44.4 | (29.6) |
| Debtors due after more than one year.... | 15 | 20.9 | 22.4 |
| | | ----- | ----- |
| | | 65.3 | (7.2) |
| | | ----- | ----- |
| Total assets less current liabilities..... | | 172.1 | 101.1 |
| Creditors: amounts falling due after more than one year..... | 17 | (61.2) | (1.9) |
| Provisions for liabilities and charges..... | 18 | (15.5) | (17.6) |
| | | ----- | ----- |
| Net assets..... | 2 | 95.4 | 81.6 |
| | | ===== | ===== |
| Capital and reserves | | | |
| Called up share capital..... | 19 | 22.1 | 22.1 |
| Share premium account..... | 21 | 105.5 | 105.5 |
| Capital redemption reserve..... | 21 | 0.1 | 0.1 |
| Profit and loss account..... | 21 | (32.3) | (46.1) |
| | | ----- | ----- |
| Equity shareholders' funds..... | 22 | 95.4 | 81.6 |
| | | ===== | ===== |

(1) As restated Note 1 (Goodwill)

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MATTHEW CLARK plc

CONSOLIDATED PROFIT AND LOSS ACCOUNTS
(in (pound) millions, except per share amounts)

| | NOTE | FOR THE YEARS ENDED 30 APRIL | | |
|--|------|---------------------------------|---------|---------|
| | | 1998 | 1997 | 1996(1) |
| Turnover..... | 2 | 553.1 | 570.7 | 450.9 |
| Operating costs..... | 3 | (516.0) | (525.6) | (429.4) |
| Operating profit..... | 4 | 37.1 | 45.1 | 21.5 |
| Profit/(loss) on fixed asset sales..... | 7 | 3.7 | 0.4 | (2.0) |
| Profit before interest and tax..... | 2 | 40.8 | 45.5 | 19.5 |
| Interest receivable..... | | 0.1 | 0.2 | 0.4 |
| Interest payable and similar charges..... | 8 | (5.1) | (5.1) | (2.7) |
| Profit on ordinary activities before tax.. | 2 | 35.8 | 40.6 | 17.2 |
| Tax on profit on ordinary activities..... | 9 | (10.5) | (12.4) | (5.0) |
| Profit on ordinary activities after tax... | | 25.3 | 28.2 | 12.2 |
| Equity minority interests..... | | - | - | (0.1) |
| Dividends..... | 10 | (11.5) | (21.2) | (21.2) |
| Retained profit/(loss) for the year..... | 21 | 13.8 | 7.0 | (9.1) |
| Earnings per share..... | 11 | 28.6p | 31.9p | 18.4p |

(1) Includes exceptional items for reorganisation as a result of integration of acquisitions (Note 4). Pre-exceptional items, profit attributable to ordinary shareholders was (pound)29.3m and earnings per share was 44.4p.

There are no recognised gains or losses in any year other than the profit/(loss) for the year.

The results above derive from continuing activities.

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MATTHEW CLARK plc

CONSOLIDATED CASH FLOW STATEMENTS
(in (pound) millions)

| | NOTE | FOR THE YEARS ENDED 30 APRIL | | |
|---|------|---------------------------------|--------|--------|
| | | 1998 | 1997 | 1996 |
| Cash inflow from operating activities..... | 25 | 49.8 | 52.3 | 29.1 |
| Returns on investments and servicing of finance | | | | |
| Interest received..... | | 0.1 | 0.2 | 0.5 |
| Interest paid..... | | (6.1) | (5.0) | (2.7) |
| Interest element of finance lease rental payments..... | | (0.1) | (0.1) | - |
| | | (6.1) | (4.9) | (2.2) |
| Taxation paid..... | | (7.5) | (7.0) | (3.5) |
| Capital expenditure | | | | |
| Purchase of tangible fixed assets..... | | (31.6) | (21.3) | (18.4) |
| Receipts from sale of fixed assets..... | | 22.2 | 2.6 | 2.4 |
| | | (9.4) | (18.7) | (16.0) |
| Acquisitions..... | | (0.8) | 0.3 | (32.5) |
| Dividends paid..... | | (17.7) | (21.2) | (13.9) |
| Cash inflow/(outflow) before financing..... | | 8.3 | 0.8 | (39.0) |
| Financing | | | | |
| Drawdown of committed loan..... | | 25.0 | 10.0 | 10.0 |
| Repayment of other loan..... | | - | - | (1.0) |
| Issue of ordinary share capital..... | | - | 0.6 | 0.2 |
| Capital element of finance lease payments..... | | (0.4) | (0.2) | (0.8) |
| | | 24.6 | 10.4 | 8.4 |
| Increase/(decrease) in cash in the period... | | 32.9 | 11.2 | (30.6) |
| Reconciliation of net cashflow to movement | | | | |

| | | | |
|--|--------|--------|--------|
| in net debt | | | |
| Increase/(decrease) in cash in period... | 32.9 | 11.2 | (30.6) |
| Cash inflow from increase in debt and lease financing..... | (25.6) | (9.8) | (8.2) |
| | ----- | ----- | ----- |
| Change in net debt resulting from cashflows..... | 7.3 | 1.4 | (38.8) |
| Loans and finance leases acquired with subsidiary..... | - | - | (0.1) |
| | ----- | ----- | ----- |
| Movement in net debt in the period..... | 7.3 | 1.4 | (38.9) |
| Net debt at the start of the period..... | (51.2) | (52.6) | (13.7) |
| | ----- | ----- | ----- |
| Net debt at the end of the period..... | (43.9) | (51.2) | (52.6) |
| | ===== | ===== | ===== |
| Analysis of net debt | | | |
| Cash at bank and in hand..... | 17.3 | 5.8 | 4.6 |
| Bank loans and overdrafts..... | (60.0) | (56.4) | (56.4) |
| Finance lease obligations..... | (1.2) | (0.6) | (0.8) |
| | ----- | ----- | ----- |
| | (43.9) | (51.2) | (52.6) |
| | ===== | ===== | ===== |

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MATTHEW CLARK plc

NOTES TO THE ACCOUNTS

NOTE 1. ACCOUNTING POLICIES

The accounts have been prepared under the historical cost convention, using the following accounting policies, which have been applied consistently except as noted below under 'Goodwill', and in compliance with applicable accounting standards including Financial Reporting Standard 10.

BASIS OF CONSOLIDATION--

The Group accounts consist of a consolidation of the accounts of the Company which those of its subsidiary undertakings. All accounts are drawn up to 30 April. The acquisition method of accounting has been adopted. Under this method, the results of acquired subsidiaries and other businesses are included in the consolidated profit and loss account from the date when control passes.

GOODWILL--

During the year Financial Reporting Standard 10 'Goodwill and intangible assets' was issued and is mandatory for periods ending on or after 23 December 1998. The Group has chosen to adopt the requirements of this standard early. The Group's policy for acquisitions which occurred prior to the issue of the standard is that purchased goodwill, being the excess of the fair value of consideration paid or payable over the fair value of the identifiable net assets acquired, has been taken directly to reserves. On subsequent disposal, goodwill previously taken direct to reserves is included in determining the profit or loss on disposal. Previously, such goodwill was presented separately within reserves as a 'goodwill write off reserve'. This is not permitted by the Standard and, accordingly, goodwill has been taken to merger reserve to the extent available ((pound)309.5m) and the balance ((pound)52.8m) taken to the profit and loss account reserve. The comparatives have been restated accordingly.

TURNOVER--

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

DEPRECIATION--

Depreciation of fixed assets is provided on the original cost of the Group or its acquired businesses at rates calculated to write down the assets to their estimated residual values on a straight line basis over the total expected economic lives of the assets. The principal periods used are:

| | |
|--------------------------|-----------------|
| Freehold buildings..... | 50 years |
| Leasehold buildings..... | Length of lease |
| Plant and machinery..... | 8 to 25 years |
| Computer equipment..... | 3 to 5 years |
| Motor vehicles..... | 4 to 7 years |

Assets in the course of construction are not depreciated. They are transferred to the relevant fixed asset category when they become operational. Freehold land is not depreciated.

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STOCKS--

Stocks have been 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 Group, cost includes direct materials and labour together with appropriate overheads incurred in bringing the product to its present location and condition.

DEFERRED TAX--

Deferred tax is provided using the liability method in respect of the tax effect of all timing differences to the extent that it is probable that liabilities or assets will crystallise in the future.

FOREIGN CURRENCY--

Receipts and payments of foreign currency are recorded at actual rates obtained. Foreign currency balances at the year end are translated at the rate ruling at that date. All exchange differences are dealt with through the profit and loss account.

BRAND VALUATION--

The cost of acquired brands is capitalised as an intangible asset at the time of acquisition. No annual amortisation is provided on these assets but the directors assess the value of the brands each year and any permanent diminution in value is written off to the profit and loss account.

LEASES--

Where the Group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful economic life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments. All other rentals relating to assets held under operating leases are charged to the profit and loss account on a straight line basis over the period of the lease.

PENSION COSTS--

Pension costs for the Group's defined benefit pension schemes are charged against profits so as to spread the cost of pensions over the employees' expected working lives within the Group.

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NOTE 2. SEGMENTAL INFORMATION

All turnover and profit originates in the UK. There are no material sales to customers outside the UK.

<TABLE>
<CAPTION>

| | BRANDED DRINKS | | | WHOLESALE | | | GROUP | |
|--------------------------------------|----------------|--------|-------|-----------|-------|-------|--------|--------|
| | 1998 | 1997 | 1996 | 1998 | 1997 | 1996 | 1998 | 1997 |
| ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| 1996 | | | | | | | | |
| ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| <C> | | | | | | | | |
| (in (pound) millions) | | | | | | | | |
| Turnover: | | | | | | | | |
| Total..... | 343.5 | 367.0 | 297.0 | 225.2 | 215.1 | 162.5 | 568.7 | 582.1 |
| 459.5 | | | | | | | | |
| Less intersegmental sales..... | (15.6) | (11.4) | (8.6) | - | - | - | (15.6) | (11.4) |
| (8.6) | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Sales to third parties..... | 327.9 | 355.6 | 288.4 | 225.2 | 215.1 | 162.5 | 553.1 | 570.7 |
| 450.9 | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== |
| ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== |
| Operating profit..... | 28.7 | 38.1 | 41.2 | 8.4 | 7.0 | 2.7 | 37.1 | 45.1 |
| 21.5 | | | | | | | | |
| Profit on fixed asset disposals..... | 3.7 | - | 0.7 | - | 0.4 | - | 3.7 | 0.4 |
| (2.0) | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Profit before interest and tax..... | 32.4 | 38.1 | 41.9 | 8.4 | 7.4 | 2.7 | 40.8 | 45.5 |
| 19.5 | | | | | | | | |
| Net interest payable..... | | | | | | | (5.0) | (4.9) |
| (2.3) | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Profit before tax..... | | | | | | | 35.8 | 40.6 |
| 17.2 | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== |
| ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== |
| Net assets: | | | | | | | | |
| Segment net assets..... | 120.3 | 116.7 | | 20.6 | 27.0 | | 140.9 | 143.7 |
| Unallocated net liabilities..... | | | | | | | (45.5) | (62.1) |
| | | | | | | | ----- | ----- |
| Total net assets..... | | | | | | | 95.4 | 81.6 |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== |

Unallocated assets and liabilities consist of:

| (in (pound) thousands) | | | | | | |
|------------------------|-----|-----|-----|-----|-----|-----|
| Peter Aikens..... | 230 | 230 | 14 | 14 | 244 | 244 |
| Hugh Etheridge..... | 130 | 130 | 13 | 13 | 143 | 143 |
| Peter Huntley..... | 119 | 130 | 10 | 11 | 129 | 141 |
| Robert MacNevin..... | 128 | - | 18 | - | 146 | - |
| Kevin Philp..... | 100 | - | 6 | - | 106 | - |
| Martin Boase..... | 21 | 21 | - | - | 21 | 21 |
| Michael Garner..... | 21 | 40 | - | - | 21 | 40 |
| Graham Wilson..... | 60 | - | - | - | 60 | - |
| Andrew Nash..... | - | 130 | - | 12 | - | 142 |
| Former directors..... | - | 67 | - | 6 | - | 73 |
| | --- | --- | --- | --- | --- | --- |
| | 809 | 748 | 61 | 56 | 870 | 804 |
| | === | === | === | === | === | === |

</TABLE>
<TABLE>
<CAPTION>

| <S> (in (pound) thousands) | BASIC SALARY | BONUS PAID AS CASH | BONUS INVESTED IN SHARES | CASH VALUE OF BENEFITS IN KIND | RELOCATION ASSISTANCE | TOTAL EMOLUMENTS (EXCLUDING PENSION CONTRIBUTIONS) |
|-------------------------------|--------------|-----------------------|-----------------------------|--------------------------------------|--------------------------|---|
| | 1995/96 | 1995/96 | 1995/96 | 1995/96 | 1995/96 | 1995/96 |
| | <C> | <C> | <C> | <C> | <C> | <C> |
| Peter Aikens..... | 151 | 62 | 120 | 8 | 431 | 772 |
| Hugh Etheridge..... | 87 | 35 | 70 | 13 | - | 205 |
| Peter Huntley..... | 87 | 35 | 70 | 11 | - | 203 |
| Martin Boase..... | 10 | - | - | - | - | 10 |
| Michael Garner..... | 10 | - | - | - | - | 10 |
| Michael Cottrell..... | 70 | 26 | - | 6 | - | 102 |
| Andrew Nash..... | 50 | 20 | 79 | 3 | - | 152 |
| Alan Dean..... | 20 | - | - | - | - | 20 |
| David Fisher..... | 47 | - | - | 3 | - | 50 |
| Robin Manners..... | 20 | - | - | - | - | 20 |
| | --- | --- | --- | --- | --- | --- |
| | 552 | 178 | 339 | 44 | 431 | 1,544 |
| | === | === | === | === | === | ===== |

</TABLE>

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On 19 March 1998 the sum of (pound)110,000 was paid to Peter Huntley by way of compensation for the termination of his employment with the Company. On 12 May 1997 the sum of (pound)177,630 was paid to Andrew Nash (a former director) by way of compensation for the termination of his employment with the Company.

DIRECTORS' PENSION CONTRIBUTIONS

Directors who were members of the Matthew Clark Executive Pension Plan had benefits as follows:

| | HUGH ETHERIDGE | MICHAEL COTTRELL | ROBERT MACNEVIN | KEVIN PHILP |
|---|-------------------|---------------------|--------------------|----------------|
| (in (pound)) | | | | |
| Increase in accrued pension during 1996/97 ((pound)p.a.)..... | 2,767 | 1,812 | - | - |
| Transfer value of the increase..... | 26,242 | 25,363 | - | - |
| Contributions by individual director..... | 4,200 | 3,875 | - | - |
| Increase attributable to Company.... | 22,042 | 21,488 | - | - |
| Accumulated accrued pension at 30 April 1997..... | 17,026 | 13,671 | - | - |
| Increase in accrued pension during 1997/98 ((pound)p.a.)..... | 3,036 | - | 2,920 | 1,585 |
| Transfer value of the increase..... | 35,000 | - | 24,056 | 13,618 |
| Contributions by individual director..... | 4,200 | - | 4,200 | 4,908 |
| Increase attributable to Company.... | 30,800 | - | 19,856 | 8,710 |
| Accumulated accrued pension at 30 April 1998..... | 20,672 | - | 2,920 | 32,463 |

Contributions to Personal Pension schemes in 1997/98 and 1996/97 and Pension schemes in 1995/96 were as follows:

| | 1997/98 | 1996/97 | 1995/96 |
|------------------------|---------|---------|---------|
| (in (pound) thousands) | | | |
| Peter Aikens | 83 | 83 | 42 |
| Peter Huntley | 35 | 37 | 18 |
| Andrew Nash | - | 39 | 14 |
| Hugh Etheridge | 13 | 14 | 18 |
| Robert MacNevin | 10 | - | - |
| Michael Cottrell | - | - | 12 |

Contributions in respect of Peter Aikens, Andrew Nash and Peter Huntley were to their respective personal pension plans up to the maximum permitted under Inland Revenue rules. The element of contributions in excess of Inland Revenue rules is paid into a Funded Unapproved Retirement Benefit Scheme for the benefit of each individual.

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DIRECTORS' BENEFICIAL INTEREST IN SHARES

| | 30 APRIL 1998 | 1 MAY 1997 |
|-----------------------|---------------|------------|
| | ----- | ----- |
| Peter Aikens | 79,467* | 71,267 |
| Hugh Etheridge | 31,591* | 28,891 |
| Peter Huntley | - | 29,391 |
| Robert MacNevin | - | - |
| Kevin Philp | 5,000 | 5,000 |
| Martin Boase | 10,000 | 10,000 |
| Michael Garner | 10,000 | 10,000 |
| Graham Wilson | 10,000 | 10,000 |

* Note: A number of these shares were purchased from bonus paid under the Capital Incentive Scheme which imposes a minimum period before such shares may be sold. Details are provided below:

| | SHARES TO BE HELD UNTIL 1998 | SHARES TO BE HELD UNTIL 1999 |
|---------------------|---------------------------------|---------------------------------|
| | ----- | ----- |
| Peter Aikens..... | 8,227 | 9,715 |
| Hugh Etheridge..... | 4,775 | 5,675 |

There were no changes between 30 April 1998 and 6 July 1998.

DIRECTORS' SHARE OPTIONS

| | 1 MAY 1997 | 30 APRIL 1998 | EXERCISE PRICE | DATE FROM WHICH EXERCISABLE | EXPIRY DATE |
|--------------------|------------|---------------|-------------------|-----------------------------------|----------------|
| | ----- | ----- | ----- | ----- | ----- |
| Peter Aikens..... | 52,652 | 52,652 | 331p | 1996 | 2003 |
| | 24,723 | 24,723 | 566p | 1997 | 2004 |
| | 56,811 | 56,811 | 561p | 1997 | 2004 |
| | 59,000 | 59,000 | 662p | 1998 | 2005 |
| | ----- | ----- | | | |
| | 193,186 | 193,186 | | | |
| | ===== | ===== | | | |
| Hugh Etheridge.... | 24,723 | 24,723 | 566p | 1997 | 2004 |
| | 18,937 | 18,937 | 561p | 1997 | 2004 |
| | 33,000 | 33,000 | 662p | 1998 | 2005 |
| | ----- | ----- | | | |
| | 76,660 | 76,660 | | | |
| | ===== | ===== | | | |
| Robert MacNevin... | - | 40,000 | 247.5p | 2000 | 2007 |
| | ===== | ===== | | | |
| Kevin Philip..... | 21,041 | 21,041 | 566p | 1997 | 2004 |
| | 10,521 | 10,521 | 523p | 1997 | 2004 |
| | 10,000 | 10,000 | 555p | 1998 | 2005 |
| | 2,000 | 2,000 | 662p | 1998 | 2005 |
| | 2,000 | 2,000 | 680p | 1999 | 2005 |
| | - | 60,000 | 247.5p | 2000 | 2007 |
| | ----- | ----- | | | |
| | 45,562 | 105,562 | | | |
| | ===== | ===== | | | |

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At 30 April 1998, the Company's share price was 201.5p. The highest and lowest share prices during the year were 277.5p and 162.5p, respectively. Exercise of the above options was not conditional upon any performance criteria.

All options were granted for nil consideration.

NOTE 6. STAFF NUMBERS AND COSTS

The average number of people employed by the Group, including directors, within each category of activity was:

| | 1998 | 1997 | 1996 |
|--|-------|-------|-------|
| | ----- | ----- | ----- |
| (number of people) | | | |
| Production staff..... | 471 | 516 | 513 |
| Sales, marketing and distribution staff..... | 883 | 792 | 663 |
| Administration staff..... | 268 | 270 | 276 |

| | | |
|-------|-------|-------|
| ----- | ----- | ----- |
| 1,622 | 1,578 | 1,452 |
| ===== | ===== | ===== |

The aggregate payroll costs of these persons were as follows:

| | 1998 | 1997 | 1996 |
|-----------------------------|-------|-------|-------|
| | ---- | ---- | ---- |
| (in (pound) millions) | | | |
| Wages and salaries | 30.2 | 28.6 | 27.3 |
| Social security costs | 2.4 | 2.4 | 2.4 |
| Other pension costs | 0.2 | (0.1) | 0.3 |
| | ---- | ---- | ---- |
| | 32.8 | 30.9 | 30.0 |
| | ===== | ===== | ===== |

NOTE 7. PROFIT/(LOSS) ON FIXED ASSET SALES

The profit/(loss) on fixed asset sales comprises:

| | 1998 | 1997 | 1996 |
|--|-------|-------|-------|
| | ---- | ---- | ---- |
| (in (pound) millions) | | | |
| Profit on property sales..... | 4.2 | 0.4 | - |
| Provision for loss on plant and machinery sales..... | (0.5) | - | (2.0) |
| | ---- | ---- | ---- |
| | 3.7 | 0.4 | (2.0) |
| | ===== | ===== | ===== |

The tax charge for 1998 includes (pound)1.2m in respect of property sales.

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NOTE 8. INTEREST PAYABLE AND SIMILAR CHARGES

| | 1998 | 1997 | 1996 |
|---|-------|-------|-------|
| | ---- | ---- | ---- |
| (in (pound) millions) | | | |
| Bank interest and interest on loans repayable | | | |
| within 5 years..... | 5.0 | 4.9 | 2.5 |
| Finance charges on finance leases..... | 0.1 | 0.1 | 0.1 |
| Other..... | - | 0.1 | 0.1 |
| | ---- | ---- | ---- |
| | 5.1 | 5.1 | 2.7 |
| | ===== | ===== | ===== |

In addition interest capitalised into tangible fixed assets during the year was (pound)0.6m (1997--(pound)nil, 1996--(pound)nil).

NOTE 9. TAX ON PROFIT ON ORDINARY ACTIVITIES

| | 1998 | 1997 | 1996 |
|--|-------|-------|-------|
| | ---- | ---- | ---- |
| (in (pound) millions) | | | |
| The charge in the profit and loss account consists of: | | | |
| Corporation tax at 31% (1997--33%, 1996--33%) | 14.9 | 7.6 | 1.8 |
| Deferred tax--effect of change in rate from | | | |
| 33% to 30% | (0.9) | - | - |
| Deferred tax--other | (3.5) | 4.8 | 3.2 |
| | ---- | ---- | ---- |
| | 10.5 | 12.4 | 5.0 |
| | ===== | ===== | ===== |

| | 1998 | 1997 |
|--|-------|-------|
| | ---- | ---- |
| The deferred tax provision/(asset) represents: | | |
| Excess of capital allowances over depreciation | (1.4) | 6.6 |
| Unutilised losses | - | (1.3) |
| Pensions timing differences | 5.7 | 6.3 |
| Other timing differences | (0.7) | (3.6) |
| Offset of ACT recoverable | - | (4.8) |
| | ---- | ---- |
| | 3.6 | 3.2 |
| | ===== | ===== |

The tax effect of exceptional items for the year ended 30 April 1996 was a credit of (pound)7.9m, which included a credit of (pound)0.8m attributable to the provision for loss on fixed asset disposals.

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Full provision has been made for deferred tax except for a deferred tax asset of (pound)0.1m (1997--(pound)0.2m) on the excess of capital allowances over depreciation.

| | 1998 | 1997 |
|--|-------|-------|
| | ---- | ---- |
| (in (pound) millions) | | |
| Deferred tax | | |
| At the beginning of the year..... | 3.2 | (0.4) |
| ACT and losses transferred to/(from) corporation tax..... | 4.8 | (2.9) |
| Adjustment to fair value..... | - | 1.7 |
| Deferred tax (credit)/charge to profit and loss account..... | (4.4) | 4.8 |
| | ---- | ---- |
| At the end of the year..... | 3.6 | 3.2 |
| | ==== | ==== |

NOTE 10. DIVIDENDS

| | 1998 | 1997 | 1996 | 1998 | 1997 | 1996 |
|---------------------------------|-------|-------|-------|---------|---------|---------|
| | PENCE | PENCE | PENCE | (pound) | (pound) | (pound) |
| | PER | PER | PER | (pound) | (pound) | (pound) |
| | SHARE | SHARE | SHARE | m | m | m |
| | ---- | ---- | ---- | ---- | ---- | ---- |
| Dividends paid or proposed: | | | | | | |
| Ordinary shares | | | | | | |
| Interim dividend paid of..... | 5.0 | 9.0 | 9.0 | 4.4 | 7.9 | 7.9 |
| Proposed final dividend of.... | 8.0 | 15.0 | 15.0 | 7.1 | 13.3 | 13.3 |
| | ---- | ---- | ---- | ---- | ---- | ---- |
| Total..... | 13.0 | 24.0 | 24.0 | 11.5 | 21.2 | 21.2 |
| | ===== | ===== | ===== | ===== | ===== | ===== |
| Gross equivalent per share..... | 16.25 | 30.0 | 30.0 | | | |
| | ===== | ===== | ===== | | | |

NOTE 11. EARNINGS PER SHARE

The calculation of earnings per share is based on a profit of (pound)25.3m (1997--(pound)28.2m, 1996--(pound)12.1m) and 88,520,498 shares (1997--88,469,740 shares, 1996--66,023,926 shares), being the weighted average number in issue. A fully diluted earnings per share figure based on share options outstanding is not provided as the effect on earnings per share is not material.

NOTE 12. INTANGIBLE ASSETS

| | GROUP |
|---|-------|
| | ---- |
| (in (pound) millions) | |
| Cost and net book value of Strathmore brand | |
| At 30 April 1998, 30 April 1997 and 30 April 1996 | 9.7 |
| | ==== |

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NOTE 13. TANGIBLE ASSETS

<TABLE>

<CAPTION>

| | LAND AND BUILDING | | | | | | |
|------------------------|-------------------|----------------|-----------------|---------------------------|------------------------------|---|--------|
| | FREEHOLD | LONG LEASEHOLD | SHORT LEASEHOLD | ASSETS UNDER CONSTRUCTION | PLANT MACHINERY AND VEHICLES | FIXTURES, FITTINGS, TOOLS AND EQUIPMENT | TOTAL |
| GROUP | ---- | ---- | ---- | ---- | ---- | ---- | ---- |
| (in (pound) millions) | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| Cost | | | | | | | |
| At 30 April 1996 | 28.5 | 2.0 | 0.9 | 5.2 | 101.0 | 11.9 | 149.5 |
| Additions | 0.5 | - | 0.1 | 9.7 | 13.3 | 1.6 | 25.2 |
| Reclassifications | 1.4 | - | - | (10.2) | 8.5 | 0.3 | - |
| Disposals | (1.3) | - | (0.1) | - | (12.5) | (2.1) | (16.0) |
| | ---- | ---- | ---- | ---- | ---- | ---- | ---- |
| At 30 April 1997 | 29.1 | 2.0 | 0.9 | 4.7 | 110.3 | 11.7 | 158.7 |
| Additions | 1.2 | 0.7 | 0.3 | 14.2 | 12.2 | 2.5 | 31.1 |
| Reclassifications | 16.1 | (0.1) | - | (18.3) | 1.7 | 0.6 | - |
| Disposals | (22.2) | (1.3) | - | - | (8.9) | (2.8) | (35.2) |
| | ---- | ---- | ---- | ---- | ---- | ---- | ---- |
| At 30 April 1998 | 24.2 | 1.3 | 1.2 | 0.6 | 115.3 | 12.0 | 154.6 |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== |
| Depreciation | | | | | | | |
| At 30 April 1996 | 7.2 | 0.7 | 0.1 | - | 45.6 | 8.7 | 62.3 |
| Charged in the year... | 0.4 | - | 0.1 | - | 7.0 | 1.2 | 8.7 |
| Disposals | - | - | - | - | (8.8) | (2.1) | (10.9) |
| | ---- | ---- | ---- | ---- | ---- | ---- | ---- |
| At 30 April 1997 | 7.6 | 0.7 | 0.2 | - | 43.8 | 7.8 | 60.1 |
| Charged in the year... | 0.4 | - | - | - | 8.2 | 1.2 | 9.8 |
| Disposals | (5.2) | (0.4) | - | - | (4.2) | (2.6) | (12.4) |
| | ---- | ---- | ---- | ---- | ---- | ---- | ---- |
| At 30 April 1998 | 2.8 | 0.3 | 0.2 | - | 47.8 | 6.4 | 57.5 |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== |
| Net book amounts: | | | | | | | |
| At 30 April 1996 | 21.3 | 1.3 | 0.8 | 5.2 | 55.4 | 3.2 | 87.2 |

| | | | | | | | |
|------------------------|----------------------|---------------------|---------------------|---------------------|----------------------|---------------------|----------------------|
| At 30 April 1997 | ==== 21.5 ==== | ==== 1.3 ==== | ==== 0.7 ==== | ==== 4.7 ==== | ==== 66.5 ==== | ==== 3.9 ==== | ==== 98.6 ==== |
| At 30 April 1998 | ==== 21.4 ==== | ==== 1.0 ==== | ==== 1.0 ==== | ==== 0.6 ==== | ==== 67.5 ==== | ==== 5.6 ==== | ==== 97.1 ==== |

</TABLE>

Included within the depreciation charge for 1998 for plant machinery and vehicles of (pound)8.2m is an exceptional write down of (pound)1.0m of wine dispensing equipment with customers.

The net book value of assets held under finance leases within plant machinery and vehicles as at 30 April 1998 was (pound)1.1m (1997--(pound)0.9m, 1996--(pound)1.4m). Depreciation on assets held under finance leases during the year ended 30 April 1998 was (pound)0.2m (1997--(pound)0.4m, 1996--(pound)0.4m). Freehold land and buildings includes (pound)4.6m (1997--(pound)4.6m, 1996--(pound)5.9m) in respect of land.

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NOTE 14. STOCKS

| | 1998 | 1997 |
|-------------------------------------|------|------|
| | ---- | ---- |
| (in (pound) millions) | | |
| Raw materials and consumables | 8.7 | 5.9 |
| Work in progress | 7.3 | 9.7 |
| Finished goods for resale | 28.6 | 33.7 |
| | ---- | ---- |
| | 44.6 | 49.3 |
| | ==== | ==== |

NOTE 15. DEBTORS

| | 1998 | 1997 |
|---|-------|-------|
| | ----- | ----- |
| (in (pound) millions) | | |
| Amounts falling due within one year: | | |
| Trade debtors..... | 83.3 | 91.2 |
| ACT recoverable..... | - | 1.7 |
| Other debtors..... | 6.4 | 4.9 |
| Prepayments and accrued income..... | 5.1 | 3.5 |
| | ----- | ----- |
| | 94.8 | 101.3 |
| | ===== | ===== |
| Amounts falling due after more than one year: | | |
| ACT recoverable..... | 1.9 | 3.3 |
| Pension prepayment..... | 19.0 | 19.1 |
| | ----- | ----- |
| | 20.9 | 22.4 |
| | ----- | ----- |
| | 115.7 | 123.7 |
| | ===== | ===== |

NOTE 16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 1998 | 1997 |
|---|-------|-------|
| | ---- | ---- |
| (in (pound) millions) | | |
| Trade and other creditors | | |
| Trade creditors..... | 52.0 | 52.8 |
| Corporation tax..... | 4.7 | 2.9 |
| Other tax, including social security and ACT payable..... | 10.4 | 12.3 |
| Finance lease obligations less than one year (note 17)..... | 0.4 | 0.4 |
| Other creditors, including deferred duty..... | 11.0 | 12.5 |
| Accruals and deferred income..... | 26.7 | 35.4 |
| | ----- | ----- |
| | 105.2 | 116.3 |
| | ===== | ===== |

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NOTE 17. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

| | 1998 | 1997 |
|---|-------|-------|
| | ---- | ---- |
| (in (pound) millions) | | |
| Bank loans and overdrafts (unsecured) | 60.0 | - |
| Obligations under finance leases | 0.8 | 0.2 |
| Deferred purchase consideration | 0.4 | 1.7 |
| | ---- | ---- |
| | 61.2 | 1.9 |
| | ===== | ===== |

The deferred purchase consideration of (pound)0.4m in the current year is in addition to (pound)1.2m (1997--(pound)0.6m, 1996--(pound)nil) included within other creditors due in less than one year and relates to the acquisitions of

Dunn & Moore and Liddingtons and is related to future profits. The amount provided represents both the current best estimate of the amount payable in due course, and the maximum amount payable.

The maturity of net obligations under finance leases and hire purchase contracts is as follows:

| | 1998 | 1997 |
|------------------------------------|------|------|
| | ---- | ---- |
| (in (pound) millions) | | |
| Within one year | 0.4 | 0.4 |
| In the second to fifth years | 0.4 | 0.2 |
| Over five years | 0.4 | - |
| | --- | --- |
| | 1.2 | 0.6 |
| | === | === |

NOTE 18. PROVISIONS FOR LIABILITIES AND CHARGES

| | 1998 | 1997 |
|---|-------|-------|
| | ---- | ---- |
| (in (pound) millions) | | |
| Deferred tax (see note 9) | 3.6 | 3.2 |
| Provisions | 11.9 | 14.4 |
| | --- | --- |
| | 15.5 | 17.6 |
| | ==== | ==== |
| Provisions: | | |
| At the beginning of the year | 14.4 | 17.5 |
| Transfer to creditors | - | (0.4) |
| Release to profit and loss account within exceptional item | (1.0) | - |
| Used during the year | (1.5) | (2.3) |
| Released to goodwill | - | (0.4) |
| | --- | --- |
| At the end of the year | 11.9 | 14.4 |
| | ==== | ==== |

Provisions primarily relate to surplus property costs.

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The Group has a number of freehold and leasehold properties which are surplus to operational requirements. Provision has been made for future fixed costs associated with these properties for the period up to their expected disposal. To the extent that these properties are disposed of earlier than anticipated a benefit will arise; conversely if the properties are not disposed of within the anticipated period a contingent liability exists for the ongoing fixed costs.

NOTE 19. SHARE CAPITAL

<TABLE>
<CAPTION>

| | 4.9 PER CENT CUMULATIVE REDEEMABLE | | ORDINARY SHARES | | TOTAL |
|--|--|----------|-----------------|----------|----------|
| | PREFERENCE SHARES OF (pound)1 EACH | | OF 25p EACH | | |
| | NUMBER | (pound)m | NUMBER | (pound)m | (pound)m |
| | ----- | ----- | ----- | ----- | ----- |
| <S> | <C> | <C> | <C> | <C> | <C> |
| Authorised: | | | | | |
| Beginning and end of the year..... | 260,000 | 0.3 | 117,920,000 | 29.5 | 29.8 |
| Allocated, called up and fully paid | | | | | |
| In issue at the beginning and end of the year..... | - | - | 88,520,498 | 22.1 | 22.1 |

</TABLE>

During the year no ordinary shares were issued under the share option schemes (1997--217,240 shares were issued for a total consideration of (pound)0.6m, 1996--64,270 shares for (pound)0.2m). In 1996 42.4m shares were issued for a non cash consideration of (pound)267.6m.

NOTE 20. SHARE OPTIONS

SAVINGS RELATED SHARE OPTION SCHEME: Employees and directors in the UK with a minimum of two years' service were entitled to apply for options to acquire ordinary shares at 100% (1997--100%) of the average of the middle market price on the three dealing days immediately preceding the date of the invitation.

At 30 April 1998 options granted and outstanding under employee share schemes amounted to 458,102 ordinary shares. These options are exercisable at varying dates up to 2002 at prices ranging from (pound)2.92 to (pound)5.26 per share. During the year the Company issued no ordinary shares under the employee

share schemes.

EXECUTIVE SHARE OPTION SCHEME: Under the Company's executive scheme the board may offer options to executives, whose performance contributes significantly to the Company's results, at the middle market price on the dealing day immediately preceding the date of the grant of the option.

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At 30 April 1998 options exercisable were as follows:

| OPTIONS EXERCISABLE BETWEEN: | PRICE PER SHARE | NUMBER OF SHARES |
|--|-----------------|------------------|
| 15 March 1992 and 14 March 1999 | 338p | 1,300 |
| 22 June 1996 and 21 June 2003 | 331p | 65,652 |
| 20 January 1997 and 19 January 2004 | 566p | 123,089 |
| 11 July 1997 and 10 July 2004 | 523p | 50,497 |
| 17 October 1997 and 16 October 2004 | 561p | 93,633 |
| 16 January 1998 and 15 January 2005 | 555p | 61,000 |
| 20 July 1998 and 19 July 2005 | 628p | 13,000 |
| 10 November 1998 and 9 November 2005 | 662p | 106,000 |
| 16 January 1999 and 15 January 2006 | 680p | 43,000 |
| 28 January 2000 and 27 January 2007 | 296.5p | 203,000 |
| 25 July 2000 and 24 July 2007 | 247.5p | 580,000 |
| 8 January 2001 and 7 January 2008 | 163p | 225,000 |

During the year the Company issued no ordinary shares under the executive share option schemes.

NOTE 21. RESERVES

<TABLE>
<CAPTION>

| | SHARE PREMIUM | CAPITAL REDEMPTION RESERVE | MERGER RESERVE | GOODWILL WRITE-OFF RESERVE | PROFIT AND LOSS ACCOUNT |
|--|---------------|----------------------------|----------------|----------------------------|-------------------------|
| <S> | <C> | <C> | <C> | <C> | <C> |
| (in (pound) millions) | | | | | |
| At 30 April 1996 as previously stated | 104.9 | 0.1 | 309.5 | (364.4) | (0.3) |
| Prior year adjustments (note 1 (Goodwill)).... | - | - | (309.5) | 364.4 | (54.9) |
| At 30 April 1996 as restated | 104.9 | 0.1 | - | - | (55.2) |
| Shares issued | 0.6 | - | - | - | - |
| Goodwill arising on acquisitions | - | - | - | - | 2.1 |
| Retained profit for the year | - | - | - | - | 7.0 |
| At 30 April 1997 as restated | 105.5 | 0.1 | - | - | (46.1) |
| Retained profit for the year | - | - | - | - | 13.8 |
| At 30 April 1998 | 105.5 | 0.1 | - | - | (32.3) |

</TABLE>

The Cumulative amount of goodwill written off to reserves is (pound)362.3m (1997--(pound)362.3m, 1996--(pound)364.4m).

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NOTE 22. RECONCILIATIONS OF MOVEMENTS IN SHAREHOLDERS' FUNDS

| | 1998 | 1997 | 1996 |
|---|--------|--------|---------|
| (in (pound) millions) | | | |
| Opening shareholders' funds..... | 81.6 | 71.9 | 79.6 |
| Profit for the year..... | 25.3 | 28.2 | 12.1 |
| Dividends paid and proposed..... | (11.5) | (21.2) | (21.2) |
| Retained profit/(loss) for the year..... | 13.8 | 7.0 | (9.1) |
| New share capital subscribed..... | - | 0.6 | 267.9 |
| Goodwill adjustment..... | - | 2.1 | (266.5) |
| Net addition/(reduction) to the shareholders' funds.. | 13.8 | 9.7 | (7.7) |
| Closing shareholders' funds..... | 95.4 | 81.6 | 71.9 |

NOTE 23. FINANCIAL AND CAPITAL COMMITMENTS

| | 1998 | 1997 |
|---|------|------|
| (in (pound) millions) | | |
| Contracted commitments for capital expenditure..... | 2.2 | 11.8 |

| | 1998 | | 1997 | |
|---|------------------|-------|------------------|-------|
| | LAND & BUILDINGS | OTHER | LAND & BUILDINGS | OTHER |
| (in (pound) millions) | | | | |
| Annual commitments under operating leases which expire: | | | | |
| Within one year..... | - | - | 0.1 | 0.1 |
| In the second to fifth years inclusive..... | 0.1 | 0.6 | - | 0.1 |
| Over five years..... | 2.9 | - | 2.3 | 0.3 |
| | --- | --- | --- | --- |
| | 3.0 | 0.6 | 2.4 | 0.5 |
| | === | === | === | === |

The Group had (pound)9.8m (1997--(pound)5.0m) of commitments under forward currency contracts at 30 April 1998.

NOTE 24. PENSIONS

The Company and its subsidiaries currently operate two Pension Plans, the Matthew Clark Group Pension Plan and the Matthew Clark Executive Pension Plan. These Plans are of the defined benefit type with assets held in Trustee administered funds separate from the Company's finances. In addition, a further Plan was acquired with the acquisition of Taunton Cider. This scheme was merged with the Matthew Clark Group Pension Plan on 1 April 1997.

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Actuarial valuations of the Matthew Clark Group Pension Plan have been carried out by independent actuaries as at 1 January 1996. The funding level of the combined Plans on the assumptions stated below as at 1 January 1996 was 141%. The combined market value of the assets at 1 January 1996 was approximately (pound)92m. The pension cost is assessed in accordance with a qualified actuary's advice. The Actuary has considered the long-term effects of the removal of ACT relief for pension funds on the level of funding of the Plans. The increase in the pension expense is not significant.

The assumptions adopted for the purposes of SSAP 24 were as follows:

| | |
|-----------------------------------|-------|
| Long-term investment return | 9.00% |
| Salary escalation | 6.00% |

Pension increases were allowed for in accordance with the Rules of the Plan and the past practice of granting discretionary increases. Assets were taken into account at 94.6% of their market value.

On a discontinuance of either of the Plans, the market value of the assets exceeded the cost of securing the liabilities at the appropriate valuation date, assuming that cash equivalent transfer values were paid in respect of active or deferred members.

NOTE 25. RECONCILIATION OF OPERATING PROFIT TO OPERATING CASHFLOWS

| | 1998 | 1997 | 1996 |
|--|-------|--------|--------|
| (in (pound) millions) | | | |
| Operating profit..... | 37.1 | 45.1 | 21.5 |
| Exceptional charges..... | - | - | 22.4 |
| Depreciation charges..... | 9.8 | 8.7 | 6.4 |
| Loss of disposal and write-off of tangible fixed assets..... | 3.6 | 2.9 | 0.7 |
| Cashflow relating to previous year's restructuring provisions..... | (4.5) | (11.2) | (15.8) |
| Decrease/(increase) in stocks..... | 4.7 | 11.7 | (0.1) |
| Decrease/(increase) in debtors..... | 5.4 | 13.6 | (7.3) |
| (Decrease)/increase in creditors and provisions.... | (6.3) | (18.5) | 1.3 |
| | ----- | ----- | ----- |
| Net cash inflow from operating activities..... | 49.8 | 52.3 | 29.1 |
| | ===== | ===== | ===== |

NOTE 26. SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN UNITED KINGDOM (UK) AND UNITED STATES OF AMERICA (US) GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

The Group's consolidated financial statements are prepared in conformity with generally accepted accounting principles applicable in the United Kingdom (UK GAAP), which differ in certain significant respects from those applicable in the United States of America (US GAAP). These differences together with the approximate effects of the adjustments on net profit and equity shareholders' funds, relate principally to the items set out below:

(a) GOODWILL: During 1998 the Group adopted Financial Reporting Standard 10

'Goodwill and intangible assets'. The Group's policy for acquisitions which occurred prior to the issue of the standard is that purchased goodwill,

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being the excess of the fair value of consideration paid or payable over the fair value of the identifiable net assets acquired, has been taken directly to reserves. On subsequent disposal, goodwill previously taken direct to reserves is included in determining the profit and loss on disposal. Previously such goodwill was presented separately within reserves as a 'goodwill write off reserve'. This is not permitted by the Standard and, accordingly, goodwill has been taken to merger reserve to the extent available and the balance taken to the profit and loss account. Under US GAAP, these intangible assets would be capitalised in the balance sheet and amortised through the statement of income over a period not exceeding 40 years.

For the purposes of calculating the effect of capitalising the goodwill on the balance sheet and amortising the goodwill and brands through the statement of income, a life of 40 years has generally been assumed. However, under UK GAAP, the value of the brands, goodwill and other intangibles is reviewed annually by reference to historic and forecast contributions to operating income and an additional charge to the statement of income is made where a permanent diminution in net book value is identified.

- (b) BRANDS: Significant owned brands by the Group are capitalised as intangible assets at the time of acquisition. The Group does not provide amortisation on these assets. Under US GAAP, these would be amortised through the statement of income over a period not exceeding 40 years.
- (c) ACQUISITION ACCOUNTING: Prior to the adoption of Financial Reporting Standard 7, 'Fair values in acquisition accounting', the Group provided for certain costs as part of the purchase accounting adjustments on acquisition which under US GAAP would be included in the statement of income when those costs were incurred. Examples of such items include certain costs in respect of salaries of individuals made redundant, the closure of certain of the Group's existing operations and the rectification of inadequate operating systems.

With effect from 30 April 1995, the Group adopted Financial Reporting Standard 7. This new standard sets out rules for accounting for acquisitions in consolidated financial statements resulting in a change in the difference between UK and US GAAP. US GAAP remained unchanged. The fair value balance sheet of an acquired company cannot include provisions for integration and reorganisation costs set up by the acquiring company. In compliance with the standard, comparative figures were not restated. Under US GAAP, certain integration and reorganisation costs may be considered liabilities assumed and included in the allocation of the acquisition cost.

- (d) RESTRUCTURING AND INTEGRATION COSTS: Under UK GAAP, when a decision has been taken to restructure part of the Group's business, provisions are made for the impairment of asset values together with severance and other costs. US GAAP requires a number of specific criteria to be met before such costs can be recognised as an expense. Among these is the requirement that all the significant actions arising from a restructuring and integration plan and their expected completion dates must be identified by the balance sheet date. US GAAP also requires recognition of the estimated net present value of future net lease obligations of vacant properties.
- (e) PENSIONS: The Group accounts for the costs of pensions under the rules set out in UK accounting standards. US GAAP is more prescriptive in respect of actuarial assumptions and the allocation of costs to accounting periods.

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- (f) LEASES: Under UK GAAP, provided certain conditions are met, it may be permissible to recognise any profit arising on the sale and leaseback, as an operating lease, of an asset. Under US GAAP, the gain or loss is deferred and amortised in proportion to the rental payments due over the term of the lease.
- (g) DEFERRED TAXATION: UK GAAP requires that no provision for deferred taxation should be made if there is reasonable evidence that such taxation will not be payable within the foreseeable future and that deferred tax assets should only be recognised if the realisation of such assets can be assessed with reasonable certainty. US GAAP requires full provision for deferred taxation liabilities, and permits deferred tax assets to be recognised if their realisation is considered to be more likely than not.
- (h) STATEMENT OF CASH FLOWS: Under UK GAAP, cash flows are presented separately for operating activities, returns on investments and servicing of finance, taxation paid, capital expenditure, acquisitions, dividends paid, and financing activities. Under US GAAP, cash flows are reported as operating activities, investing activities, and financing activities. Cash flows from taxation and returns on investments and servicing of finance would, with the exception of ordinary dividends paid, be included as operating activities. The payment of dividends would be included under financing activities.

Under UK GAAP, cash includes bank overdrafts repayable on demand. Under US GAAP, cash flows in respect of overdrafts are included under financing activities.

- (i) EARNINGS PER ORDINARY SHARE: Under UK and US GAAP, basic earnings per share is computed using the weighted average number of ordinary shares in issue during the year. US GAAP also requires the computation of diluted earnings per share which includes the effect of potential common stock under the treasury stock method.
- (j) ORDINARY DIVIDENDS: Under UK GAAP, the proposed dividends on ordinary shares, as recommended by the directors, are deducted from shareholders' equity and shown as a liability in the balance sheet at the end of the period to which they relate. Under US GAAP, such dividends are only deducted from shareholders' equity at the date of declaration of the dividend.

Set out below is a summary combined statement of cash flows under US GAAP.

| | 30 April 1998 | 30 April 1997 |
|---|---------------|---------------|
| | ----- | ----- |
| (in (pound) millions) | | |
| Net cash provided by operating activities | 36.2 | 40.4 |
| Net cash used in investing activities | (10.2) | (18.4) |
| Net cash used in financing activities | (14.5) | (20.8) |
| | ----- | ----- |
| Net increase in cash under US GAAP | 11.5 | 1.2 |
| | ===== | ===== |

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The following is a summary of the material adjustments to net income and shareholders' equity which would have been required if US GAAP had been applied instead of UK GAAP:

| | 1998 | 1997 |
|--|--------|-------|
| | ----- | ----- |
| (in (pound) millions) | | |
| NET INCOME - UK GAAP AFTER EXCEPTIONAL ITEMS | 25.3 | 28.2 |
| | ----- | ----- |
| ADJUSTMENTS TO CONFORM WITH US GAAP | | |
| - - Amortisation of goodwill and intangibles | (9.1) | (9.1) |
| - - Restructuring costs | (1.4) | (1.7) |
| - - Pension expense | 0.1 | 0.7 |
| - - Sale and leaseback | (3.7) | - |
| - - Deferred tax on US GAAP adjustments | 1.5 | 0.3 |
| | ----- | ----- |
| Total US GAAP adjustments | (12.6) | (9.8) |
| | ----- | ----- |
| NET INCOME - US GAAP | 12.7 | 18.4 |
| | ===== | ===== |
| | Pence | Pence |
| | ----- | ----- |
| Basic earnings per Ordinary Share in accordance with US GAAP | 14.3 | 20.8 |
| Diluted earnings per Ordinary Share in accordance with US GAAP | 14.3 | 20.8 |

| | 1998 | 1997 |
|--|-------|-------|
| | ----- | ----- |
| (in (pound) millions) | | |
| SHAREHOLDERS' EQUITY, AS SHOWN IN THE GROUP BALANCE SHEETS - UK GAAP | 95.4 | 81.6 |
| | ----- | ----- |
| ADJUSTMENTS TO CONFORM WITH US GAAP | | |
| - - Goodwill and intangibles | 322.8 | 331.9 |
| - - Restructuring provisions | 5.0 | 6.4 |
| - - Pension expense | 2.5 | 2.4 |
| - - Sale and leaseback | (3.7) | - |
| - - Deferred taxation on US GAAP adjustments | 0.4 | (1.2) |
| - - Dividends | 7.1 | 13.3 |
| | ----- | ----- |
| Total US GAAP adjustments | 334.1 | 352.8 |
| | ----- | ----- |
| TOTAL SHAREHOLDERS' EQUITY IN ACCORDANCE WITH US GAAP | 429.5 | 434.4 |
| | ===== | ===== |

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PRO FORMA COMBINED FINANCIAL DATA
(UNAUDITED)

On November 3, 1998, Canandaigua Limited, a wholly-owned subsidiary of

Canandaigua Brands, Inc., announced a cash tender offer for the entire issued and to be issued ordinary share capital of Matthew Clark. The offer valued each Matthew Clark share at 243 pence, valuing the whole of the issued ordinary share capital of Matthew Clark at approximately (pound)215 million. On December 1, 1998, Canandaigua Limited declared the cash tender offer to be wholly unconditional - all conditions to the offer having either been satisfied or waived. Canandaigua Limited thereby acquired control of Matthew Clark (the "Matthew Clark Acquisition").

The following pro forma financial data of the Company consists of (i) a pro forma condensed combined balance sheet (unaudited) as of August 31, 1998 (the "Pro Forma Balance Sheet"), (ii) a 1998 fiscal year pro forma condensed combined statement of income (unaudited) (the "1998 Pro Forma Statement of Income") and (iii) a 1999 six month pro forma condensed combined statement of income (unaudited) (the "1999 Six Month Pro Forma Statement of Income") (collectively, the "Pro Forma Statements").

The Pro Forma Balance Sheet reflects the combination of the balance sheet of the Company as of August 31, 1998, and the balance sheet of Matthew Clark as of October 31, 1998, as adjusted for the Matthew Clark Acquisition. The Pro Forma Balance Sheet is presented as if the Matthew Clark Acquisition was consummated on August 31, 1998.

The 1998 Pro Forma Statement of Income reflects the combination of the income statement of the Company for the year ended February 28, 1998, and the income statement of Matthew Clark for the year ended April 30, 1998, as adjusted for the Matthew Clark Acquisition. The 1998 Pro Forma Statement of Income is presented as if the Matthew Clark Acquisition was consummated on March 1, 1997.

The 1999 Six Month Pro Forma Statement of Income reflects the combination of the income statement of the Company for the six months ended August 31, 1998, and the income statement of Matthew Clark for the six months ended October 31, 1998, as adjusted for the Matthew Clark Acquisition. The 1999 Six Month Pro Forma Statement of Income is presented as if the Matthew Clark Acquisition was consummated on March 1, 1997.

The Pro Forma Statements should be read in conjunction with the separate historical financial statements of the Company and Matthew Clark and the notes thereto and with the accompanying notes to the Pro Forma Statements. The Pro Forma Statements are based upon currently available information and upon certain assumptions that the Company believes are reasonable under the circumstances. The Pro Forma Statements do not purport to represent what the Company's financial position or results of operations would actually have been if the aforementioned transaction in fact had occurred on such date or at the beginning of the period indicated or to project the Company's financial position or the results of operations at any future date or for any future period.

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<TABLE>

CANANDAIGUA BRANDS, INC. AND MATTHEW CLARK plc
PRO FORMA CONDENSED COMBINED BALANCE SHEET
AUGUST 31, 1998
(UNAUDITED)
(in thousands)

<CAPTION>

| | Historical | | Pro Forma Adjustments | |
|--|--|---|------------------------|-----------------------|
| | Company as of August 31, 1998 | Matthew Clark as of October 31, 1998 | For the Acquisition | Pro Forma Combined |
| <S> | <C> | <C> | <C> | <C> |
| ASSETS: | | | | |
| Cash and cash equivalents | \$ 1,473 | \$ 12,130 | | \$ 13,603 |
| Accounts receivable, net | 154,550 | 137,196 | | 291,746 |
| Inventories, net | 345,972 | 94,533 | | 440,505 |
| Prepaid expenses and other current assets | 37,550 | 22,113 | | 59,663 |
| Property, plant and equipment, net | 246,157 | 151,589 | \$ 13,609 (a) | 411,355 |
| Other assets | 262,004 | 585,476 | (320,910) (a) | 540,446 |
| | | | 17,260 (b) | |
| | | | (3,384) (f) | |
| Total assets | \$ 1,047,706 | \$ 1,003,037 | \$ (293,425) | \$1,757,318 |
| LIABILITIES AND STOCKHOLDERS' EQUITY: | | | | |
| Notes payable | \$ 63,000 | | | \$ 63,000 |
| Current maturities of long-term debt | 24,118 | \$ 1,038 | | 25,156 |
| Accounts payable | 65,624 | 92,685 | \$ 8,919 (b) | 167,228 |
| Accrued Federal and state excise taxes | 21,561 | 14,273 | | 35,834 |
| Other accrued expenses and liabilities | 101,569 | 74,671 | 5,058 (b) | 179,911 |
| | | | (1,387) (f) | |
| Long-term debt, less current maturities | 297,407 | 102,008 | 379,599 (c) | 779,014 |
| Deferred income taxes | 59,237 | (8) | 18,946 (e) | 78,175 |
| Other liabilities | 5,445 | 15,807 | | 21,252 |

| | | | | |
|--|--------------|--------------|---------------|-------------|
| Total liabilities | 637,961 | 300,474 | 411,135 | 1,349,570 |
| Common stock | 217 | 37,061 | (37,061) (d) | 217 |
| Additional paid-in capital | 234,992 | 695,193 | (695,193) (d) | 234,992 |
| Retained earnings (Accumulated deficit) | 249,733 | (29,691) | 29,691 (d) | 247,736 |
| | | | (1,997) (f) | |
| Less: Treasury stock | (75,197) | | | (75,197) |
| Total stockholders' equity | 409,745 | 702,563 | (704,560) | 407,748 |
| Total liabilities and stockholders' equity | \$ 1,047,706 | \$ 1,003,037 | \$ (293,425) | \$1,757,318 |

</TABLE>

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CANANDAIGUA BRANDS, INC. AND MATTHEW CLARK plc

NOTES TO THE PRO FORMA CONDENSED COMBINED BALANCE SHEET
AS OF AUGUST 31, 1998
(UNAUDITED)
(IN THOUSANDS)

- (a) Reflects the estimated purchase accounting adjustments for the Matthew Clark Acquisition based upon a preliminary appraisal of the assets and liabilities assumed. For purchase accounting, Matthew Clark assets have been recorded at estimated fair market value subject to adjustment based upon the results of an independent appraisal. The estimated amounts recorded for assets and liabilities acquired from Matthew Clark are not expected to differ materially from the final assigned values. Purchase accounting adjustments were recorded to increase property, plant and equipment by \$13,609, to increase the recorded value of tradenames and other intangible assets by \$54,604 and to reduce the recorded excess of purchase cost over fair market value of assets acquired by \$375,514. These adjustments are required to record these assets at their estimated fair market values.

The calculation of excess purchase cost over fair value of net assets acquired is as follows:

| | |
|---|------------|
| Cash paid | \$ 362,339 |
| Financing costs | 17,260 |
| Direct acquisition costs | 8,919 |
| | ----- |
| Liabilities assumed | 388,518 |
| | 5,058 |
| | ----- |
| Total purchase cost | 393,576 |
| Net book value of Matthew Clark | (702,563) |
| Write-down of acquired goodwill | 532,946 |
| Increase in appraised net assets | (68,213) |
| Finance costs capitalized | (17,260) |
| Deferred taxes provided | 18,946 |
| | ----- |
| Excess of purchase cost over fair value of assets acquired and liabilities assumed | \$ 157,432 |
| | ===== |

- (b) Reflects the liability for direct acquisition costs of \$8,919 and assumed liabilities of \$5,058. Capitalized financing costs of \$17,260 were funded through the Credit Agreement.
- (c) Reflects the borrowings in connection with the Matthew Clark Acquisition. The sources and application of funds in connection with the Matthew Clark Acquisition is as follows:

| | |
|---------------------------------------|------------|
| Sources of funds: | |
| Borrowings under the Credit Agreement | \$ 379,599 |
| Accrued liabilities | 8,919 |
| | ----- |
| Total sources of funds | \$ 388,518 |
| | ===== |

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| | |
|-------------------------------------|------------|
| Application of funds: | |
| Cash purchase price | \$ 362,339 |
| Payment of financing costs | 17,260 |
| Payment of direct acquisition costs | 8,919 |
| | ----- |
| Total application of funds | \$ 388,518 |
| | ===== |

- (d) Reflects the elimination of Matthew Clark's shareholders' equity.
- (e) Represents deferred taxes of \$18,946 provided on a step-up in basis on appraised net assets.
- (f) Represents the write-off of the net book value of bank fees associated with the Company's previously existing credit agreement, tax effected at the Company's historical rate of 41%.

<TABLE>

CANANDAIGUA BRANDS, INC. AND MATTHEW CLARK plc
1998 FISCAL YEAR PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME
(UNAUDITED)
(In thousands, except per share data)

<CAPTION>

| | Historical | | Pro Forma Adjustments | |
|--|---|---|---------------------------------------|-----------|
| Forma Combined | Company Year Ended February 28, 1998 | US GAAP Matthew Clark Year Ended April 30, 1998 | For The Acquisition | Pro |
| --- | ----- | ----- | ----- | ----- |
| <S> Net sales 1,898,727 | <C> \$ 1,212,788 | <C> \$ 685,939 | <C> | <C> \$ |
| Cost of product sold (1,322,672) | (864,053) | (460,093) | \$ 1,474 (a) | |
| --- | ----- | ----- | ----- | ----- |
| Gross profit 576,055 | 348,735 | 225,846 | 1,474 | |
| Selling, general and administrative expenses (404,286) | (231,680) | (181,572) | 1,723 (a) 8,801 (b) (1,558) (c) | |
| --- | ----- | ----- | ----- | ----- |
| Operating income 171,769 | 117,055 | 44,274 | 10,440 | |
| Interest expense, net (76,130) | (32,189) | (8,575) | (35,366) (d) | |
| --- | ----- | ----- | ----- | ----- |
| Income (loss) before income taxes 95,639 | 84,866 | 35,699 | (24,926) | |
| (Provision for) benefit from income taxes (38,256) | (34,795) | (14,792) | 11,331 (e) | |
| --- | ----- | ----- | ----- | ----- |
| Net income (loss) 57,383 | \$ 50,071 | \$ 20,907 | \$ (13,595) (f) | \$ |
| ===== | ===== | ===== | ===== | |
| Share Data: Earnings per common share: | | | | |
| Basic 3.07 | \$ 2.68 | | | \$ |
| ===== | ===== | | | |
| Diluted 3.00 | \$ 2.62 | | | \$ |
| ===== | ===== | | | |
| Weighted average common shares outstanding: | | | | |
| Basic 18,672 | 18,672 | | | |
| Diluted 19,105 | 19,105 | | | |

</TABLE>

CANANDAIGUA BRANDS, INC. AND MATTHEW CLARK plc

NOTES TO THE PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME
FOR THE YEAR ENDED FEBRUARY 28, 1998
(UNAUDITED)
(IN THOUSANDS)

- (a) Reflects the adjusted depreciation expense related to the acquired property, plant and equipment of Matthew Clark on the assumption that the Matthew Clark Acquisition had taken place on March 1, 1997. These assets have been restated at their estimated fair market values and depreciated using the Company's depreciation methods over the remaining useful lives of the assets. The decrease in depreciation expense of \$3,197, as compared to that recorded by Matthew Clark, was allocated to cost of product sold and selling, general and administrative expenses as indicated.

- (b) Reflects a decrease in amortization expense of intangible assets of \$8,801 based upon their appraised values, using the straight-line method and estimated useful lives, predominately 40 years.
- (c) Reflects the amortization expense of deferred financing costs of \$2,877 over the term of the Credit Agreement used to finance the Matthew Clark Acquisition (72 months) using the effective interest method, net of \$1,319 of amortization expense recorded under the Company's previously existing credit agreement.
- (d) Reflects the additional interest expense incurred on the debt to finance the Matthew Clark Acquisition and the incremental interest expense on the Company's and Matthew Clark's existing borrowings, resulting from the higher interest rate in the Credit Agreement. The overall effective interest rate was 8.8% per annum.
- (e) Reflects the tax effect of the pro forma adjustments and the repatriation of profits, excluding the impact of nondeductible items, primarily goodwill, using an effective tax rate of 40%.
- (f) Does not reflect the extraordinary treatment for the after tax write-off of \$2.7 million (\$0.14 per diluted share), representing the net book value of bank fees resulting from the extinguishment of debt remaining under the Company's previously existing credit agreement, tax effected at the Company's historical rate of 41%.

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<TABLE>

CANANDAIGUA BRANDS, INC. AND MATTHEW CLARK plc
1999 SIX MONTH PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME
(UNAUDITED)
(In thousands, except per share data)

<CAPTION>

| | Historical | | Pro Forma Adjustments | |
|--|---|---|-----------------------------------|-----------------------|
| | Company Six Months Ended August 31, 1998 | US GAAP Matthew Clark Six Months Ended October 31, 1998 | For The Acquisition | Pro Forma Combined |
| <S> | <C> | <C> | <C> | <C> |
| Net sales | \$ 662,314 | \$ 339,312 | | \$ 1,001,626 |
| Cost of product sold | (467,767) | (232,494) | \$ 659 (a) | (699,602) |
| Gross profit | 194,547 | 106,818 | 659 | 302,024 |
| Selling, general and administrative expenses | (128,786) | (87,782) | 686 (a) 4,445 (b) (723) (c) | (212,160) |
| Nonrecurring restructuring expenses | | (18,263) | | (18,263) |
| Operating income | 65,761 | 773 | 5,067 | 71,601 |
| Interest expense, net | (15,952) | (4,284) | (18,089) (d) | (38,325) |
| Income (loss) before income taxes | 49,809 | (3,511) | (13,022) | 33,276 |
| (Provision for) benefit from income taxes | (20,422) | (1,265) | 8,377 (e) | (13,310) |
| Net income (loss) | \$ 29,387 | \$ (4,776) | \$ (4,645) | \$ 19,966 |
| Share Data: | | | | |
| Earnings per common share: | | | | |
| Basic | \$ 1.57 | | | \$ 1.07 |
| Diluted | \$ 1.53 | | | \$ 1.04 |
| Weighted average common shares outstanding: | | | | |
| Basic | 18,669 | | | 18,669 |
| Diluted | 19,168 | | | 19,168 |

</TABLE>

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CANANDAIGUA BRANDS, INC. AND MATTHEW CLARK plc

NOTES TO THE PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME
FOR THE SIX MONTHS ENDED AUGUST 31, 1998
(UNAUDITED)
(IN THOUSANDS)

- (a) Reflects the adjusted depreciation expense related to the acquired property, plant and equipment of Matthew Clark on the assumption that the Matthew Clark Acquisition had taken place on March 1, 1997. These assets have been restated at their estimated fair market values and depreciated using the Company's depreciation methods over the remaining useful lives of the assets. The decrease in depreciation expense of \$1,345, as compared to

that recorded by Matthew Clark, was allocated to cost of product sold and selling, general and administrative expenses as indicated.

- (b) Reflects a decrease in amortization expense of intangible assets of \$4,445 based upon their appraised values, using the straight-line method and estimated useful lives, predominately 40 years.
- (c) Reflects the amortization expense of deferred financing costs of \$1,438 over the term of the Credit Agreement used to finance the Matthew Clark Acquisition (72 months) using the effective interest method, net of \$715 of amortization expense recorded under the Company's previously existing credit agreement.
- (d) Reflects the additional interest expense incurred on the debt to finance the Matthew Clark Acquisition and the incremental interest expense on the Company's and Matthew Clark's existing borrowings, resulting from the higher interest rate in the Credit Agreement. The overall effective interest rate was 8.5% per annum.
- (e) Reflects the tax effect of the pro forma adjustments and the repatriation of profits, excluding the impact of nondeductible items, primarily goodwill, using an effective tax rate of 40%.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, each Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CANANDAIGUA BRANDS, INC.

Dated: December 16, 1998

By: /s/ Thomas S. Summer

Thomas S. Summer, Senior Vice
President and Chief Financial
Officer

SUBSIDIARIES

BATAVIA WINE CELLARS, INC.

Dated: December 16, 1998

By: /s/ Thomas S. Summer

Thomas S. Summer, Treasurer

CANANDAIGUA WINE COMPANY, INC.

Dated: December 16, 1998

By: /s/ Thomas S. Summer

Thomas S. Summer, Treasurer

CANANDAIGUA EUROPE LIMITED

Dated: December 16, 1998

By: /s/ Thomas S. Summer

Thomas S. Summer, Treasurer

CANANDAIGUA LIMITED

Dated: December 16, 1998

By: /s/ Thomas S. Summer

Thomas S. Summer, Director
(Principal Financial Officer and
Principal Accounting Officer)

POLYPHENOLICS, INC.

Dated: December 16, 1998

By: /s/ Thomas S. Summer

Thomas S. Summer, Vice President
and Treasurer

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ROBERTS TRADING CORP.

Dated: December 16, 1998

By: /s/ Thomas S. Summer

Thomas S. Summer, Treasurer

BARTON INCORPORATED

Dated: December 16, 1998

By: /s/ Thomas S. Summer

Thomas S. Summer, Vice President

BARTON BRANDS, LTD.

Dated: December 16, 1998

By: /s/ Thomas S. Summer

Thomas S. Summer, Vice President

BARTON BEERS, LTD.

Dated: December 16, 1998

By: /s/ Thomas S. Summer

Thomas S. Summer, Vice President

BARTON BRANDS OF CALIFORNIA, INC.

Dated: December 16, 1998

By: /s/ Thomas S. Summer

Thomas S. Summer, Vice President

BARTON BRANDS OF GEORGIA, INC.

Dated: December 16, 1998

By: /s/ Thomas S. Summer

Thomas S. Summer, Vice President

BARTON DISTILLERS IMPORT CORP.

Dated: December 16, 1998

By: /s/ Thomas S. Summer

Thomas S. Summer, Vice President

BARTON FINANCIAL CORPORATION

Dated: December 16, 1998

By: /s/ Thomas S. Summer

Thomas S. Summer, Vice President

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STEVENS POINT BEVERAGE CO.

Dated: December 16, 1998

By: /s/ Thomas S. Summer

Thomas S. Summer, Vice President

MONARCH IMPORT COMPANY

Dated: December 16, 1998

By: /s/ Thomas S. Summer

Thomas S. Summer, Vice President

THE VIKING DISTILLERY, INC.

Dated: December 16, 1998

By: /s/ Thomas S. Summer

Thomas S. Summer, Vice President

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INDEX TO EXHIBITS

(1) UNDERWRITING AGREEMENT

Not Applicable.

(2) PLAN OF ACQUISITION, REORGANIZATION, ARRANGEMENT, LIQUIDATION OR SUCCESSION

2.1 Recommended Cash Offer, by Schrodgers on behalf of Canandaigua Limited, a wholly-owned subsidiary of the Company, to acquire Matthew Clark plc (filed herewith).

(4) INSTRUMENTS DEFINING THE RIGHTS OF SECURITY HOLDERS, INCLUDING INDENTURES

4.1 First Amended and Restated Credit Agreement, dated as of November 2, 1998, between the Company, its principal operating subsidiaries, and certain

banks for which The Chase Manhattan Bank acts as Administrative Agent (including a list briefly identifying the contents of all omitted schedules and exhibits thereto)(filed herewith). The Company will furnish supplementally to the Commission, upon request, a copy of any omitted schedule or exhibit.

(16) LETTER RE CHANGE IN CERTIFYING ACCOUNTANT

Not Applicable.

(17) LETTER RE DIRECTOR RESIGNATION

Not Applicable.

(20) OTHER DOCUMENTS OR STATEMENTS TO SECURITY HOLDERS

Not Applicable.

(23) CONSENTS OF EXPERTS AND COUNSEL

23.1 Consent of KPMG Audit Plc (filed herewith).

(24) POWER OF ATTORNEY

Not Applicable.

(27) FINANCIAL DATA SCHEDULE

Not Applicable.

(99) ADDITIONAL EXHIBITS

None

EXHIBIT 2.1

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the action you should take, you are recommended immediately to seek your own personal financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser duly authorised under the Financial Services Act 1986.

This document should be read in conjunction with the accompanying Form of Acceptance.

If you have sold or otherwise transferred all your Matthew Clark Shares, please send this document, the accompanying Form of Acceptance and reply-paid envelope as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee. However, such documents should not be forwarded or transmitted in or into the United States, Canada, Australia or Japan.

The Offer referred to in this document is not being made, directly or indirectly, in or into the United States, Canada, Australia or Japan and this document and the Form of Acceptance are not being, and must not be, mailed, forwarded, transmitted or otherwise distributed or sent in or into the United States, Canada, Australia or Japan.

Recommended cash offer
by
Schroders
on behalf of
Canandaigua Limited
a wholly-owned subsidiary of Canandaigua Brands, Inc.
to acquire
Matthew Clark plc

A LETTER OF RECOMMENDATION TO ACCEPT THE OFFER FROM THE CHAIRMAN OF Matthew Clark IS SET OUT ON PAGES 3 AND 4 OF THIS DOCUMENT.

TO ACCEPT THE OFFER, THE FORM OF ACCEPTANCE MUST BE COMPLETED AND RETURNED, WHETHER OR NOT YOUR Matthew Clark SHARES ARE IN CREST, AS SOON AS POSSIBLE, AND IN ANY EVENT SO AS TO BE RECEIVED BY HAND OR BY POST BY IRG PLC, NEW ISSUES DEPARTMENT, P.O. BOX NO. 166, BOURNE HOUSE, 34 BECKENHAM ROAD, BECKENHAM, KENT BR3 4TH OR BY HAND ONLY DURING NORMAL BUSINESS HOURS TO IRG PLC, 23 IRONMONGER LANE, LONDON EC2 NO LATER THAN 3.00 P.M. ON 24 NOVEMBER 1998.

THE PROCEDURE FOR ACCEPTANCE OF THE OFFER IS SET OUT ON PAGES 8 TO 11 OF THIS DOCUMENT AND IN THE ACCOMPANYING FORM OF ACCEPTANCE.

Schroders, which is regulated in the United Kingdom by The Securities and Futures Authority Limited, is acting for Canandaigua Brands, Inc. and Canandaigua Limited and no-one else in connection with the Offer and will not be responsible to anyone other than Canandaigua Brands, Inc. and Canandaigua Limited for providing the protections afforded to customers of Schroders or for providing advice in relation to the Offer.

Warburg Dillon Read, which is regulated in the United Kingdom by The Securities and Futures Authority Limited, is acting for Matthew Clark plc and no-one else in connection with the Offer and will not be responsible to anyone other than Matthew Clark plc for providing the protections afforded to customers of Warburg Dillon Read or for providing advice in relation to the Offer.

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Matthew Clark pc

Whitchurch Lane, Bristol BS14 0JZ
Tel: 01275 830345 Telex: 445565 Fax: 01275 890697

Directors:

Graham Wilson (Chairman)*
Peter Aikens (Chief Executive)
Martin Boase*
Hugh Etheridge (Finance Director)
Michael Garner*
Robert MacNevin
Richard Peters
Kevin Philp
*Non-executive

3 November 1998

To Matthew Clark Shareholders and, for information only, to participants in the Matthew Clark Share Option Schemes

Dear Matthew Clark Shareholder,

Recommended cash offer by Canandaigua Limited

It was announced today that agreement had been reached between the boards of Matthew Clark and Canandaigua on the terms of a recommended cash offer to be made by Schroders on behalf of Canandaigua Limited, a wholly-owned subsidiary of Canandaigua, for the entire issued and to be issued ordinary share capital of Matthew Clark. This letter sets out the background to the Offer and the reasons why the board of Matthew Clark is recommending all Matthew Clark Shareholders to accept it. The formal offer is set out in this document.

The Offer

The Offer values each Matthew Clark Share at 243 pence, valuing the whole of the existing issued ordinary share capital of Matthew Clark at approximately 215.1 million pounds sterling. Further terms of the Offer and the conditions to which it is subject are set out in Appendix I.

Background to and reasons for recommending the Offer

The Matthew Clark Group, which grew rapidly by acquisition during the 1990s, is now a major producer of cider, wine, water and other drinks, and a leading drinks wholesaler. In recent years a number of significant challenges have had to be faced: the rapid rise of what are commonly known as "alcopops", the aggressive pricing policy of Matthew Clark's principal cider competitor and the influx of cheap imported beers, lagers and wines, as well as the extremely active management by supermarket stores and cash and carry outlets of their buying margins.

As we indicated in the 1997 annual report, the board has adopted a strategy of rebuilding the value of Matthew Clark's brands over the medium term and of rationalising and then expanding its wholesale operations. As a result, the decision was taken to make a substantial investment in brand development and support, particularly in cider brands, as well as centralising production facilities and achieving economies of scale in the wholesale business. The full benefits of these investments would, it was recognised, take time to work through and the board of Matthew Clark would not expect to see these reflected in Matthew Clark's market valuation in the immediate future.

Following the adoption of this strategy, and in light of the ratings that were being attributed to Matthew Clark's historic and future earnings relative to its industry sector peers, in February 1998 the board of

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163952

Matthew Clark conducted a review of the options available to it to enhance shareholder value. The board then reaffirmed that the adopted strategy was the one most likely to deliver increased earnings, although it was anticipated that the rating improvement would not be realised for some time. Since then, Matthew Clark has received tentative approaches from parties interested in taking advantage of Matthew Clark's recent share price, none of which your board felt reflected full value for shareholders.

In September of this year, Canandaigua made an approach to the Matthew Clark board with respect to a potential offer for the company at a level which the directors of Matthew Clark felt offered the value to its shareholders today that its own strategy was planned to deliver in two to three years time. Because of the prevailing market uncertainty over Matthew Clark's share price and the recent series of adverse comments from the alcoholic beverages industry, your board has concluded that Matthew Clark's businesses can more effectively be developed within a larger and more broadly based drinks group, with a strong balance sheet able to support the future development of the business. In these circumstances, the board has decided to recommend Canandaigua Limited's offer as set out in this document.

Management and employees

Canandaigua has indicated that it attaches great importance to the skills and experience of the existing management and employees of Matthew Clark and believes that they will have greater opportunities as a result of the proposed acquisition. It is intended that the Matthew Clark executive management team will continue to operate the business following the Offer becoming unconditional in all respects. Canandaigua has given assurances to the board of Matthew Clark that the existing employment rights, including pension rights, of all Matthew Clark employees will be fully safeguarded.

Matthew Clark Share Option Schemes

The Offer extends to any Matthew Clark Shares which are unconditionally allotted or issued by reason of the exercise of options under the Matthew Clark Share Option Schemes whilst the Offer remains open for acceptance. Appropriate proposals will be made, in due course, to participants in the Matthew Clark Share Option Schemes if the Offer becomes unconditional in all respects.

Action to be taken to accept the Offer

The procedures for acceptance of the Offer are set out on pages 8 to 11 of this document and in the accompanying Form of Acceptance.

In deciding whether to accept the Offer, you should have regard to your personal circumstances, including your taxation position. If you are in any doubt as to the action you should take, you should consult your professional adviser.

If you intend to accept the Offer, you should ensure that you complete and return your Form of Acceptance as soon as possible and, in any event, so as to arrive by no later than 3.00 pm on 24 November 1998.

Recommendation to accept the Offer

The directors of Matthew Clark, who have been so advised by Warburg Dillon Read, consider the terms of the Offer to be fair and reasonable. The directors of Matthew Clark unanimously recommend Matthew Clark Shareholders to accept the Offer, as they and certain members of their immediate families have undertaken to do in respect of their own holdings, which amount to 147,889 Matthew Clark Shares, representing approximately 0.2 per cent. of Matthew Clark's issued share capital. In providing advice to the directors of Matthew Clark, Warburg Dillon Read has taken into account the Matthew Clark directors' commercial assessments.

Yours sincerely,

/s/Graham Wilson
Graham Wilson
Chairman

Schroders
Investment Banking

3 November 1998

To Matthew Clark Shareholders and, for information only, to participants in the Matthew Clark Share Option Schemes

Dear Shareholder

1. Introduction

The boards of Canandaigua and Matthew Clark announced today that they have agreed the terms of a recommended cash offer, to be made by Schroders on behalf of Canandaigua Limited, a wholly-owned subsidiary of Canandaigua, for the whole of the issued and to be issued ordinary share capital of Matthew Clark.

This document contains the formal offer. Your attention is drawn to the letter from the Chairman of Matthew Clark set out on pages 3 and 4 of this document, which outlines the background to the Offer and states that the directors of Matthew Clark consider the terms of the Offer to be fair and reasonable. Accordingly, the directors of Matthew Clark have unanimously recommended Matthew Clark Shareholders to accept the Offer, as they and certain members of their immediate families have undertaken to do in respect of their personal holdings of 147,889 Matthew Clark Shares, representing approximately 0.2 per cent. of Matthew Clark's issued ordinary share capital.

2. Irrevocable undertakings and holdings

Canandaigua Limited has received irrevocable undertakings to accept the Offer (including those from the directors of Matthew Clark and certain members of their immediate families) in respect of a total of 24,514,352 Matthew Clark Shares representing 27.7 per cent. of Matthew Clark's existing issued ordinary share capital. The terms of the irrevocable undertakings require acceptance of the Offer even if a competing or higher offer is made by a third party except that irrevocable undertakings from shareholders (other than directors and certain members of their immediate families) cease to be binding if a competing or higher offer is made by a third party at, or in excess of, 267 pence per Matthew Clark Share.

3. The Offer

On behalf of Canandaigua Limited, we hereby offer to purchase, upon the terms and subject to the conditions set out in this Offer Document and in the Form of Acceptance, all outstanding Matthew Clark Shares on the following basis:

for each Matthew Clark Share 243 pence in cash

The Offer values the entire issued ordinary share capital of Matthew Clark at approximately 215.1 million pounds sterling. The Offer represents a premium of over 81 per cent. to the closing middle-market price of 134 pence per Matthew Clark Share, as derived from the Official List on 21 October 1998 (the day prior to the announcement by Matthew Clark that it was in discussions which may or may not lead to an offer for the whole of the issued share capital of Matthew Clark).

| | | |
|-------------------------|------------------|------------------------------------|
| Telephone 0171-658 6000 | Regulated by SFA | J. Henry Schroder & Co. Limited |
| Facsimile 0171-658 6459 | | 120 Cheapside, London EC2V 6DS |
| DX 42615 | | Registered office at above address |
| | | Registered number 532081 England |

To accept the Offer you should return the Form of Acceptance as soon as possible, and in any event, so as to be received by IRG plc no later than 3.00pm on 24 November 1998.

4. Further terms of the Offer

Matthew Clark Shares will be acquired pursuant to the Offer fully paid and free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature whatsoever and together with all rights now or hereafter attaching thereto, including the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after the date of this document.

The Offer will extend to all existing issued Matthew Clark Shares and to any Matthew Clark Shares which are unconditionally allotted or issued prior to the date on which the Offer closes (or such earlier date as the Offeror may, subject to the City Code, decide) including Matthew Clark Shares issued pursuant to the exercise of options under the Matthew Clark Share Option Schemes or otherwise.

5. Information relating to Canandaigua

Canandaigua is the largest single-source supplier of imported beers, wines and distilled spirits in the United States, with over 130 brands distributed by more than 850 wholesalers throughout the United States and in selected international

markets.

Canandaigua's brands are marketed in three general categories:

Imported Beer: Canandaigua is the second largest marketer of imported beer in the United States. Canandaigua's portfolio includes five of the top twenty-five imported beers in the United States: Corona Extra (the leading imported beer in the United States), Modelo Especial, Corona Light, St. Pauli Girl and Pacifico;

Wine: Canandaigua is the second largest producer and marketer of wines in the United States, with over 70 brands including internationally-known brands such as Inglenook, Almaden, Paul Masson and Manischewitz; and

Distilled Spirits: Canandaigua ranks fourth in the US distilled spirits market. Canandaigua produces, bottles, imports and markets a diverse line of quality distilled spirits. Canandaigua exports distilled spirits to approximately 20 countries outside the United States. Key distilled spirits brands include Fleischmann's, Barton, Paul Masson Grande Amber, Mr. Boston, Montezuma and Canadian LTD.

In the year ended 28 February 1998, Canandaigua's total sales were \$1.6 billion and profit before tax was \$84.9 million. Net assets as at 28 February 1998 were \$415.2 million.

Canandaigua's shares are listed on the NASDAQ National Stock Market under the symbols CBRNA and CBRNB. Canandaigua's market capitalisation as at 30 October 1998 (the latest practicable date prior to the printing of this document) was approximately \$897.6 million.

6. Information relating to Canandaigua Limited

Canandaigua Limited, the Offeror, is a wholly-owned subsidiary of Canandaigua specifically formed for the purpose of the Offer.

7. Information relating to Matthew Clark

Matthew Clark is a major UK drinks group which produces, distributes and wholesales a variety of alcoholic and bottled water beverages in the United Kingdom.

Matthew Clark operates through two divisions:

Matthew Clark Brands is the branded drinks division which comprises cider products, wine and bottled water products. Cider products include cider sold predominantly under the Blackthorn brand and premium packaged cider sold under the Diamond White and K brands. Wine and bottled water products include

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Stowell's of Chelsea wine box, QC fortified British wine, light British wine/perry and Strathmore bottled water. New products include Stone's Cream Liqueur, Jinzu and Espri; and

Matthew Clark Wholesale is the United Kingdom's leading independent drinks wholesaler. Matthew Clark provides a full range of wines, spirits, ciders, beers and soft drinks to over 17,000 on-licensed outlets. Matthew Clark also distributes the Grants of St James's wine list.

In the year ended 30 April 1998, Matthew Clark's total sales were 553.1 million pounds sterling and profit before tax was 35.8 million pounds sterling. Net assets as at 30 April 1998 were 95.4 million pounds sterling.

8. Background to and reasons for the Offer

A major facet of Canandaigua's growth strategy is to acquire businesses that enable the Canandaigua Group to expand its geographic presence and provide a base of business that has the potential to grow through brand development, marketing and strategic initiatives. Matthew Clark provides a strong base of business with the first position in the UK branded wine market, which excludes private label, and the second position in the UK cider market. In addition, the board of Canandaigua believes that Matthew Clark's position as the United Kingdom's largest independent drinks wholesaler creates a unique opportunity to develop further a growing and largely under-exploited sector and that Matthew Clark's highly experienced management infrastructure creates the opportunity for further strategic and synergistic acquisitions in Europe. The board of Canandaigua also believes that both Matthew Clark's and Canandaigua's businesses would benefit from being part of an international drinks group which would be created as a result of the successful completion of the Offer through the potential for development of Canandaigua's products in the United Kingdom and Matthew Clark's products in the United States.

9. Financial effects of acceptance

The following tables set out, for illustrative purposes only and on the bases

and assumptions stated below, the financial effects of acceptance on capital value and gross income for a holder of one Matthew Clark Share accepting the Offer if the Offer becomes or is declared unconditional in all respects:

| | Notes | Pence |
|--|-------|--------|
| A. Increase in capital value | | |
| Cash consideration | | 243.0 |
| Market value of one Matthew Clark Share | (i) | 134.0 |
| | | ----- |
| Increase in capital value | | 109.0 |
| | | ===== |
| This represents an increase of | | 81.3% |
| B. Decrease in gross income | | |
| Gross income from cash consideration | (ii) | 12.4 |
| Gross dividend income from one Matthew Clark Share | (iii) | 16.3 |
| | | ----- |
| Decrease in gross income | | (3.8) |
| | | ===== |
| This represents a decrease of | | (23.4) |

Notes:

- (i) Based on the closing middle-market quotation of 134.0p per Matthew Clark Share, as derived from the Official List at the close of business on 21 October 1998, the day prior to the announcement by Matthew Clark that it was in discussions which may or may not lead to an offer for the whole of the issued ordinary share capital of Matthew Clark.
- (ii) The gross income on the cash consideration has been calculated on the assumption that the cash is re-invested to yield approximately 5.12 per cent. per annum, being the gross yield shown by the FTSE Actuaries average gross redemption yield for medium coupon British Government securities of up to five year maturities on 30 October 1998, as published in the Financial Times on 31 October 1998, the latest practicable date prior to the printing of this document.
- (iii) The gross dividend income from one Matthew Clark Share is based on aggregate dividends of 13.0p (net) per Matthew Clark Share being the total of the 5.0p (net) interim dividend for the financial year ended 30 April 1998 and the 8.0p (net) final dividend for the financial year ended 30 April 1998, together in both cases with an associated tax credit of 20/80ths of the amount paid.
- (iv) Save as disclosed in note (iii) above, no account has been taken of any liability to taxation.

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10. Management and employees

Canandaigua attaches great importance to the skills and experience of the existing management and employees of Matthew Clark and believes that they will have greater opportunities as a result of the proposed acquisition. It is intended that the Matthew Clark executive management team will continue to operate the business following the Offer becoming unconditional in all respects. Canandaigua has given assurances to the board of Matthew Clark that the existing employment rights, including pension rights, of all Matthew Clark employees will be fully safeguarded.

11. Matthew Clark Share Option Schemes

Canandaigua Limited will make appropriate proposals to holders of options under the Matthew Clark Share Option Schemes, to the extent that options are not exercised, once the Offer becomes or is declared unconditional in all respects.

12. Procedure for acceptance of the Offer

This section should be read together with the notes on the Form of Acceptance.

(a) Completion of Form of Acceptance

You should note that if you hold Matthew Clark Shares in both certificated and uncertificated form (that is, in CREST) you should complete a separate Form of Acceptance for each holding. In addition, you should complete separate Forms of Acceptance for Matthew Clark Shares held in uncertificated form, but under different member account IDs, and separate Forms of Acceptance for Matthew Clark Shares held in certificated form but under different designations. Additional Forms of Acceptance are available

from IRG plc, New Issues Department, P.O. Box No. 166, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TH and during normal business hours from IRG plc, 23 Ironmonger Lane, London EC2.

(i) To accept the Offer

To accept the Offer in respect of all your Matthew Clark Shares, you must complete Boxes 1, 2 and 3 and, if your Matthew Clark Shares are in CREST, Box 4. In all cases you must sign Box 2 of the enclosed Form of Acceptance in accordance with the instructions printed on that form. All holders of Matthew Clark Shares who are individuals should sign the Form of Acceptance in the presence of a witness, who should also sign in accordance with the instructions printed on that form.

(ii) To accept the Offer in respect of less than all your Matthew Clark Shares

To accept the Offer in respect of less than all your Matthew Clark Shares, you must insert in Box 1 on the enclosed Form of Acceptance the lesser number of Matthew Clark Shares in respect of which you wish to accept the Offer in accordance with the instructions printed on the form. You should then follow the procedure set out in (i) above in respect of that lesser number of Matthew Clark Shares. If you do not insert a number in Box 1, your acceptance will be deemed to be in respect of all of the Matthew Clark Shares held by you.

If you have any questions as to how to complete the Form of Acceptance, please telephone IRG plc on 0181 639 2188.

(b) Return of Form of Acceptance

To accept the Offer, the completed Form of Acceptance should be returned whether or not your Matthew Clark Shares are in CREST. The completed Form of Acceptance should be returned by post or by hand to IRG plc, New Issues Department, P.O. Box No. 166, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TH or by hand only during normal business hours to IRG plc, 23 Ironmonger Lane, London EC2 together (subject to paragraph (d) below) with the relevant share certificate(s) and/or other document(s) of title as soon as possible, but in any event so as to arrive no later than 3.00 p.m. on 24 November 1998. A reply-paid envelope for use in the UK only is enclosed

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for your convenience. No acknowledgement of receipt of documents will be given by or on behalf of Canandaigua Limited. The instructions printed on the Form of Acceptance are deemed to form part of the terms of the Offer.

(c) Documents of title

If your Matthew Clark Shares are in certificated form, a completed and signed Form of Acceptance should be accompanied by the relevant share certificate(s) and/or other document(s) of title. If for any reason the relevant share certificate(s) and/or other document(s) of title is/are lost or not readily available, you should nevertheless complete, sign and lodge the Form of Acceptance as stated above so as to be lodged with IRG plc, New Issues Department, P.O. Box No. 166, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TH or by hand only during normal business hours to IRG plc, 23 Ironmonger Lane, London EC2, by no later than 3.00 p.m. on 24 November 1998. You should send with the Form of Acceptance any share certificate(s) and/or other document(s) of title which you may have available and a letter stating that the remaining documents will follow as soon as possible or that you have lost one or more share certificate(s) and/or other document(s) of title. No acknowledgement of receipt of documents will be given. If you have lost your share certificate(s) and/or other document(s) of title, you should contact Matthew Clark's registrars, IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU, for a letter of indemnity for (a) lost share certificate(s) which, when completed in accordance with the instructions given, should be returned to IRG plc, New Issues Department, P.O. Box No. 166, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TH.

(d) Additional procedures for Matthew Clark Shares in uncertificated form (that is, in CREST)

If your Matthew Clark Shares are in uncertificated form, you should insert in Box 4 of the enclosed Form of Acceptance the participant ID and member account ID under which such Matthew Clark Shares are held by you in CREST and otherwise complete and return the Form of Acceptance as described above. In addition, you should take (or procure to be taken) the action set out in this paragraph (d) to transfer the Matthew Clark Shares in respect of which you wish to accept the Offer to an escrow balance (that is, a TTE instruction) specifying IRG plc (in its capacity as a CREST participant under the Escrow Agent participant ID referred to below) as the Escrow Agent, as soon as possible and in any event so that the transfer to escrow

settles no later than 3.00 p.m. on 24 November 1998.

If you are a CREST sponsored member, you should refer to your CREST sponsor before taking any action. Your CREST sponsor will be able to confirm details of your participant ID and the member account ID under which your Matthew Clark Shares are held. In addition, only your CREST sponsor will be able to send the TTE instruction to CRESTCo in relation to your Matthew Clark Shares.

You should send (or, if you are a CREST sponsored member, procure that your CREST sponsor sends) a TTE instruction to CRESTCo which must be properly authenticated in accordance with CRESTCo's specifications and which must contain, in addition to the other information that is required for a TTE instruction to settle in CREST, the following details:

- the number of Matthew Clark Shares to be transferred to an escrow balance;
- your member account ID. This must be the same member account ID as that inserted in Box 4 of the Form of Acceptance;
- your participant ID. This must be the same participant ID as that inserted in Box 4 of the Form of Acceptance;
- the participant ID of the Escrow Agent, IRG plc, in its capacity as a CREST receiving agent. This is RA10;

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- the member account ID of the Escrow Agent. This is MATTHEWC for the Matthew Clark Shares;
- the Form of Acceptance reference number. This is the reference number that appears next to Box 4 on page 3 of the Form of Acceptance. This reference number should be inserted in the first eight characters of the shared note field on the TTE instruction. Such insertion will enable IRG plc to match the transfer to escrow to your Form of Acceptance. You should keep a separate record of this reference number for future reference;
- the intended settlement date. This should be as soon as possible and in any event not later than 3.00 p.m. on 24 November 1998;
- the Corporate Action ISIN, which is GB0002013083;
- the Corporate Action Number for the Offer. This is allocated by CRESTCo and can be found by viewing the relevant Corporate Action Details in CREST; and
- the standard TTE delivery instruction with priority of 80.

After settlement of the TTE instruction, you will not be able to access the Matthew Clark Shares concerned in CREST for any transaction or charging purposes. If the Offer becomes or is declared unconditional in all respects, the escrow agent will transfer the Matthew Clark Shares concerned to itself in accordance with paragraph (d) of Part C of Appendix I to this document.

You are recommended to refer to the CREST manual published by CRESTCo for further information on the CREST procedures outlined above. For ease of processing, you are requested, wherever possible, to ensure that a Form of Acceptance relates to only one transfer to escrow.

If no Form of Acceptance reference number, or an incorrect Form of Acceptance reference number, is included on the TTE instruction, Canandaigua Limited may treat any amount of Matthew Clark Shares transferred to an escrow balance in favour of the escrow agent specified above from the participant ID and member account ID identified in the TTE instruction as relating to any Form(s) of Acceptance which relate(s) to the same member account ID and participant ID (up to the amount of Matthew Clark Shares inserted or deemed to be inserted on the Form(s) of Acceptance concerned).

You should note that CRESTCo does not make available special procedures, in CREST, for any particular corporate action. Normal system timings and limitations will therefore apply in connection with a TTE instruction and its settlement. You should therefore ensure that all necessary action is taken by you (or by your CREST sponsor) to enable a TTE instruction relating to your Matthew Clark Shares to settle prior to 3.00 p.m. on 24 November 1998. In this regard, you are referred in particular to those sections of the CREST manual concerning practical limitations of the CREST system and timings.

Canandaigua Limited will make an appropriate announcement if any of the details contained in this paragraph (d) alter for any reason.

- (e) Deposits of Matthew Clark Shares into, and withdrawals of Matthew Clark Shares from, CREST

Normal CREST procedures (including timings) apply in relation to any Matthew Clark Shares that are, or are to be, converted from uncertificated to certificated form, or from certificated to uncertificated form, during the course of the Offer (whether any such conversion arises as a result of a transfer of Matthew Clark Shares or otherwise). Matthew Clark Shareholders who are proposing so to convert any such Matthew Clark Shares are recommended to ensure that the conversion procedures are implemented in sufficient time to enable the person holding or acquiring the Matthew Clark Shares as a result of the conversion to take all necessary steps in connection with an acceptance of the Offer (in particular, as regards delivery of share certificate(s) and/or other document(s) of title or transfer(s) to an escrow balance as described above) prior to 3.00 p.m. on 24 November 1998.

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- (f) Validity of acceptances

Subject to the provisions of the City Code and without prejudice to Parts B and C of Appendix I of this document, Canandaigua Limited reserves the right to treat as valid in whole or in part any acceptance of the Offer which is not entirely in order or which is not accompanied by the relevant TTE instruction or (as applicable) the relevant share certificate(s) and/or other documents of title. In that event, no payment of cash under the Offer will be made to Matthew Clark Shareholders until after the relevant TTE instruction has settled or (as applicable) the relevant share certificate(s) and/or other document(s) of title or indemnities satisfactory to Canandaigua Limited have been received.

- (g) Overseas shareholders

The attention of Matthew Clark Shareholders who are citizens or residents of jurisdictions outside the UK is drawn to paragraph 7 of Part B and paragraph (b) of Part C of Appendix I of this document, and to the relevant provisions of the Form of Acceptance.

The availability of the Offer to persons not resident in the United Kingdom may be affected by the laws of the relevant jurisdictions. Persons who are not resident in the United Kingdom should inform themselves about and observe any applicable requirements.

The Offer is not being made, directly or indirectly, in or into the United States, Canada, Australia or Japan or to any North American person or resident of Australia or Japan or by use of the mails of, or by any means or instrumentality (including, without limitation, telephonically or electronically) of interstate or foreign commerce of, or any facilities of a national, state or other securities exchange of, the United States, Canada, Australia or Japan.

Copies of this document, the Form of Acceptance and any related offering documents are not being sent and must not be mailed or otherwise distributed or sent in, into or from the United States, Canada, Australia or Japan or to any person whom the Offeror or its agents believes is a North American person or a person in, or resident of Australia or Japan. Any accepting Matthew Clark Shareholder who is unable to give the warranties set out in paragraph (b) of Part C of Appendix I of this document will be deemed not to have accepted the Offer.

If you are in any doubt as to the procedure for acceptance, please telephone IRG plc on 0181 639 2188. You are reminded that, if you are a CREST sponsored member, you should contact your CREST sponsor before taking any action.

13. Settlement

Subject to the Offer becoming or being declared unconditional in all respects (except as provided in paragraph 7 of Part B of Appendix I in the case of certain overseas Matthew Clark Shareholders), settlement of the consideration to which any Matthew Clark Shareholder is entitled under the Offer will be effected (i) in the case of acceptances received, complete in all respects, by the date on which the Offer becomes or is declared unconditional in all respects, within 14 days of such date, or (ii) in the case of acceptances of the Offer received, complete in all respects, after the date on which the Offer becomes or is declared unconditional in all respects but while it remains open for acceptance, within 14 days of such receipt, in the following manner:

- (a) Matthew Clark Shares in uncertificated form (that is, in CREST)

Where an acceptance relates to Matthew Clark Shares in uncertificated form, settlement of any cash consideration to which the accepting Matthew Clark Shareholder is entitled will be effected by means of CREST by Canandaigua Limited procuring the creation of an assured payment obligation in favour of the accepting Matthew Clark Shareholder's payment bank in respect of the cash consideration due, in accordance with the CREST assured payment arrangements.

Canandaigua Limited reserves the right to settle all or any part of the consideration referred to in this paragraph (a), for all or any accepting Matthew Clark Shareholder(s), in the manner referred to in paragraph (b) below, if, for any reason, it wishes to do so.

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(b) Matthew Clark Shares in certificated form

Where an acceptance relates to Matthew Clark Shares in certificated form, settlement of any cash due will be despatched (but not in or into the United States, Canada, Australia or Japan) by first class post (or by such other method as the Panel may approve). All such cash payments will be made in pounds sterling by cheque drawn on a branch of a UK clearing bank.

(c) General

If the Offer does not become or is not declared unconditional in all respects (i) share certificate(s) and/or other document(s) of title will be returned by post (or such other method as may be approved by the Panel), within 14 days of the Offer lapsing, to the person or agent whose name and address (outside the United States, Canada, Australia and Japan) is set out in Box 6 of the Form of Acceptance or, if none is set out, to the first named holder at his or her registered address (outside the United States, Canada, Australia and Japan) and (ii) the escrow agent will, immediately after the lapsing of the Offer (or within such longer period, not exceeding 14 days after the Offer lapsing, as the Panel may approve), give TFE instructions to CRESTCo to transfer all Matthew Clark Shares held in escrow balances to the original available balances of the Matthew Clark Shareholders concerned.

All communications, notices, certificates, documents of title and remittances to be delivered by or sent to or from Matthew Clark Shareholders (or their appointed agent(s)) will be delivered by or sent to or from them (or their appointed agent(s)) at their own risk.

14. United Kingdom taxation

The following paragraphs, which are intended as a general guide only, are based on current legislation and Inland Revenue practice. They summarise certain limited aspects of the UK taxation treatment of the acceptance of the Offer, and they relate only to the position of Matthew Clark Shareholders who hold their Matthew Clark Shares beneficially as an investment and who are resident in the UK for taxation purposes. If you are in any doubt as to your taxation position or if you may be subject to taxation in any jurisdiction other than the UK, you should consult an appropriate professional adviser immediately.

(a) UK taxation on chargeable gains

Liability to UK taxation on chargeable gains will depend on the individual circumstances of Matthew Clark Shareholders.

To the extent that a Matthew Clark Shareholder receives cash under the Offer, this will constitute a disposal, or part disposal, of his Matthew Clark Shares for the purposes of UK taxation on chargeable gains which may, depending on the shareholder's individual circumstances (including the availability of exemptions and allowable losses), give rise to a liability to UK taxation on chargeable gains.

(b) Stamp duty and stamp duty reserve tax ("SDRT")

No stamp duty or SDRT will be payable by Matthew Clark Shareholders as a result of accepting the Offer.

(c) Other direct tax matters

Special tax provisions may apply to Matthew Clark Shareholders who have acquired or acquire their Matthew Clark Shares by exercising options under the Matthew Clark Share Option Schemes, including provisions imposing a charge to income tax when such options are exercised.

15. Further information

Your attention is drawn to the further information contained in the Appendices to this document.

16. Action to be taken

To accept the Offer, the Form of Acceptance must be completed and returned whether or not your Matthew Clark Shares are in CREST. Forms of Acceptance should be returned as soon as possible and, in any event, so as to be received by post or by hand by IRG plc, New Issues Department, P.O. Box No. 166, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TH or by hand only during normal business hours to IRG plc, 23 Ironmonger Lane, London EC2 no later than 3.00 p.m. on 24 November 1998.

Yours sincerely,
for J. Henry Schroder Co. Limited

Rory Maw
Director

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PART A -- CONDITIONS OF THE OFFER

The Offer, made by Schrodgers on behalf of the Offeror, complies with the applicable rules and regulations of the London Stock Exchange and the City Code and is governed by English law. The Offer is subject to the jurisdiction of the courts of England and to the terms and conditions set out in this Offer Document and the related Form of Acceptance.

1. Conditions of the Offer

The Offer is subject to the following conditions:

- (a) valid acceptances being received (and not, where permitted, withdrawn) by not later than 3.00 p.m. on 24 November 1998, (or such later time(s) and/or date(s) as the Offeror may, subject to the rules of the City Code, decide) in respect of not less than 90 per cent. (or such lesser percentage as the Offeror may decide) in nominal value of the Matthew Clark Shares to which the Offer relates, provided that this condition will not be satisfied unless the Offeror (together with its wholly-owned subsidiaries) shall have acquired or agreed to acquire (pursuant to the Offer or otherwise) Matthew Clark Shares carrying in aggregate more than 50 per cent. of the voting rights then exercisable at general meetings of holders of Matthew Clark Shares. For the purposes of this condition Matthew Clark Shares which have been unconditionally allotted shall be deemed to carry the voting rights they will carry upon being entered in the register of members of Matthew Clark;
- (b) the Office of Fair Trading indicating, in terms satisfactory to the Offeror, that it is not the intention of the Secretary of State for Trade and Industry to refer the proposed acquisition of Matthew Clark by the Offeror, or any matters arising therefrom, to the Monopolies and Mergers Commission;
- (c) all necessary filings having been made, all applicable waiting and other time periods having expired, lapsed or been terminated and all statutory and regulatory obligations in any jurisdiction having been complied with, in each case in connection with the Offer and all Authorisations necessary or appropriate in any jurisdiction for or in respect of the Offer and the acquisition or the proposed acquisition of any shares or other securities in or control of Matthew Clark by any member of the Canandaigua Group having been obtained in terms and in a form reasonably satisfactory to the Offeror from all appropriate Third Parties and all such Authorisations necessary to carry on the business of any member of the Wider Matthew Clark Group in any jurisdiction having been obtained and all such Authorisations remaining in full force and effect at the time at which the Offer becomes otherwise unconditional and there being no notice or intimation of an intention to revoke, suspend, restrict, modify or not to renew such Authorisations;
- (d) no Third Party having decided to take, institute or threaten any action, proceeding, suit, investigation, enquiry or reference or having required any action to be taken or otherwise having done anything or having enacted, made or proposed any statute, regulation, decision or order and there not continuing to be outstanding any statute, regulation, decision or order which would or might:
 - (i) make the Offer, its implementation or the acquisition by any member of the Canandaigua Group of any or all Matthew Clark Shares or control of Matthew Clark void, unenforceable or illegal or restrict, prohibit, delay or otherwise to a material extent

interfere with the implementation of, or impose additional adverse conditions or obligations with respect to, or otherwise challenge or require amendment of the Offer or the acquisition by any member of the Canandaigua Group of any or all Matthew Clark Shares or control of Matthew Clark;

- (ii) require, prevent or delay the divestiture or alter the terms envisaged for such divestiture by any member of the Wider Canandaigua Group or by any member of the Wider Matthew Clark Group of all or any material part of their respective businesses, assets or properties or impose any material limitation on their ability to conduct their respective businesses or to own any of their respective assets or properties;
- (iii) impose any material limitation on, or result in a material delay in, the ability of any member of the Canandaigua Group to acquire or to hold or to exercise effectively, directly or indirectly, all or any rights of ownership of shares or other securities (or the equivalent) in Matthew Clark or on the ability of any member of the Matthew Clark Group or any member of the Canandaigua Group to hold or exercise effectively any rights of ownership of shares or other securities in or to exercise management control over any member of the Wider Matthew Clark Group;

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- (iv) require any member of the Wider Canandaigua Group or the Wider Matthew Clark Group to acquire or offer to acquire any shares or other securities (or the equivalent) in any member of the Wider Matthew Clark Group or of the Wider Canandaigua Group owned by any third party or to sell or offer to sell any shares or other securities (or the equivalent) in or any asset of any member of the Wider Matthew Clark Group or of the Wider Canandaigua Group (in each case, other than in the implementation of the Offer);
- (v) require, prevent or delay a divestiture or alter the terms envisaged for any proposed divestiture, by any member of the Wider Canandaigua Group of any shares or other securities (or the equivalent) in Matthew Clark;
- (vi) result in any member of the Wider Matthew Clark Group or of the Wider Canandaigua Group ceasing to be able to carry on business under any name which it presently does so to an extent which is material in the context of the wider group concerned taken as a whole;
- (vii) impose any material limitation on, or result in a material delay in, the ability of any member of the Wider Canandaigua Group or any member of the Wider Matthew Clark Group to integrate or co-ordinate all or any part of its business with all or any part of the business of any other member of the Wider Canandaigua Group and/or the Wider Matthew Clark Group; or
- (viii) otherwise affect the business, assets, profits or prospects of any member of the Wider Canandaigua Group or any member of the Wider Matthew Clark Group in a manner which is adverse to and material in the context of the wider group concerned taken as a whole,

and all applicable waiting and other time periods during which any such Third Party could decide to take, institute or threaten any such action, proceeding, suit, investigation, enquiry or reference or otherwise intervene having expired, lapsed or been terminated;

- (e) (save as disclosed in writing to Canandaigua and/or the Offeror prior to 3 November 1998) there being no provision of any arrangement, agreement, licence, permit, lease or other instrument to which any member of the Wider Matthew Clark Group is a party or by or to which any such member or any of their respective assets is or may be bound or be subject or any circumstance which could, as a consequence of the Offer or the acquisition or the proposed acquisition by any member of the Wider Canandaigua Group of any shares or other securities (or the equivalent) in Matthew Clark or because of a change in the control or management of any member of the Wider Matthew Clark Group or otherwise, could or might reasonably be expected to result in, to an extent which is material in the context of the Wider Matthew Clark Group taken as a whole:
 - (i) any monies borrowed by, or any other indebtedness or liabilities, actual or contingent, of any member of the Wider Matthew Clark Group being or becoming repayable, or capable of being declared repayable, immediately or prior to its or their stated maturity, or the ability of any such member or associate to borrow monies or incur any indebtedness being withdrawn or inhibited;

- (ii) the rights, liabilities, obligations, interests or business of any member of the Wider Matthew Clark Group under any such arrangement, agreement, licence, permit, lease or instrument or the interests or business of any member of the Wider Matthew Clark Group or any member of the Wider Canandaigua Group in or with any other firm or company or body or person (or any agreement or arrangements relating to any such business or interests) being, or becoming capable of being, terminated or adversely modified or affected or any onerous obligation or liability arising or any adverse action being taken thereunder;
- (iii) any member of the Wider Matthew Clark Group ceasing to be able to carry on business under any name under which it presently does so;
- (iv) any assets or interests of, or any asset the use of which is enjoyed by any member of the Wider Matthew Clark Group being or falling to be disposed of or charged or any right arising under which any such asset or interest could be required to be disposed of or charged or could cease to be available to any member of the Wider Matthew Clark Group or associate otherwise than in the ordinary course of business;

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- (v) the creation or enforcement of any mortgage, charge or other security interest over the whole or any part of the business, property or assets of any member of the Wider Matthew Clark Group or any such security interest becoming enforceable or being enforced;
 - (vi) the value or the financial or trading position or prospects, of any member of the Wider Matthew Clark Group being prejudiced or adversely affected;
 - (vii) the creation of any liability (actual or contingent) by any member of the Wider Matthew Clark Group; or
 - (viii) any interest or business of any member of the Wider Matthew Clark Group or of the Wider Canandaigua Group in or with any other person, firm or body (or any arrangement relating to any such interest or business) being, or becoming capable of being, terminated, modified or otherwise affected;
- (f) no member of the Wider Matthew Clark Group having since 30 April 1998 (save as disclosed in the 1998 Report and Accounts of Matthew Clark or as publicly announced by Matthew Clark through the Company Announcements Office of the London Stock Exchange prior to 3 November 1998 or as disclosed in writing to Canandaigua and/or the Offeror prior to 3 November 1998):
- (i) issued or agreed to issue or authorised or proposed the issue of additional shares or securities of any class, or securities convertible into, or exchangeable for, or rights, warrants or options to subscribe for or acquire, any such shares, securities or convertible securities (save as between Matthew Clark and wholly-owned subsidiaries of Matthew Clark and save for the issue of Matthew Clark Shares on the exercise of options granted before 1 February 1998);
 - (ii) recommended, declared, paid or made or proposed to recommend, declare, pay or make any bonus, dividend or other distribution other than to Matthew Clark or one of its wholly-owned subsidiaries;
 - (iii) save for transactions between Matthew Clark and its wholly-owned subsidiaries, merged with or demerged or acquired any body corporate, partnership or business or acquired or disposed of, or, other than in the ordinary course of business, transferred, mortgaged or charged or created any security interest over, any assets or any right, title or interest in any asset (including shares and trade investments) or authorised, proposed or announced any intention to do so;
 - (iv) save as between Matthew Clark and its wholly-owned subsidiaries, made, authorised, proposed or announced an intention to propose any change in its share or loan capital;
 - (v) issued, authorised or proposed the issue or authorisation of any debentures or (save as between Matthew Clark and its wholly-owned subsidiaries) incurred or increased any indebtedness or contingent liability to an extent which is material in the context of the Matthew Clark Group taken as a whole;
 - (vi) entered into or varied or announced its intention to enter into or vary any contract, transaction, arrangement or commitment (whether in respect of capital expenditure or otherwise) which is of a long term, unusual or onerous nature, or which involves or could involve an obligation of a nature or magnitude which is, in any such case, material in the context of the Matthew Clark Group or which is or is

likely to be restrictive on the business of any member of the Wider Matthew Clark Group or the Wider Canandaigua Group;

(vii) entered into or varied or made any offer (which remains open for acceptance) to enter into or vary the terms of any service agreement, contract or arrangement with any director of any member of the Wider Matthew Clark Group;

(viii) implemented, effected or authorised, or proposed or announced its intention to implement, effect, authorise or propose any reconstruction, amalgamation, commitment, scheme or other transaction or arrangement otherwise than in the ordinary course of business;

(ix) purchased, redeemed or repaid or proposed the purchase, redemption or repayment of any of its own shares or other securities or reduced or made any other change to any part of its share capital to an extent which (other than in the case of Matthew Clark) is material in the context of the Matthew Clark Group;

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(x) waived or compromised any claim which is material in the context of the Matthew Clark Group;

(xi) made any material alteration to its memorandum or articles of association or other incorporation or constitutional documents;

(xii) taken or proposed any corporate action or had any legal proceedings instituted or threatened against it for its winding-up (voluntary or otherwise), dissolution, reorganisation or for the appointment of any administrator, administrative receiver, trustee or similar officer of all or any of its assets or revenues or any analogous proceedings in any jurisdiction or appointed any analogous person in any jurisdiction;

(xiii) been unable, or admitted in writing that it is unable, to pay its debts or having stopped or suspended (or threatened to stop or suspend) payment of its debts generally or ceased or threatened to cease carrying on all or a substantial part of its business; or

(xiv) entered into any contract, commitment, agreement or arrangement or passed any resolution with respect to or announced an intention to effect or propose any of the transactions, matters or events referred to in this paragraph 1(f);

(g) since 30 April 1998 (save as disclosed in the 1998 Report and Accounts of Matthew Clark or as publicly announced by Matthew Clark through the Company Announcements Office of the London Stock Exchange prior to 3 November 1998 or as disclosed in writing to Canandaigua and/or the Offeror prior to 3 November 1998):

(i) there having been no adverse change in the business, assets, financial or trading position or profits or prospects of any member of the Wider Matthew Clark Group to an extent which is material in the context of the Wider Matthew Clark Group taken as a whole;

(ii) no litigation, arbitration proceedings, prosecution or other legal proceedings having been threatened, announced or instituted by or against or remaining outstanding against any member of the Wider Matthew Clark Group or to which any member of the Wider Matthew Clark Group is or may become a party (whether as plaintiff or defendant or otherwise) and no enquiry or investigation by or complaint or reference to any Third Party against or in respect of any member of the Wider Matthew Clark Group having been threatened, announced or instituted or remaining outstanding, against or in respect of any member of the Wider Matthew Clark Group which, in any such case, might be likely adversely to affect any member of the Wider Matthew Clark Group to an extent which is material in the context of the Wider Matthew Clark Group taken as a whole; and

(iii) no contingent or other liability having arisen or become apparent to the Offeror which might be likely adversely to affect the business, assets, financial or trading position or profits or prospects of any member of the Wider Matthew Clark Group to an extent which is material in the context of the Matthew Clark Group taken as a whole;

(h) (save as publicly announced by Matthew Clark through the Company Announcements Office of the London Stock Exchange prior to 3 November 1998 and save as disclosed in writing to Canandaigua and/or the Offeror prior to 3 November 1998) the Offeror not having discovered:

(i) that any financial, business or other information concerning Matthew Clark or the Wider Matthew Clark Group publicly disclosed or disclosed

at any time by or on behalf of any member of the Wider Matthew Clark Group which is material in the context of the acquisition of Matthew Clark by any member of the Canandaigua Group is misleading, incomplete, contains a misrepresentation of fact or omits to state a fact necessary to make the information contained therein not misleading;

- (ii) that any member of the Wider Matthew Clark Group or any partnership, company or other entity in which any member of the Wider Matthew Clark Group has a significant economic interest and which is not a subsidiary undertaking of Matthew Clark is subject to any liability, contingent or otherwise, which is not disclosed in the 1998 Report and Accounts of Matthew Clark or in an announcement made by Matthew Clark through the Company Announcements Office of the London Stock Exchange prior to 3 November 1998 and which is material in the context of the Matthew Clark Group taken as a whole;
- (iii) that there is or is likely to be any liability (whether actual or contingent) or requirement to make good, repair, re-instate or clean-up any property now or previously owned, occupied or made use of by any

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past or present member of the Wider Matthew Clark Group which is material in the context of the Wider Matthew Clark Group;

- (iv) that circumstances exist whereby a person or class of persons would be likely to have any claim or claims in respect of any product or process of manufacture or materials used therein now or previously manufactured, sold or carried out by any past or present member of the Wider Matthew Clark Group which claim or claims would be likely materially and adversely to affect any member of the Wider Matthew Clark Group; or
- (v) any information which renders misleading in the context of the Offer any information publicly disclosed at any time by or on behalf of any member of the Wider Matthew Clark Group to an extent that is material in the context of the Wider Matthew Clark Group; and
- (i) in relation to any release, emission, discharge, disposal or other fact or circumstance which has caused or might impair the environment or harm human health, (save as disclosed in writing to Canandaigua and/or the Offeror prior to 3 November 1998) no past or present member of the Wider Matthew Clark Group having in a manner or to an extent which is material in the context of the Matthew Clark Group, (a) committed any violation of or not complied with any laws, statutes, regulations, notices or other requirements of any Third Party and/or (b) incurred any liability (whether actual or contingent) to any Third Party.

The Offeror reserves the right to waive all or any of conditions (b) to (i) inclusive, in whole or in part. Conditions (b) to (i) inclusive must be satisfied as at, or waived (where possible) on or before, the 21st day after the later of 24 November 1998 and the date on which condition (a) is fulfilled (or, in each case, such later date as the Panel may agree). The Offeror shall be under no obligation to waive, to determine to be or treat as fulfilled any of conditions (b) to (i) inclusive by a date earlier than the latest date specified above for the fulfilment thereof notwithstanding that the other conditions of the Offer may at such earlier date have been waived or fulfilled and that there are, at such earlier date, no circumstances indicating that any of such conditions may not be capable of fulfilment.

If the Offeror is required by the Panel to make an offer for any Matthew Clark Shares under the provisions of Rule 9 of the City Code, the Offeror may make such alterations to the conditions set out in this Appendix I as are necessary to comply with the provisions of that Rule.

The Offer will lapse if the proposed acquisition of Matthew Clark or any matter relating to it is referred to the Monopolies and Mergers Commission before the later of 3.00 p.m. on 24 November 1998 and the date on which the Offer becomes or is declared unconditional as to acceptances. If the Offer so lapses, the Offer will cease to be capable of further acceptance and persons accepting the Offer and the Offeror will cease to be bound by Forms of Acceptance submitted on or before the time when the Offer lapses.

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The conditions in Part A of this Appendix I and the following further terms apply, where relevant, to the Offer.

Unless the context otherwise requires, any reference in this document and in the Form of Acceptance to acceptances of the Offer shall include deemed acceptances of the Offer.

Unless the context otherwise requires, any reference in Parts B and C of this Appendix I and in the Form of Acceptance:

- (i) to the "Offer" shall include any revision, variation, renewal or extension thereof and shall also (where the context requires) include any election or alternative available in connection with the Offer or any revision, variation, renewal or extension thereof;
- (ii) to the Offer becoming "unconditional" includes the Offer being or becoming or being declared unconditional;
- (iii) to the Offer being or becoming "unconditional" is to be construed as the Offer becoming or being declared unconditional as to acceptances whether or not any other condition of the Offer remains to be fulfilled;
- (iv) to the "acceptance condition" is to the condition as to acceptances in paragraph 1(a) of Part A of this Appendix I and any reference to the Offer becoming unconditional as to acceptances is to be construed accordingly;
- (v) to the "Offer Document" is to this document and any other document containing the Offer; and
- (vi) to an extension of the Offer shall include an extension of the date by which the acceptance condition was to be satisfied.

1. Acceptance period

- (a) The Offer is initially open for acceptance until 3.00 p.m. on 24 November 1998.
- (b) Although no revision is envisaged, if the Offer is revised it will remain open for acceptance for a period of at least 14 days (or such other period as may be permitted by the Panel) after the date on which the revised Offer Document is posted to Matthew Clark Shareholders. Except with the consent of the Panel, no revision of the Offer may be made and no revised Offer Document may be posted after 19 December 1998 or, if later, the date which is 14 days before the last date on which the Offer can become unconditional.
- (c) The Offer, whether revised or not, is not (except with the consent of the Panel) capable of becoming unconditional after midnight on 2 January 1999 (or any other time or date beyond which the Offeror has stated that the Offer will not be extended and has not withdrawn that statement) nor of being kept open for acceptance after that time or date unless it has previously become unconditional. The Offeror reserves the right, with the permission of the Panel, to extend the time for the Offer to become unconditional to a later time(s) or date(s).
- (d) If the Offer becomes unconditional, the Offer will remain open for acceptance for not less than 14 days from the date on which it would otherwise have expired. If the Offer becomes unconditional and the Offeror states it will remain open until further notice, the Offeror will give not less than 14 days' notice in writing to Matthew Clark Shareholders who have not accepted the Offer before closing it.
- (e) If a competitive situation arises after the Offeror makes a "no increase" and/or "no extension" statement in relation to the Offer, the Offeror may, if it has specifically reserved the right to do so at the time the statement was made or otherwise with the consent of the Panel, withdraw the statement provided it complies with the requirements of the City Code and in particular that:
 - (i) it announces the withdrawal as soon as possible and in any event within four business days after the date of the announcement of the competing offer or other competitive situation;
 - (ii) it notifies Matthew Clark Shareholders in writing of the withdrawal (or in the case of Matthew Clark Shareholders with registered addresses outside the United Kingdom by announcement in the United Kingdom) at the earliest opportunity; and
 - (iii) any Matthew Clark Shareholders who accept the Offer after the "no increase" and/or "no extension" statement are given a right of withdrawal as described in paragraph 4 of Part B of this Appendix I.

The Offeror may, if it specifically reserves the right to do so at the time the statement is made, choose not to be bound by the terms of a "no increase" or "no extension" statement and may post an increased or improved offer if it is recommended for acceptance by the board of directors of Matthew Clark, or in other circumstances permitted by the Panel.

2. Acceptance condition

- (a) Except with the consent of the Panel, for the purpose of determining whether the acceptance condition is satisfied, the Offeror may only take into account acceptances received or purchases of shares made in respect of which all relevant documents are received by IRG plc, New Issues Department, P.O. Box No. 166, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TH or IRG plc, 23 Ironmonger Lane, London EC2:
- (i) by 1.00 p.m. on 2 January 1999 (or any other date beyond which the Offeror has stated that the Offer will not be extended and has not withdrawn that statement); or
- (ii) if the Offer is extended with the consent of the Panel, such later time(s) or date(s) as the Panel may agree.

If the latest time at which the Offer may become unconditional is extended beyond midnight on 2 January 1999, acceptances received and purchases made in respect of which the relevant documents are received by IRG plc, New Issues Department, P.O. Box No. 166, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TH or IRG plc, 23 Ironmonger Lane, London EC2 after 1.00 p.m. on that date may only be taken into account with the agreement of the Panel except where the City Code permits otherwise.

- (b) Except as otherwise agreed by the Panel:

- (i) an acceptance of the Offer will only be treated as valid for the purposes of the acceptance condition if the requirements of Note 4 and, if applicable, Note 6 on Rule 10 of the City Code are satisfied in respect of it;
- (ii) a purchase of Matthew Clark Shares by the Offeror or its nominee or (if the Offeror is required by the Panel to make an offer for Matthew Clark Shares under Rule 9 of the City Code) by a person acting in concert with Canandaigua Limited or its nominee, will only be treated as valid for the purposes of the acceptance condition if the requirements of Note 5 and, if applicable, Note 6 on Rule 10 of the City Code are satisfied in respect of it; and
- (iii) before the Offer may become or be declared unconditional IRG plc must issue a certificate to the Offeror or Schroders (or their respective agents) which states the number of Matthew Clark Shares in respect of which acceptances have been received and the number of Matthew Clark Shares otherwise acquired, whether before or during the Offer period, which comply with the provisions of this paragraph 2(b).

- (c) For the purpose of determining whether the acceptance condition is satisfied the Offeror is not bound (unless required by the Panel) to take into account any Matthew Clark Shares which have been unconditionally allotted or issued or which arise as a result of the exercise of conversion rights before the determination takes place unless Matthew Clark or its agent has given written notice to IRG plc, containing relevant details of the allotment, issue or conversion. Notification by telex or facsimile transmission or copies does not constitute written notice.

3. Announcements

- (a) By 8.30 a.m. on the business day (the "relevant day") after the day on which the Offer expires, becomes unconditional, is revised or is extended (or such later time or date as the Panel may agree), the Offeror will make an appropriate announcement and simultaneously inform the London Stock Exchange. In the announcement the Offeror will state (unless otherwise permitted by the Panel) the total number of Matthew Clark Shares and rights over Matthew Clark Shares (as nearly as practicable):
- (i) for which acceptances of the Offer have been received;
- (ii) held by or on behalf of the Offeror or any person deemed to be acting in concert with the Offeror before the Offer period;
- (iii) acquired or agreed to be acquired by or on behalf of the Offeror or any person deemed to be acting in concert with the Offeror for the purposes of the Offer during the Offer period;

- (iv) for which acceptances of the Offer have been received from any person

deemed to be acting in concert with the Offeror for the purposes of the Offer, and the announcement will specify the percentages of the relevant class of issued share capital of Matthew Clark represented by each of these figures.

- (b) Any decision to extend the time or date by which the acceptance condition has to be fulfilled may be made at any time up to, and will be announced by 8.30 a.m. on the relevant day or such later time or date as the Panel may agree. The announcement will state the next expiry time and date unless the Offer is then unconditional.
- (c) In calculating the number of Matthew Clark Shares represented by acceptances and purchases, the Offeror may only include acceptances and purchases if they could be counted towards fulfilling the acceptance condition under Notes 4 and 5 on Rule 10 of the City Code unless the Panel agrees otherwise. Subject to this, the Offeror may include or exclude, for announcement purposes, acceptances and purchases not in all respects in order or which are subject to verification.
- (d) In this Appendix I, a reference to the making of an announcement or the giving of notice by the Offeror includes the release of an announcement by the Offeror's public relations consultants or Schroders, in each case on behalf of Canandaigua Limited, to the press and the delivery or telephone, telex or facsimile or other electronic transmission of an announcement to the London Stock Exchange. An announcement made otherwise than to the London Stock Exchange will be notified simultaneously to the London Stock Exchange.

4. Rights of withdrawal

- (a) Except as provided by this paragraph 4, acceptances and elections are irrevocable.
- (b) If the Offeror announces the Offer to be unconditional and then fails to comply by 3.30 p.m. on the relevant day (or such later time and/or date as the Panel may agree) with any of the other requirements specified in paragraph 3(a) of Part B of this Appendix I, a person may withdraw his acceptance by written notice given by post or by hand to IRG plc, New Issues Department, P.O. Box No. 166, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TH or by hand only during normal business hours to IRG plc, 23 Ironmonger Lane, London EC2. Subject to paragraph 1(e) of Part B of this Appendix I, this right of withdrawal may be terminated not less than eight days after the relevant day by the Offeror confirming, if such is the case, that the Offer is still unconditional as to acceptances, and complying with the other requirements specified in paragraph 3(a) of Part B of this Appendix I. If that confirmation is given, the first period of 14 days referred to in paragraph 1(d) of Part B of this Appendix I will start on the date of that confirmation.
- (c) If by 3.00 p.m. on 15 December 1998 (or such later time and/or date as the Panel may agree) the Offer has not become unconditional, a person may withdraw his acceptance by written notice given by post or by hand to IRGplc, New Issues Department, P.O. Box No. 166, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TH or by hand only during normal business hours to IRG plc, 23 Ironmonger Lane, London EC2 at any time before the earlier of (i) the time that the Offer becomes unconditional; and (ii) the final time for the lodging of acceptances which can be taken into account in accordance with paragraph 2(a) of Part B of this Appendix I.
- (d) If a "no increase" and/or "no extension" statement is withdrawn in accordance with paragraph 1(e) of Part B of this Appendix I, a person who accepts the Offer after the date of the statement may withdraw his acceptance by written notice given by post or by hand to IRG plc, New Issues Department, P.O. Box No. 166, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TH or by hand only during normal business hours to IRG plc, 23 Ironmonger Lane, London EC2 for a period of eight days after the date the Offeror posts the notice of the withdrawal of that statement to Matthew Clark Shareholders.
- (e) In this paragraph 4, "written notice" (including any letter of appointment, direction or authority) means notice in writing signed by the relevant person(s) accepting the Offer (or his/their agent(s) duly appointed in writing and evidence of whose appointment satisfactory to the Offeror is produced with the notice). Telex or facsimile transmission or copies will not be sufficient. A notice which is postmarked in, or otherwise appears to the Offeror or its agents to have been sent from, the United States, Canada, Australia or Japan (or by a North American person) will not be valid.

5. Revised or new offer

- (a) Although no revision or new offer is envisaged, if the Offer is revised or if a new offer is made for the purpose of section 429(3) of the Act, the benefit of the revised or new offer will be made available to a Matthew Clark Shareholder who has accepted the Offer (in its original or any

revised form(s)) (a "Previous Acceptor") if the revised or new offer represents, on the date on which it is announced (on such basis as Schroders may consider

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appropriate), an improvement or no diminution in the value of the consideration offered compared with the consideration previously offered. The acceptance by a Previous Acceptor of the Offer (in its original or any revised form(s)) will, subject as provided in paragraphs 5(b), (c) and 6 of Part B of this Appendix I, be deemed an acceptance of the revised or new offer and will constitute the appointment of any director of the Offeror and/or Schroders as his attorney and/or agent with authority:

- (i) to accept the revised or new offer on his behalf;
- (ii) if the revised or new offer includes alternative forms of consideration, to make elections or accept the alternative forms of consideration on his behalf in the proportions the attorney and/or agent in his absolute discretion thinks fit; and
- (iii) to execute on his behalf in his name any further documents required to give effect to those elections or acceptances.

In making any election or acceptance, the attorney and/or agent will take into account the nature of any previous acceptance or election made by the Previous Acceptor and other facts or matters he may reasonably consider relevant.

- (b) The deemed acceptance referred to in paragraph 5(a) of Part B of this Appendix I will not apply and the power of attorney and authorities conferred by that paragraph will not be exercised if the Previous Acceptor would (on such basis as Schroders may consider appropriate) receive less in aggregate in consideration under the revised or new offer than he would have received in aggregate in consideration as a result of his acceptance of the Offer in the form originally accepted by him or on his behalf.
- (c) The deemed acceptance referred to in paragraph 5(a) of Part B of this Appendix I will not apply and the power of attorney and the authorities conferred by that paragraph will be ineffective in the case of a Previous Acceptor who lodges, within 14 days of the posting of the document containing the revised or new offer, a Form of Acceptance (or any other form issued on behalf of Canandaigua Limited) in which he validly elects to receive consideration under the revised or new offer in some other manner.
- (d) The authorities and powers of attorney conferred by this paragraph 5 and any acceptance of a revised or new offer and any election in relation to it will be irrevocable unless and until the Previous Acceptor withdraws his acceptance having become entitled to do so under paragraph 4 of Part B of this Appendix I.
- (e) The Offeror and Schroders reserve the right to treat an executed Form of Acceptance relating to the Offer which is received after the announcement of any revised or new offer as a valid acceptance of the revised or new offer (and where applicable a valid election for the alternative forms of consideration). That acceptance will constitute an authority in the terms of paragraph 5(a) of Part B of this Appendix I on behalf of the relevant Matthew Clark Shareholder.

6. General

- (a) Except with the consent of the Panel, the Offer will lapse unless all the conditions relating to the Offer have been fulfilled or, where appropriate, have been determined by the Offeror in its reasonable opinion to be and continue to be satisfied or have been waived by midnight on 19 December 1998 or within 21 days after the date on which the Offer becomes unconditional, or such later date as the Offeror, with the consent of the Panel, may decide, whichever is the later. If the Offer lapses for any reason:
 - (i) it will not be capable of further acceptance;
 - (ii) accepting Matthew Clark Shareholders and the Offeror will not be bound by Forms of Acceptance submitted before the time the Offer lapses;
 - (iii) Forms of Acceptance and documents of title will be returned by post (or by such other method as the Panel may approve) within 14 days of the Offer lapsing to the person or agent whose name is set out in the relevant box on the Form of Acceptance or otherwise to the first-named holder at his registered address; and
 - (iv) IRG plc will, immediately after the Offer lapses (or within such

longer period as the Panel may permit, not exceeding 14 days of the Offer lapsing) instruct CRESTCo to transfer all Matthew Clark Shares held

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in escrow balances and in relation to which it is the escrow agent for the purposes of the Offer to the original available balances of the relevant Matthew Clark Shareholders.

(b) The expression "Offer period" when used in this document means the period beginning on 22 October 1998 and ending on the latest of:

- (i) 3.00 p.m. on 24 November 1998; and
- (ii) the earlier of the time the Offer becomes unconditional and the time the Offer lapses.

(c) Except with the consent of the Panel:

- (i) settlement of the consideration to which any Matthew Clark Shareholder is entitled under the Offer will be fully implemented in accordance with the terms of the Offer without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror or Schroders may otherwise be, or claim to be, entitled against that Matthew Clark Shareholder; and
- (ii) settlement of the consideration will be effected in the manner prescribed in paragraph 13 of Schroders letter contained in this document not later than 14 days after the date on which the Offer becomes or is declared unconditional in all respects or within 14 days after receipt of a valid and complete acceptance, whichever is the later.

No consideration will be posted to an address in the United States, Canada, Australia or Japan.

- (d) The terms, provisions, instructions and authorities contained in the Form of Acceptance also constitute part of the terms of the Offer. A word or expression defined in this document has the same meaning when used in the Form of Acceptance unless the context requires otherwise. The provisions of this Appendix I shall be deemed to be incorporated in and form part of the Form of Acceptance.
- (e) If the expiry date of the Offer is extended, a reference in this document and in the Form of Acceptance to 24 November 1998 will (except in paragraph 6(b) of Part B of this Appendix I and except where the context requires otherwise) be deemed to refer to the expiry date of the Offer as so extended.
- (f) Any accidental omission to despatch this document, the Form of Acceptance or any notice required to be despatched under the terms of the Offer to, or any failure to receive the same by, any person to whom the Offer is, or should be, made will not invalidate the Offer. Subject to the provisions of paragraph 7 of Part B of this Appendix I, the Offer is made to any Matthew Clark Shareholder to whom this document and the Form of Acceptance or any related document may not have been despatched, and these persons may collect the relevant documents from IRG plc and/or Schroders at their respective addresses set out in sub-paragraph (l) below.
- (g) The Offeror and Schroders reserve the right to treat acceptances of the Offer as valid if received by IRG plc or otherwise on behalf of the Offeror at any place or in any manner determined by them otherwise than as set out in this document or in the Form of Acceptance.
- (h) If sufficient acceptances are received, the Offeror intends to apply the provisions of sections 428-430F of the Act to acquire compulsorily any outstanding Matthew Clark Shares to which the Offer relates and to apply for cancellation of Matthew Clark's listing on the London Stock Exchange.
- (i) All powers of attorney, appointments of agents and authorities on the terms conferred by or referred to in this Appendix I or in the Form of Acceptance are given by way of security for the performance of the obligations of the Matthew Clark Shareholder and are irrevocable in accordance with section 4 of the Powers of Attorney Act 1971 except in the circumstances where the donor of the power of attorney or authority validly withdraws his acceptance in accordance with paragraph 4 of Part B of this Appendix I.
- (j) No acknowledgement of receipt of any Form of Acceptance, transfer by means of CREST, share certificate or document of title will be given. All communications, notices, certificates, documents of title and remittances to be delivered by, or sent to or from, Matthew Clark Shareholders (or their designated agents) will be delivered or sent at their own risk.

(k) The Offeror and Schroders reserve the right to notify any matter, including the making of the Offer, to a Matthew Clark Shareholder:

(i) with a registered address outside the United Kingdom; or

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(ii) whom the Offeror knows to be a custodian, trustee or nominee holding Matthew Clark Shares for persons who are citizens, residents or nationals of jurisdictions outside the United Kingdom,

by announcement or by paid advertisement in a newspaper published and circulated in the United Kingdom. The notice will be deemed to have been sufficiently given, despite any failure by a Matthew Clark Shareholder to receive or see that notice. A reference in this document to a notice or the provision of information in writing by or on behalf of Canandaigua Limited is to be construed accordingly.

(l) The Offer is made on 3 November 1998 and is capable of acceptance from and after that time. The Form of Acceptance and copies of this document may be collected from IRG plc, New Issues Department, P.O. Box No. 166, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TH or Schroders, 120 Cheapside, London EC2V 6DS or during normal business hours from IRG plc, 23 Ironmonger Lane, London EC2. The Offer is made by means of this document.

(m) The Offer, all acceptances of the Offer and all elections in respect of it are governed by and will be construed in accordance with English law. Execution by or on behalf of an Matthew Clark Shareholder of a Form of Acceptance constitutes his irrevocable submission to the jurisdiction of the courts of England in relation to all matters arising in connection with the Offer.

(n) Matthew Clark Shares will be acquired by the Offeror fully paid and free from all liens, equities, charges, encumbrances and other interests and together with all rights now or hereafter attaching thereto, including the right to receive and retain all dividends and other distributions declared, made or paid on or after 3 November 1998.

(o) All references in this Appendix I to any statute or statutory provision shall include a statute or statutory provision which amends, consolidates or replaces the same (whether before or after the date hereof).

7. Overseas Shareholders

(a) The making of the Offer in, or to certain persons resident in, or nationals or citizens of, jurisdictions outside the United Kingdom ("overseas shareholders") or to nominees of or trustees for overseas shareholders may be affected by the laws of the relevant jurisdiction. Overseas shareholders should inform themselves about and observe any applicable legal requirements. It is the responsibility of overseas shareholders wishing to accept the Offer to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection with the Offer. This includes the obtaining of any governmental, exchange control or other consents which may be required, compliance with other necessary formalities needing to be observed and the payment of any issue, transfer or other taxes due in that jurisdiction. The Offeror and Schroders (and any person acting on behalf of them) will be fully indemnified by overseas shareholders for any such issue, transfer or other taxes which the Offeror or Schroders (or any person acting on behalf of them) may be required to pay. If you are an overseas shareholder and you are in doubt about your position you should consult your professional adviser in the relevant jurisdiction.

(b) The Offer is not being made, directly or indirectly, in or into the United States, Canada, Australia or Japan or to any North American person or resident of Australia or Japan by use of the mails of, or by any means or instrumentality of interstate or foreign commerce of, or of any facility of a national, state or other securities exchange of, the United States, Canada, Australia or Japan. This includes, but is not limited to, facsimile transmission, telex and telephone.

Accordingly, copies of this document, the Form of Acceptance, and any related offer documents are not being, and must not be, mailed or otherwise distributed or sent in, into or from the United States, Canada, Australia or Japan including to Matthew Clark Shareholders or participants in the Matthew Clark Share Option Schemes with registered addresses in the United States, Canada, Australia or Japan or to persons whom the Offeror knows to be custodians, trustees or nominees holding Matthew Clark Shares for persons with addresses in the United States, Canada, Australia or Japan. Persons receiving those documents (including, without limitation, custodians, nominees and trustees) must not distribute, mail or send them in, into or from the United States, Canada, Australia or Japan or to any North American Person or resident of Australia or Japan, or use the United

States, Canadian, Australian or Japanese mails or any such means, instrumentality or facility in connection with the Offer, and so doing will invalidate any related purported acceptance of the Offer. Persons wishing to accept the Offer must not use the United States, Canadian, Australian or Japanese mails or any such means, instrumentality or facility for any purpose directly or indirectly relating to acceptance of the Offer. Envelopes

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containing a Form of Acceptance in respect of the Offer must not be postmarked in the United States, Canada, Australia or Japan or otherwise despatched from those jurisdictions and all acceptors must provide addresses outside the United States, Canada, Australia or Japan for the receipt of the consideration to which they are entitled under the Offer or for the return of the Form of Acceptance or documents of title.

- (c) Subject as provided below, a Matthew Clark Shareholder will be deemed not to have accepted the Offer if:
- (i) he cannot give the representations and warranties set out in paragraph (b) of Part C of this Appendix I;
 - (ii) he completes Box 3 of the Form of Acceptance with an address in the United States, Canada, Australia or Japan or has a registered address in the United States, Canada, Australia or Japan and in either case he does not insert in Box 6 of the Form of Acceptance the name and address of a person or agent outside the United States, Canada, Australia or Japan to whom he wishes the consideration to which he is entitled under the Offer to be sent;
 - (iii) he inserts in Box 6 of the Form of Acceptance the name and address of a person or agent in the United States, Canada, Australia or Japan to whom he wishes the consideration to which he is entitled under the Offer to be sent; or
 - (iv) the Form of Acceptance received from him is in an envelope postmarked in, or which otherwise appears to the Offeror or its agents to have been sent from, the United States, Canada, Australia or Japan.

The Offeror reserves the right, in its sole discretion, to investigate, in relation to any acceptance, whether the representations and warranties set out in paragraph (b) of Part C of this Appendix I have been truthfully given by the relevant Matthew Clark Shareholders and, if such investigation is made and, as a result, the Offeror cannot satisfy itself that such representations and warranties are true and correct, such acceptance shall not be valid.

- (d) If any person, despite the restrictions referred to in paragraph 7(b) of Part B of this Appendix I and whether pursuant to a contractual or legal obligation or otherwise, forwards this document, the Form of Acceptance or any related offering document in, into or from the United States, Canada, Australia or Japan or uses the mails or any means or instrumentality (including, without limitation, facsimile transmission, telex and telephones) of interstate or foreign commerce of, or any facilities of a national securities exchange of, the United States, Canada, Australia or Japan in connection with that forwarding, that person should:
- (i) inform the recipient of that fact;
 - (ii) explain to the recipient that that action may invalidate any purported acceptance by the recipient; and
 - (iii) draw the attention of the recipient to this paragraph 7.

Notwithstanding the above, the Offeror may in its sole and absolute discretion provide cash consideration to a North American Person or a person in or resident of Australia or Japan if requested to do so by or on behalf of that person if the Offeror is satisfied, in that particular case, that to do so would not constitute a breach of any securities or other relevant legislation of the United States, Canada, Australia or Japan, as appropriate.

- (e) If any written notice from a Matthew Clark Shareholder withdrawing his acceptance in accordance with paragraph 4 of Part B of this Appendix I is received in an envelope postmarked in, or which otherwise appears to the Offeror or its agents to have been sent from, the United States, Canada, Australia or Japan, the Offeror reserves the right, in its absolute discretion, to treat that notice as invalid.
- (f) The provisions of this paragraph 7 and any other terms of the Offer relating to overseas shareholders may be waived, varied or modified as regards specific Matthew Clark Shareholders or on a general basis by the

Offeror in its sole discretion. Subject to this discretion, the provisions of this paragraph 7 supersede any terms of the Offer inconsistent with them. A reference in this paragraph 7 to a Matthew Clark Shareholder includes the person or persons executing a Form of Acceptance and, in the event of more than one person executing the Form of Acceptance, the provisions of this paragraph 7 apply to them jointly and severally.

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(g) As used in this document and in the Form of Acceptance, the "United States" means the United States of America, its territories and possessions, any state of the United States of America, the District of Columbia and all other areas subject to the jurisdiction of the United States of America; "Australia" means the Commonwealth of Australia, its states, territories and possessions; "Canada" means Canada, its provinces and territories; and "restricted overseas person" means either a person (including an individual, partnership, unincorporated syndicate, unincorporated organisation, trust, trustee, executor, administrator, or other legal representatives) in, or resident in Australia, Japan, Canada or the United States, or a North American Person.

(h) "US person" means:

- (i) any natural person resident in the United States;
- (ii) any partnership or corporation organised or incorporated under the laws of the United States or any state thereof;
- (iii) any estate of which any executor or administrator is a US person;
- (iv) any trust of which any trustee is a US person;
- (v) any agency or branch of a non-United States entity located in the United States;
- (vi) any non-discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary for the benefit or account of a US dealer;
- (vii) any discretionary account or similar (other than an estate or trust) held by a dealer or other fiduciary organised, incorporated or (if an individual) resident in the United States; and
- (viii) any partnership or corporation, if:
 - (1) organised or incorporated under the laws of any non-United States jurisdiction;
 - (2) formed by a US person principally for the purpose of investing in securities not registered under the US Act, unless it is organised or incorporated and owned by accredited investors (as defined in Rule 501(a) under the US Act) who are not natural persons, estates or trusts.

"North American person" means a person whose last address as shown on the register of members of Matthew Clark is in Canada and/or a US person.

(i) Notwithstanding paragraph 7(h) of this Part B, any discretionary account or similar account (other than an estate or trust) held for the benefit of a non-US person by a dealer or other professional fiduciary organised, incorporated, or (if an individual) resident in the United States shall not be deemed a US Person.

(j) Notwithstanding paragraph 7(h) of this Part B, any estate of which any professional fiduciary acting as executor or administrator is a US person shall not be deemed a US person if:

- (i) an executor or administrator of the estate who is not a person has whole or shared investment discretion with respect to the assets of the estate; and
- (ii) the estate is governed by non-United States law.

(k) Notwithstanding paragraph 7(h) of this Part B, any trust of which any professional fiduciary acting as trustee is a US person shall not be deemed a US person if a trustee who is not a US person has sole or shared investment discretion with respect to the trust assets, and no beneficiary of the trust (and no settler if the trust is revocable) is a US person.

(l) Notwithstanding paragraph 7(h) of this Part B, an employee benefit plan established and administered in accordance with the law of a country other than the United States and customary practices and documentation of any such country shall not be deemed a US person.

(m) Notwithstanding paragraph 7(h) of this Part B, any agency or branch of a US person located outside the United States shall not be deemed a US person if:

(i) the agency or branch operates for valid business reasons; and

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(ii) the agency or branch is engaged in the business of insuring or banking and is subject to substantive insurance or banking regulation, respectively, in the jurisdiction where located.

(n) The International Monetary Fund, the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, the United Nations, and their agencies, affiliates and pension plans, and any other similar international organisations, their agencies, affiliates and pension plans shall not be deemed US persons.

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PART C -- FORM OF ACCEPTANCE

Without prejudice to the terms of the Form of Acceptance, and the provisions of Parts A and B of this Appendix I, each Matthew Clark Shareholder by whom, or on whose behalf, a Form of Acceptance is executed irrevocably undertakes, represents, warrants and agrees to and with the Offeror and Schroders (so as to bind him, his personal representatives, heirs, successors and assigns):

(a) that the execution of a Form of Acceptance shall constitute:

(i) an acceptance of the Offer in respect of such number of Matthew Clark Ordinary Shares as is inserted or deemed to be inserted in Box 1 of the Form of Acceptance; and

(ii) an undertaking to execute any further documents and give any further assurances which may be required to enable Canandaigua Limited to obtain the full benefit of this Part C and/or to perfect any of the authorities expressed to be given hereunder, in each case on and subject to the terms and conditions set out or referred to in this document and the Form of Acceptance and that, subject only to the rights of withdrawal set out in paragraph 4 of Part B of this Appendix I, each such acceptance shall be irrevocable;

(b) that unless such Matthew Clark Shareholder has written "No" in Box 5 of the Form of Acceptance that:

(i) he has not received or sent copies or originals of this document, the Form of Acceptance or any related offering document in, into or from the United States, Canada, Australia or Japan;

(ii) he has not used in connection with the Offer or the execution or delivery of the Form of Acceptance, directly or indirectly, the mails of, or any means or instrumentality (including, without limitation, facsimile transmission, telex and/or telephone) of interstate or foreign commerce of, or of any facility of a national, state or other securities exchange of, the United States, Canada, Australia or Japan;

(iii) he is not a restricted overseas person (as described in paragraph 7(h) of Part B of this Appendix I);

(iv) the Form of Acceptance has not been mailed or otherwise sent in, into or from the United States, Canada, Australia or Japan and he is accepting the Offer from outside the United States, Canada, Australia and Japan;

(v) if he is, or is acting on behalf of, a US person, he or that US person, as the case may be, is outside the United States within the meaning of Regulation S of the US Act; and

(vi) he is not delivering the Form of Acceptance from, or as agent of or on behalf of, any person in the United States, Canada, Australia or Japan (unless such person has given all instructions with respect to the Offer from outside the United States, Canada, Australia and Japan) or a North American person or a resident of Australia or Japan;

(c) that the execution of the Form of Acceptance constitutes the appointment of any director of, or any person authorised by, the Offeror or Schroders as his agent and/or attorney (subject to the Offer becoming unconditional in all respects and him not having validly withdrawn his acceptance) with an irrevocable instruction and authorisation to:

- (i) complete and execute any form of transfer, renunciation or other document in relation to the Matthew Clark Shares comprised or deemed to be comprised in such acceptance in favour of the Offeror or as it may direct;
 - (ii) deliver any form of transfer, renunciation or other document with any certificate or other document of title for registration within six months of the Offer becoming unconditional in all respects; and
 - (iii) take any other action as the agent and/or attorney may think necessary or expedient in connection with his acceptance of the Offer and to vest in the Offeror (or as it may direct) the Matthew Clark Shares comprised or deemed to be comprised in such acceptance;
- (d) that the execution of the relevant Form of Acceptance constitutes the appointment of IRG plc as his agent and/or attorney with an irrevocable instruction and authorisation to:

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- (i) subject to the Offer becoming unconditional in all respects in accordance with its terms and him not having validly withdrawn his acceptance, transfer to itself (or to such other person or persons as the Offeror or its agent may direct) by means of CREST all or any of the Relevant Matthew Clark Shares (but not exceeding the number of Matthew Clark Shares in respect of which the Offer is accepted or deemed to be accepted); and
- (ii) if the Offer does not become unconditional in all respects, to give instructions to CRESTCo immediately after the Offer lapses (or within such longer period as the Panel may permit, not exceeding 14 days of the Offer lapsing) to transfer all Relevant Matthew Clark Shares to the original available balance of the accepting Matthew Clark shareholder.

In this paragraph, "Relevant Matthew Clark Shares" means Matthew Clark Shares in uncertificated form in respect of which a transfer or transfers to escrow has or have been effected in accordance with the procedures described in paragraph 12(d) of the Schrodgers' letter contained in this document and where the transfer or transfers to escrow was or were made in respect of Matthew Clark Shares held under the same member account ID and participant ID as the member account ID and participant ID relating to the relevant Form of Acceptance (but irrespective of whether or not any Form of Acceptance Reference Number, or a Form of Acceptance Reference Number corresponding to that appearing on the relevant Form of Acceptance, was included in the relevant TTE Instruction);

- (e) that such Matthew Clark Shareholder authorises and requests (subject to the Offer becoming unconditional in all respects in accordance with its terms and him not having validly withdrawn his acceptance):
- (i) Matthew Clark or its agents to procure the registration of the transfer of the Matthew Clark Shares comprised or deemed to be comprised in such acceptance that are in certificated form and the delivery of the share certificate(s) and other document(s) of title in respect of the Matthew Clark Shares to the Offeror or as it may direct;
 - (ii) if the Matthew Clark Shares comprised or deemed to be comprised in such acceptance are in certificated form or paragraph (f)(i) of Part C of this Appendix I applies, the Offeror or its agents to procure the despatch by post (or by such other method as may be approved by the Panel) of the consideration to which he is entitled under the Offer at his risk to the person or agent whose name and address is set out in Box 6 of the Form of Acceptance or, if no person or agent's name and address is set out, to the first-named holder at his registered address;
 - (iii) if the Matthew Clark Shares comprised or deemed to be comprised in such acceptance are in uncertificated form, the Offeror, Schrodgers or their respective agents to ensure that an assured payment obligation is created in favour of the Matthew Clark Shareholder's payment bank in accordance with the CREST assured payment arrangements in respect of any cash consideration to which such shareholder is entitled provided that the Offeror may (if, for any reason, it wishes to do so) determine that all or any part of such cash consideration shall be paid by cheque despatched by post (or by such other method as may be approved by the Panel); and
 - (iv) the Offeror, Matthew Clark or their respective agents, to record and act on any instructions with regard to payments or notices which have been entered in the records of Matthew Clark in respect of his holding of Matthew Clark Shares;

- (f) that the execution of the Form of Acceptance constitutes agreement that:
- (i) the Offeror may decide to despatch all or part of the consideration payable to a shareholder whose Matthew Clark Shares are in uncertificated form in accordance with paragraph (e)(ii) of Part C of this Appendix I; and
 - (ii) the consideration payable to a shareholder whose Matthew Clark Shares are in uncertificated form will be despatched in accordance with paragraph (e)(ii) of Part C of this Appendix I if the shareholder is a CREST member whose registered address is in the United States, Canada, Australia or Japan;
- (g) that the execution of the Form of Acceptance constitutes a giving of authority to any director of, or person authorised by, Canandaigua Limited or Schroders within the terms of paragraph 5 of Part B of this Appendix I in respect of those Matthew Clark Shares in respect of which the Offer has been accepted or has been deemed to have been accepted and such acceptance not validly withdrawn;

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- (h) that such Matthew Clark Shareholder, subject to the Offer becoming unconditional in all respects and him not having validly withdrawn his acceptance (or if the Offer will become unconditional in all respects or lapse on the outcome of the resolution in question or if the Panel gives its consent):
- (i) authorises the Offeror or its agent to direct the exercise of any votes and any other rights and privileges (including the right to requisition the convening of a general or separate class meeting of Matthew Clark) attaching to the Matthew Clark Shares comprised or deemed to be comprised in such acceptance;
 - (ii) authorises Matthew Clark to send any notice, circular, warrant or other document or communication which may be required to be sent to him as a member of Matthew Clark (including without limitation any share certificate(s) or other document(s) of title issued as a result of a conversion of such Matthew Clark Shares into certificated form) to the Offeror at its registered office;
 - (iii) authorises any director of, or person authorised by, the Offeror or Schroders to sign any document and do such things as may in the opinion of that agent and/or attorney seem necessary or desirable in connection with the exercise of any votes or other rights or privileges attaching to the Matthew Clark Shares held by him (including, without limitation, signing any consent to short notice of a general or separate class meeting as his agent and/or attorney and on his behalf and executing a form of proxy appointing any person nominated by the Offeror to attend general and separate class meetings of Matthew Clark and attending any such meeting and exercising the votes attaching to the Matthew Clark Shares comprised or deemed to be comprised in such acceptance on his behalf, where relevant, such votes to be cast so far as possible to satisfy any outstanding condition of the Offer); and
 - (iv) agrees not to exercise any such rights without the consent of the Offeror and irrevocably undertakes not to appoint a proxy for or to attend such general or separate class meetings of Matthew Clark.

This authority will cease to be valid if the acceptance is withdrawn in accordance with paragraph 4 of Part B of this Appendix I;

- (i) that he will deliver to IRG plc or procure the delivery to IRG plc of, his certificate or other document(s) of title in respect of those Matthew Clark Shares comprised or deemed to be comprised in such acceptance that are in certificated form, or an indemnity acceptable to Matthew Clark, as soon as possible and in any event within six months of the Offer becoming unconditional in all respects;
- (j) that he will take (or ensure to be taken) the action set out in paragraph 12(d) of the Schroders' letter contained in this document to transfer all those Matthew Clark Shares comprised or deemed to be comprised in such acceptance and not validly withdrawn by him that are in uncertificated form to an escrow balance as soon as possible and in any event so that the transfer to escrow settles within six months of the Offer becoming unconditional in all respects;
- (k) that if for any reason any Matthew Clark Shares in respect of which a transfer to an escrow balance has been effected in accordance with paragraph 12(d) of Schroders' letter contained in this document are converted to certificated form, he will (without prejudice to paragraph

h(ii) of Part C of this Appendix) immediately deliver or ensure the immediate delivery of the share certificate(s) or other documents of title in respect of all those Matthew Clark Shares that are converted to IRG plc or to the Offeror at its registered office or as the Offeror or its agents may direct;

- (l) that the creation of an assured payment obligation in favour of his payment bank in accordance with the CREST assured payment arrangements as referred to in paragraph (e)(iii) of Part C of this Appendix I will, to the extent of the obligation so created, discharge fully any obligation of the Offeror or Schroders to pay to him the cash consideration to which he is entitled under the Offer;
- (m) that he will do everything necessary or expedient to vest in the Offeror or its nominees the Matthew Clark Shares comprised or deemed to be comprised in such acceptance and to enable IRG plc to perform its functions as escrow agent for the purposes of the Offer;
- (n) that he agrees to ratify everything which may be done or effected by any director of, or person authorised by, the Offeror, Schroders or IRG plc in exercise of any of the powers and/or authorities under Part C of this Appendix I;
- (o) that, if any provision of Part C of this Appendix I will be unenforceable or invalid or will not operate so as to afford the Offeror, Schroders or IRG plc or any of their respective directors or persons authorised by them, the

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benefit of the authority expressed to be given in Part C of this Appendix I, he will, with all practicable speed, do everything that may be required or desirable to enable the Offeror, Schroders and IRG plc and any of their respective directors or persons authorised by them to secure the full benefit of Part C of this Appendix I;

- (p) that he is irrevocably and unconditionally entitled to transfer the Matthew Clark Shares comprised or deemed to be comprised in such acceptance and that such shares are sold free from all liens, equities, charges, encumbrances and other interests and together with all rights attaching to them on or after 3 November 1998 including, without limitation, the right to receive and retain all dividends and other distributions declared, paid or made on or after that date;
- (q) that the terms and conditions of the Offer are deemed to be incorporated in, and form part of, the Form of Acceptance;
- (r) that on execution the Form of Acceptance takes effect as a deed; and
- (s) that the execution of the Form of Acceptance constitutes his submission to the jurisdiction of the courts of England in relation to all matters arising in connection with the Offer and the Form of Acceptance.

A reference in Part C of this Appendix I to a holder of Matthew Clark Shares includes a reference to the person or persons executing the Form of Acceptance and in the event of more than one person executing a Form of Acceptance the provisions of Part C of this Appendix I will apply to them jointly and to each of them.

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PART A: AUDITED FINANCIAL INFORMATION

1. Financial information

The financial information set out in Part A of this Appendix II summarises the consolidated financial statements of Canandaigua for the years ended 28 February 1998 and 28 February 1997, the six months ended 29 February 1996 and 28 February 1995 and the year ended 31 August 1995. All financial data in Part A of this Appendix II is extracted from the published audited accounts for those periods, except for the six months ended 28 February 1995, which is unaudited. Canandaigua's auditors for these periods were Arthur Andersen LLP.

2. Consolidated statements of income

The following table sets out the consolidated statements of income of Canandaigua for the years ended 28 February 1998 and 28 February 1997, the six months ended 29 February 1996 and 28 February 1995 and the year ended 31 August 1995 as derived from the published audited accounts for those periods, except for the six months ended 28 February 1995 which is unaudited:

<TABLE>

<CAPTION>

| Year Ended | For the Years Ended | | For the Six Months Ended | | For the |
|--|---------------------|--------------|--------------------------|-------------|---------|
| | 28 Feb | 28 Feb | 29 Feb | 28 Feb | |
| Consolidated Statements of Income Aug (in US\$ thousands, except share data) 1995 | 1998 | 1997 | 1996 | 1995 | |
| | | | | (unaudited) | |
| <S> | <C> | <C> | <C> | <C> | <C> |
| Gross sales 1,185,074 | \$ 1,632,357 | \$ 1,534,452 | \$ 738,415 | \$ 592,305 | \$ |
| Less -- Excise taxes (278,530) | (419,569) | (399,439) | (203,391) | (137,820) | |
| Net sales 906,544 | 1,212,788 | 1,135,013 | 535,024 | 454,485 | |
| Cost of product sold (653,811) | (864,053) | (844,181) | (396,208) | (327,694) | |
| Gross profit 252,733 | 348,735 | 290,832 | 138,816 | 126,791 | |
| Selling, general and administrative expenses (159,196) | (231,680) | (208,991) | (112,411) | (79,925) | |
| Nonrecurring restructuring expenses (2,238) | -- | -- | (2,404) | (685) | |
| Operating income 91,299 | 117,055 | 81,841 | 24,001 | 46,181 | |
| Interest expense, net (24,601) | (32,189) | (34,050) | (17,298) | (13,141) | |
| Income before provision for Federal and state income taxes 66,698 | 84,866 | 47,791 | 6,703 | 33,040 | |
| Provision for Federal and state income taxes (25,678) | (34,795) | (20,116) | (3,381) | (12,720) | |
| Net income 41,020 | \$ 50,071 | \$ 27,675 | \$ 3,322 | \$ 20,320 | \$ |
| Earnings per common share: Basic 2.18 | \$ 2.68 | \$ 1.43 | \$ 0.17 | \$ 1.13 | \$ |
| Diluted 2.16 | \$ 2.62 | \$ 1.42 | \$ 0.17 | \$ 1.12 | \$ |
| Weighted average common shares outstanding: Basic 18,776 | 18,672 | 19,333 | 19,611 | 17,989 | |
| Diluted 19,005 | 19,105 | 19,521 | 19,807 | 18,179 | |

See notes to the consolidated financial statements in section 5 of Part A of this Appendix II.

3. Consolidated balance sheets

The following table sets out the consolidated balance sheets of Canandaigua as at 28 February 1998 and 28 February 1997, as derived from the published audited accounts for those years.

| Consolidated Balance Sheets (in US\$ thousands, except share data) | 28 Feb | |
|--|--------------|--------------|
| | 1998 | 1997 |
| ASSETS: | | |
| Current assets: | | |
| Cash and cash investments | \$ 1,232 | \$ 10,010 |
| Accounts receivable, net | 142,615 | 142,592 |
| Inventories, net | 394,028 | 326,626 |
| Prepaid expenses and other current assets | 26,463 | 21,787 |
| Total current assets | 564,338 | 501,015 |
| Property, plant and equipment, net | 244,035 | 249,552 |
| Other assets | 264,786 | 270,334 |
| Total assets | \$ 1,073,159 | \$ 1,020,901 |
| LIABILITIES AND STOCKHOLDERS' EQUITY: | | |
| Current liabilities: | | |
| Notes payable | \$ 91,900 | \$ 57,000 |
| Current maturities of long-term debt | 24,118 | 40,467 |
| Accounts payable | 52,055 | 55,892 |
| Accrued Federal and state excise taxes | 17,498 | 17,058 |
| Other accrued expenses and liabilities | 97,763 | 76,156 |
| Total current liabilities | 283,334 | 246,573 |
| Long-term debt, less current maturities | 309,218 | 338,884 |
| Deferred income taxes | 59,237 | 61,395 |
| Other liabilities | 6,206 | 9,316 |
| Total liabilities | 657,995 | 656,168 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred Stock, \$0.01 par value -- Authorised, 1,000,000 shares; Issued, none at 28 February 1998, and 28 February 1997 | --- | --- |
| Class A Common Stock, \$0.01 par value -- Authorised, 60,000,000 shares; Issued, 17,604,784 shares at 28 February 1998, and 17,462,332 shares at 28 February 1997 | 176 | 174 |
| Class B Convertible Common Stock, \$0.01 par value -- Authorised, 20,000,000 shares; Issued, 3,956,183 shares at 28 February 1998, and 28 February 1997 | 40 | 40 |
| Additional paid-in capital | 231,687 | 222,336 |
| Retained earnings | 220,346 | 170,275 |
| | 452,249 | 392,825 |
| Less: Treasury stock -- Class A Common Stock, 2,199,320 shares at 28 February 1998, and 1,915,468 shares at 28 February 1997, at cost | (34,878) | (25,885) |
| Class B Convertible Common Stock, 625,725 shares at 28 February 1998, and 28 February 1997, at cost | (2,207) | (2,207) |
| | (37,085) | (28,092) |
| Total stockholders' equity | 415,164 | 364,733 |
| Total liabilities and stockholders' equity | \$ 1,073,159 | \$ 1,020,901 |

See notes to the consolidated financial statements in section 5 of Part A of this Appendix II.

4. Consolidated statements of cash flows

The following table sets out the consolidated statements of cash flows of

Canandaigua for the years ended 28 February 1998 and 28 February 1997, as derived from the published audited accounts for those years:

| Consolidated Statements of Cash Flows (in US\$ thousands) | For the Years Ended 28 Feb | |
|---|-------------------------------|-----------|
| | 1998 | 1997 |
| Cash flows from operating activities: | | |
| Net income | \$ 50,071 | \$ 27,675 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation of property, plant and equipment | 23,847 | 22,359 |
| Amortisation of intangible assets | 9,314 | 9,480 |
| Deferred tax provision | 6,319 | 5,769 |
| Stock-based compensation expense | 1,747 | 275 |
| Amortisation of discount on long-term debt | 352 | 112 |
| Gain on sale of property, plant and equipment | (3,001) | (3,371) |
| Change in operating assets and liabilities: | | |
| Accounts receivable, net | 749 | 3,523 |
| Inventories, net | (65,644) | 16,232 |
| Prepaid expenses and other current assets | (4,354) | 3,271 |
| Accounts payable | (3,288) | (431) |
| Accrued Federal and state excise taxes | 440 | (2,641) |
| Other accrued expenses and liabilities | 14,655 | 24,617 |
| Other assets and liabilities, net | (2,452) | 898 |
| Total adjustments | (21,316) | 80,093 |
| Net cash provided by operating activities | 28,755 | 107,768 |
| Cash flows from investing activities: | | |
| Purchases of property, plant and equipment, net of minor disposals | (31,203) | (31,649) |
| Proceeds from sale of property, plant and equipment | 12,552 | 9,174 |
| Payment of accrued earn-out amounts | --- | (13,848) |
| Net cash used in investing activities | (18,651) | (36,323) |
| Cash flows from financing activities: | | |
| Principal payments of long-term debt | (186,367) | (50,842) |
| Purchases of treasury stock | (9,233) | (20,765) |
| Payment of issuance costs of long-term debt | (1,214) | (1,550) |
| Proceeds from issuance of long-term debt, net of discount | 140,000 | 61,668 |
| Net proceeds from (repayment of) notes payable | 34,900 | (54,300) |
| Exercise of employee stock options | 1,776 | 17 |
| Proceeds from employee stock purchases | 1,256 | 998 |
| Net cash used in financing activities | (18,882) | (64,774) |
| Net (decrease) increase in cash and cash investments | (8,778) | 6,671 |
| Cash and cash investments, beginning of period | 10,010 | 3,339 |
| Cash and cash investments, end of period | \$ 1,232 | \$ 10,010 |

See notes to the consolidated financial statements in section 5 of Part A of this Appendix II.

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5. Notes to the consolidated financial statements

The notes to the consolidated financial statements of Canandaigua which include a summary of significant accounting policies, set out below, are extracted from its audited consolidated accounts for the year ended 28 February 1998. References to "the Company" are to Canandaigua.

Note 1. Summary of Significant Accounting Policies

Year-end Change: The Company changed its fiscal year end from 31 August to the last day of February. The period from 1 September 1995, through 29 February 1996, is hereinafter referred to as the "Transition Period."

Principles of Consolidation: The consolidated financial statements of the Company include the accounts of the Canandaigua Group. All intercompany accounts and transactions have been eliminated.

Unaudited Financial Statements: The consolidated statements of income and cash flows for the six month period ended 28 February 1995, have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities

and Exchange Commission applicable to interim reporting and reflect, in the opinion of the Company, all adjustments necessary to present fairly the financial information for the Canandaigua Group. All such adjustments are of a normal recurring nature.

Management's Use of Estimates and Judgement: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Investments: Cash investments consist of highly liquid investments with an original maturity when purchased of three months or less and are stated at cost, which approximates market value. The amounts at 28 February 1998 and 1997, are not significant.

Fair Value of Financial Instruments: To meet the reporting requirements of Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments," the Company calculates the fair value of financial instruments using quoted market prices whenever available. When quoted market prices are not available, the Company uses standard pricing models for various types of financial instruments (such as forwards, options, swaps, etc.) which take into account the present value of estimated future cash flows. The methods and assumptions used to estimate the fair value of financial instruments are summarised as follows:

Accounts receivable: The carrying amount approximates fair value due to the short maturity of these instruments, the creditworthiness of the customers and the large number of customers constituting the accounts receivable balance.

Notes payable: These instruments are variable interest rate bearing notes for which the carrying value approximates the fair value.

Long-term debt: The carrying value of the debt facilities with short-term variable interest rates approximates the fair value. The fair value of the fixed rate debt was estimated by discounting cash flows using interest rates currently available for debt with similar terms and maturities.

Foreign exchange hedging agreements: The fair value of currency forward contracts is estimated based on quoted market prices.

Interest rate hedging agreements: The fair value of interest rate hedging instruments is the estimated amount that the Company would receive or be required to pay to terminate the derivative agreements at year end. The fair value includes consideration of current interest rates and the creditworthiness of the counterparties to the agreements.

Letters of credit: At 28 February 1998 and 1997, the Company had letters of credit outstanding totalling approximately \$3,865,000 and \$8,622,000, respectively, which guarantee payment for certain obligations. The Company recognises expense on these obligations as incurred and no material losses are anticipated.

The carrying amount and estimated fair value of the Company's financial instruments are summarised as follows:

<TABLE>
<CAPTION>

| (in US\$ thousands) | 28 Feb 1998 | | 28 Feb 1997 | |
|---|-----------------|------------|-----------------|------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| <S> | <C> | <C> | <C> | <C> |
| Liabilities: | | | | |
| Notes payable | \$ 91,900 | \$ 91,900 | \$ 57,000 | \$ 57,000 |
| Long-term debt, including current portion | \$ 333,336 | \$ 340,934 | \$ 379,351 | \$ 374,628 |
| Derivative instruments: | | | | |
| Foreign exchange hedging agreements: | | | | |
| Currency forward contracts | \$ --- | \$ --- | \$ 374 | \$ 407 |
| Interest rate hedging agreements: | | | | |
| Interest rate cap agreement | \$ --- | \$ --- | \$ --- | \$ --- |
| Interest rate collar agreement | \$ --- | \$ --- | \$ --- | \$ --- |

</TABLE>

Interest Rate Futures and Currency Forward Contracts: From time to time, the Company enters into interest rate futures and a variety of currency forward contracts in the management of interest rate risk and foreign currency transaction exposure. Unrealised gains and losses on interest rate futures are deferred and recognised as a component of interest expense over the borrowing period. Unrealised gains and losses on currency forward contracts are deferred and recognised as a component of the related transactions in the accompanying financial statements. Discounts or premiums on currency forward contracts are recognised over the life of the contract.

Inventories: Inventories are valued at the lower of cost (computed in accordance with the last-in, first-out (LIFO) or first-in, first-out (FIFO) methods) or market. The percentage of inventories valued using the LIFO method is 92% and 94% at 28 February 1998 and 1997, respectively. Replacement cost of the inventories determined on a FIFO basis is approximately \$411,424,000 at 28 February 1998, and \$349,006,000 at 28 February 1997.

A substantial portion of barreled whiskey and brandy will not be sold within one year because of the duration of the aging process. All barreled whiskey and brandy are classified as in-process inventories and are included in current assets, in accordance with industry practice. Bulk wine inventories are also included as work in process within current assets, in accordance with the general practices of the wine industry, although a portion of such inventories may be aged for periods greater than one year. Warehousing, insurance, ad valorem taxes and other carrying charges applicable to barreled whiskey and brandy held for aging are included in inventory costs.

Elements of cost include materials, labour and overhead and consist of the following:

| (in US\$ thousands) | 28 Feb 1998 | 28 Feb 1997 |
|---------------------------------------|-------------|-------------|
| Raw materials and supplies | \$ 14,439 | \$ 14,191 |
| Wine and distilled spirits in process | 304,037 | 262,289 |
| Finished case goods | 92,948 | 72,526 |
| | ----- | ----- |
| | 411,424 | 349,006 |
| Less -- LIFO reserve | (17,396) | (22,380) |
| | ----- | ----- |
| | \$ 394,028 | \$ 326,626 |
| | ===== | ===== |

If the FIFO method of inventory valuation had been used, reported net income would have been approximately \$2,941,000, or \$0.15 per share on a diluted basis, lower for the year ended 28 February 1998, and reported net income would have been approximately \$18,163,000, or \$0.93 per share on a diluted basis, higher for the year ended 28 February 1997.

Property, Plant and Equipment: Property, plant and equipment is stated at cost. Major additions and betterments are charged to property accounts, while maintenance and repairs are charged to operations as incurred. The cost of properties sold or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts at the time of disposal and resulting gains and losses are included as a component of operating income.

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Depreciation: Depreciation is computed primarily using the straight-line method over the following estimated useful lives:

| | Depreciable Life in Years |
|----------------------------|---------------------------|
| Buildings and improvements | 10 to 33 1/3 |
| Machinery and equipment | 3 to 15 |
| Motor vehicles | 3 to 7 |

Amortisation of assets capitalised under capital leases is included with depreciation expense. Amortisation is calculated using the straight-line method over the shorter of the estimated useful life of the asset or the lease term.

Other Assets: Other assets, which consist of goodwill, distribution rights, trademarks, agency license agreements, deferred financing costs, cash surrender value of officers' life insurance and other amounts, are stated at cost, net of accumulated amortisation. Amortisation is calculated on a straight-line or effective interest basis over the following estimated useful lives:

| | Useful Life in Years |
|---------------------|----------------------|
| Goodwill | 40 |
| Distribution rights | 40 |

| | |
|---------------------------|---------|
| Trademarks | 40 |
| Agency license agreements | 6 to 40 |
| Deferred financing costs | 5 to 10 |

At 28 February 1998, the weighted average remaining useful life of these assets is approximately 36 years. The face value of the officers' life insurance policies totalled \$2,852,000 at both 28 February 1998 and 1997.

Long-lived Assets and Intangibles: In accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," the Company reviews its long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable on an undiscounted cash flow basis. The statement also requires that long-lived assets and certain identifiable intangibles to be disposed of be reported at the lower of carrying amount or fair value less cost to sell. The Company did not record any asset impairment in fiscal 1998.

Advertising and Promotion Costs: The Company generally expenses advertising and promotion costs as incurred, shown or distributed. Prepaid advertising costs at 28 February 1998 and 1997, are not material. Advertising and promotion expense for the years ended 28 February 1998 and 1997, the Transition Period, the six months ended 28 February 1995 (unaudited), and the year ended 31 August 1995, were approximately \$111,685,000, \$101,319,000, \$60,187,000, \$41,658,000 (unaudited) and \$84,246,000, respectively.

Income Taxes: The Company uses the liability method of accounting for income taxes. The liability method accounts for deferred income taxes by applying statutory rates in effect at the balance sheet date to the difference between the financial reporting and tax basis of assets and liabilities.

Environmental: Environmental expenditures that relate to current operations are expensed as appropriate. Expenditures that relate to an existing condition caused by past operations, and which do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when environmental assessments and/or remedial efforts are probable, and the cost can be reasonably estimated. Generally, the timing of these accruals coincides with the completion of a feasibility study or the Company's commitment to a formal plan of action. Liabilities for environmental costs were not material at 28 February 1998 and 1997.

Earnings Per Common Share: The Company adopted the provisions of Statement of Financial Accounting Standards No. 128, "Earnings Per Share," (SFAS No. 128) effective 28 February 1998. Basic earnings per common share excludes the effect of common stock equivalents and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding during the period for Class A Common Stock and Class B Convertible Common Stock. Diluted earnings per common share reflects the potential dilution that could result if securities or other contracts to issue common stock were exercised or converted into common stock. Diluted earnings per common share assumes the exercise of stock options using the treasury stock method and assumes the conversion of convertible securities, if any, using the "if converted" method. Historical earnings per common share have been restated to conform with the provisions of SFAS No. 128.

Other: Certain fiscal 1997, Transition Period and fiscal 1995 balances have been reclassified to conform with current year presentation.

Note 2. Acquisitions

UDG Acquisition: On 1 September 1995, the Company through its wholly-owned subsidiary, Barton Incorporated (Barton), acquired certain of the assets of United Distillers Glenmore, Inc., and certain of its North American affiliates (collectively, UDG) (the UDG Acquisition). The acquisition was made pursuant to an Asset Purchase Agreement dated 29 August 1995 (the Purchase Agreement), entered into between Barton and UDG. The acquisition included all of UDG's rights to the Fleischmann's, Skol, Mr. Boston, Canadian LTD, Old Thompson, Kentucky Tavern, Chi-Chi's, Glenmore and di Amore distilled spirits brands; the U.S. rights to Inver House, Schenley and El Toro distilled spirits brands; and related inventories and other assets. The acquisition also included two of UDG's production facilities; one located in Owensboro, Kentucky, and the other located in Albany, Georgia. In addition, pursuant to the Purchase Agreement, the parties entered into multiyear agreements under which Barton (i) purchases various bulk distilled spirits brands from UDG and (ii) provides packaging services for certain of UDG's distilled spirits brands as well as warehousing services.

The aggregate consideration for the acquired brands and other assets consisted of \$141,780,000 in cash and assumption of certain current liabilities. The source of the cash payment made at closing, together with payment of other costs and expenses required by the UDG Acquisition, was financing provided by the Company pursuant to a term loan under the Company's then existing bank credit agreement.

The UDG Acquisition was accounted for using the purchase method; accordingly, the UDG assets were recorded at fair market value at the date of acquisition. The excess of the purchase price over the estimated fair market value of the net assets acquired (goodwill), \$86,348,000, is being amortised on a straight-line basis over 40 years. The results of operations of the UDG Acquisition have been included in the Consolidated Statements of Income since the date of acquisition.

Note 3. Property, Plant and Equipment

The major components of property, plant and equipment are as follows:

| (in US\$ thousands) | 28 Feb 1998 | 28 Feb 1997 |
|----------------------------------|-------------|-------------|
| Land | \$ 15,103 | \$ 16,961 |
| Buildings and improvements | 74,706 | 76,379 |
| Machinery and equipment | 244,204 | 243,274 |
| Motor vehicles | 5,316 | 5,355 |
| Construction in progress | 17,485 | 13,999 |
| | ----- | ----- |
| | 356,814 | 355,968 |
| Less -- Accumulated depreciation | (112,779) | (106,416) |
| | ----- | ----- |
| | \$ 244,035 | \$ 249,552 |
| | ===== | ===== |

Note 4. Other Assets

The major components of other assets are as follows:

| (in US\$ thousands) | 28 Feb 1998 | 28 Feb 1997 |
|---|-------------|-------------|
| Goodwill | \$ 150,595 | \$ 150,595 |
| Distribution rights, agency license agreements and trademarks | 119,346 | 119,316 |
| Other | 23,686 | 22,936 |
| | ----- | ----- |
| | 293,627 | 292,847 |
| Less -- Accumulated amortisation | (28,841) | (22,513) |
| | ----- | ----- |
| | \$ 264,786 | \$ 270,334 |
| | ===== | ===== |

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Note 5. Other Accrued Expenses and Liabilities

The major components of other accrued expenses and liabilities are as follows:

| (in US\$ thousands) | 28 Feb 1998 | 28 Feb 1997 |
|----------------------------------|-------------|-------------|
| Accrued salaries and commissions | \$ 23,704 | \$ 12,109 |
| Other | 74,059 | 64,047 |
| | ----- | ----- |
| | \$ 97,763 | \$ 76,156 |
| | ===== | ===== |

Note 6. Borrowings

Borrowings consist of the following:

<TABLE>

<CAPTION>

| (in US\$ thousands) | 28 Feb 1998 | | | 28 Feb 1997 |
|---|-------------|------------|------------|-------------|
| | Current | Long-term | Total | Total |
| | ----- | ----- | ----- | ----- |
| <S> | <C> | <C> | <C> | <C> |
| Notes payable: | | | | |
| Senior Credit Facility: | | | | |
| Revolving Credit Loans | \$ 91,900 | \$ --- | \$ 91,900 | \$ 57,000 |
| | ===== | ===== | ===== | ===== |
| Long-term debt: | | | | |
| Senior Credit Facility: | | | | |
| Term loan, variable rate, aggregate proceeds of \$140,000, due in instalments through June 2003 | \$ 24,000 | \$ 116,000 | \$ 140,000 | \$ 185,900 |
| Senior Subordinated Notes: | | | | |
| 8.75% redeemable after 15 December 1998, due 2003 | --- | 130,000 | 130,000 | 130,000 |

| | | | | |
|---|-----------|------------|------------|------------|
| 8.75% Series C redeemable after 15 December 1998, due 2003 (less unamortised discount of \$2,868 -- effective rate 9.76%) | --- | 62,132 | 62,132 | 61,780 |
| Capitalised Lease Agreements: | | | | |
| Capitalised facility lease bearing interest at 9%, due in monthly instalments through fiscal 1998 | --- | --- | --- | 348 |
| Industrial Development Agencies: | | | | |
| 7.50% 1980 issue, original proceeds \$2,370, due in annual instalments of \$119 through fiscal 2000 | 118 | 119 | 237 | 356 |
| Other Long-term Debt: | | | | |
| Loans payable bearing interest at 5%, secured by cash surrender value of officers' life insurance policies | --- | 967 | 967 | 967 |
| | ----- | ----- | ----- | ----- |
| | \$ 24,118 | \$ 309,218 | \$ 333,336 | \$ 379,351 |
| | ===== | ===== | ===== | ===== |

</TABLE>

Senior Credit Facility: On 19 December 1997, the Company and a syndicate of banks (the Syndicate Banks) entered into a new \$325,000,000 senior Credit Agreement (the Credit Agreement). The proceeds of the Credit Agreement were used to repay all outstanding principal and accrued interest on all loans under the Company's Third Amended and Restated Credit Agreement, as amended. As compared to the previous bank credit agreement, the Credit Agreement includes, among other things, lower interest rates, lower quarterly loan amortisation and greater flexibility with respect to effecting acquisitions, incurring indebtedness and repurchasing the Company's capital stock.

The Credit Agreement provides for a \$140,000,000 term loan facility due in June 2003 and a \$185,000,000 revolving loan facility, including letters of credit up to a maximum of \$20,000,000, which expires in June 2003. The rate of interest payable, at the Company's option, is a function of the London interbank offered rate (LIBOR) plus a margin, federal funds rate plus a margin, or the prime rate. The margin is adjustable based upon the Company's Debt Ratio (as defined in the Credit Agreement). The Credit Agreement also provides for certain mandatory term loan prepayments.

The term loan facility requires quarterly repayments of \$6,000,000 beginning March 1998 through December 2002, and payments of \$10,000,000 in March 2003 and June 2003. At 28 February 1998, the margin on the term loan facility borrowings was 0.75% and may be decreased by up to 0.35% and increased by up to 0.5% depending on the Company's Debt Ratio.

The revolving loan facility is utilised to finance working capital requirements. The Credit Agreement requires that the Company reduce the outstanding balance of the revolving loan facility to less than \$60,000,000 for thirty consecutive days during the six months ending each 31 August. The margin on the revolving loan facility was 0.5% at 28 February 1998, and may be decreased by up to 0.25% and increased by up to 0.4% depending on the Company's Debt Ratio. In addition, the Company pays a facility fee on the total revolving loan facility. At 28 February 1998, the facility fee was 0.25% and may be reduced or increased by 0.1% subject to the Company's Debt Ratio.

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Each of the Company's principal operating subsidiaries has guaranteed, jointly and severally, the Company's obligations under the Credit Agreement. The Syndicate Banks have been given security interests in substantially all of the assets of the Company including mortgage liens on certain real property. The Company is subject to customary secured lending covenants including those restricting additional liens, the incurrence of additional indebtedness, the sale of assets, the payment of dividends, transactions with affiliates and the making of certain investments. The primary financial covenants require the maintenance of a Debt Ratio, a senior debt coverage ratio, a fixed charge ratio and an interest coverage ratio. Among the most restrictive covenants contained in the Credit Agreement is the requirement to maintain a fixed charge ratio of not less than 1.0 at the last day of each fiscal quarter for the most recent four quarters.

The Company had average outstanding Revolving Credit Loans of approximately \$59,892,000 and \$88,825,000 for the years ended 28 February 1998 and 1997, respectively. Amounts available to be drawn down under the Revolving Credit Loans were \$89,235,000 and \$119,378,000 at 28 February 1998 and 1997, respectively. The average interest rate on the Revolving Credit Loans was 6.57%, 6.58%, 6.76% and 7.16%, for fiscal 1998 and 1997, the Transition Period and for fiscal 1995, respectively. Facility fees on the new Credit Agreement are due based upon the total revolving loan facility, whereas commitment fees under the prior agreement were based upon the unused portion of the revolving loan facility. These fees are based upon the Company's Debt Ratio and can range from 0.15% to 0.35%. At 28 February 1998, the facility fee percentage was 0.25%. The

commitment fee percentage at 28 February 1997 was 0.325%.

Senior Subordinated Notes: On 27 December 1993, the Company issued \$130,000,000 aggregate principal amount of 8.75% Senior Subordinated Notes due in December 2003 (the Notes). Interest on the Notes is payable semiannually on 15 June and 15 December of each year. The Notes are unsecured and subordinated to the prior payment in full of all senior indebtedness of the Company, which includes the Credit Agreement. The Notes are guaranteed, on a senior subordinated basis, by all of the Company's significant operating subsidiaries.

The Trust Indenture relating to the Notes contains certain covenants, including, but not limited to, (i) limitation on indebtedness; (ii) limitation on restricted payments; (iii) limitation on transactions with affiliates; (iv) limitation on senior subordinated indebtedness; (v) limitation on liens; (vi) limitation on sale of assets; (vii) limitation on issuance of guarantees of and pledges for indebtedness; (viii) restriction on transfer of assets; (ix) limitation on subsidiary capital stock; (x) limitation on the creation of any restriction on the ability of the Company's subsidiaries to make distributions and other payments; and (xi) restrictions on mergers, consolidations and the transfer of all or substantially all of the assets of the Company to another person. The limitation on indebtedness covenant is governed by a rolling four quarter fixed charge ratio requiring a specified minimum.

On 29 October 1996, the Company issued \$65,000,000 aggregate principal amount of 8.75% Series B Senior Subordinated Notes due in December 2003 (the Series B Notes). The Company used the net proceeds of approximately \$61,700,000 to repay \$50,000,000 of Revolving Credit Loans and to prepay and permanently reduce \$9,600,000 of the Term Loan. The remaining proceeds were used to pay various fees and expenses associated with the offering. The terms of the Series B Notes were substantially identical to those of the Notes. In February 1997, the Company exchanged \$65,000,000 aggregate principal amount of 8.75% Series C Senior Subordinated Notes due in December 2003 (the Series C Notes) for the Series B Notes. The terms of the Series C Notes are identical in all material respects to the Series B Notes.

Loans Payable: Loans payable, secured by officers' life insurance policies, carry an interest rate of 5%. The notes carry no due dates and it is management's intention not to repay the notes during the next fiscal year.

Capitalised Lease Agreements -- Industrial Development Agencies: Certain capitalised lease agreements require the Company to make lease payments equal to the principal and interest on certain bonds issued by Industrial Development Agencies. The bonds are secured by the leases and the related facilities. These transactions have been treated as capital leases with the related assets included in property, plant and equipment and the lease commitments included in long-term debt. Among the provisions under the debenture and lease agreements are covenants that define minimum levels of working capital and tangible net worth and the maintenance of certain financial ratios as defined in the agreements.

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Debt Payments: Principal payments required under long-term debt obligations during the next five fiscal years are as follows:

(in thousands)

| | |
|------------|------------|
| ----- | |
| 1999 | \$ 24,118 |
| 2000 | 24,119 |
| 2001 | 24,000 |
| 2002 | 24,000 |
| 2003 | 24,000 |
| Thereafter | 215,967 |
| | ----- |
| | \$ 336,204 |
| | ===== |

Note 7. Income Taxes

The provision for Federal and state income taxes consists of the following:

<TABLE>
<CAPTION>

| the | For the | For the | For the Six | For |
|-------|------------------------|------------|-------------|------|
| Ended | Year Ended 28 Feb 1998 | Year Ended | Months | Year |
| ----- | ----- | ----- | ----- | ---- |

| August (in US\$ thousands) 1995 | State and | | | 28 Feb | 29 Feb | 31 |
|---|-----------|----------|-----------|-----------|----------|-------|
| | Federal | Local | Total | 1997 | 1996 | |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| Current income tax provision 6,446 | \$ 21,032 | \$ 7,444 | \$ 28,476 | \$ 14,347 | \$ 1,390 | \$ |
| Deferred income tax provision 19,232 | 5,935 | 384 | 6,319 | 5,769 | 1,991 | |
| ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| 25,678 | \$ 26,967 | \$ 7,828 | \$ 34,795 | \$ 20,116 | \$ 3,381 | \$ |
| ===== | ===== | ===== | ===== | ===== | ===== | ===== |

A reconciliation of the total tax provision to the amount computed by applying the expected U.S. Federal income tax rate to income before provision for Federal and state income taxes is as follows:

<TABLE>
<CAPTION>

| Year | For the Year | | For the Year | | For the Six | | For the |
|---|--------------|--------|--------------|--------|-----------------|--------|-----------|
| | Ended 28 Feb | | Ended 28 Feb | | Months Ended 29 | | Ended 31 |
| August 1995 | 1998 | | 1997 | | Feb 1996 | | |
| ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| % of | % of | | % of | | % of | | |
| Pretax (in US\$ thousands) Income | Amount | Income | Amount | Income | Amount | Income | Amount |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| Computed "expected" tax provision 35.0 | \$ 29,703 | 35.0 | \$ 16,727 | 35.0 | \$ 2,346 | 35.0 | \$ 23,344 |
| State and local income taxes, net of Federal income tax benefit 3.6 | 5,089 | 6.0 | 3,304 | 6.9 | 827 | 12.3 | 2,395 |
| Nondeductible meals and entertainment expenses 0.4 | 294 | 0.3 | 310 | 0.6 | 205 | 3.1 | 290 |
| Miscellaneous items, net (0.5) | (291) | (0.3) | (225) | (0.4) | 3 | --- | (351) |
| ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| 38.5 | \$ 34,795 | 41.0 | \$ 20,116 | 42.1 | \$ 3,381 | 50.4 | \$ 25,678 |
| ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== |

Deferred tax liabilities (assets) are comprised of the following:

| (in US\$ thousands) | 28 Feb 1998 | 28 Feb 1997 |
|-------------------------------|-------------|-------------|
| Depreciation and amortisation | \$ 70,303 | \$ 68,155 |
| LIFO reserve | 13,601 | 2,019 |
| Inventory reserves | 6,974 | 9,418 |
| Other accruals | (18,193) | (13,191) |
| ----- | ----- | ----- |
| | \$ 72,685 | \$ 66,991 |
| ===== | ===== | ===== |

At 28 February 1998, the Company has state and U.S. Federal net operating loss (NOL) carryforwards of \$16,213,000 and \$3,654,000, respectively, to offset future taxable income that, if not otherwise utilised, will expire as follows: state NOLs of \$6,945,000, \$6,828,000 and \$2,440,000 at 28 February 2001, 2002 and 2003, respectively, and Federal NOL of \$3,654,000 at 28 February 2011.

Note 8. Profit Sharing Retirement Plans and Retirement Savings Plan

The Company's profit sharing retirement plans, which cover substantially all employees, provide for contributions by the Company in such amounts as the Board of Directors may annually determine and for voluntary contributions by employees. The plans are qualified as tax-exempt under the Internal Revenue Code and conform with the Employee

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Retirement Income Security Act of 1974. The Company's provisions for the plans, including the Barton plan described below, were \$5,571,000 and \$4,999,000 for the years ended 28 February 1998 and 1997, respectively, \$2,579,000 in the Transition Period and \$3,830,000 for fiscal 1995.

The Company's retirement savings plan, established pursuant to Section 401(k) of the Internal Revenue Code, permits substantially all full-time employees of the Company (excluding Barton employees, who are covered by a separate plan described below) to defer a portion of their compensation on a pretax basis. Participants may defer, subject to a maximum contribution limitation, up to 10% of their compensation for the year. The Company makes a matching contribution of 25% of the first 4% of compensation an employee defers. Company contributions to this plan were \$367,000 and \$700,000 for the years ended 28 February 1998 and 1997, respectively, \$325,000 in the Transition Period and \$281,000 in fiscal 1995.

The Barton profit sharing and 401(k) plan covers all salaried employees of Barton. The amount of Barton's contribution under the profit sharing portion of the plan is at the discretion of its Board of Directors, subject to limitations of the plan. Contribution expense was \$2,799,000 and \$2,504,000 for the years ended 28 February 1998 and 1997, respectively, \$1,095,000 in the Transition Period and \$1,430,000 in fiscal 1995. Pursuant to the 401(k) portion of the plan, participants may defer up to 8% of their compensation for the year, subject to limitations of the plan, and receive no matching contribution from Barton.

Note 9. Stockholders' Equity

Common Stock: The Company has two classes of common stock: Class A Common Stock and Class B Convertible Common Stock. Class B Convertible Common Stock shares are convertible into shares of Class A Common Stock on a one-to-one basis at any time at the option of the holder. Holders of Class B Convertible Common Stock are entitled to ten votes per share. Holders of Class A Common Stock are entitled to only one vote per share but are entitled to a cash dividend premium. If the Company pays a cash dividend on Class B Convertible Common Stock, each share of Class A Common Stock will receive an amount at least ten percent greater than the amount of the cash dividend per share paid on Class B Convertible Common Stock. In addition, the Board of Directors may declare and pay a dividend on Class A Common Stock without paying any dividend on Class B Convertible Common Stock.

At 28 February 1998, there were 15,405,464 shares of Class A Common Stock and 3,330,458 shares of Class B Convertible Common Stock outstanding, net of treasury stock.

Stock Repurchase Authorisation: On 11 January 1996, the Company's Board of Directors authorised the repurchase of up to \$30,000,000 of its Class A and Class B Common stock. The Company was permitted to finance such purchases, which became treasury shares, through cash generated from operations or through the Credit Agreement. The Company completed its repurchase program during fiscal 1998, repurchasing 362,100 shares of Class A Common Stock for \$9,233,000. Throughout the year ended 28 February 1997, the Company repurchased 787,450 shares of Class A Common Stock totalling \$20,765,000.

Long-Term Stock Incentive Plan: In July 1997, the stockholders approved the amendment and restatement of the Company's Stock Option and Stock Appreciation Right Plan (the Original Stock Plan) as the Long-Term Stock Incentive Plan (the Long-Term Stock Plan). Options granted under the Original Stock Plan remain outstanding and in full force in accordance with their terms.

Under the Long-Term Stock Plan, nonqualified stock options, stock appreciation rights, restricted stock and other stock-based awards may be granted to employees, officers and directors of the Company. Grants, in the aggregate, may not exceed 4,000,000 shares of the Company's Class A Common Stock. The exercise price, vesting period and term of nonqualified stock options granted are established by the committee administering the plan (the Committee). Grants of stock appreciation rights, restricted stock and other stock-based awards may contain such vesting, terms, conditions and other requirements as the Committee may establish. During fiscal 1998, no stock appreciation rights and 25,000 shares of restricted Class A Common Stock were granted. At 28 February 1998, there were 1,840,258 shares available for future grant.

A summary of nonqualified stock option activity is as follows:

<TABLE>

<CAPTION>

| | Shares Under Option | Weighted Avg. Exercise Price | Options Exercisable | Weighted Avg. Exercise Price |
|-----------------------------|---------------------------|------------------------------------|------------------------|------------------------------------|
| <S> | <C> | <C> | <C> | <C> |
| Balance, 31 August 1994 | 563,500 | \$ 15.65 | | |
| Options granted | 289,000 | \$ 40.29 | | |
| Options exercised | (114,075) | \$ 7.02 | | |
| Options forfeited/cancelled | (4,500) | \$ 19.22 | | |
| | ----- | | | |
| Balance, 31 August 1995 | 733,925 | \$ 26.68 | 39,675 | \$ 4.44 |
| Options granted | 571,050 | \$ 36.01 | | |
| Options exercised | (18,000) | \$ 13.23 | | |
| Options forfeited/cancelled | (193,250) | \$ 44.06 | | |
| | ----- | | | |
| Balance, 29 February 1996 | 1,093,725 | \$ 28.70 | 28,675 | \$ 4.44 |
| Options granted | 1,647,700 | \$ 22.77 | | |
| Options exercised | (3,750) | \$ 4.44 | | |
| Options forfeited/cancelled | (1,304,700) | \$ 32.09 | | |
| | ----- | | | |
| Balance, 28 February 1997 | 1,432,975 | \$ 18.85 | 51,425 | \$ 10.67 |
| Options granted | 569,400 | \$ 38.72 | | |
| Options exercised | (117,452) | \$ 15.33 | | |
| Options forfeited/cancelled | (38,108) | \$ 17.66 | | |
| | ----- | | | |
| Balance, 28 February 1998 | 1,846,815 | \$ 25.23 | 360,630 | \$ 25.46 |
| | ===== | | | |

</TABLE>

The following table summarises information about stock options outstanding at 28 February 1998:

<TABLE>

<CAPTION>

| Weighted Range of Exercise Prices | Options Outstanding | | | Options Exercisable | |
|--------------------------------------|-----------------------|--|------------------------------------|-----------------------|------------------------|
| | Number Outstanding | Weighted Avg. Remaining Contractual Life | Weighted Avg. Exercise Price | Number Exercisable | Avg. Exercise Price |
| <S> | <C> | <C> | <C> | <C> | <C> |
| \$ 4.44 -- \$11.50 | 38,675 | 3.5 years | \$ 9.15 | 38,675 | \$ |
| 9.15 | | | | | |
| \$17.00 -- \$25.63 | 998,540 | 7.3 years | \$ 17.37 | 134,280 | \$ 17.00 |
| \$26.75 -- \$31.25 | 351,800 | 8.5 years | \$ 28.46 | 80,200 | \$ 27.30 |
| \$35.38 -- \$56.75 | 457,800 | 9.6 years | \$ 41.25 | 107,475 | \$ 40.53 |
| | ----- | | | ----- | |
| 25.46 | 1,846,815 | 8.0 years | \$ 25.23 | 360,630 | \$ |
| | ===== | | | ===== | |

</TABLE>

The weighted average fair value of options granted during fiscal 1998, fiscal 1997 and the Transition Period was \$20.81, \$10.27 and \$15.90, respectively. The fair value of options is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions: risk-free interest rate of 6.4% for fiscal 1998, 6.6% for fiscal 1997 and 5.5% for the Transition Period; volatility of 41.3% for fiscal 1998, 42.7% for fiscal 1997 and 39.6% for the Transition Period; expected option life of 6.9 years for fiscal 1998, 4.7 years for fiscal 1997 and 5.4 years for the Transition Period. The dividend yield was 0% for fiscal 1998, fiscal 1997 and the Transition Period. Forfeitures are recognised as they occur.

Incentive Stock Option Plan: The ability to grant incentive stock options under the Original Stock Plan was eliminated when it was amended and restated as the Long-Term Stock Plan. In July 1997, stockholders approved the adoption of the Company's Incentive Stock Option Plan. Under the Incentive Stock Option Plan, incentive stock options may be granted to employees, including officers, of the Company. Grants, in the aggregate, may not exceed 1,000,000 shares of the Company's Class A Common Stock. The exercise price of any incentive stock option may not be less than the fair market value of the Company's Class A Common Stock on the date of grant. The vesting period and term of incentive stock options granted are established by the Committee. The maximum term of incentive stock

options is ten years. During fiscal 1998, no incentive stock options were granted.

Employee Stock Purchase Plan: In fiscal 1989, the Company approved a stock purchase plan under which 1,125,000 shares of Class A Common Stock can be issued. Under the terms of the plan, eligible employees may purchase shares of the Company's Class A Common Stock through payroll deductions. The purchase price is the lower of 85% of the fair market value of the stock on the first or last day of the purchase period. During fiscal 1998 and fiscal 1997, the Transition Period and fiscal 1995, employees purchased 78,248, 37,768, 20,869 and 28,641 shares, respectively.

The weighted average fair value of purchase rights granted during fiscal 1998 and fiscal 1997 was \$11.90 and \$8.41, respectively. The fair value of purchase rights is estimated on the date of grant using the Black-Scholes option-pricing

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model with the following weighted average assumptions: risk-free interest rate of 5.3% for fiscal 1998 and 5.6% for fiscal 1997; volatility of 35.1% for fiscal 1998 and 65.4% for fiscal 1997; expected purchase right life of 0.5 years for fiscal 1998 and 0.8 years for fiscal 1997. The dividend yield was 0% for both fiscal 1998 and fiscal 1997. No purchase rights were granted in the Transition Period.

Pro Forma Disclosure: The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its plans. In fiscal 1997, the Company elected to adopt the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," (SFAS No. 123). Accordingly, no compensation expense has been recognized for its stock-based compensation plans. Had the Company recognized the compensation cost based upon the fair value at the date of grant for awards under its plans consistent with the methodology prescribed by SFAS No. 123, net income and earnings per common share would have been reduced to the pro forma amounts as follows:

<TABLE>
<CAPTION>

| (in US\$ thousands, except share data) | For the Year Ended 28 Feb 1998 | | For the Year Ended 28 Feb 1997 | | For the Six Months Ended 29 Feb 1996 | |
|--|-----------------------------------|-----------|-----------------------------------|-----------|---|-----------|
| | As Reported | Pro Forma | As Reported | Pro Forma | As Reprted | Pro Forma |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| Net income | \$ 50,071 | \$ 46,171 | \$ 27,675 | \$ 25,038 | \$ 3,322 | \$ 3,178 |
| Earnings per common share: | | | | | | |
| Basic | \$ 2.68 | \$ 2.47 | \$ 1.43 | \$ 1.30 | \$ 0.17 | \$ 0.16 |
| Diluted | \$ 2.62 | \$ 2.42 | \$ 1.42 | \$ 1.28 | \$ 0.17 | \$ 0.16 |

The provisions of SFAS No. 123 have not been applied to options or purchase rights granted prior to 1 September 1995. Therefore, the resulting pro forma effect on net income may not be representative of that to be expected in future years.

Stock Offering: During November 1994, the Company completed a public offering and sold 3,000,000 shares of its Class A Common Stock, resulting in net proceeds to the Company of approximately \$95,515,000 after underwriters' discounts and commissions and expenses. In connection with the offering, 432,067 of the Vintners option shares were exercised and the Company received proceeds of \$7,885,000. Under the terms of the then existing bank credit agreement, approximately \$82,000,000 was used to repay a portion of the Term Loan under the bank credit agreement. The balance of net proceeds was used to repay Revolving Credit Loans under the bank credit agreement.

Note 10. Earnings Per Common Share

The following table presents historical earnings per common share restated to conform with the provisions of SFAS No.128.

<TABLE>
<CAPTION>

| For the Year Ended | For the Years Ended | | For the Six Months Ended | |
|---|---------------------|--------|--------------------------|--------|
| ----- | ----- | ----- | ----- | ----- |
| | 28 Feb | 28 Feb | 29 Feb | 28 Feb |
| | 1998 | 1997 | 1996 | 1995 |
| 31 Aug (in thousands, except per share data) 1995 | | | | |

| | (unaudited) | | | |
|--|-------------|-----------|----------|-----------|
| | <C> | <C> | <C> | <C> |
| ----- | | | | |
| <S> | | | | |
| <C> | | | | |
| Basic earnings per common share: | | | | |
| Income applicable to common shares | \$ 50,071 | \$ 27,675 | \$ 3,322 | \$ 20,320 |
| 41,020 | ----- | ----- | ----- | ----- |
| ----- | | | | |
| Weighted average common shares outstanding | 18,672 | 19,333 | 19,611 | 17,989 |
| 18,776 | | | | |
| Basic earnings per common share | \$ 2.68 | \$ 1.43 | \$ 0.17 | \$ 1.13 |
| 2.18 | ===== | ===== | ===== | ===== |
| ===== | | | | |
| Diluted earnings per common share: | | | | |
| Income applicable to common shares | \$ 50,071 | \$ 27,675 | \$ 3,322 | \$ 20,320 |
| 41,020 | ----- | ----- | ----- | ----- |
| ----- | | | | |
| Weighted average common shares outstanding | 18,672 | 19,333 | 19,611 | 17,989 |
| 18,776 | | | | |
| Incentive stock options | 423 | 179 | 129 | 152 |
| 155 | | | | |
| Options/employee stock purchases | 10 | 9 | 67 | 38 |
| 74 | ----- | ----- | ----- | ----- |
| ----- | | | | |
| Adjusted weighted average common | | | | |
| shares outstanding | 19,105 | 19,521 | 19,807 | 18,179 |
| 19,005 | ----- | ----- | ----- | ----- |
| ----- | | | | |
| Diluted earnings per common share | \$ 2.62 | \$ 1.42 | \$ 0.17 | \$ 1.12 |
| 2.16 | ===== | ===== | ===== | ===== |
| ===== | | | | |

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Note 11. Commitments and Contingencies

Operating Leases: Future payments under noncancelable operating leases having initial or remaining terms of one year or more are as follows:

(in thousands)

| | |
|------------|-----------|
| 1999 | \$ 3,506 |
| 2000 | 2,627 |
| 2001 | 1,947 |
| 2002 | 1,513 |
| 2003 | 1,291 |
| Thereafter | 8,590 |
| | ----- |
| | \$ 19,474 |
| | ===== |

Rental expense was approximately \$5,554,000 and \$4,716,000 for fiscal 1998 and fiscal 1997, respectively, \$2,382,000 in the Transition Period and \$4,193,000 for fiscal 1995.

Purchase Commitments and Contingencies: The Company has agreements with three suppliers to purchase blended Scotch whisky through December 2001. The purchase prices under the agreements are denominated in British pounds sterling. Based upon exchange rates at 28 February 1998, the Company's aggregate future obligation ranges from approximately \$10,758,000 to \$22,835,000 for the contracts expiring through December 2001.

The Company has an agreement to purchase Canadian blended whisky through 1 September 1999, with a maximum obligation of approximately \$4,453,000. The Company also has two agreements to purchase Canadian new distillation whisky (including dumping charges) through December 2005 at purchase prices of approximately \$12,521,000 to \$13,536,000. In addition, the Company has an agreement to purchase corn whiskey through April 1999 at a purchase price of approximately \$90,000.

All of the Company's imported beer products are marketed and sold pursuant to exclusive distribution agreements from the suppliers of these products. The

Company's agreement to distribute Corona and its other Mexican beer brands exclusively throughout 25 states was renewed effective 22 November 1996, and expires December 2006, with automatic five year renewals thereafter, subject to compliance with certain performance criteria and other terms under the agreement. The remaining agreements expire through June 2003. Prior to their expiration, these agreements may be terminated if the Company fails to meet certain performance criteria. At 28 February 1998, the Company believes it is in compliance with all of its material distribution agreements and, given the Company's long-term relationships with its suppliers, the Company does not believe that these agreements will be terminated.

In connection with the Vintners Acquisition and the Almaden/Inglenook Acquisition, the Company assumed purchase contracts with certain growers and suppliers. In addition, the Company has entered into other purchase contracts with various growers and suppliers in the normal course of business. Under the grape purchase contracts, the Company is committed to purchase all grape production yielded from a specified number of acres for a period of time ranging up to 20 years. The actual tonnage and price of grapes that must be purchased by the Company will vary each year depending on certain factors, including weather, time of harvest, overall market conditions and the agricultural practices and location of the growers and suppliers under contract.

The Company purchased \$154,909,000 of grapes under these contracts during fiscal 1998. Based on current production yields and published grape prices, the Company estimates that the aggregate purchases under these contracts over the remaining term of the contracts will be approximately \$915,651,000. During fiscal 1994, in connection with the Vintners Acquisition and the Almaden/Inglenook Acquisition, the Company established a reserve for the estimated loss on these firm purchase commitments of approximately \$62,664,000, which was subsequently reduced during fiscal 1995 to reflect the effects of the termination payments to cancel contracts with certain growers. The remaining reserve for the estimated loss on the remaining contracts is approximately \$771,000 at 28 February 1998.

The Company's aggregate obligations under bulk wine purchase contracts will be approximately \$32,502,000 over the remaining term of the contracts which expire through fiscal 2001.

Employment Contracts: The Company has employment contracts with certain of its executive officers and certain other management personnel with remaining terms ranging up to three years. These agreements provide for minimum salaries, as adjusted for annual increases, and may include incentive bonuses based upon attainment of specified management goals. In addition, these agreements provide for severance payments in the event of specified termination of employment. The aggregate commitment for future compensation and severance, excluding incentive bonuses, was

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approximately \$7,903,000 as of 28 February 1998, of which approximately \$1,436,000 is accrued in other liabilities as of 28 February 1998.

Employees Covered by Collective Bargaining Agreements: Approximately 42% of the Company's full-time employees are covered by collective bargaining agreements at 28 February 1998. Agreements expiring within one year cover approximately 7% of the Company's full-time employees.

Legal Matters: The Company is subject to litigation from time to time in the ordinary course of business. Although the amount of any liability with respect to such litigation cannot be determined, in the opinion of management, such liability will not have a material adverse effect on the Company's financial condition or results of operations.

Note 12. Significant Customers and Concentration of Credit Risk

The Company sells its products principally to wholesalers for resale to retail outlets including grocery stores, package liquor stores, club and discount stores and restaurants. Gross sales to the five largest wholesalers of the Company represented 26.4%, 22.9%, 16.9% and 21.6% of the Company's gross sales for the fiscal years ending 28 February 1998 and 1997, the Transition Period and for the fiscal year ended 31 August 1995, respectively. Gross sales to the Company's largest wholesaler, Southern Wine and Spirits, represented 12.1%, 10.5% and 10.6% of the Company's gross sales for the fiscal years ended 28 February 1998 and 1997, and for the fiscal year ended 31 August 1995, respectively. Accounts receivable from the Company's largest wholesaler represented 14.1% and 11.3% of the Company's total accounts receivable as of 28 February 1998 and 1997, respectively. No single wholesaler was responsible for greater than 10% of gross sales during the Transition Period. Gross sales to the Company's five largest wholesalers are expected to continue to represent a significant portion of the Company's revenues. The Company's arrangements with certain of its wholesalers may, generally, be terminated by either party with prior notice. The Company performs ongoing credit evaluations of its customers' financial position, and management of the Company is of the opinion that any risk of significant loss is reduced due to the diversity of customers and

geographic sales area.

Note 13. Restructuring Plan

The Company provided for costs to restructure the operations of its California wineries (the Restructuring Plan) in the fourth quarter of fiscal 1994. Under the Restructuring Plan, all bottling operations at the Central Cellars winery in Lodi, California, and the branded wine bottling operations at the Monterey Cellars winery in Gonzales, California, were moved to the Mission Bell winery located in Madera, California. The Monterey Cellars winery will continue to be used as a crushing, winemaking and contract bottling facility. The Central Cellars winery was closed in the fourth quarter of fiscal 1995 and was sold for its approximate net book value during fiscal 1997. In fiscal 1994, the Restructuring Plan reduced income before taxes and net income by approximately \$24,005,000 and \$14,883,000, respectively, or \$0.92 per share on a diluted basis. Of the total pretax charge in fiscal 1994, approximately \$16,481,000 was to recognise estimated losses associated with the revaluation of land, buildings and equipment related to facilities described above to their estimated net realisable value; and approximately \$7,524,000 related to severance and other benefits associated with the elimination of 260 jobs. In fiscal 1995, the Restructuring Plan reduced income before income taxes and net income by approximately \$2,238,000 and \$1,376,000, respectively, or \$0.07 per share on a diluted basis. Of the total pretax charge in fiscal 1995, \$4,288,000 relates to equipment relocation and employee hiring and relocation costs, offset by a decrease of \$2,050,000 in the valuation reserve as compared to fiscal 1994, primarily related to the land, buildings and equipment at the Central Cellars winery. The Company also expended approximately \$19,071,000 in fiscal 1995 for capital expenditures to expand storage capacity and install certain relocated equipment. In the Transition Period, the expense incurred in connection with the Restructuring Plan reduced income before taxes and net income by approximately \$2,404,000 and \$1,192,000, respectively, or \$0.06 per share on a diluted basis. These charges represented incremental, nonrecurring expenses of \$3,982,000 primarily incurred for overtime and freight expenses resulting from inefficiencies related to the Restructuring Plan, offset by a reduction in the accrual for restructuring expenses of \$1,578,000, primarily for severance and facility holding and closure costs. The Company completed the Restructuring Plan at 29 February 1996, with a total employment reduction of 177 jobs. The Company expended approximately \$2,125,000 in fiscal 1997 and \$6,644,000 during the Transition Period for capital expenditures to expand storage capacity. As of 28 February 1997, the Company had accrued liabilities of approximately \$402,000 relating to the Restructuring Plan. As of 28 February 1998, the Company had no accrued liabilities relating to the Restructuring Plan.

Note 14. Summarised Financial Information -- Subsidiary Guarantors

The subsidiary guarantors are wholly owned and the guarantees are full, unconditional, joint and several obligations of each of the subsidiary guarantors. Summarised financial information for the subsidiary guarantors is set forth below. Separate financial statements for the subsidiary guarantors of the Company are not presented because the Company has

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determined that such financial statements would not be material to investors. The subsidiary guarantors comprise all of the direct and indirect subsidiaries of the Company, other than the nonguarantor subsidiaries which individually, and in the aggregate, are inconsequential. There are no restrictions on the ability of the subsidiary guarantors to transfer funds to the Company in the form of cash dividends or loan repayments; however, except for limited amounts, the subsidiary guarantors may not loan funds to the Company.

The following table presents summarised financial information for subsidiary guarantors in connection with all of the Company's 8.75% Senior Subordinated Notes:

| (in US\$ thousands) | 28 Feb 1998 | 28 Feb 1997 |
|------------------------|-------------|-------------|
| ----- | | |
| Balance Sheet Data: | | |
| Current assets | \$ 460,618 | \$ 401,870 |
| Noncurrent assets | \$ 395,225 | \$ 403,068 |
| Current liabilities | \$ 102,207 | \$ 100,009 |
| Noncurrent liabilities | \$ 61,784 | \$ 65,300 |

<TABLE>
<CAPTION>

| (in US\$ thousands) | For the Years Ended | | For the Six Months Ended | | For the |
|------------------------|---------------------|-------------|--------------------------|-------------|------------|
| | 28 Feb 1998 | 28 Feb 1997 | 29 Feb 1996 | 28 Feb 1995 | Year Ended |
| ----- | | | | | |
| Income Statement Data: | | | | | |
| <S> | <C> | <C> | <C> | <C> | <C> |
| Net sales | \$ 985,757 | \$ 907,387 | \$ 416,839 | \$ 334,885 | \$ 716,969 |
| Gross profit | \$ 196,642 | \$ 164,471 | \$ 73,843 | \$ 62,883 | \$ 131,489 |

| | | | | | |
|--|-----------|-----------|-----------|-----------|-----------|
| Income before provision for Federal and state income taxes | \$ 64,270 | \$ 47,303 | \$ 17,083 | \$ 22,690 | \$ 52,756 |
| Net income | \$ 38,094 | \$ 27,392 | \$ 8,466 | \$ 13,954 | \$ 32,445 |

</TABLE>

Note 15. Accounting Pronouncements

In June 1997, Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income," (SFAS No. 130) and Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information," (SFAS No. 131) were issued. SFAS No. 130 establishes standards for reporting and display of comprehensive income and its components in a full set of financial statements. The Company is required to adopt SFAS No. 130 for interim periods and fiscal years beginning 1 March 1998. Reclassification of financial statements for earlier periods provided for comparative purposes is required. The Company believes the effect of adoption will not be significant. SFAS No. 131 establishes standards for reporting information about operating segments in annual financial statements and requires reporting of selected information in interim financial statements. The Company is required to adopt SFAS No. 131 for fiscal years beginning 1 March 1998, and for interim periods beginning 1 March 1999. Restatement of comparative information for earlier years is required in the initial year of adoption and comparative information for interim periods in the initial year of adoption is to be reported for interim periods in the second year of application. The Company has not yet determined the impact of SFAS No. 131 on its financial statements.

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Note 16. Selected Quarterly Financial Information (Unaudited)

A summary of selected quarterly financial information is as follows:

<TABLE>

<CAPTION>

| (in US\$ thousands, except share data) | Quarter Ended | | | | Fiscal 1998 |
|--|---------------|-------------|-------------|-------------|--------------|
| | 31 May 1997 | 31 Aug 1997 | 30 Nov 1997 | 28 Feb 1998 | |
| <S> | <C> | <C> | <C> | <C> | <C> |
| Net sales | \$ 306,011 | \$ 301,524 | \$ 322,703 | \$ 282,550 | \$ 1,212,788 |
| Gross profit | \$ 80,732 | \$ 84,759 | \$ 98,000 | \$ 85,244 | \$ 348,735 |
| Net income | \$ 10,046 | \$ 12,365 | \$ 17,611 | \$ 10,049 | \$ 50,071 |
| Earnings per common share: | | | | | |
| Basic | \$ 0.54 | \$ 0.67 | \$ 0.94 | \$ 0.54 | \$ 2.68 |
| Diluted | \$ 0.53 | \$ 0.65 | \$ 0.92 | \$ 0.53 | \$ 2.62 |
| Market price per share: | | | | | |
| Class A High | \$ 32.25 | \$ 42.75 | \$ 53.50 | \$ 58.50 | |
| Class A Low | \$ 21 7/8 | \$ 29 3/8 | \$ 39.50 | \$ 43.75 | |
| Class B High | \$ 37 | \$ 43 | \$ 54 5/8 | \$ 57.75 | |
| Class B Low | \$ 27 | \$ 35.50 | \$ 40.75 | \$ 45 | |

</TABLE>

<TABLE>

<CAPTION>

| (in US\$ thousands, except share data) | Quarter Ended | | | | Fiscal 1997 |
|--|---------------|-------------|-------------|-------------|--------------|
| | 31 May 1996 | 31 Aug 1996 | 30 Nov 1996 | 28 Feb 1997 | |
| <S> | <C> | <C> | <C> | <C> | <C> |
| Net sales | \$ 276,493 | \$ 279,218 | \$ 317,733 | \$ 261,569 | \$ 1,135,013 |
| Gross profit | \$ 72,907 | \$ 69,835 | \$ 81,683 | \$ 66,407 | \$ 290,832 |
| Net income | \$ 8,501 | \$ 4,941 | \$ 8,311 | \$ 5,922 | \$ 27,675 |
| Earnings per common share: | | | | | |
| Basic | \$ 0.43 | \$ 0.25 | \$ 0.43 | \$ 0.31 | \$ 1.43 |
| Diluted | \$ 0.43 | \$ 0.25 | \$ 0.43 | \$ 0.31 | \$ 1.42 |
| Market price per share: | | | | | |
| Class A High | \$ 39.50 | \$ 32.25 | \$ 27.50 | \$ 31.75 | |
| Class A Low | \$ 27 | \$ 22 7/8 | \$ 15.75 | \$ 25.50 | |
| Class B High | \$ 39.50 | \$ 32.50 | \$ 29.75 | \$ 34 | |
| Class B Low | \$ 27.75 | \$ 25 3/8 | \$ 19 | \$ 28.75 | |

</TABLE>

Note 17. Dividends

The Company's policy is to retain all of its earnings to finance the development and expansion of its business, and the Company has not paid any cash dividends

since its initial public offering in 1973.

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PART B: UNAUDITED FINANCIAL INFORMATION

1. Financial information

The financial information relating to Canandaigua for the six and three months ended 31 August 1998 and 31 August 1997 has been extracted from the Form 10-Q which was filed with the United States Securities and Exchange Commission on 29 September 1998. All information presented in Part B of this Appendix II is unaudited.

2. Consolidated statements of income

<TABLE>

<CAPTION>

| Consolidated Statements of Income (in US\$ thousands, except share data) | For the Six Months Ended 31 August | | For the Three Months Ended 31 August | |
|---|---------------------------------------|------------|---|------------|
| | 1998 | 1997 | 1998 | 1997 |
| <S> | <C> | <C> | <C> | <C> |
| Gross sales | \$ 880,150 | \$ 820,326 | \$ 457,281 | \$ 409,288 |
| Less -- Excise taxes | (217,836) | (212,791) | (107,895) | (107,764) |
| Net sales | 662,314 | 607,535 | 349,386 | 301,524 |
| Cost of product sold | (467,767) | (442,044) | (247,775) | (216,765) |
| Gross profit | 194,547 | 165,491 | 101,611 | 84,759 |
| Selling, general and administrative expenses | (128,786) | (111,483) | (67,454) | (56,258) |
| Operating income | 65,761 | 54,008 | 34,157 | 28,501 |
| Interest expense, net | (15,952) | (16,024) | (7,425) | (7,545) |
| Income before provision for Federal and state income taxes | 49,809 | 37,984 | 26,732 | 20,956 |
| Provision for Federal and state income taxes | (20,422) | (15,573) | (10,960) | (8,591) |
| Net income | \$ 29,387 | \$ 22,411 | \$ 15,772 | \$ 12,365 |
| Earnings per common share: | | | | |
| Basic | \$ 1.57 | \$ 1.20 | \$ 0.85 | \$ 0.67 |
| Diluted | \$ 1.53 | \$ 1.18 | \$ 0.83 | \$ 0.65 |

Weighted average common shares
outstanding:

| | | | | |
|---------|--------|--------|--------|--------|
| Basic | 18,669 | 18,665 | 18,589 | 18,559 |
| Diluted | 19,168 | 19,002 | 19,051 | 18,962 |

</TABLE>

See notes to the consolidated financial statements in section 5 of Part B of this Appendix II.

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3. Consolidated balance sheets

<TABLE>

<CAPTION>

| Consolidated Balance Sheets (in US\$ thousands, except share data) | 31 August 1998 | 28 February 1998 |
|---|-------------------|---------------------|
| <S> | <C> | <C> |
| ASSETS: | | |
| Current assets: | | |
| Cash and cash investments | \$ 1,473 | \$ 1,232 |
| Accounts receivable, net | 154,550 | 142,615 |
| Inventories, net | 345,972 | 394,028 |
| Prepaid expenses and other current assets | 37,550 | 26,463 |

| | | |
|---|--------------|--------------|
| Total current assets | 539,545 | 564,338 |
| Property, plant and equipment, net | 246,157 | 244,035 |
| Other assets | 262,004 | 264,786 |
| Total assets | 1,047,706 | \$ 1,073,159 |
| LIABILITIES AND STOCKHOLDERS' EQUITY: | | |
| Current liabilities: | | |
| Notes payable | \$ 63,000 | \$ 91,900 |
| Current maturities of long-term debt | 24,118 | 24,118 |
| Accounts payable | 65,624 | 52,055 |
| Accrued Federal and state excise taxes | 21,561 | 17,498 |
| Other accrued expenses and liabilities | 101,569 | 97,763 |
| Total current liabilities | 275,872 | 283,334 |
| Long-term debt, less current maturities | 297,407 | 309,218 |
| Deferred income taxes | 59,237 | 59,237 |
| Other liabilities | 5,445 | 6,206 |
| Total liabilities | 637,961 | 657,995 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred Stock, \$0.01 par value -- Authorised, 1,000,000 shares; Issued, none at 31 August 1998, and 28 February 1998 | --- | --- |
| Class A Common Stock, \$0.01 par value -- Authorised, 120,000,000 shares; Issued, 17,802,475 shares at 31 August 1998, and 17,604,784 shares at 28 February 1998 | 178 | 176 |
| Class B Convertible Common Stock, \$0.01 par value -- Authorised, 20,000,000 shares; Issued, 3,873,912 shares at 31 August 1998, and 3,956,183 shares at 28 February 1998 | 39 | 40 |
| Additional paid-in capital | 234,992 | 231,687 |
| Retained earnings | 249,733 | 220,346 |
| | 484,942 | 452,249 |
| Less: Treasury stock -- Class A Common Stock, 3,029,505 shares at 31 August 1998, and 2,199,320 shares at 28 February 1998, at cost | (72,990) | (34,878) |
| Class B Convertible Common Stock, 625,725 shares at 31 August 1998, and 28 February 1998, at cost | (2,207) | (2,207) |
| | (75,197) | (37,085) |
| Total stockholders' equity | 409,745 | 415,164 |
| Total liabilities and stockholders' equity | \$ 1,047,706 | \$ 1,073,159 |

</TABLE>

See notes to the consolidated financial statements in section 5 of Part B of this Appendix II.

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4. Consolidated statements of cash flows

<TABLE>
<CAPTION>

| Consolidated Statements of Cash Flows (in US\$ thousands) | For the Six Months Ended 31 August | |
|---|---------------------------------------|-----------|
| | 1998 | 1997 |
| <S> | <C> | <C> |
| Cash flows from operating activities: | | |
| Net income | \$ 29,387 | \$ 22,411 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation of property, plant and equipment | 11,952 | 12,625 |
| Amortisation of intangible assets | 5,015 | 4,699 |
| Deferred tax provision | 900 | 4,900 |
| Amortisation of discount on long-term debt | 189 | 172 |
| Stock-based compensation expense | 51 | 350 |
| Gain on sale of property, plant and equipment | (3) | (883) |
| Change in operating assets and liabilities: | | |

| | | |
|--|----------|----------|
| Accounts receivable, net | (11,935) | (17,518) |
| Inventories, net | 48,056 | (8,131) |
| Prepaid expenses and other current assets | (10,867) | 1,285 |
| Accounts payable | 11,339 | 57,408 |
| Accrued Federal and state excise taxes | 4,063 | 2,669 |
| Other accrued expenses and liabilities | 2,906 | 1,584 |
| Other assets and liabilities, net | (2,549) | (717) |
| | ----- | ----- |
| Total adjustments | 59,117 | 58,443 |
| | ----- | ----- |
| Net cash provided by operating activities | 88,504 | 80,854 |
| | ----- | ----- |
| Cash flows from investing activities: | | |
| Purchases of property, plant and equipment | (14,098) | (18,213) |
| Purchase of joint venture minority interest | (716) | -- |
| Proceeds from sale of property, plant and equipment | 27 | 8,512 |
| | ----- | ----- |
| Net cash used in investing activities | (14,787) | (9,701) |
| | ----- | ----- |
| Cash flows from financing activities: | | |
| Purchases of treasury stock | (36,014) | (9,233) |
| Net repayments of notes payable | (28,900) | (27,800) |
| Principal payments of long-term debt | (12,000) | (40,409) |
| Exercise of employee stock options | 2,154 | 741 |
| Proceeds from employee stock purchases | 1,284 | 204 |
| Payment of issuance costs of long-term debt | -- | (388) |
| | ----- | ----- |
| Net cash used in financing activities | (73,476) | (76,885) |
| | ----- | ----- |
| Net increase (decrease) in cash and cash investments | 241 | (5,732) |
| Cash and cash investments, beginning of period | 1,232 | 10,010 |
| | ----- | ----- |
| Cash and cash investments, end of period | \$ 1,473 | \$ 4,278 |
| | ===== | ===== |

</TABLE>

See notes to the consolidated financial statements in section 5 of Part B of this Appendix II.

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5. Notes to the consolidated financial statements

Note 1. Management's Representations

The condensed consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission applicable to quarterly reporting on Form 10-Q and reflect, in the opinion of the Company, all adjustments necessary to present fairly the financial information for the Canandaigua Group. All such adjustments are of a normal recurring nature. Certain information and footnote disclosures normally included in financial statements, prepared in accordance with generally accepted accounting principles, have been condensed or omitted as permitted by such rules and regulations. These consolidated financial statements and related notes should be read in conjunction with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the fiscal year ended 28 February 1998.

Note 2. Inventories

Inventories are valued at the lower of cost (computed in accordance with the last-in, first-out (LIFO) or first-in, first-out (FIFO) methods) or market. Substantially all of the inventories are valued using the LIFO method. Elements of cost include materials, labour and overhead and consist of the following:

| (in US\$ thousands) | 31 August 1998 | 28 February 1998 |
|---------------------------------------|-------------------|---------------------|
| Raw materials and supplies | \$ 14,395 | \$ 14,439 |
| Wine and distilled spirits in process | 231,442 | 304,037 |
| Finished case goods | 118,280 | 92,948 |
| | ----- | ----- |
| | 364,117 | 411,424 |
| Less -- LIFO reserve | (18,145) | (17,396) |
| | ----- | ----- |

\$ 345,972 \$ 394,028
 ===== =====

Information related to the FIFO method of inventory valuation may be useful in comparing operating results to those companies not using the LIFO method of inventory valuation. If the FIFO method had been used, reported net income would have been \$0.4 million, or \$0.02 per share on a diluted basis, higher for the six months ended 31 August 1998, and reported net income would have been \$1.7 million, or \$0.09 per share on a diluted basis, higher for the six months ended 31 August 1997.

Note 3. Borrowings

Bank credit agreement: In June 1998, the bank credit agreement was amended to, among other things, eliminate the requirement that the Company reduce the outstanding balance of the revolving loan facility to less than \$60,000,000 for thirty consecutive days during the six months ending each 31 August. In July 1998, the revolving loan facility under the bank credit agreement was increased by \$100.0 million to \$285.0 million.

Note 4. Retirement Savings and Profit Sharing Retirement Plan

Effective 1 March 1998, the Company's existing retirement savings and profit sharing retirement plans and the Barton profit sharing and 401(k) plan were merged into the Canandaigua 401(k) and Profit Sharing Plan (the Plan). The Plan covers substantially all employees, excluding those employees covered by collective bargaining agreements. The 401(k) portion of the Plan permits eligible employees to defer a portion of their compensation (as defined in the Plan) on a pretax basis. Participants may defer up to 10% of their compensation for the year, subject to limitations of the Plan. The Company makes a matching contribution of 50% of the first 6% of compensation a participant defers. The amount of the Company's contribution under the profit sharing portion of the Plan is in such discretionary amount as the Board of Directors may annually determine, subject to limitations of the Plan.

Note 5. Stockholders' Equity

Stock repurchase authorisation: In June 1998, the Company's Board of Directors authorised the repurchase of up to \$100,000,000 of its Class A Common Stock and Class B Convertible Common Stock. The Company may finance such purchases, which will become treasury shares, through cash generated from operations or through the bank credit agreement.

Increase in number of authorised shares of Class A Common Stock: In July 1998, the stockholders of the Company approved an increase in the number of authorised shares of Class A Common Stock from 60,000,000 shares to 120,000,000 shares, thereby increasing the aggregate number of authorised shares of the Company to 141,000,000 shares.

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Note 6. Earnings Per Common Share

The Company adopted the provisions of Statement of Financial Accounting Standards No. 128, "Earnings Per Share," (SFAS No. 128) effective 28 February 1998. Basic earnings per common share excludes the effect of common stock equivalents and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding during the period for Class A Common Stock and Class B Convertible Common Stock. Diluted earnings per common share reflects the potential dilution that could result if securities or other contracts to issue common stock were exercised or converted into common stock. Diluted earnings per common share assumes the exercise of stock options using the treasury stock method and assumes the conversion of convertible securities, if any, using the "if converted" method. Historical earnings per common share have been restated to conform with the provisions of SFAS No. 128.

The computation of basic and diluted earnings per common share is as follows:

| | For the Six Months Ended 31 August | | For the Three Months Ended 31 August | |
|--|---------------------------------------|----------|---|----------|
| | 1998 | 1997 | 1998 | 1997 |
| (in thousands, except per share data) | | | | |
| Income applicable to common shares | \$29,387 | \$22,411 | \$15,772 | \$12,365 |
| Weighted average common shares outstanding -- basic | 18,669 | 18,665 | 18,589 | 18,559 |
| Stock options | 499 | 337 | 462 | 403 |
| Weighted average common shares outstanding -- diluted | 19,168 | 19,002 | 19,051 | 18,962 |

| | | | | |
|--------------------------------------|---------|---------|---------|---------|
| | ===== | ===== | ===== | ===== |
| Earnings per common share -- Basic | \$ 1.57 | \$ 1.20 | \$ 0.85 | \$ 0.67 |
| | ===== | ===== | ===== | ===== |
| Earnings per common share -- Diluted | \$ 1.53 | \$ 1.18 | \$ 0.83 | \$ 0.65 |
| | ===== | ===== | ===== | ===== |

Note 7. Summarised Financial Information -- Subsidiary Guarantors

The subsidiary guarantors are wholly owned and the guarantees are full, unconditional, joint and several obligations of each of the subsidiary guarantors. Summarised financial information for the subsidiary guarantors is set forth below. Separate financial statements for the subsidiary guarantors of the Company are not presented because the Company has determined that such financial statements would not be material to investors. The subsidiary guarantors comprise all of the direct and indirect subsidiaries of the Company, other than the nonguarantor subsidiaries which individually, and in the aggregate, are inconsequential. There are no restrictions on the ability of the subsidiary guarantors to transfer funds to the Company in the form of cash dividends or loan repayments; however, except for limited amounts, the subsidiary guarantors may not loan funds to the Company.

The following table presents summarised financial information for subsidiary guarantors in connection with all of the Company's 8.75% Senior Subordinated Notes:

| | | |
|------------------------|-------------------|---------------------|
| (in US\$ thousands) | 31 August 1998 | 28 February 1998 |
| ----- | | |
| Balance Sheet Data: | | |
| Current assets | \$ 440,223 | \$ 460,618 |
| Noncurrent assets | \$ 394,917 | \$ 395,225 |
| Current liabilities | \$ 121,729 | \$ 102,207 |
| Noncurrent liabilities | \$ 62,010 | \$ 61,784 |

| | | | | |
|---|---------------------------------------|-----------|---|-----------|
| | For the Six Months Ended 31 August | | For the Three Months Ended 31 August | |
| (in US\$ thousands) | 1998 | 1997 | 1998 | 1997 |
| ----- | | | | |
| Income Statement Data: | | | | |
| Net sales | \$552,352 | \$514,338 | \$289,774 | \$253,064 |
| Gross profit | \$122,885 | \$106,425 | \$ 64,673 | \$ 53,093 |
| Income before provision for Federal and state income taxes | \$ 50,451 | \$ 41,448 | \$ 27,406 | \$ 20,233 |
| Net income | \$ 29,766 | \$ 24,768 | \$ 16,221 | \$ 12,103 |

Note 8. Accounting Pronouncement

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 (SFAS No. 133), "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes

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accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, (collectively referred to as derivatives) and for hedging activities. SFAS No. 133 requires that every derivative be recorded as either an asset or liability in the balance sheet measured at its fair value. SFAS No. 133 requires that changes in the derivative's fair value be recognised currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company formally document, designate and assess the effectiveness of transactions that receive hedge accounting. The Company is required to adopt SFAS No. 133 on a prospective basis for interim periods and fiscal years beginning 1 March 2000. The Company believes the effect of adoption on its financial statements will not be material.

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1. Financial information

The financial information contained in this Appendix III relating to Matthew Clark does not constitute statutory accounts within the meaning of section 240 of the Act but has been summarised and extracted from the audited financial statements of Matthew Clark for the three financial years ended 30 April 1998. Matthew Clark's auditors for this period were KPMG for the year ended 30 April 1996 and KPMG Audit Plc thereafter. The auditors have issued unqualified audit reports on the financial statements for each of these three years in accordance with section 235 of the Act. Copies of each of the statutory accounts have been delivered to the Registrar of Companies.

2. Consolidated profit and loss account

The following table sets out the consolidated profit and loss accounts of Matthew Clark for the financial years ended 30 April 1996, 1997 and 1998, as derived from the published, audited accounts for those years:

| Consolidated Profit and Loss Account (in millions pounds sterling, except per share amounts) | Note | For the Years Ended 30 April | | |
|--|------|------------------------------|---------|---------|
| | | 1998 | 1997 | 1996 1 |
| Turnover | 2 | 553.1 | 570.7 | 450.9 |
| Operating costs | 3 | (516.0) | (525.6) | (429.4) |
| Operating profit | 4 | 37.1 | 45.1 | 21.5 |
| Profit/(loss) on fixed asset sales | 7 | 3.7 | 0.4 | (2.0) |
| Profit before interest and tax | 2 | 40.8 | 45.5 | 19.5 |
| Interest receivable | | 0.1 | 0.2 | 0.4 |
| Interest payable and similar charges | 8 | (5.1) | (5.1) | (2.7) |
| Profit on ordinary activities before tax | 2 | 35.8 | 40.6 | 17.2 |
| Tax on profit on ordinary activities | 9 | (10.5) | (12.4) | (5.0) |
| Profit on ordinary activities after tax | | 25.3 | 28.2 | 12.2 |
| Equity minority interests | | -- | -- | (0.1) |
| Dividends | 10 | (11.5) | (21.2) | (21.2) |
| Retained profit/(loss) for the year | 21 | 13.8 | 7.0 | (9.1) |
| Earnings per share | 11 | 28.6p | 31.9p | 18.4p |

1 Includes exceptional items from reorganisation as a result of integration of acquisitions (Note 4). Pre-exceptional items, profit attributable to ordinary shareholders was 29.3m pounds sterling and earnings per share was 44.4p.

There are no recognised gains or losses in any year other than the profit/(loss) for the year.

See notes to the consolidated financial statements in Section 5 of this Appendix III.

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3. Consolidated balance sheets

The following table sets out the consolidated group balance sheets of Matthew Clark as at 30 April 1998 and 1997 as derived from the published audited consolidated accounts at those dates:

| Consolidated Balance Sheets (in millions sterling pound) | Note | 30 April | |
|---|------|----------|--------|
| | | 1998 | 1997 1 |
| Fixed assets | | | |
| Intangible assets | 12 | 9.7 | 9.7 |
| Tangible assets | 13 | 97.1 | 98.6 |
| | | 106.8 | 108.3 |
| Current assets | | | |
| Stocks | 14 | 44.6 | 49.3 |

| | | | |
|---|----|--------|--------|
| Debtors | 15 | 115.7 | 123.7 |
| Cash at bank and in hand | | 17.3 | 5.8 |
| | | ----- | ----- |
| | | 177.6 | 178.8 |
| | | ===== | ===== |
| Creditors: amounts falling due within one year | | | |
| Trade and other creditors | 16 | 105.2 | 116.3 |
| Proposed dividend | 10 | 7.1 | 13.3 |
| Bank loans and overdrafts | | -- | 56.4 |
| | | ----- | ----- |
| | | 112.3 | 186.0 |
| | | ===== | ===== |
| Net current assets/(liabilities) | | | |
| Amounts due within one year | | 44.4 | (29.6) |
| Debtors due after more than one year | 15 | 20.9 | 22.4 |
| | | ----- | ----- |
| | | 65.3 | (7.2) |
| | | ===== | ===== |
| Total assets less current liabilities | | | |
| | | 172.1 | 101.1 |
| Creditors: amounts falling due after more than one year | | | |
| | 17 | 61.2 | 1.9 |
| Provisions for liabilities and charges | 18 | 15.5 | 17.6 |
| | | ----- | ----- |
| Net assets | 2 | 95.4 | 81.6 |
| | | ===== | ===== |
| Capital and reserves | | | |
| Called up share capital | 19 | 22.1 | 22.1 |
| Share premium account | 21 | 105.5 | 105.5 |
| Capital redemption reserve | 21 | 0.1 | 0.1 |
| Profit and loss account | 21 | (32.3) | (46.1) |
| | | ----- | ----- |
| Equity shareholders' funds | 22 | 95.4 | 81.6 |
| | | ===== | ===== |

1 As restated Note 1 (Goodwill)

See notes to the consolidated financial statements in Section 5 of this Appendix III.

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4. Consolidated cash flow statements

The following table sets out the consolidated cash flow statements of Matthew Clark for the financial years ended 30 April 1998 and 1997, extracted from the published audited consolidated accounts for those years:

| Consolidated Statements of Cash Flow (in millions pounds sterling) | Note | For the Years Ended 30 April | |
|---|------|---------------------------------|--------|
| | | 1998 | 1997 |
| Cash inflow from operating activities | 25 | 49.8 | 52.3 |
| | | ----- | ----- |
| Returns on investments and servicing of finance | | | |
| Interest received | | 0.1 | 0.2 |
| Interest paid | | (6.1) | (5.0) |
| Interest element of finance lease rental payments | | (0.1) | (0.1) |
| | | ----- | ----- |
| | | (6.1) | (4.9) |
| | | ----- | ----- |
| Taxation paid | | (7.5) | (7.0) |
| | | ----- | ----- |
| Capital expenditure | | | |
| Purchase of tangible fixed assets | | (31.6) | (21.3) |
| Receipts from sale of fixed assets | | 22.2 | 2.6 |
| | | ----- | ----- |
| | | (9.4) | (18.7) |
| | | ----- | ----- |
| Acquisitions | | (0.8) | 0.3 |
| | | ----- | ----- |
| Dividends paid | | (17.7) | (21.2) |

| | | |
|---|--------|--------|
| Cash inflow before financing | 8.3 | 0.8 |
| | ----- | ----- |
| Financing | | |
| Drawdown of committed loan | 25.0 | 10.0 |
| Issue of ordinary share capital | -- | 0.6 |
| Capital element of finance lease payment | (0.4) | (0.2) |
| | ----- | ----- |
| | 24.6 | 10.4 |
| | ----- | ----- |
| Increase in cash in the period | 32.9 | 11.2 |
| | ===== | ===== |
| Reconciliation of net cashflow to movement in net debt | | |
| Increase in cash in period | 32.9 | 11.2 |
| Cash inflow from increase in debt and leasing financing | (25.6) | (9.8) |
| | ----- | ----- |
| Movement in net debt in the period | 7.3 | 1.4 |
| Net debt at the start of the period | (51.2) | (52.6) |
| | ----- | ----- |
| Net debt at the end of the period | (43.9) | (51.2) |
| | ===== | ===== |
| Analysis of net debt | | |
| Cash at bank and in hand | 17.3 | 5.8 |
| Bank loans and overdrafts | (60.0) | (56.4) |
| Finance lease obligations | (1.2) | (0.6) |
| | ----- | ----- |
| | (43.9) | (51.2) |
| | ===== | ===== |

See notes to the consolidated financial statements in section 5 of this Appendix III.

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5. Notes to the Consolidated Financial Statements

Note 1. Accounting Policies

The accounts have been prepared under the historical cost convention, using the following accounting policies, which have been applied consistently except as noted below under 'Goodwill' and in compliance with applicable accounting standards including Financial Reporting Standard 10.

Basis of consolidation: The Group accounts consist of a consolidation of the accounts of the Company with those of its subsidiary undertakings. All accounts are drawn up to 30 April. The acquisition method of accounting has been adopted. Under this method, the results of acquired subsidiaries and other businesses are included in the consolidated profit and loss account from the date when control passes.

Goodwill: During the year Financial Reporting Standard 10 'Goodwill and intangible assets' was issued and is mandatory for periods ending on or after 23 December 1998. The Group has chosen to adopt the requirements of this standard early. The Group's policy for acquisitions which occurred prior to the issue of the standard is that purchased goodwill, being the excess of the fair value of consideration paid or payable over the fair value of the identifiable net assets acquired, has been taken directly to reserves. On subsequent disposal, goodwill previously taken direct to reserves is included in determining the profit or loss on disposal. Previously, such goodwill was presented separately within reserves as a 'goodwill write off reserve'. This is not permitted by the Standard and, accordingly, goodwill has been taken to merger reserve to the extent available (309.5m pounds sterling) and the balance (52.8m pounds sterling) taken to the profit and loss account reserve. The comparatives have been restated accordingly.

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

Depreciation: Depreciation of fixed assets is provided on the original cost of the Group or its acquired businesses at rates calculated to write down the assets to their estimated residual values on a straight line basis over the total expected economic lives of the assets. The principal periods used are:

| | |
|---------------------|-----------------|
| Freehold buildings | 50 years |
| Leasehold buildings | Length of lease |
| Plant and machinery | 8 to 25 years |

| | |
|--------------------|--------------|
| Computer equipment | 3 to 5 years |
| Motor vehicles | 4 to 7 years |

Assets in the course of the construction are not depreciated. They are transferred to the relevant fixed asset category when they become operational. Freehold land is not depreciated.

Stocks: Stocks have been 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 Group, cost includes direct materials and labour together with appropriate overheads incurred in bringing the product to its present location and condition.

Deferred tax: Deferred tax is provided using the liability method in respect of the tax effect of all timing differences to the extent that it is probable that liabilities or assets will crystallise in the future.

Foreign currency: Receipts and payments of foreign currency are recorded at actual rates obtained. Foreign currency balances at the year end are translated at the rate ruling at that date. All exchange differences are dealt with through the profit and loss account.

Brand valuation: The cost of acquired brands is capitalised as an intangible asset at the time of acquisition. No annual amortisation is provided on these assets but the directors assess the value of the brands each year and any permanent diminution in value is written off to the profit and loss account.

Leases: Where the Group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful economic life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments. All other rentals relating to assets held under operating leases are charged to the profit and loss account on a straight line basis over the period of the lease.

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Pension costs: Pension costs for the Group's defined benefit pension schemes are charged against profits so as to spread the cost of pensions over the employees' expected working lives within the Group.

Note 2. Segmental Information

All turnover and profit originates in the UK. There are no material sales to customers outside the UK.

<TABLE>

<CAPTION>

| | Branded drinks | | Wholesale | | Group | |
|--|----------------|--------|-----------|-------|--------|--------|
| | 1998 | 1997 | 1998 | 1997 | 1998 | 1997 |
| Turnover (in millions pounds sterling) | | | | | | |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| Total | 343.5 | 367.0 | 225.2 | 215.1 | 568.7 | 582.1 |
| Less intersegmental sales | (15.6) | (11.4) | -- | -- | (15.6) | (11.4) |
| Sales to third parties | 327.9 | 355.6 | 225.2 | 215.1 | 553.1 | 570.7 |
| Operating profit | 28.7 | 38.1 | 8.4 | 7.0 | 37.1 | 45.1 |
| Profit on fixed asset disposals | 3.7 | -- | -- | 0.4 | 3.7 | 0.4 |
| Profit before interest and tax | 32.4 | 38.1 | 8.4 | 7.4 | 40.8 | 45.5 |
| Net interest payable | | | | | (5.0) | (4.9) |
| Profit before tax | | | | | 35.8 | 40.6 |
| Net assets | | | | | | |
| Segment net assets | 120.3 | 116.7 | 20.6 | 27.0 | 140.9 | 143.7 |
| Unallocated net liabilities | | | | | (45.5) | (62.1) |
| Total net assets | | | | | 95.4 | 81.6 |
| Unallocated assets and liabilities consist of: | | | | | | |
| Cash at bank and in hand | | | | | 17.3 | 5.8 |
| Pension prepayment | | | | | 19.0 | 19.1 |
| Dividends payable | | | | | (7.1) | (13.3) |

| | | |
|--|--------|--------|
| Finance lease liabilities and deferred consideration | (2.8) | (2.9) |
| Loans and overdrafts | (60.0) | (56.4) |
| Provisions | (11.9) | (14.4) |
| | ----- | ----- |
| | (45.5) | (62.1) |
| | ===== | ===== |

</TABLE>

Note 3. Operating Costs

<TABLE>
<CAPTION>

| (in millions pounds sterling) | Note | 1998 | 1997 |
|--|-------|-------|-------|
| ----- | ----- | ----- | ----- |
| <S> | <C> | <C> | <C> |
| Change in stocks of finished goods and work in progress | | 7.5 | 11.7 |
| Raw materials, consumables and other external charges (incl. duty) | | 466.2 | 474.6 |
| Staff costs | 6 | 32.8 | 30.9 |
| Depreciation and amounts written off fixed asset investments | 13 | 9.8 | 8.7 |
| Royalties from overseas | | (0.3) | (0.3) |
| | | ----- | ----- |
| | | 516.0 | 525.6 |
| | | ===== | ===== |

</TABLE>

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Note 4. Operating Profit

| (in millions pounds sterling) | 1998 | 1997 |
|---|-------|-------|
| ----- | ----- | ----- |
| Operating profit is stated after charging/(crediting): | | |
| Operating lease charges: | | |
| Plant and machinery | 0.4 | 0.4 |
| Other | 1.7 | 1.4 |
| Auditors' remuneration for audit services | 0.2 | 0.3 |
| Loss on disposal of fixed assets | 3.6 | 2.9 |
| Release of amounts charged as exceptional costs in prior years no longer required | (1.2) | --- |
| Exceptional write down of wine dispense equipment with customers | 1.0 | --- |

Amounts payable to the auditors and their associates for non audit services were 0.1m pounds sterling (1997 -- 0.1m pounds sterling).

Exceptional items in the year ended 30 April 1996 were as follows:

<TABLE>
<CAPTION>

| (in millions pounds sterling) | Branded Drinks Division | Wholesale Division | Total 1996 |
|--|-------------------------|--------------------|------------|
| ----- | ----- | ----- | ----- |
| <S> | <C> | <C> | <C> |
| a) Reorganisation | | | |
| Employee severance and relocation costs | 3.7 | 3.6 | 7.3 |
| Stock write downs | 1.5 | 0.7 | 2.2 |
| Property, plant relocation and other costs | 7.5 | 5.4 | 12.9 |
| | ----- | --- | ----- |
| | 12.7 | 9.7 | 22.4 |
| Provision for loss on disposal of fixed assets | 2.5 | 0.2 | 2.7 |
| | ----- | --- | ----- |
| | 15.2 | 9.9 | 25.1 |
| | ===== | === | ===== |

</TABLE>

The reorganisation costs arose as a result of integration programmes within the divisions following acquisition of businesses. The costs charged in 1996 were net of a release of provisions of 2,249,000 pounds sterling established in 1995 and which were no longer required.

The tax effect of exceptional items was a credit of 7.9m pounds sterling.

Note 5. Directors' Interests

Directors'emoluments:

<TABLE>
<CAPTION>

Total Emoluments

| (in thousands pounds sterling) | Basic Salary | | Cash Value of Benefits in Kind | | (excluding pension contributions) | |
|--------------------------------|--------------|---------|--------------------------------|---------|-----------------------------------|---------|
| | 1997/98 | 1996/97 | 1997/98 | 1996/97 | 1997/98 | 1996/97 |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| Peter Aikens | 230 | 230 | 14 | 14 | 244 | 244 |
| Hugh Etheridge | 130 | 130 | 13 | 13 | 143 | 143 |
| Peter Huntley | 119 | 130 | 10 | 11 | 129 | 141 |
| Robert MacNevin | 128 | -- | 18 | -- | 146 | -- |
| Kevin Philp | 100 | -- | 6 | -- | 106 | -- |
| Martin Boase | 21 | 21 | -- | -- | 21 | 21 |
| Michael Garner | 21 | 40 | -- | -- | 21 | 40 |
| Graham Wilson | 60 | -- | -- | -- | 60 | -- |
| Andrew Nash | -- | 130 | -- | 12 | -- | 142 |
| Former directors | -- | 67 | -- | 6 | -- | 73 |
| | 809 | 748 | 61 | 56 | 870 | 804 |
| | ==== | ==== | ==== | ==== | ==== | ==== |

</TABLE>

On 19 March 1998 the sum of 110,000 pounds sterling was paid to Peter Huntley by way of compensation for the termination of his employment with the Company. On 12 May 1997 the sum of 177,630 pounds sterling was paid to Andrew Nash (a former director) by way of compensation for the termination of his employment with the Company.

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Directors' pension contributions: Directors who were members of the Matthew Clark Executive Pension Plan had benefits as follows:

| <TABLE> | | | | | |
|-----------------|----------------------|-----------------|-----------------|-----------------|--------|
| <CAPTION> | | | | | |
| Accumulated | Increase in | Transfer | Contributions | Increase | |
| Accrued Pension | Accrued Pension | Value of | by Individual | Attributable | |
| at Year End | During the Year | the Increase | Director | to Company | |
| sterling p.a. | pounds sterling p.a. | pounds sterling | pounds sterling | pounds sterling | pounds |
| <S> | <C> | <C> | <C> | <C> | <C> |
| Hugh Etheridge | 3,036 | 35,000 | 4,200 | 30,800 | |
| 20,672 | | | | | |
| Robert MacNevin | 2,920 | 24,056 | 4,200 | 19,856 | |
| 2,920 | | | | | |
| Kevin Philp | 1,585 | 13,618 | 4,908 | 8,710 | |
| 32,463 | | | | | |

</TABLE>

Contributions to Personal Pension schemes:

| (in thousands pounds sterling) | Contributions to Personal Pension Plans | |
|--------------------------------|---|---------|
| | 1997/98 | 1996/97 |
| Peter Aikens | 83 | 83 |
| Peter Huntley | 35 | 37 |
| Andrew Nash | -- | 39 |
| Hugh Etheridge | 13 | 14 |
| Robert MacNevin | 10 | -- |

Contributions in respect of Peter Aikens and Peter Huntley were to their respective personal pension plans up to the maximum permitted under Inland Revenue rules. The element of contributions in excess of Inland Revenue rules is paid into a Funded Unapproved Retirement Benefit Scheme for the benefit of each individual.

Directors' beneficial interest in shares:

| | 30 April 1998 | 1 May 1997 |
|----------------|---------------|------------|
| Peter Aikens | *79,467 | 71,267 |
| Hugh Etheridge | *31,591 | 28,891 |

| | | |
|-----------------|--------|--------|
| Peter Huntley | -- | 29,391 |
| Robert MacNevin | -- | -- |
| Kevin Philp | 5,000 | 5,000 |
| Martin Boase | 10,000 | 10,000 |
| Michael Garner | 10,000 | 10,000 |
| Graham Wilson | 10,000 | 10,000 |

*Note: A number of these shares were purchased from bonus paid under the Capital Incentive Scheme which imposes a minimum period before such shares may be sold. Details are provided below:

| | Shares to be Held Until 1998 | Shares to be Held Until 1999 |
|----------------|------------------------------------|------------------------------------|
| Peter Aikens | 8,227 | 9,715 |
| Hugh Etheridge | 4,775 | 5,675 |

There were no changes between 30 April 1998 and 6 July 1998.

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Directors' share options:

<TABLE>
<CAPTION>

| | 1 May 1997 | 30 April 1998 | Exercise Price | Date from which Exercisable | Expiry Date |
|-----------------|------------|---------------|----------------|--------------------------------|-------------|
| <S> | <C> | <C> | <C> | <C> | <C> |
| Peter Aikens | 52,652 | 52,652 | 331p | 1996 | 2003 |
| | 24,723 | 24,723 | 566p | 1997 | 2004 |
| | 56,811 | 56,811 | 561p | 1997 | 2004 |
| | 59,000 | 59,000 | 662p | 1998 | 2005 |
| | ----- | ----- | | | |
| | 193,186 | 193,186 | | | |
| | ===== | ===== | | | |
| Hugh Etheridge | 24,723 | 24,723 | 566p | 1997 | 2004 |
| | 18,937 | 18,937 | 561p | 1997 | 2004 |
| | 33,000 | 33,000 | 662p | 1998 | 2005 |
| | ----- | ----- | | | |
| | 76,660 | 76,660 | | | |
| | ===== | ===== | | | |
| Robert MacNevin | --- | 40,000 | 247.5p | 2000 | 2007 |
| | ===== | ===== | | | |
| Kevin Philp | 21,041 | 21,041 | 566p | 1997 | 2004 |
| | 10,521 | 10,521 | 523p | 1997 | 2004 |
| | 10,000 | 10,000 | 555p | 1998 | 2005 |
| | 2,000 | 2,000 | 662p | 1998 | 2005 |
| | 2,000 | 2,000 | 680p | 1999 | 2006 |
| | --- | 60,000 | 247.5p | 2000 | 2007 |
| | ----- | ----- | | | |
| | 45,562 | 105,562 | | | |
| | ===== | ===== | | | |

</TABLE>

At 30 April 1998, the Company's share price was 201.5p. The highest and lowest share prices during the year were 277.5p and 162.5p respectively. Exercise of the above options was not conditional upon any performance criteria.

All options were granted for nil consideration.

Note 6. Staff Numbers and Costs

The average number of people employed by the Group, including directors, within each category of activity was:

| (number of people) | 1998 | 1997 |
|---|-------|-------|
| Production staff | 471 | 516 |
| Sales, marketing and distribution staff | 883 | 792 |
| Administration staff | 268 | 270 |
| | --- | --- |
| | 1,622 | 1,578 |
| | ===== | ===== |

The aggregate payroll costs of these persons were as follows:

| (in millions pounds sterling) | 1998 | 1997 |
|-------------------------------|-------|-------|
| Wages and salaries | 30.2 | 28.6 |
| Social security costs | 2.4 | 2.4 |
| Other pension costs | 0.2 | (0.1) |
| | ---- | ---- |
| | 32.8 | 30.9 |
| | ===== | ===== |

Note 7. Profit/(loss) on Fixed Asset Sales

The profit on fixed asset sales comprises:

| (in millions pounds sterling) | 1998 | 1997 |
|---|-------|-------|
| Profit on property sales | 4.2 | 0.4 |
| Provision for loss on plant and machinery sales | (0.5) | --- |
| | ---- | ---- |
| | 3.7 | 0.4 |
| | ===== | ===== |

The tax charge for the year includes 1.2m pounds sterling in respect of property sales.

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Note 8. Interest Payable and Similar Charges

| (in millions pounds sterling) | 1998 | 1997 |
|--|-------|-------|
| Bank interest and interest on loans repayable within 5 years | 5.0 | 4.9 |
| Finance charges on finance leases | 0.1 | 0.1 |
| Other | --- | 0.1 |
| | ---- | ---- |
| | 5.1 | 5.1 |
| | ===== | ===== |

In addition interest capitalised into tangible fixed assets during the year was 0.6m pounds sterling (1997 Nil pounds sterling).

Note 9. Tax on Profit on Ordinary Activities

| (in millions pounds sterling) | 1998 | 1997 |
|--|-------|-------|
| The charge in the profit and loss account consists of: | | |
| Corporation tax at 31% (1997 -- 33%) | 14.9 | 7.6 |
| Deferred tax -- effect of change in rate from 33% to 30% | (0.9) | --- |
| Deferred tax -- other | (3.5) | 4.8 |
| | ---- | ---- |
| | 10.5 | 12.4 |
| | ===== | ===== |

The deferred tax provision/(asset) represents:

| | | |
|--|-------|-------|
| Excess of capital allowances over depreciation | (1.4) | 6.6 |
| Unutilised losses | --- | (1.3) |
| Pensions timing differences | 5.7 | 6.3 |
| Other timing differences | (0.7) | (3.6) |
| Offset of ACT recoverable | --- | (4.8) |
| | ---- | ---- |
| | 3.6 | 3.2 |
| | ===== | ===== |

Full provision has been made for deferred tax except for a deferred tax asset of 0.1m pounds sterling (1997 -- 0.2m pounds sterling) on the excess of capital allowances over depreciation.

| (in millions pounds sterling) | 1998 | 1997 |
|---|-------|-------|
| Deferred tax | | |
| At the beginning of the year | 3.2 | (0.4) |
| ACT and losses transferred to/(from) corporation tax | 4.8 | (2.9) |
| Adjustment to fair value | --- | 1.7 |
| Deferred tax (credit)/charge to profit and loss account | (4.4) | 4.8 |
| | ---- | ---- |
| At the end of the year | 3.6 | 3.2 |
| | ===== | ===== |

Note 10. Dividends

| | 1998 Pence per share | 1997 Pence per share | 1998 m pounds sterling | 1997 m pounds sterling |
|-----------------------------|----------------------------|----------------------------|------------------------------|------------------------------|
| Dividends paid or proposed: | | | | |
| ----- | | | | |
| Ordinary shares | | | | |
| Interim dividend paid of | 5.0 | 9.0 | 4.4 | 7.9 |
| Proposed final dividend of | 8.0 | 15.0 | 7.1 | 13.3 |
| | ---- | ---- | ---- | ---- |
| Total | 13.0 | 24.0 | 11.5 | 21.2 |
| | ===== | ===== | ===== | ===== |
| Gross equivalent per share | 16.25 | 30.0 | | |
| | ===== | ===== | | |

Note 11 Earnings Per Share

The calculation of earnings per share is based on a profit of 25.3m pounds sterling and 88,520,498 shares, being the weighted average number in issue (1997 -- profit 28.2m pounds sterling and 88,469,740 shares in issued). A fully diluted earnings per share figure based on share options outstanding is not provided as the effect on earnings per share is not material.

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Note 12. Intangible Assets

| Group | m pounds sterling |
|---|-------------------|
| ----- | |
| Cost and net book value of Strathmore brand | |
| As at 30 April 1998 and 30 April 1997 | 9.7 |
| | ===== |

Note 13. Tangible Assets

<TABLE>

<CAPTION>

| Group (in millions pounds sterling) | Land and Buildings | | | Assets Under Construction | Plant Machinery and Vehicles | Fixtures, Fittings, Tools and Equipment | Total |
|--|--------------------|-------------------|--------------------|---------------------------------|---------------------------------------|--|--------|
| | Freehold | Long Leasehold | Short Leasehold | | | | |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| Cost | | | | | | | |
| At 30 April 1997 | 29.1 | 2.0 | 0.9 | 4.7 | 110.3 | 11.7 | 158.7 |
| Additions | 1.2 | 0.7 | 0.3 | 14.2 | 12.2 | 2.5 | 31.1 |
| Reclassifications | 16.1 | (0.1) | --- | (18.3) | 1.7 | 0.6 | --- |
| Disposals | (22.2) | (1.3) | --- | --- | (8.9) | (2.8) | (35.2) |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| At 30 April 1998 | 24.2 | 1.3 | 1.2 | 0.6 | 115.3 | 12.0 | 154.6 |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Depreciation | | | | | | | |
| At 30 April 1997 | 7.6 | 0.7 | 0.2 | --- | 43.8 | 7.8 | 60.1 |
| Charged in the year | 0.4 | --- | --- | --- | 8.2 | 1.2 | 9.8 |
| Disposals | (5.2) | (0.4) | --- | --- | (4.2) | (2.6) | (12.4) |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| At 30 April 1998 | 2.8 | 0.3 | 0.2 | --- | 47.8 | 6.4 | 57.5 |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Net book amounts: | | | | | | | |
| At 30 April 1997 | 21.5 | 1.3 | 0.7 | 4.7 | 66.5 | 3.9 | 98.6 |
| At 30 April 1998 | 21.4 | 1.0 | 1.0 | 0.6 | 67.5 | 5.6 | 97.1 |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== |

</TABLE>

Included within the depreciation charge for the year for plant machinery and vehicles of 8.2m pounds sterling is an exceptional write-down of 1.0m pounds sterling of wine dispensing equipment with customers.

The net book value of assets held under finance leases within plant machinery and vehicles as at 30 April 1998 was 1.1m pounds sterling (1997 -- 0.9m pounds sterling). Depreciation on assets held under finance leases during the year ended 30 April 1998 was 0.2m pounds sterling (1997 -- 0.4m pounds sterling). Freehold land and buildings includes 4.6m pounds sterling (1997 -- 4.6m pounds sterling) in respect of land.

Note 14. Stocks

| (in millions pounds sterling) | 1998 | 1997 |
|-------------------------------|------|------|
| ----- | | |

| | | |
|-------------------------------|-------|-------|
| Raw materials and consumables | 8.7 | 5.9 |
| Work in progress | 7.3 | 9.7 |
| Finished goods for resale | 28.6 | 33.7 |
| | ---- | ---- |
| | 44.6 | 49.3 |
| | ===== | ===== |

Note 15. Debtors

| | | |
|---|-------|-------|
| (in millions pounds sterling) | 1998 | 1997 |
| ----- | | |
| Amounts falling due within one year: | | |
| Trade debtors | 83.3 | 91.2 |
| ACT recoverable | --- | 1.7 |
| Other debtors | 6.4 | 4.9 |
| Prepayments and accrued income | 5.1 | 3.5 |
| | ---- | ---- |
| | 94.8 | 101.3 |
| | ===== | ===== |
| Amounts falling due after more than one year: | | |
| ACT recoverable | 1.9 | 3.3 |
| Pension prepayment | 19.0 | 19.1 |
| | 20.9 | 22.4 |
| | ---- | ---- |
| | 115.7 | 123.7 |
| | ===== | ===== |

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Note 16. Creditors: Amounts Falling Due Within One Year

| | | |
|--|-------|-------|
| (in millions pounds sterling) | 1998 | 1997 |
| ----- | | |
| Trade and other creditors | | |
| Trade creditors | 52.0 | 52.8 |
| Corporation tax | 4.7 | 2.9 |
| Other tax, including social security and ACT payable | 10.4 | 12.3 |
| Finance lease obligations less than one year (note 17) | 0.4 | 0.4 |
| Other creditors, including deferred duty | 11.0 | 12.5 |
| Accruals and deferred income | 26.7 | 35.4 |
| | ---- | ---- |
| | 105.2 | 116.3 |
| | ===== | ===== |

Note 17. Creditors: Amounts Falling Due After More Than One Year

| | | |
|---------------------------------------|-------|-------|
| (in millions pounds sterling) | 1998 | 1997 |
| ----- | | |
| Bank loans and overdrafts (unsecured) | 60.0 | --- |
| Obligations under finance leases | 0.8 | 0.2 |
| Deferred purchase consideration | 0.4 | 1.7 |
| | ---- | ---- |
| | 61.2 | 1.9 |
| | ===== | ===== |

The deferred purchase consideration of 0.4m pounds sterling in the current year is in addition to 1.2m pounds sterling (1997 - 0.6m pounds sterling) included within other creditors due in less than one year and relates to the acquisitions of Dunn & Moore and Liddingtons and is related to future profits. The amount provided represents both the current best estimate of the amount payable in due course, and the maximum amount payable.

The maturity of net obligations under finance leases and hire purchase contracts is as follows:

| | | |
|-------------------------------|-------|-------|
| (in millions pounds sterling) | 1998 | 1997 |
| ----- | | |
| Within one year | 0.4 | 0.4 |
| In the second to fifth years | 0.4 | 0.2 |
| Over five years | 0.4 | --- |
| | ---- | ---- |
| | 1.2 | 0.6 |
| | ===== | ===== |

Note 18. Provisions for Liabilities and Charges

| | | |
|-------------------------------|-------|-------|
| (in millions pounds sterling) | 1998 | 1997 |
| ----- | | |
| Deferred tax (see note 9) | 3.6 | 3.2 |
| Provisions | 11.9 | 14.4 |
| | ---- | ---- |
| | 15.5 | 17.6 |
| | ===== | ===== |

| | | |
|--|-------|-------|
| Provisions | | |
| At the beginning of the year | 14.4 | 17.5 |
| Transfer to creditors | --- | (0.4) |
| Release to profit and loss account within exceptional item | (1.0) | --- |
| Used during the year | (1.5) | (2.3) |
| Released to goodwill | --- | (0.4) |
| | ---- | ---- |
| At the end of the year | 11.9 | 14.4 |
| | ==== | ==== |

Provisions primarily relate to surplus property costs.

The Group has a number of freehold and leasehold properties which are surplus to operational requirements. Provision has been made for future fixed costs associated with these properties for the period up to their expected disposal. To the extent that these properties are disposed of earlier than anticipated a benefit will arise; conversely if the properties are not disposed of within the anticipated period a contingent liability exists for the ongoing fixed costs.

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Note 19. Share Capital

<TABLE>
<CAPTION>

| Total | 4.9 per cent Cumulative Redeemable Preference Shares of 1 pound sterling each | | Ordinary Shares of 25p each | | |
|---------------------------------------|---|-------------------|-----------------------------|-------------------|-------|
| | Number | m pounds sterling | Number | m pounds sterling | m |
| ----- | ----- | ----- | ----- | ----- | ----- |
| Authorised: pounds sterling | | | | | |
| ----- | ----- | ----- | ----- | ----- | ----- |
| <S> | <C> | <C> | <C> | <C> | |
| <C> | | | | | |
| As at 30 April 1997 and 30 April 1998 | 260,000 | 0.3 | 117,920,000 | 29.5 | |
| 29.8 | | | | | |
| Allotted, called up and fully paid | | | | | |
| In issue as at 30 April 1997 | | | | | |
| and 30 April 1998 | --- | --- | 88,520,498 | 22.1 | |
| 22.1 | | | | | |

</TABLE>

During the year no ordinary shares were issued under the share option schemes (1997 -- 217,240 shares were issued for a total consideration of 0.6m pounds sterling)

Note 20. Share Options

Savings related share option scheme: Employees and directors in the UK with a minimum of two years' service were entitled to apply for options to acquire ordinary shares at 100% (1997 -- 100%) of the average of the middle market price on the three dealing days immediately preceding the date of the invitation.

At 30 April 1998 options granted and outstanding under employee share schemes amounted to 458,102 ordinary shares. These options are exercisable at varying dates up to 2002 at prices ranging from 2.92 pounds sterling to 5.26 pounds sterling per share. During the year the Company issued no ordinary shares under the employee share schemes.

Executive share option scheme: Under the Company's executive scheme the board may offer options to executives, whose performance contributes significantly to the Company's results, at the middle market price on the dealing day immediately preceding the date of the grant of the option.

| | | |
|---|-----------|-----------|
| At 30 April 1998 options exercisable were as follows: | Price per | Number of |
| Options exercisable between: | Share | Shares |
| ----- | ----- | ----- |
| 15 March 1992 and 14 March 1999 | 338p | 1,300 |
| 22 June 1996 and 21 June 2003 | 331p | 65,652 |
| 20 January 1997 and 19 January 2004 | 566p | 123,089 |
| 11 July 1997 and 10 July 2004 | 523p | 50,497 |
| 17 October 1997 and 16 October 2004 | 561p | 93,633 |
| 16 January 1998 and 15 January 2005 | 555p | 61,000 |
| 20 July 1998 and 19 July 2005 | 628p | 13,000 |
| 10 November 1998 and 9 November 2005 | 662p | 106,000 |

| | | |
|-------------------------------------|--------|---------|
| 16 January 1999 and 15 January 2006 | 680p | 43,000 |
| 28 January 2000 and 27 January 2007 | 296.5p | 203,000 |
| 25 July 2000 and 24 July 2007 | 247.5p | 580,000 |
| 8 January 2001 and 7 January 2008 | 163p | 225,000 |

During the year the Company issued no ordinary shares under the executive share option schemes.

Note 21. Reserves

<TABLE>

<CAPTION>

| (in millions pounds sterling) | Share Premium | Capital Redemption Reserve | Merger Reserve | Goodwill Write-off Reserve | Profit and Loss Account |
|---|---------------|----------------------------|----------------|----------------------------|-------------------------|
| <S> | <C> | <C> | <C> | <C> | <C> |
| As at 30 April 1997 and 30 April 1998 | 105.5 | 0.1 | 309.5 | (362.3) | 6.7 |
| Prior year adjustment (note 1 ('Goodwill')) | --- | --- | (309.5) | 362.3 | (52.8) |
| | ----- | ----- | ----- | ----- | ----- |
| At 30 April 1997 as restated | 105.5 | 0.1 | --- | --- | (46.1) |
| Retained profit for the year | --- | --- | --- | --- | 13.8 |
| | ----- | ----- | ----- | ----- | ----- |
| At 30 April 1998 | 105.5 | 0.1 | --- | --- | (32.3) |
| | ===== | ===== | ===== | ===== | ===== |

</TABLE>

The Cumulative amount of goodwill written off to reserves is 362.3m pounds sterling (1997 -- 362.3m pounds sterling).

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Note 22. Reconciliations of Movements in Shareholders' Funds

| (in millions pounds sterling) | 1998 | 1997 |
|---|--------|--------|
| Opening shareholders' funds | 81.6 | 71.9 |
| | ---- | ---- |
| Profit for the year | 25.3 | 28.2 |
| Dividends paid and proposed | (11.5) | (21.2) |
| | ----- | ----- |
| Retained profit for the year | 13.8 | 7.0 |
| New share capital subscribed | --- | 0.6 |
| Goodwill adjustment | --- | 2.1 |
| | ----- | ----- |
| Net addition to the shareholders' funds | 13.8 | 9.7 |
| | ---- | ---- |
| Closing shareholders' funds | 95.4 | 81.6 |
| | ===== | ===== |

Note 23. Financial and Capital Commitments

| (in millions pounds sterling) | 1998 | 1997 |
|--|-------|-------|
| Contracted commitments for capital expenditure | 2.2 | 11.8 |
| | ===== | ===== |

| (in millions pounds sterling) | 1998 | | 1997 | |
|--|--------------------|-------|--------------------|-------|
| | Land and Buildings | Other | Land and Buildings | Other |
| Annual commitments under operating leases which expire | | | | |
| Within one year | --- | --- | 0.1 | 0.1 |
| In the second to fifth years inclusive | 0.1 | 0.6 | --- | 0.1 |
| Over five years | 2.9 | --- | 2.3 | 0.3 |
| | ----- | ----- | ----- | ----- |
| | 3.0 | 0.6 | 2.4 | 0.5 |
| | ===== | ===== | ===== | ===== |

The Group had 9.8m pounds sterling (1997 -- 5.0m pounds sterling) of commitments under forward currency contracts 30 April 1998.

Note 24. Pensions

The Company and its subsidiaries currently operate two Pension Plans, the Matthew Clark Group Pension Plan and the Matthew Clark Executive Pension Plan. These Plans are of the defined benefit type with assets held in Trustee administered funds separate from the Company's finances. In addition, a further Plan was acquired with the acquisition of Taunton Cider. This Scheme was merged with the Matthew Clark Group Pension Plan on 1 April 1997.

Actuarial valuations of the Matthew Clark Group Pension Plan have been carried out by independent actuaries as at 1 January 1996. The funding level of the combined Plans on the assumptions stated below as at 1 January 1996 was 141%. The combined market value of the assets at 1 January 1996 was approximately 92m pounds sterling. The pension cost is assessed in accordance with a qualified actuary's advice. The Actuary has considered the long-term effects of the removal of ACT relief for pension funds on the level of funding of the Plans. The increase in the pension expense is not significant.

The assumptions adopted for the purposes of SSAP 24 were as follows:

| | |
|-----------------------------|-------|
| Long-term investment return | 9.00% |
| Salary escalation | 6.00% |

Pension increases were allowed for in accordance with the Rules of the Plan and the past practice of granting discretionary increases. Assets were taken into account at 94.6% of their market value.

On a discontinuance of either of the Plans, the market value of the assets exceeded the cost of securing the liabilities at the appropriate valuation date, assuming that cash equivalent transfer values were paid in respect of active or deferred members.

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Note 25. Reconciliation of Operating Profit to Operating Cashflows

| (in millions pounds sterling) | 1998 | 1997 |
|---|-------|--------|
| Operating profit | 37.1 | 45.1 |
| Depreciation charges | 9.8 | 8.7 |
| Loss on disposal and write-off of tangible fixed assets | 3.6 | 2.9 |
| Cashflow relating to previous year's restructuring provisions | (4.5) | (11.2) |
| Decrease in stocks | 4.7 | 11.7 |
| Decrease in debtors | 5.4 | 13.6 |
| Decrease in creditors and provisions | (6.3) | (18.5) |
| | ----- | ----- |
| Net cash inflow from operating activities | 49.8 | 52.3 |
| | ===== | ===== |

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APPENDIX IV ADDITIONAL INFORMATION

1. Directors' responsibilities

The directors of Canandaigua and Canandaigua Limited, whose names are set out in paragraph 2(a) below, accept responsibility for the information contained in this document other than that relating to the Matthew Clark Group, the directors of Matthew Clark, members of their immediate families, related trusts and persons connected with them. To the best of the knowledge and belief of the directors of Canandaigua and Canandaigua Limited (who have taken all reasonable care to ensure that such is the case) the information contained in this document for which they are responsible is in accordance with the facts and does not omit anything likely to affect the import of such information.

The directors of Matthew Clark, whose names are set out in paragraph 2(b) below, accept responsibility for the information contained in this document relating to the Matthew Clark Group, the directors of Matthew Clark, members of their immediate families, related trusts and persons connected with them. To the best of the knowledge and belief of the directors of Matthew Clark (who have taken all reasonable care to ensure that such is the case) the information contained in this document for which they are responsible is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. Directors of Canandaigua, Canandaigua Limited and Matthew Clark

- (a) (i) The directors of Canandaigua and their functions are as follows:
Marvin Sands (Chairman)

Richard Sands (President and Chief Executive Officer)
Robert Sands (Executive Vice President, General Counsel and Secretary)
Bertram Silk (Executive Director)
George Bresler (Non-Executive Director)
James Locke (Non-Executive Director)
Thomas McDermott (Non-Executive Director)
Paul Smith (Non-Executive Director)

The principal office of Canandaigua is at 300 WillowBrook Office Park, Fairport, NY 14450, United States.

- (ii) The directors of Canandaigua Limited are as follows:
Richard Sands
Robert Sands
Thomas Summer

The registered office of Canandaigua Limited, whose registered number is 3649497, is at 200 Aldersgate Street, London EC1A 4JJ. Canandaigua Limited is a limited liability company incorporated on 14 October 1998 under the Act. Its authorised share capital is 100 pounds sterling comprising 100 ordinary shares of 1 pound sterling each. Its issued share capital is 1 pound sterling comprising 1 ordinary share of 1 pound sterling held by Canandaigua. The Offeror has been specifically formed for the purpose of making the Offer. Other than in connection with making the Offer the Offeror has not traded or otherwise carried on any activity since its incorporation and no accounts of the Offeror have been prepared.

- (b) The directors of Matthew Clark and their functions are:
Graham Wilson (Chairman)
Peter Aikens (Chief Executive)
Martin Boase (Non-Executive Director)
Hugh Etheridge (Finance Director)
Michael Garner (Non-Executive Director)
Robert MacNevin (Marketing Director)
Richard Peters (Production and Distribution Director)
Kevin Philp (Managing Director, On-Trade Sales)

The registered office of Matthew Clark, whose registered number is 163952, is at Whitchurch Lane, Bristol BS14 0JZ.

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3. Shareholdings and dealings

(a) Definitions and references

References in this Appendix IV to:

- (i) an "associate" are to:
- (1) subsidiaries and associated companies of Canandaigua Limited or, as the case may be, Matthew Clark and companies of which any such subsidiaries or associated companies are associated companies;
 - (2) banks, financial and other professional advisers (including stockbrokers) to Canandaigua Limited or, as the case may be, Matthew Clark or a company covered in (1) above, including persons controlling, controlled by or under the same control as such banks, financial or other professional advisers;
 - (3) the directors of Canandaigua Limited or, as the case may be, Matthew Clark or any company covered in (1) above (together in each case with their close relatives and related trusts);
 - (4) the pension funds of Canandaigua Limited or, as the case may be, Matthew Clark or a company covered in (1) above; and
 - (5) an investment company, unit trust or other person whose investments an associate (as otherwise defined in this sub-paragraph (i)) manages on a discretionary basis, in respect of the relevant investment accounts;
- (ii) a "bank" does not apply to a bank whose sole relationship with Canandaigua Limited or Matthew Clark or a company covered in sub-paragraph (i)(1) above is in respect of the provision of normal commercial banking services or such activities in connection with the Offer as confirming that cash is available, handling acceptances and other registration work;
- (iii) ownership or control of 20 per cent. or more of the equity share capital of a company is regarded as the test of associated company status and "control" means a holding, or aggregate holdings, of shares carrying 30 per cent. or more of the voting rights attributable to the

share capital of a company which are currently exercisable at a general meeting, irrespective of whether the holding or holdings give(s) de facto control;

- (iv) an "arrangement" includes any indemnity or option arrangement and any agreement or understanding, formal or informal, of whatever nature relating to relevant securities which may be an inducement to deal or refrain from dealing;
- (v) "relevant securities" means Matthew Clark Shares and securities convertible into, rights to subscribe for, options (including traded options) in respect of and derivatives referenced to Matthew Clark Shares;
- (vi) "disclosure period" means the period commencing on 22 October 1997 (being the date 12 months prior to the commencement of the Offer period) and ended on 30 October 1998 (the latest practicable date prior to the printing of this document); and
- (vii) "Offer period" means the period commencing on 22 October 1998 (the date of the announcement by Matthew Clark that it was in discussions which may or may not lead to an offer for the whole of the issued share capital of Matthew Clark) and ending on 24 November 1998 or, if later, the date when the Offer becomes or is declared unconditional as to acceptances or lapses (whichever is the later).

(b) Canandaigua Limited

- (i) As at 30 October 1998 (the latest practicable date prior to the printing of this document) and save as disclosed in this paragraph 3, neither of Canandaigua nor Canandaigua Limited owns, controls or is interested, directly or indirectly, in or has any arrangement in relation to any relevant securities or has dealt for value therein during the disclosure period.
- (ii) As at 30 October 1998 (the latest practicable date prior to the printing of this document) and save as disclosed in this paragraph 3, no member of the Canandaigua Group, nor any person acting in concert with Canandaigua Limited for the purposes of the Offer, nor any of the directors of Canandaigua or Canandaigua Limited, nor any member of their immediate families or related trusts owns, controls or is interested, directly or indirectly, in or (other than in the case of the directors of Canandaigua Limited and members of their immediate families and related trusts) has any arrangement in relation to any relevant securities or has dealt for value therein during the disclosure period.

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- (iii) As at 30 October 1998 (the latest practicable date prior to the printing of this document) and save as disclosed in this paragraph 3, neither Schrodgers, financial adviser and broker to Canandaigua Limited, nor persons controlling, controlled by or under the same control as Schrodgers, owns, controls or is interested, directly or indirectly, in any relevant securities or has dealt for value therein during the disclosure period.
- (iv) Irrevocable undertakings to accept or to procure acceptance of the Offer have been received from the following persons in respect of the following holdings of Matthew Clark Shares and, where relevant, Matthew Clark Shares held under option:

<TABLE>

<CAPTION>

| Name | Number of issued Matthew Clark Shares | Number of Matthew Clark Shares under option |
|---|--|--|
| -----<S> | <C> | <C> |
| Graham Wilson | 10,000 | --- |
| Peter Aikens | 8,200 | 193,186 |
| Mrs D B Aikens | 71,267 | --- |
| Martin Boase | 10,000 | --- |
| Hugh Etheridge | 4,200 | 76,660 |
| Mrs J Etheridge | 27,391 | --- |
| Michael Garner | 10,000 | --- |
| Robert MacNevin | --- | 40,000 |
| Richard Peters | 1,831 | 65,521 |
| Kevin Philp | 5,000 | 105,562 |
| Phillips & Drew Fund Management Limited | 18,215,680 | --- |
| Schroder Investment Management (UK) Limited | 2,741,661 | --- |
| Edinburgh Fund Managers plc | 2,382,730 | --- |
| AMP Asset Management plc | 1,026,392 | --- |

</TABLE>

In all cases the undertakings given are in respect of such persons' entire holding of issued Matthew Clark Shares and entire entitlement to Matthew Clark Shares held under option with the exception of Phillips & Drew Fund Management Limited where the undertaking is in respect of 18,215,680 Matthew Clark Shares of the total 19,154,024 Matthew Clark Shares in which Phillips & Drew Fund Management Limited is interested. The terms of the irrevocable undertakings require acceptance of the Offer even if a competing or higher offer is made by a third party except that irrevocable undertakings from shareholders (other than directors and certain members of their immediate families) cease to be binding if a competing or higher offer is made by a third party at, or in excess of, 267 pence per Matthew Clark Share.

(v) The following dealings for value in Matthew Clark Shares by persons who have given irrevocable undertakings have taken place during the disclosure period:

(1) The following dealings for value in Matthew Clark Shares have been carried out by Phillips & Drew Fund Management Limited during the disclosure period (individual transactions have been aggregated by month):

<TABLE>
<CAPTION>

| Date/Period | Transaction | Number of Matthew Clark Shares | Price Range per Matthew Clark Share (p) |
|--------------------|-------------|-----------------------------------|--|
| <S> | <C> | <C> | <C> |
| 23 October 1997 | Purchase | 1,767,100 | 257.5 |
| 23 October 1997 | Sale | 1,767,100 | 257.5 |
| 9-17 December 1997 | Purchase | 306,760 | 181-185.5 |
| 9-16 December 1997 | Sale | 289,369 | 181-185.5 |
| 6-26 January 1998 | Purchase | 101,021 | 162.5-164 |
| 6-26 January 1998 | Sale | 101,021 | 162.5-164 |
| 9-27 February 1998 | Purchase | 32,400 | 180-194 |
| 9-27 February 1998 | Sale | 32,400 | 180-194 |
| 2 March 1998 | Purchase | 10,900 | 194 |
| 2 March 1998 | Sale | 10,900 | 194 |
| 21 April 1998 | Purchase | 39,300 | 199 |
| 21-24 April 1998 | Sale | 177,230 | 199-200.5 |
| 5 May 1998 | Purchase | 12,000 | 201.5 |
| 5-22 May 1998 | Sale | 27,000 | 201.5-212.5 |
| 2-23 June 1998 | Purchase | 87,042 | 194-199 |
| 2-23 June 1998 | Sale | 65,019 | 194-199 |
| 1-31 July 1998 | Purchase | 74,922 | 183-187.5 |
| 1-31 July 1998 | Sale | 416,130 | 183-187.5 |
| 25 August 1998 | Sale | 23,519 | 167.5 |

</TABLE>

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(2) The following dealings for value in Matthew Clark Shares have been carried out by Schroder Investment Management (UK) Limited during the disclosure period (individual transactions have been aggregated by month):

<TABLE>

| Date/Period | Transaction | Number of Matthew Clark Shares | Price Range per Matthew Clark Share (p) |
|---------------------|-------------------|-----------------------------------|--|
| <S> | <C> | <C> | <C> |
| 12 January 1998 | Internal transfer | 3,750 | 163.5 |
| 27 January 1998 | Sale | 3,750 | 160.8 |
| 13-25 February 1998 | Purchase | 243,000 | 190.6-191.5 |
| 13-23 March 1998 | Sale | 195,075 | 204.4-205.4 |
| 20 March 1998 | Internal transfer | 238 | 207.5 |
| 25 March 1998 | Purchase | 15,000 | 210.7 |
| 24 April 1998 | Purchase | 25,100 | 202.6 |
| 12 May 1998 | Sale | 1,100 | 201.6 |
| 7-23 July 1998 | Purchase | 440,592 | 196.6-201.6 |
| 17 July 1998 | Internal transfer | 24,000 | 197.5 |
| 29 July 1998 | Sale | 24,000 | 184.4 |
| 20 August 1998 | Purchase | 16,000 | 180.1 |

</TABLE>

(3) The following dealings for value in Matthew Clark Shares have been carried out by Edinburgh Fund Managers plc during the disclosure period:

<TABLE>
<CAPTION>

Number of Price Range per

| Date/Period | Transaction | Matthew Clark Shares | Matthew Clark Share (p) |
|-------------------------|-------------|----------------------|-------------------------|
| <S> 18 December 1997 | <C> Sale | <C> 8,189 | <C> 278.9 |

</TABLE>

- (4) The following dealings for value in Matthew Clark Shares have been carried out by AMP Asset Management plc during the disclosure period (individual transactions have been aggregated by month):

<TABLE>
<CAPTION>

| Date/Period | Transaction | Number of Matthew Clark Shares | Price Range per Matthew Clark Share (p) |
|-------------------|-------------|-----------------------------------|--|
| <S> | <C> | <C> | <C> |
| 1 October 1997 | Purchase | 2,586 | 252 |
| 5 November 1997 | Sale | 13,720 | 243 |
| 17 November 1997 | Purchase | 7,824 | 228 |
| 13 March 1998 | Purchase | 4,772 | 211 |
| 18-25 March 1998 | Sale | 956 | 207 |
| 3 April 1998 | Purchase | 9,280 | 213 |
| 17 April 1998 | Sale | 27,646 | 200 |
| 2 July 1998 | Purchase | 5,688 | 185 |
| 4-6 August 1998 | Sale | 191,847 | 177-179 |
| 22 September 1998 | Sale | 500,000 | 120 |

</TABLE>

- (vi) Save as disclosed in this paragraph 3, no dealings for value in Matthew Clark Shares have taken place during the disclosure period by those persons who have given irrevocable undertakings to accept the Offer.

(c) Matthew Clark

- (i) At the close of business on 30 October 1998 (the latest practicable date prior to the printing of this document) the interests in the share capital of Matthew Clark of the directors of Matthew Clark, their immediate families and related trusts which have been notified to Matthew Clark pursuant to Sections 324 or 328 of the Act or which are required pursuant to Section 325 of the Act to have been entered in the register referred to therein and the interests in the share capital of Matthew Clark of those persons connected with any of the directors of Matthew Clark (within the meaning of Section 346 of the Act) which would, if such connected persons were directors of Matthew Clark, be required to be disclosed or notified under the above sections of the Act, and the existence of which is known to or could with reasonable diligence be ascertained by the directors of Matthew Clark are set out below:

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| Director | Matthew Clark Shares |
|----------------|-------------------------|
| Graham Wilson | 10,000 |
| Peter Aikens | 79,467 |
| Martin Boase | 10,000 |
| Hugh Etheridge | 31,591 |
| Michael Garner | 10,000 |
| Richard Peters | 1,831 |
| Kevin Philp | 5,000 |

- (ii) As at 30 October 1998 (the latest practicable date prior to the printing of this document), the following options over Matthew Clark Shares had been granted to the directors of Matthew Clark pursuant to the Matthew Clark Share Option Schemes:

<TABLE>
<CAPTION>

| Director | Number of Matthew Clark Shares under Option | Exercise Price | Date from which Exercisable | Expiry Date |
|--------------|--|----------------|--------------------------------|--------------|
| <S> | <C> | <C> | <C> | <C> |
| Peter Aikens | 52,652 | 331p | 22 June 1996 | 21 June 2003 |
| | 24,723 | 566p | 20 Jan 1997 | 19 Jan 2004 |

| | | | | |
|-----------------|---------|--------|--------------|--------------|
| | 56,811 | 561p | 17 Oct 1997 | 16 Oct 2004 |
| | 59,000 | 662p | 10 Nov 1998 | 9 Nov 2005 |
| | ----- | | | |
| | 193,186 | | | |
| | ===== | | | |
| Hugh Etheridge | 24,723 | 566p | 20 Jan 1997 | 19 Jan 2004 |
| | 18,937 | 561p | 17 Oct 1997 | 16 Oct 2004 |
| | 33,000 | 662p | 10 Nov 1998 | 9 Nov 2005 |
| | ----- | | | |
| | 76,660 | | | |
| | ===== | | | |
| Robert MacNevin | 40,000 | 247.5p | 25 July 2000 | 24 July 2007 |
| | ===== | | | |
| Kevin Philp | 21,041 | 566p | 20 Jan 1997 | 19 Jan 2004 |
| | 10,521 | 523p | 11 July 1997 | 10 July 2004 |
| | 10,000 | 555p | 16 Jan 1998 | 15 Jan 2005 |
| | 2,000 | 662p | 10 Nov 1998 | 9 Nov 2005 |
| | 2,000 | 680p | 16 Jan 1999 | 15 Jan 2006 |
| | 60,000 | 247.5p | 25 July 2000 | 24 July 2007 |
| | ----- | | | |
| | 105,562 | | | |
| | ===== | | | |
| Richard Peters | 10,521 | 561p | 17 Oct 1997 | 16 Oct 2004 |
| | 10,000 | 555p | 16 Jan 1998 | 15 Jan 2005 |
| | 10,000 | 662p | 10 Nov 1998 | 9 Nov 2005 |
| | 5,000 | 680p | 16 Jan 1999 | 15 Jan 2006 |
| | 30,000 | 247.5p | 25 July 2000 | 24 July 2007 |
| | ----- | | | |
| | 65,521 | | | |
| | ===== | | | |

</TABLE>

Exercise of the above options was not conditional upon any performance criteria. All options were granted for nil consideration.

- (iii) As at 30 October 1998 (the latest practicable date prior to the printing of this document) P&D UK Equity Exempt Fund held 1,619,594 Matthew Clark Shares within the Managed Exempt Fund on behalf of the Matthew Clark Group Executive Pension Scheme.
- (iv) There have been no dealings for value in Matthew Clark Shares (including upon the exercise of options pursuant to the Matthew Clark Share Option Schemes) by directors of Matthew Clark and members of their immediate families and related trusts or in respect of Matthew Clark Shares in which the directors of Matthew Clark are interested, during the disclosure period.
- (v) As at 30 October 1998 (the latest practicable date prior to the printing of this document) and save as disclosed in this paragraph 3, neither Matthew Clark nor any director of Matthew Clark nor their immediate families or related trusts owns or controls or is, directly or indirectly, interested in any relevant securities or in any shares of Canandaigua or Canandaigua Limited or any securities convertible into, rights to subscribe for, options in respect of or derivatives referenced to, such shares or has dealt for value therein or in relevant securities during the disclosure period.
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- (vi) As at 30 October 1998 (the latest practicable date prior to the printing of this document) and save as disclosed in this paragraph 3, no bank, stockbroker, financial or other professional adviser to Matthew Clark or to any subsidiary of Matthew Clark or to any associated company of Matthew Clark or to companies of which such companies are associated companies (other than an exempt market-maker), nor any person controlling, controlled by, or under the same control as such bank, stockbroker, financial or other professional adviser, nor any subsidiary of Matthew Clark, nor any pension fund of Matthew Clark or of any of its subsidiaries, nor any person whose investments are managed on a discretionary basis by any fund manager (other than an exempt fund manager) connected with Matthew Clark, owns, controls or is interested, directly or indirectly, in any relevant securities (nor has any such person dealt for value therein during the period commencing on 22 October 1998 (the date of the announcement by Matthew Clark that it was in discussions which may or may not lead to an offer for the whole of the issued share capital of Matthew Clark) and ended on 30 October 1998 (the latest practicable date prior to the printing of this document)).
- (vii) As at 30 October 1998 (the latest practicable date prior to the printing of this document) and save in respect of the irrevocable undertakings referred to in sub-paragraph (b)(iv) above, neither Matthew Clark nor any associate of Matthew Clark falling within paragraphs (1) to (4) of the definition of "associate" set out in

paragraph 3(a)(i) above has any arrangement with any other person in relation to relevant securities.

4. Market quotations

- (a) The following table shows the closing middle-market quotations for a Matthew Clark Share as derived from the Official List in each case on the first business day in each month from May 1998 to November 1998 inclusive, on 21 October 1998 (the day prior to the announcement by Matthew Clark that it was in discussions which may or may not lead to an offer for the whole of the issued share capital of Matthew Clark) and on 2 November 1998 (the latest practicable date prior to the printing of this document):

| Date | Matthew Clark Share price in pence |
|------------------|--|
| 1 May 1998 | 201 1/2 |
| 1 June 1998 | 199 |
| 1 July 1998 | 186 |
| 3 August 1998 | 177 1/2 |
| 1 September 1998 | 140 |
| 1 October 1998 | 120 |
| 21 October 1998 | 134 |
| 2 November 1998 | 191 1/2 |

5. Material contracts of Canandaigua and Matthew Clark

Save as disclosed below, there have been no contracts entered into by any member of the Canandaigua Group or the Matthew Clark Group during the period commencing on 22 October 1996 (the date two years before the announcement by Matthew Clark that it was in discussions which may or may not lead to an offer for the whole of the issued share capital of Matthew Clark) and ended on 2 November 1998 (the latest practicable date prior to the printing of this document) which are outside the ordinary course of business and which are or may be considered to be material:

- (a) A Purchase Agreement dated 24 October 1996 between Canandaigua and Chase Securities Inc. ("Chase") and CS First Boston Corporation ("CSFB") (Chase and CSFB together, the "Initial Purchasers") relating to the sale to the Initial Purchasers of an issue of 8.75% Series B Senior Subordinated Notes due 2003 having a principal value of US\$65,000,000 (the "Series B Notes").
- (b) An Indenture dated 29 October 1996 (as amended on 19 December 1997 and 2 October 1998) between Canandaigua as issuer, various of its subsidiaries as guarantors (the "Guarantors") and Harris Trust and Savings Bank as trustee relating to the issue of the Series B Notes and the Series C Senior Subordinated Notes (the "Series C Notes") each due 2003 and having an aggregate value of US\$65,000,000.
- (c) An Exchange and Registration Rights Agreement dated 29 October 1996 between Canandaigua, Chase and CSFB concerning the obligation of Canandaigua and the Guarantors to file a registration statement with the US Securities and Exchange Commission for the exchange of registered Series C Notes for all unregistered Series B Notes, so as to permit the trading of the Series C Notes generally without restriction under US Federal and state securities laws.

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- (d) A Credit Agreement dated 19 December 1997 (as amended on 19 June 1998) between Canandaigua, various of its subsidiaries acting as guarantors (the "Subsidiary Guarantors"), various lenders (the "Banks") and The Chase Manhattan Bank ("TCMB") as administrative agent relating to a credit facility currently in the amount of US\$407,000,000 and capable of increase in certain circumstances to US\$507,000,000, used to refinance certain existing indebtedness and to finance ongoing working capital requirements and other general corporate purposes of the Canandaigua Group (the "Credit Agreement").
- (e) A Security Agreement dated 19 December 1997 between Canandaigua, the Subsidiary Guarantors and TCMB under which advances made by the Banks under the Credit Agreement are secured.
- (f) A Tranche II Revolving Agreement (Series A) dated 15 July 1998 between Canandaigua, various revolving lenders named therein and TCMB as administrative agent pursuant to which such lenders agree to provide Canandaigua with up to US\$100,000,000 in revolving credit commitments, swingline loans and letters of credit as contemplated by the Credit Agreement.

- (g) A new Credit Agreement dated 2 November 1998 between Canandaigua, various of its subsidiaries acting as guarantors, various lenders and TCMB as administrative agent relating to a US\$1,000,000,000 credit facility to be used for the refinancing of certain existing indebtedness, to finance the Offer and to finance ongoing working capital requirements and other general corporate purposes (including certain acquisitions) of the Canandaigua Group.

6. Service contracts and other arrangements with directors or proposed directors of Matthew Clark

Save as disclosed below, none of the directors or proposed directors of Matthew Clark has a service contract with any member of the Matthew Clark Group where such contract has more than twelve months to run. Except as set out below, none of the contracts referred to below have been entered into or amended during the six months prior to the date of this document:

<TABLE>

<CAPTION>

| Director | Notice | Salary |
|----------------|--|-------------------------|
| <S> | <C> | <C> |
| Peter Aikens | 24 months by Matthew Clark, 6 months by the director | 230,000 pounds sterling |
| Hugh Etheridge | 24 months by Matthew Clark, 6 months by the director | 130,000 pounds sterling |

</TABLE>

7. Other information

- (a) Schrodgers is satisfied that sufficient financial resources are available to Canandaigua Limited to satisfy full acceptance of the Offer. Full acceptance of the Offer would involve a maximum cash payment of approximately 215.7 million pounds sterling.

Financing will be made available to the Canandaigua Group pursuant to a credit agreement dated 2 November 1998 between Canandaigua as borrower, the Offeror and various other subsidiaries of Canandaigua as guarantors and The Chase Manhattan Bank together with a syndicate of other banks (the "Banks") under which the Banks agree to provide Canandaigua with a loan up to a principal amount of US\$1,000,000,000 (the "New Credit Agreement").

In addition to being used to refinance certain existing indebtedness of the Canandaigua Group and to finance ongoing working capital requirements and other general corporate purposes (including certain acquisitions) of the Canandaigua Group, the funds under the New Credit Agreement will be made available to Canandaigua to finance, through the Offeror, the acquisition of the entire issued and to be issued share capital of Matthew Clark and certain associated costs and expenses of the Offer. The availability of funds under the New Credit Agreement is subject, inter alia, to the Offer having become or being declared wholly unconditional; repayment of principal and interest on all other amounts owing by the Canandaigua Group having been made (or being made simultaneously with drawdown under the New Credit Agreement) under an existing credit agreement with the Banks dated 19 December 1997; various security documentation being entered into and there having been at drawdown no breach of certain representations and warranties given by Canandaigua in the New Credit Agreement.

- (b) As Mathew Clark will form a significant part of the Canandaigua Group, Canandaigua Limited intends that the payment of interest on, repayment of, or security for any liability (contingent or otherwise) relating to the financing arrangements referred to in paragraph 7(a) above will depend on the business of Matthew Clark.
- (c) Save as disclosed in this Appendix IV, no agreement, arrangement or understanding (including any compensation arrangement) exists between Canandaigua Limited or any person acting in concert with

Canandaigua Limited and any of the directors, recent directors, shareholders or recent shareholders of Matthew Clark having any connection with, or dependence on, or which is conditional on, the outcome of the Offer and there is no proposal existing in connection with the Offer whereby any payment or other benefit will be made or given to any director of Matthew Clark as compensation for loss of office or as consideration for or in connection with his retirement from office or otherwise in connection with the Offer.

- (d) There is no agreement, arrangement or understanding whereby the legal or beneficial ownership of any of the Matthew Clark Shares to be acquired by Canandaigua Limited pursuant to the Offer will be transferred to any other

person, save that Canandaigua Limited reserves the right to transfer any such shares to any member of the Canandaigua Group.

- (e) Settlement of the consideration to which any Matthew Clark Shareholder is entitled under the Offer will be implemented in full in accordance with the terms of the Offer without regard to any lien, right of set off, counterclaim or other analogous right to which Canandaigua Limited may otherwise be, or claim to be, entitled against such shareholder.
- (f) Save as disclosed in Appendix II of this document, the directors of Canandaigua are not aware of any material change in the financial or trading position of Canandaigua since 28 February 1998 (the date to which the latest published audited consolidated accounts of Canandaigua were prepared).
- (g) The expenses of and incidental to the preparation and implementation of the Offer will be paid by Canandaigua Limited.
- (h) Schroders, which is a member of the London Stock Exchange and is regulated in the UK by The Securities and Futures Authority Limited, has given and not withdrawn its consent to the issue of this document with the inclusion of its name in the form and context in which it is included.
- (i) Warburg Dillon Read, which is a member of the London Stock Exchange and is regulated in the UK by The Security and Futures Authority Limited, has given and not withdrawn its consent to the issue of this document with the inclusion of its name in the form and context in which it is included.
- (j) There has been no material change in the financial or trading position of Matthew Clark since 30 April 1998 (the date to which the latest published audited consolidated accounts of the Matthew Clark Group were prepared).
- (k) The fully diluted share capital of Matthew Clark is based upon 88,520,498 Matthew Clark Shares in issue on 30 October 1998 (the latest practicable date prior to the printing of this document), together with 1,904,822 Matthew Clark Shares falling to be issued upon the exercise of options granted and outstanding on such date under the Matthew Clark Share Option Schemes. It should be noted that only 225,000 options over Matthew Clark Shares are capable of being exercised at a price below 243 pence per Matthew Clark Share.
- (l) The price of Matthew Clark Shares at the close of business on a particular date is derived from the Official List.
- (m) Unless otherwise stated:
 - (i) financial information relating to Canandaigua has been extracted from the Canandaigua Annual Report for the year ended 28 February 1998; and
 - (ii) financial information relating to Matthew Clark has been extracted from the annual report and published audited consolidated accounts of Matthew Clark for the two years ended 30 April 1998 and 30 April 1997, respectively.
- (n) The market capitalisation of Canandaigua is based on the closing middle-market quotation for Canandaigua shares of \$50 1/8 per A Share and \$50 3/4 per B Share on 30 October 1998 (the latest practicable date prior to the printing of this document), as derived from Bloomberg Financial Markets.

8. Documents available for inspection

Copies of the following documents are available for inspection during usual business hours on any weekday (public holidays excepted) at the offices of Clifford Chance, 200 Aldersgate Street, London EC1A 4JJ while the Offer remains open for acceptance:

- (a) the Memorandum and Articles of Association of Canandaigua Limited;

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- (b) the Memorandum and Articles of Association of Matthew Clark;
- (c) the published audited consolidated accounts of Canandaigua for the two financial years ended 28 February 1998;
- (d) the published audited consolidated accounts of Matthew Clark for the two financial years ended 30 April 1998;
- (e) the service contracts referred to in paragraph 6 above;
- (f) the irrevocable undertakings to accept the Offer referred to in paragraph 3(b)(iv) of this Appendix;

- (g) the material contracts referred to in paragraph 5 above;
- (h) the written consents referred to in paragraph 7 above;
- (i) the documents in respect of the financing arrangements referred to in paragraph 7(a) above; and
- (j) this document and the Form of Acceptance.

3 November 1998

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APPENDIX V DEFINITIONS

The following definitions apply throughout this document unless the context otherwise requires:

| | |
|---------------------------------------|---|
| "Act" | the Companies Act 1985 |
| "Authorisations" | authorisations, orders, grants, recognitions, confirmations, consents, clearances, certificates, licences, permissions or approvals |
| "Canandaigua" | Canandaigua Brands, Inc. |
| "Canandaigua Group" | Canandaigua and its subsidiary undertakings and, where the context permits, each of them |
| "Canandaigua Limited" | the Offeror |
| "certificated" or "certificated form" | in relation to a share or other security, a share or other security title to which is recorded in the relevant register of the share or other security as being held in certificated form (that is, not in CREST) |
| "City Code" | the City Code on Takeovers and Mergers |
| "CREST" | the relevant system (as defined in the Regulations) operated by CRESTCo |
| "CRESTCo" | CRESTCo Limited |
| "CREST member" | a person who is, in relation to CREST, a system-member (as defined in the Regulations) |
| "CREST participant" | a person who is, in relation to CREST, a system-participant (as defined in the Regulations) |
| "CREST sponsor" | a person who is, in relation to CREST, a sponsoring system-participant, (as defined in the Regulations) |
| "CREST sponsored member" | a CREST member admitted to CREST as a sponsored member under the sponsorship of a CREST sponsor |
| "Form of Acceptance" | the form of acceptance, authority and election relating to the Offer and accompanying this document and "Forms of Acceptance" shall be construed accordingly |
| "London Stock Exchange" | London Stock Exchange Limited |
| "Matthew Clark" | Matthew Clark plc |
| "Matthew Clark Group" | Matthew Clark and its subsidiary undertakings and, where the context permits, each of them |
| "Matthew Clark Shareholders" | holders of Matthew Clark Shares and "Matthew Clark Shareholder" shall be construed accordingly |
| "Matthew Clark Shares" | ordinary shares of 25 pence each in the |

capital of Matthew Clark, and "Matthew Clark Share" shall be construed accordingly

"Matthew Clark Shares to which the Offer relates"

(a) Matthew Clark Shares unconditionally allotted or issued on or before the date the Offer is made; and (b) Matthew Clark Ordinary Shares unconditionally allotted or issued after that date but before the date the Offer closes, or such earlier date or dates as the Offeror may decide (not being earlier than the date on which the Offer becomes or is declared unconditional as to acceptances or, if later, the first closing date of the Offer), but excluding any Matthew Clark Shares which, on the date the Offer is made, are held or contracted to be acquired (otherwise than under such a contract as is described in section 428(5) of the Act) by the Offeror and/or its associates (within the meaning of section 430E of the Act)

"Matthew Clark Share Option Schemes"

the Matthew Clark Group Executive Share Option Scheme, the Matthew Clark Group 1995 Savings Related Share Option Scheme and the Matthew Clark Group Unapproved Executive Share Option Scheme

"member account ID"

the identification code or number attached to any member account in CREST

"Offeror"

Canandaigua Limited, a wholly-owned subsidiary of Canandaigua

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"Offer"

the recommended cash offer made hereunder by Schroders on behalf of the Offeror to acquire the Matthew Clark Shares to which the Offer relates on the terms and subject to the conditions set out in this document and in the Form of Acceptance including, where the context requires, any subsequent revision, variation, extension or renewal of such offer

"Offer period"

as defined in paragraph 6(b) of Part B to Appendix I hereto

"Official List"

the Daily Official List of the London Stock Exchange

"Panel"

the Panel on Takeovers and Mergers

"participant ID"

the identification code or membership number used in CREST to identify a CREST member or other CREST participant

"Regulations"

the Uncertificated Securities Regulations 1995

"Schroders"

J. Henry Schroder Co. Limited

"Securities Act"

the United States Securities Act of 1933, as amended

"subsidiary", "subsidiary undertaking", "associated undertaking" and "undertaking"

shall be construed in accordance with the Act (but for this purpose ignoring paragraph 20(1)(b) of Schedule 4A to the Act)

"TTE instruction"

a transfer to escrow instruction (as defined in the CREST Manual issued by CRESTCo)

"TFE instruction"

a transfer from escrow instruction (as defined in the CREST Manual issued by CRESTCo)

"Third Party"

government or governmental,

| | |
|---|--|
| | quasi-governmental, supranational, statutory, regulatory or investigative body, trade agency, court, professional association or any other body or person whatsoever in any jurisdiction |
| "uncertificated" or "uncertificated form" | in relation to a share or other security, a share or other security title to which is recorded in the relevant register of the share or security as being held in uncertificated form (that is, in CREST), and title to which, by virtue of the Regulations, may be transferred by means of CREST |
| "United Kingdom" or "UK" | the United Kingdom of Great Britain and Northern Ireland |
| "United States" or "US" | the United States of America, its territories and possessions, any state of the United States of America, the District of Columbia and all other areas subject to the jurisdiction of the United States |
| "US\$" or "\$" | denotes the lawful currency of the US |
| "US Act" | the United States Securities Act of 1933, as amended |
| "US person" and "North American person" | as defined in paragraph 7(h) of Part B to Appendix I hereto |
| "Warburg Dillon Read" | UBS AG, acting through its investment banking division Warburg Dillon Read |
| "Wider Canandaigua Group" | the Canandaigua Group and associated undertakings and any other body corporate, partnership, joint venture or person in which the Canandaigua Group and such undertakings (aggregating their interests) have a direct or indirect interest of 20 per cent. or more of the voting or equity capital or the equivalent |
| "Wider Matthew Clark Group" | the Matthew Clark Group and associated undertakings and any other body corporate, partnership, joint venture or person in which the Matthew Clark Group and such undertakings (aggregating their interests) have a direct or indirect interest of 20 per cent. or more of the voting or equity capital or the equivalent |
| "1998 Report and Accounts of Matthew Clark" | the annual report and audited accounts of Matthew Clark for the year ended 30 April 1998 |

The Registrant has omitted from this filing the Form of Acceptance distributed with the foregoing Recommended Cash Offer. The Registrant will furnish supplementally to the Commission, upon request, a copy of such Form of Acceptance.

=====

FIRST AMENDED AND RESTATED CREDIT AGREEMENT

dated as of

November 2, 1998

between

CANANDAIGUA BRANDS, INC.

The SUBSIDIARY GUARANTORS Party Hereto

The LENDERS Party Hereto

and

THE CHASE MANHATTAN BANK,
as Administrative Agent

\$1,000,000,000

THE CHASE MANHATTAN BANK,
as Book Runner

THE BANK OF NOVA SCOTIA,
as Syndication Agent

CREDIT SUISSE FIRST BOSTON
and
FLEET NATIONAL BANK,
as Co-Documentation Agents

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FIRST AMENDED AND RESTATED CREDIT AGREEMENT dated as of November 2, 1998, between CANANDAIGUA BRANDS, INC. (formerly known as Canandaigua Wine Company, Inc.), a Delaware corporation (the "Borrower"), the SUBSIDIARY GUARANTORS party hereto, the LENDERS party hereto, and THE CHASE MANHATTAN BANK, a New York State banking corporation ("Chase"), as administrative agent for such

Lenders (in such capacity, together with its successors in such capacity, the "Administrative Agent").

The Borrower, certain of the Subsidiary Guarantors party hereto, Chase (as the sole Lender thereunder), and the Administrative Agent are party to a Credit Agreement dated as of November 2, 1998 (said Credit Agreement, as in effect on the date hereof immediately before giving effect to the amendment and restatement contemplated hereby, being herein called the "Existing Credit Agreement"). Pursuant to the Existing Credit Agreement, Chase committed to make revolving credit and term loans to the Borrower in an original aggregate principal amount not exceeding \$1,000,000,000 at any one time outstanding (subject to increase as therein provided to \$1,200,000,000).

The parties hereto wish to amend the Existing Credit Agreement in certain respects to provide for, among other things, for additional lenders to become parties thereto and, as so amended, to restate the Existing Credit Agreement in its entirety. Accordingly, the parties hereto hereby agree that the Existing Credit Agreement shall, subject to the execution and delivery of this Agreement by each of the intended parties hereto, but with effect as of the date hereof, be amended and restated to read in its entirety as follows:

ARTICLE I

DEFINITIONS

SECTION 1.01. Defined Terms. As used in this Agreement, the following terms have the meanings specified below:

"ABR", when used in reference to any Loan or Borrowing denominated in Dollars, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Alternate Base Rate.

"Acceleration Date" has the meaning assigned to such term in the penultimate paragraph of Article VIII.

"Acquisition" means an acquisition by the Borrower or any of its Subsidiaries of a business and the related assets of any Person (whether by way of purchase of assets or stock, including any tender for outstanding shares of stock, by merger or consolidation, by acceptance of a contribution of capital from another Person, or otherwise). For purposes hereof, the term "Acquisition" shall include the acquisition of the Target pursuant to the Tender Offer.

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"Adjusted Cash Flow" means, for any period (the "calculation period"), the sum, for the Borrower and its Consolidated Subsidiaries (determined on a consolidated basis without duplication in accordance with GAAP), of the following: (a) Operating Cash Flow for the calculation period minus (b) Capital Expenditures made during the calculation period (excluding Capital Expenditures made from the proceeds of Indebtedness other than Indebtedness hereunder).

"Adjusted LIBO Rate" means, with respect to any Eurocurrency Borrowing for the Interest Period applicable thereto, an interest rate per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to (a) the LIBO Rate for such Interest Period multiplied by (b) the Statutory Reserve Rate.

"Adjustment Amount" means, for any period, for the Borrower and its Consolidated Subsidiaries (determined on a consolidated basis without duplication in accordance with GAAP), the amount of any income or expense included in the determination of net operating income for such period as a result of changes in the LIFO Reserve.

"Administrative Agent" has the meaning assigned to such term in the recitals hereof.

"Administrative Agent's Account" shall mean, for each Currency, an account in respect of such Currency designated by the Administrative Agent in a notice to the Borrower and the Lenders.

"Administrative Questionnaire" means an Administrative Questionnaire in a form supplied by the Administrative Agent.

"Affiliate" means, with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified.

"Alternate Base Rate" means, for any day, a rate per annum equal to the greater of (a) the Prime Rate in effect on such day and (b) the Federal Funds Effective Rate in effect on such day plus 1/2 of 1%. Any change in the Alternate Base Rate due to a change in the Prime Rate or the Federal Funds Effective Rate shall be effective from and including the effective date of such change in the Prime Rate or the Federal Funds Effective Rate, respectively.

"Applicable Percentage" means (a) with respect to any Tranche I Revolving Lender for purposes of Sections 2.05 or 2.06 or Article VIII, the percentage of the total Tranche I Revolving Commitments represented by such Tranche I Revolving Lender's Tranche I Revolving Commitment, (b) with respect to any Tranche II Revolving Lender for purposes of Section 2.06 or Article VIII, the percentage of the total Tranche II Revolving Commitments represented by such Tranche II Revolving Lender's Tranche II Revolving Commitment, (c) with respect to any Tranche III Revolving Lender for purposes of Section 2.06 or Article VIII, the percentage of the total Tranche III Revolving Commitments represented by such Tranche III Revolving Lender's Tranche III Revolving Commitment, (d) with respect to any Revolving Lender in respect of any

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indemnity claim under Section 10.03(c) arising out of an action or omission of the Administrative Agent, the Swingline Lender or the Issuing Lender under this Agreement relating to Swingline Loans or Letters of Credit, the percentage of the total Revolving Commitments of the applicable Class represented by such Revolving Lender's Revolving Commitments of such Class and (e) with respect to any Lender in respect of any indemnity claim under Section 10.03(c) arising out of an action or omission of the Administrative Agent under this Agreement (other than one relating to Swingline Loans or Letters of Credit), the percentage of the total Commitments or Loans of all Classes hereunder represented by the aggregate amount of such Lender's Commitments or Loans of all Classes hereunder. If the Tranche I Revolving Commitments, Tranche II Revolving Commitments or Tranche III Revolving Commitments have terminated or expired, the Applicable Percentages shall be determined based upon the Tranche I Revolving Commitments or Tranche III Revolving Commitments, as applicable, most recently in effect (and giving effect to any assignments).

"Applicable Rate" means, for any day, with respect to any ABR Borrowing (including any Swingline ABR Borrowing), Syndicated Eurocurrency Borrowing, Swingline FFBR Borrowing or Swingline Eurocurrency Borrowing, or with respect to the facility fees or commitment fees payable hereunder, as the case may be, the rate per annum set forth in the schedule below, as applicable, based upon the Debt Ratio as of the most recent determination date, provided that prior to the later of November 30, 1999 and the payment in full of the Tranche II Term Loans, the Applicable Rate for any Borrowing shall not be lower than the rates set forth below for Category 2:

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<TABLE>

| ----- | | | | | | |
|--|--------------------------------|---|---|---|---------------------------------------|---|
| <CAPTION> | | | | | | |
| DEBT RATIO: | | | | | | |
| FACILITY/ COMMITMENT FEE RATE | REVOLVING LOAN: ABR RATE | REVOLVING AND EURODOLLAR AND SWINGLINE FFBR RATE | TRANCHE I AND II TERM LOAN: ABR RATE | TRANCHE I AND II TERM LOAN: EURODOLLAR RATE | TRANCHE III TERM LOAN: ABR RATE | TRANCHE III TERM LOAN: EURODOLLAR RATE |
| ----- | | | | | | |
| <S> <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| Category 1 >4.00x 0.500 - | 1.000 | 2.000 | 1.500 | 2.500 | 1.750 | 2.750 |
| Category 2 < 4.00x and 0.500 > 3.65x - | 0.750 | 1.750 | 1.250 | 2.250 | 1.500 | 2.500 |
| Category 3 < 3.65x and 0.500 > 3.00x - | 0.500 | 1.500 | 1.000 | 2.000 | 1.500 | 2.500 |
| Category 4 < 3.00x and | 0.375 | 1.375 | 0.750 | 1.750 | 1.500 | 2.500 |
| ----- | | | | | | |

0.375
> 2.50x
-

Category 5
< 2.50x 0.125 1.125 0.500 1.500 1.500 2.500
0.375

</TABLE>

For purposes of the foregoing, (i) the Debt Ratio shall be determined as of the end of each fiscal quarter of the Borrower's fiscal year based upon the Borrower's consolidated financial statements delivered pursuant to Section 6.01(a) or (b) (or, prior to the first such delivery, referred to in Section 4.04(a)(iii)) and (ii) subject to the foregoing provisions of this definition, each change in the Applicable Rate resulting from a change in the Debt Ratio shall be effective during the period commencing on and including the date three Business Days after delivery to the Administrative Agent of such consolidated financial statements indicating such change and ending on the date immediately preceding the effective date of the next such change; provided that the Debt Ratio shall be deemed to be in Category 1 (A) at any time that an Event of Default has occurred and is continuing and (B) if the Borrower fails to deliver the consolidated financial statements required to be delivered by it pursuant to Section 6.01(a) or (b), during the period from the expiration of the time for delivery thereof until such consolidated financial statements are delivered.

"Assignment and Acceptance" means an assignment and acceptance entered into by a Lender and an assignee (with the consent of any party whose consent is required by Section 10.04), and accepted by the Administrative Agent, in the form of Exhibit A or any other form approved by the Administrative Agent.

"Board" means the Board of Governors of the Federal Reserve System of the United States of America.

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"Borrower" has the meaning assigned to such term in the recitals hereof.

"Borrowing" means (a) Syndicated Loans of the same Class, Type and Currency, made, converted or continued on the same date and, in the case of Eurocurrency Loans, as to which a single Interest Period is in effect, (b) a Competitive Loan or group of Competitive Loans of the same Type and Currency made on the same date and as to which a single Interest Period is in effect or (c) a Swingline Loan. For all purposes of this Agreement, the date of a Borrowing initially shall be the date on which the Borrowing is made and, in the case of a Syndicated Eurocurrency Borrowing, thereafter shall be the effective date of the most recent conversion or continuation of such Borrowing.

"Borrowing Request" means a request by the Borrower for a Syndicated Borrowing in accordance with Section 2.03.

"Business Day" means any day that is not a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to remain closed; provided that, if such day relates to a borrowing or continuation of, a payment or prepayment of principal of or interest on, or the Interest Period for, a Eurocurrency Borrowing or a notice by the Borrower with respect to any such borrowing, continuation, payment, prepayment or Interest Period, that is also a day on which dealings in deposits denominated in the Currency of such Borrowing are carried out in the London (or, as applicable, Paris) interbank market.

"Capital Expenditures" means, for any period, expenditures (including the aggregate amount of Capital Lease Obligations incurred during such period) made by the Borrower or any of its Consolidated Subsidiaries to acquire or construct fixed assets, plant and equipment (including renewals, improvements and replacements, but excluding repairs) during such period computed in accordance with GAAP. Notwithstanding the foregoing, no Acquisition permitted pursuant to Section 7.03(d) or 7.03(e) shall be treated as a Capital Expenditure.

"Capital Lease" of any Person means any lease of (or other arrangement conveying the right to use) real or personal Property, or a combination thereof, which obligations are required to be classified and accounted for as a capital lease on a balance sheet of such Person under GAAP.

"Capital Lease Obligations" of any Person means the obligations of such Person to pay rent or other amounts under any Capital Lease, and the amount of such obligations shall be the capitalized amount thereof determined in accordance with GAAP.

"Casualty Event" means, with respect to any Property of any Person, any loss of or damage to, or any condemnation or other taking of, such Property for which such Person or any of its Subsidiaries receives insurance proceeds, or proceeds of a condemnation award or other compensation.

"Change in Law" means (a) the adoption of any law, rule or regulation after the date of this Agreement, (b) any change in any law, rule or regulation or in the interpretation or

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application thereof by any Governmental Authority after the date of this Agreement or (c) compliance by any Lender or either Issuing Lender (or, for purposes of Section 2.15(b), by any lending office of such Lender or by such Lender's or such Issuing Lender's holding company, if any) with any request, guideline or directive (whether or not having the force of law) of any Governmental Authority made or issued after the date of this Agreement.

"Chase" has the meaning assigned to such term in the recitals hereof.

"Class", when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are Tranche I Revolving Loans, Tranche II Revolving Loans, Tranche III Revolving Loans, Tranche I Term Loans, Tranche II Term Loans, Tranche III Term Loans, Competitive Loans or Swingline Loans and, when used in reference to any Commitment, refers to whether such Commitment is a Tranche I Revolving Commitment, Tranche II Revolving Commitment, Tranche III Revolving Commitment, Tranche I Term Loan Dollar Commitment, Tranche I Term Loan Sterling Commitment, Tranche II Term Loan Commitment or Tranche III Term Loan Commitment.

"Code" means the Internal Revenue Code of 1986, as amended from time to time.

"Collateral Account" has the meaning assigned to such term in Section 4.01 of the Security Agreement.

"Commitment" means a Tranche I Revolving Commitment, Tranche II Revolving Commitment, Tranche I Term Loan Dollar Commitment, Tranche I Term Loan Sterling Commitment, Tranche II Term Loan Commitment or Tranche III Term Loan Commitment, or any combination thereof (as the context requires).

"Companies Act" means the Companies Act of 1985 of England and Wales, as amended from time to time.

"Competitive Bid" means an offer by a Lender to make a Competitive Loan in accordance with Section 2.04.

"Competitive Bid Rate" means, with respect to any Competitive Bid, the Margin or the Fixed Rate, as applicable, offered by the Lender making such Competitive Bid.

"Competitive Bid Request" means a request by the Borrower for Competitive Bids in accordance with Section 2.04.

"Competitive Loan" means a Loan made pursuant to Section 2.04.

"Compulsory Acquisition" means the acquisition by U.K. Acquisition, pursuant to Sections 428 to 430F of the Companies Act, of all of the issued and outstanding Target Shares not then owned by U.K. Acquisition.

"Consolidated Subsidiary" means, for any Person, each Subsidiary of such Person (whether now existing or hereafter created or acquired) the financial statements of which shall be

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(or should have been) consolidated with the financial statements of such Person in accordance with GAAP. For purposes hereof, upon the Initial Funding Date, the Target and its Subsidiaries shall be deemed to be "Consolidated Subsidiaries".

"Consolidated Tangible Assets" means, as at any date, the total assets of the Borrower and its Consolidated Subsidiaries (determined on a consolidated basis without duplication in accordance with GAAP) that would be shown as tangible assets on a consolidated balance sheet of the Borrower and its Consolidated Subsidiaries after eliminating all amounts properly attributable to minority interests, if any, in the stock and surplus of Subsidiaries. For purposes hereof, "tangible assets" means all assets of the Borrower and its Consolidated Subsidiaries other than assets that should be classified as intangibles including goodwill, minority interests, research and development costs, trademarks, trade names, copyrights, patents and franchises, unamortized debt discount and expense, all reserves and any write-up in the book value of

assets resulting from a revaluation thereof subsequent to February 28, 1998.

"Control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. "Controlling" and "Controlled" have meanings correlative thereto.

"Currency" means Dollars or Sterling.

"Debt Incurrence" means the incurrence by the Borrower or any of its Subsidiaries after the Effective Date of any Subordinated Indebtedness.

"Debt Ratio" means, as at the last day of any fiscal quarter of the Borrower (the "day of determination"), the ratio of (a) the average of the aggregate amounts of Indebtedness of the Borrower and its Consolidated Subsidiaries (determined on a consolidated basis, without duplication, in accordance with GAAP) as at such day and as at the last days of each of the three immediately preceding fiscal quarters to (b) Operating Cash Flow for the period of four consecutive fiscal quarters ending on such day of determination. Notwithstanding the foregoing, (i) Indebtedness as at the last day of each fiscal quarter included in the determination of average Indebtedness pursuant to clause (a) above shall be determined under the assumption that any prepayment of Term Loans hereunder from the proceeds of any Equity Issuance at any time during any such fiscal quarter included in the calculation thereof shall have been made in the first such fiscal quarter, (ii) for the last day of any fiscal quarter ending prior to the end of the Term Loan Availability Period, the average Indebtedness specified in clause (a) above shall be increased by an amount equal to the aggregate principal amount of Loans that would be required to be borrowed under this Agreement to finance in full the acquisition by U.K. Acquisition of all of the Target Shares pursuant to the Tender Offer and the repayment in full of all Indebtedness outstanding under the Target Credit Facilities (but without duplication of (x) any Loans actually outstanding under this Agreement on such date and applied to such purpose and (y) any Indebtedness outstanding under the Target Credit Facilities on such date) and (iii) for purposes of determining Operating Cash Flow pursuant to clause (b) above for any period ending on or prior to the end of the Term Loan Availability Period, the Target and its Subsidiaries shall in any event be deemed to be Consolidated Subsidiaries of the Borrower.

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"Default" means any event or condition which constitutes an Event of Default or which upon notice, lapse of time or both would, unless cured or waived, become an Event of Default.

"Disclosed Matters" means the actions, suits and proceedings and the environmental matters disclosed in Schedule III.

"Disposition" means any sale, assignment, transfer or other disposition of any Property (whether now owned or hereafter acquired) by the Borrower or any of its Subsidiaries to any other Person excluding (a) any sale, assignment, transfer or other disposition of any Property sold or disposed of in the ordinary course of business and on ordinary business terms and (b) any Sale and Leaseback Transaction.

"Dollar Equivalent" means, with respect to any Borrowing denominated in Sterling, or with respect to any other amount payable or calculated hereunder in Sterling, the amount of Dollars that would be required to purchase such amount of Sterling on the date two Business Days prior to the date of such Borrowing, payment or calculation (or in the case of any determination made under Section 2.11(d) or redenomination under the last sentence of Section 2.18(a), on the date of determination or redenomination therein referred to), based upon the spot selling rate appearing on Page 3750 of the Telerate Service of Bridge Information Services for sales of Sterling for Dollars at approximately 11:00 a.m. London time for delivery two Business Days later, or if such spot selling rate is not available at such time for any reason, then the spot selling rate at which Chase offers to sell Sterling for Dollars in the London foreign exchange market at approximately 11:00 a.m. London time for delivery two Business Days later.

"Dollars" or "\$" refers to the lawful currency of the United States of America.

"Dormant Subsidiary" means any Subsidiary that is a "Dormant Company" under (and as defined in) the Companies Act.

"Dutch Acquisition" means Canandaigua B.V., a company organized under the laws of the Netherlands for the purposes described in Section 6.08, and a Wholly-Owned Subsidiary of the Borrower.

"Effective Date" has the meaning assigned to such term in Section 5.01.

"Employee Stock Purchase Plan" means the Canandaigua Brands, Inc. 1989

"Environmental Claim" means, with respect to any Person, (a) any written or oral notice, claim, demand or other communication (collectively, a "claim") by any other Person alleging or asserting such Person's liability for investigatory costs, cleanup costs, governmental response costs, damages to natural resources or other Property, personal injuries, fines or penalties arising out of, based on or resulting from (i) the presence, or Release into the environment, of any Hazardous Material at any location, whether or not owned by such Person, or (ii) circumstances forming the basis of any violation, or alleged violation, of any

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Environmental Law. The term "Environmental Claim" shall include, without limitation, any claim by any governmental authority for enforcement, cleanup, removal, response, remedial or other actions or damages pursuant to any applicable Environmental Law, and any claim by any third party seeking damages, contribution, indemnification, cost recovery, compensation or injunctive relief resulting from the presence of Hazardous Materials or arising from alleged injury or threat of injury to health, safety or the environment.

"Environmental Laws" means all laws, rules, regulations, codes, ordinances, orders, decrees, judgments, injunctions, notices or binding agreements issued, promulgated or entered into by any Governmental Authority, relating in any way to the environment, preservation or reclamation of natural resources, the management, release or threatened release of any Hazardous Material or to health and safety matters.

"Environmental Liability" means any liability, contingent or otherwise (including any liability for damages, costs of environmental remediation, fines, penalties or indemnities), of the Borrower or any Subsidiary directly or indirectly resulting from or based upon (a) violation of any Environmental Law, (b) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Materials, (c) exposure to any Hazardous Materials, (d) the release or threatened release of any Hazardous Materials into the environment or (e) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

"Equity Issuance" means (a) any issuance or sale by the Borrower or any of its Subsidiaries after the Effective Date of (i) any of its capital stock, (ii) any warrants or options exercisable in respect of its capital stock or (iii) any other security or instrument representing an equity interest (or the right to obtain any equity interest) in the Borrower or any of its Subsidiaries or (b) the receipt by the Borrower or any of its Subsidiaries after the Effective Date of any capital contribution (whether or not evidenced by any equity security issued by the recipient of such contribution); provided that Equity Issuance shall not include (x) any such issuance or sale by any Subsidiary of the Borrower to the Borrower, any Wholly-Owned Subsidiary of the Borrower or any Joint Venture Entity or (y) any capital contribution by the Borrower, any Wholly-Owned Subsidiary of the Borrower or any Joint Venture Entity to any Subsidiary of the Borrower.

"Equity Rights" means, with respect to any Person, any subscriptions, options, warrants, commitments, preemptive rights or agreements of any kind for the issuance or sale by such Person of, or securities convertible into, any additional shares of capital stock of any class of such Person, or partnership or other ownership interests of any type in such Person.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

"ERISA Affiliate" means any trade or business (whether or not incorporated) that, together with the Borrower, is treated as a single employer under Section 414(b) or (c) of the Code, or, solely for purposes of Section 302 of ERISA and Section 412 of the Code, is treated as a single employer under Section 414 of the Code.

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"ERISA Event" means (a) any "reportable event", as defined in Section 4043 of ERISA or the regulations issued thereunder with respect to a Plan (other than an event for which the 30-day notice period is waived); (b) the existence with respect to any Plan of an "accumulated funding deficiency" (as defined in Section 412 of the Code or Section 302 of ERISA), whether or not waived; (c) the filing pursuant to Section 412(d) of the Code or Section 303(d) of ERISA of an application for a waiver of the minimum funding standard with respect to any Plan; (d) the incurrence by the Borrower or any of its ERISA Affiliates of any liability under Title IV of ERISA with respect to the termination of any Plan; (e) the receipt by the Borrower or any ERISA Affiliate from the PBGC or a plan

administrator of any notice relating to an intention to terminate any Plan or Plans or to appoint a trustee to administer any Plan; (f) the incurrence by the Borrower or any of its ERISA Affiliates of any liability with respect to the withdrawal or partial withdrawal from any Plan or Multiemployer Plan; or (g) the receipt by the Borrower or any ERISA Affiliate of any notice, or the receipt by any Multiemployer Plan from the Borrower or any ERISA Affiliate of any notice, concerning the imposition of Withdrawal Liability or a determination that a Multiemployer Plan is, or is expected to be, insolvent or in reorganization, within the meaning of Title IV of ERISA.

"Eurocurrency", when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to (a) in the case of a Syndicated Loan or Borrowing or Swingline Loan or Borrowing, the Adjusted LIBO Rate, or (b) in the case of a Competitive Loan or Borrowing, the LIBO Rate.

"Event of Default" has the meaning assigned to such term in Article VIII.

"Excess Cash Flow" means, for any fiscal year, the sum of (a) Adjusted Cash Flow for such fiscal year (determined without regard to the Adjustment Amount) minus (b) Fixed Charges for such fiscal year plus (c) the sum (if positive), or minus the sum (if negative), of the aggregate amount of "change in operating assets and liabilities, net of effects from purchases of businesses" as set forth on the consolidated statements of cash flows for the Borrower and its Subsidiaries for such fiscal year, excluding, however, any portion of such amount attributable to non-cash adjustments (other than any non-cash adjustments related to Acquisitions) plus (d) the aggregate amount (if positive), or minus the aggregate amount (if negative), of "(repayment of) proceeds from notes payable, short-term borrowings" as set forth on the consolidated statements of cash flows for the Borrower and its Subsidiaries for such fiscal year (excluding borrowings the proceeds of which are applied to make Restricted Payments permitted under Section 7.05(b) and excluding also the repayment of short-term borrowings from the proceeds of an Equity Issuance or Debt Incurrence).

"Excluded Entities" means, collectively, Inactive Subsidiaries, Joint Venture Entities and Foreign Subsidiaries.

"Excluded Taxes" means, with respect to the Administrative Agent, any Lender, either Issuing Lender or any other recipient of any payment to be made by or on account of any obligation of the Borrower hereunder, (a) income or franchise taxes imposed on (or measured by) its net income by the United States of America, or by the jurisdiction under the laws of

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which such recipient is organized or in which its principal office is located or, in the case of any Lender, in which its applicable lending office is located, (b) any branch profits taxes imposed by the United States of America or any similar tax imposed by any other jurisdiction in which the Borrower is located and (c) in the case of a Foreign Lender (other than an assignee pursuant to a request by the Borrower under Section 2.19(b)), any withholding tax that is imposed on amounts payable to such Foreign Lender at the time such Foreign Lender becomes a party to this Agreement or is attributable to such Foreign Lender's failure or inability to comply with Section 2.17(e), except to the extent that such Foreign Lender's assignor (if any) was entitled, at the time of assignment, to receive additional amounts from the Borrower with respect to such withholding tax pursuant to Section 2.17(a).

"Existing Credit Agreement" has the meaning assigned to such term in the recitals hereof.

"FFBR", when used in reference to any Swingline Loan, refers to whether such Loan bears interest at a rate determined by reference to the Federal Funds Base Rate.

"Federal Funds Base Rate" means, for any Interest Period for any Swingline Loan, the rate per annum (rounded upwards, if necessary to the nearest 1/100 of 1%) determined by the Swingline Lender to be equal to the rate charged to the Swingline Lender on Federal funds transactions for such Interest Period with members of the Federal Reserve System arranged by Federal funds brokers on such day.

"Federal Funds Effective Rate" means, for any day, the weighted average (rounded upwards, if necessary, to the next 1/100 of 1%) of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average (rounded upwards, if necessary, to the next 1/100 of 1%) of the quotations for such day for such transactions received by the Administrative Agent from three Federal funds brokers of recognized standing selected by it.

"Financial Officer" means the chief financial officer, principal accounting officer, treasurer or controller of the Borrower.

"First Chicago" means The First National Bank of Chicago.

"Fixed Charges" means, for any period, the sum, for the Borrower and its Consolidated Subsidiaries (determined on a consolidated basis without duplication in accordance with GAAP), of the following: (a) all payments of principal of Indebtedness scheduled to be made during such period plus (b) all Interest Expense for such period plus (c) the aggregate amount of federal, state and foreign taxes paid during such period to the extent that net operating income for such period pursuant to clause (a) of the definition of "Operating Cash Flow" in this Section has been calculated before giving effect to such taxes plus (d) the aggregate amount of Restricted Payments made pursuant to Section 7.05 (other than on a non-cash basis pursuant to

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clauses (a) (i), (ii) and (iii) thereof, pursuant to paragraph (b) thereof or those referred to in paragraph (c) thereof) during such period.

"Fixed Charges Ratio" means, as at any date, the ratio of (a) Adjusted Cash Flow for the period of four consecutive fiscal quarters ending on or most recently ended prior to such date to (b) Fixed Charges for such period.

"Fixed Rate" means, with respect to any Competitive Loan (other than a Competitive Eurocurrency Loan) for any Interest Period, the fixed rate of interest per annum specified by the Lender making such Competitive Loan in its related Competitive Bid for such Interest Period.

"Fixed Rate Loan" means a Competitive Loan bearing interest at a Fixed Rate.

"Foreign Lender" means any Lender that is organized under the laws of a jurisdiction other than that in which the Borrower is located. For purposes of this definition, the United States of America, each State thereof and the District of Columbia shall be deemed to constitute a single jurisdiction.

"Foreign Subsidiaries" means any Subsidiary organized under the laws of any country other than the United States of America, or a State thereof, which (if such Subsidiary were to become a Subsidiary Guarantor hereunder) the Borrower and the Administrative Agent have determined would result in adverse tax consequences under Section 956 of the Code. For purposes hereof, it is agreed that as of the date hereof each of Canandaigua World Sales Limited and BB Servicios, S.A. de C.V. are "Foreign Subsidiaries" and as of the Initial Funding Date Target and each of its Subsidiaries (other than any thereof organized in the United States of America or a State thereof) shall be "Foreign Subsidiaries".

"Funding Percentage" means, as of the Acceleration Date, (a) in the case of the Tranche I Revolving Lenders, a percentage derived by dividing (i) the total Tranche I Revolving Exposures (excluding Competitive Loans) as of such Acceleration Date by (ii) the total Tranche I Revolving Commitments in effect immediately prior to such Acceleration Date and (b) in the case of the Tranche II Revolving Lenders, a percentage derived by dividing (i) the total Tranche II Revolving Exposures (excluding Competitive Loans) as of such Acceleration Date by (ii) the total Tranche II Revolving Commitments in effect immediately prior to such Acceleration Date.

"GAAP" means generally accepted accounting principles in the United States of America.

"Governmental Authority" means the government of the United States of America, any other nation or any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

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"Guarantee" of or by any Person (the "guarantor") means any obligation, contingent or otherwise, of the guarantor guaranteeing or having the economic effect of guaranteeing any Indebtedness or other obligation of any other Person (the "primary obligor") in any manner, whether directly or indirectly, and including any obligation of the guarantor, direct or indirect, (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation or to purchase (or to advance or supply funds for the purchase of) any security for the payment thereof, (b) to purchase or lease Property, securities or services for the purpose of assuring the owner of such Indebtedness or other obligation of the payment thereof, (c)

to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Indebtedness or other obligation or (d) as an account party in respect of any letter of credit or letter of guaranty issued to support such Indebtedness or obligation; provided, that the term Guarantee shall not include endorsements for collection or deposit in the ordinary course of business.

"Guarantee Assumption Agreement" means a Guarantee Assumption Agreement substantially in the form of Exhibit D by an entity that, pursuant to Section 6.09(a) is required to become a "Subsidiary Guarantor" hereunder in favor of the Administrative Agent.

"Hazardous Materials" means all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants, including petroleum or petroleum distillates, asbestos or asbestos containing materials, polychlorinated biphenyls, radon gas, infectious or medical wastes and all other substances or wastes of any nature regulated pursuant to any Environmental Law.

"Hedging Agreement" means any interest rate protection agreement, foreign currency exchange agreement, commodity price protection agreement or other interest or currency exchange rate or commodity price hedging arrangement.

"Inactive Subsidiary" means, as at any date, (i) any Subsidiary of the Borrower that, as at the end of and for the fiscal quarter ending on or most recently ended prior to such date, shall have less than \$100,000 in assets and less than \$100,000 in gross revenues and (ii) any Dormant Subsidiary (other than any such Subsidiary that has previously been designated under this definition as no longer being an Inactive Subsidiary), provided, that if on the last day of any fiscal quarter the aggregate total assets as at such date or gross revenues for such quarter of all Dormant Subsidiaries that are Inactive Subsidiaries exceeds \$1,000,000, and there is on such date one or more Dormant Subsidiaries that would not satisfy the criteria specified in clause (i) above, then the Borrower shall (commencing with the Dormant Subsidiary having the greatest assets or gross revenues and continuing with other Dormant Subsidiaries in decreasing size or revenues, as applicable) designate one or more of its Dormant Subsidiaries that would otherwise be "Inactive Subsidiaries" hereunder as no longer being "Inactive Subsidiaries" for purposes hereof until the aggregate total assets or gross revenues of all Dormant Subsidiaries that are Inactive Subsidiaries does not exceed \$1,000,000).

"Incentive Stock Option Plan" means the Canandaigua Brands, Inc. Incentive Stock Option Plan dated June 23, 1997.

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"Indebtedness" of any Person means, without duplication, (a) all obligations of such Person for borrowed money or with respect to deposits or advances of any kind, (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of such Person upon which interest charges are customarily paid, (d) all obligations of such Person under conditional sale or other title retention agreements relating to Property acquired by such Person, (e) all obligations of such Person in respect of the deferred purchase price of Property or services (excluding current accounts payable incurred in the ordinary course of business), (f) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on Property owned or acquired by such Person, whether or not the Indebtedness secured thereby has been assumed, (g) all Guarantees by such Person of Indebtedness of others, (h) all Capital Lease Obligations of such Person, (i) all obligations, contingent or otherwise, of such Person as an account party in respect of letters of credit and letters of guaranty and (j) all obligations, contingent or otherwise, of such Person in respect of bankers acceptances. The Indebtedness of any Person shall include the Indebtedness of any other entity (including any partnership in which such Person is a general partner) to the extent such Person is liable therefor as a result of such Person's ownership interest in or other relationship with such entity, except to the extent the terms of such Indebtedness provide that such Person is not liable therefor.

"Indemnified Taxes" means Taxes other than Excluded Taxes.

"Initial Funding Date" has the meaning assigned to such term in Section 5.02.

"Interest Coverage Ratio" means, as at any date of determination thereof, the ratio of (a) Operating Cash Flow for the period of four fiscal quarters ending on or most recently ended prior to such date to (b) Interest Expense for such period.

"Interest Election Request" means a request by the Borrower to convert or continue a Syndicated Borrowing in accordance with Section 2.08.

"Interest Expense" means, for any period, the sum, for the Borrower

and its Consolidated Subsidiaries (determined on a consolidated basis without duplication in accordance with GAAP), of the following: (a) all interest in respect of Indebtedness (including the interest component of any payments in respect of Capital Lease Obligations) accrued or capitalized during such period (whether or not actually paid during such period) plus (b) the net amounts payable (or minus the net amounts receivable) under Interest Rate Protection Agreements accrued during such period (whether or not actually paid or received during such period) minus (c) all interest income during such period.

Notwithstanding the foregoing, if during any period for which Interest Expense is being determined the Borrower shall have consummated any Acquisition or Disposition then, for all purposes of this Agreement (other than for purposes of the definition of Excess Cash Flow), Interest Expense shall be determined on a pro forma basis as if such Acquisition or Disposition (and any Indebtedness incurred by the Borrower or any of its Subsidiaries in connection with such Acquisition or repaid as a result of such Disposition) had been made or consummated (and such Indebtedness incurred or repaid) on the first day of such period (and interest on any such

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Indebtedness shall be deemed to be calculated for such period at a rate per annum equal to the actual rate of interest in effect in respect of Indebtedness under this Agreement outstanding during such period).

"Interest Payment Date" means (a) with respect to any Syndicated ABR Borrowing, each Quarterly Date, (b) with respect to any Eurocurrency Borrowing, the last day of the Interest Period applicable to such Borrowing and, in the case of a Eurocurrency Borrowing with an Interest Period of more than three months' duration, each day prior to the last day of such Interest Period that occurs at intervals of three months' duration after the first day of such Interest Period, (c) with respect to any Fixed Rate Borrowing, the last day of the Interest Period applicable to such Borrowing and any other dates that are specified in the applicable Competitive Bid Request as Interest Payment Dates with respect to such Borrowing and (d) with respect to any Swingline Loan, the day that such Loan is required to be repaid.

"Interest Period" means (a) with respect to any Syndicated Eurocurrency Borrowing, the period commencing on the date of such Borrowing and ending on the numerically corresponding day in the calendar month that is one, two, three, six or (with the consent of each Lender directly affected thereby) nine months thereafter, as the Borrower may elect, (b) with respect to any Competitive Eurocurrency Borrowing, the period commencing on the date of such Borrowing and ending on the numerically corresponding day in the calendar month that is one, two, three, six or nine months thereafter, as specified in the applicable Competitive Bid Request, (c) with respect to any Fixed Rate Borrowing, the period (which shall not be more than 90 days) commencing on the date of such Borrowing and ending on the date specified in the applicable Competitive Bid Request, (d) with respect to any Swingline FFBR Borrowing, the period commencing on the date of such Borrowing and ending on the date that is not earlier than one day and not later than fifteen days after such Swingline Loan is made, as the Borrower may elect and (e) with respect to any Swingline Eurocurrency Borrowing, the period commencing on the date of such Borrowing and ending on the numerically corresponding day in the calendar week that is two weeks thereafter, as the Borrower may elect; provided, that

(i) if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless, in the case of a Eurocurrency Borrowing only, such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day and

(ii) any Interest Period pertaining to a Eurocurrency Borrowing (other than a Swingline Eurocurrency Borrowing) that commences on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the last calendar month of such Interest Period) shall end on the last Business Day of the last calendar month of such Interest Period.

"Interest Rate Protection Agreement" means any Hedging Agreement that consists of an interest rate protection agreement or other interest rate hedging arrangement providing for the transfer or mitigation of interest risks either generally or under specific contingencies.

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"Investment" means, for any Person: (a) the acquisition (whether for cash, Property, services or securities or otherwise) of capital stock, bonds, notes, debentures, partnership or other ownership interests or other securities of any other Person or any agreement to make any such acquisition (including any "short sale" or any sale of any securities at a time when such securities are

not owned by the Person entering into such sale); (b) the making of any deposit with, or advance, loan or other extension of credit to, any other Person (including the purchase of Property from another Person subject to an understanding or agreement, contingent or otherwise, to resell such Property to such Person), but excluding any such advance, loan or extension of credit having a term not exceeding 120 days arising in connection with the sale of inventory or supplies by such Person in the ordinary course of business; (c) the entering into of any Guarantee of, or other contingent obligation with respect to, Indebtedness or other liability of any other Person and (without duplication) any amount committed to be advanced, lent or extended to such Person; or (d) the entering into of any Hedging Agreement.

"Issuing Lender" means (i) Chase, in its capacity as the issuer of Letters of Credit (other than the Qingdao Letter of Credit) hereunder and (ii) First Chicago, in its capacity as the issuer of the Qingdao Letter of Credit hereunder, and their respective successors in such capacity as provided in Section 2.06(j).

"Joint Venture Entity" means, collectively, (i) any Subsidiary of the Borrower that is not a Wholly-Owned Subsidiary (other than the Target) and (ii) any Subsidiary of any Joint Venture Entity described in the foregoing clause (i).

"LC Disbursement" means a payment made by an Issuing Lender pursuant to a Letter of Credit.

"LC Exposure" means, at any time, the sum of (a) the aggregate undrawn amount of all outstanding Letters of Credit at such time plus (b) the aggregate amount of all LC Disbursements that have not yet been reimbursed by or on behalf of the Borrower at such time. The LC Exposure of any Lender at any time shall be its Applicable Percentage of the total LC Exposure in respect of all Letters of Credit that constitute utilizations of such Lender's Class of Revolving Commitments.

"Lenders" means the Persons listed on Schedule I and any other Person that shall have become a party hereto pursuant to an Assignment and Acceptance, other than any such Person that ceases to be a party hereto pursuant to an Assignment and Acceptance. Unless the context otherwise requires, the term "Lenders" includes the Swingline Lender.

"Letter of Credit" means any letter of credit issued pursuant to this Agreement.

"Letter of Credit Documents" means, with respect to any Letter of Credit, collectively, any application therefor and any other agreements, instruments, guarantees or other documents (whether general in application or applicable only to such Letter of Credit) governing or providing for (a) the rights and obligations of the parties concerned or at risk with respect to such Letter of Credit or (b) any collateral security for any of such obligations.

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"LIBO Rate" means, with respect to any Eurocurrency Borrowing in any Currency for the Interest Period applicable thereto, the rate appearing (a) in the case of any such Borrowing denominated in Dollars, on Page 3750 of the Telerate Service of Bridge Information Services and (b) in the case of any such Borrowing denominated in Sterling, on Page 3750 of the Telerate Service of Bridge Information Services (or, in each case, on any successor or substitute page of such Service, or any successor to or substitute for such Service, providing rate quotations comparable to those currently provided on such page of such Service, as determined by the Administrative Agent from time to time for purposes of providing quotations of interest rates applicable to Dollar or Sterling deposits, as applicable, in the London (or, in the case of Sterling deposits, Paris) interbank market) at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period, as the rate for Dollar or Sterling deposits, as applicable, with a maturity comparable to such Interest Period; provided that the LIBO Rate for any Eurocurrency Borrowing denominated in Sterling shall be increased by the MCR Cost.

In the event that such rate is not available at such time for any reason, then the LIBO Rate with respect to such Eurocurrency Borrowing for such Interest Period shall be the rate (rounded upwards, if necessary, to the next 1/16 of 1%) at which (a) in the case of any such Borrowing denominated in Dollars, Dollar deposits of \$5,000,000 and for a maturity comparable to such Interest Period are offered by the principal London office of Chase in immediately available funds in the London interbank market at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period and (b) in the case of any such Borrowing denominated in Sterling, pounds sterling deposits of (pound)3,000,000 and for a maturity comparable to such Interest Period are offered by the principal Paris office of Chase in immediately available funds in the Paris interbank market at approximately 11:00 a.m., Paris time, two Business Days prior to the commencement of such Interest Period .

"Lien" means, with respect to any asset, (a) any mortgage, deed of trust, lien, pledge, hypothecation, encumbrance, charge or security interest in, on or of such asset, (b) the interest of a vendor or a lessor under any conditional sale agreement, Capital Lease or title retention agreement (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such asset and (c) in the case of securities, any purchase option, call or similar right of a third party with respect to such securities.

"LIFO Reserve" means, for any period, for the Borrower and its Subsidiaries (determined on a consolidated basis without duplication in accordance with GAAP), the reserve established as at the end of such period by the Borrower to reflect the difference, if any, between (a) the cost of inventory using the last-in first-out method of accounting therefor and (b) the cost of inventory using the first-in first-out method of accounting therefor.

"Loan Documents" means, collectively, this Agreement, the Letter of Credit Documents, the Security Documents and the Tranche III Revolving Loan Agreements (if any).

"Loans" means the loans made by the Lenders to the Borrower pursuant to this Agreement.

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"Local Time" means, with respect to any Loan or Borrowing denominated in or any payment to be made in either Currency, the local time in the Principal Financial Center for the Currency in which such Loan is denominated or such payment is to be made.

"Long-Term Stock Incentive Plan" means the Canandaigua Brands, Inc. Long-Term Stock Incentive Plan dated June 23, 1997.

"Margin" means, with respect to any Competitive Loan bearing interest at a rate based on the LIBO Rate, the marginal rate of interest, if any, to be added to or subtracted from the LIBO Rate to determine the rate of interest applicable to such Loan, as specified by the Lender making such Loan in its related Competitive Bid.

"Margin Stock" means "margin stock" within the meaning of Regulations T, U and X of the Board.

"Material Adverse Effect" means a material adverse effect on (a) the business, assets, operations, prospects or condition, financial or otherwise, of the Borrower and its Subsidiaries taken as a whole, (b) the legal ability or financial capacity of any Obligor to perform any of its obligations under this Agreement or any of the other Loan Documents to which it is a party or (c) the rights of or benefits available to the Lenders under this Agreement or any of the other Loan Documents. Material Adverse Effect shall also include, for purposes of Section 4.07, any material adverse effect upon the operation of any of the facilities owned, operated or leased by the Borrower or any of its Subsidiaries.

"Material Indebtedness" means Indebtedness (other than the Loans and Letters of Credit), or obligations in respect of one or more Hedging Agreements, of any one or more of the Borrower and its Subsidiaries in an aggregate principal amount exceeding \$5,000,000. For purposes of determining Material Indebtedness, the "principal amount" of the obligations of any Person in respect of any Hedging Agreement at any time shall be the maximum aggregate amount (giving effect to any netting agreements) that such Person would be required to pay if such Hedging Agreement were terminated at such time.

"MCR Cost" means, with respect to any Lender, the cost imputed to such Lender of compliance with the Mandatory Cost Rate requirements of the Bank of England during the relevant period, determined in accordance with Schedule VIII.

"Mortgages" means, collectively, the respective Deeds of Trust and Mortgages executed and delivered by the Borrower and its Subsidiaries pursuant to the 1997 Credit Agreement (or the Credit Agreement dated as of September 30, 1991 between the Borrower, the Subsidiary Guarantors named therein, the lenders named therein and Chase, as Agent, or subsequent restatements thereof), covering the properties of the respective Obligors identified in Parts A and B of Schedule VI, in each case as such Deeds of Trust and Mortgages have been heretofore modified, as such Deeds of Trust and Mortgages shall be modified pursuant to instruments of Modification and Confirmation executed and delivered pursuant to Section 5.02(e), and as such Deeds of Trust and Mortgages shall be further modified and supplemented and in effect from time to time.

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"Multiemployer Plan" means a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

"Net Available Proceeds" means:

(i) in the case of any Disposition, the amount of Net Cash Payments received in connection with such Disposition;

(ii) in the case of any Casualty Event, the aggregate amount of proceeds of insurance, condemnation awards and other compensation received by the Borrower and its Subsidiaries in respect of such Casualty Event net of (A) reasonable expenses incurred by the Borrower and its Subsidiaries in connection therewith and (B) contractually required repayments of Indebtedness (other than Indebtedness to the Lenders hereunder) to the extent secured by a Lien on such Property and any income and transfer taxes payable by the Borrower or any of its Subsidiaries in respect of such Casualty Event;

(iii) in the case of any Equity Issuance, the aggregate amount of all cash received by the Borrower and its Subsidiaries in respect of such Equity Issuance (net of reasonable expenses incurred by the Borrower and its Subsidiaries in connection therewith), other than payments made by the Target or any of its Subsidiaries to the Borrower (or to a Person nominated by the Borrower) in connection with any stock options or other types of stock based awards (including stock appreciation rights) that may be or may have been issued by the Borrower to any employee of Target or its Subsidiaries; and

(iv) in the case of any Debt Incurrence, the aggregate amount of all cash received by the Borrower and its Subsidiaries in respect of such Debt Incurrence (net of (x) reasonable expenses incurred by the Borrower and its Subsidiaries in connection therewith and (y) cash proceeds so received and applied to refinance other Subordinated Indebtedness as contemplated by Section 7.09).

"Net Cash Payments" means, with respect to any Disposition, the aggregate amount of all cash payments received by the Borrower and its Subsidiaries directly or indirectly in connection with such Disposition; provided that (a) Net Cash Payments shall be net of (i) the amount of any legal, title and recording tax expenses, commissions and other fees and expenses paid by the Borrower and its Subsidiaries in connection with such Disposition and (ii) any Federal, state, local and foreign income or other taxes estimated to be payable by the Borrower and its Subsidiaries as a result of such Disposition (but only to the extent that such estimated taxes are in fact paid to the relevant Federal, state, local or foreign governmental authority within three months of the date of such Disposition) and (b) Net Cash Payments shall be net of any repayments by the Borrower or any of its Subsidiaries of Indebtedness to the extent that (i) such Indebtedness is secured by a Lien on the Property that is the subject of such Disposition and (ii) the transferee of (or holder of a Lien on) such Property requires that such Indebtedness be repaid as a condition to the purchase of such Property.

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"1997 Credit Agreement" means the Credit Agreement dated as of December 19, 1997 between the Borrower, the lenders party thereto, and Chase, as Administrative Agent, as in effect on the date hereof.

"Notes" means promissory notes from time to time executed and delivered pursuant to Section 2.10(f).

"Obligor" means the Borrower and each Subsidiary Guarantor.

"Off-Premises Warehouses" means all warehouses and other bailment facilities owned and operated by Persons other than any Obligor that are not located on Property owned or leased by any Obligor and in which inventory is maintained from time to time.

"Offer Documents" means, collectively, the Press Release and the Tender Offer documentation posted on November 3, 1998 by U.K. Acquisition to the holders of Target Shares setting out the detailed terms of the Tender Offer.

"Operating Cash Flow" means, for any period, the sum, for the Borrower and its Consolidated Subsidiaries (determined on a consolidated basis without duplication in accordance with GAAP), of the following: (a) net operating income (calculated before income taxes, interest income, Interest Expense, extraordinary and unusual items and income or loss attributable to equity in Affiliates) for such period plus (b) depreciation and amortization (to the extent deducted in determining net operating income) for such period plus (c) the Adjustment Amount for such period, if such Adjustment Amount is expense (or minus the Adjustment Amount for such period, if such Adjustment Amount is income) plus (d) unusual non-recurring charges against net operating income of the Target and its Subsidiaries described on Schedule IX hereto (as such Schedule may be amended from time to time with the consent of the Borrower and the Required Lenders).

Notwithstanding the foregoing, if during any period for which Operating Cash Flow is being determined the Borrower or any of its Subsidiaries shall have consummated any Acquisition or Disposition then, for all purposes of this Agreement (other than for purposes of determining Excess Cash Flow), Operating Cash Flow shall be determined on a pro forma basis as if such Acquisition or Disposition had been made or consummated on the first day of such period.

"Other Taxes" means any and all present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made under any Loan Document or from the execution, delivery or enforcement of, or otherwise with respect to, any Loan Document.

"Overfunded Revolving Lenders" has the meaning assigned to such term in the penultimate paragraph of Article VIII.

"Panel" means the Panel on Takeovers and Mergers in the City of London.

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"PBGC" means the Pension Benefit Guaranty Corporation referred to and defined in ERISA and any successor entity performing similar functions.

"Permitted Encumbrances" means:

(a) Liens imposed by law for taxes that are not yet due or are being contested in compliance with Section 6.04;

(b) carriers', warehousemen's, mechanics', materialmen's, repairmen's, bankers' and other like Liens imposed by law, arising in the ordinary course of business and securing obligations that are not overdue by more than 30 days or are being contested in compliance with Section 6.04;

(c) pledges and deposits made in the ordinary course of business in compliance with workers' compensation, unemployment insurance and other social security laws or regulations;

(d) deposits to secure the performance of bids, trade contracts, leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature, in each case in the ordinary course of business;

(e) judgment liens in respect of judgments that do not constitute an Event of Default under clause (k) of Article VIII;

(f) easements, zoning restrictions, rights-of-way and similar encumbrances on real Property imposed by law or arising in the ordinary course of business that do not secure any monetary obligations and do not materially detract from the value of the affected Property or interfere with the ordinary conduct of business of the Borrower or any Subsidiary; and

(g) liens arising under standard custodial, bailee or depositary arrangements (including (i) in respect of deposit accounts with banks and other financial institutions and (ii) standard customer agreements in respect of accounts for the purchase and sale of securities and other property with brokerage firms or other types of financial institutions),

provided that the term "Permitted Encumbrances" shall not include any Lien securing Indebtedness, and "Permitted Encumbrances of the type described in the foregoing clause (g) shall not secure any obligations (including obligations under Hedging Agreements), other than obligations incidental to the respective custodial, bailee or depositary arrangements or customer agreements referred to in said clause (g).

"Permitted Investments" means:

(a) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America (or by any agency thereof to the extent such obligations are backed by the full faith and credit of the United States of America), in each case maturing within one year from the date of acquisition thereof;

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(b) investments in commercial paper maturing within 270 days from the date of acquisition thereof and having, at such date of acquisition, the highest credit rating obtainable from Standard & Poor's Ratings Services or from Moody's Investors Services, Inc.;

(c) investments in certificates of deposit, bankers acceptances and time deposits maturing within 180 days from the date of acquisition thereof issued or guaranteed by or placed with, and money market deposit accounts issued or offered by, any domestic office of (x) any commercial bank organized under the laws of the United States of America or any State thereof which has a combined capital and surplus and undivided profits of not less than \$500,000,000 or (y) any Lender hereunder; and

(d) fully collateralized repurchase agreements with a term of not more than 30 days for securities described in clause (a) of this definition and entered into with a financial institution satisfying the criteria described in clause (c) of this definition.

"Person" means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

"Plan" means any employee pension benefit plan (other than a Multiemployer Plan) subject to the provisions of Title IV of ERISA or Section 412 of the Code or Section 302 of ERISA, and in respect of which the Borrower or any ERISA Affiliate is (or, if such plan were terminated, would under Section 4069 of ERISA be deemed to be) an "employer" as defined in Section 3(5) of ERISA.

"Press Release" means the press release referred to in Section 5.01(f).

"Prime Rate" means the rate of interest per annum publicly announced from time to time by Chase as its prime rate in effect at its principal office in New York City; each change in the Prime Rate shall be effective from and including the date such change is publicly announced as being effective.

"Principal Financial Center" shall mean, in the case of either Currency, the principal financial center where such Currency is cleared and settled, as determined by the Administrative Agent.

"Property" means any right or interest in or to property of any kind whatsoever, whether real, personal or mixed and whether tangible or intangible.

"Qingdao Letter of Credit" means Letter of Credit No. 04021104 issued by First Chicago to Qingdao Brewery, 56 Dengzhou Road, Qingdao, People's Republic of China, as such Letter of Credit shall, subject to the provisions of Sections 2.06(b) and 2.06(l), be modified, renewed and reissued from time to time.

"Qingdao Letter of Credit Limit" means (i) as of the Effective Date, \$553,407, and (ii) as of the date of any modification or renewal or reissuance of the Qingdao Letter of

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Credit, the amount specified by First Chicago, as an Issuing Lender, to the Administrative Agent and the Borrower at the time of such modification, renewal or reissuance as the new "Qingdao Letter of Credit Limit" for purposes of this Agreement.

"Quarterly Dates" means the 1st day of March, June, September and December in each year, the first of which shall be the first such day after the date hereof; provided that if any such day is not a Business Day, then such Quarterly Date shall be the next succeeding Business Day.

"Register" has the meaning set forth in Section 10.04.

"Related Parties" means, with respect to any specified Person, such Person's Affiliates and the respective directors, officers, employees, agents and advisors of such Person and such Person's Affiliates.

"Release" means any release, spill, emission, leaking, pumping, injection, deposit, disposal, discharge, dispersal, leaching or migration into the indoor or outdoor environment, including the movement of Hazardous Materials through ambient air, soil, surface water, ground water, wetlands, land or subsurface strata.

"Required Lenders" means, at any time, any two or more Lenders having Revolving Exposures, Term Loans and unused Commitments representing at least 51% of the sum of the total Revolving Exposures, Term Loans and unused Commitments at such time; provided that, for purposes of declaring the Loans to be due and payable pursuant to Article VIII, and for all purposes after the Loans become due and payable pursuant to Article VIII or the Revolving Commitments expire or terminate, the outstanding Competitive Loans of the Lenders shall be included in their respective Revolving Exposures in determining the Required Lenders. The "Required Lenders" of a particular Class of Loans means two or more Lenders having Revolving Exposures, Term Loans and unused Commitments of such Class

representing at least 51% of the total Revolving Exposures, Term Loans and unused Commitments of such Class at such time.

"Restricted Payment" means any dividend or other distribution (whether in cash, securities or other Property) with respect to any shares of any class of capital stock of the Borrower or any of its Subsidiaries, or any payment (whether in cash, securities or other Property), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, acquisition, cancellation or termination of any such shares of capital stock of the Borrower or such Subsidiary or any option, warrant or other right to acquire any such shares of capital stock of the Borrower or such Subsidiary.

"Revolving Availability Period" means the period from and including the Effective Date to but excluding the earlier of the Revolving Commitment Termination Date and the date that all Revolving Commitments are otherwise terminated.

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"Revolving Commitments" means, collectively, the Tranche I Revolving Commitments, the Tranche II Revolving Commitments and the Tranche III Revolving Commitments.

"Revolving Commitment Termination Date" means the Quarterly Date falling on or nearest to December 1, 2004.

"Revolving Exposure" means, collectively, the Tranche I Revolving Exposure, the Tranche II Revolving Exposure and the Tranche III Revolving Exposure.

"Revolving Lenders" means, collectively, the Tranche I Revolving Lenders, the Tranche II Revolving Lenders and the Tranche III Revolving Lenders.

"Revolving Loans" means, collectively, the Tranche I Revolving Loans, the Tranche II Revolving Loans and the Tranche III Revolving Loans.

"Sale and Leaseback Transaction" means a transaction or series of transactions pursuant to which the Borrower or any Subsidiary shall sell or transfer to any Person (other than the Borrower or a Subsidiary) any Property, whether now owned or hereafter acquired, and, as part of the same transaction or series of transactions, the Borrower or any Subsidiary shall rent or lease as lessee, or similarly acquire the right to possession or use of, such Property or one or more Properties which it intends to use for the same purpose or purposes as such Property, and in circumstances that give rise to a Capital Lease Obligation of the Borrower or one or more of its Subsidiaries.

"Security Agreement" means a Security Agreement substantially in the form of Exhibit B-1 between the Borrower, the Subsidiary Guarantors and the Administrative Agent.

"Security Documents" means, collectively, the Security Agreement, the Mortgages, the U.K. Pledge Agreements, the pledge agreement in respect of the shares of Dutch Acquisition referred to in Section 6.09(a), and all Uniform Commercial Code financing statements required by the Security Agreement or the Mortgages to be filed with respect to the security interests in personal Property and fixtures created pursuant to the Security Agreement or the Mortgages.

"Senior Debt Ratio" means, as at the last day of any fiscal quarter of the Borrower (the "day of determination"), the ratio of (a) the average of the aggregate amounts of Indebtedness (other than any Subordinated Indebtedness) of the Borrower and its Consolidated Subsidiaries (determined on a consolidated basis, without duplication, in accordance with GAAP) as at such day and as at the last days of each of the three immediately preceding fiscal quarters to (b) Operating Cash Flow for the period of four consecutive fiscal quarters ending on such day of determination. Notwithstanding the foregoing, (i) Indebtedness as at the last day of each fiscal quarter included in the determination of average Indebtedness pursuant to clause (a) above shall be determined under the assumption that any prepayment of Term Loans hereunder from the proceeds of any Equity Issuance or Debt Incurrence at any time during any such fiscal quarter included in the calculation thereof shall have been made in the first such fiscal quarter,

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(ii) for the last day of any fiscal quarter ending prior to the end of the Term Loan Availability Period, the average Indebtedness specified in clause (a) above shall be increased by an amount equal to the aggregate principal amount of Loans that would be required to be borrowed under this Agreement to finance in full the acquisition by U.K. Acquisition of all of the Target Shares pursuant to the Tender Offer and the repayment in full of all Indebtedness outstanding under the

Target Credit Facilities (but without duplication of (x) any Loans actually outstanding under this Agreement on such date and applied to such purpose and (y) any Indebtedness outstanding under the Target Credit Facilities on such date) and (iii) for purposes of determining Operating Cash Flow pursuant to clause (b) above for any period ending on or prior to the end of the Term Loan Availability Period, the Target and its Subsidiaries shall in any event be deemed to be Consolidated Subsidiaries of the Borrower.

"Senior Subordinated Note Guarantees" means, collectively, the Guarantees, pursuant to Section 1014 or Article 14 of the Senior Subordinated Note Indentures, by each Subsidiary Guarantor of the punctual payment and performance when due of all of the Borrower's Indenture Obligations (as defined in the Senior Subordinated Note Indentures).

"Senior Subordinated Notes" means the Borrower's Senior Subordinated Notes due 2003 issued pursuant to the Senior Subordinated Note Indentures.

"Senior Subordinated Note Indentures" means, collectively, (a) the Indenture dated as of December 27, 1993 between the Borrower, the Subsidiary Guarantors and Chase (as successor by merger to Chemical Bank), as trustee, and (b) the Indenture dated as of October 29, 1996 between the Borrower, the Subsidiary Guarantors and Harris Trust and Savings Bank, as trustee.

"Series" has the meaning set forth in Section 2.01(c).

"Statutory Reserve Rate" means, for the Interest Period for any Eurocurrency Borrowing, a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the arithmetic mean, taken over each day in such Interest Period, of the aggregate of the maximum reserve percentages (including any marginal, special, emergency or supplemental reserves) expressed as a decimal established by the Board to which Chase is subject for eurocurrency funding (currently referred to as "Eurocurrency liabilities" in Regulation D of the Board). Such reserve percentages shall include those imposed pursuant to such Regulation D. Eurocurrency Loans shall be deemed to constitute eurocurrency funding and to be subject to such reserve requirements without benefit of or credit for proration, exemptions or offsets that may be available from time to time to any Lender under such Regulation D or any comparable regulation. The Statutory Reserve Rate shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

"Sterling" or "(pound)" refers to the lawful currency of England.

"Sterling Equivalent" means, with respect to any amount in Dollars, the amount of Sterling that could be purchased with such amount of Dollars using the reciprocal of the foreign

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exchange rate(s) specified in the definition of the term "Dollar Equivalent", as determined by the Administrative Agent.

"Subordinated Indebtedness" means, collectively, (a) Indebtedness of the Borrower in respect of the Senior Subordinated Notes and (b) other Indebtedness incurred in accordance with the provisions of Section 7.09.

"Subsidiary" means, with respect to any Person (the "parent") at any date, any corporation, limited liability company, partnership, association or other entity the accounts of which would be consolidated with those of the parent in the parent's consolidated financial statements if such financial statements were prepared in accordance with GAAP as of such date, as well as any other corporation, limited liability company, partnership, association or other entity (a) of which securities or other ownership interests representing more than 50% of the equity or more than 50% of the ordinary voting power or, in the case of a partnership, more than 50% of the general partnership interests are, as of such date, owned, controlled or held, or (b) that is, as of such date, otherwise Controlled, by the parent or one or more subsidiaries of the parent or by the parent and one or more subsidiaries of the parent. Unless otherwise specified, "Subsidiary" means a Subsidiary of the Borrower.

"Subsidiary Guarantor" means each of the Subsidiaries of the Borrower identified under the caption "SUBSIDIARY GUARANTORS" on the signature pages hereto and each Subsidiary of the Borrower that becomes a "Subsidiary Guarantor" after the date hereof pursuant to Section 6.09(a).

"Swingline Exposure" means, at any time, the aggregate principal amount of all Swingline Loans outstanding at such time. The Swingline Exposure of any Lender at any time shall be its Applicable Percentage of the total Swingline Exposure at such time.

"Swingline Lender" means Chase, in its capacity as lender of Swingline Loans hereunder, or such other Lender as the Borrower may from time to time select as the Swingline Lender hereunder pursuant to Section 2.05(e).

"Swingline Loan" means a Loan made pursuant to Section 2.05.

"Syndicated Loans" means, collectively, the Tranche I Revolving Loans, Tranche II Revolving Loans, Tranche III Revolving Loans, Tranche I Term Loans, Tranche II Term Loans and Tranche III Term Loans.

"Takeovers Code" means the City Code on Takeovers and Mergers, as issued by the Panel.

"Target" means Matthew Clark plc, a company organized under the laws of England and Wales.

"Target Credit Facilities" means, collectively, (a) the Revolving Credit Agreement dated July 16, 1997, between the Target, the "Original Guarantors" identified therein,

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BZW as Co-ordinator, Barclays Bank plc, as Agent, and the financial institutions identified therein, (b) the uncommitted facility in the amount of (pound) 5,000,000 provided by Allied Irish Banks p.l.c. to the Target pursuant to a letter dated July 24, 1998, (c) the short term facilities up to a gross limit of (pound)20,100,000 and a net limit of (pound)5,100,000 provided by Barclays Bank PLC to the Target and its Subsidiaries pursuant to a letter dated August 1, 1997 and (d) the facilities in the respective amounts specified provided by National Westminster Bank Plc to the Target pursuant to an Advice of Borrowing Terms dated September 7, 1998.

"Target Shares" means the issued and outstanding ordinary shares, 25 pence par value, of the Target.

"Taxes" means any and all present or future taxes, levies, imposts, duties, deductions, charges or withholdings imposed by any Governmental Authority.

"Tender Offer" means the offer made on a recommended basis (i.e. with the concurrence of the board of directors of the Target) and commenced on November 3, 1998 by U.K. Acquisition for up to 100% of the Target Shares, and options related thereto.

"Term Loan Availability Period" means the period from and including the Effective Date to and including the earliest of (a) the date five months after the date hereof (or, if such date is not a Business Day, the next succeeding Business Day), (b) the date immediately following the day on which the Tender Offer lapses or is withdrawn by U.K. Acquisition or (c) the date that the Target becomes a Wholly-Owned Subsidiary of the Borrower (so long as U.K. Acquisition has made payment in full of, and related Loans hereunder have been made to fund, the purchase price of all outstanding Target Shares and related options and the refinancing of the then-outstanding Indebtedness under the Target Credit Facilities).

"Term Loan Commitments" means, collectively, the Tranche I Term Loan Dollar Commitments, the Tranche I Term Loan Sterling Commitments, the Tranche II Term Loan Commitments and the Tranche III Term Loan Commitments.

"Term Loan Lenders" means, collectively, the Tranche I Term Loan Lenders, the Tranche II Term Loan Lenders and the Tranche III Term Loan Lenders.

"Term Loan Principal Payment Dates" means the Quarterly Dates falling on or nearest to March 1, June 1, September 1 and December 1 of each year, commencing with December 1, 1999, through and including December 1, 2005.

"Term Loans" means, collectively, the Tranche I Term Loans, the Tranche II Term Loans and the Tranche III Term Loans.

"Tranche I Revolving Commitment" means, with respect to each Lender, the commitment, if any, of such Lender to make Tranche I Revolving Loans and to acquire participations in Letters of Credit and Swingline Loans hereunder, expressed as an amount representing the maximum aggregate amount of such Lender's Tranche I Revolving Exposure hereunder, as such commitment may be (a) reduced from time to time pursuant to Section 2.09

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or 2.11 and (b) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 10.04. The initial amount of each Lender's Tranche I Revolving Commitment is set forth on Schedule I, or in the Assignment and Acceptance pursuant to which such Lender shall have assumed its Tranche I Revolving Commitment, as applicable. The initial aggregate amount of the Lenders' Tranche I Revolving Commitments is \$209,400,000.

"Tranche I Revolving Exposure" means, with respect to any Lender at any time, the sum of the outstanding principal amount of such Lender's Tranche I Revolving Loans and its LC Exposure and Swingline Exposure at such time.

"Tranche I Revolving Lenders" means a Lender with a Tranche I Revolving Commitment or, if the Tranche I Revolving Commitments have terminated or expired, a Lender with Tranche I Revolving Exposure.

"Tranche I Revolving Loan" means a Loan made pursuant to Section 2.01(a), which may be ABR Loans and/or Eurocurrency Loans.

"Tranche I Term Loan" means a Loan made pursuant to Section 2.01(d) (i) or (ii), which may be ABR Loans and/or Eurocurrency Loans and may be denominated in Dollars or in Sterling.

"Tranche I Term Loan Dollar Commitment" means, with respect to each Lender, the commitment, if any, of such Lender to make one or more Tranche I Term Loans hereunder in Dollars during the Term Loan Availability Period, expressed as an amount in Dollars representing the maximum aggregate principal amount of the Tranche I Term Loans denominated in Dollars to be made by such Lender hereunder, as such commitment may be (a) reduced from time to time pursuant to Section 2.09 or 2.11 and (b) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 10.04. The initial amount of each Lender's Tranche I Term Loan Dollar Commitment is set forth on Schedule I, or in the Assignment and Acceptance pursuant to which such Lender shall have assumed its Tranche I Term Loan Dollar Commitment, as applicable. The initial aggregate amount of the Lenders' Tranche I Term Loan Dollar Commitments is \$64,170,000.

"Tranche I Term Loan Dollar Lender" means a Lender with a Tranche I Term Loan Dollar Commitment or an outstanding Tranche I Term Loan denominated in Dollars.

"Tranche I Term Loan Lender" means a Tranche I Term Loan Dollar Lender or a Tranche I Term Loan Sterling Lender.

"Tranche I Term Loan Sterling Commitment" means, with respect to each Tranche I Term Loan Lender, the commitment, if any, of such Lender to make one or more Tranche I Term Loans hereunder in Sterling during the Term Loan Availability Period, expressed as an amount in Dollars representing the maximum aggregate principal amount of the Tranche I Term Loans denominated in Sterling to be made by such Lender hereunder, as such commitment may be (a) reduced from time to time pursuant to Section 2.09 or 2.11 and (b) reduced or increased from time to time pursuant to assignments by or to such Lender

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pursuant to Section 10.04. The initial amount of each Lender's Tranche I Term Loan Sterling Commitment is set forth on Schedule I, or in the Assignment and Acceptance pursuant to which such Lender shall have assumed its Tranche I Term Loan Sterling Commitment, as applicable. The initial aggregate amount of the Lenders' Tranche I Term Loan Sterling Commitments is \$285,830,000.

"Tranche I Term Loan Sterling Lender" means a Lender with a Tranche I Term Loan Sterling Commitment or an outstanding Tranche I Term Loan denominated in Sterling.

"Tranche II Revolving Commitment" means, with respect to each Lender, the commitment, if any, of such Lender to make Tranche II Revolving Loans and to acquire participations in Letters of Credit hereunder, expressed as an amount representing the maximum aggregate amount of such Lender's Tranche II Revolving Exposure hereunder, as such commitment may be (a) reduced from time to time pursuant to Section 2.09 or 2.11 and (b) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 10.04. The initial amount of each Lender's Tranche II Revolving Commitment is set forth on Schedule I, or in the Assignment and Acceptance pursuant to which such Lender shall have assumed its Tranche II Revolving Commitment, as applicable. The initial aggregate amount of the Lenders' Tranche II Revolving Commitments is \$90,600,000.

"Tranche II Revolving Exposure" means, with respect to any Lender at any time, the sum of the outstanding principal amount of such Lender's Tranche II Revolving Loans denominated in Dollars and the Dollar Equivalent of such Lender's Tranche II Revolving Loans denominated in Sterling and its LC Exposure at such time.

"Tranche II Revolving Lenders" means a Lender with a Tranche II Revolving Commitment or, if the Tranche II Revolving Commitments have terminated or expired, a Lender with Tranche II Revolving Exposure.

"Tranche II Revolving Loan" means a Loan made pursuant to Section 2.01(b), which may be ABR Loans and/or Eurocurrency Loans.

"Tranche II Term Loan" means a Loan made pursuant to Section 2.01(e), which may be ABR Loans and/or Eurocurrency Loans.

"Tranche II Term Loan Commitment" means, with respect to each Lender, the commitment, if any, of such Lender to make one or more Tranche II Term Loans hereunder during the Term Loan Availability Period, expressed as an amount representing the maximum aggregate principal amount of the Tranche II Term Loans to be made by such Lender hereunder, as such commitment may be (a) reduced from time to time pursuant to Section 2.09 or 2.11 and (b) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 10.04. The initial amount of each Lender's Tranche II Term Loan Commitment is set forth on Schedule I, or in the Assignment and Acceptance pursuant to which such Lender shall have assumed its Tranche II Term Loan Commitment, as applicable. The initial aggregate amount of the Lenders' Tranche II Term Loan Commitments is \$200,000,000.

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"Tranche II Term Loan Lender" means a Lender with a Tranche II Term Loan Commitment or an outstanding Tranche II Term Loan.

"Tranche III Revolving Commitment" means, with respect to each Lender, the commitment, if any, of such Lender to make Tranche III Revolving Loans and to acquire participations in Letters of Credit hereunder, expressed as an amount representing the maximum aggregate amount of such Lender's Tranche III Revolving Exposure hereunder, as such commitment may be (a) reduced from time to time pursuant to Section 2.09 or 2.11 and (b) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 10.04. The initial amount of each Lender's Tranche III Revolving Commitment shall be determined in accordance with the provisions of Section 2.01(c).

"Tranche III Revolving Exposure" means, with respect to any Lender at any time, the sum of the outstanding principal amount of such Lender's Tranche III Revolving Loans and its LC Exposure at such time.

"Tranche III Revolving Lenders" means a Lender with a Tranche III Revolving Commitment or, if the Tranche III Revolving Commitments have terminated or expired, a Lender with Tranche III Revolving Exposure.

"Tranche III Revolving Loan" means a "Tranche III Revolving Loan" provided for by Section 2.01(c), which may be ABR Loans and/or Eurocurrency Loans.

"Tranche III Revolving Loan Agreement" means, with respect to any Series of Tranche III Revolving Loans, an agreement between the Borrower and one or more Lenders pursuant to which each such Lenders agrees to become obligated in respect of a Tranche III Revolving Commitment of such Series hereunder.

"Tranche III Term Loan" means a Loan made pursuant to Section 2.01(f), which may be ABR Loans and/or Eurocurrency Loans.

"Tranche III Term Loan Commitment" means, with respect to each Lender, the commitment, if any, of such Lender to make one or more Tranche III Term Loans hereunder on the Initial Funding Date, expressed as an amount representing the maximum aggregate principal amount of the Tranche III Term Loans to be made by such Lender hereunder, as such commitment may be (a) reduced from time to time pursuant to Section 2.09 or 2.11 and (b) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 10.04. The initial amount of each Lender's Tranche III Term Loan Commitment is set forth on Schedule I, or in the Assignment and Acceptance pursuant to which such Lender shall have assumed its Tranche III Term Loan Commitment, as applicable. The initial aggregate amount of the Lenders' Tranche III Term Loan Commitments is \$150,000,000.

"Tranche III Term Loan Lender" means a Lender with a Tranche III Term Loan Commitment or an outstanding Tranche III Term Loan.

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"Transactions" means the execution, delivery and performance by each Obligor of this Agreement and the other Loan Documents to which such Obligor is intended to be a party, the borrowing of Loans, the use of the proceeds thereof, the issuance of Letters of Credit hereunder and the consummation of the Tender Offer.

"Type", when used in reference to any Loan or Borrowing, refers to whether the rate of interest on such Loan, or on the Loans comprising such Borrowing, is determined by reference to the Adjusted LIBO Rate, the Alternate Base Rate or (in the case of a Competitive Loan or Borrowing) the LIBO Rate or a Fixed Rate, or (in the case of Swingline Loans) the Alternate Base Rate or

Federal Funds Base Rate.

"Underfunded Revolving Lenders" has the meaning assigned to such term in the penultimate paragraph of Article VIII.

"U.K. Acquisition" means Canandaigua Limited (formerly known as Walnutglade Limited), a company organized under the laws of England and Wales with registered number 3649497 and a Wholly-Owned Subsidiary of the Borrower.

"U.K. Pledge Agreements" means, collectively, (a) a Mortgage of Shares substantially in the form of Exhibit B-2, executed and delivered by the Borrower in favor of the Administrative Agent creating in favor of the Administrative Agent, for the benefit of the Lenders, a security interest in the shares of U.K. Acquisition and (b) a Mortgage of Shares substantially in the form of Exhibit B-3, executed and delivered by U.K. Acquisition in favor of the Administrative Agent creating in favor of the Administrative Agent, for the benefit of the Lenders, a security interest in Target Shares owned by U.K. Acquisition up to but not exceeding such portion thereof as does not represent more than 65% of the aggregate outstanding Target Shares issued by Target.

"Wholly-Owned Subsidiary" means, with respect to any Person, any corporation, partnership or other entity of which all of the equity securities or other ownership interests (other than, in the case of a corporation, directors' qualifying shares) are directly or indirectly owned or controlled by such Person or one or more Wholly-Owned Subsidiaries of such Person or by such Person and one or more Subsidiaries of such Person. For purposes hereof, BB Servicios, S.A. de C.V. shall be deemed to be a Wholly-Owned Subsidiary so long as the direct or indirect ownership interest of the Borrower therein shall not fall below that indicated on Schedule IV.

"Withdrawal Liability" means liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Part I of Subtitle E of Title IV of ERISA.

SECTION 1.02. Classification of Loans and Borrowings. For purposes of this Agreement, Loans may be classified and referred to by Class (e.g., a "Tranche I Revolving Loan") or by Type (e.g., a "Eurocurrency Loan") or by Class and Type (e.g., a "Tranche I Revolving Eurocurrency Loan"). Borrowings also may be classified and referred to by Class (e.g., a "Tranche I Revolving Borrowing") or by Type (e.g., a "Eurocurrency Borrowing") or by Class and Type (e.g., a "Tranche I Revolving Eurocurrency Borrowing"). Swingline ABR

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Loans, Swingline Eurocurrency Loans and Swingline FFBR Loans shall be deemed to be Loans of the same Class but different Types. Loans and Borrowings may also be identified by Currency.

SECTION 1.03. Terms Generally. The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation". The word "will" shall be construed to have the same meaning and effect as the word "shall". Unless the context requires otherwise (a) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein), (b) any reference herein to any Person shall be construed to include such Person's successors and assigns, (c) the words "herein", "hereof" and "hereunder", and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof, (d) all references herein to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, this Agreement and (e) the words "asset" and "Property" shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

SECTION 1.04. Accounting Terms; GAAP. Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with GAAP, as in effect from time to time; provided that, if the Borrower notifies the Administrative Agent that the Borrower requests an amendment to any provision hereof to eliminate the effect of any change occurring after the date hereof in GAAP or in the application thereof on the operation of such provision (or if the Administrative Agent notifies the Borrower that the Required Lenders request an amendment to any provision hereof for such purpose), regardless of whether any such notice is given before or after such change in GAAP or in the application thereof, then such provision shall be interpreted on the basis of GAAP as in effect and applied immediately before such change shall have become effective until such notice shall have been withdrawn or such provision amended in accordance herewith.

SECTION 1.05. Currency Equivalents. Except as provided in Section 2.11(d), for purposes of determining (i) whether the amount of any Borrowing, together with all other Borrowings then outstanding, would exceed the aggregate amount of Commitments, (ii) the aggregate unutilized amount of the Commitments and (iii) the outstanding aggregate principal amount of Borrowings, the outstanding principal amount of any Borrowing that is denominated in Sterling shall be deemed to be the Dollar Equivalent of the amount of Sterling of such Borrowing determined as of the date of such Borrowing (determined in accordance with the last sentence of the definition of the term "Borrowing"). Wherever in this Agreement in connection with a Borrowing or Loan a required minimum or multiple amount is expressed in Dollars, but such Borrowing or Loan is denominated in Sterling, the minimum or multiple amount will be the relevant Sterling Equivalent of such Dollar amount (rounded to the nearest 1,000 units of Sterling).

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ARTICLE II

THE CREDITS

SECTION 2.01. The Commitments.

(a) Tranche I Revolving Loans. Subject to the terms and conditions set forth herein, each Tranche I Revolving Lender agrees to make Tranche I Revolving Loans to the Borrower from time to time during the Revolving Availability Period in Dollars in an aggregate principal amount that will not result in (i) such Lender's Tranche I Revolving Exposure exceeding such Lender's Tranche I Revolving Commitment and (ii) the sum of the total Tranche I Revolving Exposures plus the aggregate principal amount of outstanding Competitive Loans made by Tranche I Revolving Lenders exceeding the total Tranche I Revolving Commitments. Within the foregoing limits and subject to the terms and conditions set forth herein, the Borrower may borrow, prepay and reborrow Tranche I Revolving Loans.

(b) Tranche II Revolving Loans. Subject to the terms and conditions set forth herein, each Tranche II Revolving Lender agrees to make Tranche II Revolving Loans to the Borrower from time to time during the Revolving Availability Period in Dollars or in Sterling in an aggregate principal amount that will not result in (i) such Lender's Tranche II Revolving Exposure exceeding such Lender's Tranche II Revolving Commitment, (ii) the sum of the total Tranche II Revolving Exposures plus the aggregate principal amount of outstanding Competitive Loans made by Tranche II Revolving Lenders exceeding the total Tranche II Revolving Commitments, (iii) the aggregate principal amount of outstanding Tranche II Revolving Loans and Competitive Loans denominated in Sterling to exceed (pound)50,000,000 and (iv) (x) the percentage obtained by dividing (A) the aggregate principal amount of outstanding Tranche II Revolving Loans denominated in Dollars by (B) the total Tranche II Revolving Commitments exceeding by more than 110% (y) the percentage obtained by dividing (A) the aggregate principal amount of outstanding Tranche I Revolving Loans by (y) the total Tranche I Revolving Commitments. Within the foregoing limits and subject to the terms and conditions set forth herein, the Borrower may borrow, prepay and reborrow Tranche II Revolving Loans.

(c) Tranche III Revolving Loans. In addition to borrowings of Tranche I Revolving Loans and Tranche II Revolving Loans specified in Section 2.01(a) and (b), respectively, at any time and from time to time during the Revolving Availability Period, the Borrower may request that the Lenders offer to enter into commitments to make Tranche III Revolving Loans to the Borrower in Dollars (it being understood that such offer may be made by any financial institution that is to become a Lender hereunder in connection with the making of such offer under this paragraph (b), so long as the Administrative Agent shall have consented to such financial institution being a Lender hereunder (such consent shall not be unreasonably withheld)). In the event that one or more of the Lenders offer, in their sole discretion, to enter into such commitments, and such Lenders and the Borrower agree as to the amount of such commitments that shall be allocated to the respective Lenders making such offers, as to the fees (if any) to be payable by the Borrower in connection therewith and the Applicable Rate relating thereto, the Borrower, the Administrative Agent and such Lenders shall execute and deliver a Tranche III Revolving Loan Agreement and such Lenders shall become obligated to make

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Tranche III Revolving Loans under this Agreement in an amount equal to the amount of their respective Tranche III Revolving Commitments, as specified in such Tranche III Revolving Loan Agreement. The Tranche III Revolving Loans to be made pursuant to any Tranche III Revolving Loan Agreement in response to any such request by the Borrower shall be deemed to be a

separate "Series" of Tranche III Revolving Loans for all purposes of this Agreement.

Anything herein to the contrary notwithstanding, (i) the minimum aggregate principal amount of Tranche III Revolving Commitments entered into pursuant to any request specified above (and, accordingly, the minimum aggregate principal amount of any Series of Tranche Revolving II Loans) shall be \$50,000,000 and (ii) the aggregate outstanding principal amount of Tranche III Revolving Loans of all Series, together with the aggregate unutilized Tranche III Revolving Commitments of all Series, shall not exceed \$200,000,000 at any time.

Following agreement by the Borrower and one or more of the Lenders as provided above, subject to the terms and conditions set forth herein, each Tranche III Revolving Lender of any Series agrees to make Tranche III Revolving Loans of such Series to the Borrower from time to time during the Revolving Availability Period, in Dollars in an aggregate principal amount up to but not exceeding the amount of the Tranche III Revolving Commitment of such Series of such Tranche III Revolving Lender; within the foregoing limits and subject to the terms and conditions set forth herein, the Borrower may borrow, prepay and reborrow Tranche III Revolving Loans of any Series as the Borrower shall from time to time select.

(d) Tranche I Term Loans.

(i) Dollar Loans. Subject to the terms and conditions set forth herein, each Tranche I Term Loan Dollar Lender agrees to make one or more Tranche I Term Loans to the Borrower during the Term Loan Availability Period in Dollars in a principal amount not exceeding its Tranche I Term Loan Dollar Commitment. Amounts repaid in respect of Tranche I Term Loans denominated in Dollars may not be reborrowed hereunder. No Tranche I Term Loans may be made pursuant to this clause (d)(i) until the full original amount of the Tranche II and Tranche III Term Loan Commitments shall have been utilized.

(ii) Sterling Loans. Subject to the terms and conditions set forth herein, each Tranche I Term Loan Sterling Lender agrees to make one or more Tranche I Term Loans to the Borrower during the Term Loan Availability Period in Sterling in a principal amount not exceeding its Tranche I Term Loan Sterling Commitment. Amounts repaid in respect of Tranche I Term Loans denominated in Sterling may not be reborrowed hereunder. No Tranche I Term Loans may be made pursuant to this clause (d)(ii) until the full original amount of the Tranche II and Tranche III Term Loan Commitments shall have been utilized.

(e) Tranche II Term Loans. Subject to the terms and conditions set forth herein, each Tranche II Term Loan Lender agrees to make one or more Tranche II Term Loans to the Borrower during the Term Loan Availability Period in Dollars in a principal amount not exceeding its Tranche II Term Loan Commitment. Amounts repaid in respect of Tranche II Term Loans may not be reborrowed. No Tranche II Term Loans may be made until the full original amount of the Tranche III Term Loan Commitments shall have been utilized.

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(f) Tranche III Term Loans. Subject to the terms and conditions set forth herein, each Tranche III Term Loan Lender agrees to make one or more Tranche III Term Loans to the Borrower on the Initial Funding Date in Dollars in a principal amount equal to its Tranche III Term Loan Commitment. Amounts repaid in respect of Tranche III Term Loans may not be reborrowed.

SECTION 2.02. Loans and Borrowings.

(a) Obligations of Lenders. Each Syndicated Loan shall be made as part of a Borrowing consisting of Loans of the same Class, Currency and Type made by the Lenders ratably in accordance with their respective Commitments of the applicable Class. Each Competitive Loan shall be made in accordance with the procedures set forth in Section 2.04. The failure of any Lender to make any Loan required to be made by it shall not relieve any other Lender of its obligations hereunder; provided that the Commitments and Competitive Bids of the Lenders are several and no Lender shall be responsible for any other Lender's failure to make Loans as required.

(b) Type of Loans. Subject to Section 2.14, (i) each Syndicated Borrowing shall be comprised entirely of ABR Loans or Eurocurrency Loans as the Borrower may request in accordance herewith, and (ii) each Competitive Borrowing shall be comprised entirely of Eurocurrency Loans or Fixed Rate Loans as the Borrower may request in accordance herewith. Each Lender at its option may make any Eurocurrency Loan by causing any domestic or foreign branch or Affiliate of such Lender to make such Loan; provided that any exercise of such option shall not affect the obligation of the Borrower to repay such Loan in accordance with the terms of this Agreement.

(c) Minimum Amounts. Each Syndicated Eurocurrency Borrowing shall be in an aggregate amount of \$3,000,000 or a larger multiple of \$100,000. Each Syndicated ABR Borrowing shall be in an aggregate amount equal to \$3,000,000 or a larger multiple of \$100,000; provided that a Syndicated ABR Borrowing may be in an aggregate amount that is equal to the entire unused balance of the total Commitments of the applicable Class or (in the case of a Revolving ABR Borrowing) that is required to finance the reimbursement of an LC Disbursement as contemplated by Section 2.06(f). Each Competitive Borrowing shall be in an aggregate amount equal to \$5,000,000 or a larger multiple of \$100,000. Each Swingline Loan shall be in an amount equal to \$500,000 or a larger multiple of \$100,000. Borrowings of more than one Type, Currency and Class may be outstanding at the same time; provided that there shall not at any time be more than a total of thirty (30) Syndicated Eurocurrency Borrowings outstanding.

(d) Conversion or Continuation of Eurocurrency Loans. Notwithstanding any other provision of this Agreement, the Borrower shall not be entitled to request, or to elect to convert to or continue as a Syndicated Eurocurrency Borrowing: (i) any Revolving Borrowing or Competitive Borrowing if the Interest Period requested with respect thereto would end after the Revolving Commitment Termination Date; or (ii) any Term Loan Borrowing of any Class if the Interest Period requested with respect thereto would commence before and end after any Term Loan Principal Payment Date unless, after giving effect thereto, the aggregate principal

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amount of the Tranche I Term Loans, Tranche II Term Loans or Tranche III Term Loans, as the case may be, having Interest Periods that end after such Term Loan Principal Payment Date shall be equal to or less than the aggregate principal amount of the Tranche I Term Loans, Tranche II Term Loans or Tranche III Term Loans, respectively, permitted to be outstanding after giving effect to the payments of principal required to be made on such Term Loan Principal Payment Date.

SECTION 2.03. Requests for Syndicated Borrowings. To request a Syndicated Borrowing, the Borrower shall notify the Administrative Agent of such request by telephone (a) in the case of a Syndicated Eurocurrency Borrowing, not later than 11:00 a.m., Local Time, three Business Days (or, in the case of a Borrowing denominated in Sterling, 3:00 p.m. New York time, four Business Days) before the date of the proposed Borrowing or (b) in the case of a Syndicated ABR Borrowing, not later than 11:00 a.m., New York City time, one Business Day before the date of the proposed Borrowing; provided that any such notice of a Revolving ABR Borrowing to finance the reimbursement of an LC Disbursement as contemplated by Section 2.06(f) may be given not later than 10:00 a.m., New York City time, on the date of the proposed Borrowing. Each such telephonic Borrowing Request shall be irrevocable and shall be confirmed promptly by hand delivery or telecopy to the Administrative Agent of a written Borrowing Request in a form approved by the Administrative Agent and signed by the Borrower. Each such telephonic and written Borrowing Request shall specify the following information in compliance with Section 2.02:

- (i) whether the requested Borrowing is to be a Tranche I Revolving Borrowing, Tranche II Revolving Borrowing, Tranche III Revolving Borrowing, Tranche I Term Loan Borrowing, Tranche II Term Loan Borrowing or Tranche III Term Loan Borrowing;
- (ii) the aggregate amount and Currency of the requested Borrowing;
- (iii) the date of such Borrowing, which shall be a Business Day;
- (iv) in the case of any Borrowing denominated in Dollars, whether such Borrowing is to be an ABR Borrowing or a Eurocurrency Borrowing;
- (v) in the case of a Syndicated Eurocurrency Borrowing, the Interest Period therefor, which shall be a period contemplated by the definition of the term "Interest Period"; and
- (vi) the location and number of the Borrower's account to which funds are to be disbursed, which shall comply with the requirements of Section 2.07.

If no election as to the Type of Syndicated Borrowing denominated in Dollars is specified, then the requested Syndicated Borrowing shall be an ABR Borrowing. If no Interest Period is specified with respect to any requested Syndicated Eurocurrency Borrowing, then the Borrower shall be deemed to have selected an Interest Period of one month's duration. Promptly following receipt of a Borrowing Request in accordance with this Section, the Administrative Agent shall

advise each Lender of the details thereof and of the amount of such Lender's Loan to be made as part of the requested Borrowing.

SECTION 2.04. Competitive Bid Procedure.

(a) Requests for Bids by the Borrower. Subject to the terms and conditions set forth herein, from time to time during the Revolving Availability Period the Borrower may request Competitive Bids and may (but shall not have any obligation to) accept Competitive Bids and borrow Competitive Loans denominated in Dollars or Sterling; provided that (i) the sum of the total Tranche I Revolving Exposures plus the aggregate principal amount of outstanding Competitive Loans made by Tranche I Revolving Lenders at any time shall not exceed the total Tranche I Revolving Commitments, (ii) the sum of the total Tranche II Revolving Exposures plus the aggregate principal amount of outstanding Competitive Loans made by Tranche II Revolving Lenders at any time shall not exceed the total Tranche II Revolving Commitments, (iii) the sum of the total Tranche III Revolving Exposures plus the aggregate principal amount of outstanding Competitive Loans made by Tranche III Revolving Lenders at any time shall not exceed the total Tranche III Revolving Commitments and (iv) the sum of the aggregate principal amount of outstanding Tranche II Revolving Loans and Competitive Loans denominated in Sterling at any time shall not exceed (pound)50,000,000. To request Competitive Bids, the Borrower shall notify the Administrative Agent of such request by telephone, in the case of a Eurocurrency Borrowing, not later than 11:00 a.m., New York City time, four Business Days (or, in the case of any such Borrowing denominated in Sterling, 11:00 a.m., London time, five Business Days) before the date of the proposed Borrowing and, in the case of a Fixed Rate Borrowing, not later than 10:00 a.m., New York City time (or, in the case of any such Borrowing denominated in Sterling, London time), one Business Day before the date of the proposed Borrowing; provided that the Borrower may submit up to (but not more than) three Competitive Bid Requests on the same day, but a Competitive Bid Request shall not be made within five Business Days after the date of any previous Competitive Bid Request, unless any and all such previous Competitive Bid Requests shall have been withdrawn or all Competitive Bids received in response thereto rejected. Each such telephonic Competitive Bid Request shall be confirmed promptly by hand delivery or teletype to the Administrative Agent of a written Competitive Bid Request in a form approved by the Administrative Agent and signed by the Borrower. Each such telephonic and written Competitive Bid Request shall specify the following information in compliance with Section 2.02:

- (i) the aggregate amount and Currency of the requested Borrowing;
- (ii) the date of such Borrowing, which shall be a Business Day;
- (iii) whether such Borrowing is to be a Eurocurrency Borrowing or a Fixed Rate Borrowing;
- (iv) the Interest Period to be applicable to such Borrowing, which shall be a period contemplated by the definition of the term "Interest Period"; and

- (v) the location and number of the Borrower's account to which funds are to be disbursed, which shall comply with the requirements of Section 2.07.

Promptly following receipt of a Competitive Bid Request in accordance with this Section, the Administrative Agent shall notify the Revolving Lenders of the details thereof by teletype, inviting the Revolving Lenders to submit Competitive Bids.

(b) Making of Bids by Lenders. Each Revolving Lender may (but shall not have any obligation to) make one or more Competitive Bids to the Borrower in response to a Competitive Bid Request. Each Competitive Bid by a Revolving Lender must be in a form approved by the Administrative Agent and must be received by the Administrative Agent by teletype, in the case of a Competitive Eurocurrency Borrowing, not later than 9:30 a.m., New York City time, three Business Days (or, in the case of any such Borrowing denominated in Sterling, 1:00 p.m., London time, four Business Days) before the proposed date of such Competitive Borrowing, and in the case of a Fixed Rate Borrowing, not later than 9:30 a.m., New York City time (or, in the case of any such Borrowing denominated in Sterling, London time), on the proposed date of such Competitive Borrowing. Competitive Bids that do not conform substantially to the form approved by the Administrative Agent may be rejected by the Administrative Agent, and the Administrative Agent shall notify the applicable Lender of such rejection as promptly as practicable. Each Competitive Bid shall specify (i) the principal amount (which shall be

\$5,000,000 or a larger multiple of \$1,000,000 and which may equal the entire principal amount of the Competitive Borrowing requested by the Borrower) of the Competitive Loan or Loans that the Lender is willing to make, (ii) the Competitive Bid Rate or Competitive Bid Rates at which the Lender is prepared to make such Loan or Loans (expressed as a percentage rate per annum in the form of a decimal to no more than four decimal places) and (iii) the Interest Period applicable to each such Loan and the last day thereof.

(c) Notification of Bids by Administrative Agent. The Administrative Agent shall promptly notify the Borrower by telecopy of the Competitive Bid Rate and the principal amount specified in each Competitive Bid and the identity of the Lender that shall have made such Competitive Bid.

(d) Acceptance of Bids by the Borrower. Subject only to the provisions of this paragraph, the Borrower may accept or reject any Competitive Bid. The Borrower shall notify the Administrative Agent by telephone, confirmed by telecopy in a form approved by the Administrative Agent, whether and to what extent it has decided to accept or reject each Competitive Bid, in the case of a Competitive Eurocurrency Borrowing, not later than 10:30 a.m., New York City time, three Business Days (or, in the case of any such Borrowing denominated in Sterling, 2:00 p.m. London time, four Business Days) before the date of the proposed Competitive Borrowing, and in the case of a Fixed Rate Borrowing, not later than 10:30 a.m., New York City time (or, in the case of any such Borrowing denominated in Sterling, London time), on the proposed date of the Competitive Borrowing; provided, that (i) the failure of the Borrower to give such notice shall be deemed to be a rejection of each Competitive Bid, (ii) the Borrower shall not accept a Competitive Bid made at a particular Competitive Bid Rate if the Borrower rejects a Competitive Bid made at a lower Competitive Bid Rate, (iii) the aggregate amount of the Competitive Bids accepted by the Borrower shall not exceed the aggregate amount

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of the requested Competitive Borrowing specified in the related Competitive Bid Request, (iv) to the extent necessary to comply with clause (iii) of this proviso, the Borrower may accept Competitive Bids at the same Competitive Bid Rate in part, which acceptance, in the case of multiple Competitive Bids at such Competitive Bid Rate, shall be made pro rata in accordance with the amount of each such Competitive Bid, and (v) except pursuant to clause (iv) of this proviso, no Competitive Bid shall be accepted for a Competitive Loan unless such Competitive Loan is in a principal amount of \$5,000,000 or a larger multiple of \$1,000,000; provided further that if a Competitive Loan must be in an amount less than \$5,000,000 because of the provisions of clause (iv) of the first proviso of this paragraph, such Competitive Loan may be in an amount of \$1,000,000 or any multiple thereof, and in calculating the pro rata allocation of acceptances of portions of multiple Competitive Bids at a particular Competitive Bid Rate pursuant to such clause (iv) the amounts shall be rounded to multiples of \$1,000,000 in a manner determined by the Borrower. A notice given by the Borrower pursuant to this paragraph shall be irrevocable.

(e) Notification of Acceptances by the Administrative Agent. The Administrative Agent shall promptly notify each bidding Lender by telecopy whether or not its Competitive Bid has been accepted (and, if so, the amount and Competitive Bid Rate so accepted), and each successful bidder will thereupon become bound, subject to the terms and conditions hereof, to make the Competitive Loan in respect of which its Competitive Bid has been accepted.

(f) Bids by the Administrative Agent. If the Administrative Agent shall elect to submit a Competitive Bid in its capacity as a Lender, it shall submit such Competitive Bid directly to the Borrower at least one quarter of an hour earlier than the time by which the other Lenders are required to submit their Competitive Bids to the Administrative Agent pursuant to paragraph (b) of this Section.

SECTION 2.05. Swingline Loans.

(a) Agreement to Make Swingline Loans. Subject to the terms and conditions set forth herein, the Swingline Lender agrees to make Swingline Loans to the Borrower from time to time during the Revolving Availability Period in Dollars in an aggregate principal amount at any time outstanding that will not result in (i) the aggregate principal amount of outstanding Swingline Loans exceeding \$30,000,000 or (ii) the sum of the total Tranche I Revolving Exposures plus the aggregate principal amount of outstanding Competitive Loans made by Tranche I Revolving Lenders exceeding the total Tranche I Revolving Commitments; provided that the Swingline Lender shall not be required to make a Swingline Loan to refinance an outstanding Swingline Loan. Within the foregoing limits and subject to the terms and conditions set forth herein, the Borrower may borrow, prepay and reborrow

Swingline Loans.

(b) Interest Rates. Swingline Loans shall be ABR Loans, FFBR Loans or Eurocurrency Loans (with an Interest Period of two weeks), as selected by the Borrower, except that the Swingline Lender and the Borrower may agree that the interest rate in respect of a Swingline Loan made by the Swingline Lender, for a period ending on the date that is not earlier than one day and not later than fifteen days after such Swingline Loan is made, be at an alternative rate of interest (and with such applicable margins and prepayment premiums) as may

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from time to time be offered by the Swingline Lender to the Borrower in its sole discretion; provided that upon any sale pursuant to Section 2.05(d) of participations in any Swingline Loan the interest on which is determined by reference to the Federal Funds Base Rate or any such alternative rate, such Swingline Loans shall automatically be converted into an ABR Loan.

(c) Notice of Swingline Loans by the Borrower. To request a Swingline Loan, the Borrower shall notify the Administrative Agent of such request by telephone (confirmed by telecopy), not later than 12:00 noon, New York City time, on the day of a proposed Swingline Loan (or, in the case of a Swingline Eurocurrency Loan, 11:00 a.m., Local Time, three Business Days before such day). Each such notice shall be irrevocable and shall specify the requested date (which shall be a Business Day), amount and Type of the requested Swingline Loan. The Administrative Agent will promptly advise the Swingline Lender of any such notice received from the Borrower. The Swingline Lender shall make each Swingline Loan available to the Borrower by means of a credit to the general deposit account of the Borrower with the Swingline Lender (or, in the case of a Swingline Loan made to finance the reimbursement of an LC Disbursement as provided in Section 2.06(f), by remittance to the respective Issuing Lender) by 3:00 p.m., New York City time, on the requested date of such Swingline Loan.

(d) Participations by Lenders in Swingline Loans. The Swingline Lender may by written notice given to the Administrative Agent not later than 10:00 a.m., New York City time, on any Business Day require the Tranche I Revolving Lenders to acquire participations on such Business Day (or, in the case of any Swingline Eurocurrency Loan, on the third succeeding Business Day) in all or a portion of the Swingline Loans outstanding. Such notice to the Administrative Agent shall specify the aggregate amount of Swingline Loans in which Tranche I Revolving Lenders will participate. Promptly upon receipt of such notice, the Administrative Agent will give notice thereof to each Tranche I Revolving Lender, specifying in such notice such Lender's Applicable Percentage of such Swingline Loan or Loans. Each Tranche I Revolving Lender hereby absolutely and unconditionally agrees, upon receipt of notice as provided above in this paragraph, to pay to the Administrative Agent, for the account of the Swingline Lender, such Lender's Applicable Percentage of such Swingline Loan or Loans on the applicable Business Day as provided above. Each Tranche I Revolving Lender acknowledges and agrees that its obligation to acquire participations in Swingline Loans pursuant to this paragraph is absolute and unconditional and shall not be affected by any circumstance whatsoever, including the occurrence and continuance of a Default or reduction or termination of the Commitments, and that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever. Each Tranche I Revolving Lender shall comply with its obligation under this paragraph by wire transfer of immediately available funds, in the same manner as provided in Section 2.07 with respect to Loans made by such Lender (and Section 2.07 shall apply, mutatis mutandis, to the payment obligations of the Lenders), and the Administrative Agent shall promptly pay to the Swingline Lender the amounts so received by it from the Lenders. The Administrative Agent shall notify the Borrower of any participations in any Swingline Loan acquired pursuant to this paragraph, and thereafter payments in respect of such Swingline Loan shall be made to the Administrative Agent and not to the Swingline Lender. Any amounts received by the Swingline Lender from the Borrower (or other party on behalf of the Borrower) in respect of a Swingline Loan after receipt by the Swingline Lender of the

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proceeds of a sale of participations therein shall be promptly remitted to the Administrative Agent; any such amounts received by the Administrative Agent shall be promptly remitted by the Administrative Agent to the Lenders that shall have made their payments pursuant to this paragraph and to the Swingline Lender, as their interests may appear. The purchase of participations in a Swingline Loan pursuant to this paragraph shall not relieve the Borrower of any default in the payment thereof.

(e) Replacement of Swingline Lender. The Borrower may at any time, and

from time to time, request that the then-current Swingline Lender be replaced with another Lender hereunder designated by the Borrower and reasonably satisfactory to the Administrative Agent. Any such replacement shall be effected pursuant to a written instrument, in form and substance reasonably satisfactory to the Administrative Agent, under which such new Lender agrees to become the "Swingline Lender" hereunder, and the predecessor Swingline Lender is relieved of all of its obligations hereunder as the "Swingline Lender", provided that in no event shall any such replacement occur unless the principal of and interest on all of the Swingline Loans of the predecessor Swingline Lender shall have been paid in full.

SECTION 2.06. Letters of Credit.

(a) General. Subject to the terms and conditions set forth herein, in addition to the Loans provided for in Section 2.01, the Borrower may request Chase, as an Issuing Lender, to issue, at any time and from time to time during the Revolving Availability Period, Letters of Credit for its own account in such form as is acceptable to such Issuing Lender in its reasonable determination. In addition, First Chicago has issued the Qingdao Letter of Credit for the account of the Borrower. Letters of Credit issued hereunder shall be issued in Dollars and shall constitute utilization of the Revolving Commitments of a Class specified by the Borrower at the time it requests such Letter of Credit to be issued hereunder.

(b) Notice of Issuance, Amendment, Renewal or Extension. To request the issuance of a Letter of Credit (or the amendment, renewal or extension of an outstanding Letter of Credit), the Borrower shall hand deliver or telecopy (or transmit by electronic communication, if arrangements for doing so have been approved by the respective Issuing Lender) to the applicable Issuing Lender and the Administrative Agent (reasonably in advance of the requested date of issuance, amendment, renewal or extension) a notice requesting the issuance of a Letter of Credit, or identifying the Letter of Credit to be amended, renewed or extended, and specifying the date of issuance, amendment, renewal or extension (which shall be a Business Day), the date on which such Letter of Credit is to expire (which shall comply with paragraph (d) of this Section), the amount of such Letter of Credit and the Class of Revolving Commitments to be utilized thereby, the name and address of the beneficiary thereof and such other information as shall be necessary to prepare, amend, renew or extend such Letter of Credit. If requested by the respective Issuing Lender, the Borrower also shall submit a letter of credit application on such Issuing Lender's standard form in connection with any request for a Letter of Credit. In the event of any inconsistency between the terms and conditions of this Agreement and the terms and conditions of any form of letter of credit application or other agreement submitted by the Borrower to, or entered into by the Borrower with, an Issuing Lender relating to any Letter of Credit, the terms and conditions of this Agreement shall control. Upon any modification or

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renewal or reissuance by First Chicago, as an Issuing Lender, of the Qingdao Letter of Credit, First Chicago shall forthwith notify the Administrative Agent and the Borrower of the new Qingdao Letter of Credit Limit for purposes of this Agreement.

(c) Limitations on Amounts. A Letter of Credit shall be issued, amended, renewed or extended only if (and upon issuance, amendment, renewal or extension of each Letter of Credit the Borrower shall be deemed to represent and warrant that), after giving effect to such issuance, amendment, renewal or extension (i) the aggregate LC Exposure of Chase, as an Issuing Lender (determined for these purposes without giving effect to the participations therein of the Revolving Lenders pursuant to paragraph (e) of this Section), shall not exceed \$20,000,000, (ii) the aggregate LC Exposure of First Chicago, as an Issuing Lender (determined for these purposes without giving effect to the participations therein of the Revolving Lenders pursuant to paragraph (e) of this Section), shall not exceed the Qingdao Letter of Credit Limit, (iii) the sum of the total Tranche I Revolving Exposures plus the aggregate principal amount of outstanding Competitive Loans made by Tranche I Revolving Lenders shall not exceed the total Tranche I Revolving Commitments, (iv) the sum of the total Tranche II Revolving Exposures plus the aggregate principal amount of outstanding Competitive Loans made by Tranche II Revolving Lenders shall not exceed the total Tranche II Revolving Commitments and (v) the sum of the total Tranche III Revolving Exposures plus the aggregate principal amount of outstanding Competitive Loans made by Tranche III Revolving Lenders shall not exceed the total Tranche III Revolving Commitments.

(d) Expiration Date. Each Letter of Credit shall expire at or prior to the close of business on the earlier of (i) the date twelve months after the date of the issuance of such Letter of Credit (or, in the case of any renewal or extension thereof, twelve months after the then-current

expiration date of such Letter of Credit, so long as such renewal or extension occurs within three months of such then-current expiration date) and (ii) the date that is five Business Days prior to the Revolving Commitment Termination Date.

(e) Participations. By the issuance of a Letter of Credit (or an amendment to a Letter of Credit increasing the amount thereof) by either Issuing Lender in respect of any Class of Revolving Commitments, and without any further action on the part of such Issuing Lender or the Lenders, such Issuing Lender hereby grants to each Revolving Lender of such Class, and each such Lender hereby acquires from such Issuing Lender, a participation in such Letter of Credit equal to such Lender's Applicable Percentage of the aggregate amount available to be drawn under such Letter of Credit. Each Revolving Lender acknowledges and agrees that its obligation to acquire participations pursuant to this paragraph in respect of Letters of Credit is absolute and unconditional and shall not be affected by any circumstance whatsoever, including any amendment, renewal or extension of any Letter of Credit or the occurrence and continuance of a Default or reduction or termination of the Revolving Commitments, and that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever.

In consideration and in furtherance of the foregoing, each Revolving Lender hereby absolutely and unconditionally agrees to pay to the Administrative Agent, for the account of the respective Issuing Lender, such Lender's Applicable Percentage of each LC Disbursement made by an Issuing Lender in respect of each Letter of Credit issued in respect of such Lender's

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Class, promptly upon the request of such Issuing Lender at any time from the time of such LC Disbursement until such LC Disbursement is reimbursed by the Borrower or at any time after any reimbursement payment is required to be refunded to the Borrower for any reason. Each such payment shall be made in the same manner as provided in Section 2.07 with respect to Loans made by such Lender (and Section 2.07 shall apply, mutatis mutandis, to the payment obligations of the Lenders), and the Administrative Agent shall promptly pay to the respective Issuing Lender the amounts so received by it from the Revolving Lenders. Promptly following receipt by the Administrative Agent of any payment from the Borrower pursuant to the next following paragraph, the Administrative Agent shall distribute such payment to the respective Issuing Lender or, to the extent that the Lenders have made payments pursuant to this paragraph to reimburse such Issuing Lender, then to such Lenders and such Issuing Lender as their interests may appear. Any payment made by a Revolving Lender pursuant to this paragraph to reimburse an Issuing Lender for any LC Disbursement shall not constitute a Loan and shall not relieve the Borrower of its obligation to reimburse such LC Disbursement.

(f) Reimbursement. If an Issuing Lender shall make any LC Disbursement in respect of a Letter of Credit, the Borrower shall reimburse such Issuing Lender in respect of such LC Disbursement by paying to the Administrative Agent an amount equal to such LC Disbursement not later than 12:00 noon, New York City time, on (i) the Business Day that the Borrower receives notice of such LC Disbursement, if such notice is received prior to 10:00 a.m., New York City time, or (ii) the Business Day immediately following the day that the Borrower receives such notice, if such notice is not received prior to such time, provided that, if such LC Disbursement is not less than \$100,000, the Borrower may, subject to the conditions to borrowing set forth herein, request in accordance with Section 2.03 or 2.05 that such payment be financed with a Revolving ABR Borrowing or Swingline Loan in an equivalent amount and, to the extent so financed, the Borrower's obligation to make such payment shall be discharged and replaced by the resulting Revolving ABR Borrowing or Swingline Loan.

If the Borrower fails to make such payment when due, the Administrative Agent shall notify each Revolving Lender of the applicable LC Disbursement, the payment then due from the Borrower in respect thereof and such Lender's Applicable Percentage thereof.

(g) Obligations Absolute. The Borrower's obligation to reimburse LC Disbursements as provided in paragraph (f) of this Section shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement under any and all circumstances whatsoever and irrespective of (i) any lack of validity or enforceability of any Letter of Credit, or any term or provision therein, (ii) any draft or other document presented under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect, (iii) payment by the respective Issuing Lender under a Letter of Credit against presentation of a draft or other document that does not comply strictly with the terms of such Letter of Credit, and (iv) any other event or circumstance whatsoever, whether or not

similar to any of the foregoing, that might, but for the provisions of this Section, constitute a legal or equitable discharge of the Borrower's obligations hereunder.

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Neither the Administrative Agent, the Lenders nor either Issuing Lender, nor any of their Related Parties, shall have any liability or responsibility by reason of or in connection with the issuance or transfer of any Letter of Credit by the respective Issuing Lender or any payment or failure to make any payment thereunder (irrespective of any of the circumstances referred to in the preceding sentence), or any error, omission, interruption, loss or delay in transmission or delivery of any draft, notice or other communication under or relating to any Letter of Credit (including any document required to make a drawing thereunder), any error in interpretation of technical terms or any consequence arising from causes beyond the control of the respective Issuing Lender; provided that the foregoing shall not be construed to excuse an Issuing Lender from liability to the Borrower to the extent of any direct damages (as opposed to consequential damages, claims in respect of which are hereby waived by the Borrower to the extent permitted by applicable law) suffered by the Borrower that are caused by such Issuing Lender's negligence or willful misconduct when determining whether drafts and other documents presented under a Letter of Credit comply with the terms thereof. The parties hereto expressly agree that:

(i) an Issuing Lender may accept documents that appear on their face to be in substantial compliance with the terms of a Letter of Credit without responsibility for further investigation, regardless of any notice or information to the contrary, and may make payment upon presentation of documents that appear on their face to be in substantial compliance with the terms of such Letter of Credit;

(ii) an Issuing Lender shall have the right, in its sole discretion, to decline to accept such documents and to make such payment if such documents are not in strict compliance with the terms of such Letter of Credit; and

(iii) this sentence shall establish the standard of care to be exercised by an Issuing Lender when determining whether drafts and other documents presented under a Letter of Credit comply with the terms thereof (and the parties hereto hereby waive, to the extent permitted by applicable law, any standard of care inconsistent with the foregoing).

(h) Disbursement Procedures. The Issuing Lender for any Letter of Credit shall, within a reasonable time following its receipt thereof, examine all documents purporting to represent a demand for payment under such Letter of Credit. Such Issuing Lender shall promptly after such examination notify the Administrative Agent and the Borrower by telephone (confirmed by teletype) of such demand for payment and whether such Issuing Lender has made or will make an LC Disbursement thereunder; provided that any failure to give or delay in giving such notice shall not relieve the Borrower of its obligation to reimburse such Issuing Lender and the Lenders with respect to any such LC Disbursement.

(i) Interim Interest. If the Issuing Lender for any Letter of Credit shall make any LC Disbursement, then, unless the Borrower shall reimburse such LC Disbursement in full on the date such LC Disbursement is made, the unpaid amount thereof shall bear interest, for each day from and including the date such LC Disbursement is made to but excluding the date that the Borrower reimburses such LC Disbursement, at the rate per annum then applicable to Syndicated ABR Loans; provided that, if the Borrower fails to reimburse such LC Disbursement when due

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pursuant to paragraph (f) of this Section, then Section 2.13(e) shall apply. Interest accrued pursuant to this paragraph shall be for the account of such Issuing Lender, except that interest accrued on and after the date of payment by any Lender pursuant to paragraph (f) of this Section to reimburse such Issuing Lender shall be for the account of such Lender to the extent of such payment.

(j) Replacement of an Issuing Lender. Either Issuing Lender may be replaced at any time pursuant to a written agreement among the Borrower, the Administrative Agent, the replaced Issuing Lender and the successor Issuing Lender, such agreement to provide for the succession of the successor Issuing Lender in place of the replaced Issuing Lender (and for the release of the replaced Issuing Lender from its obligations, in its capacity as an Issuing Lender, hereunder) and to be in form and substance

reasonably satisfactory to the replaced Issuing Lender and the Administrative Agent. The Administrative Agent shall notify the Lenders of any such replacement of an Issuing Lender. At the time any such replacement shall become effective, the Borrower shall pay all unpaid fees accrued for the account of the replaced Issuing Lender pursuant to Section 2.12(b). From and after the effective date of any such replacement, (i) the successor Issuing Lender shall have all the rights and obligations of the replaced Issuing Lender under this Agreement with respect to Letters of Credit to be issued by it thereafter and (ii) references herein to the term "Issuing Lender" shall be deemed to include such successor or any previous Issuing Lender, or such successor and all previous Issuing Lenders, as the context shall require. After the replacement of an Issuing Lender hereunder, the replaced Issuing Lender shall remain a party hereto and shall continue to have all the rights and obligations of an Issuing Lender under this Agreement with respect to Letters of Credit issued by it prior to such replacement, but shall not be required to issue additional Letters of Credit.

(k) Cash Collateralization. If either (i) an Event of Default shall occur and be continuing and the Borrower receives notice from the Administrative Agent or the Required Lenders (or, if the maturity of the Loans has been accelerated, Lenders with LC Exposure representing at least 66-2/3% of the total LC Exposure) demanding the deposit of cash collateral pursuant to this paragraph, or (ii) the Borrower shall be required to provide cover for LC Exposure pursuant to Section 2.11, the Borrower shall immediately deposit into the Collateral Account an amount in cash equal to, in the case of an Event of Default, the LC Exposure as of such date plus any accrued and unpaid interest thereon and, in the case of cover pursuant to Section 2.11, the amount required under Section 2.11, as the case may be; provided that the obligation to deposit such cash collateral shall become effective immediately, and such deposit shall become immediately due and payable, without demand or other notice of any kind, upon the occurrence of any Event of Default with respect to the Borrower described in clause (h) or (i) of Article VIII. Such deposit shall be held by the Administrative Agent in the Collateral Account as collateral in the first instance for the LC Exposure under this Agreement and thereafter for the payment of the "Secured Obligations" under and as defined in the Security Agreement.

(l) Qingdao Letter of Credit. Anything herein to the contrary notwithstanding, the amount of the Qingdao Letter of Credit for all purposes of this Agreement and the other Loan Documents (including, without limitation, the usage of the Revolving Commitments hereunder, the calculation of fees under Section 2.12 and the obligation of the Revolving Lenders to

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participate in Letters of Credit arising upon drawings thereunder) shall be deemed to be equal to the Qingdao Letter of Credit Limit and any LC Exposure arising in respect of the Qingdao Letter of Credit in excess of the Qingdao Letter of Credit Limit shall be solely for the account of First Chicago, as an Issuing Lender, and no other Lender shall be obligated to participate in such excess amount, nor shall such excess amount be entitled to the benefits of the Security Documents.

(m) Existing Letters of Credit. Pursuant to Section 2.06 of the 1997 Credit Agreement, Chase, as an "Issuing Lender" thereunder, has issued various "Letters of Credit" under and as defined in the 1997 Credit Agreement and First Chicago, as an "Issuing Lender" thereunder, has issued the "Qingdao Letter of Credit". On the Initial Funding Date, subject to the satisfaction of the conditions to effectiveness of the obligations of the Lenders hereunder set forth in Article V, each of such "Letters of Credit" and the "Qingdao Letter of Credit" under the 1997 Credit Agreement shall automatically, and without any action on the part of any Person, become a Letter of Credit hereunder and constitute a utilization of the Tranche I Revolving Commitments.

SECTION 2.07. Funding of Borrowings.

(a) Funding by Lenders. Each Lender shall make each Loan to be made by it hereunder on the proposed date thereof by wire transfer of immediately available funds by 12:00 noon, Local Time, to the account of the Administrative Agent most recently designated by it for such purpose by notice to the Lenders; provided that Swingline Loans shall be made as provided in Section 2.05. The Administrative Agent will make such Loans available to the Borrower by promptly remitting the amounts so received, in like funds, to an account of the Borrower designated by the Borrower in the applicable Borrowing Request or Competitive Bid Request; provided that Revolving ABR Borrowings made to finance the reimbursement of an LC Disbursement as provided in Section 2.06(f) shall be remitted by the Administrative Agent to the respective Issuing Lender.

(b) Presumption by Administrative Agent. Unless the Administrative Agent shall have received notice from a Lender prior to the proposed date of any Borrowing that such Lender will not make available to the Administrative Agent such Lender's share of such Borrowing, the Administrative Agent may assume that such Lender has made such share available on such date in accordance with paragraph (a) of this Section and may, in reliance upon such assumption, make available to the Borrower a corresponding amount. In such event, if a Lender has not in fact made its share of the applicable Borrowing available to the Administrative Agent, then the applicable Lender and the Borrower severally agree to pay to the Administrative Agent forthwith on demand such corresponding amount with interest thereon, for each day from and including the date such amount is made available to the Borrower to but excluding the date of payment to the Administrative Agent, at (i) in the case of such Lender, the Federal Funds Effective Rate or (ii) in the case of the Borrower, the interest rate applicable to ABR Loans. If such Lender pays such amount to the Administrative Agent, then such amount shall constitute such Lender's Loan included in such Borrowing.

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SECTION 2.08. Interest Elections.

(a) Elections by the Borrower for Syndicated Borrowings. Each Syndicated Borrowing initially shall be of the Type specified in the applicable Borrowing Request and, in the case of a Syndicated Eurocurrency Borrowing, shall have the Interest Period specified in such Borrowing Request. Thereafter, the Borrower may elect to convert any such Borrowing denominated in Dollars to a Borrowing of a different Type or to continue such Borrowing as a Borrowing of the same Type and, in the case of a Syndicated Eurocurrency Borrowing, may elect the Interest Period therefor, all as provided in this Section (provided that Syndicated Eurocurrency Borrowings denominated in Sterling may not be converted). The Borrower may elect different options with respect to different portions of the affected Borrowing, in which case each such portion shall be allocated ratably among the Lenders holding the Loans comprising such Borrowing, and the Loans comprising each such portion shall be considered a separate Borrowing; provided that no Syndicated Eurocurrency Borrowing denominated in Sterling may be continued if, after giving effect thereto, (i) the sum of the Tranche II Revolving Credit Exposures plus the aggregate principal amount of outstanding Competitive Loans made by Tranche II Revolving Lenders would exceed the Tranche II Revolving Commitments or (ii) the sum of the aggregate principal amount of outstanding Tranche II Revolving Loans and Competitive Loans denominated in Sterling would exceed (pound)50,000,000. This Section shall not apply to Competitive Borrowings or Swingline Borrowings, which may not be converted or continued.

(b) Notice of Elections. To make an election pursuant to this Section, the Borrower shall notify the Administrative Agent of such election by telephone by the time that a Borrowing Request would be required under Section 2.03 if the Borrower were requesting a Syndicated Borrowing of the Type resulting from such election to be made on the effective date of such election. Each such telephonic Interest Election Request shall be irrevocable and shall be confirmed promptly by hand delivery or telecopy to the Administrative Agent of a written Interest Election Request in a form approved by the Administrative Agent and signed by the Borrower.

(c) Information in Interest Election Requests. Each telephonic and written Interest Election Request shall specify the following information in compliance with Section 2.02:

(i) the Borrowing to which such Interest Election Request applies and, if different options are being elected with respect to different portions thereof, the portions thereof to be allocated to each resulting Borrowing (in which case the information to be specified pursuant to clauses (iii) and (iv) of this paragraph shall be specified for each resulting Borrowing);

(ii) the effective date of the election made pursuant to such Interest Election Request, which shall be a Business Day;

(iii) whether, in the case of a Eurocurrency Borrowing denominated in Dollars, the resulting Borrowing is to be an ABR Borrowing or a Eurocurrency Borrowing; and

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(iv) if the resulting Borrowing is a Eurocurrency Borrowing, the Interest Period to be applicable thereto after giving effect to such election, which shall be a period contemplated by the definition of the term "Interest Period".

If any such Interest Election Request requests a Eurocurrency Borrowing but does not specify an Interest Period, then the Borrower shall be deemed to have selected an Interest Period of one month's duration.

(d) Notice by Administrative Agent to Lenders. Promptly following receipt of an Interest Election Request, the Administrative Agent shall advise each Lender of the details thereof and of such Lender's portion of each resulting Borrowing.

(e) Presumption if No Notice. If the Borrower fails to deliver a timely Interest Election Request with respect to a Syndicated Eurocurrency Borrowing prior to the end of the Interest Period applicable thereto, then, unless such Borrowing is repaid as provided herein, at the end of such Interest Period such Borrowing shall (x) if denominated in Dollars be converted to a Syndicated ABR Borrowing and (y) otherwise be deemed to have an Interest Period of one month. Notwithstanding any contrary provision hereof, if an Event of Default has occurred and is continuing and the Administrative Agent, at the request of the Required Lenders, so notifies the Borrower, then, so long as an Event of Default is continuing (i) no outstanding Syndicated Borrowing denominated in Dollars may be converted to or continued as a Syndicated Eurocurrency Borrowing and (ii) unless repaid, each Syndicated Eurocurrency Borrowing denominated in Dollars shall be converted to a Syndicated ABR Borrowing at the end of the Interest Period applicable thereto and (iii) no outstanding Syndicated Borrowing denominated in Sterling may have an Interest Period of more than one month.

SECTION 2.09. Termination and Reduction of the Commitments.

(a) Scheduled Termination. Unless previously terminated, (i) the Tranche I Term Loan Dollar Commitments, the Tranche I Term Loan Sterling Commitments and the Tranche II Term Loan Commitments shall terminate at 5:00 p.m. on the last day of the Term Loan Availability Period, (ii) the Tranche III Term Loan Commitments shall terminate at 5:00 p.m., New York City time, on the Initial Funding Date, and (iii) the Revolving Commitments shall terminate on the Revolving Commitment Termination Date.

(b) Voluntary Termination or Reduction. The Borrower may at any time terminate, or from time to time reduce, the Commitments of any Class (including the Tranche I Term Loan Dollar Commitments and the Tranche I Term Loan Sterling Commitments); provided that (i) each reduction of the Commitments of any Class pursuant to this Section shall be in an amount that is \$3,000,000 or a larger multiple of \$100,000, (ii) the Borrower shall not reduce the Tranche I Revolving Commitments without concurrently reducing the Tranche II Revolving Commitments by a ratable amount and shall not reduce the Tranche II Revolving Commitments without concurrently reducing the Tranche I Revolving Commitments by a ratable amount and (iii) the Borrower shall not terminate or reduce the Revolving Commitments of any Class if, after giving effect to any concurrent prepayment of the Revolving Loans of such Class in accordance with Section 2.11, the sum of the total Revolving Exposures of such Class plus the aggregate

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principal amount of outstanding Competitive Loans made by Lenders of such Class would exceed the total Revolving Commitments of such Class.

(c) Notice of Termination or Reduction. The Borrower shall notify the Administrative Agent of any election to terminate or reduce the Commitments of any Class under paragraph (b) of this Section at least three Business Days prior to the effective date of such termination or reduction, specifying such election and the effective date thereof. Promptly following receipt of any notice, the Administrative Agent shall advise the Lenders of the contents thereof. Each notice delivered by the Borrower pursuant to this Section shall be irrevocable; provided that a notice of termination of the Revolving Commitments delivered by the Borrower may state that such notice is conditioned upon the effectiveness of other credit facilities, in which case such notice may be revoked by the Borrower (by notice to the Administrative Agent on or prior to the specified effective date) if such condition is not satisfied.

(d) Effect of Termination or Reduction. Any termination or reduction of the Commitments of any Class shall be permanent. Each reduction of the Commitments of any Class shall be made ratably among the Lenders in accordance with their respective Commitments of such Class.

SECTION 2.10. Repayment of Loans; Evidence of Debt.

(a) Repayment. The Borrower hereby unconditionally promises to pay the Loans outstanding hereunder as follows:

(i) to the Administrative Agent for account of the Revolving Lenders the outstanding principal amount of the Revolving Loans on the

Revolving Commitment Termination Date,

(ii) to the Administrative Agent (x) for account of the Tranche I Term Loan Dollar Lenders the outstanding principal amount of the Tranche I Term Loans denominated in Dollars and (y) for account of the Tranche I Term Loan Sterling Lenders the outstanding principal amount of the Tranche I Term Loans denominated in Sterling, on each Term Loan Principal Payment Date set forth below in an aggregate principal amount equal to the percentage set forth below opposite such Term Loan Principal Payment Date of the aggregate principal amount of Tranche I Term Loans denominated in Dollars or Sterling, as the case may be, and outstanding at 5:00 p.m., New York City time, on the last day of the Term Loan Availability Period:

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| Term Loan Principal Payment Date | Percentage (%) |
|-------------------------------------|----------------|
| December 1, 1999 | 1.79 |
| March 1, 2000 | 1.79 |
| June 1, 2000 | 1.79 |
| September 1, 2000 | 1.79 |
| December 1, 2000 | 2.86 |
| March 1, 2001 | 2.86 |
| June 1, 2001 | 2.86 |
| September 1, 2001 | 2.86 |
| December 1, 2001 | 3.57 |
| March 1, 2002 | 3.57 |
| June 1, 2002 | 3.57 |
| September 1, 2002 | 3.57 |
| December 1, 2002 | 4.29 |
| March 1, 2003 | 4.29 |
| June 1, 2003 | 4.29 |
| September 1, 2003 | 4.29 |
| December 1, 2003 | 4.64 |
| March 1, 2004 | 4.64 |
| June 1, 2004 | 4.64 |
| September 1, 2004 | 4.64 |
| December 1, 2004 | 31.40 |

(iii) to the Administrative Agent for account of the Tranche II Term Loan Lenders the outstanding principal amount of the Tranche II Term Loans on the date eighteen months after the Initial Funding Date (or, if such later date is not a Business Day, on the next succeeding Business Day),

(iv) to the Administrative Agent for account of the Tranche III Term Loan Lenders the outstanding principal amount of the Tranche III Term Loans on each Term Loan Principal Payment Date set forth below in the aggregate principal amount set forth opposite such Term Loan Principal Payment Date:

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| Term Loan Principal Payment Date | Amount (\$) |
|-------------------------------------|-------------|
| December 1, 1999 | 375,000 |
| March 1, 2000 | 375,000 |
| June 1, 2000 | 375,000 |
| September 1, 2000 | 375,000 |
| December 1, 2000 | 375,000 |
| March 1, 2001 | 375,000 |
| June 1, 2001 | 375,000 |
| September 1, 2001 | 375,000 |
| December 1, 2001 | 375,000 |
| March 1, 2002 | 375,000 |
| June 1, 2002 | 375,000 |
| September 1, 2002 | 375,000 |
| December 1, 2002 | 375,000 |
| March 1, 2003 | 375,000 |

| | |
|-------------------|------------|
| June 1, 2003 | 375,000 |
| September 1, 2003 | 375,000 |
| December 1, 2003 | 375,000 |
| March 1, 2004 | 17,953,125 |
| June 1, 2004 | 17,953,125 |
| September 1, 2004 | 17,953,125 |
| December 1, 2004 | 17,953,125 |
| March 1, 2005 | 17,953,125 |
| June 1, 2005 | 17,953,125 |
| September 1, 2005 | 17,953,125 |
| December 1, 2005 | 17,953,125 |

(v) to the Administrative Agent for account of the respective Lender the then unpaid principal amount of each Competitive Loan of such Lender on the last day of the Interest Period applicable to such Loan, and

(vi) to the Swingline Lender the then unpaid principal amount of each Swingline Loan on the earliest of (A) the Revolving Commitment Termination Date, (B) the fifteenth day after such Loan is made (but not earlier than one Business Day after such Swingline Loan is made) and (C) in the case of any Swingline FFBR Loan or Swingline Eurocurrency Loan, the last day of the Interest Period for such Loan; provided that (i) if any such day is not a Business Day, then the Borrower shall pay such Swingline Loan on

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the next preceding Business Day and (ii) on each date that a Tranche I Revolving Borrowing or Tranche I Competitive Borrowing is made, the Borrower shall repay all Swingline ABR Loans then outstanding.

(b) Manner of Payment. Prior to any repayment or prepayment of any Borrowings of any Class hereunder, the Borrower shall select the Borrowing or Borrowings of the applicable Class to be paid and shall notify the Administrative Agent by telephone (confirmed by telecopy) of such selection not later than 11:00 a.m., Local Time, three Business Days before the scheduled date of such payment; provided that each payment of Borrowings of any Class shall be applied to pay any outstanding ABR Borrowings of such Class before any other Borrowings of such Class. If the Borrower fails to make a timely selection of the Borrowing or Borrowings to be repaid or prepaid, such payment shall be applied, first, to pay any outstanding ABR Borrowings of the applicable Class and, second, to other Borrowings of such Class in the order of the remaining duration of their respective Interest Periods (the Borrowing with the shortest remaining Interest Period to be paid first), and for these purposes, Competitive Loans shall be deemed to be in the same Class as Revolving Loans. Each payment of a Syndicated Borrowing shall be applied ratably to the Loans included in such Borrowing.

(c) Maintenance of Loan Accounts by Lenders. Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from each Loan made by such Lender, including the amounts and Currency of principal and interest payable and paid to such Lender from time to time hereunder.

Anything herein to the contrary notwithstanding, the Term Loans of each Class made by each Lender shall be divided into two portions which shall be accounted for separately on the books of such Lender. The first of such portions (the "Mortgage Portion") shall be in a principal amount equal to 2/700 of the amount of such Lender's Term Loan Commitment of such Class and shall be secured by all of the collateral security provided for pursuant to the Security Documents (including, without limitation, the Mortgages covering real property of the Obligors in New York) and the second of such portions (the "Non-Mortgage Portion") shall be in a principal amount equal to 698/700 of the amount of such Lender's Term Loan Commitment of such Class and shall be secured by all of the collateral security provided for pursuant to the Security Documents (excluding, however, the Mortgages covering real property of the Obligors in New York). Anything in this Agreement to the contrary notwithstanding, all payments and prepayments of the Term Loans hereunder shall be deemed to be applied first to Non-Mortgage Portion (until the same shall have been paid in full) and last to the Mortgage Portion.

(d) Maintenance of Loan Accounts by Administrative Agent. The Administrative Agent shall maintain accounts in which it shall record (i) the amount of each Loan made hereunder, the Class, Currency and Type thereof and the Interest Period applicable thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder for the account of the Lenders and each Lender's share thereof.

The Administrative Agent shall account for the Mortgage Portions and Non-Mortgage Portions of the Term Loans, as described in paragraph (c) above.

(e) Effect of Loan Accounts. The entries made in the accounts maintained pursuant to paragraph (c) or (d) of this Section shall be prima facie evidence of the existence and amounts of the obligations recorded therein; provided that the failure of any Lender or the Administrative Agent to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Loans in accordance with the terms of this Agreement.

(f) Promissory Notes. Any Lender may request that Loans of any Class made by it be evidenced by a promissory note. In such event, the Borrower shall prepare, execute and deliver to such Lender a promissory note payable to the order of such Lender (or, if requested by such Lender, to such Lender and its registered assigns) and in a form approved by the Administrative Agent. Thereafter, the Loans evidenced by such promissory note and interest thereon shall at all times (including after assignment pursuant to Section 10.04) be represented by one or more promissory notes in such form payable to the order of the payee named therein (or, if such promissory note is a registered note, to such payee and its registered assigns).

SECTION 2.11. Prepayment of Loans.

(a) Optional Prepayments. The Borrower shall have the right at any time and from time to time to prepay any Borrowing in whole or in part, subject to the requirements of this Section, provided that (i) the aggregate principal amount of any prepayment on any date pursuant to this paragraph shall be at least equal to \$1,000,000 and (ii) the Borrower shall not have the right to prepay any Competitive Loan without the prior consent of the Lender thereof. Any prepayment of a Tranche I Term Loan Borrowing (denominated in Dollars or in Sterling) or a Tranche III Term Loan Borrowing pursuant to this paragraph shall be applied first to reduce the next three scheduled repayments thereof in direct chronological order and second to reduce the remaining scheduled repayments thereof on a pro rata basis.

(b) Mandatory Prepayments -- All Loans. The Borrower will make prepayments of the Loans hereunder as follows:

(i) Casualty Events. Upon the date 180 days following the receipt by the Borrower of the proceeds of insurance, condemnation award or other compensation in respect of any Casualty Event affecting any Property of the Borrower or any of its Subsidiaries (or upon such earlier date as the Borrower or such Subsidiary, as the case may be, shall have determined not to repair or replace the Property affected by such Casualty Event), the Borrower shall prepay the Loans in an aggregate amount, if any, equal to 100% of the Net Available Proceeds of such Casualty Event not theretofore applied to the repair or replacement of such Property, such prepayment to be effected in each case in the manner and to the extent specified in clause (vi) below. Notwithstanding the foregoing, in the event that a Casualty Event shall occur with respect to Property covered by any Mortgage, the Borrower shall, if required by the terms of such Mortgage, prepay the Loans on the dates, and in the amounts, of the required prepayments specified

in accordance with such Mortgage. Nothing in this paragraph shall be deemed to limit any obligation of the Borrower or any of its Subsidiaries pursuant to any of the Security Documents to remit to a collateral or similar account maintained by the Administrative Agent pursuant to any of the Security Documents the proceeds of insurance, condemnation award or other compensation received in respect of any Casualty Event.

(ii) Equity Issuance. On or prior to the date 90 days after any Equity Issuance, the Borrower shall prepay the Loans in an aggregate amount equal to 50% of the Net Available Proceeds thereof (or, for so long as any Tranche II Term Loans remain outstanding and the Borrower would be obligated to apply such Net Available Proceeds to the prepayment thereof as provided in clause (vi)(B) below, 100% of such Net Available Proceeds), such prepayment to be effected in each case in the manner and to the extent specified in clause (vi) below, provided that, notwithstanding the foregoing, the Borrower shall not be required to make a prepayment under this clause (ii) (x) from the

first \$5,000,000 of Net Available Proceeds during any fiscal year received from the issuance or sale of capital stock in connection with the Employee Stock Purchase Plan, the Long-Term Stock Incentive Plan or the Incentive Stock Option Plan or similar plans of the Borrower in effect from time to time or (y) to the extent that

(A) the Borrower advises the Administrative Agent at the time of the relevant Equity Issuance that it intends to use such Net Available Proceeds to finance one or more Acquisitions pursuant to Section 7.03(d),

(B) such Net Available Proceeds are held by the Borrower in a segregated investment or other account (or, alternatively, applied to the prepayment of Revolving Loans), until so used to finance one or more Acquisitions as contemplated above, and

(C) such Net Available Proceeds are in fact so applied to such Acquisition(s) within 180 days of such Equity Issuance (it being understood that, in the event Net Available Proceeds from more than one Equity Issuance are held by the Borrower, or have been applied to the prepayment of Revolving Loans, such Net Available Proceeds shall be deemed to be utilized in the same order in which such Equity Issuances occurred and, accordingly, any such Net Available Proceeds so held or applied to the prepayment of Revolving Loans for more than 180 days shall be forthwith applied to the prepayment of Loans as provided above),

it being understood that, if the Borrower does not so advise the Administrative Agent that it intends to use such Net Available Proceeds to finance one or more Acquisitions, or does not in fact apply such Net Available Proceeds to one or more Acquisitions within the time periods specified above, the Borrower shall immediately prepay the Loans in an amount equal to the amount specified above.

(iii) Excess Cash Flow. Not later than the date 90 days after the end of each fiscal year of the Borrower ending on or after February 28, 2000 (unless the Debt Ratio is

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less than or equal to 3.125 to 1 as of the last day thereof, in which case this clause (iii) shall not apply), the Borrower shall prepay the Loans in an aggregate amount equal to 50% of Excess Cash Flow for such fiscal year.

(iv) Sale of Assets. Without limiting the obligation of the Borrower to obtain the consent of the Required Lenders to any Disposition not otherwise permitted hereunder, in the event that the Net Available Proceeds of any Disposition (herein, the "Current Disposition"), and of all prior Dispositions consummated in the then-current fiscal year of the Borrower as to which a prepayment has not yet been made under this paragraph, shall exceed \$8,000,000 then, no later than 180 days after the occurrence of the Current Disposition, the Borrower will deliver to the Lenders a statement, certified by a Financial Officer of the Borrower, in form and detail satisfactory to the Administrative Agent, of the amount of the Net Available Proceeds of the Current Disposition and of all such prior Dispositions and will prepay the Loans in an aggregate amount equal to 100% of the Net Available Proceeds of the Current Disposition and such prior Dispositions, such prepayment to be effected in each case in the manner and to the extent specified in clause (vi) below, provided that, notwithstanding the foregoing, the Borrower shall not be required to make a prepayment under this clause (iv) to the extent that

(A) the Borrower advises the Administrative Agent at the time of the relevant Disposition that it intends to use such Net Available Proceeds to finance one or more Acquisitions pursuant to Section 7.03(d), or otherwise to reinvest the proceeds thereof into the business of the Borrower and its Subsidiaries,

(B) such Net Available Proceeds are held by the Borrower in a segregated investment or other account (or, alternatively, applied to the prepayment of Revolving Loans), until so used to finance one or more Acquisitions or to make such reinvestment as contemplated above, and

(C) such Net Available Proceeds are in fact so applied to such Acquisition(s) or reinvestment within 180 days of such Disposition (it being understood that, in the event Net Available Proceeds from more than one Disposition are held by the Borrower, or have been applied to the prepayment of Revolving Loans, such

Net Available Proceeds shall be deemed to be utilized in the same order in which such Dispositions occurred and, accordingly, any such Net Available Proceeds so held or applied to the prepayment of Revolving Loans for more than 180 days shall be forthwith applied to the prepayment of Loans as provided above),

it being understood that, if the Borrower does not so advise the Administrative Agent that it intends to use such Net Available Proceeds to finance one or more Acquisitions or make such reinvestment, or does not in fact apply such Net Available Proceeds to one or more Acquisitions or reinvestments within the time periods specified above, the Borrower shall immediately prepay the Loans in an amount equal to the amount specified above.

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Notwithstanding the foregoing, to the extent that the amount of the required prepayment on any date is not greater than \$20,000,000, the Borrower shall not be required to make any prepayment of a Eurocurrency or Competitive Borrowing until the expiration(s) of the then-current Interest Periods.

(v) Debt Incurrence. Without limiting the obligation of the Borrower to obtain the consent of the Required Lenders to any Debt Incurrence not permitted hereunder, on or prior to the date 90 days after the date of any Debt Incurrence, the Borrower shall prepay the Loans in an aggregate amount equal to the portion of the Net Available Proceeds thereof that exceeds (in the aggregate for all Debt Incurrences after the date hereof) \$50,000,000, such prepayment to be effected in each case in the manner and to the extent specified in clause (vi) below, provided that, notwithstanding the foregoing, the Borrower shall not be required to make a prepayment under this clause (v) to the extent that

(A) the Borrower advises the Administrative Agent at the time of the relevant Debt Incurrence that it intends to use such Net Available Proceeds to finance one or more Acquisitions pursuant to Section 7.03(d),

(B) such Net Available Proceeds are held by the Borrower in a segregated investment or other account (or, alternatively, applied to the prepayment of Revolving Loans), until so used to finance one or more Acquisitions as contemplated above, and

(C) such Net Available Proceeds are in fact so applied to such Acquisition(s) within 120 days of such Debt Incurrence (it being understood that, in the event Net Available Proceeds from more than one Debt Incurrence are held by the Borrower, or have been applied to the prepayment of Revolving Loans, such Net Available Proceeds shall be deemed to be utilized in the same order in which such Debt Incurrence occurred and, accordingly, any such Net Available Proceeds so held or applied to the prepayment of Revolving Loans for more than 120 days shall be forthwith applied to the prepayment of Loans as provided above),

it being understood that, if the Borrower does not so advise the Administrative Agent that it intends to use such Net Available Proceeds to finance one or more Acquisitions, or does not in fact apply such Net Available Proceeds to one or more Acquisitions within the time periods specified above, the Borrower shall immediately prepay the Loans in an amount equal to the amount specified above.

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(vi) Application.

(A) Prepayments pursuant to clauses (b)(i), (iii) and (iv) of this paragraph shall be applied as follows:

first, such prepayment shall be applied to any then outstanding Tranche I and Tranche III Term Loans (ratably in accordance with the then-outstanding aggregate principal amounts thereof), each such prepayment of Tranche I and Tranche III Term Loans to be applied to reduce the scheduled repayments thereof in reverse chronological order and, after the prepayment in full of any then-outstanding Tranche I and Tranche III Term Loans, to the prepayment of any then-outstanding Tranche II Term Loans; and

second, after the payment in full of any then-outstanding Term Loans of any Class, to prepay Revolving Loans (without reduction of Revolving Commitments).

(B) Prepayments pursuant to clauses (b)(ii) and (v) of this paragraph shall be applied as follows:

first, such prepayment shall be applied to any then-outstanding Tranche II Term Loans and, after the prepayment in full of any then-outstanding Tranche II Term Loans, to the prepayment of the Tranche I and Tranche III Term Loans (ratably in accordance with the then-outstanding aggregate principal amounts thereof), each such prepayment of Tranche I and Tranche III Term Loans to be applied to reduce the scheduled repayments thereof in reverse chronological order; and

second, after the payment in full of any then-outstanding Term Loans of any Class, to prepay Revolving Loans (without reduction of Revolving Commitments).

Any prepayments to be applied to the Tranche I Term Loans or to the Revolving Loans pursuant to this clause (b)(vi) shall be applied to any then outstanding Tranche I Term Loans or Revolving Loans denominated in Dollars and Tranche I Term Loans and Revolving Loans denominated in Sterling ratably in accordance with the then outstanding principal amounts thereof (in the case of the Tranche I Term Loans or Revolving Loans denominated in Sterling, based on the Dollar Equivalent thereof as in effect on the date of prepayment).

Notwithstanding the foregoing, if any event described in the foregoing provisions of this Section 2.11(b) shall occur prior to the Initial Funding Date, then the prepayment that would otherwise be required to be made hereunder shall be applied to the prepayment of the "Term Loans" and "Revolving Loans" under the 1997 Credit Agreement in the manner provided in Section 2.11 thereof, and the Commitments hereunder shall be automatically reduced in an amount equal to such prepayment, such

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reduction to be applied first to the Tranche II Term Loan Commitments, second to the Tranche I and Tranche III Term Loan Commitments (ratably in accordance with the respective principal amounts thereof) and third to the Revolving Commitments.

(c) Mandatory Prepayments -- Change of Control. In the event that the Borrower shall be required pursuant to the provisions of any instrument evidencing or governing any Subordinated Indebtedness to redeem, or make an offer to redeem or repurchase, all or any portion of such Subordinated Indebtedness as a result of a change of control (however defined), then, concurrently with the occurrence of the event giving rise to such change of control, the Borrower shall prepay the Loans (and/or provide cover for LC Exposure as specified in Section 2.06(k)) in full, and the Commitments shall be automatically reduced to zero.

(d) Currency Valuation. Upon the receipt by the Administrative Agent of a Currency Valuation Notice (as defined below) and on each Quarterly Date, the Administrative Agent shall promptly determine the aggregate outstanding principal amount of all Loans, for which purpose the outstanding principal amount of any Loan that is denominated in Sterling shall be deemed to be the Dollar Equivalent (determined at the applicable times specified in clause (i) or (ii) below) of the amount in Sterling of such Loan. Upon making such determination, the Administrative Agent shall promptly notify the Lenders and the Borrower thereof and:

(i) if, on the date of any such determination, (A) the aggregate outstanding principal amount of all Tranche II Revolving Loans and Tranche II Competitive Loans (with Dollar Equivalents being determined (x) as of the Business Day on which the Administrative Agent shall have received such Currency Valuation Notice if received prior to 11:00 a.m. New York time, (y) if received by the Administrative Agent after such time on any Business Day, as of the next succeeding Business Day or (z) as of such Quarterly Date, as applicable) exceeds 105% of (B) the total Tranche II Revolving Commitments, the Borrower shall, if requested by the Required Tranche II Revolving Lenders (through the Administrative Agent), prepay outstanding Tranche II Revolving Loans and Tranche II Competitive Loans (ratably in accordance with then then-outstanding aggregate principal amounts thereof), whether denominated in Dollars or Sterling (at the option of the Borrower), in an amount so that after giving effect thereto the amount referred to in subclause (A) is no more than 105% of the amount in subclause (B); or

(ii) if, on the date of any such determination, (A) the total of the Tranche I and Tranche II Revolving Commitments on such date,

together with the aggregate principal amount of all Term Loans outstanding on such date (with Dollar Equivalents being determined (x) as of the Business Day on which the Administrative Agent shall have received such Currency Valuation Notice if received prior to 11:00 a.m. New York time, (y) if received by the Administrative Agent after such time on any Business Day, as of the next succeeding Business Day or (z) as of such Quarterly Date, as applicable), exceeds 103% of (B) the sum of the total Tranche I and Tranche II Revolving Commitments on such date, together with the aggregate principal amount of all Term Loans outstanding on such date (with Dollar Equivalents being determined at 1.6575

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Dollars per one Sterling), the Borrower shall, if requested by the Required Lenders (through the Administrative Agent), prepay outstanding Loans of any Class (ratably in accordance with the then-outstanding aggregate principal amounts thereof), whether denominated in Dollars or Sterling (at the option of the Borrower), in an amount so that after giving effect thereto the amount referred to in subclause (A) is no more than 103% of the amount in subclause (B);

provided that, any such payment under clause (i) or (ii) above shall be accompanied by any amounts payable under Sections 2.13(f) and 2.16 hereof.

For purposes of this Section 2.11(d), "Currency Valuation Notice" shall mean a notice given by the Required Lenders to the Administrative Agent stating that such notice is a "Currency Valuation Notice" and requesting that the Administrative Agent determine the aggregate outstanding principal amount of all Loans.

Anything in this Section 2.11(d) to the contrary notwithstanding, the Administrative Agent shall not be required to make more than one valuation determination pursuant to Currency Valuation Notices within any rolling three month period.

(e) Notices, Etc. The Borrower shall notify the Administrative Agent (and, in the case of prepayment of a Swingline Loan, the Swingline Lender) by telephone (confirmed by teletype) of any prepayment hereunder (i) in the case of prepayment of a Syndicated Eurocurrency Borrowing, of a Competitive Borrowing or of a Swingline Eurocurrency Borrowing, not later than 11:00 a.m., Local Time, three Business Days before the date of prepayment, (ii) in the case of prepayment of a Syndicated ABR Borrowing, not later than 11:00 a.m., New York City time, one Business Day before the date of prepayment or (iii) in the case of prepayment of a Swingline Loan, not later than 12:00 noon, New York City time, on the date of prepayment. Each such notice shall be irrevocable and shall specify the prepayment date, the principal amount of each Borrowing or portion thereof to be prepaid; provided that, if a notice of prepayment is given in connection with a conditional notice of termination of the Revolving Commitments as contemplated by Section 2.09, then such notice of prepayment may be revoked if such notice of termination is revoked in accordance with Section 2.09. Promptly following receipt of any such notice relating to a Syndicated Borrowing or Competitive Borrowing, the Administrative Agent shall advise the relevant Lenders of the contents thereof. Each partial prepayment of any Borrowing shall be in an amount that would be permitted in the case of a Borrowing of the same Type as provided in Section 2.02, except as necessary to apply fully the required amount of a mandatory prepayment. Each prepayment of a Syndicated Borrowing shall be applied ratably to the Loans included in the prepaid Borrowing. Prepayments shall be accompanied by accrued interest to the extent required by Section 2.13.

SECTION 2.12. Fees.

(a) Facility Fee and Commitment Fee. The Borrower agrees to pay to the Administrative Agent for the account of each Revolving Lender a facility fee, which shall accrue at the Applicable Rate on the greater of (i) the daily average amount of the Revolving Commitment of such Lender (whether used or unused) and (ii) such Lender's aggregate

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Revolving Exposure, such fee to accrue during the period from and including the date hereof to but excluding the date such Revolving Commitment shall have terminated and the date the Revolving Exposure shall have been reduced to zero. The Borrower agrees to pay to the Administrative Agent for account of each Lender a commitment fee, which shall accrue at the Applicable Rate on the average daily unused amount of the Tranche I, Tranche II and Tranche III Term Loan Commitments of such Lender for the period from and including the date hereof to but not including the earlier of the date such Term Loan Commitments terminate and the last day of the Term Loan Availability

Period.

Accrued facility fees and commitment fees shall be payable on each Quarterly Date and on the earlier of the date the relevant Commitment terminates and the Revolving Commitment Termination Date (in the case of the Revolving Commitments), the last day of the Term Loan Availability Period (in the case of the Tranche I and Tranche II Term Loan Commitments) and the Initial Funding Date (in the case of the Tranche III Term Loan Commitments), commencing on the first such date to occur after December 1, 1998; provided that any facility or commitment fees accruing after the date on which interest on Loans of the respective Class shall be payable on demand shall similarly be payable on demand. All facility fees and commitment fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day).

(b) Letter of Credit Fees. The Borrower agrees to pay (i) to the Administrative Agent for the account of each Revolving Lender a participation fee with respect to its participations in Letters of Credit, which shall accrue at a rate per annum equal to the Applicable Rate applicable to interest on Syndicated Eurocurrency Revolving Loans on the average daily amount of such Lender's LC Exposure (excluding any portion thereof attributable to unreimbursed LC Disbursements) during the period from and including the Initial Funding Date to but excluding the later of the date on which such Lender's Revolving Commitment terminates and the date on which such Lender ceases to have any LC Exposure, and (ii) to Chase, as an Issuing Lender, a fronting fee, which shall accrue at the rate of 0.125% per annum on the average daily amount of the LC Exposure (excluding any portion thereof attributable to unreimbursed LC Disbursements and to the Qingdao Letter of Credit) during the period from and including the Initial Funding Date to but excluding the date on which there ceases to be any LC Exposure, and to each Issuing Lender, such Issuing Lender's standard fees with respect to the issuance, amendment, renewal or extension of any Letter of Credit or processing of drawings thereunder. Participation fees and fronting fees accrued through and including each Quarterly Date shall be payable on the third Business Day following such Quarterly Date, commencing on the first such date to occur after the Initial Funding Date; provided that all such fees shall be payable on the date on which the Revolving Commitments terminate and any such fees accruing after the date on which the Revolving Commitments terminate shall be payable on demand. Any other fees payable to either Issuing Lender pursuant to this paragraph shall be payable within 10 days after demand. All participation fees and fronting fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day).

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(c) Administrative Agent Fees. The Borrower agrees to pay to the Administrative Agent, for its own account, fees payable in the amounts and at the times separately agreed upon between the Borrower and the Administrative Agent.

(d) Payment of Fees. All fees payable hereunder shall be paid on the dates due, in Dollars and immediately available funds, to the Administrative Agent (or to the respective Issuing Lender, in the case of fees payable to it) for distribution, in the case of facility fees and participation fees, to the Lenders entitled thereto. Fees paid shall not be refundable under any circumstances.

SECTION 2.13. Interest.

(a) ABR Borrowings. The Loans comprising each ABR Borrowing (other than in respect of Swingline Loans, as to which paragraph (d) below shall apply) shall bear interest at a rate per annum equal to the Alternate Base Rate plus the Applicable Rate.

(b) Eurocurrency Borrowings. The Loans comprising each Eurocurrency Borrowing shall bear interest at a rate per annum equal to (i) in the case of a Syndicated Eurocurrency Loan or a Swingline Eurocurrency Loan, the Adjusted LIBO Rate for the Interest Period for such Borrowing plus the Applicable Rate, or (ii) in the case of a Competitive Eurocurrency Borrowing, the LIBO Rate for the Interest Period in effect for such Borrowing plus (or minus, as applicable) the Margin applicable to such Loan.

(c) Fixed Rate Borrowings. Each Fixed Rate Loan shall bear interest at a rate per annum equal to the Fixed Rate applicable to such Loan.

(d) Swingline ABR and FFBR Borrowings. Each ABR Borrowing constituting a Swingline Loan shall bear interest at a rate per annum equal to the Alternate Base Rate plus the Applicable Rate. Each Swingline Borrowing the interest on which is determined by reference to the Federal Funds Base Rate

for any Interest Period therefor shall bear interest at a rate per annum, for each day during such Interest Period, equal to the Federal Funds Base Rate for such period plus the then-applicable "Facility Fee Rate" specified in the definition of "Applicable Rate" in Section 1.01 plus the Applicable Rate plus .50%. Each Swingline Borrowing the interest on which is determined at an alternate rate of interest as contemplated in Section 2.05(b), shall bear interest at the respective alternate rate of interest so agreed for the period so contemplated by Section 2.05(b).

(e) Default Interest. Notwithstanding the foregoing, if any principal of or interest on any Loan or any fee or other amount payable by the Borrower hereunder is not paid when due, whether at stated maturity, upon acceleration, by mandatory prepayment or otherwise, such overdue amount shall bear interest, after as well as before judgment, at a rate per annum equal to (i) in the case of overdue principal of any Loan, 2% plus the rate otherwise applicable to such Loan as provided above or (ii) in the case of any other amount, 2% plus the rate applicable to ABR Loans as provided in paragraph (a) of this Section.

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(f) Payment of Interest. Accrued interest on each Loan shall be payable in arrears on each Interest Payment Date for such Loan and, in the case of Revolving Loans, upon termination of the Revolving Commitments; provided that (i) interest accrued pursuant to paragraph (e) of this Section shall be payable on demand, (ii) in the event of any repayment or prepayment of any Loan (other than a prepayment of a Revolving ABR Loan prior to the Revolving Commitment Termination Date), accrued interest on the principal amount repaid or prepaid shall be payable on the date of such repayment or prepayment and (iii) in the event of any conversion of any Syndicated Eurocurrency Borrowing denominated in Dollars prior to the end of the current Interest Period therefor, accrued interest on such Borrowing shall be payable on the effective date of such conversion.

(g) Computation. All interest hereunder shall be computed on the basis of a year of 360 days, except that interest computed by reference to the Alternate Base Rate at times when the Alternate Base Rate is based on the Prime Rate shall be computed on the basis of a year of 365 days (or 366 days in a leap year), and in each case shall be payable for the actual number of days elapsed (including the first day but excluding the last day). The applicable Alternate Base Rate, Adjusted LIBO Rate or LIBO Rate shall be determined by the Administrative Agent, and such determination shall be conclusive absent manifest error.

SECTION 2.14. Alternate Rate of Interest. If prior to the commencement of any Interest Period for a Eurocurrency Borrowing:

(a) the Administrative Agent determines (which determination shall be conclusive absent manifest error) that adequate and reasonable means do not exist for ascertaining the Adjusted LIBO Rate or the LIBO Rate, as applicable, for such Interest Period; or

(b) if such Borrowing is of a particular Class of Loans, the Administrative Agent is advised by the Required Lenders of such Class (or, in the case of a Competitive Eurocurrency Loan, the Lender that is required to make such Loan) that the Adjusted LIBO Rate or the LIBO Rate, as applicable, for such Interest Period will not adequately and fairly reflect the cost to such Lenders (or Lender) of making or maintaining their Loans (or its Loan) included in such Borrowing for such Interest Period;

then the Administrative Agent shall give notice thereof to the Borrower and the Lenders by telephone or telecopy as promptly as practicable thereafter and, until the Administrative Agent notifies the Borrower and the Lenders that the circumstances giving rise to such notice no longer exist, (i) any Interest Election Request that requests the conversion of any Syndicated Borrowing to, or continuation of any Syndicated Borrowing as, a Syndicated Eurocurrency Borrowing denominated in Dollars shall be ineffective, (ii) if any Borrowing Request requests a Syndicated Eurocurrency Borrowing, such Borrowing shall be made as a Syndicated ABR Borrowing, (iii) any request by the Borrower for a Swingline Eurocurrency Borrowing shall be deemed to be a request for a Swingline FFBR Borrowing and (iv) any request by the Borrower for a Competitive Eurocurrency Borrowing, or for the continuance of a Syndicated Eurocurrency Borrowing denominated in Sterling, shall be ineffective; provided that if the circumstances giving rise to

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such notice do not affect all the Lenders, then requests by the Borrower for Competitive Eurocurrency Borrowings may be made to Lenders that are not affected thereby.

SECTION 2.15. Increased Costs.

(a) Increased Costs Generally. If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for account of, or credit extended by, any Lender (except any such reserve requirement reflected in the Adjusted LIBO Rate) or either Issuing Lender; or

(ii) impose on any Lender or either Issuing Lender or the London interbank market any other condition affecting this Agreement or Eurocurrency Loans or Fixed Rate Loans made by such Lender or any Letter of Credit or participation therein;

and the result of any of the foregoing shall be to increase the cost to such Lenders of making or maintaining any Eurocurrency Loan or Fixed Rate Loan (or of maintaining its obligation to make any such Loan) or to increase the cost to such Lender or such Issuing Lender of participating in, issuing or maintaining any Letter of Credit or to reduce the amount of any sum received or receivable by such Lender or such Issuing Lender hereunder (whether of principal, interest or otherwise), then the Borrower will pay to such Lender or such Issuing Lender, as the case may be, such additional amount or amounts as will compensate such Lender or such Issuing Lender, as the case may be, for such additional costs incurred or reduction suffered.

(b) Capital Requirements. If any Lender or either Issuing Lender determines that any Change in Law regarding capital requirements has or would have the effect of reducing the rate of return on such Lender's or such Issuing Lender's capital or on the capital of such Lender's or such Issuing Lender's holding company, if any, as a consequence of this Agreement or the Loans made by, or participations in Letters of Credit held by, such Lender, or the Letters of Credit issued by such Issuing Lender, to a level below that which such Lender or such Issuing Lender or such Lender's or such Issuing Lender's holding company could have achieved but for such Change in Law (taking into consideration such Lender's or such Issuing Lender's policies and the policies of such Lender's or such Issuing Lender's holding company with respect to capital adequacy), then from time to time the Borrower will pay to such Lender or such Issuing Lender, as the case may be, such additional amount or amounts as will compensate such Lender or such Issuing Lender or such Lender's or such Issuing Lender's holding company for any such reduction suffered.

(c) Certificates from Lenders. A certificate of a Lender or either Issuing Lender setting forth the amount or amounts necessary to compensate such Lender or such Issuing Lender or its holding company, as the case may be, as specified in paragraph (a) or (b) of this Section shall be delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay such Lender or such Issuing Lender, as the case may be, the amount shown as due on any such certificate within 10 days after receipt thereof.

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(d) Delay in Requests. Failure or delay on the part of any Lender or either Issuing Lender to demand compensation pursuant to this Section shall not constitute a waiver of such Lender's or such Issuing Lender's right to demand such compensation; provided that the Borrower shall not be required to compensate a Lender or an Issuing Lender pursuant to this Section for any increased costs or reductions incurred more than six months prior to the date that such Lender or such Issuing Lender, as the case may be, notifies the Borrower of the Change in Law giving rise to such increased costs or reductions and of such Lender's or such Issuing Lender's intention to claim compensation therefor; provided further that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the six-month period referred to above shall be extended to include the period of retroactive effect thereof.

(e) Competitive Loans. Notwithstanding the foregoing provisions of this Section, a Lender shall not be entitled to compensation pursuant to this Section in respect of any Competitive Loan if the Change in Law that would otherwise entitle it to such compensation shall have been publicly announced prior to submission of the Competitive Bid pursuant to which such Loan was made.

SECTION 2.16. Break Funding Payments. In the event of (a) the payment of any principal of any Eurocurrency Loan, Fixed Rate Loan or Swingline FFBR Loan other than on the last day of an Interest Period applicable thereto (including as a result of an Event of Default), (b) the conversion of any Syndicated Eurocurrency Loan other than on the last day of the Interest Period applicable thereto, (c) the failure to borrow, convert, continue or prepay any Syndicated Loan on the date specified in any notice delivered pursuant hereto (regardless of whether such notice is permitted to be revocable under Section

2.11(d) and is revoked in accordance herewith), (d) the failure to borrow any Competitive Loan after accepting the Competitive Bid to make such Loan, or (e) the assignment of any Eurocurrency Loan or Fixed Rate Loan other than on the last day of the Interest Period applicable thereto as a result of a request by the Borrower pursuant to Section 2.19, then, in any such event, the Borrower shall compensate each Lender for the loss, cost and expense attributable to such event (and for avoidance of doubt excluding the Applicable Rate).

In the case of a Eurocurrency Loan, the loss to any Lender attributable to any such event shall be deemed to include an amount determined by such Lender to be equal to the excess, if any, of (i) the amount of interest that such Lender would pay for a deposit equal to the principal amount of such Loan for the period from the date of such payment, conversion, failure or assignment to the last day of the then current Interest Period for such Loan (or, in the case of a failure to borrow, convert or continue, the duration of the Interest Period that would have resulted from such borrowing, conversion or continuation) if the interest rate payable on such deposit were equal to the Adjusted LIBO Rate for such Interest Period (and for avoidance of doubt excluding the Applicable Rate), over (ii) the amount of interest that such Lender would earn on such principal amount for such period if such Lender were to invest such principal amount for such period at the interest rate that would be bid by such Lender (or an affiliate of such Lender) for deposits in the Currency of such Loan from other banks in the eurocurrency market at the commencement of such period.

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In the case of a Swingline FFBR Loan, the loss to the Swingline Lender attributable to any such event shall be deemed to include an amount determined by the Swingline Lender to be equal to the excess, if any, of (i) the Federal Funds Base Rate for the period commencing on the date of such payment to but not including the last day of the Interest Period for such Swingline FFBR Loan, over (ii) the Federal Funds Base Rate for such Interest Period.

A certificate of any Lender setting forth any amount or amounts that such Lender is entitled to receive pursuant to this Section shall be delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay such Lender the amount shown as due on any such certificate within 10 days after receipt thereof.

SECTION 2.17. Taxes.

(a) Payments Free of Taxes. Any and all payments by or on account of any obligation of the Borrower hereunder or under any other Loan Document shall be made free and clear of and without deduction for any Indemnified Taxes or Other Taxes; provided that if the Borrower shall be required to deduct any Indemnified Taxes or Other Taxes from such payments, then (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section) the Administrative Agent, Lender or Issuing Lender (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law.

(b) Payment of Other Taxes by the Borrower. In addition, the Borrower shall pay any Other Taxes to the relevant Governmental Authority in accordance with applicable law.

(c) Indemnification by the Borrower. The Borrower shall indemnify the Administrative Agent, each Lender and each Issuing Lender, within 30 days after written demand therefor, for the full amount of any Indemnified Taxes or Other Taxes (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section) paid by the Administrative Agent, such Lender or such Issuing Lender, as the case may be, and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to the Borrower by a Lender or an Issuing Lender, or by the Administrative Agent on its own behalf or on behalf of a Lender or an Issuing Lender, shall be conclusive absent manifest error.

(d) Receipt for Payments. As soon as practicable after any payment of Indemnified Taxes or Other Taxes by the Borrower to a Governmental Authority, the Borrower shall deliver to the Administrative Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Administrative Agent.

(e) Foreign Lenders. Any Foreign Lender that is entitled to an exemption from or reduction of withholding tax under the law of the jurisdiction in which the Borrower is located, or any treaty to which such jurisdiction is a party, with respect to payments under this Agreement shall deliver to the Borrower (with a copy to the Administrative Agent), at the time or times prescribed by applicable law or reasonably requested by the Borrower, such properly completed and executed documentation prescribed by applicable law as will permit such payments to be made without withholding or at a reduced rate.

SECTION 2.18. Payments; Pro Rata Treatment; Sharing of Setoffs, Etc.

(a) Payments by the Obligors. Each Obligor shall make each payment required to be made by it hereunder (whether of principal, interest, fees or reimbursement of LC Disbursements, or under Section 2.15, 2.16 or 2.17, or otherwise) or under any other Loan Document (except to the extent otherwise provided therein) prior to 12:00 noon, Local Time, on the date when due, in immediately available funds, without set-off or counterclaim. Any amounts received after such time on any date may, in the discretion of the Administrative Agent, be deemed to have been received on the next succeeding Business Day for purposes of calculating interest thereon. All such payments shall be made to the Administrative Agent at the Administrative Agent's Account, except as otherwise expressly provided in the relevant Loan Document, and except payments to be made directly to an Issuing Lender or the Swingline Lender as expressly provided herein and except that payments pursuant to Sections 2.15, 2.16, 2.17 and 10.03 shall be made directly to the Persons entitled thereto. The Administrative Agent shall distribute any such payments received by it for account of any other Person to the appropriate recipient promptly following receipt thereof. If any payment hereunder shall be due on a day that is not a Business Day, the date for payment shall be extended to the next succeeding Business Day and, in the case of any payment accruing interest, interest thereon shall be payable for the period of such extension. All amounts owing under this Agreement (including facility fees, but not including principal of, and interest on, Loans denominated in Sterling, which are payable in Sterling) are payable in Dollars.

Notwithstanding the foregoing, if the Borrower shall fail to pay any principal of any Loan when due (whether at stated maturity, by acceleration, by mandatory prepayment or otherwise), the unpaid portion of such Loan shall, if such Loan is denominated in Sterling, automatically be redenominated in Dollars on the due date thereof (or, if such due date is a day other than the last day of the Interest Period therefor, on the last day of such Interest Period) in an amount equal to the Dollar Equivalent thereof on the date of such redenomination and such principal shall be payable on demand; and if the Borrower shall fail to pay any interest on any Loan that is denominated in Sterling, such interest shall automatically be redenominated in Dollars on the due date therefor (or, if such due date is a day other than the last day of the Interest Period therefor, on the last day of such Interest Period) in an amount equal to the Dollar Equivalent thereof on the date of such redenomination and such interest shall be payable on demand.

(b) Application if Payments Insufficient. If at any time insufficient funds are received by and available to the Administrative Agent to pay fully all amounts of principal, unreimbursed LC Disbursements, interest and fees then due hereunder, such funds shall be

applied (i) first, to pay interest and fees then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of interest and fees then due to such parties, and (ii) second, to pay principal and unreimbursed LC Disbursements then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of principal and unreimbursed LC Disbursements then due to such parties.

(c) Pro Rata Treatment. Except to the extent otherwise provided herein (including in Section 2.10(a)(ii)): (i) each Syndicated Borrowing of a particular Class shall be made from the relevant Lenders, each payment of facility fee and commitment fee under Section 2.12 in respect of Commitments of a particular Class shall be made for account of the relevant Lenders, and each termination or reduction of the amount of the Commitments of a particular Class under Section 2.09 shall be applied to the respective Commitments of such Class of the relevant Lenders, pro rata according to the amounts of their respective Commitments of such Class; (ii) each Syndicated Borrowing of any Class shall be allocated pro rata among the relevant Lenders according to the amounts of their respective Commitments of such Class (in the case of the making of Syndicated Loans) or their respective Loans of such Class (in the case of conversions and

continuations of Loans); (iii) each payment or prepayment of principal of Revolving Loans, Tranche I Term Loans, Tranche II Term Loans and Tranche III Term Loans by the Borrower shall be made for account of the relevant Lenders pro rata in accordance with the respective unpaid principal amounts of the Syndicated Loans of such Class held by them; and (iv) each payment of interest on Revolving Loans, Tranche I Term Loans, Tranche II Term Loans and Tranche III Term Loans by the Borrower shall be made for account of the relevant Lenders pro rata in accordance with the amounts of interest on such Loans then due and payable to the respective Lenders.

(d) Sharing of Payments by Lenders. If any Lender shall, by exercising any right of set-off or counterclaim or otherwise, obtain payment in respect of any principal of or interest on any of its Syndicated Loans or participations in LC Disbursements or Swingline Loans resulting in such Lender receiving payment of a greater proportion of the aggregate amount of its Syndicated Loans and participations in LC Disbursements and Swingline Loans and accrued interest thereon then due than the proportion received by any other Lender, then the Lender receiving such greater proportion shall purchase (for cash at face value) participations in the Syndicated Loans and participations in LC Disbursements and Swingline Loans of other Lenders to the extent necessary so that the benefit of all such payments shall be shared by the Lenders ratably in accordance with the aggregate amount of principal of and accrued interest on their respective Syndicated Loans and participations in LC Disbursements and Swingline Loans; provided that (i) if any such participations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations shall be rescinded and the purchase price restored to the extent of such recovery, without interest, and (ii) the provisions of this paragraph shall not be construed to apply to any payment made by any Obligor pursuant to and in accordance with the express terms of this Agreement or any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Loans or participations in LC Disbursements to any assignee or participant, other than to the Borrower or any Subsidiary or Affiliate thereof (as to which the provisions of this paragraph shall apply). Each Obligor consents to the foregoing and agrees, to the extent it may effectively do so under applicable law,

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that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against such Obligor rights of set-off and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of such Obligor in the amount of such participation.

(e) Presumptions of Payment. Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Administrative Agent for the account of the Lenders or an Issuing Lender hereunder that the Borrower will not make such payment, the Administrative Agent may assume that the Borrower has made such payment on such date in accordance herewith and may, in reliance upon such assumption, distribute to the Lenders or such Issuing Lender, as the case may be, the amount due. In such event, if the Borrower has not in fact made such payment, then each of the Lenders or such Issuing Lender, as the case may be, severally agrees to repay to the Administrative Agent forthwith on demand the amount so distributed to such Lender or such Issuing Lender with interest thereon, for each day from and including the date such amount is distributed to it to but excluding the date of payment to the Administrative Agent, at the Federal Funds Effective Rate.

(f) Certain Deductions by Administrative Agent. If any Lender shall fail to make any payment required to be made by it pursuant to Section 2.05(c), 2.06(e) or (f), 2.07(b) or 2.18(e), then the Administrative Agent may, in its discretion (notwithstanding any contrary provision hereof), apply any amounts thereafter received by the Administrative Agent for account of such Lender to satisfy such Lender's obligations under such Sections until all such unsatisfied obligations are fully paid.

(g) Exercises of Remedies by Lenders. Anything in this Agreement to the contrary notwithstanding (including Section 10.08), each Lender hereby agrees with each other Lender that no Lender shall take any action to protect or enforce its rights arising out of this Agreement (including, without limitation, exercising any rights of off-set) without first obtaining the prior written consent of the Administrative Agent or the Required Lenders, it being the intent of the Lenders that any such action to protect or enforce rights under this Agreement shall be taken in concert and at the direction or with the consent of the Administrative Agent or the Required Lenders and not individually by a single Lender.

SECTION 2.19. Mitigation Obligations; Replacement of Lenders.

(a) Designation of Different Lending Office. If any Lender requests compensation under Section 2.15, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the

account of any Lender pursuant to Section 2.17, then such Lender shall use reasonable efforts to designate a different lending office for funding or booking its Loans hereunder or to assign its rights and obligations hereunder to another of its offices, branches or affiliates, if, in the judgment of such Lender, such designation or assignment (i) would eliminate or reduce amounts payable pursuant to Section 2.15 or 2.17, as the case may be, in the future and (ii) would not subject such Lender to any unreimbursed cost or expense and would not otherwise be disadvantageous to such Lender. The Borrower hereby agrees to pay all reasonable costs and expenses incurred by any Lender in connection with any such designation or assignment.

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(b) Replacement of Lenders. If any Lender requests compensation under Section 2.15, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.17, or if any Lender defaults in its obligation to fund Loans hereunder, then the Borrower may, at its sole expense and effort, upon notice to such Lender and the Administrative Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in Section 10.04), all its interests, rights and obligations under this Agreement (other than any outstanding Competitive Loans held by it) to an assignee that shall assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment); provided that (i) the Borrower shall have received the prior written consent of the Administrative Agent (and, if a Revolving Commitment is being assigned, each Issuing Lender and the Swingline Lender), which consent shall not unreasonably be withheld, (ii) such Lender shall have received payment of an amount equal to the outstanding principal of its Loans (other than Competitive Loans) and participations in LC Disbursements and Swingline Loans, accrued interest thereon, accrued fees and all other amounts payable to it hereunder, from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrower (in the case of all other amounts) and (iii) in the case of any such assignment resulting from a claim for compensation under Section 2.15 or payments required to be made pursuant to Section 2.17, such assignment will result in a reduction in such compensation or payments. A Lender shall not be required to make any such assignment and delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Borrower to require such assignment and delegation cease to apply.

ARTICLE III

GUARANTEE

SECTION 3.01. The Guarantee. The Subsidiary Guarantors hereby jointly and severally guarantee to each Lender and the Administrative Agent and their respective successors and assigns the prompt payment in full when due (whether at stated maturity, by acceleration or otherwise) of the principal of and interest on the Loans made by the Lenders to the Borrower, all indebtedness of the Borrower to any of the Lenders (or any affiliate thereof) in respect of Hedging Agreements, and all other amounts from time to time owing to the Lenders or the Administrative Agent by the Borrower under this Agreement and by any Obligor under any of the other Loan Documents, in each case strictly in accordance with the terms hereof and thereof (such obligations being herein collectively called the "Guaranteed Obligations"). The Subsidiary Guarantors hereby further jointly and severally agree that if the Borrower shall fail to pay in full when due (whether at stated maturity, by acceleration or otherwise) any of the Guaranteed Obligations, the Subsidiary Guarantors will promptly pay the same, without any demand or notice whatsoever, and that in the case of any extension of time of payment or renewal of any of the Guaranteed Obligations, the same will be promptly paid in full when due (whether at extended maturity, by acceleration or otherwise) in accordance with the terms of such extension or renewal.

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SECTION 3.02. Obligations Unconditional. The obligations of the Subsidiary Guarantors under Section 3.01 are absolute and unconditional, joint and several, irrespective of the value, genuineness, validity, regularity or enforceability of the obligations of the Borrower under this Agreement or any other agreement or instrument referred to herein or therein, or any substitution, release or exchange of any other guarantee of or security for any of the Guaranteed Obligations, and, to the fullest extent permitted by applicable law, irrespective of any other circumstance whatsoever which might otherwise constitute a legal or equitable discharge or defense of a surety or guarantor, it being the intent of this Section that the obligations of the Subsidiary Guarantors hereunder shall be absolute and unconditional, joint and

several, under any and all circumstances. In full recognition and in furtherance of the foregoing, each Subsidiary Guarantor agrees that:

(a) Without affecting the enforceability or effectiveness of Section 3.01 in accordance with its terms and without affecting, limiting, reducing, discharging or terminating the liability of such Subsidiary Guarantor, or the rights, remedies, powers and privileges of the Administrative Agent and the Lenders under this Agreement or any other agreement or instrument referred to herein or therein, the Administrative Agent and the Lenders may, at any time and from time to time and without notice or demand of any kind or nature whatsoever:

(i) amend, supplement, modify, extend, renew, waive, accelerate or otherwise change the time for payment or performance of, or the terms of, all or any part of the Guaranteed Obligations (including any increase or decrease in the rate or rates of interest on all or any part of the Guaranteed Obligations);

(ii) amend, supplement, modify, extend, renew, waive or otherwise change, or enter into or give, any Loan Document or any agreement, security document, guarantee, approval, consent or other instrument with respect to all or any part of the Guaranteed Obligations, any Loan Document or any such other instrument or any term or provision of the foregoing (it being understood that this clause (ii) shall not be deemed to constitute a consent by any Subsidiary Guarantor to any such amendment with respect to any Loan Document to which it is a party);

(iii) accept or enter into new or additional agreements, security documents, guarantees (including letters of credit) or other instruments in addition to, in exchange for or relative to any Loan Document, all or any part of the Guaranteed Obligations or any collateral now or in the future serving as security for the Guaranteed Obligations;

(iv) accept or receive (including from any other Subsidiary Guarantor) partial payments or performance on the Guaranteed Obligations (whether as a result of the exercise of any right, remedy, power or privilege or otherwise);

(v) accept, receive and hold any additional collateral for all or any part of the Guaranteed Obligations (including from any other Guarantor);

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(vi) release, reconvey, terminate, waive, abandon, allow to lapse or expire, fail to perfect, subordinate, exchange, substitute, transfer, foreclose upon or enforce any collateral, security documents or guarantees (including Letters of Credit or the obligations of any other Subsidiary Guarantor) for or relative to all or any part of the Guaranteed Obligations;

(vii) apply any collateral or the proceeds of any collateral or guarantee (including any Letter of Credit or the obligations of any other Subsidiary Guarantor) to all or any part of the Guaranteed Obligations in such manner and extent as the Administrative Agent or any Lender may in its discretion determine;

(viii) release any Person (including any other Subsidiary Guarantor) from any personal liability with respect to all or any part of the Guaranteed Obligations;

(ix) settle, compromise, release, liquidate or enforce upon such terms and in such manner as the Administrative Agent or the Lenders may determine or as applicable law may dictate all or any part of the Guaranteed Obligations or any collateral on or guarantee (including any Letter of Credit issued with respect to) of all or any part of the Guaranteed Obligations;

(x) consent to the merger or consolidation of, the sale of substantial assets by, or other restructuring or termination of the corporate existence of the Borrower or any other Person (including any other Subsidiary Guarantor);

(xi) proceed against the Borrower, such or any other Subsidiary Guarantor or any other guarantor of (including any issuer of any letter of credit issued with respect to) all or any part of the Guaranteed Obligations or any collateral provided by any Person and exercise the right, remedies, powers and privileges of the Administrative Agent and the Lenders under this Agreement or any other agreement or instrument referred to herein or therein, or otherwise in such order and such manner as the Administrative Agent or any Lender may, in its discretion, determine, without any necessity to proceed upon or against or exhaust any collateral, right, remedy, power or

privilege before proceeding to call upon or otherwise enforce Section 3.01 as to any Subsidiary Guarantor;

(xii) foreclose upon any deed of trust, mortgage or other instrument creating or granting liens on any interest in real property by judicial or nonjudicial sale or by deed in lieu of foreclosure, bid any amount or make no bid in any foreclosure sale or make any other election of remedies with respect to such liens or exercise any right of set-off;

(xiii) obtain the appointment of a receiver with respect to any collateral for all or any part of the Guaranteed Obligations and apply the proceeds of such receivership as the Administrative Agent or any Lender may in its discretion determine (it being agreed that nothing in this clause (xiii) shall be deemed to

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make the Administrative Agent or any Lender a party in possession in contemplation of law, except at its option);

(xiv) enter into such other transactions or business dealings with any other Subsidiary Guarantor, the Borrower, any Subsidiary or Affiliate of the Borrower or any other guarantor of all or any part of the Guaranteed Obligations as the Administrative Agent or any Lender may desire; and

(xv) do all or any combination of the actions set forth in this Section.

(b) The enforceability and effectiveness of this Article and the liability of the Subsidiary Guarantors, and the rights remedies, powers and privileges of the Administrative Agent and the Lenders, under this Agreement or any other agreement or instrument referred to herein or therein, shall not be affected, limited, reduced, discharged or terminated, and each Subsidiary Guarantor hereby expressly waives any defense now or in the future arising, by reason of:

(i) the illegality, invalidity, irregularity, authenticity, or unenforceability of all or any part of the Guaranteed Obligations, this Agreement or any other agreement or instrument referred to herein or therein, or any agreement, security document, guarantee or other instrument relative to all or any part of the Guaranteed Obligations;

(ii) any disability or other defense of the Borrower or any other Subsidiary Guarantor with respect to all or any part of the Guaranteed Obligations or any other guarantor of all or any part of the Guaranteed Obligations (including any issuer of any letters of credit), including the effect of any statute of limitations that may bar the enforcement of all or any part of the Guaranteed Obligations or the obligations of any such other guarantor;

(iii) the illegality, invalidity, irregularity, authenticity or unenforceability of any security or guarantee (including any letter of credit) for all or any part of the Guaranteed Obligations or the lack of perfection or continuing perfection or failure of the priority of any lien on any collateral for all or any part of the Guaranteed Obligations;

(iv) the cessation, for any cause whatsoever, of the liability of the Borrower or any other Subsidiary Guarantor (other than subject to Section 3.05, by reason of the full payment and performance of all Guaranteed Obligations);

(v) any failure of the Administrative Agent or any Lender to marshal assets in favor of the Borrower or any other Person (including any other Subsidiary Guarantor), to exhaust any collateral for all or any part of the Guaranteed Obligations, to pursue or exhaust any right, remedy, power or privilege it may have against any other Subsidiary Guarantor, the Borrower, any other guarantor, all or any part of the Guaranteed Obligations (including either

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Issuing Lender in respect of Letters of Credit) or any other Person or to take any action whatsoever to mitigate or reduce such or any other Subsidiary Guarantor's liability under this Article, neither the Administrative Agent nor any Lender being under any obligation to take any such action notwithstanding the fact that all or any part of the Guaranteed Obligations may be due and payable and that the Borrower may be in default of its obligations under this Agreement or any other

agreement or instrument referred to herein or therein;

(vi) any failure of the Administrative Agent or any Lender to give notice after any Default of sale or other disposition of any collateral (including any notice of any judicial or nonjudicial foreclosure or sale of any interest in real property serving as collateral for all or any part of the Guaranteed Obligations) for all or any part of the Guaranteed Obligations to the Borrower, any Subsidiary Guarantor or any other Person or any defect in, or any failure by any Subsidiary Guarantor or any other Person to receive, any notice that may be given in connection with any sale or disposition of any collateral;

(vii) any failure of the Administrative Agent or any Lender to comply with applicable laws in connection with the sale or other disposition of any collateral for all or any part of the Guaranteed Obligations, including any failure to conduct a commercially reasonable sale or other disposition of any collateral for all or any part of the Guaranteed Obligations;

(viii) any judicial or nonjudicial foreclosure or sale of, or other election of remedies with respect to, any interest in real property or other collateral serving as security for all or any part of the Guaranteed Obligations, even though such foreclosure, sale or election of remedies may impair the subrogation rights of any Subsidiary Guarantor or may preclude any Subsidiary Guarantor from obtaining reimbursement, contribution, indemnification or other recovery from any other Subsidiary Guarantor, the Borrower any other guarantor or any other Person and even though the Borrower may not, as a result of such foreclosure, sale or election of remedies, be liable for any deficiency;

(ix) any benefits the Borrower, any Subsidiary Guarantor or any other guarantor may otherwise derive from Sections 580(a), 580(b), 580(d) or 726 of the California Code of Civil Procedure or any comparable provisions of the laws of any other jurisdiction;

(x) any act or omission of the Administrative Agent, any Lender or any other person that directly or indirectly results in or aids the discharge or release of the Borrower or any other Subsidiary Guarantor, of all or any part of the Guaranteed Obligations or any security or guarantee (including any letter of credit) for all or any part of the Guaranteed Obligations by operation of law or otherwise;

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(xi) any law which provides that the obligation of a surety or guarantor must neither be larger in amount nor in other respects more burdensome than that of the principal or which reduces a surety's principal obligation;

(xii) the possibility that the obligations of the Borrower to the Administrative Agent and the Lenders may at any time and from time to time exceed the aggregate liability of the Subsidiary Guarantors under this Article;

(xiii) any counterclaim, set-off or other claim which the Borrower or any other Subsidiary Guarantor has or alleges to have with respect to all or any part of the Guaranteed Obligations;

(xiv) any failure of the Administrative Agent or any Lender to file or enforce a claim in any bankruptcy or other proceeding with respect to any Person;

(xv) the election by the Administrative Agent or any Lender, in a bankruptcy proceeding of any Person, of the application or nonapplication of Section 1111(b)(2) of the United States Bankruptcy Code;

(xvi) any extension of credit or the grant of any lien under Section 364 of the United States Bankruptcy Code;

(xvii) any use of cash collateral under Section 363 of the United States Bankruptcy Code;

(xviii) any agreement or stipulation with respect to the provision of adequate protection in any bankruptcy proceeding of any Person;

(xix) the avoidance of any lien in favor of the Administrative Agent or any Lender for any reason;

(xx) any bankruptcy, insolvency, reorganization, arrangement,

readjustment of debt, liquidation or dissolution proceeding commenced by or against any Person, including any discharge of, or bar or stay against collecting, all or any part of the Guaranteed Obligations (or any interest on all or any part of the Guaranteed Obligations) in or as a result of any such proceeding;

(xxi) any other circumstance whatsoever that might otherwise constitute a legal or equitable discharge or defense of a surety or guarantor, including by reason of Sections 2809, 2810, 2819, 2839, 2845, 2850, 2899, 3275 and 3433 of the California Civil Code, and any future judicial decisions or legislation or of any comparable provisions of the laws of any other jurisdiction; or

(xxiii) diligence, presentment, demand of payment, protest and all notices whatsoever.

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(c) Each Subsidiary Guarantor represents and warrants to the Administrative Agent that it has established adequate means of obtaining financial and other information pertaining to the business, operations and condition (financial and otherwise) of the Borrower and its properties on a continuing basis and that such Subsidiary Guarantor is now and will in the future remain fully familiar with the business, operations and condition (financial and otherwise) of the Borrower and its properties. Each Subsidiary Guarantor further represents and warrants that it has reviewed and approved this Agreement and the related Loan Documents and is fully familiar with the transactions contemplated by such Loan Documents and that it will in the future remain fully familiar with such transaction and with any new Loan Documents and the transaction contemplated by such Loan Documents. Each Subsidiary Guarantor hereby expressly waives and relinquishes any duty on the part of the Administrative Agent or the Lenders (should any such duty exist) to disclose to such or any other Subsidiary Guarantor any matter of fact or other information related to the business, operations or condition (financial or otherwise) of the Borrower or its properties or to any Loan Documents or the transactions undertaken pursuant to, or contemplated by, such Loan Documents, whether now or in the future known by the Administrative Agent or any Lender.

SECTION 3.03. Reinstatement. The obligations of the Subsidiary Guarantors under this Article shall be automatically reinstated if and to the extent that for any reason any payment by or on behalf of the Borrower in respect of the Guaranteed Obligations is rescinded or must be otherwise restored by any holder of any of the Guaranteed Obligations, whether as a result of any proceedings in bankruptcy or reorganization or otherwise and the Subsidiary Guarantors jointly and severally agree that they will indemnify the Administrative Agent and each Lender on demand for all reasonable costs and expenses (including, without limitation, fees of counsel) incurred by the Administrative Agent or such Lender in connection with such rescission or restoration, including any such costs and expenses incurred in defending against any claim alleging that such payment constituted a preference, fraudulent transfer or similar payment under any bankruptcy, insolvency or similar law.

SECTION 3.04. Subrogation. Each Subsidiary Guarantor hereby waives all rights of subrogation or contribution, whether arising by contract or operation of law (including, without limitation, any such right arising under the Federal Bankruptcy Code) or otherwise by reason of any payment by it pursuant to the provisions of this Article. Each Subsidiary Guarantor understands that, by reason of the foregoing provisions of this Section, the exercise by the Administrative Agent or any Lender of the rights, remedies, powers and privileges that it has under this Article and under the other Loan Documents will result in nonreimbursable liabilities under this Agreement. Nevertheless, each Subsidiary Guarantor hereby authorizes and empowers the Administrative Agent and the Lenders to exercise, in its or their sole discretion, any combination of such rights, remedies, powers and privileges as they, in their sole discretion, shall deem appropriate.

SECTION 3.05. Remedies. The Subsidiary Guarantors jointly and severally agree that, as between the Subsidiary Guarantors and the Lenders, the obligations of the Borrower under this Agreement may be declared to be forthwith due and payable as provided in Article VIII (and shall be deemed to have become automatically due and payable in the

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circumstances provided in Article VIII) for purposes of Section 3.01 notwithstanding any stay, injunction or other prohibition preventing such declaration (or such obligations from becoming automatically due and payable) as against the Borrower and that, in the event of such declaration (or such obligations being deemed to have become automatically due and payable), such obligations (whether or not due and payable by the Borrower) shall forthwith

become due and payable by the Subsidiary Guarantors for purposes of Section 3.01.

SECTION 3.06. Continuing Guarantee. The guarantee in this Article is a continuing guarantee, and shall apply to all Guaranteed Obligations whenever arising.

SECTION 3.07. Limitation on Guarantee Obligations. In any action or proceeding involving any state corporate law, or any state, Federal or foreign bankruptcy, insolvency, reorganization or other law affecting the rights of creditors generally (including "financial assistance" rules under the laws of England, including Sections 151 to and including 158 of the Companies Act), if the obligations of any Subsidiary Guarantor under Section 3.01 would otherwise be held or determined to be void, invalid or unenforceable, or subordinated to the claims of any other creditors, on account of the amount of its liability under Section 3.01, then, notwithstanding any other provision hereof to the contrary, the amount of such liability shall, without any further action by such Subsidiary Guarantor, any Lender, the Administrative Agent or any other Person, be automatically limited and reduced to the highest amount which is valid and enforceable and not subordinated to the claims of other creditors as determined in such action or proceeding (or, in the case of U.K. Acquisition, be limited so as not to guarantee the portion of the Loans that are not permitted to be guaranteed under such "financial assistance" rules, including any portion of the Loans made hereunder that are used to purchase shares in U.K. Acquisition).

ARTICLE IV

REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants to the Lenders that (with respect to the Target, on and after the Initial Funding Date and subject to Section 10.17):

SECTION 4.01. Organization; Powers. Each of the Borrower and its Subsidiaries (excluding Inactive Subsidiaries) is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, has all requisite power and authority to carry on its business as now conducted and, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, is qualified to do business in, and is in good standing in, every jurisdiction where such qualification is required.

SECTION 4.02. Authorization; Enforceability. The Transactions are within each Obligor's corporate powers and (other than with respect to Borrowings of Tranche III Revolving Loans until such date as any such Borrowings are made) have been duly authorized by all necessary corporate and, if required, by all necessary shareholder action. This Agreement has

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been duly executed and delivered by each Obligor and constitutes, and each of the other Loan Documents to which it is a party when executed and delivered by such Obligor will constitute, a legal, valid and binding obligation of such Obligor, enforceable against each Obligor in accordance with its terms, except as such enforceability may be limited by (a) bankruptcy, insolvency, reorganization, moratorium or similar laws of general applicability affecting the enforcement of creditors' rights and (b) the application of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

SECTION 4.03. Governmental Approvals; No Conflicts. The Transactions (a) do not require any consent or approval of, registration or filing with, or any other action by, any Governmental Authority, except for (i) such as have been obtained or made and are in full force and effect and (ii) filings and recordings in respect of the Liens created pursuant to the Security Documents, (b) will not violate any applicable law or regulation or the charter, by-laws or other organizational documents of the Borrower or any of its Subsidiaries or any order of any Governmental Authority, (c) subject to the repayment of all of the Borrower's obligations under the 1997 Credit Agreement, will not violate or result in a default under any indenture, agreement or other instrument binding upon the Borrower or any of its Subsidiaries or assets, or give rise to a right thereunder to require any payment to be made by any such Person, and (d) except for the Liens created pursuant to the Security Documents, will not result in the creation or imposition of any Lien on any asset of the Borrower or any of its Subsidiaries.

SECTION 4.04. Financial Condition; No Material Adverse Change.

(a) Financial Statements. The Borrower has heretofore furnished to the Lenders the following:

(i) the consolidated balance sheet and statements of income,

stockholders' equity and cash flows of the Borrower (x) as of and for the fiscal year ended February 28, 1998, certified by Arthur Andersen LLP, independent public accountants, and (y) as of and for the fiscal quarter and the portion of the fiscal year ended August 31, 1998, certified by its chief financial officer;

(ii) the consolidated balance sheet and statements of income, stockholders' equity and cash flows of the Target as of and for the fiscal year ended April 30, 1998, certified by KPMG Audit, Plc, independent public accountants; and

(iii) the pro forma consolidated balance sheet of the Borrower (including of the Target and its Subsidiaries) as at August 31, 1998 and based on estimates with respect to the Target as at October 31, 1998 prepared under the assumption that the Tender Offer and the Compulsory Acquisition, had been consummated on August 31, 1998.

Such financial statements present fairly, in all material respects, the actual or pro forma (as applicable) financial position and results of operations and cash flows of the Borrower and its Consolidated Subsidiaries as of such dates and for such periods in accordance with GAAP (or, in the case of the financial statements referred to in clause (ii) above, accounting principles generally accepted in England), subject to year-end audit adjustments and the absence of

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footnotes in the case of the statements referred to in subclause (y) of clause (i) above; provided, that any representation herein with respect to the pro forma consolidated balance sheet specified in clause (a)(iii) above, insofar as such representation relates to the Target, is based on the Borrower's actual knowledge (after due inquiry) and reasonable estimates.

(b) No Material Adverse Change. Since February 28, 1998, there has been no material adverse change in the business, assets, operations, prospects or condition, financial or otherwise, of the Borrower and its Subsidiaries, taken as a whole.

SECTION 4.05. Properties.

(a) Property Generally. Each of the Borrower and its Subsidiaries (excluding Inactive Subsidiaries) has good title to, or valid leasehold interests in, all its real and personal Properties material to its business, subject only to Liens permitted by Section 7.02 and except for minor defects in title or leasehold interests that do not interfere with its ability to conduct its business as currently conducted or to utilize such Properties for their intended purposes.

(b) Intellectual Property. Each of the Borrower and its Subsidiaries owns, or is licensed to use, all trademarks, tradenames, copyrights, patents and other intellectual property material to its business, and the use thereof by the Borrower and its Subsidiaries does not infringe upon the rights of any other Person, except for any such infringements that, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

SECTION 4.06. Litigation.

(a) Actions, Suits and Proceedings. There are no actions, suits or proceedings by or before any arbitrator or Governmental Authority now pending against or, to the knowledge of the Borrower, threatened against or affecting the Borrower or any of its Subsidiaries (i) as to which there is a reasonable possibility of an adverse determination and that, if adversely determined, could reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect (other than the Disclosed Matters) or (ii) that involve this Agreement or the Transactions.

(b) Disclosed Matters. Since the date of this Agreement, there has been no change in the status of the Disclosed Matters that, individually or in the aggregate, has resulted in, or materially increased the likelihood of, a Material Adverse Effect.

SECTION 4.07. Environmental Matters. Except as described in the Disclosed Matters, each of the Borrower and its Subsidiaries has obtained all environmental, health and safety permits, licenses and other authorizations required under all Environmental Laws to carry on its business as now being or as proposed to be conducted, except to the extent failure to have any such permit, license or authorization would not (either individually or in the aggregate) have a Material Adverse Effect. Each of such permits, licenses and authorizations is in full force and effect and each of the Borrower and its Subsidiaries is in compliance with the terms and conditions thereof, and is also in compliance with all other limitations, restrictions, conditions, standards,

prohibitions, requirements, obligations, schedules and timetables contained in any

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applicable Environmental Law or in any regulation, code, plan, order, decree, judgment, injunction, notice or demand letter issued, entered, promulgated or approved thereunder, except as described in Disclosed Matters and except to the extent failure to comply therewith would not (either individually or in the aggregate) have a Material Adverse Effect.

In addition, except as described in Disclosed Matters:

(a) No Pending Environmental Matters. No notice, notification, demand, request for information, citation, summons or order has been issued, no complaint has been filed, no penalty has been assessed and no investigation or review is pending or threatened by any governmental or other entity with respect to any alleged failure by the Borrower or any of its Subsidiaries to have any environmental, health or safety permit, license or other authorization required under any Environmental Law in connection with the conduct of the business of the Borrower or any of its Subsidiaries or with respect to any generation, treatment, storage, recycling, transportation, discharge or disposal, or any Release of any Hazardous Materials generated by the Borrower or any of its Subsidiaries, in each case in circumstances which may reasonably be expected to have a Material Adverse Effect.

(b) No Permits Required; Certain Specific Representations. Neither the Borrower nor any of its Subsidiaries owns, operates or leases a treatment, storage or disposal facility requiring a permit under the Resource Conservation and Recovery Act of 1976, as amended, or under any comparable state or local statute; and

(i) no polychlorinated biphenyls (PCB's) are or have been present at any site or facility now or previously owned, operated or leased by the Borrower or any of its Subsidiaries;

(ii) no asbestos or asbestos-containing materials is or has been present at any site or facility now or previously owned, operated or leased by the Borrower or any of its Subsidiaries;

(iii) there are no underground storage tanks or surface impoundments for Hazardous Materials, active or abandoned, at any site or facility now or previously owned, operated or leased by the Borrower or any of its Subsidiaries;

(iv) no Hazardous Materials have been Released at, on or under any site or facility now or previously owned, operated or leased by the Borrower or any of its Subsidiaries in a reportable quantity established by statute, ordinance, rule, regulation or order; and

(v) no Hazardous Materials have been otherwise Released at, on or under any site or facility now or previously owned, operated or leased by the Borrower or any of its Subsidiaries;

that, in the case of any of clauses (i) through (v) above, may reasonably be expected to have a Material Adverse Effect.

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(c) No Hazardous Material Transported to NPL Sites. Neither the Borrower nor any of its Subsidiaries has transported or arranged for the transportation of any Hazardous Material to any location that is listed on the National Priorities List ("NPL") under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), listed for possible inclusion on the NPL by the Environmental Protection Agency in the Comprehensive Environmental Response and Liability Information System, as provided for by 40 C.F.R. ss. 300.5 ("CERCLIS"), or on any similar state or local list or that is the subject of Federal, state or local enforcement actions or other investigations that may lead to Environmental Claims against the Borrower or any of its Subsidiaries.

(d) No Notifications or Listings. No oral or written notification of a Release of a Hazardous Material has been filed by or on behalf of the Borrower or any of its Subsidiaries and no site or facility now or previously owned, operated or leased by the Borrower or any of its Subsidiaries is listed or proposed for listing on the NPL, CERCLIS or any similar state list of sites requiring investigation or clean-up that in any such case could reasonably be expected to result in remediation costs and fines in excess of \$5,000,000.

(e) No Liens or Restrictions. No Liens have arisen under or pursuant

to any Environmental Laws on any site or facility owned, operated or leased by the Borrower or any of its Subsidiaries, and no government action has been taken or is in process that could subject any such site or facility to such Liens and neither the Borrower nor any of its Subsidiaries would be required to place any notice or restriction relating to the presence of Hazardous Materials at any site or facility owned by it in any deed to the real Property on which such site or facility is located.

(f) Full Disclosure. All environmental investigations, studies, audits, tests, reviews or other analyses conducted by or that are in the possession of the Borrower or any of its Subsidiaries in relation to facts, circumstances or conditions at or affecting any site or facility now or previously owned, operated or leased by the Borrower or any of its Subsidiaries and that could result in a Material Adverse Effect have been made available to the Lenders.

SECTION 4.08. Compliance with Laws and Agreements. Each of the Borrower and its Subsidiaries is in compliance with all laws, regulations and orders of any Governmental Authority applicable to it or its Property and all indentures, agreements and other instruments binding upon it or its Property, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect. No Default has occurred and is continuing.

SECTION 4.09. Investment and Holding Company Status. Neither the Borrower nor any of its Subsidiaries is (a) an "investment company" as defined in, or subject to regulation under, the Investment Company Act of 1940 or (b) a "holding company" as defined in, or subject to regulation under, the Public Utility Holding Company Act of 1935.

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SECTION 4.10. Taxes. Each of the Borrower and its Subsidiaries has timely filed or caused to be filed all Tax returns and reports required to have been filed and has paid or caused to be paid all Taxes required to have been paid by it, except (a) Taxes that are being contested in good faith by appropriate proceedings and for which such Person has set aside on its books adequate reserves or (b) to the extent that the failure to do so could not reasonably be expected to result in a Material Adverse Effect.

SECTION 4.11. ERISA. The Borrower and its ERISA Affiliates have fulfilled their respective obligations under the minimum funding standards of ERISA and the Code with respect to each Plan and are in compliance in all material respects with the presently applicable provisions of ERISA and the Code, and have not incurred any liability to the PBGC or any Plan or Multiemployer Plan (other than to make contributions, pay annual PBGC premiums or pay out benefits in the ordinary course of business).

SECTION 4.12. Disclosure. The Borrower has disclosed to the Lenders all agreements, instruments and corporate or other restrictions to which it or any of its Subsidiaries is subject, and all other matters known to it, that, individually or in the aggregate, could reasonably be expected to result in a Material Adverse Effect. None of the reports, financial statements, certificates or other information furnished by or on behalf of the Obligor to the Lenders in connection with the negotiation of this Agreement and the other Loan Documents or delivered hereunder or thereunder (as modified or supplemented by other information so furnished) contains any material misstatement of fact or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided that, with respect to projected financial information, the Borrower represents only that such information was prepared in good faith based upon assumptions believed to be reasonable at the time and does not omit information that would render such projections misleading in any material respect.

SECTION 4.13. Use of Credit. Neither the Borrower nor any of its Subsidiaries is engaged principally, or as one of its important activities, in the business of extending credit for the purpose, whether immediate, incidental or ultimate, of buying or carrying Margin Stock, and no part of the proceeds of any extension of credit hereunder will be used to buy or carry any Margin Stock.

SECTION 4.14. Material Agreements and Liens.

(a) Material Agreements. Part A of Schedule II is a complete and correct list of each credit agreement, loan agreement, indenture, purchase agreement, guarantee, letter of credit or other arrangement providing for or otherwise relating to any Indebtedness or any extension of credit (or commitment for any extension of credit) to, or guarantee by, the Borrower or any of its Subsidiaries outstanding on the date hereof (or to the Borrower's knowledge that may be outstanding after giving effect to the Tender Offer) the aggregate principal or face amount of which equals or exceeds (or may equal or exceed) \$500,000, and the aggregate principal or face amount outstanding or that may become outstanding under each such arrangement is correctly described in Part A of Schedule II.

(b) Liens. Part B of Schedule II is a complete and correct list of each Lien securing Indebtedness of any Person outstanding on the date hereof (or to the Borrower's knowledge that may be outstanding after giving effect to the Tender Offer) the aggregate principal or face amount of which equals or exceeds (or may equal or exceed) \$500,000 and covering any Property of the Borrower or any of its Subsidiaries, and the aggregate Indebtedness secured (or that may be secured) by each such Lien and the Property covered by each such Lien is correctly described in Part B of Schedule II.

SECTION 4.15. Capitalization. The authorized capital stock of the Borrower consists, as at September 30, 1998, of an aggregate of 141,000,000 shares consisting of (i) 120,000,000 shares of Class A common stock, par value \$.01 per share, of which 14,628,860 shares are duly and validly issued and outstanding and 3,183,605 shares are issued and held in treasury, each of which shares is fully paid and nonassessable, (ii) 20,000,000 shares of Class B common stock, par value \$.01 per share, of which 3,248,187 shares are duly and validly issued and outstanding and 625,725 shares are issued and held in treasury, each of which shares is fully paid and nonassessable and (iii) 1,000,000 shares of preferred stock, par value \$.01 per share, none of which are issued or are outstanding.

As at September 30, 1998, 12.83% of such issued and outstanding shares of Class A common stock and 87.38% of such issued and outstanding shares of Class B common stock are owned beneficially and of record by (i) Marvin Sands, his spouse, his children, his grandchildren or the Mac and Sally Sands Foundation, Incorporated, (ii) trusts which are for the benefit of Marvin Sands, his spouse, his children or his grandchildren or Andrew Stern, which trusts are under the control of Marvin Sands, his spouse, his children or his grandchildren or (iii) partnerships which are controlled by (and a majority in interest of the partnership interests in which are owned by) Marvin Sands, his spouse, his children, his grandchildren, by a trust referred to in the foregoing clause (ii) or by a partnership that satisfies the conditions of this clause (iii). The percentage of Class A common stock set forth above does not include shares of Class A common stock (i) that may be acquired by Marvin Sands or his children through the exercise of any stock options or (ii) issuable pursuant to the conversion feature of the Class B common stock owned beneficially and of record by any of the persons, trusts and partnerships referred to in the foregoing clauses (i), (ii) and (iii).

As of the date hereof, (x) except for conversion rights associated with the Class B common stock, purchase rights associated with the Employee Stock Purchase Plan, options associated with the Long-Term Stock Incentive Plan and options listed on Schedule V hereto, there are no outstanding Equity Rights with respect to the Borrower and (y) there are no outstanding obligations of the Borrower or any of its Subsidiaries to repurchase, redeem, or otherwise acquire any shares of capital stock of the Borrower nor, are there any outstanding obligations of the Borrower or any of its Subsidiaries to make payments to any Person, such as "phantom stock" payments, where the amount thereof is calculated with reference to the fair market value or equity value of the Borrower or any Subsidiary. The Borrower has heretofore delivered to the Administrative Agent a complete and correct copy of the Employee Stock Purchase Plan, the Long-Term Stock Incentive Plan and the Incentive Stock Option Plan, each as in effect on the date hereof.

SECTION 4.16. Subsidiaries and Investments.

(a) Subsidiaries. Set forth in Part A of Schedule IV is a complete and correct list of all of the Subsidiaries of the Borrower as of the date hereof, together with, for each such Subsidiary, (i) the jurisdiction of organization of such Subsidiary, (ii) each Person holding ownership interests in such Subsidiary and (iii) the nature of the ownership interests held by each such Person and the percentage of ownership of such Subsidiary represented by such ownership interests. Except as disclosed in Part A of Schedule IV, (x) each of the Borrower and its Subsidiaries owns, free and clear of Liens (other than Liens created pursuant to the Security Documents and Liens securing the obligations under the 1997 Credit Agreement), and has the unencumbered right to vote, all outstanding ownership interests in each Person shown to be held by it in Part A of Schedule IV, (y) all of the issued and outstanding capital stock of each such Person organized as a corporation is validly issued, fully paid and nonassessable and (z) there are no outstanding Equity Rights with respect to such Person.

(b) Investments. Set forth in Part B of Schedule IV is a complete and correct list of all Investments (other than Investments disclosed in Part A

of Schedule IV and other than Investments of the types referred to in clauses (b), (c), (f) or (h) of Section 7.04) held by the Borrower or any of its Subsidiaries in any Person on the date hereof and, for each such Investment, (x) the identity of the Person or Persons holding such Investment and (y) the nature of such Investment. Except as disclosed in Part B of Schedule IV, each of the Borrower and its Subsidiaries owns, free and clear of all Liens (other than Liens created pursuant to the Security Documents and Liens securing the obligations under the 1997 Credit Agreement), all such Investments.

(c) Restrictions on Subsidiaries. None of the Subsidiaries of the Borrower is, on the date hereof, subject to any indenture, agreement, instrument or other arrangement of the type described in Section 7.07 (and not permitted by clauses (i) through (v) of said Section).

SECTION 4.17. Real Property. Except with respect to leased space which does not cost in excess of \$25,000 per month in rental expense, set forth in Schedule VI is a list, as of the date of this Agreement, of all the real Property interests held by the Borrower and its Subsidiaries, indicating in each case whether the respective Property is owned or leased, the identity of the owner or lessee and the location of the respective Property.

SECTION 4.18. Year 2000 Issues. Any reprogramming required to permit the proper functioning, prior to, during and following the year 2000, of (i) the Borrower's computer systems and (ii) equipment containing embedded microchips (including systems and equipment supplied by others or with which the Borrower's systems interface) and the testing of all such systems and equipment, as so reprogrammed, will be completed consistent with prudent operating practices. The cost to the Borrower of such reprogramming and testing and of the reasonably foreseeable consequences of year 2000 to the Borrower (including reprogramming errors and the failure of others' systems or equipment) will not be material in amount.

SECTION 4.19. Target Credit Facilities. The Borrower has heretofore delivered to the Administrative Agent a true and complete copy of each of the Target Credit Facilities. To

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the best knowledge of the Borrower, no event of default (or similar event), and no event that with notice or lapse of time would become such an event of default, has occurred and is continuing under any of the Target Credit Facilities, nor has any demand for payment been made under any thereof, it being understood that the Borrower makes no representation with respect to documents or agreements executed in connection with the Target Credit Facilities and referred to therein and makes no representation with respect to any default or event of default that might arise as a result of a "change of control" or similar provision in any of the Target Credit Facilities.

ARTICLE V

CONDITIONS

SECTION 5.01. Effective Date. The obligations of the Lenders to make Loans and of the Issuing Lender(s) to issue Letters of Credit hereunder shall not become effective until the date (herein, the "Effective Date") on which the Administrative Agent shall have received each of the following documents, each of which shall be satisfactory to the Administrative Agent (and to the extent specified below, to each Lender) in form and substance (or such condition shall have been waived in accordance with Section 10.02):

(a) Executed Counterparts. From each party hereto either (i) a counterpart of this Agreement signed on behalf of such party or (ii) written evidence satisfactory to the Administrative Agent (which may include telecopy transmission of a signed signature page of this Agreement) that such party has signed a counterpart of this Agreement.

(b) Opinions of Counsel to the Obligors. Favorable written opinions (addressed to the Administrative Agent and the Lenders and dated the Effective Date) of (i) Nixon, Hargrave, Devans & Doyle LLP, counsel for the Obligors, substantially in the form of Exhibit E-1 to the Existing Credit Agreement (a copy of which form is annexed hereto as Exhibit E-1), and covering such other matters relating to the Obligors, this Agreement, any other Loan Document or the Transactions as the Required Lenders shall reasonably request and (ii) of McDermott, Will & Emory covering such matters relating to the Indentures as the Required Lenders shall reasonably request (and each Obligor hereby requests each such counsel to deliver such opinion to the Lenders).

(c) Opinion of Special New York Counsel to Chase. An opinion, dated the Effective Date, of Milbank, Tweed, Hadley & McCloy, special New York counsel to Chase, substantially in the form of Exhibit F to the Existing

Credit Agreement (a copy of which form is annexed hereto as Exhibit F) (and Chase hereby instructs such counsel to deliver such opinion to the Lenders).

(d) Corporate Documents. Such documents and certificates as the Administrative Agent or its counsel may reasonably request relating to the organization, existence and good standing of each Obligor, the authorization of the Transactions and any other legal

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matters relating to the Obligors, this Agreement or the Transactions, all in form and substance satisfactory to the Administrative Agent and its counsel.

(e) Officer's Certificate. A certificate, dated the Effective Date and signed by the President, a Vice President or a Financial Officer of the Borrower, confirming that, on and as of the Effective Date, (i) the representations and warranties of the Borrower set forth in this Agreement, and of each Obligor in each of the other Loan Documents to which it is a party, are true and correct and (ii) no Default has occurred and be continuing.

(f) Terms of Tender Offer. The terms of the Tender Offer as set forth in the joint press release to be issued by J. Henry Schroder & Co. Limited on behalf of the Borrower and U.K. Acquisition, which terms shall be satisfactory to the Administrative Agent.

(g) Fees. All fees that the Borrower shall have agreed to pay to any Lender or the Administrative Agent in connection herewith, including the reasonable fees and expenses of Milbank, Tweed, Hadley & McCloy, special New York counsel to Chase, in connection with the negotiation, preparation, execution and delivery of this Agreement and the other Loan Documents and the extensions of credit hereunder (to the extent that statements for such fees and expenses have been delivered to the Borrower).

The Administrative Agent shall notify the Borrower and the Lenders of the Effective Date, and such notice shall be conclusive and binding. Notwithstanding the foregoing, the obligations of the Lenders to make Loans and of the Issuing Lenders to issue Letters of Credit hereunder shall not become effective unless each of the foregoing conditions is satisfied (or waived pursuant to Section 10.02) on or prior to 3:00 p.m., New York City time, on November 13, 1998 (and, in the event such conditions are not so satisfied or waived, the Commitments shall terminate at such time).

The parties hereto acknowledge and agree that the Administrative Agent has notified the Borrower that the foregoing conditions were satisfied on or prior to, and that the "Effective Date" for purposes of this Agreement occurred on, November 2, 1998.

SECTION 5.02. Initial Funding Date . The obligations of the Lenders to make the initial Loans and of the Issuing Lender(s) to issue the initial Letters of Credit hereunder shall be subject to the satisfaction (or waiver in accordance with Section 10.02) of the following conditions precedent on the date of the making of such Loans or the issuance of such Letters of Credit, which date shall in any event be on or after December 11, 1998 (the date upon which such conditions are satisfied being herein called the "Initial Funding Date"):

(a) Offer Documents; Terms of Tender Offer. The Administrative Agent shall have received copies of the Offer Documents, and of all other documents and materials filed or released publicly by the Borrower or U.K. Acquisition in connection with the Tender Offer, certified as true and correct copies thereof as of the Initial Funding Date by the President, a Vice President or a Financial Officer of the Borrower, and the conditions

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set forth in such documents shall conform to the conditions set forth in the Press Release as approved by the Administrative Agent on or before the Effective Date.

(b) The Tender Offer. The Tender Offer shall have been declared wholly unconditional on behalf of U.K. Acquisition, without any amendment, supplement, modification or waiver or decision not to invoke any of the terms or conditions thereof contained in the Press Release and the related Tender Offer documentation, unless consented to by the Required Lenders, other than (i) any amendments, supplements, modifications, waivers or decisions not to invoke which in the aggregate are not material in the context of the Tender Offer (it being understood that mere extensions of the time periods with respect to the Tender Offer shall not be deemed to be material for these purposes, and that any increase in the aggregate

purchase price shall in any event require the consent of the Required Lenders) and (ii) the failure to invoke a condition because the Panel has directed that it may not do so (the Lenders hereby acknowledging that, under the Takeovers Code, U.K. Acquisition may not invoke any condition of the Tender Offer so as to cause the Tender Offer to lapse unless the circumstances which give rise to the right to invoke such condition are of material significance to U.K. Acquisition in the context of the Tender Offer), provided that with respect to the minimum acceptance condition set forth in the Press Release and the related Tender Offer documentation, unless acceptances with respect to 90% of the Target Shares that are the subject of the Tender Offer have been received by U.K. Acquisition prior to the Initial Funding Date, the Borrower shall have demonstrated to the reasonable satisfaction of the Required Lenders that there is no reasonable basis to believe that the total number of acceptances that will be eventually received during the period beginning on the date when the Tender Offer documentation is posted to holders of Target Shares to and including the date falling four months thereafter will be less than 90% of the Target Shares that are the subject of the Tender Offer.

(c) Repayment of 1997 Credit Agreement. The principal of and interest on, and all other amounts owing in respect of, the Indebtedness (other than in respect of letters of credit which, as provided in Section 2.06(1) are to become Letters of Credit hereunder) under the 1997 Credit Agreement, shall have been (or shall be simultaneously) paid in full and any commitments to extend credit thereunder shall have been (or shall be simultaneously) canceled or terminated.

(d) Security Agreement; U.K. Pledge Agreements. The Administrative Agent shall have received (i) the Security Agreement, duly executed and delivered by the Borrower and the Subsidiary Guarantors, and the certificates identified under the name of such Obligor in Annex 1 thereto, in each case accompanied by undated stock powers executed in blank and (ii) the U.K. Pledge Agreements duly executed and delivered by the Borrower and U.K. Acquisition, respectively, together with certificates evidencing the shares of U.K. Acquisition.

(e) Mortgage Modifications. With respect to each Mortgage, an instrument of Modification and Confirmation substantially in the form of Exhibits C-1 through C-7, pursuant to which such Mortgage shall have been amended to spread the Lien thereof to

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secure the obligations under this Agreement, in each case duly executed, acknowledged and delivered by the respective parties thereto, in recordable form.

(f) Opinions of Counsel to the Obligors. The Administrative Agent shall have received favorable written opinions (addressed to the Administrative Agent and the Lenders and dated the Initial Funding Date) of (i) Nixon, Hargrave, Devans & Doyle LLP, counsel for the Obligors, substantially in the form of Exhibit E-2, (ii) Landels, Ripley and Diamond, LLP, special California counsel for the Obligors, substantially in the form of Exhibit E-3 and (iii) Fulton, Hubbard & Hubbard, special Kentucky counsel for the Obligors, substantially in the form of Exhibit E-4 (and each Obligor hereby requests each such counsel to deliver such opinion to the Lenders).

(g) Representations and Warranties; No Defaults. The representations and warranties contained in Sections 4.01, 4.02, 4.09 and 4.13 of this Agreement, and in clauses (a), (b) and (c) of Section 2 of the Security Agreement, shall be true and correct, and no Default shall have occurred and be continuing under paragraph (b) of Article VIII and no Event of Default shall have occurred and be continuing under (i) paragraph (a) of Article VIII, (ii) paragraph (d) of Article VIII (only insofar as arising out of a failure to apply the proceeds of the Term Loans to the purposes enumerated in Section 6.08, the failure of U.K. Acquisition to be a Wholly Owned Subsidiary of the Borrower, a breach by U.K. Acquisition of any of the provisions of Article VII (excluding Section 7.08) where expressed to apply to a Subsidiary of the Borrower or a breach by the Borrower of Section 7.12(a) or 7.12(b)) or (iii) paragraph (h), (i) or (j) of Article VIII (insofar as relating to the Borrower or U.K. Acquisition).

(h) Illegality. Such Borrowing and the use of the proceeds thereof shall not violate (i) any provision of the certificate of incorporation or by-laws or other organizational or governing documents of the Borrower or U.K. Acquisition, or any United States or United Kingdom law, treaty, rule or regulation or determination or injunction or similar order of an arbitrator or a court or other Governmental Authority having (in each case) the force of law, in each case applicable to or binding upon the Borrower or U.K. Acquisition, or any of the Property of the Borrower or U.K. Acquisition, or to which the Borrower or U.K. Acquisition or any of its Property is subject or (ii) any United States or United Kingdom law,

treaty, rule or regulation or determination or injunction or similar order of an arbitrator or a court or other Governmental Authority having (in each case) the force of law, in each case applicable to or binding upon the Administrative Agent or the Lenders.

(i) Officer's Certificate. The Administrative Agent shall have received a certificate, dated the Initial Funding Date and signed by the President, a Vice President or a Financial Officer of the Borrower, confirming each of the matters set forth in paragraphs (g) and (h) (i) above.

Anything herein to the contrary notwithstanding, the aggregate amount of Loans that may be borrowed on the Initial Funding Date may not exceed the sum of (i) the aggregate amount required, on the Initial Funding Date, to repay in full the principal of and interest on and all other

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amounts owing under the 1997 Credit Agreement plus (ii) the aggregate purchase price of the Target Shares required to be paid on the Initial Funding Date plus (iii) the aggregate amount of funds to be advanced to the Target and its Subsidiaries to repay or prepay Indebtedness of the Target and its Subsidiaries on the Initial Funding Date plus (iv) fees and expenses payable in connection with the Transactions. The Administrative Agent is authorized to deposit the proceeds of the Loans made on the Initial Funding Date and to be used to provide financing in connection with the Tender Offer in one or more accounts with Chase pending the remittance of such proceeds by Chase to an account of the Borrower with a receiving agent for the Tender Offer (which remittance shall occur no later than the Business Day next succeeding the Initial Funding Date).

SECTION 5.03. Subsequent Tender Offer Loans. The obligations of the Lenders to make the Tranche I and Tranche II Term Loans after the Initial Funding Date, and to make any Revolving Loans the proceeds of which are to be applied to finance the purchase of Target Shares in the Tender Offer or the Compulsory Acquisition, shall be subject to the satisfaction (or waiver in accordance with Section 10.02) of the following conditions precedent on the date of the making of such Loans:

(a) Representations and Warranties; No Defaults. The representations and warranties contained in Sections 4.01, 4.02, 4.09 and 4.13 of this Agreement, and in clauses (a), (b) and (c) of Section 2 of the Security Agreement, shall be true and correct, and no Default shall have occurred and be continuing under paragraph (b) of Article VIII and no Event of Default shall have occurred and be continuing under (i) paragraph (a) of Article VIII, (ii) paragraph (d) of Article VIII (only insofar as arising out of a failure to apply the proceeds of the Term Loans to the purposes enumerated in Section 6.08, the failure of U.K. Acquisition to be a Wholly Owned Subsidiary of the Borrower, a breach by U.K. Acquisition of any of the provisions of Article VII (excluding Section 7.08) where expressed to apply to a Subsidiary of the Borrower or a breach by the Borrower of Section 7.12(a) or 7.12(b)) or (iii) paragraph (h), (i) or (j) of Article VIII (insofar as relating to the Borrower or U.K. Acquisition).

(b) Illegality. Such Borrowing and the use of the proceeds thereof shall not violate (i) any provision of the certificate of incorporation or by-laws or other organizational or governing documents of the Borrower or U.K. Acquisition, or any United States or United Kingdom law, treaty, rule or regulation or determination or injunction or similar order of an arbitrator or a court or other Governmental Authority having (in each case) the force of law, in each case applicable to or binding upon the Borrower or U.K. Acquisition, or any of the Property of the Borrower or U.K. Acquisition, or to which the Borrower or U.K. Acquisition or any of its Property is subject or (ii) any United States or United Kingdom law, treaty, rule or regulation or determination or injunction or similar order of an arbitrator or a court or other Governmental Authority having (in each case) the force of law, in each case applicable to or binding upon the Administrative Agent or the Lenders.

(c) Officer's Certificate. The Administrative Agent shall have received a certificate, dated the date of such Loans and signed by the President, a Vice President or a

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Financial Officer of the Borrower, confirming each of the matters set forth in paragraph (a) and (b) (i) above.

SECTION 5.04. Each Credit Event. Except with respect to the initial extension of credit hereunder (as to which the conditions precedent set forth in Section 5.02 shall be applicable) or with respect to the making of Tranche I and Tranche II Term Loans after the Initial Funding Date or Revolving Loans the proceeds of which are to be applied to finance the purchase of Target Shares in

the Tender Offer or the Compulsory Acquisition (as to which the conditions precedent set forth in Section 5.03 shall be applicable), the obligation of each Lender to make a Loan on the occasion of any Borrowing, and of each Issuing Lender to issue, amend, renew or extend any Letter of Credit, is subject to the satisfaction of the following conditions:

(a) the representations and warranties of the Borrower set forth in this Agreement, and of each Obligor in each of the other Loan Documents to which it is a party, shall be true and correct on and as of the date of such Borrowing or the date of issuance, amendment, renewal or extension of such Letter of Credit, as applicable; and

(b) at the time of and immediately after giving effect to such Borrowing or the issuance, amendment, renewal or extension of such Letter of Credit, as applicable, no Default shall have occurred and be continuing.

Each Borrowing and each issuance, amendment, renewal or extension of a Letter of Credit shall be deemed to constitute a representation and warranty by the Borrower on the date thereof as to the matters specified in the preceding sentence.

ARTICLE VI

AFFIRMATIVE COVENANTS

Until the Commitments have expired or been terminated and the principal of and interest on each Loan and all fees payable hereunder shall have been paid in full and all Letters of Credit shall have expired or terminated and all LC Disbursements shall have been reimbursed, the Borrower covenants and agrees with the Lenders that (in each case, subject to Section 10.17):

SECTION 6.01. Financial Statements and Other Information. The Borrower will furnish to the Administrative Agent and each Lender:

(a) within 90 days after the end of each fiscal year of the Borrower, the audited consolidated balance sheet and related statements of operations, stockholders' equity and cash flows of the Borrower and its Consolidated Subsidiaries as of the end of and for such year, setting forth in each case in comparative form the figures for the previous fiscal year, all reported on by Arthur Andersen LLP or other independent public accountants of recognized national standing (without a "going concern" or like qualification or exception and without any qualification or exception as to the scope of such audit) to the effect that such consolidated financial statements present fairly in all

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material respects the financial condition and results of operations of the Borrower and its Consolidated Subsidiaries on a consolidated basis in accordance with GAAP consistently applied;

(b) within 45 days after the end of each of the first three fiscal quarters of each fiscal year of the Borrower, the consolidated balance sheet and related statements of operations, stockholders' equity and cash flows of the Borrower and its Consolidated Subsidiaries as of the end of and for such fiscal quarter and the then elapsed portion of the fiscal year, setting forth in each case in comparative form the figures for (or, in the case of the balance sheet, as of the end of) the corresponding period or periods of the previous fiscal year, all certified by a Financial Officer of the Borrower as presenting fairly in all material respects the financial condition and results of operations of the Borrower and its Consolidated Subsidiaries on a consolidated basis in accordance with GAAP consistently applied, subject to normal year-end audit adjustments and the absence of footnotes;

(c) concurrently with any delivery of financial statements under clause (a) or (b) of this Section, a certificate of a Financial Officer of the Borrower (i) certifying as to whether a Default has occurred and, if a Default has occurred, specifying the details thereof and any action taken or proposed to be taken with respect thereto, (ii) setting forth calculations in form and detail satisfactory to the Administrative Agent demonstrating compliance with Sections 7.01(f), 7.01(g), 7.01(h), 7.04(e), 7.04(j), 7.04(k), 7.04(l) and 7.08, (iii) setting forth a calculation of the Debt Ratio as at the end of the respective fiscal period (and indicating which Category of Applicable Rate shall become effective upon the delivery of such financial statements as contemplated by the definition of the term "Applicable Rate" in Section 1.01) and (iv) stating whether any change in GAAP or in the application thereof has occurred since the date of the audited financial statements referred to in Section 4.04 and, if any such change has occurred, specifying the effect of such change on the financial statements accompanying such certificate;

(d) concurrently with any delivery of financial statements under clause (a) of this Section, (i) a certificate of the accounting firm that reported on such financial statements stating whether they obtained knowledge during the course of their examination of such financial statements of any Default (which certificate may be limited to the extent required by accounting rules or guidelines) and (ii) a calculation setting forth the amount of Excess Cash Flow for the relevant period for which such Excess Cash Flow is to be calculated under Section 2.11(b) (iii);

(e) promptly after the same become publicly available, copies of all periodic and other reports, proxy statements and other materials filed by the Borrower or any of its Subsidiaries with the Securities and Exchange Commission, or any Governmental Authority succeeding to any or all of the functions of said Commission, or with any national securities exchange, or distributed by the Borrower to its shareholders generally or to holders of Subordinated Indebtedness generally, as the case may be; and

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(f) promptly following any request therefor, such other information regarding the operations, business affairs and financial condition of the Borrower or any of its Subsidiaries, or compliance with the terms of this Agreement and the other Loan Documents, as the Administrative Agent or any Lender may reasonably request.

SECTION 6.02. Notices of Material Events. The Borrower will furnish to the Administrative Agent and each Lender prompt written notice of the following:

(a) the occurrence of any Default;

(b) the filing or commencement of any action, suit or proceeding by or before any arbitrator or Governmental Authority against or affecting the Borrower or any of its Affiliates that, if adversely determined, could reasonably be expected to result in a Material Adverse Effect;

(c) the occurrence of any ERISA Event that, alone or together with any other ERISA Events that have occurred, could reasonably be expected to result in liability of the Borrower and its Subsidiaries in an aggregate amount exceeding \$1,000,000;

(d) the assertion of any Environmental Claim by any Person against, or with respect to the activities of, the Borrower or any of its Subsidiaries and any alleged violation of or non-compliance with any Environmental Laws or any permits, licenses or authorizations, other than any Environmental Claim or alleged violation that, if adversely determined, would not (either individually or in the aggregate) have a Material Adverse Effect; and

(e) any other development that results in, or could reasonably be expected to result in, a Material Adverse Effect.

Each notice delivered under this Section shall be accompanied by a statement of a Financial Officer or other executive officer of the Borrower setting forth the details of the event or development requiring such notice and any action taken or proposed to be taken with respect thereto.

SECTION 6.03. Existence; Conduct of Business. The Borrower will, and will cause each of its Subsidiaries to, do or cause to be done all things necessary to preserve, renew and keep in full force and effect its legal existence and the rights, licenses, permits, privileges and franchises material to the conduct of its business; provided that the foregoing shall not prohibit any merger, consolidation, liquidation or dissolution permitted under Section 7.03.

SECTION 6.04. Payment of Obligations. The Borrower will, and will cause each of its Subsidiaries to, pay its obligations, including Tax liabilities, that, if not paid, could result in a Material Adverse Effect before the same shall become delinquent or in default, except where (a) the validity or amount thereof is being contested in good faith by appropriate proceedings, (b) the Borrower or such Subsidiary has set aside on its books adequate reserves with respect

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thereto in accordance with GAAP and (c) the failure to make payment pending such contest could not reasonably be expected to result in a Material Adverse Effect.

SECTION 6.05. Maintenance of Properties; Insurance. The Borrower will, and will cause each of its Subsidiaries to, (a) keep and maintain all Property material to the conduct of its business in good working order and condition, ordinary wear and tear excepted, and (b) maintain, with financially sound and reputable insurance companies, insurance in such amounts and against such risks

as are customarily maintained by companies engaged in the same or similar businesses operating in the same or similar locations.

SECTION 6.06. Books and Records; Inspection Rights. The Borrower will, and will cause each of its Subsidiaries to, keep proper books of record and account in which full, true and correct entries are made of all dealings and transactions in relation to its business and activities. The Borrower will, and will cause each of its Subsidiaries to, permit any representatives designated by the Administrative Agent or any Lender, upon reasonable prior notice, to visit and inspect its properties, to examine and make extracts from its books and records, and to discuss its affairs, finances and condition with its officers and independent accountants, all at such reasonable times and as often as reasonably requested.

SECTION 6.07. Compliance with Laws. The Borrower will, and will cause each of its Subsidiaries to, comply with all laws, rules, regulations and orders of any Governmental Authority applicable to it or its Property, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

SECTION 6.08. Use of Proceeds and Letters of Credit. The proceeds of the Tranche I Revolving Loans and Tranche II Revolving Loans will be used solely to (a) repay on the Initial Funding Date Indebtedness owing under the 1997 Credit Agreement, (b) provide working capital for the Borrower and its Subsidiaries, (c) make Acquisitions as provided in the next succeeding sentence, (d) pay the expenses relating to the consummation of the transactions contemplated hereby and (e) to provide funds for the other general corporate purposes (including Capital Expenditures) of the Borrower and its Subsidiaries. Subject to the foregoing, the proceeds of the Tranche I Revolving Loans, Tranche II Revolving Loans and Tranche III Revolving Loans will be used solely to make acquisitions permitted under Section 7.03, provided that, as provided in Section 7.03(d), the Borrower will not use more than \$75,000,000 of the aggregate proceeds of the Tranche I Revolving Loans and Tranche II Revolving Loans to fund any transaction described therein (other than the Tender Offer and related fees and expenses) and/or pay any related fees or expenses referred to in said Section. The proceeds of the Tranche III Term Loans will be used solely to repay on the Initial Funding Date Indebtedness owing under the 1997 Credit Agreement. The proceeds of the Tranche I and Tranche II Term Loans will be used solely to provide financing in connection with the Tender Offer, the Compulsory Acquisition and the repayment of Indebtedness of the Target and its Subsidiaries, through investments in Dutch Acquisition, U.K. Acquisition and Target in the manner provided for in Section 7.04(d). No part of the proceeds of any Loan will be used, whether directly or indirectly, for any purpose that entails a violation of any of the Regulations of the Board, including Regulations U and X. Letters of Credit will be issued only to support general corporate purposes of the Borrower and its Subsidiaries.

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SECTION 6.09. Certain Obligations Respecting Subsidiaries; Further Assurances.

(a) Subsidiary Guarantors. The Borrower will take such action, and will cause each of its Subsidiaries to take such action, from time to time as shall be necessary to ensure that all Subsidiaries of the Borrower (other than Excluded Entities) are "Subsidiary Guarantors" hereunder. Without limiting the generality of the foregoing, in the event that the Borrower or any of its Subsidiaries shall acquire or form any new Subsidiary after the date hereof that the Borrower or the respective Subsidiary anticipates will not be an Excluded Entity (or, in the event that any Excluded Entity shall cease to be an Excluded Entity), the Borrower or the respective Subsidiary will cause such new Subsidiary (or such Excluded Entity which ceases to be an Excluded Entity) to

(i) become a "Subsidiary Guarantor" hereunder, and an "Obligor" under the Security Agreement pursuant to a Guarantee Assumption Agreement,

(ii) take such action (including delivering such shares of stock, executing and delivering such Uniform Commercial Code financing statements) as shall be necessary to create and perfect valid and enforceable first priority Liens on substantially all of the personal Property of such new Subsidiary as collateral security for the obligations of such new Subsidiary hereunder and

(iii) deliver such proof of corporate action, incumbency of officers, opinions of counsel and other documents as is consistent with those delivered by each Obligor pursuant to Section 5.01 on the Effective Date or as the Administrative Agent shall have requested.

Without limiting the generality of the foregoing, the Borrower hereby agrees, on the Initial Funding Date (or as promptly as practicable thereafter), (A) to execute and deliver to the Administrative Agent a

pledge agreement under Dutch law pursuant to which all of the shares of Dutch Acquisition would be pledged to the Administrative Agent as collateral security for the obligations of the Borrower hereunder and other the other instruments referred to in the definition of "Secured Obligations" in the Security Agreement and (B) to deliver an opinion of Dutch counsel with respect to this Agreement and the foregoing pledge agreement, in each case in form and substance reasonably satisfactory to the Administrative Agent.

(b) Ownership of Subsidiaries. The Borrower will, and will cause each of its Subsidiaries to, take such action from time to time as shall be necessary to ensure that each of its Subsidiaries (other than Joint Venture Entities and Inactive Subsidiaries) is a Wholly-Owned Subsidiary. In the event that any additional shares of stock shall be issued by any Subsidiary, the respective Obligor agrees forthwith to deliver to the Administrative Agent pursuant to the Security Agreement the certificates evidencing such shares of stock, accompanied by undated stock powers executed in blank and to take such other action as the Administrative Agent shall request to perfect the security interest created therein pursuant to the Security Agreement, provided that, notwithstanding anything in this Agreement to the contrary, the Obligors shall not

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be required to pledge more than 65% of the outstanding shares of voting stock of any Foreign Subsidiary.

(c) Further Assurances. The Borrower will, and will cause each of the other Obligors to, take such action from time to time as shall reasonably be requested by the Administrative Agent to effectuate the purposes and objectives of the parties to this Agreement. In that connection, on the Initial Funding Date, the Borrower will deliver to the Administrative Agent (i) certificates of insurance evidencing the existence of all insurance required to be maintained by the Borrower pursuant to Section 6.05(b) and the designation of the Administrative Agent as the loss payee or additional named insured, as the case may be, thereunder to the extent required by Section 6.05(b), such certificates to be in such form and contain such information as is specified in Section 6.05(b) and (ii) a certificate of a Financial Officer of the Borrower setting forth the insurance obtained by it in accordance with the requirements of Section 6.05(b) and stating that such insurance is in full force and effect and that all premiums then due and payable thereon have been paid.

Without limiting the generality of the foregoing, the Borrower will, and will cause each of its Subsidiaries (other than Excluded Entities, except with respect to any Foreign Subsidiary that is not an Inactive Subsidiary to the extent such action can be taken without resulting in adverse tax consequences under Section 956 of the Code) to, take such action from time to time (including filing appropriate Uniform Commercial Code financing statements and executing and delivering such assignments, security agreements and other instruments) as shall be reasonably requested by the Administrative Agent to create, in favor of the Administrative Agent for the benefit of the Lenders, perfected security interests and Liens in substantially all of the Property of the Borrower and each of such Subsidiaries (except that with respect to real property in the State of New York, the Borrower and such Subsidiaries shall not be required to execute Mortgages on such property except to secure not more than \$2,000,000 of the Term Loans hereunder).

With respect to each Modification and Confirmation of a Mortgage executed and delivered pursuant to Section 5.02(e), the Borrower will (i) deliver on the Initial Funding Date mortgagee down-date continuation reports for the existing title policies issued pursuant to the 1997 Credit Agreement, subject only to such exceptions as are satisfactory to the Administrative Agent and, to the extent necessary under applicable law, for filing in the appropriate county land offices, Uniform Commercial Code financing statements covering fixtures, in each case appropriately completed and duly executed and (ii) will pay to the respective title companies all expenses of such title companies in connection with the issuance of such down-date continuation reports and an amount equal to the recording and stamp taxes payable in connection with recording the respective instruments of Modification and Confirmation in the appropriate county land offices.

SECTION 6.10. Hedging Agreements. The Borrower will from time to time enter into such Hedging Agreements with one or more of the Lenders (and/or with a bank or other financial institution having capital, surplus and undivided profits of at least \$500,000,000), that effectively enables the Borrower protect itself against interest rate and currency fluctuations in a manner to be agreed upon between the Borrower and the Required Lenders.

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ARTICLE VII

NEGATIVE COVENANTS

Until the Commitments have expired or terminated and the principal of and interest on each Loan and all fees payable hereunder have been paid in full and all Letters of Credit have expired or terminated and all LC Disbursements shall have been reimbursed, the Borrower covenants and agrees with the Lenders that (in each case subject to Section 10.17):

SECTION 7.01. Indebtedness. Subject to Section 10.14, the Borrower will not, nor will it permit any of its Subsidiaries to, create, incur, assume or permit to exist any Indebtedness, except:

(a) Indebtedness created hereunder;

(b) Indebtedness existing on the date hereof and set forth in Part A of Schedule II (or, to the extent not meeting the minimum thresholds for required listing on said Schedule II pursuant to Section 4.14, in an aggregate amount not exceeding \$1,000,000), provided that (i) the principal of and interest on, and all other amounts owing in respect of Indebtedness under the 1997 Credit Agreement (other than in respect of letters of credit which, as provided in Section 2.06(1) are to become Letters of Credit hereunder) shall in any event be repaid in full on the Initial Funding Date and (ii) to the extent provided in Section 7.12(c), the principal of and interest on, and all other amounts owing in respect of Indebtedness under the Target Credit Facilities shall be repaid as promptly as practicable following the Initial Funding Date (except to the extent such Indebtedness is permitted to be outstanding under clause (g) below);

(c) Subordinated Indebtedness;

(d) Indebtedness (i) of any Subsidiary to the Borrower or to any other Subsidiary or (ii) of the Borrower to any Subsidiary Guarantor or to any other Subsidiary (provided, that the aggregate principal amount of Indebtedness outstanding to such other Subsidiaries shall at no time exceed \$50,000,000 (or its Sterling Equivalent) and such Indebtedness shall be subordinated to the obligations of the Borrower to pay principal of and interest on the Loans, the Reimbursement Obligations and all other amounts payable hereunder on terms and conditions reasonably satisfactory to the Administrative Agent);

(e) Guarantees by the Borrower of Indebtedness of any Subsidiary and by any Subsidiary of Indebtedness of the Borrower or any other Subsidiary;

(f) Guarantees by the Borrower or by any Subsidiary of Indebtedness of any Person (other than the Borrower or any of its Subsidiaries); provided that the aggregate principal amount of Indebtedness in respect of all such Guarantees shall not exceed \$40,000,000 at any time outstanding;

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(g) Indebtedness of the Target and its Subsidiaries; provided that at the time of the creation, incurrence or assumption thereof and at any time after giving effect thereto the aggregate principal amount of such Indebtedness shall not exceed \$15,000,000 (or its Sterling Equivalent); and

(h) other Indebtedness (including Capital Lease Obligations) of the Borrower and its Subsidiaries, provided that at the time of the creation, incurrence or assumption thereof and at any time after giving effect thereto the aggregate principal amount of such Indebtedness shall not exceed \$75,000,000.

SECTION 7.02. Liens. Subject to Section 10.14, the Borrower will not, nor will it permit any of its Subsidiaries to, create, incur, assume or permit to exist any Lien on any Property or asset now owned or hereafter acquired by it, or assign or sell any income or revenues (including accounts receivable) or rights in respect of any thereof, except:

(a) Liens created pursuant to the Security Documents (and, prior to the Initial Funding Date, Liens securing Indebtedness under the 1997 Credit Agreement);

(b) Permitted Encumbrances;

(c) any Lien on any Property or asset of the Borrower or any of its Subsidiaries existing on the date hereof and set forth in Part B of Schedule II (or, to the extent not meeting the minimum thresholds for required listing on said Schedule II pursuant to Section 4.14, in an aggregate amount not exceeding \$500,000); provided that (i) no such Lien shall extend to any other Property or asset of the Borrower or any of its

Subsidiaries and (ii) any such Lien shall secure only those obligations which it secures on the date hereof and extensions, renewals and replacements thereof that do not increase the outstanding principal amount thereof;

(d) any Lien upon tangible personal Property acquired after the date hereof by the Borrower or any of its Subsidiaries, which Lien either (A) existed on such Property before the time of its acquisition and was not created in anticipation thereof, or (B) was created solely for the purpose of securing Indebtedness permitted under Section 7.01(h) representing, or incurred to finance, refinance or refund, the cost of such Property; provided that (i) such Lien is not created in contemplation of or in connection with such acquisition, (ii) such Lien shall not apply to any other Property or assets of the Borrower or any Subsidiary and (iii) such Lien shall secure only those obligations which it secures on the date of such acquisition and extensions, renewals and replacements thereof permitted under clause (f) below;

(e) any Lien on any Property or asset of the Target or any of its Subsidiaries securing Indebtedness permitted under Section 7.01(g), provided, however, that the Liens permitted hereunder shall not be spread to cover any Indebtedness or Property of the Borrower or any Subsidiary of the Borrower other than the Target or any of its Subsidiaries; and

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(f) any extension, renewal or replacement of the foregoing, provided, however, that the Liens permitted hereunder shall not be spread to cover any additional Indebtedness or Property (other than a substitution of like Property).

SECTION 7.03. Fundamental Changes. Subject to Section 10.14, the Borrower will not, nor will it permit any of its Subsidiaries to, enter into any transaction of merger or consolidation or amalgamation, or liquidate, wind up or dissolve itself (or suffer any liquidation or dissolution). Subject to Section 10.14, the Borrower will not, nor will it permit any of its Subsidiaries to, acquire any business or Property from, or capital stock of, or be a party to any acquisition of, any Person except purchases of inventory and other Property to be sold or used in the ordinary course of business, Investments permitted under Section 7.04 and Capital Expenditures. Subject to Section 10.14, the Borrower will not, nor will it permit any of its Subsidiaries to, convey, sell, lease, transfer or otherwise dispose of, in one transaction or a series of transactions, any part of its business or Property, whether now owned or hereafter acquired (including, without limitation, receivables and leasehold interests, but excluding sales and other dispositions of (i) any inventory or other Property sold or disposed of in the ordinary course of business and on ordinary business terms and (ii) other Property so long as the amount of such other Property sold in any single fiscal year by the Borrower and its Subsidiaries shall have a fair market value not in excess of 3% of the Consolidated Tangible Assets as at the first day of such fiscal year).

Notwithstanding the foregoing provisions of this Section:

(a) any Subsidiary of the Borrower may be merged or consolidated with or into: (i) the Borrower if the Borrower shall be the continuing or surviving corporation, (ii) any Wholly-Owned Subsidiary of the Borrower that is not a Foreign Subsidiary or (iii) if such Subsidiary is a Foreign Subsidiary, any Wholly-Owned Subsidiary of the Borrower that is a Foreign Subsidiary; provided that in any such transaction, the Wholly-Owned Subsidiary shall be the continuing or surviving corporation;

(b) any such Subsidiary may sell, lease, transfer or otherwise dispose of any or all of its Property (upon voluntary liquidation or otherwise) to (i) the Borrower, (ii) any Wholly-Owned Subsidiary of the Borrower that is not a Foreign Subsidiary or (iii) if such Subsidiary is a Foreign Subsidiary, any Wholly-Owned Subsidiary of the Borrower that is a Foreign Subsidiary;

(c) the Borrower or any Subsidiary of the Borrower may merge or consolidate with any other Person if (i) in the case of a merger or consolidation of the Borrower, the Borrower is the surviving corporation and, in any other case, the surviving corporation is a Wholly-Owned Subsidiary of the Borrower that is not a Foreign Subsidiary or, if such merging or consolidating Subsidiary is a Foreign Subsidiary, any Wholly-Owned Subsidiary of the Borrower that is a Foreign Subsidiary and (ii) after giving effect thereto no Default would exist hereunder;

(d) the Borrower may (either directly, or indirectly through its Wholly-Owned Subsidiaries) acquire the business or Property from, or capital stock of, or enter into a

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joint venture with, or be a party to an Acquisition of another Person, so long as at the time thereof and after giving effect thereto, no Default or Event of Default shall have occurred and be continuing hereunder and the Borrower shall have delivered to the Administrative Agent a certificate of its chief financial officer to such effect; provided that the Borrower will not use more than \$75,000,000 of the aggregate proceeds of the Tranche I Revolving Loans and Tranche II Revolving Loans to fund any such transaction and/or pay any related fees or expenses;

(e) the Borrower may, through U.K. Acquisition in the manner contemplated under this Agreement, consummate the acquisition of Target Shares in one or more installments in open market purchases, pursuant to the Tender Offer or pursuant to the Compulsory Acquisition;

(f) the Borrower may (either directly, or indirectly through its Wholly-Owned Subsidiaries) sell, lease, transfer or otherwise dispose of (i) the Bisceglia Winery facility located in Madera, California and (ii) the facility located in Taunton, England;

(g) the Borrower may, for the purpose of transferring its jurisdiction of incorporation from Delaware to another state of incorporation, merge with and into a Wholly-Owned Subsidiary in a transaction constituting a tax-free reorganization under 368(a)(1)(F) of the Code, so long as:

(x) the Borrower shall give the Lenders and the Administrative Agent at least 15 days prior written notice of the occurrence of such merger;

(y) such Subsidiary shall execute and deliver an instrument in form and substance satisfactory to each Lender and the Administrative Agent pursuant to which such Subsidiary shall, effective upon such merger, assume all of the obligations of the Borrower hereunder and under the Security Documents (and execute and deliver such other instruments as the Administrative Agent shall request to ensure the continued perfection and priority of any Liens granted by the Borrower pursuant to the Security Documents); and

(z) such Subsidiary shall deliver such proof of corporate action, incumbency of officers, opinions of counsel and other documents as is consistent with those delivered by the Borrower pursuant to Section 5.01 hereof upon the Effective Date or as any Lender or the Administrative Agent shall have requested; and

(h) the Borrower may, for the purpose of making itself a Wholly-Owned Subsidiary of a newly-formed holding company (herein the "Holding Company"), enter into a transaction of merger or consolidation with another entity or transfer its assets to another entity (such entity, in either such case, being herein called the "New Company"), so long as:

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(u) the Borrower shall give the Lenders and the Administrative Agent at least 15 days prior written notice of the occurrence of such transaction (which notice shall specify the manner and timing in which such transaction is to occur);

(v) in such transaction the shareholders of the Borrower shall receive in exchange for the shares of stock in the Borrower held by them immediately prior to such transaction newly-issued shares of stock in the Holding Company representing substantially the same respective percentage ownership interests in the Holding Company as such shareholders held in the Borrower immediately prior to such transaction;

(w) immediately after giving effect to such transaction, the Borrower (or the New Company, as the case may be) shall be a Wholly-Owned Subsidiary of the Holding Company;

(x) in the event that such transaction constitutes a merger with a New Company in which the Borrower is not the surviving entity or such transaction involves the transfer by the Borrower of its assets to a New Company, the New Company shall execute and deliver an instrument in form and substance satisfactory to each Lender and the Administrative Agent pursuant to which the New Company shall, effective upon such transaction, assume all of the obligations of the Borrower hereunder and under the Security Documents (and execute and deliver such other instruments as the Administrative Agent shall request to ensure the continued perfection and priority of any Liens granted by the Borrower pursuant to the Security Documents);

(y) the Holding Company shall execute and deliver an instrument

in form and substance satisfactory to each Lender and the Administrative Agent pursuant to which the Holding Company shall, effective upon such transaction, guarantee all of the obligations of the Borrower (or the New Company, as the case may be) hereunder and under the Security Documents and pledge all of the shares of stock held by it in the Borrower (or the New Company, as the case may be) and shall take such further action as the Administrative Agent shall request to ensure the perfection and priority of any Liens granted by the Holding Company pursuant to such instrument; and

(z) the Holding Company and the Borrower (or the New Company, as the case may be) shall each deliver such proof of corporate action, incumbency of officers, opinions of counsel and other documents as is consistent with those delivered by the Borrower pursuant to Section 5.01 upon the Effective Date or as any Lender or the Administrative Agent shall have requested.

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SECTION 7.04. Investments. Subject to Section 10.14, the Borrower will not, nor will it permit any of its Subsidiaries to, make or permit to remain outstanding any Investments except:

(a) Investments outstanding on the date hereof and identified in Part B of Schedule IV;

(b) operating deposit accounts with banks;

(c) Permitted Investments;

(d) Investments in connection with the Tender Offer consisting of (i) Investments by the Borrower in U.K. Acquisition (whether directly, or indirectly through Dutch Acquisition) for the purpose of providing funds to purchase Target Shares in the Tender Offer and the Compulsory Acquisition, (ii) Investments by U.K. Acquisition consisting of the purchase of Target Shares in the Tender Offer and the Compulsory Acquisition and (iii) Investments by the Borrower in the Target (whether directly, or indirectly through Dutch Acquisition, U.K. Acquisition or otherwise) to enable the Target to repay any outstanding Indebtedness of the Target and its Subsidiaries;

(e) additional Investments by the Borrower and its Wholly-Owned Subsidiaries in the Borrower and its Wholly-Owned Subsidiaries (i.e. Investments other than those described in paragraph (d) above), provided that the aggregate amount of such Investments in Foreign Subsidiaries, together with the aggregate amount of Investments in Joint Venture Entities under paragraph (j) below, shall not exceed \$40,000,000 at any one time;

(f) Hedging Agreements entered into in the ordinary course of business and not for speculative purposes;

(g) Investments permitted pursuant to Section 7.03(d);

(h) Investments consisting of security deposits with utilities and other like Persons made in the ordinary course of business;

(i) the Senior Subordinated Note Guarantees, and any Guarantee of additional Subordinated Indebtedness that complies with the requirements Section 7.09(b);

(j) Investments by the Borrower and its Subsidiaries in Joint Venture Entities (and Investments by Joint Venture Entities in other Persons), provided that the aggregate amount of such Investments in Joint Venture Entities, together with the aggregate amount of Investments in Foreign Subsidiaries, under paragraph (e) above, shall not exceed \$40,000,000 at any one time;

(k) additional Investments by the Borrower and its Subsidiaries in the Target, provided that the aggregate amount of such Investments shall not exceed \$100,000,000 at any one time; and

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(l) additional Investments by the Borrower (excluding, however, Investments in Joint Venture Entities) up to but not exceeding \$25,000,000 at any one time outstanding.

The aggregate amount of an Investment at any one time outstanding for purposes of clauses (e), (j) and (k) above shall be deemed to be equal to (A) the aggregate amount of cash, together with the aggregate fair market value of Property, loaned, advanced, contributed, transferred or otherwise invested that gives rise to such Investment minus (B) the aggregate amount of dividends,

distributions or other payments received in cash in respect of such Investment; the amount of an Investment shall not in any event be reduced by reason of any write-off of such Investment nor increased by any increase in the amount of earnings retained in the Person in which such Investment is made that have not been dividended, distributed or otherwise paid out.

SECTION 7.05. Restricted Payments.

(a) The Borrower will not, nor will it permit any of its Subsidiaries to, declare or make, or agree to pay or make, directly or indirectly, any Restricted Payment, except that the Borrower may (i) declare and pay dividends with respect to its capital stock payable solely in additional shares of its common stock, (ii) make Restricted Payments in respect of stock appreciation rights, or other stock-based awards, under any stock option plan of the Borrower (including without limitation the Long-Term Stock Incentive Plan) so long as no Default shall have occurred and be continuing or would result therefrom, (iii) cancel or terminate any warrants, options or any other rights to acquire any shares of capital stock of the Borrower in exchange for the issuance of any other warrants, options or rights to acquire shares of capital stock of the Borrower, (iv) repurchase its capital stock to the extent provided in paragraph (b) below and (v) declare and make Restricted Payments in cash, subject (in the case of this clause (v)) to the satisfaction of each of the following conditions on the date of such Restricted Payment and after giving effect thereto:

(w) no Default shall have occurred and be continuing;

(x) the aggregate amount of Restricted Payments made during any fiscal year, including the fiscal year ending February 28, 1998, shall not exceed an amount equal to 50% of consolidated net income of the Borrower and its Consolidated Subsidiaries for such fiscal year;

(y) the Debt Ratio for the period of four consecutive fiscal quarters most recently ended prior to the date of any such Restricted Payment shall not exceed 2.00 to 1; and

(z) the Borrower shall have delivered to the Administrative Agent, at least 10 Business Days (but not more than 20 Business Days) prior to the date of declaration of any such Restricted Payment, a certificate of a Financial Officer of the Borrower setting forth computations in reasonable detail demonstrating satisfaction of the foregoing conditions as at the date of such certificate and stating that such Financial Officer believes in good faith that none of such conditions will fail to be satisfied on the date of payment of such Restricted Payment,

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it being understood that to the extent the conditions specified in the foregoing clauses (w) through (y) are satisfied on the date of declaration of such Restricted Payment by the board of directors of the Borrower, such Restricted Payment may be made at any time within the 60-day period thereafter, regardless of whether such conditions continue to be satisfied.

(b) The Borrower may make Restricted Payments consisting of repurchases of its capital stock, provided that:

(i) the aggregate amount of all such Restricted Payments, together with the aggregate amount of prepayments of Subordinated Indebtedness pursuant to clause (iii) of the last paragraph of Section 7.09, made during the term of this Agreement shall not exceed \$100,000,000;

(ii) after giving effect to any such Restricted Payment, the Borrower shall be in compliance, on a pro forma basis, with Section 7.08 during the four quarter period most-recently ended under the assumption that such Restricted Payment, and any related borrowing, shall have been made or incurred at the beginning of such period (and, to the extent requested by the Administrative Agent, the Borrower shall have delivered a calculation demonstrating such pro forma compliance satisfactory to the Administrative Agent); and

(iii) the Borrower will not make any Restricted Payment under this paragraph (b) unless at the time thereof, and after giving effect thereto, no Default shall have occurred and be continuing.

(c) Nothing in this Section shall be deemed to prohibit the payment of dividends by any Subsidiary of the Borrower to the Borrower or to any other Subsidiary of the Borrower.

SECTION 7.06. Transactions with Affiliates. The Borrower will not, nor will it permit any of its Subsidiaries to, sell, lease or otherwise transfer any property or assets to, or purchase, lease or otherwise acquire any property or assets from, or otherwise engage in any other transactions with, any of its

Affiliates; provided that (x) any Affiliate who is an individual may serve as a director, officer or employee of the Borrower or any of its Subsidiaries and receive reasonable compensation for his or her services in such capacity and (y) the Borrower and its Subsidiaries may enter into transactions (other than extensions of credit by the Borrower or any of its Subsidiaries to an Affiliate) providing for the leasing of Property, the rendering or receipt of services or the purchase or sale of inventory and other Property in the ordinary course of business if the monetary or business consideration arising therefrom would be substantially as advantageous to the Borrower and its Subsidiaries as the monetary or business consideration which would obtain in a comparable transaction with a Person not an Affiliate.

During any period that the Borrower is a public company regulated by, and required to file regular periodic reports with, the Securities and Exchange Commission, any compensation paid to an executive officer of the Borrower (who is an Affiliate) which has been specifically approved by the board of directors of the Borrower (or by the Compensation Committee of the board of directors of the Borrower or other committee responsible for such

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approval) during such period will be deemed to be reasonable for purposes of the foregoing. Notwithstanding the foregoing, the Borrower may enter into so-called split-dollar life insurance agreements with Affiliates substantially in the form of Schedule VII, so long as the aggregate amount of premiums payable by the Borrower during any fiscal year pursuant to such agreements shall not exceed \$2,000,000 in the aggregate.

SECTION 7.07. Certain Restrictions on Subsidiaries. The Borrower will not permit any of its Subsidiaries (other than Joint Venture Entities) to enter into, after the date hereof, any indenture, agreement, instrument or other arrangement that, directly or indirectly, prohibits or restrains, or has the effect of prohibiting or restraining, or imposes materially adverse conditions upon, the incurrence or payment of Indebtedness, the granting of Liens, the declaration or payment of dividends, the making of loans, advances, guarantees or Investments or the sale, assignment, transfer or other disposition of Property; provided that (i) the foregoing shall not apply to restrictions and conditions imposed by law or by this Agreement, (ii) the foregoing shall not apply to restrictions and conditions existing pursuant to the Target Credit Facilities (as each such Target Credit Facility is in effect on the Initial Funding Date, excluding any such restriction or condition implemented in anticipation of the acquisition of the Target pursuant to the Tender Offer) or the Senior Subordinated Note Indentures (it being understood that the foregoing shall apply to any extension or renewal of, or any amendment or modification expanding the scope of, any such restriction or condition), or pursuant to any additional Subordinated Indebtedness to the extent that such restrictions are not less favorable to the Borrower than those contained in the Senior Subordinated Note Indentures, (iii) the foregoing shall not apply to customary restrictions and conditions contained in agreements relating to the sale of a Subsidiary pending such sale, provided such restrictions and conditions apply only to the Subsidiary that is to be sold and such sale is permitted hereunder, (iv) as applied to Liens, the foregoing shall not apply to restrictions or conditions imposed by any agreement relating to secured Indebtedness permitted by this Agreement if such restrictions or conditions apply only to the property or assets securing such Indebtedness and (v) as applied to Liens, the foregoing shall not apply to customary provisions in leases and other contracts restricting the assignment thereof.

SECTION 7.08. Certain Financial Covenants.

(a) Debt Ratio. The Borrower will not permit the Debt Ratio to exceed the following respective ratios at any time during the following respective periods:

| Period ----- | Ratio ----- |
|---|----------------|
| From the date hereof through February 29, 2000 | 4.50 to 1 |
| From March 1, 2000 through February 28, 2001 | 4.25 to 1 |
| From March 1, 2001 and at all times thereafter | 3.75 to 1 |

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(b) Senior Debt Ratio. The Borrower will not permit the Senior Debt Ratio to exceed the following respective ratios at any time during the following respective periods:

| Period | Ratio |
|--------|-------|
|--------|-------|

| ----- From the date hereof through February 29, 2000 | ----- 3.75 to 1 |
|--|--------------------|
| From March 1, 2000 through August 31, 2000 | 3.50 to 1 |
| From September 1, 2000 and at all times thereafter | 3.00 to 1 |

(c) Interest Coverage Ratio. The Borrower will not permit the Interest Coverage Ratio to be less than the following respective ratios at any time during the following respective periods:

| ----- Period ----- From the date hereof through February 29, 2000 | ----- Ratio ----- 2.50 to 1 |
|---|--------------------------------------|
| From March 1, 2000 through February 28, 2001 | 2.75 to 1 |
| From March 1, 2001 through February 28, 2002 | 3.00 to 1 |
| From March 1, 2002 and at all times thereafter | 3.25 to 1 |

(d) Fixed Charges Ratio. The Borrower will not permit the Fixed Charges Ratio to be less than 1.00 to 1 as at the last day of any fiscal quarter of each fiscal year.

SECTION 7.09. Subordinated Indebtedness. The Borrower may after the date hereof incur additional Subordinated Indebtedness subject to the following conditions (each of which shall have been fulfilled in form and substance satisfactory to the Required Lenders):

(a) such Indebtedness shall be subordinated to the obligations of the Borrower to pay principal of and interest on the Loans, the Reimbursement Obligations and all other amounts payable hereunder on terms and conditions no less favorable to the Lenders than the terms and conditions of the Senior Subordinated Note Indentures;

(b) such Indebtedness shall be an obligation of the Borrower only, and none of its Subsidiaries shall be contingently or otherwise obligated in respect thereof, unless subordinated to the obligations of such Subsidiary to pay principal of and interest on the

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Loans, the Reimbursement Obligations and all other amounts payable hereunder on terms and conditions no less favorable to the Lenders than the terms and conditions of the Senior Subordinated Note Indentures;

(c) to the extent required pursuant to Section 2.11(b)(v), proceeds of such Indebtedness shall be applied to prepay Loans in the manner provided in Section 2.11(b)(v);

(d) the terms of such Indebtedness shall not provide for payment of any portion of the principal thereof prior to the date six months after the final maturity of the Loans hereunder;

(e) terms in respect of financial and other covenants, events of default and mandatory prepayments applicable to such Indebtedness shall be terms that are at the time customary in the market for subordinated debt being incurred by borrowers, and in transactions, comparable to the Borrower and proposed debt issuance;

(f) at the time of issuance of such Indebtedness, and after giving effect thereto, the Borrower shall be in compliance with Section 7.08 (the determination of such ratios to be calculated under the assumption that such Indebtedness was issued, at the beginning of the respective period and that any other Indebtedness to be retired with the proceeds thereof was in fact retired on such date of issuance), and the Borrower shall have delivered to the Administrative Agent a certificate of its chief financial officer to such effect setting forth in reasonable detail the computations necessary to determine such compliance; and

(g) at the time of such issuance, and after giving effect thereto, no Default or Event of Default shall have occurred and be continuing hereunder and the Borrower shall have delivered to the Administrative Agent a certificate of a Financial Officer to such effect.

Neither the Borrower nor any of its Subsidiaries shall purchase, redeem, retire or otherwise acquire for value, or set apart any money for a sinking, defeasance or other analogous fund for, the purchase, redemption, retirement or other acquisition of, or make any voluntary payment or prepayment of the principal of or interest on, or any other amount owing in respect of, any Subordinated Indebtedness, except that the Borrower may (i) make payments on the regularly-scheduled payment dates with respect to the principal of and interest on the Subordinated Indebtedness as in effect on the date hereof (or, as to any Subordinated Indebtedness issued after the date hereof, as originally in effect), (ii) so long as no Default shall have occurred and be continuing (or will occur as a result of such payment), from the proceeds of Subordinated Indebtedness issued in accordance with the first paragraph of this Section, redeem Subordinated Indebtedness that is being refinanced with such proceeds and (iii) the Borrower may prepay Subordinated Indebtedness, so long as (x) at the time thereof and after giving effect thereto no Default shall have occurred and be continuing and (y) the aggregate amount of all such prepayments, together with the aggregate amount of Restricted Payments made pursuant to section 7.05(b), shall not exceed \$100,000,000. Neither the Borrower nor any of its Subsidiaries

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will consent to any modification, supplement or waiver of any of the provisions of any Subordinated Indebtedness without the prior consent of the Administrative Agent (with the approval of the Required Lenders).

SECTION 7.10. Modifications of Certificate of Incorporation.

Notwithstanding the provisions of clause (g) or (h) of Section 7.03, the Borrower will not modify or supplement its Certificate of Incorporation as in effect on the date hereof in any manner adverse to the interests of the Lenders without the prior consent of the Administrative Agent (with the approval of the Required Lenders).

SECTION 7.11. Inventory Located in Off-Premises Warehouses. The Borrower will not, nor will it permit any of its Subsidiaries (other than Foreign Subsidiaries) to, maintain inventory at Off-Premises Warehouses in an amount in excess of \$50,000,000 (as to the Borrower and all Subsidiaries) at any time unless the Borrower or such Subsidiary has taken such steps as are necessary to ensure that the Administrative Agent has a valid prior perfected security interest in such inventory (including, without limitation, the filing of an appropriate uniform commercial code financing statement in the respective jurisdiction in which such inventory is located naming the Borrower or such Subsidiary as "secured party" and the delivery of satisfactory evidence that such an arrangement constitutes a consignment or first priority perfected security interest under applicable law and that such security interest has been validly assigned to the Administrative Agent under the Security Agreement).

SECTION 7.12. Certain Matters Relating to the Tender Offer, Etc.

(a) Conduct of Tender Offer. In connection with the Tender Offer, the Borrower will cause U.K. Acquisition to:

(i) comply in all material respects with the Financial Services Act 1986 and the Companies Act and all other applicable laws and regulations relevant in the context of the Tender Offer and use all reasonable measures to comply with the Takeovers Code in all material respects;

(ii) except and to the extent that compliance with this clause (ii) would result in information being required to be made available to Target shareholders under the Takeovers Code, provide the Administrative Agent with such information regarding the progress of the Tender Offer as it may reasonably request or that is publicly available (including information with respect to any market purchases of shares in the Target made or agreed upon by U.K. Acquisition), and not approach the Panel seeking advice with respect to whether or not any condition to the Tender Offer has been satisfied, or whether U.K. Acquisition may invoke any such condition, without giving the Administrative Agent prior notice thereof (and permitting the Administrative Agent, if it so elects, a reasonable opportunity to participate in such approach to the Panel);

(iii) subject to any requirements of the Takeovers Code or other law, not issue any press release or make any statement during the course of the Tender Offer that contains any information or statement concerning this Agreement or the Lenders without

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first obtaining the prior approval of the information or statement from the Administrative Agent or the Required Lenders;

(iv) unless the Tender Offer is lapsed or otherwise withdrawn, not close the Tender Offer at a level of acceptances below the minimum level required to entitle U.K. Acquisition to consummate the Compulsory Acquisition of Target Shares, and related options, not then owned by U.K. Acquisition;

(v) without limiting the generality of paragraph (b) below, after the date upon which the Tender Offer is declared wholly unconditional, use its commercially reasonable efforts (excluding, however, purchases in the open market at prices above the offer price stipulated in the Tender Offer) to acquire all outstanding Target Shares, and related options, as soon as practicable either pursuant to, or otherwise on the same terms as, the Tender Offer;

(vi) ensure that at no time shall circumstances arise whereby a mandatory offer is required to be made by the terms of Rule 9 of the Takeovers Code in respect of the Target Shares;

(vii) ensure that all of its obligations in connection with the Tender Offer are complied with and performed in all material respects;

(viii) not acquire any shares in the Target in the market at a price above the offer price stipulated in the Tender Offer; or

(ix) as soon as practicable after the acquisition by U.K. Acquisition of any of the Target Shares (whether or not pursuant to the Tender Offer or the Compulsory Acquisition), cause such Target Shares (if the same are not in certificated form) to be converted into certificated form, and to be delivered in pledge to the Administrative Agent pursuant to the U.K. Pledge Agreement executed and delivered by U.K. Acquisition, provided that in no event shall U.K. Acquisition be required to deliver and pledge to the Administrative Agent more than 65% of the issued outstanding Target Shares.

(b) Consummation of Compulsory Acquisition. As promptly as reasonably practicable after the Initial Funding Date, the Borrower will cause U.K. Acquisition to consummate the Compulsory Acquisition of Target Shares, and related options, not then owned by U.K. Acquisition, provided that in any event the Borrower will cause U.K. Acquisition, not later than ten Business Days after it becomes entitled to apply the provisions of Part XIII A of the Companies Act in relation to the holders of Target Shares, and related options, to deliver appropriate notices under Section 429 of the Companies Act to holders of Target Shares, and related options, that have not accepted the Tender Offer.

(c) Target Credit Facilities. As promptly as practicable after the Initial Funding Date, the Borrower shall cause the Target to repay or prepay any Indebtedness then due and owing under the Target Credit Facilities (except to the extent such Indebtedness is permitted to

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be outstanding under Section 7.01(g)). At any time after the date that the Target is a Wholly-Owned Subsidiary of the Borrower, the Borrower shall not permit the Target to incur any additional Indebtedness under any of the Target Credit Facilities and, as loans, advances or other obligations under the Target Credit Facilities mature or otherwise become due and payable, will cause the Target to pay such amounts immediately.

(d) Offer Documents. Except as otherwise permitted by Section 5.02, the Borrower will not enter into, or consent to, any modification, supplement or waiver of any of the provisions of any Offer Document (as in effect on the Initial Funding Date) without the prior written consent of the Required Lenders.

ARTICLE VIII

EVENTS OF DEFAULT

If any of the following events ("Events of Default") shall occur:

(a) the Borrower shall fail to pay any principal of any Loan or any reimbursement obligation in respect of any LC Disbursement when and as the same shall become due and payable, whether at the due date thereof or at a date fixed for prepayment thereof or otherwise;

(b) the Borrower shall fail to pay any interest on any Loan or any fee or any other amount (other than an amount referred to in clause (a) of this Article) payable under this Agreement or under any other Loan Document, when and as the same shall become due and payable, and such failure shall continue unremedied for a period of five or more Business Days;

(c) subject to Section 10.17, any representation or warranty made or deemed made by or on behalf of the Borrower or any of its Subsidiaries in or in connection with this Agreement or any other Loan Document or any amendment or modification hereof or thereof, or in any report, certificate, financial statement or other document furnished pursuant to or in connection with this Agreement or any other Loan Document or any amendment or modification hereof or thereof, shall prove to have been incorrect when made or deemed made in any material respect;

(d) subject to Section 10.17, the Borrower shall fail to observe or perform any covenant or agreement contained in Section 6.02, 6.03 (with respect to the Borrower's existence), 6.08 or 6.09, or in Article VII;

(e) subject to Section 10.17, any Obligor shall fail to observe or perform any covenant, condition or agreement contained in this Agreement (other than those specified in clause (a), (b) or (d) of this Article) or any other Loan Document and such failure shall continue unremedied for a period of 45 or more days after notice thereof from the Administrative Agent (given at the request of any Lender) to the Borrower;

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(f) subject to Section 10.17, the Borrower or any of its Subsidiaries shall fail to make any payment (whether of principal or interest and regardless of amount) in respect of any Material Indebtedness, when and as the same shall become due and payable;

(g) subject to Section 10.17, any event or condition occurs that results in any Material Indebtedness becoming due prior to its scheduled maturity or that enables or permits (with or without the giving of notice, the lapse of time or both) the holder or holders of any Material Indebtedness or any trustee or agent on its or their behalf to cause any Material Indebtedness to become due, or to require the prepayment, repurchase, redemption or defeasance thereof, prior to its scheduled maturity; provided that this clause (g) shall not apply to secured Indebtedness that becomes due as a result of the voluntary sale or transfer of the Property or assets securing such Indebtedness;

(h) an involuntary proceeding shall be commenced or an involuntary petition shall be filed seeking (i) liquidation, reorganization or other relief in respect of the Borrower or any of its Subsidiaries or its debts, or of a substantial part of its assets, under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect or (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or any of its Subsidiaries or for a substantial part of its assets, and, in any such case, such proceeding or petition shall continue undismissed for a period of 60 or more days or an order or decree approving or ordering any of the foregoing shall be entered;

(i) the Borrower or any of its Subsidiaries shall (i) voluntarily commence any proceeding or file any petition seeking liquidation, reorganization or other relief under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or petition described in clause (h) of this Article, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or any of its Subsidiaries or for a substantial part of its assets, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors or (vi) take any action for the purpose of effecting any of the foregoing;

(j) the Borrower or any of its Subsidiaries shall become unable, admit in writing its inability or fail generally to pay its debts as they become due;

(k) one or more judgments for the payment of money in excess of \$15,000,000 in the aggregate (regardless of insurance coverage) shall be rendered against the Borrower or any of its Subsidiaries or any combination thereof and the same shall remain undischarged for a period of 45 consecutive days during which execution shall not be effectively stayed, or any action shall be legally taken by a judgment creditor to attach or levy upon any assets of the Borrower or any of its Subsidiaries to enforce any such judgment;

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(l) an ERISA Event shall have occurred that, in the opinion of the Required Lenders, when taken together with all other ERISA Events that have occurred, could reasonably be expected to result in a Material Adverse Effect;

(m) a reasonable basis shall exist for the assertion against the Borrower or any of its Subsidiaries of (or there shall have been asserted against the Borrower or any of its Subsidiaries) claims or liabilities, whether accrued, absolute or contingent, based on or arising from the generation, storage, transport, handling or disposal of Hazardous Materials by the Borrower or any of its Subsidiaries or Affiliates, or any predecessor in interest of the Borrower or any of its Subsidiaries or Affiliates, or relating to any site or facility owned, operated or leased by the Borrower or any of its Subsidiaries or Affiliates, which claims or liabilities (insofar as they are payable by the Borrower or any of its Subsidiaries but after deducting any portion thereof which is reasonably expected to be paid by other creditworthy Persons jointly and severally liable therefor), in the judgment of the Required Lenders are reasonably likely to be determined adversely to the Borrower or any of its Subsidiaries, and the amount thereof is, singly or in the aggregate, reasonably likely to have a Material Adverse Effect (determined without reference to the second sentence of the definition of such term);

(n) common stock of the Borrower (after giving effect to the exercise of all outstanding Equity Rights, other than the conversion of shares of Class B common stock into shares of Class A common stock), which in the aggregate represents voting power to elect at least 50% (in number of votes) of the board of directors of the Borrower, shall cease to be owned or otherwise controlled by (i) Marvin Sands, his children, his grandchildren or any spouse of any of the foregoing persons, (ii) trusts for the benefit of Marvin Sands, his children, his grandchildren or any spouse of any of the foregoing persons, or any trust for the benefit of Andrew Stern, which trusts are under the control of Marvin Sands, his children, his grandchildren or any spouse of any of the foregoing persons, or (iii) partnerships which are controlled by (and a majority in interest of the partnership interests in which are owned by) Marvin Sands, his children, his grandchildren, any spouse of any of the foregoing persons, by a trust referred to in the foregoing clause (ii) or by any partnership that satisfies the conditions of this clause (iii); or

(o) any Lien created by the Security Documents shall at any time not constitute a valid and perfected Lien on the collateral intended to be covered thereby (to the extent perfection by filing, registration, recordation or possession is required herein or therein) in favor of the Administrative Agent for the benefit of the Lenders (excluding Liens on collateral with a fair market value of less than \$3,000,000 in the aggregate), free and clear of all other Liens (other than Liens permitted under Section 7.02 or under the respective Security Documents), or, except for expiration in accordance with its terms, any of the Security Documents shall for whatever reason be terminated or cease to be in full force and effect, or the enforceability thereof shall be contested by any Obligor;

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then,

(A) in every such event (other than an event with respect to any Obligor described in clause (h) or (i) of this Article), and at any time thereafter during the continuance of such event, the Administrative Agent may, and at the request of the Required Lenders shall, by notice to the Borrower, take either or both of the following actions, at the same or different times: (i) terminate the Commitments, and thereupon the Commitments shall terminate immediately, and (ii) declare the Loans then outstanding to be due and payable in whole (or in part, in which case any principal not so declared to be due and payable may thereafter be declared to be due and payable), and thereupon the principal of the Loans so declared to be due and payable, together with accrued interest thereon and all fees and other obligations of the Obligors accrued hereunder, shall become due and payable immediately, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by each Obligor; and

(B) in case of any event with respect to any Obligor described in clause (h) or (i) of this Article, the Commitments shall automatically terminate and the principal of the Loans then outstanding, together with accrued interest thereon and all fees and other obligations of the Obligors accrued hereunder, shall automatically become due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by each Obligor.

Notwithstanding the foregoing, during the Term Loan Availability Period, if the applicable conditions precedent to any extension of credit set forth in Section 5.02 (or to any Term Loans set forth in Section 5.03) are satisfied, (x) no termination of the Commitments, and no declaration, pursuant to the foregoing paragraph (A) or any other circumstance shall relieve the Lenders of their obligations to make Tranche I Revolving Loans, Tranche II Revolving Loans or Term Loans (or to issue Letters of Credit) hereunder, (y) no declaration pursuant to the foregoing clause (A) shall apply to any outstanding

Loans (whether such Loans were made before or after such declaration) to the extent that the proceeds thereof have not been disbursed to pay holders of Target Shares, or related options, for the purchase of Target Shares, or related options, pursuant to the Tender Offer (such undisbursed proceeds being herein called "Acquisition Funds") and (z) neither the Administrative Agent nor any Lender will take any enforcement action against any Acquisition Funds or otherwise seek to prevent the disbursement of any Acquisition Funds to pay holders of Target Shares, or related options, for the purchase of Target Shares, or related options, pursuant to the Tender Offer.

In the event that any outstanding Tranche I Revolving Loans, Tranche II Revolving Loans or Swingline Loans are declared to be, or become, due and payable pursuant to this Article, the Administrative Agent shall calculate the Funding Percentages of the Tranche I Revolving Lenders and the Tranche II Revolving Lenders as of the date that such Loans are declared to be, or become, due and payable (the "Acceleration Date") and shall, on or prior to the Business Day next succeeding the Acceleration Date, provide notice of such Funding Percentages to all Tranche I Revolving Lenders and Tranche II Revolving Lenders, together with a calculation of any amounts required to be paid by the Underfunded Revolving Lenders as provided below. If on the Acceleration Date either (i) the Funding Percentage of the Tranche I

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Revolving Lenders exceeds the Funding Percentage of the Tranche II Revolving Lenders or (ii) the Funding Percentage of the Tranche II Revolving Lenders exceeds the Funding Percentage of the Tranche I Revolving Lenders (such Revolving Lenders whose Funding Percentage is so in excess being referred to herein as the "Overfunded Revolving Lenders" and such other Revolving Lenders being referred to herein as the "Underfunded Revolving Lenders"), each Underfunded Revolving Lender shall be deemed to have acquired, on the Acceleration Date, a participation in each outstanding Revolving Loan or Swingline Loan (but not any Competitive Loan) made by, and in the LC Exposure of, each Overfunded Revolving Lender (on a pro rata basis based on the Applicable Percentage of such Underfunded Revolving Lender as of the Acceleration Date) such that, after giving effect thereto, the Funding Percentage of the Overfunded Revolving Lenders is equal to the Funding Percentage of the Underfunded Revolving Lenders.

Each Tranche I Revolving Lender and Tranche II Revolving Lender hereby absolutely and unconditionally agrees that, if such Lender is an Underfunded Revolving Lender as provided above, upon receipt of notice from the Administrative Agent as provided above, such Revolving Lender shall on or prior to the date five Business Days after the Acceleration Date pay to the Administrative Agent, for the account of the Overfunded Revolving Lenders, an amount equal to the aggregate purchase price for all of the participations acquired by such Revolving Lender as provided above. Each Tranche I Revolving Lender and Tranche II Revolving Lender acknowledges and agrees that its obligation to acquire participations in Revolving Loans, Swingline Loans and LC Exposure pursuant to this paragraph is absolute and unconditional and shall not be affected by any circumstance whatsoever, including the occurrence and continuance of a Default or Event of Default or the reduction or termination of the Commitments, and that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever. Each Tranche I Revolving Lender and Tranche II Revolving Lender shall comply with its obligation under this paragraph by wire transfer of immediately available funds, in the same manner as provided in Section 2.07 with respect to Loans made by such Lender (and Section 2.07 shall apply, mutatis mutandis, to the payment obligations of the Lenders), and the Administrative Agent shall promptly pay to the Overfunded Revolving Lenders (as their interests may appear) the respective amounts so received by it from the Underfunded Revolving Lenders. The Administrative Agent shall notify the Borrower of any participations in any Loans and LC Exposure acquired pursuant to this paragraph. The purchase of participations in any Loan pursuant to this paragraph shall not relieve the Borrower of any default in the payment thereof.

ARTICLE IX

THE ADMINISTRATIVE AGENT

Each of the Lenders and the Issuing Lenders hereby irrevocably appoints the Administrative Agent as its agent hereunder and under the other Loan Documents and as its trustee in relation to the U.K. Pledge Agreements and authorizes the Administrative Agent to take such actions on its behalf and to exercise such powers as are delegated to the Administrative

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Agent by the terms hereof or thereof, together with such actions and powers as are reasonably incidental thereto.

The Person serving as the Administrative Agent hereunder shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though it were not the Administrative Agent, and such Person and its Affiliates may accept deposits from, lend money to and generally engage in any kind of business with the Borrower or any Subsidiary or other Affiliate thereof as if it were not the Administrative Agent hereunder.

The Administrative Agent shall not have any duties or obligations except those expressly set forth herein and in the other Loan Documents. Without limiting the generality of the foregoing, (a) the Administrative Agent shall not be subject to any fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing, (b) the Administrative Agent shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated hereby or by the other Loan Documents that the Administrative Agent is required to exercise in writing by the Required Lenders, and (c) except as expressly set forth herein and in the other Loan Documents, the Administrative Agent shall not have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to the Borrower or any of its Subsidiaries that is communicated to or obtained by the bank serving as Administrative Agent or any of its Affiliates in any capacity. The Administrative Agent shall not be liable for any action taken or not taken by it with the consent or at the request of the Required Lenders or in the absence of its own gross negligence or willful misconduct. The Administrative Agent shall be deemed not to have knowledge of any Default unless and until written notice thereof is given to the Administrative Agent by the Borrower or a Lender, and the Administrative Agent shall not be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with this Agreement or any other Loan Document, (ii) the contents of any certificate, report or other document delivered hereunder or thereunder or in connection herewith or therewith, (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth herein or therein, (iv) the validity, enforceability, effectiveness or genuineness of this Agreement, any other Loan Document or any other agreement, instrument or document, or (v) the satisfaction of any condition set forth in Article V or elsewhere herein or therein, other than to confirm receipt of items expressly required to be delivered to the Administrative Agent.

The Administrative Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing believed by it to be genuine and to have been signed or sent by the proper Person. The Administrative Agent also may rely upon any statement made to it orally or by telephone and believed by it to be made by the proper Person, and shall not incur any liability for relying thereon. The Administrative Agent may consult with legal counsel (who may be counsel for an Obligor), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts.

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The Administrative Agent may perform any and all its duties and exercise its rights and powers by or through any one or more sub-agents appointed by the Administrative Agent. The Administrative Agent and any such sub-agent may perform any and all its duties and exercise its rights and powers through their respective Related Parties. The exculpatory provisions of the preceding paragraphs shall apply to any such sub-agent and to the Related Parties of the Administrative Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as Administrative Agent.

Subject to the appointment and acceptance of a successor Administrative Agent as provided in this paragraph, the Administrative Agent may resign at any time by notifying the Lenders, the Issuing Lenders and the Borrower. Upon any such resignation, the Required Lenders shall have the right, in consultation with the Borrower, to appoint a successor, which shall be a commercial bank having an office in New York City and capital and surplus of at least \$500,000,000. If no such successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within 30 days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may, on behalf of the Lenders and the Issuing Lenders, appoint a successor Administrative Agent meeting the qualifications described above. Upon the acceptance of its appointment as Administrative Agent hereunder by a successor, such successor shall succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. The fees payable by the Borrower to a successor Administrative Agent shall be the same as those payable to its predecessor unless otherwise agreed between the Borrower and such successor. After the Administrative Agent's resignation hereunder, the provisions of this Article and Section 10.03 shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as Administrative Agent.

Each Lender acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement, any other Loan Document or any related agreement or any document furnished hereunder or thereunder.

Except as otherwise provided in Section 10.02(b) with respect to this Agreement, the Administrative Agent may, with the prior consent of the Required Lenders (but not otherwise), consent to any modification, supplement or waiver under any of the Loan Documents, provided that, without the prior consent of each Lender, the Administrative Agent shall not (except as provided herein or in the Security Documents) release any collateral or otherwise terminate any Lien under any Security Document providing for collateral security, agree to additional obligations being secured by such collateral security (unless the Lien for such additional obligations shall be junior to the Lien in favor of the other obligations secured by such Security Document, in which event the Administrative Agent may consent to such junior Lien

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provided that it obtains the consent of the Required Lenders thereto) or alter the relative priorities of the obligations entitled to the benefits of the Liens created under the Security Documents, except that no such consent shall be required, and the Administrative Agent is hereby authorized, to release any Lien covering Property that is the subject of either a disposition of Property permitted hereunder or a disposition to which the Required Lenders have consented.

Without the authorization of the Required Lenders, neither the Administrative Agent nor any Lender shall send to the Borrower or the Trustee under the Senior Subordinated Note Indentures any notice of a Default or Event of Default hereunder if such notice would result in a payment block in respect of the Senior Subordinated Notes.

The Administrative Agent in its capacity as trustee or otherwise under the UK Pledge Agreements:

(a) shall not be liable for any failure, omission, or defect in perfecting the security constituted or created by either UK Pledge Agreement including, without limitation, any failure to (i) register the same in accordance with the provisions of any of the documents of title of the Chargor (as defined in such U.K. Pledge Agreement) to any of the assets thereby charged or (ii) effect or procure registration of or otherwise protect the security created by this deed under any registration laws in any jurisdiction;

(b) may accept without inquiry such title as the Chargor (as defined in each U.K. Pledge Agreement) may have to the Shares (as so defined); and

(c) shall not be under any obligation to hold any title deed or any other documents in connection with the UK Pledge Agreements or to take any steps to protect or preserve the same. The Administrative Agent may permit the Chargor (as defined in each U.K. Pledge Agreement) to retain all such title deeds and other documents in its possession.

Except as otherwise provided in the U.K. Pledge Agreements, all moneys which under the trusts therein contained are received by the Administrative Agent in its capacity as trustee or otherwise may be invested in the name of or under the control of the Administrative Agent in any investment for the time being authorized by English law for the investment by trustees of trust money or in any other investments which may be selected by the Administrative Agent. Additionally, the same may be placed on deposit in the name of or under the control of the Administrative Agent at such bank or institution (including Chase) and upon such terms as the Administrative Agent may think fit.

ARTICLE X

MISCELLANEOUS

SECTION 10.01. Notices. Except in the case of notices and other communications expressly permitted to be given by telephone, all notices and other

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communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopy, as follows:

(a) if to the Borrower or any Subsidiary Guarantor, to it at 300 Willowbrook Office Park, Fairport, New York 14450, Attention of Robert Sands, Esq. (Telecopy No. (716) 218-2160);

(b) if to the Administrative Agent, to The Chase Manhattan Bank, 1 Chase Manhattan Plaza, 8th Floor, New York, New York 10081, Attention Loan and Agency Services Group (Telecopy No. (212) 552-5658) (or, if such notice or other communication relates to borrowings of, or payments or prepayments of, or duration of Interest Periods for, Loans denominated in Sterling, to The Chase Manhattan Bank, Woolgate House, Coleman Street, London, England (Telecopy No. 44-171-777-2360), with a copy to The Chase Manhattan Bank, 270 Park Avenue, New York, New York 10017, Attention of Elizabeth Iacoviello (Telecopy No. 212-270-6937);

(c) if to either Issuing Lender, to it at such address as may be notified by it to the other parties hereto;

(d) if to the Swingline Lender, to it at such address as may be notified by it to the other parties hereto; and

(e) if to a Lender, to it at its address (or telecopy number) set forth in its Administrative Questionnaire.

Any party hereto may change its address or telecopy number for notices and other communications hereunder by notice to the other parties hereto. All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt.

SECTION 10.02. Waivers; Amendments.

(a) No Deemed Waivers; Remedies Cumulative. No failure or delay by the Administrative Agent, either Issuing Lender or any Lender in exercising any right or power hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Administrative Agent, the Issuing Lenders and the Lenders hereunder are cumulative and are not exclusive of any rights or remedies that they would otherwise have. No waiver of any provision of this Agreement or consent to any departure by any Obligor therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) of this Section, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. Without limiting the generality of the foregoing, the making of a Loan or issuance of a Letter of Credit shall not be construed as a waiver of any Default, regardless of whether the Administrative Agent, any Lender or either Issuing Lender may have had notice or knowledge of such Default at the time.

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(b) Amendments. Neither this Agreement nor any provision hereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Borrower and the Required Lenders or by the Borrower and the Administrative Agent with the consent of the Required Lenders; provided that no such agreement shall (i) increase any Commitment of any Lender without the written consent of such Lender, (ii) reduce the principal amount of any Loan or LC Disbursement or reduce the rate of interest thereon, or reduce any fees payable hereunder, without the written consent of each Lender affected thereby, (iii) postpone the scheduled date of payment of the principal amount of any Loan or LC Disbursement, or any interest thereon, or any fees payable hereunder, or reduce the amount of, waive or excuse any such payment, or postpone the scheduled date of expiration of any Commitment, without the written consent of each Lender affected thereby, (iv) alter the manner in which payments or prepayments of principal, interest or other amounts hereunder shall be applied between or among the Lenders or Classes of Loans without the written consent of each Lender, (v) change any of the provisions of this Section or the definition of the term "Required Lenders" or any other provision hereof specifying the number or percentage of Lenders required to waive, amend or modify any rights hereunder or make any determination or grant any consent hereunder, without the written consent of each Lender, (vi) change any of the provisions of this Agreement in respect of the Tranche I Term Loan Sterling Commitments, the Tranche I Term Loans or Revolving Loans denominated in Sterling or the determination of amounts payable in Sterling hereunder without the written consent of the Tranche I Term Loan Sterling Lenders representing at least 51% of the sum of the total Tranche I Term Loan Sterling Commitments and the Tranche I Term Loans denominated in Sterling at such time, or (vii) release any Subsidiary Guarantor from any of its guarantee obligations under Article III without the written consent of each

Lender; and provided further that (x) no such agreement shall amend, modify or otherwise affect the rights or duties of the Administrative Agent, either Issuing Lender or the Swingline Lender hereunder without the prior written consent of the Administrative Agent, such Issuing Lender or the Swingline Lender, as the case may be, and (y) that any modification or supplement of Article III shall require the consent of each Subsidiary Guarantor.

Anything in this Agreement to the contrary notwithstanding, no waiver or modification of any provision of this Agreement that has the effect (either immediately or at some later time) of enabling the Borrower to satisfy a condition precedent to the making of a Tranche I Revolving Loan, Tranche II Revolving Loan or Tranche II Term Loan of any Series, shall be effective against the Lenders of such Class for purposes of the respective Tranche I Revolving Commitments, Tranche II Revolving Commitments or Tranche III Revolving Commitments or Tranche II Term Loan Commitments of such Series, as applicable, unless the Required Lenders of such Class shall have concurred with such waiver or modification, and no waiver or modification of any provision of this Agreement or any other Loan Document that could reasonably be expected to adversely affect the Lenders of any Class shall be effective against the Lenders of such Class unless the Required Lenders of such Class shall have concurred with such waiver or modification.

SECTION 10.03. Expenses; Indemnity; Damage Waiver.

(a) Costs and Expenses. The Borrower shall pay (i) all reasonable out-of-pocket expenses incurred by the Administrative Agent and its Affiliates, including the reasonable fees,

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charges and disbursements of counsel for the Administrative Agent, in connection with the syndication of the credit facilities provided for herein, the preparation and administration of this Agreement and the other Loan Documents or any amendments, modifications or waivers of the provisions hereof or thereof (whether or not the transactions contemplated hereby or thereby shall be consummated), (ii) all out-of-pocket expenses incurred by either Issuing Lender in connection with the issuance, amendment, renewal or extension of any Letter of Credit or any demand for payment thereunder, (iii) all out-of-pocket expenses incurred by the Administrative Agent, either Issuing Lender or any Lender, including the fees, charges and disbursements of any counsel for the Administrative Agent, either Issuing Lender or any Lender, in connection with the enforcement or protection of its rights in connection with this Agreement and the other Loan Documents, including its rights under this Section, or in connection with the Loans made or Letters of Credit issued hereunder, including in connection with any workout, restructuring or negotiations in respect thereof and (iv) and all costs, expenses, taxes, assessments and other charges incurred in connection with any filing, registration, recording or perfection of any security interest contemplated by any Security Document or any other document referred to therein.

(b) Indemnification by the Borrower. The Borrower shall indemnify the Administrative Agent, each Issuing Lender and each Lender, and each Related Party of any of the foregoing Persons (each such Person being called an "Indemnitee") against, and to hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses, including the fees, charges and disbursements of any counsel for any Indemnitee, incurred by or asserted against any Indemnitee arising out of, in connection with, or as a result of (i) the execution or delivery of this Agreement or any agreement or instrument contemplated hereby, the performance by the parties hereto of their respective obligations hereunder or the consummation of the Transactions or any other transactions contemplated hereby, (ii) any Loan or Letter of Credit or the use of the proceeds therefrom (including any refusal by an Issuing Lender to honor a demand for payment under a Letter of Credit if the documents presented in connection with such demand do not strictly comply with the terms of such Letter of Credit), (iii) any actual or alleged presence or release of Hazardous Materials on or from any Property owned or operated by the Borrower or any of its Subsidiaries, or any Environmental Liability related in any way to the Borrower or any of its Subsidiaries, or (iv) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory and regardless of whether any Indemnitee is a party thereto; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnitee.

(c) Reimbursement by Lenders. To the extent that the Borrower fails to pay any amount required to be paid by it to the Administrative Agent, an Issuing Lender or the Swingline Lender under paragraph (a) or (b) of this Section, each Lender severally agrees to pay to the Administrative Agent,

such Issuing Lender or the Swingline Lender, as the case may be, such Lender's Applicable Percentage (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount; provided that the unreimbursed

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expense or indemnified loss, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against the Administrative Agent, such Issuing Lender or the Swingline Lender in its capacity as such.

(d) Waiver of Consequential Damages, Etc. To the extent permitted by applicable law, no Obligor shall assert, and each Obligor hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement or any agreement or instrument contemplated hereby, the Transactions, any Loan or Letter of Credit or the use of the proceeds thereof.

(e) Payments. All amounts due under this Section shall be payable promptly after written demand therefor.

SECTION 10.04. Successors and Assigns.

(a) Assignments Generally. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, except that no Obligor may assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of each Lender (and any attempted assignment or transfer by any Obligor without such consent shall be null and void), provided that any merger or consolidation involving any Obligor permitted under Section 7.03 shall not be deemed to be an assignment for purposes of this paragraph (a). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby and, to the extent expressly contemplated hereby, the Related Parties of each of the Administrative Agent, the Issuing Lenders and the Lenders) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Assignments by Lenders. Any Lender may assign to one or more assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitments and the Loans at the time owing to it); provided that:

(i) except in the case of an assignment to a Lender or an Affiliate of a Lender, and except during the period prior to the completion of the general syndication of the Commitments and Loans hereunder (in respect of any assignment by Chase), each of the Borrower and the Administrative Agent (and, in the case of an assignment of all or a portion of a Commitment or any Lender's obligations in respect of its LC Exposure or Swingline Exposure, the respective Issuing Lender and the Swingline Lender) must give their prior written consent to such assignment (which consent shall not be unreasonably withheld),

(ii) except in the case of an assignment to a Lender or an Affiliate of a Lender or an assignment of the entire remaining amount of the assigning Lender's Commitment(s), the amount of the Commitment(s) of the assigning Lender subject to each such assignment (determined as of the date the Assignment and Acceptance with respect to

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such assignment is delivered to the Administrative Agent) shall not be less than \$10,000,000 unless each of the Borrower and the Administrative Agent otherwise consent,

(iii) each partial assignment of the Loans or Commitments of any Class shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement in respect of such Class (provided that (x) Tranche I Term Loan Sterling Commitments and Tranche I Term Loans denominated in Sterling may be assigned separately from Tranche I Term Loan Dollar Commitments and Tranche I Term Loans denominated in Dollars and (y) this clause (iii) shall not apply to rights in respect of outstanding Competitive Loans),

(iv) except in the case of an assignment to an Affiliate of a

Lender, the parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and Acceptance, together with a processing and recordation fee of \$3,500, and

(v) the assignee, if it shall not be a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire;

provided further that any consent of the Borrower otherwise required under this paragraph shall not be required if an Event of Default under clause (h) or (i) of Article VIII has occurred and is continuing. Upon acceptance and recording pursuant to paragraph (d) of this Section, from and after the effective date specified in each Assignment and Acceptance, the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Acceptance, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Acceptance, be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.15, 2.16, 2.17 and 10.03). Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this paragraph shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with paragraph (e) of this Section.

(c) Maintenance of Register by Administrative Agent. The Administrative Agent, acting for this purpose as an agent of the Borrower, shall maintain at one of its offices in The City of New York a copy of each Assignment and Acceptance delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitments of, and principal amount of the Loans and LC Disbursements owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive, and the Borrower, the Administrative Agent, the Issuing Lenders and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Borrower, either Issuing Lender and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

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(d) Effectiveness of Assignments. Upon its receipt of a duly completed Assignment and Acceptance executed by an assigning Lender and an assignee, the assignee's completed Administrative Questionnaire (unless the assignee shall already be a Lender hereunder), the processing and recordation fee referred to in paragraph (b) of this Section and any written consent to such assignment required by paragraph (b) of this Section, the Administrative Agent shall accept such Assignment and Acceptance and record the information contained therein in the Register. No assignment shall be effective for purposes of this Agreement unless it has been recorded in the Register as provided in this paragraph.

(e) Participations. Any Lender may, without the consent of the Borrower, the Administrative Agent, either Issuing Lender or the Swingline Lender, sell participations to one or more banks or other entities (a "Participant") in all or a portion of such Lender's rights and obligations under this Agreement and the other Loan Documents (including all or a portion of its Commitments and the Loans owing to it); provided that (i) such Lender's obligations under this Agreement and the other Loan Documents shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (iii) the Borrower, the Administrative Agent, the Issuing Lenders and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement and the other Loan Documents. Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and the other Loan Documents and to approve any amendment, modification or waiver of any provision of this Agreement or any other Loan Document; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, modification or waiver described in the first proviso to Section 10.02(b) that affects such Participant. Subject to paragraph (f) of this Section, the Borrower agrees that each Participant shall be entitled to the benefits of Sections 2.15, 2.16 and 2.17 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to paragraph (b) of this Section.

(f) Limitations on Rights of Participants. A Participant shall not be entitled to receive any greater payment under Section 2.15 or 2.17 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the

participation to such Participant is made with the Borrower's prior written consent. A Participant that would be a Foreign Lender if it were a Lender shall not be entitled to the benefits of Section 2.17 unless the Borrower is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Borrower, to comply with Section 2.17(e) as though it were a Lender.

(g) Pledges. Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Lender, including any such pledge or assignment to a Federal Reserve Bank, and this Section shall not apply to any such pledge or assignment of a security interest; provided that no such pledge or assignment of a security interest shall release a Lender from any of its obligations hereunder or substitute any such assignee for such Lender as a party hereto.

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(h) No Assignments to Obligors or Affiliates. Anything in this Section to the contrary notwithstanding, no Lender may assign or participate any interest in any Loan or LC Exposure held by it hereunder to the Borrower or any of its Affiliates or Subsidiaries without the prior consent of each Lender.

SECTION 10.05. Survival. All covenants, agreements, representations and warranties made by the Borrower herein and in the certificates or other instruments delivered in connection with or pursuant to this Agreement shall be considered to have been relied upon by the other parties hereto and shall survive the execution and delivery of this Agreement and the making of any Loans and issuance of any Letters of Credit, regardless of any investigation made by any such other party or on its behalf and notwithstanding that the Administrative Agent, either Issuing Lender or any Lender may have had notice or knowledge of any Default or incorrect representation or warranty at the time any credit is extended hereunder, and shall continue in full force and effect as long as the principal of or any accrued interest on any Loan or any fee or any other amount payable under this Agreement is outstanding and unpaid or any Letter of Credit is outstanding and so long as the Commitments have not expired or terminated. The provisions of Sections 2.15, 2.16, 2.17, 3.03 and 10.03 and Article IX shall survive and remain in full force and effect regardless of the consummation of the transactions contemplated hereby, the repayment of the Loans, the expiration or termination of the Letters of Credit and the Commitments or the termination of this Agreement or any provision hereof.

SECTION 10.06. Counterparts; Integration; Effectiveness. This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement and any separate letter agreements with respect to fees payable to the Administrative Agent constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. Except as provided in Section 5.01, this Agreement shall become effective when it shall have been executed by the Administrative Agent and when the Administrative Agent shall have received counterparts hereof which, when taken together, bear the signatures of each of the other parties hereto, and thereafter shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. Delivery of an executed counterpart of a signature page of this Agreement by telecopy shall be effective as delivery of a manually executed counterpart of this Agreement.

SECTION 10.07. Severability. Any provision of this Agreement held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions hereof; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

SECTION 10.08. Right of Setoff. If an Event of Default shall have occurred and be continuing, each Lender is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Lender to or for the credit or the account of any Obligor against any of and all the obligations of

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any Obligor now or hereafter existing under this Agreement held by such Lender, irrespective of whether or not such Lender shall have made any demand under this Agreement and although such obligations may be unmatured. The rights of each Lender under this Section are in addition to other rights and remedies

(including other rights of setoff) which such Lender may have.

SECTION 10.09. Governing Law; Jurisdiction; Consent to Service of Process.

(a) Governing Law. This Agreement shall be construed in accordance with and governed by the law of the State of New York.

(b) Submission to Jurisdiction. Each Obligor hereby irrevocably and unconditionally submits, for itself and its Property, to the nonexclusive jurisdiction of the Supreme Court of the State of New York sitting in New York County and of the United States District Court of the Southern District of New York, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State or, to the extent permitted by law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement shall affect any right that the Administrative Agent, either Issuing Lender or any Lender may otherwise have to bring any action or proceeding relating to this Agreement against any Obligor or its properties in the courts of any jurisdiction.

(c) Waiver of Venue. Each Obligor hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement in any court referred to in paragraph (b) of this Section. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(d) Service of Process. Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 10.01. Nothing in this Agreement will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

SECTION 10.10. Waiver Of Jury Trial. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER

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AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

SECTION 10.11. Headings. Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and shall not affect the construction of, or be taken into consideration in interpreting, this Agreement.

SECTION 10.12. Treatment of Certain Information; Confidentiality.

(a) Treatment of Certain Information. The Borrower acknowledges that from time to time financial advisory, investment banking and other services may be offered or provided to the Borrower or one or more of its Subsidiaries (in connection with this Agreement or otherwise) by any Lender or by one or more subsidiaries or affiliates of such Lender and the Borrower hereby authorizes each Lender to share any information delivered to such Lender by the Borrower and its Subsidiaries pursuant to this Agreement, or in connection with the decision of such Lender to enter into this Agreement, to any such subsidiary or affiliate, it being understood that any such subsidiary or affiliate receiving such information shall be bound by the provisions of paragraph (b) of this Section as if it were a Lender hereunder. Such authorization shall survive the repayment of the Loans, the expiration or termination of the Letters of Credit and the Commitments or the termination of this Agreement or any provision hereof.

(b) Confidentiality. Each of the Administrative Agent, the Issuing Lenders and the Lenders agrees (on behalf of itself and each of its affiliates, directors, officers, employees and representatives) to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (i) to its and its Affiliates' directors, officers, employees and agents, including accountants, legal counsel and

other advisors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (ii) to bank examiners (or any other regulatory authority having jurisdiction over any Lender or the Administrative Agent), (iii) to the extent required by applicable laws or regulations or by any subpoena or similar legal process, (iv) to any other party to this Agreement, (v) in connection with the exercise of any remedies hereunder or under any other Loan Document or any suit, action or proceeding relating to this Agreement or any other Loan Document or the enforcement of rights hereunder or thereunder, (vi) subject to an agreement containing provisions substantially the same as those of this paragraph, to any assignee of or Participant in, or any prospective assignee of or Participant in, any of its rights or obligations under this Agreement, (vii) with the consent of the Borrower or (viii) to the extent such Information (A) becomes publicly available other than as a result of a breach of this paragraph or (B) becomes available to the Administrative Agent, either Issuing Lender or any Lender on a nonconfidential basis from a source other than an Obligor. For the purposes of this paragraph, "Information" means all information received from any Obligor or any of its Subsidiaries or Joint Venture Entities relating to any Obligor, its business or any such Subsidiary or Joint Venture Entity, other than any such information that is available to the Administrative Agent, either Issuing Lender or any Lender on a nonconfidential basis prior to disclosure by an Obligor. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such

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Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

Unless specifically prohibited by applicable law or court order, each Lender and the Administrative Agent shall, prior to disclosure thereof, notify the Borrower of any request for disclosure of any Information (A) by any governmental agency or representative thereof (other than any such request in connection with an examination of the financial condition of such Lender by such governmental agency) or (B) pursuant to legal process, and will permit the Borrower (to the extent the same would not adversely affect such Lender or the Administrative Agent) to pursue available remedies to resist such disclosure and or obtain a protective order limiting such disclosure.

SECTION 10.13. "Credit Agreement" under Senior Subordinated Indentures. It is the intention of the parties hereto that this Agreement constitutes one of the successive renewals, substitutions, refinancings or replacements of the Credit Agreement dated as of June 29, 1993 between the Borrower, the Subsidiaries of the Borrower identified on the signature pages thereof under the caption "Subsidiary Guarantors", the lenders named therein and The Chase Manhattan Bank, as agent, referred to in the definition of "Credit Agreement" in Section 101 of the Senior Subordinated Note Indentures and that, accordingly, this Agreement constitutes the "Credit Agreement" under and as defined in the Senior Subordinated Notes Indentures.

SECTION 10.14. Exceptions to Certain Covenants. To the extent that the covenants set forth in Section 7.01, 7.02, 7.03 or 7.04 would, as applied to the Subsidiaries of the Borrower, be deemed to violate the provisions of Section 7.07 of the 1997 Credit Agreement, such covenants shall be deemed inapplicable until the Initial Funding Date.

SECTION 10.15. European Monetary Union.

(a) Definitions. In this Section 10.15 and in each other provision of this Agreement to which reference is made in this Section 10.15 (whether expressly or impliedly), the following terms have the meanings given to them in this Section 10.15:

"Commencement of the Third Stage of EMU" means the date of commencement of the third stage of EMU (on the date hereof expected to be January 1, 1999) or the date on which circumstances arise which (in the opinion of the Required Lenders of the relevant Class providing such Loan in Sterling hereunder) have substantially the same effect and result in substantially the same consequences as commencement of the third stage of EMU as contemplated by the Treaty on European Union.

"EMU" means economic and monetary union as contemplated in the Treaty on European Union.

"EMU Legislation" means legislative measures of the European Council for the introduction of, changeover to or operation of a single or unified European currency (whether known as the euro or otherwise), being in part the implementation of the third stage of

"Euro" means the single currency of Participating Member States of the European Union, which shall be a Currency under this Agreement.

"Euro Unit" means a currency unit of the Euro.

"National Currency Unit" means a unit of any Currency (other than a Euro Unit) of a Participating Member State.

"Participating Member State" means each state so described in any EMU Legislation.

"Target Operating Day" means any day that is not (i) a Saturday or Sunday, (ii) Christmas Day or New Year's Day or (iii) any other day on which the Trans-European Real-time Gross Settlement Operating System (or any successor settlement system) is not operating (as determined by the Administrative Agent).

"Treaty on European Union" means the Treaty of Rome of March 25, 1957, as amended by the Single European Act 1986 and the Maastricht Treaty (which was signed at Maastricht on February 7, 1992, and came into force on November 1, 1993), as amended from time to time.

(b) Effectiveness of Provisions. The provisions of paragraphs (c) through (h) below shall be effective at and from the Commencement of the Third Stage of EMU, provided, that if and to the extent that any such provision relates to any state (or the currency of such state) that is not a Participating Member State on the Commencement of the Third Stage of EMU, such provision shall become effective in relation to such state (and the currency of such state) at and from the date on which such state becomes a Participating Member State.

(c) Redenomination and Alternative Currencies. Each obligation under this Agreement of a party to this Agreement which has been denominated in the National Currency Unit of a Participating Member State shall be redenominated into the Euro Unit in accordance with EMU Legislation, provided, that if and to the extent that any EMU Legislation provides that following the Commencement of the Third Stage of EMU an amount denominated either in the Euro or in the National Currency Unit of a Participating Member State and payable within the Participating Member State by crediting an account of the creditor can be paid by the debtor either in the Euro Unit or in that National Currency Unit, any party to this Agreement shall be entitled to pay or repay any such amount either in the Euro Unit or in such National Currency Unit.

(d) Payments by the Administrative Agent Generally. With respect to the payment of any amount denominated in the Euro or in a National Currency Unit, the Administrative Agent shall not be liable to the Borrower or any of the Lenders in any way whatsoever for any delay, or the consequences of any delay, in the crediting to any account of any amount required by this Agreement to be paid by the Administrative Agent if the Administrative Agent shall have taken all relevant steps to achieve, on the date required by this Agreement, the payment of such amount in immediately available, freely transferable, cleared

funds (in the Euro Unit or, as the case may be, in a National Currency Unit) to the account of any Lender in the Principal Financial Center in the Participating Member State which such Borrower or, as the case may be, such Lender shall have specified for such purpose. In this paragraph (d), "all relevant steps" means all such steps as may be prescribed from time to time by the regulations or operating procedures of such clearing or settlement system as the Administrative Agent may from time to time determine for the purpose of clearing or settling payments of the Euro.

(e) Determination of LIBO Rate. For the purposes of determining the date on which the applicable rate for Eurocurrency Borrowings is determined under this Agreement for any Borrowing or Loan denominated in the Euro (or any National Currency Unit) for any Interest Period therefor, references in this Agreement to Business Days shall be deemed to be references to Target Operating Days. In addition, if the Administrative Agent determines that there is no LIBO Rate displayed on the applicable Telerate screen page for deposits denominated in the National Currency Unit in which any Borrowings or Loans are denominated, the LIBO Rate for such Borrowings or Loans shall be based upon the rate displayed on the applicable Telerate screen page for the offering of deposits denominated in Euro Units.

(f) Basis of Accrual. If the basis of accrual of interest or fees expressed in this Agreement with respect to the Currency of any state that becomes a Participating Member State shall be inconsistent with any convention or practice in the applicable interbank market for the basis of accrual of interest or fees in respect of the Euro, such convention or practice shall replace such expressed basis effective as of and from the date on which such state becomes a Participating Member State, provided, that if any Borrowing or Loan in the Currency of such state is outstanding immediately prior to such date, such replacement shall take effect, with respect to such Borrowing or Loan, at the end of the then current Interest Period.

(g) Rounding. Without prejudice and in addition to any method of conversion or rounding prescribed by the EMU Legislation, each reference in this Agreement to a minimum amount (or a multiple thereof) in a National Currency Unit to be paid to or by the Administrative Agent shall be replaced by a reference to such reasonably comparable and convenient amount (or a multiple thereof) in the Euro Unit as the Administrative Agent may from time to time specify.

(h) Other Consequential Changes. Without prejudice to the respective liabilities of the Borrowers to the Lenders and the Lenders to the Borrowers under or pursuant to this Agreement, except as expressly provided in this Section 10.15, each provision of this Agreement shall be subject to such reasonable changes of construction as the Administrative Agent may from time to time specify to be necessary or appropriate to reflect the introduction of or changeover to the Euro in Participating Member States. Without limiting the generality of the foregoing, if Sterling is at any time a National Currency Unit, the relevant display page on the Telerate screen used to determine the Eurocurrency Rate for applicable Borrowings or Loans in Sterling shall be determined by the Administrative Agent.

SECTION 10.16. Judgment Currency. This is an international loan transaction in which the specification of Dollars or Sterling, as the case may be (the "Specified Currency"), and any payment in New York County or the country of the Specified Currency, as the case may be

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(the "Specified Place"), is of the essence, and the Specified Currency shall be the currency of account in all events relating to Loans denominated in the Specified Currency. The payment obligations of the Borrower under this Agreement shall not be discharged by an amount paid in another currency or in another place, whether pursuant to a judgment or otherwise, to the extent that the amount so paid on conversion to the Specified Currency and transfer to the Specified Place under normal banking procedures does not yield the amount of the Specified Currency at the Specified Place due hereunder. If for the purpose of obtaining judgment in any court it is necessary to convert a sum due hereunder in the Specified Currency into another currency (the "Second Currency"), the rate of exchange which shall be applied shall be that at which in accordance with normal banking procedures the Administrative Agent could purchase the Specified Currency with the Second Currency on the Business Day next preceding that on which such judgment is rendered. The obligation of the Borrower in respect of any such sum due from it to the Administrative Agent or any Lender hereunder shall, notwithstanding the rate of exchange actually applied in rendering such judgment, be discharged only to the extent that on the Business Day following receipt by the Administrative Agent or such Lender, as the case may be, of any sum adjudged to be due hereunder in the Second Currency to the Administrative Agent or such Lender, as the case may be, the Administrative Agent or such Lender, as the case may be, may in accordance with normal banking procedures purchase and transfer to the Specified Place the Specified Currency with the amount of the Second Currency so adjudged to be due; and the Borrower hereby, as a separate obligation and notwithstanding any such judgment, agrees to indemnify the Administrative Agent or such Lender, as the case may be, against, and to pay the Administrative Agent or such Lender, as the case may be, on demand in the Specified Currency, any difference between the sum originally due to the Administrative Agent or such Lender, as the case may be, in the Specified Currency and the amount of the Specified Currency so purchased and transferred.

SECTION 10.17. Cleanup Period. The Lenders and the Administrative Agent acknowledge and agree that if, at any time during the period (herein, the "Cleanup Period") commencing on the Effective Date through but not including the forty-sixth day following the date on which the Tender Offer is declared wholly unconditional by U.K. Acquisition, the Borrower shall fail to cause the Target or any of its Subsidiaries to comply with any of the covenants herein or in any of the other Loan Documents, or if any of the representations or warranties made herein or in any of the other Loan Documents (or in any report, financial statement, certificate or other document furnished in connection herewith or therewith) by or on behalf of the Target or any of its Subsidiaries shall prove to have been incorrect in any material respect, then, notwithstanding anything herein to the contrary, such failure to comply with covenants (other than any such failure that is caused or authorized by the Borrower, it being understood

that mere knowledge of a failure to comply shall not constitute authorization for purposes hereof) and any such incorrectness with respect to representations or warranties shall not constitute a Default or Event of Default hereunder until after the expiration of the Cleanup Period (and then only to the extent that the same is continuing).

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

CANANDAIGUA BRANDS, INC.

By: /s/Thomas S. Summer
Title: Chief Financial Officer

SUBSIDIARY GUARANTORS

BATAVIA WINE CELLARS, INC.
CANANDAIGUA EUROPE LIMITED
CANANDAIGUA WINE COMPANY, INC
POLYPHENOLICS, INC.
ROBERTS TRADING CORP.

By: /s/Thomas S. Summer
Title: Treasurer

BARTON INCORPORATED
BARTON BRANDS, LTD.
BARTON BEERS, LTD.
BARTON BRANDS OF CALIFORNIA, INC.
BARTON BRANDS OF GEORGIA, INC.
BARTON DISTILLERS IMPORT CORP.
BARTON FINANCIAL CORPORATION
MONARCH IMPORT COMPANY
STEVENS POINT BEVERAGE CO.
THE VIKING DISTILLERY, INC.

By /s/Thomas S. Summer
Title: Vice President

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CANANDAIGUA LIMITED

By /s/Thomas S. Summer
Title: Director

CANANDAIGUA B.V.

By /s/Thomas S. Summer
Title:

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LENDERS

THE CHASE MANHATTAN BANK,
individually, as Swingline Lender
and as Administrative Agent

By: /s/Bruce S. Borden

Title: Vice President

THE BANK OF NOVA SCOTIA

By: /s/J. Alan Edwards
Title: Authorized Signatory

CREDIT SUISSE FIRST BOSTON

By: /s/Kristin Lepri
Title: Associate

By: /s/Thomas G. Muoio
Title: Vice President

FLEET NATIONAL BANK

By: /s/Martin K. Birmingham
Title: Vice President

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COOPERATIEVE CENTRALE RAIFFEISEN-
BOERENLEENBANK B.A. "RABOBANK
NEDERLAND", NEW YORK BRANCH

By: /s/Angelo J. Balestrieri
Title: Vice President

By: /s/W. Pieter C. Kodde
Title: Vice President

CREDIT LYONNAIS, NEW YORK BRANCH

By: /s/Vladimir Labun
Title: First Vice President,
Manager

FIRST NATIONAL BANK OF CHICAGO

By: /s/Juan J. Duarte
Title: Vice President

FIRST UNION NATIONAL BANK
(successor to CoreStates Bank, N.A.)

By: /s/Irene Rosen Marks
Title: Vice President

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NATIONSBANK, N.A.

By: /s/Kathryn W. Robinson
Title: Senior Vice President

SUNTRUST BANK, ATLANTA

By: /s/Robert V. Honeycutt
Title: Vice President

By: /s/Hugh E. Brown
Title: Banking Officer

WELLS FARGO BANK, NATIONAL ASSOCIATION

By: /s/Clifford S. Lawrence
Title: Vice President

BARCLAYS BANK PLC

By: /s/T. Bullock
Title: Vice President

CIBC INC

By: /s/Katherine Bass
Title: Executive Director

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COBANK, ACB

By: /s/Brian J. Klatt
Title: Vice President

CREDIT AGRICOLE INDOSUEZ

By: /s/W. Leroy Startz
Title: First Vice President

By: /s/Katherine L. Abbott
Title: First Vice President

DEUTSCHE BANK, NEW YORK and/or
CAYMAN ISLANDS BRANCH

By: /s/Stephan A. Wiedemann
Title: Director

By: /s/Hans-Josef Thiele
Title: Director

MANUFACTURERS AND TRADERS TRUST
COMPANY

By: /s/Philip M. Smith
Title: Regional Senior
Vice President

MARINE MIDLAND BANK

By: /s/Gina Sidorsky
Title: Authorized Signatory

BANK AUSTRIA CREDITANSTALT
CORPORATE FINANCE, INC.

By: /s/Kevin B. McGinn
Title: Senior Vice President

By: /s/Robert TenHave
Title: Senior Vice President

BANK UNITED

By: /s/Phil Green
Title: Director Commercial
Syndications

BANQUE NATIONALE DE PARIS

By: /s/Richard L. Sted
Title: Senior Vice President

By: /s/Richard Pace
Title: Vice President
Corporate Banking Division

HARRIS TRUST AND SAVINGS BANK

By: /s/Edwin A. Adams, Jr.
Title: Vice President

KEY BANK NATIONAL ASSOCIATION

By: /s/Lawrence A. Mack
Title: Senior Vice President

NATIONAL CITY BANK

By: /s/Robert C. Rowe
Title: Vice President

STATE STREET BANK AND TRUST COMPANY

By: /s/Christopher Del Signore
Title: Vice President

USTRUST

By: /s/Thomas F. Macina
Title: Vice President

WACHOVIA BANK, N.A.

By: /s/Fitzhugh L. Wickham III
Title: Vice President

IMPERIAL BANK,
a California Banking Corporation

By: /s/Ray Vadalma
Title: Senior Vice President

The Registrant has omitted from this filing the Schedules and Exhibits listed below. The Registrant will furnish supplementally to the Commission, upon request, a copy of such Schedules and Exhibits.

| | | |
|---------------|---|--|
| SCHEDULE I | - | Commitments |
| SCHEDULE II | - | Material Agreements and Liens |
| SCHEDULE III | - | Disclosed Matters |
| SCHEDULE IV | - | Subsidiaries and Investments |
| SCHEDULE V | - | Stock Options |
| SCHEDULE VI | - | Real Property |
| SCHEDULE VII | - | Life Insurance Agreements |
| SCHEDULE VIII | - | Calculation of MCR Cost |
| SCHEDULE IX | - | Certain Non-Recurring Charges |
| EXHIBIT A | - | Form of Assignment and Acceptance |
| EXHIBIT B-1 | - | Form of Security Agreement |
| EXHIBIT B-2 | - | Form of U.K. Pledge Agreement (Borrower) |
| EXHIBIT B-3 | - | Form of U.K. Pledge Agreement (U.K. Acquisition) |
| EXHIBIT C-1 | - | Form of Mortgage Modification (Gonzalez) |
| EXHIBIT C-2 | - | Form of Mortgage Modification (Madera/Vintners) |
| EXHIBIT C-3 | - | Form of Mortgage Modification (Madera/Canandaigua) |
| EXHIBIT C-4 | - | Form of Mortgage Modification (Bardstown) |
| EXHIBIT C-5 | - | Form of Mortgage Modification (Canandaigua) |
| EXHIBIT C-6 | - | Form of Mortgage Modification (Naples/Ontario Co.) |
| EXHIBIT C-7 | - | Form of Mortgage Modification (Naples/Yates Co.) |
| EXHIBIT D | - | Form of Guarantee Assumption Agreement |
| EXHIBIT E-1 | - | Form of Opinion of Counsel to the Obligors (Effective Date) |
| EXHIBIT E-2 | - | Form of Opinion of Counsel to the Obligors (Initial Funding Date) |
| EXHIBIT E-3 | - | Form of Opinion of Special California Counsel to the Obligors |
| EXHIBIT E-4 | - | Form of Opinion of Special Kentucky Counsel to the Obligors |
| EXHIBIT F | - | Form of Opinion of Special New York Counsel to Chase |

EXHIBIT 23.1

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 33-26694 and 33-56557) and Form S-3 (Nos. 333-40571 and 333-67037) of Canandaigua Brands, Inc. of our report dated November 30, 1998 with respect to the consolidated balance sheets of Matthew Clark plc and its subsidiaries as of April 30, 1998 and 1997, and the related consolidated profit and loss accounts and cash flow statements for each of the years in the three-year period ended April 30, 1998, which report appears in the Form 8-K of Canandaigua Brands, Inc. dated December 16, 1998.

/s/ KPMG Audit Plc
Chartered Accountants
Registered Auditor
London, England
December 16, 1998