

KWV LIMITED

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DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

In accordance with Companies Act requirements, the directors are responsible for the preparation of annual financial statements which conform to South African Statements of Generally Accepted Accounting Practice and which fairly present the state of affairs of the company and the group as at the end of the financial year, and the net income and cash flows for that period. The directors are also responsible for the other information included in the annual report and for both its accuracy and its consistency with the financial statements.

It is the responsibility of the independent auditors to report on the fair presentation of the financial statements.

The directors are ultimately responsible for the internal controls. Management enables the directors to meet their responsibilities in this regard. Standards and systems of internal control are designed and implemented by management to provide reasonable assurance as to the integrity and reliability of financial records and of the financial statements and to adequately safeguard, verify and maintain accountability for the group's assets. Appropriate accounting policies, supported by reasonable and prudent judgements and estimates, are applied on a consistent and going concern basis. Systems and controls include the proper delegation of responsibilities, effective accounting procedures and adequate segregation of duties.

Based on the information and explanations given by management and the internal and external auditors, the directors are of the opinion that the accounting controls are adequate and that the financial records may be relied upon for preparing the financial statements and maintaining accountability for the group's assets and liabilities. Nothing has come to the attention of the directors to indicate that any breakdown in the functioning of these controls, resulting in material loss to the group, has occurred during the year and up to the date of this report. The directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

The financial statements which appear on pages 38 to 72 were approved by the board of directors on 10 September 2003 and are signed on its behalf by:



LN Jonker
Chairman



WJ Barnard
Managing Director

DECLARATION BY THE COMPANY SECRETARY

I, Albertus Wynand Eksteen, company secretary of KWV Limited, hereby certify that the company has, for the year under review, lodged with the Registrar of Companies all such returns as are required of a public company in terms of the Companies Act, 1973, and that all such returns are true, correct and up-to-date.



AW Eksteen
Company Secretary

REPORT OF THE INDEPENDENT AUDITORS

to the members of KWV Limited

We have audited the annual financial statements of the company and group that are set out on pages 38 to 72 for the year ended 30 June 2003. These financial statements are the responsibility of the directors of the company. Our responsibility is to express an opinion on these financial statements based on our audit.

SCOPE

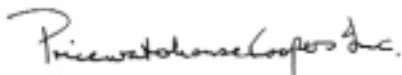
We conducted our audit in accordance with statements of South African Auditing Standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures included in the financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

AUDIT OPINION

In our opinion, the financial statements fairly present, in all material respects, the financial position of the company and group at 30 June 2003 and the results of its operations and cash flow for the year then ended in conformity with South African Standards for Generally Accepted Accounting Practice and in the manner required by the Companies Act in South Africa.



PricewaterhouseCoopers Incorporated

Registered Accountants and Auditors

Chartered Accountants (SA)

PO Box 215

Paarl

7620

10 September 2003

DIRECTORS' REPORT

INTRODUCTION

The structure of the KVV group as at 30 June 2003 is set out on page 10.

NATURE OF ACTIVITIES

The primary activities of KVV Limited and its subsidiaries are as follows:

- Purchase of wine, distilling wine and grape juice for processing and maturation, which products are eventually sold in the form of wine, concentrate and particularly brandy and other distillates
- Overseas marketing of trademark products of the vine
- Making and managing investments in associated businesses

SUBSIDIARIES AND ASSOCIATES

Details of subsidiary companies and associates in the group and their primary activities are set out in annexure A.

RESTRUCTURING

Before the restructuring, which was concluded during December 2002, the group was controlled by KVV Co-operative Limited through its holding of 1 600 million non-profit-sharing class B shares which represented approximately 80% of the voting powers. In terms of the restructuring, 43 888 800 of these shares were exchanged for ordinary profit-sharing class A shares and KVV Limited bought back the remainder at nominal value (R38 903).

FINANCIAL RESULTS

The financial results of the group are disclosed in the attached financial statements.

The company's interest in the total income of its subsidiaries, after taxation and outside shareholders' interest:

	2003 R'000	2002 R'000
Results of the holding company, before dividends from group companies	29 459	26 647
Profits of subsidiaries	92 344	25 233
Losses of subsidiaries	(2 778)	(16 629)
Attributable profits of associates	61 642	46 068
Net profit of the group	<u>180 667</u>	<u>81 319</u>

DIVIDEND

A dividend of 5 cents (2002: 2 cents) per ordinary class A share is proposed for the year under review, subject to approval by shareholders at the annual general meeting.

Last day to trade "cum" dividend	Friday	31 October 2003
"Ex" dividend trading commences	Monday	3 November 2003
Dividend payment date	Friday	14 November 2003

POST-BALANCE SHEET EVENTS

No events, which may have a material effect on the group, have occurred after the balance sheet date.

DIRECTORS

In terms of the requirements of Article 12.3 of the company, WR Hewett, PBB Hugo and CH Wiese will retire at the next annual general meeting. They are eligible and offer themselves for re-election.

The complete board of directors as at 30 June 2003 is set out on page 12.

SHAREHOLDING ANALYSIS

Disclosure by the directors indicate that at 30 June 2003 and at the date of this report, the interest of directors and those of their families amounted to 0,7% (2002: 1,27%) of the share capital of the company. (See analysis of shareholders on page 24.)

CONTINGENT LIABILITIES

Details of contingent liabilities are fully disclosed in note 28 to the financial statements.

BALANCE SHEET

at 30 June 2003

Notes	GROUP		COMPANY	
	2003 R'000	2002 R'000	2003 R'000	2002 R'000
ASSETS				
Non-current assets	1 325 656	1 212 801	419 928	365 989
Property, plant and equipment	5 338 016	310 550	—	—
Investments in subsidiaries	6 —	—	122 196	98 214
Investments in associates	7 715 118	660 734	34 175	36 675
Other financial assets	8 266 684	234 641	263 557	231 100
Deferred taxation	15 5 838	6 876	—	—
Current assets	989 775	937 387	297	258
Inventory	9 768 354	718 666	—	—
Receivables	10 199 640	206 830	—	—
Taxation receivable	5 354	1	—	1
Forward exchange contracts	2 583	715	—	—
Cash and cash equivalents	13 844	11 175	297	257
Total assets	2 315 431	2 150 188	420 225	366 247
EQUITY AND LIABILITIES				
Capital and reserves				
Share capital	11 11	50	11	50
Share premium	1 217	—	1 500	—
Reserves	1 102 553	964 862	413 824	364 200
Ordinary shareholders' interest	1 103 781	964 912	415 335	364 250
Minority interest	310 496	294 538	—	—
Non-current liabilities	567 824	568 140	4 296	1 702
Long-term borrowings	12 312 704	309 468	—	—
South African Wine Industry Trust	13 143 095	142 572	—	—
Long-term provisions	14 7 016	5 509	—	—
Deferred taxation	15 105 009	110 591	4 296	1 702
Current liabilities	333 330	322 598	594	295
Short-term borrowings	16 135 403	126 175	—	—
Trade and other payables	17 182 607	183 721	585	295
Short-term provisions	18 2 927	3 091	—	—
Forward exchange contracts	1 538	—	—	—
Taxation payable	10 855	9 611	9	—
Total equity and liabilities	2 315 431	2 150 188	420 225	366 247

INCOME STATEMENT

for the year ended 30 June 2003

	Notes	GROUP		COMPANY	
		2003 R'000	2002 R'000	2003 R'000	2002 R'000
Income	19	1 028 917	928 827	—	—
Operating profit	20	142 528	95 459	17 270	15 132
Dividend income	21	14 846	13 300	42 745	137 607
Net interest	22	(75 757)	(68 640)	52	24
Amortisation of goodwill: subsidiary		(269)	—	—	—
Income from associates		105 659	77 751	—	—
– share in retained earnings		47 024	48 065	—	—
– share in exceptional items	23	14 629	(14 906)	—	—
– dividends received	21	44 006	44 592	—	—
Profit before taxation		187 007	117 870	60 067	152 763
Taxation	24	35 417	(4 326)	(2 610)	(1 709)
Profit after taxation		222 424	113 544	57 457	151 054
Minority interest		(41 757)	(32 225)	—	—
Net profit attributable to ordinary class A shareholders		180 667	81 319	57 457	151 054
Number of ordinary class A shares ('000)	25				
– issued		436 357	433 888		
– used in calculation of earnings per share		434 864	433 888		
– used in calculation of diluted earnings per share		443 379	433 888		
		Cents	Cents		
Earnings per share	26				
– Attributable earnings		41,5	18,7		
– Headline earnings		31,8	16,3		
– Adjusted headline earnings		26,1	19,9		
Diluted earnings per share	26				
– Attributable earnings		40,7	18,7		
– Headline earnings		31,2	16,3		
– Adjusted headline earnings		25,6	19,9		
Dividend per share (recommended, subject to approval by shareholders)		5,0	2,0		

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2003

Notes	GROUP		COMPANY	
	2003 R'000	2002 R'000	2003 R'000	2002 R'000
Share capital				
Balance at beginning of the year	50	50	50	50
Class A shares issued	1	–	1	–
Class B shares repurchased	(40)	–	(40)	–
Balance at end of the year	11	50	11	50
Share premium				
Balance at beginning of the year	–	–	–	–
Class A shares issued	1 500	–	1 500	–
Treasury shares held by the KVV Share Incentive Trust	(283)	–	–	–
Balance at end of the year	1 217	–	1 500	–
Retained earnings				
Balance at beginning of the year	599 791	539 862	364 200	213 146
Change in accounting policy	3.1 (396)	–	–	–
Net profit attributable to ordinary class A shareholders	180 667	81 319	57 457	151 054
Equity accounted earnings transferred to equity reserve	(37 221)	(21 390)	–	–
Dividends	(7 815)	–	(7 833)	–
Balance at end of the year	735 026	599 791	413 824	364 200
Equity reserve				
Balance at beginning of the year	326 087	304 720		
Transfer of equity accounted earnings from retained earnings	37 221	21 390		
Changes in reserves of associates	871	(23)		
Balance at end of the year	364 179	326 087		
Non-distributable reserves				
<i>Currency translation reserve</i>				
Balance at beginning of the year	37 284	20 007		
Realisation on liquidation of subsidiary	(29 582)	–		
Deferred taxation on loan to foreign entity	1 740	–		
Movement during the year	(7 794)	17 277		
Balance at end of the year	1 648	37 284		
<i>Currency gain on disposal of investment</i>				
(at beginning and end of the year)	1 700	1 700		
Equity at end of the year	1 103 781	964 912	415 335	364 250

CASH FLOW STATEMENT

for the year ended 30 June 2003

	Notes	GROUP		COMPANY	
		2003 R'000	2002 R'000	2003 R'000	2002 R'000
CASH FLOW FROM OPERATING ACTIVITIES					
Cash from operations before changes in working capital	32	150 841	128 415	(23)	(1)
Changes in working capital	33	(68 752)	11 906	290	(33)
Cash generated from/(utilised in) operations		82 089	140 321	267	(34)
Net interest	34	(35 470)	(49 978)	52	24
Dividends received		44 107	44 694	28 000	124 409
Dividends paid	35	(28 743)	(20 439)	(7 833)	–
Taxation refunded/(paid)	36	27 500	(2 241)	(6)	(7)
Settlement of post-retirement medical benefits liability		–	(30 918)	–	–
Payments to the South African Wine Industry Trust		(30 876)	(27 535)	–	–
Net cash inflow from operating activities		58 607	53 904	20 480	124 392
CASH FLOW FROM INVESTING ACTIVITIES					
Acquisition of fixed assets					
Replacement of fixed assets		(25 347)	(12 161)		
Additions to fixed assets		(47 659)	(29 772)		
		(73 006)	(41 933)		
Proceeds on disposal of fixed assets		4 284	15 595		
Proceeds on disposal of investments		10	442	–	444
Investments acquired		(420)	(150)	(420)	–
Loans (to)/repaid by associates		(3 724)	(330)	2 500	2 500
Acquisition of additional interest in subsidiary		(2 145)	–	(2 145)	–
Loans to subsidiaries		–	–	(21 836)	(127 366)
Net cash outflow from investing activities		(75 001)	(26 376)	(21 901)	(124 422)
CASH FLOW FROM FINANCING ACTIVITIES					
Proceeds from shares issued		1 217	–	1 500	–
Repurchase of class B shares		(39)	–	(39)	–
Long-term loans repaid		–	(7 058)	–	–
Long-term loans reclassified as short-term loans		–	(14 077)	–	–
Net cash inflow/(outflow) from financing activities		1 178	(21 135)	1 461	–
Net (decrease)/increase in cash and cash equivalents		(15 216)	6 393	40	(30)
Translation of foreign currency opening balances		8 657	(12 533)	–	–
Cash and cash equivalents at beginning of the year		(115 000)	(108 860)	257	287
Cash and cash equivalents at end of the year	37	(121 559)	(115 000)	297	257

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2003

1. ACCOUNTING POLICIES

The annual financial statements are prepared mainly on the historical cost basis in accordance with South African Statements of Generally Accepted Accounting Practice and the requirements of the South African Companies Act. The principal accounting policies, which are, except as stated in note 3, consistent in all material respects with those of the previous financial year, are as follows:

1.1 Basis of consolidation

Subsidiaries

All companies in which the group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has the power to exercise control over operations, are included in the consolidated financial statements in the accepted manner.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date on which effective control was obtained until the date on which effective control ceased.

Intercompany transactions, balances and unrealised profits and losses are eliminated fully on consolidation.

The difference between the fair value of the consideration paid and the fair value of the net tangible assets of subsidiaries at the date of acquisition is charged to goodwill arising on consolidation. This goodwill is amortised over appropriate periods, not exceeding 20 years.

Foreign entities

Foreign subsidiaries are classified as foreign entities for the purposes of translating their financial statements to South African rands. Items are translated as follows:

- Assets and liabilities at exchange rates ruling at the end of the financial period
- Income statement items at weighted average exchange rates for the period

Differences arising on conversion are transferred directly to non-distributable reserves.

La Concorde Wines BV is classified as an integrated operation and the financial statements are translated as follows:

- Non-monetary assets and liabilities at historical exchange rates
- Monetary assets and liabilities at exchange rates ruling at the end of the financial period
- Income statement items at weighted average exchange rates for the period

Differences arising on conversion are taken up in the income statement.

Associates

Associates are those investments in which the group has a long-term interest, and over which it has the ability to exercise significant influence, but over which it does not have control. The group's share of associates' results after acquisition is accounted for according to the equity method. The group's interest in the retained income and reserves of associates is transferred to an equity reserve.

Sales to associates are not eliminated, because all transactions are on an arm's length basis. However, unrealised profits in the closing inventory of associates are eliminated on consolidation.

The difference between the fair value of the consideration paid and the fair value of the investment at the date of acquisition is charged to goodwill arising on consolidation. This goodwill is amortised over appropriate periods, not exceeding 20 years.

In the unconsolidated statements of the holding company investments in associates are carried at cost, adjusted for permanent declines in value.

1.2 Property, plant and equipment

Property, plant and equipment are stated at depreciated cost. Cost includes all costs directly attributable to bringing the asset into operation for its intended use.

Depreciation of property, plant and equipment (excluding land) is written off according to the straight-line method over the expected useful lives as follows:

	Average useful life
Buildings	25 – 40 years
Machinery and equipment	15 – 50 years
Furniture and fittings	3 – 5 years
Vehicles	4 – 10 years

Profits and losses on disposal of property, plant and equipment are set off against income.

1.3 Investments

Investments, excluding investments in associates, are classified as available-for-sale. These classifications are re-evaluated on a regular basis. Available-for-sale investments are carried at fair value, as determined by the directors.

1.4 Inventory

All inventory is valued at the lower of cost, calculated on the weighted average method, or net realisable value. For manufactured products all direct expenses and production overheads, at normal activity levels, are included. The long maturation period of most wines, brandies and other spirits result in material financing costs which are not included in the cost of inventory.

1.5 Trade receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. Such provisions are made when there is objective evidence that the group will be unable to collect all amounts due according to the original terms of receivables.

1.6 Financial instruments

Financial instruments carried on the balance sheet include cash and bank balances, receivables, payables, investments, borrowings received and granted and forward exchange contracts. The particular recognition methods adopted are disclosed in the individual accounting policy statements associated with each item.

Forward exchange contracts are entered into to hedge existing assets and liabilities or future cash flows of high probability. These forward exchange contracts are recognised as disclosed in the accounting policy on foreign exchange.

The fair value of forward exchange contracts is calculated by comparing the rate and term thereof with that of similar contracts on the balance sheet date. The difference in the fair values thus determined are accounted for as assets or liabilities on the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS (continued)*for the year ended 30 June 2003*

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- 1.7 Cash and cash equivalents**
Cash and cash equivalents include cash on hand, bank balances and investments in money market instruments.
- 1.8 Borrowings**
Borrowings are recognised initially at the proceeds received. Interest-bearing borrowings are subsequently stated at market value or if it has fixed terms of repayment, at amortised cost.
- 1.9 South African Wine Industry Trust**
The present value of the group's liability to the South African Wine Industry Trust was accounted for in the 1999 financial period. The remaining liability is revalued annually at the current RSA153 rate and changes are accounted for as finance costs in the income statement.
- 1.10 Long and short-term provisions**
Provisions are made when the group has a current legal or constructive liability as a result of past events, the settlement of which is expected to result in an outflow of economic benefits and when the monetary value of the liability can be reliably estimated. Long-term provisions are those that are not expected to realise within 12 months.
- 1.11 Deferred taxation**
Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Current tax rates are used to determine deferred income tax. Deferred tax assets relating to unutilised tax losses carried forward are recognised to the extent that it is probable that future taxable profit will be available against which the unutilised tax losses can be set off.
- 1.12 Income recognition**
Income from sales of products is accounted for when the risk passes to the customer. Interest earned is accrued on a time proportion basis. Dividends are recognised when the right to receive payment is established.
- 1.13 Foreign exchange**
Transactions in foreign currencies are translated into South African rands at the rates of exchange ruling at the transaction date. At year end monetary items are translated at exchange rates on balance sheet date and forward exchange contracts are stated at market value. Translation gains and losses are included in operating profit.
- 1.14 Research and development**
All research and development expenditure is written off in the financial year in which it is incurred.
- 1.15 Trademarks**
The cost of trademarks and patents which are established and developed by the group itself is written off when incurred.
- 1.16 Retirement benefits**
It is the group's policy to provide retirement benefits for its employees. For this purpose there are three funds with defined contributions, as well as a defined benefit fund, two of which are regulated by the Pension Fund Act of 1956. All the group's employees, except those in Germany, where the government provides for retirement, are members of the funds and contribute to the funds monthly. Employer contributions to the fund are charged against income as incurred.

1.17 Post-retirement medical benefits

The group had, until February 2002, provided post-retirement medical benefits for employees by means of contributions to a medical aid scheme. In respect of qualifying employees the estimated liability was provided for over the term of service, and in respect of qualifying retired employees a provision was made for the current cost of future contributions. An actuarial valuation was performed during February 2002, at which stage the obligation was settled in full (note 18.3).

1.18 Finance costs

Finance costs are charged against income in the period in which they are incurred.

1.19 Dividends

Dividends are recorded in the period in which they are approved by the shareholders.

1.20 Cash flow statement

The cash flow statement is prepared using the indirect method.

1.21 Segment reporting (Annexure C)

Business segments provide products or services that are subject to risks and returns that are different from those of other business segments. The KWV group's activities comprise an integrated operation and are regarded as a single primary business segment. Geographical segments provide products or services within a particular economic environment that is subject to risks and returns that are different from those operating in other economic environments.

1.22 Treasury shares

Shares in the company held by the KWV Share Incentive Trust are classified as treasury shares. These shares are treated as a deduction from the issued number of shares and taken into account in the calculation of the weighted average number of shares. The cost price of the shares is deducted from the group's equity.

1.23 Comparatives

Where necessary, comparative figures have been adjusted to conform to presentation in the current year.

2. RESTRUCTURING

Pursuant to the approved restructuring of the group, 43 388 800 ordinary class A shares were issued to VinPro Co-operative Limited (formerly KWV Co-operative Limited) on 2 January 2003, in exchange for relinquishing the control that the co-operative had exercised over the company. This issue of shares without consideration led to a dilution in the earnings per class A ordinary share. (Refer to notes 3.2 and 25.)

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2003

3. CHANGE IN ACCOUNTING POLICIES AND RESTATEMENT OF COMPARATIVES

- 3.1 The accounting policies of the group has been changed in order to comply with the new South African Statement of Generally Accepted Accounting Practice (GAAP) *AC133 – Financial Instruments: recognition and measurement*.

This change does not have a material effect in the current year and led to a decrease of R396 000 (after taking into account taxation of R170 000) in the retained income at the beginning of the year.

- 3.2 The accounting policy for the calculation of headline earnings was changed to comply with *Circular 7/2002 Headline Earnings*, as issued by the South African Institute of Chartered Accountants. Comparative figures have been restated and the effect of the change is as follows:

30 June 2002

		Headline earnings R'000	Issued shares '000	Headline earnings per share Cents
Previously reported		98 105	390 499	25,1
– Merger costs of associate		(11 650)		(3,0)
– South African Wine Industry Trust: finance costs		(15 378)		(3,9)
– Retrenchment costs		(148)		–
Restated headline earnings	note 26	70 929	390 499	18,2
– Additional shares issued to VinPro Co-operative Limited	note 2		43 389	(1,9)
Restated headline earnings per share		70 929	433 888	16,3

4. CHANGE IN ESTIMATE

Since 1 January 1999 the company's subsidiary KVV South Africa (Pty) Ltd (KVV SA) is committed to payments to the South African Wine Industry Trust (SAWIT). KVV SA has negotiated with the South African Revenue Services (SARS) regarding the input VAT on these payments, as well as the deductibility thereof for income tax purposes.

In the past these payments were accounted for on the assumption that the company could claim the full input VAT and that the payments would not be deductible for income tax purposes. In terms of a final arrangement reached with SARS, a portion of the input VAT is claimable and a portion of the payments are deductible for income tax purposes.

The effect of the change in estimate is as follows:

	Gross R'000	Taxation R'000	Net R'000
Taxation overprovided, refundable by SARS	–	54 780	54 780
Interest due by SARS	13 738	(4 121)	9 617
Additional finance costs: SAWIT contributions	(5 719)	–	(5 719)
Impact on net profit	8 019	50 659	58 678

KWV LIMITED

	GROUP		COMPANY	
	2003 R'000	2002 R'000	2003 R'000	2002 R'000
5. PROPERTY, PLANT AND EQUIPMENT (ANNEXURE B)				
Carrying value at end of the year				
Land and buildings	77 584	83 428		
Machinery and equipment	244 921	209 219		
Furniture and fittings	11 668	9 085		
Vehicles	2 312	2 837		
Plant under construction	1 531	5 981		
	<u>338 016</u>	<u>310 550</u>		
The registers of land and buildings are available for inspection at the registered offices of the company and its subsidiaries.				
Certain land and buildings previously served as security for borrowings (note 16).				
Cost of fixed assets fully depreciated	<u>102 543</u>	<u>102 122</u>		
6. INVESTMENTS IN SUBSIDIARIES (ANNEXURE A)				
Listed				
KWV Investments Limited			32 584	30 439
Unlisted				
KWV Finance (Proprietary) Limited			–	–
KWV Intellectual Properties (Proprietary) Limited			–	–
KWV International (Proprietary) Limited			57 664	57 664
KWV Projects (Proprietary) Limited			–	–
KWV South Africa (Proprietary) Limited			10	10
			<u>90 258</u>	<u>88 113</u>
Loan: KWV South Africa (Proprietary) Limited			31 938	10 101
			<u>122 196</u>	<u>98 214</u>

This loan is unsecured, interest-free and not subject to any specific repayment terms.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2003

	GROUP		COMPANY	
	2003 R'000	2002 R'000	2003 R'000	2002 R'000
7. INVESTMENTS IN ASSOCIATES (ANNEXURE A)				
Equity interests				
Unlisted shares	68 675	68 675	26 675	26 675
Amortisation of premium on acquisition of interest	(20 575)	(20 575)	–	–
Interest in post-acquisition reserves	670 689	607 468	–	–
Unrealised profit in closing inventory of associates	(19 298)	(7 664)	–	–
	699 491	647 904	26 675	26 675
Loans				
Distell Group Limited (Distell)	8 127	2 830	–	–
Ceres Fruit Juices (Proprietary) Limited (CFJ)	7 500	10 000	7 500	10 000
	715 118	660 734	34 175	36 675
Directors' valuation of equity interests	766 690	818 774	62 602	26 675

The loan to CFJ is interest-free, unsecured, has no specific terms of repayment and is subordinate to the claims of bank creditors.

The loan to Distell is interest-free, unsecured, and repayable in intervals ranging between 12 and 24 months. It has a nominal value of R9 053 940 and is carried at amortised cost.

8. OTHER FINANCIAL ASSETS

Unlisted investments	266 264	234 641	263 137	231 100
– preference shares (redeemable on 10 December 2004)	137 513	122 768	137 513	122 768
– right to acquire shares in subsidiary (executable on 10 December 2004)	125 553	108 260	125 553	108 260
– other	3 198	3 613	71	72
Loans granted	420	–	420	–
	266 684	234 641	263 557	231 100
Directors' valuation – unlisted investments	266 264	234 641	263 137	231 100

The registers of investments are available for inspection at the registered offices of the company and its subsidiaries.

KWV LIMITED

	GROUP		COMPANY	
	2003 R'000	2002 R'000	2003 R'000	2002 R'000
9. INVENTORY				
Liquid inventory	738 037	689 428		
Auxiliary material	30 317	29 238		
	<u>768 354</u>	<u>718 666</u>		
Inventory written down to net realisable value	<u>11 714</u>	<u>740</u>		
Inventory is encumbered as indicated in note 28.2.				
10. RECEIVABLES				
Trade receivables	178 614	193 361		
Other receivables	26 190	18 134		
	<u>204 804</u>	<u>211 495</u>		
<i>Less:</i> Provision for bad debts	<u>(5 164)</u>	<u>(4 665)</u>		
	<u>199 640</u>	<u>206 830</u>		
11. SHARE CAPITAL				
Shares authorised				
Ordinary profit-sharing class A shares of 0,0025 cents each 643 388 800 (2002: 600 000 000)	16	15	16	15
Ordinary non-profit-sharing class B shares of 0,0025 cents each 1 556 611 200 (2002: 1 600 000 000)	39	40	39	40
	<u>55</u>	<u>55</u>	<u>55</u>	<u>55</u>
Shares issued				
Ordinary profit-sharing class A shares of 0,0025 cents each				
Issued	436 923 265			
Held by KWV Share Incentive Trust	(566 262)			
Net	<u>436 357 003</u>	11	10	10
Ordinary non-profit-sharing class B shares of 0,0025 cents each: Nil (2002: 1 600 000 000)		40		40
		<u>11</u>	<u>11</u>	<u>50</u>

In terms of a shareholders' resolution 30 969 830 (2002: 209 500 795) unissued ordinary profit-sharing class A shares are under the control of the directors until the forthcoming annual general meeting.

During the year 43 388 800 class B shares were exchanged for class A shares and the rest of the class B shares were repurchased at nominal value.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2003

	2003 R'000	GROUP 2002 R'000
12. LONG-TERM BORROWINGS		
Secured		
Loan bearing interest at a fixed rate of 15,36% per annum, payable six-monthly in arrears and redeemable in full on 10 December 2004	155 500	155 500
Loan bearing interest at a fixed rate of 14,92% per annum, payable six monthly in arrears and redeemable in full on 10 December 2004	157 204	153 968
	<u>312 704</u>	<u>309 468</u>
13. SOUTH AFRICAN WINE INDUSTRY TRUST		
The company's wholly-owned subsidiary, KVV SA (Pty) Ltd, is committed to payments over a 10-year period (of which 5,5 years remain) to the South African Wine Industry Trust for tasks which the trust will perform and from which the company will benefit.		
Gross liability	247 683	282 015
Less: VAT	(23 506)	(35 836)
Cash value of outstanding liability	<u>224 177</u>	<u>246 179</u>
Fair value at beginning of the year	171 873	184 030
Financing cost		
– at opening rate	19 477	20 831
– due to change in estimate	5 719	–
– due to changes in discount rate	11 891	(5 453)
Amount transferred to payables	(1 442)	–
Amount paid during the year	(30 876)	(27 535)
Fair value at end of the year	<u>176 642</u>	<u>171 873</u>
Short-term portion of liability transferred to payables	(33 547)	(29 301)
Long-term portion of liability	<u>143 095</u>	<u>142 572</u>
The short-term portion transferred to payables is the current value of amounts payable within the next twelve months. The cash value of these amounts are	34 711	30 649

The RSA153 rate of 9,095% (2002: 11,99%) is used to calculate the current value of the liability.

This liability is secured by a pledge in favour of the South African Wine Industry Trust of a portion of the investment in KVV Investments Limited, with a market value of R325,4 million (2002: R376,6 million).

KWV LIMITED

	GROUP		COMPANY	
	2003 R'000	2002 R'000	2003 R'000	2002 R'000
14. LONG-TERM PROVISIONS				
14.1 Early retirement of employees				
Fair value at beginning of the year	1 451	938		
– Increase in liability for retirement benefits	283	513		
	<u>1 734</u>	<u>1 451</u>		
14.2 Bonus bank				
Fair value at beginning of the year	6 087	–		
– Interest capitalised	562	–		
– Amount paid during the year	(2 596)	–		
– Increase in provision	4 884	6 087		
Fair value at end of the year	<u>8 937</u>	<u>6 087</u>		
<i>Less:</i> Short-term-portion – included in other payables	(3 655)	(2 029)		
Long-term portion of liability	<u>5 282</u>	<u>4 058</u>		
	<u>7 016</u>	<u>5 509</u>		
15. DEFERRED TAXATION				
Attributable to timing differences				
Balance at beginning of the year	103 715	115 754	1 702	–
– Accounted for against income	(4 351)	(12 060)	2 594	1 702
– Minority interest in unrealised profit in closing inventory of associate	1 547	21	–	–
– Unrealised foreign exchange difference accounted in equity	(1 740)	–	–	–
Balance at end of the year	<u>99 171</u>	<u>103 715</u>	<u>4 296</u>	<u>1 702</u>
The balance comprises:				
– Capital allowances	52 742	48 792	–	–
– Unrealised growth in investment since 1 October 2001	4 296	1 702	4 296	1 702
– Inventory revaluation	66 311	77 522	–	–
– Unrealised foreign exchange differences	(805)	–	–	–
– Lump sum contributions to pension fund	(5 733)	(7 768)	–	–
– Provisions and accruals	(9 088)	(10 950)	–	–
– Unrealised profit in closing inventory of group companies	(8 552)	(5 583)	–	–
	<u>99 171</u>	<u>103 715</u>	<u>4 296</u>	<u>1 702</u>
The amounts disclosed in the balance sheet are as follows:				
Group companies with net deferred tax assets, and consolidation adjustments	(5 838)	(6 876)		
Group companies with net deferred tax liabilities	105 009	110 591		
	<u>99 171</u>	<u>103 715</u>		

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2003

	GROUP		COMPANY	
	2003 R'000	2002 R'000	2003 R'000	2002 R'000
16. SHORT-TERM BORROWINGS				
Secured				
Euro borrowings	–	8 401		
Unsecured				
Call borrowings	130 150	96 665		
Bank overdraft	517	15 433		
Euro borrowings	4 736	5 676		
	<u>135 403</u>	<u>126 175</u>		
Some euro loans were secured by mortgages over land and buildings (note 5).				
Call borrowings carry interest at the daily money market rates. The bank overdraft carries interest at prime rate.				
17. TRADE AND OTHER PAYABLES				
Trade payables	90 083	92 979	–	–
Other payables	58 977	61 441	585	295
Short-term portion of South African Wine Industry Trust liability	33 547	29 301	–	–
	<u>182 607</u>	<u>183 721</u>	<u>585</u>	<u>295</u>
18. SHORT-TERM PROVISIONS				
18.1 Present value of future operating lease payments	548	811		
– Balance at beginning of the year	811	1 049		
– Payments made	(384)	(322)		
– Finance cost	121	84		
18.2 Final payment for rootstocks acquired	–	883		
– Balance at beginning of the year	883	400		
– Payments made during the year	(595)	(689)		
– (Over)/underprovision in the previous year	(288)	289		
– Provision for the year	–	883		
18.3 Post-retirement medical benefits	–	1 397		
– Fair value at beginning of the year	1 397	29 902		
– (Decrease)/increase in provision for benefits	(1 397)	3 187		
– Contributions on behalf of retired employees	–	(774)		
– Lump sum settlement of obligations	–	(30 918)		

KWV LIMITED

	GROUP		COMPANY	
	2003 R'000	2002 R'000	2003 R'000	2002 R'000
18. SHORT-TERM PROVISIONS (continued)				
18.4 Supplier claims				
– Provision for the year	2 379	–		
Potential claims for price differences relating to raw material purchased.				
	<u>2 927</u>	<u>3 091</u>		
19. INCOME				
Gross sales	1 080 894	981 470		
Less: Excise duty charged	(51 977)	(52 643)		
	<u>1 028 917</u>	<u>928 827</u>		
20. OPERATING PROFIT				
Sales	1 028 917	928 827		
Cost of sales	(650 834)	(567 984)		
Gross profit	<u>378 083</u>	<u>360 843</u>		
Other income	97 040	50 907	17 293	15 133
Administrative expenses	(117 070)	(109 409)	(23)	(1)
Promotion, marketing and distribution	(156 440)	(156 000)	–	–
Production management and planning	(42 246)	(40 797)	–	–
Other expenses	(16 839)	(10 085)	–	–
Operating profit	<u>142 528</u>	<u>95 459</u>	<u>17 270</u>	<u>15 132</u>
Operating profit is stated after taking into account the following items:				
Profit on disposal of non-current assets				
Property, plant and equipment	3 200	6 803	–	–
Investments	10	187	–	187
	<u>3 210</u>	<u>6 990</u>	<u>–</u>	<u>187</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2003

	GROUP		COMPANY	
	2003 R'000	2002 R'000	2003 R'000	2002 R'000
20. OPERATING PROFIT (continued)				
Growth in unlisted investment	17 293	14 946	17 293	14 946
Depreciation				
Land and buildings	5 327	3 850		
Machinery and equipment	21 497	19 258		
Furniture and fittings	8 039	6 124		
Vehicles	1 057	1 374		
	<u>35 920</u>	<u>30 606</u>		
Auditors' remuneration				
Audit fees	912	686	10	–
Current year	912	646	10	–
Underprovision previous year	–	40	–	–
Consultation services	1 131	566	–	–
Value management project	342	77	–	–
Restructuring	393	225	–	–
Taxation	233	264	–	–
Company valuation	163	–	–	–
Internal audit services	221	312		
Accounting services – foreign subsidiaries	174	130		
Secretarial services – foreign subsidiaries	18	24		
	<u>2 456</u>	<u>1 718</u>	<u>10</u>	<u>–</u>
Operating lease contracts				
Land and buildings	513	–		
Equipment	2 644	2 145		
Fees for external services				
Management, technical and administrative services	7 819	6 383		
Staff costs	159 571	150 918		
Included in staff costs:				
Retirement benefits – employer contributions	12 622	11 868		
Other				
Provisions notes 14 and 18	6 544	11 043		
Net foreign exchange profits	9 961	8 157		
Realisation of currency translation reserve with liquidation of subsidiary	29 582	–		
	Number	Number		
Staff employed at year-end	772	807		

KWV LIMITED

	GROUP		COMPANY	
	2003 R'000	2002 R'000	2003 R'000	2002 R'000
21. DIVIDEND INCOME				
Unlisted investments				
– Associates	44 006	44 592	–	–
– Subsidiaries	–	–	3 901	100 087
– Other	14 846	13 300	14 747	13 200
Listed investments				
– Subsidiary	–	–	24 097	24 320
Gross dividends received	58 852	57 892	42 745	137 607
Dividends received from associates are disclosed separately on the income statement as “Income from associates”.				
22. NET INTEREST				
Interest received				
SARS	note 4	13 738	–	–
Investments and deposits		1 537	1 042	52
Loans		159	785	–
Other		4 598	129	–
		20 032	1 956	52
Interest paid				
South African Wine Industry Trust		37 087	15 378	
Borrowings – long term		47 053	47 733	
– short term		11 649	7 485	
		95 789	70 596	
		(75 757)	(68 640)	52
				24
23. SHARE IN EXCEPTIONAL ITEMS OF ASSOCIATES				
The exceptional income consists mainly of income received by Distell Group Limited for the termination of its exclusive distribution rights. In the previous year the exceptional expenses consisted mainly of restructuring and merger costs of Distell.				

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2003

	GROUP		COMPANY	
	2003 R'000	2002 R'000	2003 R'000	2002 R'000
24. TAXATION				
South African normal taxation				
– Current taxation	(19 650)	(14 540)	(16)	(7)
– Deferred taxation	301	10 529	(2 594)	(1 702)
Change in estimate:				
SAWIT contributions	note 4	54 780	–	–
– Current taxation		50 673	–	–
– Deferred taxation		4 107	–	–
Over/(underprovision) previous years		45	(200)	–
– Current taxation		102	(1 731)	–
– Deferred taxation		(57)	1 531	–
Foreign taxation		(59)	(115)	–
Taxation for the year		35 417	(4 326)	(2 610)
Reconciliation of the tax rate				
	%	%	%	%
Normal rate for companies	30,00	30,00	30,00	30,00
Adjusted for:				
– Exempt income	(2,38)	(3,39)	(21,35)	(27,02)
– Income from associates	(16,95)	(19,79)	–	–
– Change in estimate	note 4	(29,29)	–	–
– Realisation of currency translation reserve on liquidation of subsidiary	(4,75)	–	–	–
– Consolidation adjustments	(0,52)	(5,68)	–	–
– Income of a capital nature	(1,89)	(4,43)	(4,32)	(1,86)
– Disallowed expenditure	7,10	4,97	–	–
– Adjustment for foreign taxation	(0,24)	1,81	–	–
– Over/(underprovision) previous years	(0,02)	0,17	–	–
Net reduction	(48,94)	(26,34)	(25,67)	(28,88)
Effective rate	(18,94)	3,66	4,33	1,12
Gross calculated tax losses available for utilisation against future taxable income				
	75 109	59 187		
Tax relief calculated at current tax rates Utilised to reduce deferred taxation				
	17 305	17 756		
	–	–		
Tax relief available for offset against future taxation				
	17 305	17 756		
Secondary tax on companies (STC)				
No provision has been made for STC.				
STC credits available for utilisation against future dividend payments				
	187 155	156 954	162 493	132 978

	2003 Number '000	GROUP	2002 Number '000
25. EARNINGS PER SHARE			
The calculation of earnings per share is based on net profit attributable to ordinary shareholders divided by the weighted average number of ordinary class A shares issued.			
Ordinary shares			
– Issued at beginning of the year	433 888		390 499
– Issued to VinPro Co-operative Limited	–	notes 2 and 3.2	43 389
– Issued to the KVV Share Incentive Trust	3 000		–
– Treasury shares (still owned by the Trust)	(566)		–
– Other issues	35		–
– Issued at end of the year	<u>436 357</u>		<u>433 888</u>
Used in the calculation of earnings per share	434 864		433 888
Since shares were issued to VinPro Co-operative Limited for no consideration the issued shares for the previous year were adjusted.			
Dilutive effect of share options granted to management	8 515		–
Used in the calculation of diluted earnings per share	<u>443 379</u>		<u>433 888</u>

In previous years the share options had no dilutive effect, as the strike price of 50 cents was more than the average share price (2002: 49 cents) for those years.

(Refer to note 30.2 for details of options.)

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2003

	2003 R'000	GROUP 2002 R'000
26. HEADLINE EARNINGS		
Net profit attributable to ordinary class A shareholders	180 667	81 319
Adjusted for:		
– Profit on sale of non-current assets	(3 210)	(6 990)
– Realisation of currency translation reserve with liquidation of subsidiary	(29 582)	–
– Net interest in adjusting items of associate	(9 688)	(3 400)
Headline earnings	138 187	70 929
Adjusted for:		
– Finance component of SA Wine Industry Trust liability	37 087	15 378
– Taxation adjustment for SA Wine Industry Trust	(61 889)	–
Change in estimate	note 4 (58 678)	–
Finance component added back: SA Wine Industry Trust	note 4 (5 719)	–
Current year interest (after taxation)	2 508	–
Adjusted headline earnings	113 385	86 307

The headline earnings adjustment regarding the associate consists mainly of income received by Distell Group Limited for the termination of its exclusive distribution rights for the Martell brand.

	GROUP		COMPANY	
	2003 R'000	2002 R'000	2003 R'000	2002 R'000
27. CAPITAL COMMITMENTS				
Incomplete contracts for capital expenditure	3 491	9 731		
Capital expenditure authorised by the board not yet contracted for	54 106	135 701		
	57 597	145 432		

This capital expenditure will be financed from own resources and borrowings.

28. CONTINGENT LIABILITIES**28.1 Guarantees**

	2003 R'000	2002 R'000	2003 R'000	2002 R'000
Employee housing loans	1 000	921	–	–
Interest promissory notes: subsidiary company	65 129	108 548	65 129	108 548
Short-term bank loans: subsidiary company	–	–	78 884	54 541
	66 129	109 469	144 013	163 089

28. CONTINGENT LIABILITIES (*continued*)

28.2 Inventory

Inventory with a book value of R291 343 000 is conditionally encumbered pursuant to a defense mechanism which has been implemented in order to protect KWV Limited from a possible unsolicited offer with the object of acquiring control of the company ("the offer").

An option has been granted to VinPro Co-operative Limited (VinPro Co-op) to purchase at book value the balance of the rebate brandy inventory owned by KWV South Africa (Proprietary) Limited (KWV SA) at the date of exercising the option, in the event of the offer to acquire the ordinary shares of KWV Limited at less than 80 percent of the prevailing net asset value of the group.

If the option is exercised and the offer is unsuccessful, the status quo regarding the rebate brandy inventory will be restored.

In the event of the offer being less than 80 percent of the net asset value and the option is exercised, VinPro Co-op has a further option to sell the rebate brandy inventory back to KWV SA at replacement value. In these circumstances KWV SA will be obliged to purchase the inventory with, among others, the following consequences for the company:

- The sale of the inventory outside the normal course of business at less than market value will, for income tax purposes, give rise to a deemed recovery of the difference between the tax value and the market value and a subsequent income tax liability.
- Excise duties with regard to the disposed inventory become payable.
- KWV SA eventually has the same rebate brandy inventory at its disposal but at a cost price equal to the replacement value of the inventory.
- Material financial implications.

The extent and effect of the defense mechanism will be determined by the balance of the rebate brandy inventory available at the time of exercising the option. The defense mechanism will cease upon the earlier of:

- 31 December 2006;
- the date upon which the book value of the remaining inventory falls below 10 percent of the book value of the inventory as at 1 January 2003, which amounted to R306 227 000;
- the date upon which a change in control of KWV Limited takes place other than in the circumstances envisaged in the defense mechanism;
- a listing on any recognised stock exchange takes place in respect of KWV Limited or a majority of its underlying operations;
- the date upon which KWV Limited, KWV SA and/or VinPro Co-op is placed in liquidation or under judicial management of any nature, or VinPro Co-op is dissolved;
- the date upon which VinPro Co-op enters into a compromise or other similar arrangement with its creditors generally.

The existence of the defense mechanism does not in any way prevent KWV SA from disposing of the said inventory during the normal course of business.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2003

28. CONTINGENT LIABILITIES (continued)

28.3 Retirement benefits

The United Kingdom subsidiary company, Edward Cavendish & Sons Limited (ECS), sponsors the Edward Cavendish Limited Pension & Life Assurance Scheme which is a defined benefit arrangement. The last actuarial valuation of this scheme was carried out by a qualified independent actuary as at 30 June 2003.

The employer has made no contributions over the financial year to 30 June 2003. There have been no members in service since the last active member retired on 30 June 2002.

On 24 March 2003 the fund's trustees gave three months notice of their intention to terminate the defined benefit fund at which date the minimum funding requirement valuation was in surplus. The group is therefore of the opinion that it has no further commitment to make good any deficit which may subsequently arise from the scheme.

Following the issue by the United Kingdom Government of a draft Statutory Instrument on 11 June 2003 concerning the winding-up of pension schemes and the deficiencies that may result, a contingent liability arises were it necessary to secure fully the benefits of the remaining members of the final salary pension scheme, as opposed to securing only the minimum funding requirement. The cost of purchasing deferred annuities for this purpose has been quantified at £1 023 505. This amount has been determined at the current open market rates for deferred annuities less the current value of the scheme's net assets. The group is taking legal advice as to its position under the draft Statutory Instrument and furthermore awaits the final legislation.

Should the trustees not proceed with their intended winding-up of the scheme and based on the minimum funding requirement, the scheme will have a potential deficit at 30 June 2003 amounting to £360 492 (2002: surplus £163 406), which deficit was not provided for in the financial statements of ECS in terms of United Kingdom Financial Reporting Standards.

	GROUP	
	2003	2002
	R'000	R'000

29. RELATED PARTY TRANSACTIONS

29.1 Associates

During the year the company and its subsidiaries entered into various sale transactions with associates. These transactions occurred under terms no more favourable than those negotiated with third parties.

Sales to associates	160 731	139 509
Owed by associates at end of the year	44 209	43 041

The above-mentioned are included in income, receivables and loans in the group financial statements.

KWV LIMITED

	COMPANY				2003	2002
					R'000	R'000
29. RELATED PARTY TRANSACTIONS (<i>continued</i>)						
29.2 Directors' remuneration						
	Salaries and fees	Retirement contributions	Incentive bonuses	Other allowances	Total	Total
Executive						
WJ Barnard	802	122	820	279	2 023	1 688
Non-executive	634	–	–	472	1 106	1 534
LN Jonker	136	–	–	139	275	551
D de Wet	98	–	–	113	211	133
JG Carinus	37	–	–	24	61	94
DC Cronjé	32	–	–	9	41	13
AS du Plessis	36	–	–	9	45	–
FA du Plessis	12	–	–	–	12	–
CJ du Toit	49	–	–	34	83	94
WR Hewett	55	–	–	35	90	129
PBB Hugo	51	–	–	34	85	94
PB Retief	30	–	–	6	36	–
JG le Roux	19	–	–	26	45	202
FA Sonn	30	–	–	4	34	–
AV van der Merwe	19	–	–	33	52	214
CH Wiese	30	–	–	6	36	10
Retired directors						
Pensions	–	–	–	68	68	90
Lump sum settlement of obligation to pay pensions	–	–	–	–	–	371
Total directors' emoluments	1 436	122	820	819	3 197	3 683
<i>Less:</i> Paid by subsidiaries					(3 197)	(3 683)
					–	–

Share options allocated to executive director:

No:	Date exercised	Number	Exercise price per share	Market value per share on date exercised
1	26 May 2000	1 500 000	R0,50	R0,51
2	3 April 2002	350 000	R0,50	R0,51
3	8 February 2003	75 000	R0,90	R1,20
		1 925 000		

Market value per share – 30 June 2003

92 cents

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2003

	2003	COMPANY 2002
30. EQUITY COMPENSATION BENEFITS		
30.1 Employee share ownership plan		
With the transition from a co-operative into a company in 1997 senior employees were offered the opportunity to buy shares in KVV Limited. Subsidiaries in the group made unsecured, interest-free loans to the Share Incentive Trust to enable it to take up the shares. The Trust made loans to employees on the same conditions, to enable them to buy these shares at 50 cents each from the Trust. These shares have full dividend and voting rights, but the Trust holds it as security until employees settle their debt and until then the Trust exercises the voting rights.		
<i>30.1.1 Shares of employees under control of the Trust</i>		
Balance at 1 July	905 850	970 050
Loans repaid by employees and shares bought from employees	(897 450)	(64 200)
Balance at 30 June	8 400	905 850
	R'000	R'000
Fair value of shares held at 30 June	8	815
Loans outstanding at 30 June	3	366
<i>30.1.2 Shares owned by the Share Incentive Trust</i>		
Balance at 1 July	3 14 672	614 172
Issued to the Trust	3 000 000	–
Bought from employees	109 410	76 500
Sold to subsidiary companies	(17 820)	(38 500)
Sold to employees in terms of their option contracts	(2 840 000)	(337 500)
Balance at 30 June	566 262	314 672
	R'000	R'000
Fair value of shares	521	283
30.2 Share option plan		
The group offers vested share options to senior management and key employees. KVV Limited grants unsecured, interest-free loans with no fixed repayment terms to the KVV Share Incentive Trust which enables the Trust to acquire ordinary shares in KVV. These shares carry full dividend and voting rights. The Trust grants option contracts to employees which entitle them to acquire these shares from the Trust at specified prices, during specified intervals in the future.		

30. EQUITY COMPENSATION BENEFITS (*continued*)

30.2.1 *Recognition of share options in the financial statements*

No income or expense is recognised when options are issued or exercised.

The KVV Share Incentive Trust is consolidated in the group financial statements.

	Number	Number
30.2.2 <i>Options held by employees</i>		
Outstanding at 1 July	17 042 500	17 410 000
New options allotted	2 215 000	–
Shares taken up in terms of option contracts	(2 840 000)	(337 500)
Lapsed	(150 000)	(30 000)
Outstanding at 30 June	16 267 500	17 042 500

	Rand	Rand
30.2.3 <i>Options allotted during the period</i>		
Exercise price per share	0,90	
Total proceeds if shares are issued	1 993 500	
Fair value on day of allotment of options allotted to employees	1 993 500	

30.2.4 <i>Options exercised during the period</i>		
Exercise price per share	0,50	0,50
Total proceeds	1 420 000	168 750

30.2.5 Terms of the shares outstanding at 30 June 2003 and the financial years in which they become unconditional in terms of options exercised:

	Number of shares that can be acquired		
Unconditional during the year ended	@ R0,50	@ R0,90	Total
30 June 2001	2 222 500		2 222 500
30 June 2002	2 690 000		2 690 000
30 June 2003	5 983 750		5 983 750
30 June 2004	847 500		847 500
30 June 2005	1 081 250		1 081 250
30 June 2006	1 227 500	553 750	1 781 250
30 June 2007		553 750	553 750
30 June 2008		1 107 500	1 107 500
	14 052 500	2 215 000	16 267 500

Exercise and expiry dates of options

Employees can exercise the first 25% of their options after three years, a further 25% after four years and the remaining 50% after five years. Unexercised options expire seven years after allotment, or when the employee leaves. The contract lapses if an employee does not pay the option price.

NOTES TO THE FINANCIAL STATEMENTS (continued)*for the year ended 30 June 2003*

31. FINANCIAL INSTRUMENTS

The risks associated with financial instruments have been addressed as set out below.

31.1 Foreign currency management

The group incurs currency risk as a result of purchases and sales which are denominated in foreign currencies. There is a translation risk arising from the consolidation of the results of foreign subsidiaries in South African rands, KVV's reporting currency.

Group policy provides that all transactions of the South African operating subsidiaries are covered by forward exchange contracts as soon as any material foreign currency exposure arises. Forward exchange contracts are also entered into when management considers it appropriate to establish economic hedges for future sales transactions. Forward contracts are not entered into for speculative purposes.

No forward cover is taken in respect of the activities of foreign subsidiaries as these operate in countries that have stable currencies.

31.2 Interest rate risk management

Details of all borrowings incurred by the group are provided in notes 12 and 16.

The group is mainly exposed to interest rate risk related to movements in long and short-term interest rates. This risk is managed on an ongoing basis.

Borrowings of a subsidiary, amounting to €553 579 (2002: €1 376 128) are payable as follows:
– €553 579 at varying market-related rates between 7,3% and 7,9%. Repayment is subject to notice varying from one to six months.

31.3 Maturity profile of financial instruments

With the exception of non-current assets and liabilities, more than 90% of the financial instruments held by the group will mature within six months.

31.4 Fair value of financial instruments

The fair values of receivables, payables, borrowings, loans, cash and bank balances are equal to their balance sheet values and are therefore not dealt with under this note. The fair values of investments are given in notes 7 and 8 as the market value and the directors' valuation of the listed and unlisted investments respectively.

31.5 Credit risk management

Trade receivables are disclosed net of a provision for doubtful debts. Credit risk exposure is managed through credit limits placed on trading partners. These limits and exposures are managed on an ongoing basis.

31.6 Liquidity risk management

The group manages liquidity risk by monitoring projected cash flows and ensuring that adequate borrowing facilities are maintained to provide for the cash requirements of the group.

KWV LIMITED

	GROUP		COMPANY	
	2003 R'000	2002 R'000	2003 R'000	2002 R'000
32. CASH FROM OPERATIONS BEFORE CHANGES IN WORKING CAPITAL				
Profit before taxation	187 007	117 870	60 067	152 763
Adjusted for:				
– Income from associates	(105 659)	(77 751)	–	–
– Amortisation of goodwill	269	–	–	–
– Net interest	75 757	68 640	(52)	(24)
– Realisation of currency translation reserve on liquidation of subsidiary	(29 582)	–	–	–
– Dividends received	(14 846)	(13 300)	(42 745)	(137 607)
– Depreciation	35 920	30 606	–	–
– Profit on disposal of non-current assets	(3 210)	(6 990)	–	(187)
– Unrealised growth in carrying value of investment	(17 293)	(14 946)	(17 293)	(14 946)
– Inventory written off	10 481	8 095	–	–
– Increase in unrealised profit in closing inventory of associates	11 634	129	–	–
– (Decrease)/increase in provision for bonuses	(1 973)	12 881	–	–
– Other non-cash flow items	2 336	3 181	–	–
	<u>150 841</u>	<u>128 415</u>	<u>(23)</u>	<u>(1)</u>
33. CHANGES IN WORKING CAPITAL				
(Increase)/decrease in inventory	(70 514)	25 540	–	–
Increase in receivables	(11 766)	(19 944)	–	–
Increase/(decrease) in payables	13 528	6 310	290	(33)
	<u>(68 752)</u>	<u>11 906</u>	<u>290</u>	<u>(33)</u>
34. NET INTEREST				
Net interest per income statement	(75 757)	(68 640)	52	24
Adjusted for:				
– Financing component of SA Wine Industry Trust liability	37 087	15 378	–	–
– Other non-cash flow items	3 200	3 284	–	–
	<u>(35 470)</u>	<u>(49 978)</u>	<u>52</u>	<u>24</u>
35. DIVIDENDS PAID				
Paid to minority shareholders	(20 928)	(20 439)	–	–
Paid to ordinary class A shareholders	(7 815)	–	(7 833)	–
	<u>(28 743)</u>	<u>(20 439)</u>	<u>(7 833)</u>	<u>–</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2003

	GROUP		COMPANY	
	2003 R'000	2002 R'000	2003 R'000	2002 R'000
36. TAXATION REFUNDED/(PAID)				
(Payable)/refundable at beginning of the year	(9 610)	2 179	1	1
Accounted for in the income statement	35 417	(4 326)	(2 610)	(1 709)
Adjustment for deferred taxation	(4 351)	(12 060)	2 594	1 702
Translation of foreign currency taxation liabilities	146	2 356	—	—
Interest owed by SARS, included in closing balance	397	—	—	—
Payable/(refundable) at end of the year	5 501	9 610	9	(1)
	<u>27 500</u>	<u>(2 241)</u>	<u>(6)</u>	<u>(7)</u>
37. COMPOSITION OF CASH AND CASH EQUIVALENTS				
Bank and cash balances	13 844	11 175	297	257
Bank overdrafts	(517)	(15 433)	—	—
Call borrowings	(130 150)	(96 665)	—	—
Short-term euro borrowings	(4 736)	(14 077)	—	—
	<u>(121 559)</u>	<u>(115 000)</u>	<u>297</u>	<u>257</u>

ANNEXURE A: SUBSIDIARY COMPANIES AND ASSOCIATES

at 30 June 2003

	Issued share capital R'000	Effective percentage interest		Company carrying amount	
		2003 %	2002 %	2003 R'000	2002 R'000
INTEREST IN SUBSIDIARY COMPANIES					
KVV South Africa (Pty) Ltd					
– shares	10,0	100,00	100,00	10	10
– loan				31 938	10 101
KVV Finance (Pty) Ltd	0,1	100,00	100,00	–	–
KVV Intellectual Properties (Pty) Ltd	0,1	100,00	100,00	–	–
KVV Projects (Pty) Ltd	0,1	100,00	100,00	–	–
KVV International (Pty) Ltd	0,5	100,00	100,00	57 664	57 664
ECS (CI) Ltd (incorporated in the Channel Islands)*		–	100,00	–	–
Edward Cavendish & Sons Ltd (incorporated in the United Kingdom)*		100,00	100,00	–	–
KVV International Holding GmbH (incorporated in Germany)*		100,00	100,00	–	–
Eggers & Franke GmbH & Co. KG (incorporated in Germany)*		74,90	74,90	–	–
La Concorde Wines BV (incorporated in the Netherlands)*		100,00	100,00	–	–
KVV Investments Ltd	42 000,0	55,63	55,34	32 584	30 439
				122 196	98 214

* Subsidiaries of KVV International (Pty) Ltd

INTEREST IN ASSOCIATES	Percentage interest		Group carrying amount	
	2003 %	2002 %	2003 R'000	2002 R'000
Unlisted				
Remgro-KVV Investments (Pty) Ltd	50,00	50,00	683 347	633 192
Ceres Fruit Juices (Pty) Ltd	25,00	25,00	31 771	27 542
			715 118	660 734

The only asset of Remgro-KVV Investments (Pty) Ltd is a 60% share in the issued share capital of Distell Group Ltd (Distell). The main business of Distell is the manufacturing, distribution and marketing of wine, spirits and alcoholic fruit beverages.

The main business of Ceres Fruit Juices (Pty) Ltd is the production, packaging and distribution of single-strength fruit juices and fruit juice blends.

Some shares in KVV Investments Ltd are pledged in favour of the South African Wine Industry Trust as security for the group's liability to the trust (note 13).

ANNEXURE A: SUBSIDIARY COMPANIES AND ASSOCIATES (continued)

	2003 R'000	2002 R'000
SUMMARY OF ASSETS AND LIABILITIES OF ASSOCIATES		
at 30 June 2003		
Assets		
Property, plant and equipment	1 303 528	1 205 007
Other financial assets	313 707	565 208
Deferred taxation	19 402	16 789
Current assets	3 268 619	2 822 292
Total assets	4 905 256	4 609 296
Equity and liabilities		
Share capital and reserves	2 412 142	2 196 927
Minority interest	799	799
Long-term borrowings	439 022	631 958
Interest-free liabilities	126 288	136 256
Short-term borrowings	644 003	687 420
Current liabilities	1 283 002	955 936
Total equity and liabilities	4 905 256	4 609 296
RESULTS OF OPERATIONS OF ASSOCIATES		
for the year ended 30 June 2003		
Income	5 834 230	5 476 973
Profit before exceptional items and taxation	427 270	443 057
Exceptional items	51 462	(73 175)
Profit before taxation	478 732	369 882
Taxation	(121 741)	(105 909)
– normal activities	(119 041)	(129 398)
– exceptional items	(2 700)	23 489
Minority interest	(315)	(266)
Net profit attributable to ordinary shareholders	356 676	263 707
Contingent liabilities	11 216	11 516
Capital commitments	244 186	327 561

The group and its associated companies operate in the same market segment and therefore the financial results of associates are grouped together.

The group's financial year-end differs from that of Ceres Fruit Juices (Pty) Ltd. The associate's year-end is 30 September 2003. For the purposes of these financial statements the results according to the management accounts to 30 June 2003 were used.

ANNEXURE B: PROPERTY, PLANT AND EQUIPMENT

at 30 June 2003

	GROUP					Carrying value at 30 Jun 2003 R'000
	Carrying value at 30 Jun 2002 R'000	Additions R'000	Disposals R'000	Depreciation R'000	Exchange rate adjustments R'000	
Land and buildings	83 428	7 085	(7)	(5 327)	(7 595)	77 584
Machinery and equipment	209 219	58 353	(813)	(21 497)	(341)	244 921
Furniture and fittings	9 085	11 304	(154)	(8 039)	(528)	11 668
Vehicles	2 837	705	(131)	(1 057)	(42)	2 312
Plant under construction	5 981	(4 442)	—	—	(8)	1 531
Total	310 550	73 005	(1 105)	(35 920)	(8 514)	338 016

	Cost R'000	Accumulated depreciation R'000	Carrying value R'000
Carrying value at 30 June 2003			
Land and buildings	145 121	(67 537)	77 584
Machinery and equipment	426 130	(181 209)	244 921
Furniture and fittings	61 446	(49 778)	11 668
Vehicles	9 935	(7 623)	2 312
Plant under construction	1 531	—	1 531
Total	644 163	(306 147)	338 016

Carrying value at 30 June 2002			
Land and buildings	155 137	(71 709)	83 428
Machinery and equipment	373 172	(163 953)	209 219
Furniture and fittings	55 342	(46 257)	9 085
Vehicles	10 362	(7 525)	2 837
Plant under construction	5 981	—	5 981
Total	599 994	(289 444)	310 550

ANNEXURE C: SEGMENT REPORT

*for the year ended 30 June 2003***Primary reporting format – business segments**

The group is engaged in the manufacturing, marketing and distribution of products of the vine. As these activities comprise an integrated operation the group regards this as a single primary business segment. The annual report includes comprehensive reporting on this segment.

Secondary reporting format – geographical segments		2003 R'000	2002 R'000	
INCOME				
South Africa	37%	381 068	325 128	35%
Europe and United Kingdom	46%	473 080	415 042	45%
Rest of the world	17%	174 769	188 657	20%
		<u>1 028 917</u>	<u>928 827</u>	
ASSETS				
South Africa	82%	1 074 828	981 061	79%
Europe and United Kingdom	16%	206 098	222 970	18%
Rest of the world	2%	25 084	32 015	3%
		<u>1 306 010</u>	<u>1 236 046</u>	
CAPITAL EXPENDITURE				
South Africa	97%	70 933	39 782	95%
Europe and United Kingdom	3%	2 073	2 151	5%
		<u>73 006</u>	<u>41 933</u>	

Segment income excludes sales between different regions.

Segment assets consist of property, plant and equipment, as well as inventory and receivables.

Capital expenditure consists of property, plant and equipment purchased.

NOTICE TO THE SHAREHOLDERS OF KWV LIMITED

Notice is hereby given that the sixth annual general meeting of the company is to be held in the AJ du Toit building (upstairs lecture hall), Kohler Street, Paarl, at 10:00 on Wednesday, 29 October 2003, to:

1. Consider and approve the annual financial statements for the year ended 30 June 2003.
2. Consider and approve the recommended dividend.
3. Place 15% of the unissued shares under the control of the board of directors until the next annual general meeting in terms of section 221(2) of the Companies Act, 1973.
4. Elect directors in the place of Messrs WR Hewett, PBB Hugo and CH Wiese who retire in terms of the articles of association. They are eligible and offer themselves for re-election.
5. Adopt the following special resolution: "that article 20.2 of the company's articles of association are changed by inserting the words 'the directors or' after the words 'With the approval of . . . ' in the first line."

The reason for and effect of this resolution is to change the company's articles of association to enable the board of directors to declare and pay dividends before the annual general meeting of members is held.

6. Transact any other business which may be transacted at an annual general meeting.

A member who is entitled to attend the meeting and vote, is also entitled to nominate a proxy to attend the meeting, speak and vote at an election by ballot. Such a proxy need not be a member of the company.

The enclosed proxy form must reach the registered office of the company at least 48 hours prior to the commencement of the meeting.

By order of the board of directors.

AW Eksteen
Secretary

Paarl
10 September 2003

SHAREHOLDERS' DIARY

Annual general meeting	29 October 2003
Financial reports	
– annual report: 30 June 2003	October 2003
– interim report: 31 December 2003	March 2004

ADMINISTRATIVE INFORMATION

AUDITORS

PricewaterhouseCoopers Incorporated
PricewaterhouseCoopers Building
Zomerlust Estate
Berg River Boulevard
Paarl
7646

Telephone: 021 871 1233

BANKERS

Absa Bank Limited
Suider-Paarl

SECRETARY

AW Eksteen

Telephone: 021 807 3078

ENQUIRIES REGARDING TRANSFER OF SHARES

Zubeida Kensley
PSG Online Securities
Telephone: 021 915 0020

REGISTERED OFFICE

La Concorde
57 Main Street
Paarl
7646
South Africa

POSTAL ADDRESS

PO Box 528
Suider-Paarl
7624

COMPANY REGISTRATION NUMBER

1997/020857/06

PROXY FORM

KWV LIMITED

(Registration number 1997/020857/06)

I _____
(name in full)

being a member of KWV Limited hereby appoint _____

or, failing him, the chairman of the board of directors or, failing him, the chairman of the meeting as my proxy to vote for me and on my behalf at the annual general meeting of the company to be held on 29 October 2003 and at any adjournment thereof as follows:

	For	Against	Abstain
Resolution (1) Approval of the financial statements			
Resolution (2) Approval of the recommended dividend			
Resolution (3) Placing of 15% of the unissued shares under directors' control			
Resolution (4) Election of directors			
WR Hewett			
PBB Hugo			
CH Wiese			
.....			
Resolution (5) Adopt the special resolution			

Unless otherwise instructed above, my proxy may vote as he thinks fit.

Signed this _____ day of _____ 2003

Signature _____

Address _____

NOTE:

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend the meeting and speak and vote, whether by a show of hands or on a poll, in his stead. A proxy need not be a member of the company.
2. This proxy form, duly signed and completed, must reach the registered office of the company not later than 48 hours before the time set for this meeting.