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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 with 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 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, have occurred during the year and up to the date of this report. The directors have a reasonable expectation that the company and the group has 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 32 to 64 were approved by the board of directors on 14 September 2005 and are signed on its behalf by:



D de Wet
Chairman



WJ Barnard
Chief Executive Officer

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 32 to 64 for the year ended 30 June 2005. 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

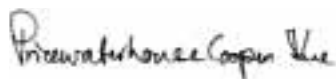
We conducted our audit in accordance with statements of South African Auditing Standards. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- 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 2005 and the results of its operations and cash flow for the year then ended in accordance 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

14 September 2005

DIRECTORS' REPORT

INTRODUCTION

The structure of the KWV group as at 30 June 2005 is set out on page 2.

NATURE OF ACTIVITIES

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

- The purchase of wine, distilling wine and grape juice for processing and maturation, which products are eventually sold in the form of wine, concentrate, brandy and other distillates
- The sales, marketing and distribution of branded liquor products
- Making and managing investments in associated businesses

SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

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

FINANCIAL RESULTS

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

Composition of net profit, after taxation and outside shareholders' interest, of the group:

	2005 R'000	2004 R'000
Results of the holding company, before dividends from group companies	80 376	33 415
Profits of subsidiaries	22 410	10 549
Losses of subsidiaries and joint ventures	(45 623)	(39 695)
Attributable profits of associates	86 523	66 179
Net profit of the group	143 686	70 448

DIVIDEND

An ordinary dividend (dividend number 6) of 4,5 cents (2004: 3,5 cents) per ordinary class A share is declared for the year under review.

Last day to trade "cum" dividend	Friday	14 October 2005
Trading "ex" dividend commences	Monday	17 October 2005
Dividend payment date	Friday	11 November 2005

POST-BALANCE SHEET EVENTS

No material events which may have a significant influence on the financial position of the company or the group occurred between balance sheet date and the date of approval of the financial statements.

DIRECTORS

In terms of the requirements of article 12.3 of the company Messrs CJ du Toit and PB Retief will retire at the next annual general meeting. Both are eligible and offer themselves for re-election.

The complete board of directors as at 14 September 2005 is set out on page 6.

SHAREHOLDING ANALYSIS

Disclosure by the directors indicates that at 30 June 2005 and at the date of this report, the interest of directors and those of their families amounted to 12,0% (2004: 1,4%) of the issued shares of the company. (See analysis of shareholders on page 19.)

CONTINGENT LIABILITIES

Details of contingent liabilities are fully disclosed in note 27 of the financial statements.

BALANCE SHEET

at 30 June 2005

	Notes	GROUP		COMPANY	
		2005 R'000	2004 R'000	2005 R'000	2004 R'000
ASSETS					
Non-current assets		1 253 976	1 165 572	464 097	163 207
Property, plant and equipment	3	350 917	343 576	–	–
Intangible assets	4	495	–	–	–
Investments in subsidiaries and joint ventures	5	–	–	445 729	128 541
Investments in associates	6	854 243	803 587	–	34 175
Other financial assets	7	18 405	526	18 368	491
Deferred taxation	15	29 916	17 883	–	–
Current assets		1 096 248	1 471 397	83	302 621
Inventory	8	849 036	822 137	–	–
Receivables	9	227 666	333 998	49	2 653
Taxation receivable		2 283	169	–	1
Financial instruments	10	2 041	3 659	–	–
Short-term portion of long-term investments	7	–	299 637	–	299 637
Cash and cash equivalents		15 222	11 797	34	330
Total assets		2 350 224	2 636 969	464 180	465 828
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	11	11	11	11	11
Share premium		5 841	6 245	7 000	7 000
Reserves		1 181 224	1 054 788	447 181	348 033
Ordinary shareholders' interest		1 187 076	1 061 044	454 192	355 044
Minority interest		386 951	342 639	–	–
Total equity		1 574 027	1 403 683	454 192	355 044
Non-current liabilities		316 853	234 020	3 231	7 304
Long-term borrowings	12	109 093	–	–	–
South African Wine Industry Trust	13	95 346	117 676	–	–
Long-term provisions	14	4 886	3 666	–	–
Deferred taxation	15	107 528	112 678	3 231	7 304
Current liabilities		459 344	999 266	6 757	103 480
Short-term portion of long-term borrowings	12	42 692	316 007	–	–
Short-term borrowings	16	199 099	337 166	–	–
Trade and other payables	17	206 021	226 980	3 661	458
Dividends payable		–	103 022	–	103 022
Short-term provisions	18	–	686	–	–
Financial instruments	10	1 340	159	–	–
Taxation payable		10 192	15 246	3 096	–
Total equity and liabilities		2 350 224	2 636 969	464 180	465 828

INCOME STATEMENT

for the year ended 30 June 2005

	Notes	GROUP		COMPANY	
		2005 R'000	2004 R'000	2005 R'000	2004 R'000
Revenue	19	1 090 410	1 036 372	–	–
Operating profit	20	140 312	64 723	89 383	19 871
– normal operations		67 882	64 723	6 058	19 871
– profit on sale of interest in associate		72 430	–	83 325	–
Dividend income	21	7 976	16 618	42 425	42 630
Net interest	22	(83 301)	(74 564)	(17 933)	49
Income from associates		150 516	113 606		
– share in retained earnings		87 675	67 777		
– dilution of interest		–	(1 697)		
– dividends received	21	62 841	47 526		
Profit before taxation		215 503	120 383	113 875	62 550
Taxation	23	(2 047)	(2 142)	950	(3 023)
Profit after taxation		213 456	118 241	114 825	59 527
Minority interest		(69 770)	(47 793)	–	–
Net profit attributable to ordinary class A shareholders		143 686	70 448	114 825	59 527
Number of ordinary class A shares ('000)	24				
– Issued		445 607	446 413		
– Used in calculation of earnings per share		447 615	440 804		
– Used in calculation of diluted earnings per share		449 662	447 655		
		Cents	Cents		
Earnings per share	25				
– Attributable earnings		32,1	16,0		
– Headline earnings		16,3	15,2		
– Adjusted headline earnings		23,2	17,9		
Diluted earnings per share	25				
– Attributable earnings		32,0	15,7		
– Headline earnings		16,2	14,9		
– Adjusted headline earnings		23,1	17,6		
Dividend per share					
– Special dividend		–	23,0		
– Ordinary dividend (declared after year-end)		4,5	3,5		

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2005

	GROUP		COMPANY	
	2005 R'000	2004 R'000	2005 R'000	2004 R'000
SHARE CAPITAL				
Balance at beginning and end of the year	11	11	11	11
SHARE PREMIUM				
Balance at beginning of the year	6 245	1 217	7 000	1 500
Class A shares issued	–	5 500	–	5 500
Treasury shares held by the KWV Share Incentive Trust	(404)	(472)	–	–
Balance at end of the year	5 841	6 245	7 000	7 000
RESERVES				
Retained earnings				
Balance at beginning of the year	642 002	735 026	348 033	413 824
Net profit attributable to ordinary class A shareholders	143 686	70 448	114 825	59 527
Increase in investment in associate	–	1 631	–	–
Realisation of equity accounted earnings with sale of interest in associate	31 471	–	–	–
Treasury shares held by the KWV Share Incentive Trust	(3 147)	–	–	–
Equity accounted earnings transferred to equity reserve	(53 164)	(40 023)	–	–
Dividends – ordinary dividend	(15 677)	(22 058)	(15 677)	(22 296)
– special dividend	–	(103 022)	–	(103 022)
Balance at end of the year	745 171	642 002	447 181	348 033
Equity reserve				
Balance at beginning of the year	412 444	372 077		
Realisation of equity accounted earnings with sale of interest in associate	(31 471)	–		
Transfer of equity accounted earnings from retained earnings	53 164	40 023		
Changes in reserves of associates	(376)	344		
Balance at end of the year	433 761	412 444		
NON-DISTRIBUTABLE RESERVES				
Currency translation reserve				
Balance at beginning of the year	(1 358)	1 648		
Deferred taxation on loan to foreign entity	(535)	1 124		
Movement during the year	2 485	(4 130)		
Balance at end of the year	592	(1 358)		
Currency gain on disposal of investment				
Balance at beginning and end of the year	1 700	1 700		
Total reserves at end of the year	1 181 224	1 054 788	447 181	348 033
EQUITY AT END OF THE YEAR	1 187 076	1 061 044	454 192	355 044

CASH FLOW STATEMENT

for the year ended 30 June 2005

	Notes	GROUP		COMPANY	
		2005 R'000	2004 R'000	2005 R'000	2004 R'000
CASH FLOW FROM OPERATING ACTIVITIES					
Cash from operations before changes in working capital	31	99 353	88 004	(429)	(184)
Changes in working capital	32	44 614	(168 922)	3 154	(2 780)
Cash generated from/(utilised in) operations		143 967	(80 918)	2 725	(2 964)
Net interest	33	(46 433)	(58 536)	220	49
Dividends received	21	62 846	47 628	34 454	26 114
Dividends paid	34	(146 819)	(43 252)	(118 699)	(22 296)
Taxation (paid)/refunded	35	(23 702)	2 296	(26)	(25)
Payments to the South African Wine Industry Trust		(37 574)	(34 727)	–	–
Net cash (outflow)/inflow from operating activities		(47 715)	(167 509)	(81 326)	878
CASH FLOW FROM INVESTING ACTIVITIES					
Acquisition of property, plant and equipment					
Replacement of property, plant and equipment		(19 912)	(20 246)		
Additions to property, plant and equipment		(22 935)	(28 516)		
		(42 847)	(48 762)		
Proceeds on disposal of property, plant and equipment		2 167	5 675		
Proceeds on disposal of investments		92 400	–	91 880	–
Proceeds on sale of investment in associate		110 000	–	110 000	–
Preference dividends received		70 120	–	70 120	–
Loans repaid by associates		16 554	1 880	7 500	–
Other loans repaid/(granted)		420	–	(331)	–
Acquisition of foreign subsidiary	37	(2 078)	–	–	–
Net loan to KWV Employee Empowerment Trust		(36 451)	–	(36 451)	–
Acquisition of additional interest in associate		–	(2 650)	–	–
Investment in joint venture		–	–	(8 574)	–
Net loans to subsidiaries		–	–	(153 114)	(6 345)
Net cash inflow/(outflow) from investing activities		210 285	(43 857)	81 030	(6 345)
CASH FLOW FROM FINANCING ACTIVITIES					
Proceeds from shares issued		1 176	4 431	–	5 500
Repurchase of shares		(4 727)	–	–	–
Borrowings repaid		(162 000)	–	–	–
Borrowings made		150 000	–	–	–
Net cash (outflow)/inflow from financing activities		(15 551)	4 431	–	5 500
Net increase/(decrease) in cash and cash equivalents		147 019	(206 935)	(296)	33
Translation of foreign currency opening balances		(5 527)	3 125	–	–
Cash and cash equivalents at beginning of the year		(325 369)	(121 559)	330	297
Cash and cash equivalents at end of the year	36	(183 877)	(325 369)	34	330

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2005

1. ACCOUNTING POLICIES

The annual financial statements are prepared on the historical cost basis, except for financial instruments which are shown at fair value as required by AC 133: Financial instruments, in accordance with South African Statements of Generally Accepted Accounting Practice and the requirements of the South African Companies Act 1973, as amended. These financial statements incorporate the accounting policies set out below which are, except as stated in note 2, consistent with those of the previous financial year.

The group plans to implement International Financial Reporting Standards (IFRS) with effect from 1 July 2005. This will result in the restatement of appropriate comparative figures.

1.1 Basis of consolidation

Subsidiaries

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.

The purchase method is used to account for the acquisition of subsidiaries. The difference between the fair value of the consideration paid and the fair value allocated to identifiable assets at the date of acquisition is charged to goodwill arising on consolidation. Goodwill is carried at cost less accumulated impairment losses.

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

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; and
- income statement items at weighted average exchange rates for the period.

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

Joint ventures

Jointly controlled entities are those investments in which the group has a long-term interest, and where joint control over the economic activity of an entity is established through a contractual arrangement.

These ventures are accounted for according to the proportionate consolidation method. In terms of this method the attributable share of assets, liabilities, income, expenditure and cash flows are included in the consolidated financial statements on a line-for-line basis.

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

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2005

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

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

The results of associates acquired or disposed of during the year are included in the consolidated income statement from the date on which significant influence was obtained until the date on which it ceased.

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 their expected useful lives as follows:

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

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

Where assets are identified as being impaired, when the recoverable amount has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. Such amounts written off are accounted for in normal income.

1.3 Intangible assets

Research and development

Research and development costs are expensed as incurred.

Trademarks and intellectual property

The cost of trademarks and intellectual property which are established and developed by the group itself is expensed when incurred. Expenditure on acquired trademarks and intellectual property are capitalised and amortised over periods that vary from five to 20 years.

1.4 Investments

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

1.5 Inventory

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.

1.6 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.

1.7 Financial instruments

Financial instruments carried on the balance sheet include cash and bank balances, receivables, payables, investments and borrowings received and granted. Financial instruments are initially recognised at cost, including transaction costs.

Subsequent to initial recognition these instruments are measured as disclosed in the individual accounting policy statements associated with each item.

Derivatives

The group is party to financial instruments that reduce exposure to fluctuations in foreign currency exchange and interest rates. These instruments mainly comprise foreign currency forward contracts and interest rate swap agreements. The purpose of these instruments is to reduce risk.

Derivative instruments are remeasured at their fair values and disclosed as assets or liabilities on the balance sheet.

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. Hedge accounting is not applied and the difference in the fair values thus determined are taken to the income statement.

Any differential to be paid or received on an interest rate swap agreement is recognised as a component of interest revenue or expense over the period of the agreement. Gains and losses on early termination of interest rate swaps or remeasurement thereof at fair value are taken to the income statement.

Disclosure about financial instruments to which the group is a party is provided in note 30.

1.8 Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank balances and investments in money market instruments. These items are carried at cost.

1.9 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.

1.10 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.

1.11 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.

1.12 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 unused tax losses carried forward are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be set off.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2005

Secondary tax on companies (STC) is provided in respect of dividend payments, net of dividends received, and recognised as a tax expense in the income statement. A deferred tax asset is recognised for unutilised STC credits to the extent that it is probable that dividends will be declared against which the STC credits can be utilised.

1.13 Revenue recognition

Income from sales of products is accounted for when the risk passes to the customer. It excludes excise duty, value added tax, sales tax and discounts and intergroup sales are eliminated.

Other revenues earned by the group are recognised on the following basis:

- Interest earned is accrued on a time proportion basis.
- Dividends are recognised when the right to receive payment is established.

1.14 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.

1.15 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 Funds 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 funds are charged against income as incurred. The assets of each scheme are maintained separately and are administered by the trustees.

The defined benefit fund is the Edward Cavendish Limited Pension and Life Assurance Scheme. There are no active members in service since the last active member resigned from the fund on 30 June 2002 and the group no longer contributes to the fund. The last actuarial valuation of the fund for the purposes of AC 116 was performed by a qualified independent actuary on 1 July 2002. A new valuation, as at 30 June 2005, is currently being done.

Any deficit arising in respect of the difference in values, based on actuarial assumptions, between the fund assets and liabilities is recognised against income. (Refer to note 14.)

1.16 Finance costs

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

1.17 Dividends paid

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

1.18 Cash flow statement

The cash flow statement is prepared using the indirect method.

1.19 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.

1.20 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.

2. CHANGES IN ACCOUNTING POLICIES

With effect from 1 July 2004 the group adopted the following accounting statements: AC 140 (IFRS 3): Business combinations, AC 128 (IAS 36): Impairment of assets, AC 129 (IAS 38): Intangible assets and AC 501: Accounting for secondary tax on companies (STC).

These new policies had no material impact on the financial results of the group.

	GROUP	
	2005	2004
	R'000	R'000
3. PROPERTY, PLANT AND EQUIPMENT		
(Annexure B)		
Carrying value at end of the year		
Land and buildings	75 821	69 517
Machinery and equipment	262 484	259 747
Furniture and fittings	10 260	12 145
Vehicles	2 297	2 103
Plant under construction	55	64
	350 917	343 576
The registers of land and buildings are available for inspection at the registered offices of the company and its subsidiaries.		
Cost of assets fully depreciated	132 817	117 891
4. INTANGIBLE ASSETS		
Intellectual property: Client mailing lists		
Acquired during the year	495	–
Amortisation	–	–
Carrying value at end of the year	495	–

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2005

	GROUP		COMPANY	
	2005 R'000	2004 R'000	2005 R'000	2004 R'000
5. INVESTMENTS IN SUBSIDIARIES AND JOINT VENTURES				
(Annexure A)				
Listed				
KWV Investments Limited			32 584	32 584
Unlisted				
Golden Kaan Limited			8 574	–
KWV Finance (Proprietary) Limited			155 500	–
KWV Intellectual Property (Proprietary) Limited			–	–
KWV International (Proprietary) Limited			57 664	57 664
KWV Projects (Proprietary) Limited			–	–
KWV South Africa (Proprietary) Limited			10	10
			254 332	90 258
Loan: KWV International (Proprietary) Limited			180 000	–
Loan: KWV Intellectual Property (Proprietary) Limited			11 250	–
Loan: KWV South Africa (Proprietary) Limited			147	38 283
			445 729	128 541
These loans are unsecured, interest free and not subject to any specific repayment terms.				
6. INVESTMENTS IN ASSOCIATES				
(Annexure A)				
Equity interests				
Unlisted shares	45 500	73 806	–	26 675
Amortisation of premium on acquisition of interest	–	(20 575)	–	–
Interest in post acquisition reserves	808 743	751 584	–	–
Unrealised profit in closing inventory of associates	–	(17 581)	–	–
	854 243	787 234	–	26 675
Loans				
Distell Group Limited	–	8 853	–	–
Ceres Fruit Juices (Proprietary) Limited	–	7 500	–	7 500
	854 243	803 587	–	34 175
Directors' valuation of equity interests	1 530 933	972 220	–	90 000

	GROUP		COMPANY	
	2005 R'000	2004 R'000	2005 R'000	2004 R'000
7. OTHER FINANCIAL ASSETS				
Unlisted investments	108	299 743	71	299 708
– preference shares	–	154 029	–	154 029
– right to acquire shares in subsidiary	–	145 608	–	145 608
– other	108	106	71	71
Loans granted	18 297	420	18 297	420
– Loan: KWV Employee Empowerment Trust The loan is interest free and repayable within 10 years. It has a nominal value of R36 450 533 and is carried at amortised cost at a discount rate of 11%. 90% of all dividends received by the Trust during this period are to be used to repay the loan.	18 297	–	18 297	–
– Loan: KWV Share Incentive Trust This loan is unsecured, interest free and not subject to any specific repayment terms. It has a nominal value of R3 404 555 and a fair value of nil because it is unlikely that the Trust will be able to repay the amount owing.	–	–	–	–
– Other	–	420	–	420
	18 405	300 163	18 368	300 128
<i>Less: Investments to be realised within 12 months transferred to short-term investments.</i>	–	(299 637)	–	(299 637)
	18 405	526	18 368	491
Directors' valuation				
– unlisted investments	108	299 743	71	299 708
The registers of investments are available for inspection at the registered offices of the company and its subsidiaries.				
8. INVENTORY				
Liquid inventory	817 256	818 599		
– Adjustment to comparative note 38.1	–	(25 531)		
Auxiliary material	31 780	29 069		
	849 036	822 137		
Inventory written down to net realisable value	12 817	10 439		

Inventory is encumbered as indicated in note 27.2

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2005

		GROUP		COMPANY	
		2005 R'000	2004 R'000	2005 R'000	2004 R'000
9.	RECEIVABLES				
	Trade receivables	194 318	296 518	–	–
	Other receivables	43 894	18 407	49	2 653
	– Adjustment to comparative	–	25 531	–	–
		238 212	340 456	49	2 653
	Less: Provision for bad debts	10 546	6 458	–	–
		227 666	333 998	49	2 653
10.	FINANCIAL INSTRUMENTS				
	– Forward exchange contracts	1 165	3 500		
	– Interest rate swap	(464)	–		
		701	3 500		
	The amounts disclosed in the balance sheet are as follows:				
	Current assets:				
	– forward exchange contracts	2 041	3 659		
	Current liabilities:				
	– forward exchange contracts and interest rate swaps	(1 340)	(159)		
11.	SHARE CAPITAL				
	Shares authorised				
	Ordinary profit-sharing class A shares of 0,0025 cents each				
	643 388 800 (2004: 643 388 800)	16	16	16	16
	Ordinary non-profit-sharing class B shares of 0,0025 cents each				
	1 556 611 200 (2004: 1 556 611 200)	39	39	39	39
		55	55	55	55
	Shares issued				
	Ordinary profit-sharing class A shares of 0,0025 cents each				
	Issued				
	447 923 265				
	Held by the KWV Share Incentive Trust				
	(2 316 535)				
	Net	445 606 730	11	11	11

In terms of a shareholders' resolution the 195 465 535 (2004: 195 465 535) unissued ordinary profit sharing class A shares are under the control of the directors until the forthcoming annual general meeting.

	2005 R'000	GROUP 2004 R'000
12. LONG-TERM BORROWINGS		
Secured		
Loan bearing interest at a fixed rate of 9,65% per annum. Interest is payable quarterly and the capital is repayable in 20 quarterly instalments over five years, starting on 29 July 2005.	151 785	–
Loan bearing interest at a fixed rate of 15,36% per annum, payable six-monthly in arrears.	–	155 500
Loan bearing interest at a fixed rate of 14,92% per annum, payable six-monthly in arrears.	–	160 507
	151 785	316 007
<i>Less: Repayable within 12 months, included under current liabilities.</i>	(42 692)	(316 007)
	109 093	–
13. SOUTH AFRICAN WINE INDUSTRY TRUST (SAWIT)		
The company's wholly-owned subsidiary, KWV SA (Pty) Ltd, is committed to payments over a 10-year period (of which 3,5 years remain) to SAWIT for tasks which the trust will perform and from which the company will benefit.		
Gross liability	167 801	209 333
<i>Less: VAT</i>	(15 926)	(19 867)
Cash value of outstanding liability	151 875	189 466
Present value at beginning of the year	153 914	176 642
Financing cost		
– At opening rate	13 293	14 474
– Due to changes in discount rate	4 718	(2 475)
Amount paid during the year	(37 574)	(34 727)
Present value at end of the year	134 351	153 914
<i>Less: Short-term portion of liability transferred to payables</i>	(39 005)	(36 238)
Long-term portion of liability	95 346	117 676
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:	40 122	37 591
The RSA153 rate of 7,57% (2004: 9,90%) is used to calculate the current value of the liability.		
This outstanding liability is secured by a pledge in favour of SAWIT of a portion, with a market value of R790,3 million (2004: R435,8 million), of the investment in KWV Investments Limited.		

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2005

	GROUP		COMPANY	
	2005 R'000	2004 R'000	2005 R'000	2004 R'000
14. LONG-TERM PROVISIONS				
ECS Pension Fund deficit				
Edward Cavendish Limited Pension and Life Assurance Scheme is a defined benefit fund in the United Kingdom and has members only in that country.				
(Refer to note 1.15)				
The funded status based on the interim valuation of the fund as at 30 June 2005 was as follows:				
Assets	12 826	12 106		
Liabilities	17 712	15 772		
Deficit in scheme	4 886	3 666		
No deferred taxation asset has been raised in respect of this deficit, as the directors are of the opinion that the subsidiary will not make sufficient profits in the foreseeable future to utilise the loss.				
Assumptions				
The assets of the scheme have been taken into account at market value and the liabilities have been calculated using the following principal actuarial assumptions:				
	2005	2004		
Inflation	3,0%	3,0%		
Salary increases	0,0%	0,0%		
Rate of discount	6,0%	6,0%		
Pension increases (pre-April 1997 service)	3,0%	3,0%		
Pension increases (post-April 1997 service)	3,0%	3,0%		
Exchange rate (GBP)	11,95	11,28		
Long-term provisions at end of the year	4 886	3 666		
15. DEFERRED TAXATION				
Attributable to timing differences:				
Balance at beginning of the year	94 795	99 171	7 304	4 296
– Accounted for against income	(15 399)	(2 927)	(4 073)	3 008
– Minority interest in change in unrealised profit in closing inventory of associate	(2 339)	(230)	–	–
– Exchange rate differences on unrealised profit in closing inventory of group companies	20	(95)	–	–
– Unrealised foreign exchange difference accounted for in equity	535	(1 124)	–	–
Balance at end of the year	77 612	94 795	3 231	7 304

	GROUP		COMPANY	
	2005 R'000	2004 R'000	2005 R'000	2004 R'000
15. DEFERRED TAXATION (continued)				
The balance comprises:				
– Capital allowances	63 892	59 761	–	–
– Growth in investment	8 495	7 304	8 495	7 304
– Inventory revaluation	50 410	57 285	–	–
– Unrealised foreign exchange differences	(1 401)	(2 220)	–	–
– Lump sum contributions to pension fund	(1 739)	(3 704)	–	–
– Provisions and accruals	(11 151)	(5 910)	(5 264)	–
– Unrealised profit in closing inventory of group companies	(6 323)	(7 420)	–	–
– Computed taxation losses	(24 571)	(10 301)	–	–
	77 612	94 795	3 231	7 304
The amounts disclosed in the balance sheet are as follows:				
– Group companies with net deferred tax assets, and consolidation adjustments	(29 916)	(17 883)		
– Group companies with net deferred tax liabilities	107 528	112 678		
	77 612	94 795		
16. SHORT-TERM BORROWINGS				
Unsecured				
Call borrowings	148 686	297 582		
Bank overdraft	47 386	36 446		
Euro borrowings	3 027	3 138		
	199 099	337 166		
Call borrowings carry interest at daily money market rates. The bank overdraft carries interest at prime rate and the euro borrowings at market-related rates.				
17. TRADE AND OTHER PAYABLES				
Trade payables	102 078	123 271	–	–
Other payables	64 938	67 471	3 661	458
Short-term portion of SAWIT liability	39 005	36 238	–	–
	206 021	226 980	3 661	458

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2005

	GROUP		COMPANY	
	2005 R'000	2004 R'000	2005 R'000	2004 R'000
18. SHORT-TERM PROVISIONS				
18.1 Present value of future operating lease payments	–	151		
– Balance at beginning of the year	151	548		
– Payments made	(153)	(431)		
– Finance cost	2	34		
18.2 Supplier claims	–	535		
– Balance at beginning of the year	535	2 379		
– Decrease in provision	(535)	(1 108)		
– Payments made	–	(736)		
Potential claims for price differences relating to raw material purchased.				
	–	686		
19. INCOME				
Gross sales	1 253 080	1 161 926		
Less: Excise duty recovered	(162 670)	(125 554)		
	1 090 410	1 036 372		
20. OPERATING PROFIT				
Sales	1 090 410	1 036 372		
Cost of sales	(725 970)	(708 430)		
Gross profit	364 440	327 942		
Other income	50 466	47 750	9 892	20 055
Profit on sale of interest in associate	72 430	–	83 325	–
Administrative expenses	(102 463)	(99 578)	(429)	(184)
Promotion, marketing and distribution	(189 034)	(158 698)	–	–
Production management and planning	(31 161)	(30 704)	–	–
Other expenses	(24 366)	(21 989)	(3 405)	–
Operating profit	140 312	64 723	89 383	19 871
Operating profit is stated after taking into account the following items:				
Profit/(loss) on disposal of non-current assets				
Property, plant and equipment	1 515	4 831	–	–
Investments	32	(597)	–	–
	1 547	4 234	–	–
Growth in unlisted investment	9 892	20 055	9 892	20 055
Depreciation				
Land and buildings	3 744	3 911		
Machinery and equipment	24 382	23 832		
Furniture and fittings	8 043	8 015		
Vehicles	852	887		
	37 021	36 645		

	GROUP		COMPANY	
	2005 R'000	2004 R'000	2005 R'000	2004 R'000
20. OPERATING PROFIT (continued)				
Auditors' remuneration				
Audit fees	1 276	1 022	83	10
Consultation services	233	1 627		
– restructuring	–	1 176		
– taxation	233	173		
– company valuation	–	278		
Internal audit services	342	245		
Accounting and legal services – foreign subsidiaries	204	–		
	2 055	2 894	83	10
Operating lease contracts				
Land and buildings	1 196	774		
Equipment	1 330	2 924		
Fees for external services				
Management, technical and administrative services	6 927	6 806		
Staff costs	152 337	148 057		
Included in staff costs are:				
Retirement benefits – employer contributions	15 212	12 395		
Other				
Change in provisions: notes 14 and 18.	687	(4 369)		
Fair value adjustment: Loan to KWV Share Incentive Trust	–	–	3 405	–
Net foreign exchange profits	4 222	5 579		
	Number	Number		
Staff employed at year-end	723	765		
21. DIVIDEND INCOME	R'000	R000		
Unlisted investments				
– Associates	62 841	47 526	–	–
– Other	5	102	5	2
Listed investments				
– Subsidiary	–	–	34 449	26 112
Ordinary dividends	62 846	47 628	34 454	26 114
Preference dividends	7 971	16 516	7 971	16 516
Gross dividends received	70 817	64 144	42 425	42 630

Dividends received from associates are disclosed separately on the income statement under “Income from associates”.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2005

	GROUP		COMPANY	
	2005 R'000	2004 R'000	2005 R'000	2004 R'000
22. NET INTEREST				
Interest received				
Investments and deposits	952	2 225	220	49
Other	253	136	–	–
	1 205	2 361	220	49
Interest paid				
South African Revenue Service	2 050	–	–	–
South African Wine Industry Trust	18 011	11 999	–	–
Present value adjustment: Loan to KVV Employee Empowerment Trust	18 153	–	18 153	–
Borrowings – long term	22 382	46 609	–	–
– short term	23 910	18 317	–	–
	84 506	76 925	18 153	–
	(83 301)	(74 564)	(17 933)	49
23. TAXATION				
South African normal taxation				
– Current taxation	(18 689)	(4 444)	(3 123)	(15)
– Deferred taxation	12 667	2 927	3 830	(3 008)
Change in rate of taxation	3 103	–	243	–
Over/(under)provision previous years	1 066	(528)	–	–
– current taxation	1 437	(528)	–	–
– deferred taxation	(371)	–	–	–
Foreign taxation	(194)	(97)	–	–
Taxation for the year	(2 047)	(2 142)	950	(3 023)

	GROUP		COMPANY	
	2005	2004	2005	2004
23. TAXATION (continued)				
Reconciliation of the tax rate				
	%	%	%	%
Normal rate for companies	29,00	30,00	29,00	30,00
Adjusted for:				
– Exempt income	(1,07)	(4,14)	(10,80)	(20,45)
– Income from associates	(20,25)	(28,31)	–	–
– Change in rate of taxation	(1,44)	–	(0,21)	–
– Consolidation adjustments	–	0,87	–	–
– Income of a capital nature	(0,81)	(3,38)	(1,27)	(4,81)
– Profit on sale of interest in associate	(8,33)	–	(18,53)	–
– Disallowed expenditure	3,90	4,34	0,98	–
– Assessed loss utilised	(0,35)	–	–	–
– Adjustment for foreign taxation	0,80	1,96	–	–
– (Over)/underprovision previous years	(0,49)	0,44	–	–
Net reduction	(28,04)	(28,22)	(29,83)	(25,26)
Effective rate	0,96	1,78	(0,83)	4,74
	R'000	R'000	R'000	R'000
Gross calculated tax losses available for utilisation against future taxable income	165 326	110 861		
Tax relief calculated at current tax rates	43 293	27 936		
Utilised to reduce deferred taxation	(24 571)	(10 301)		
Tax relief available for offset against future taxation	18 722	17 635		
Secondary tax on companies (STC)				
No provision has been made for STC				
STC credits available for utilisation against future dividend payments	152 479	191 559	126 217	166 311

History shows that KVV's STC credits increase over time as dividends received exceed dividends paid. No deferred tax asset is therefore created.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2005

	2005 Number '000	GROUP 2004 Number '000
24. 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		
– Shares in issue at beginning of the year	447 923	436 923
– Issued to the KWV Share Incentive Trust	–	11 000
– Treasury shares (held by the Trust)	(2 316)	(1 510)
– Net issued shares at end of the year	445 607	446 413
Used in the calculation of earnings per share	447 615	440 804
Dilutive effect of share options granted to management	2 047	6 851
Used in the calculation of diluted earnings per share	449 662	447 655
(Refer to note 29 for detail of options)		
	R'000	R'000
25. HEADLINE EARNINGS		
Net profit attributable to ordinary class A shareholders	143 686	70 448
Adjusted for:		
– Profit on sale of non-current assets	(1 547)	(4 234)
– Profit on sale of interest in associate	(72 430)	–
– Tax effect of sale of interest in associate	3 060	–
– Dilution of investment in associate	–	944
– Net interest in adjusting items of associate	(1)	(325)
Headline earnings	72 768	66 833
Adjusted for:		
– Finance component of SAWIT liability	18 011	11 999
– Present value adjustment: Loan to KWV Employee Empowerment Trust	18 153	–
– Tax effect of present value adjustment	(5 264)	–
Adjusted headline earnings	103 668	78 832
26. CAPITAL COMMITMENTS		
Incomplete contracts for capital expenditure	820	–
Capital expenditure authorised by the board not yet contracted for	28 202	37 606
	29 022	37 606

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

	GROUP		COMPANY	
	2005 R'000	2004 R'000	2005 R'000	2004 R'000
27. CONTINGENT LIABILITIES				
27.1 Guarantees				
Employee housing loans	765	949	–	–
Interest promissory notes: subsidiary company	–	21 710	–	21 710
Call borrowings: subsidiary company	–	–	151 649	290 073
	765	22 659	151 649	311 783

KWV Limited provides a general guarantee to various financial institutions in respect of any claims against KWV South Africa (Proprietary) Limited, KWV International (Proprietary) Limited and KWV Finance (Proprietary) Limited.

27.2 Inventory

Inventory with a book value of R251 676 000 (2004: R260 893 000) 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 financing implications.

The extent and effect of the defence mechanism will be determined by the balance of the rebate brandy inventory available at the time of exercising the option. The defence 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 defence 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 defence 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 2005

27. CONTINGENT LIABILITIES (continued)

27.3 Income taxation query

Correspondence has been received from South African Revenue Service (SARS) in which notice is given to companies in the group of their intention to issue revised income tax assessments because SARS is of the opinion that, on the one hand, certain expenses deducted for income tax purposes within the group are of a capital nature and, on the other hand, that the growth in an investment is income in nature as opposed to the group's view that it is capital in nature.

Based on advice from the group's tax and legal advisors the board is convinced that the companies do not have any additional liability for taxation in this respect. Should SARS, however, proceed to issue revised assessments it is the intention of the board to object thereto and to take the required action in the interests of the companies.

27.4 Restructuring

At the reporting date KWV South Africa (Pty) Ltd was in the process of carrying out an organisation restructuring which included the retrenchment of staff through a formal section 189A process in terms of the Labour Relations Act. Retrenchment packages have been offered and provision has been made for staff who have elected voluntary redundancy or early retirement. The process is ongoing and further retrenchment costs will be incurred in the new financial year.

27.5 Excise duty on spirits

Notice has been received from SARS of their intention to assess and tax KWV South Africa on unsold spirits of 915 000 litres absolute alcohol that has been fully matured for two years. KWV is currently negotiating for a postponement of the assessment. If the excise duties become payable it will result in a cash outflow of R46 132 165 and a corresponding increase in "Other receivables", but will not have any effect on the net profit of the group.

	GROUP	
	2005	2004
	R'000	R'000
28. RELATED-PARTY TRANSACTIONS		
28.1 Associated companies		
During the year the company's subsidiaries entered into various sales transactions with associates. These transactions occurred under terms no more favourable than those negotiated with third parties.		
Sales to associates	108 558	141 631
Due by associates at end of the year	896	97 985

The above are included in income and receivables in the group financial statements.

	Salaries and fees	Retirement contributions	Unrealised gain relating to share incentive scheme	Other allowances	2005 R'000 Total	COMPANY 2004 R'000 Total
28. RELATED-PARTY TRANSACTIONS (continued)						
28.2 Directors' remuneration						
Executive	2 201	334	799	530	3 864	2 545
WJ Barnard	1 329	202	799	220	2 550	2 132
JB Bestbier (from 10 May 2005)	119	18	–	60	197	–
W Bestbier (from 10 March 2004)	753	114	–	250	1 117	413
Non-executive	1 275	–	–	182	1 457	1 082
D de Wet	429	–	–	101	530	225
AEvZ Botha	73	–	–	23	96	63
VA Christian	82	–	–	12	94	–
DC Cronjé	22	–	–	–	22	76
AS du Plessis	102	–	–	–	102	85
FA du Plessis	87	–	–	7	94	74
CJ du Toit	99	–	–	3	102	68
WR Hewett	87	–	–	5	92	85
PBB Hugo	87	–	–	11	98	91
LN Jonker	–	–	–	–	–	100
LP Mondi	19	–	–	–	19	–
PB Retief	85	–	–	12	97	77
FA Sonn	24	–	–	2	26	69
CH Wiese	79	–	–	6	85	69
Retired directors						
Pensions	–	–	–	48	48	68
Total directors' emoluments	3 476	334	799	760	5 369	3 695
<i>Less: Paid by subsidiaries</i>					(5 369)	(3 695)
					–	–

Share options allocated to executive directors	Date exercised	Number of shares	Exercise price per share	Market value at date exercised	Shares taken up (paid for)	Market value at payment date	Unrealised gain	Shares not yet paid for
WJ Barnard	2000/05/26	1 500 000	R0,50	R0,51	500 000	R1,86	R680 000	–
	2002/04/03	350 000	R0,50	R0,51	87 500	R1,86	R119 000	262 500
	2003/02/08	75 000	R0,90	R1,20	–	–	–	75 000
		1 925 000			587 500		R799 000	337 500
JB Bestbier		1 000 000	R1,50		–	–	–	1 000 000
WJ Bestbier	2000/05/26	1 000 000	R0,50	R0,51	–	–	–	–
	2002/04/03	250 000	R0,50	R0,51	–	R 1,85	–	187 500
	2003/02/08	75 000	R0,90	R1,20	–	–	–	75 000
		1 325 000			–		–	262 500

Market value per share – 30 June 2005

160 cents

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2005

	2005	COMPANY 2004
29. EQUITY COMPENSATION BENEFITS		
Share option plan		
The group offers vested share options to senior management and key employees. KWV Limited grants unsecured, interest free loans with no fixed repayment terms to the KWV Share Incentive Trust which enables the Trust to acquire ordinary shares in KWV. These shares carry full dividend and voting rights. The Trust grants option contracts to employees which entitles them to acquire these shares from the Trust at specified prices, during specified intervals in the future.		
29.1 Recognition of share options in the financial statements		
No income or expense is recognised when options are issued or exercised. The KWV Share Incentive Trust is consolidated in the group financial statements.		
29.2 Shares owned by the Share Incentive Trust	Number	Number
Balance at 1 July	1 510 012	566 262
Issued to the trust	–	11 000 000
Purchased in the market	2 560 908	500 000
Purchased in terms of “odd lot” offer to shareholders	341 865	–
Sold to employees in terms of their option contracts	(2 096 250)	(10 556 250)
Balance at 30 June	2 316 535	1 510 012
	R’000	R’000
Fair value of shares	3 706	2 567
29.3 Options held by employees	Number	Number
Outstanding at 1 July	5 361 250	16 267 500
New options allotted	1 210 000	210 000
Shares taken up in terms of option contracts	(2 096 250)	(10 556 250)
Lapsed	(127 500)	(560 000)
Outstanding at 30 June	4 347 500	5 361 250
29.4 Options allotted during the year		
Exercise price per share	R1,30 and R1,50	R0,90
Total proceeds if shares are issued	R1 773 000	R189 000
Fair value on day of allotment	R1 773 000	R189 000
29.5 Options exercised during the year		
Exercise price per share	R0,50 and R0,90	R0,50
Total proceeds	R1 176 125	R5 278 125

29. EQUITY COMPENSATION BENEFITS *(continued)*

29.6 Terms of the shares outstanding at 30 June 2005 and the financial years in which they become unconditional in terms of options exercised:

Unconditional during the year ended	Number of shares that can be acquired				Total
	@ R0.50	@ R0.90	@ R1.30	@ R1.50	
30 June 2005 (and earlier)	861 250				861 250
30 June 2006	546 250	432 500			978 750
30 June 2007		432 500			432 500
30 June 2008		865 000	52 500	250 000	1 167 500
30 June 2009			52 500	250 000	302 500
30 June 2010			105 000	500 000	605 000
	1 407 500	1 730 000	210 000	1 000 000	4 347 500

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.

30. FINANCIAL INSTRUMENTS

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

30.1 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, KWV's reporting currency.

Foreign currency forward contracts are entered into to protect existing assets and liabilities against movements in exchange rates or to hedge future cash flows of high probability. Although hedge accounting is not applied, 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.

30.2 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2005

	2005 R'000	GROUP 2004 R'000
30. FINANCIAL INSTRUMENTS (continued)		
30.2 Interest rate risk management (continued)		
The interest rate exposure of the group at year-end was as follows:		
At fixed rates Note 12	151 785	316 007
At floating rates Note 16	199 099	337 166
	350 884	653 173

The group uses interest rate swap transactions to hedge against interest rate risks and to attain the desired interest rate profile. At year-end the value of loans hedged via such contracts were as follows:

	Loans hedged R'000	Interest payable (fixed)	Interest receivable (variable)	Fair value profit/(loss) R'000
Interest rate swap transaction	200 000	7,15%	3M Jibar	(288)

30.3 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.

30.4 Fair value of financial instruments

The fair values of receivables, payables, borrowings, loans, cash and bank balances are equal to their balance sheet values. The fair values of investments are given in notes 6 and 7 as the market value and the directors' valuation of the listed and unlisted investments respectively.

30.5 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.

30.6 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.

	GROUP		COMPANY	
	2005 R'000	2004 R'000	2005 R'000	2004 R'000
31. CASH FROM OPERATIONS BEFORE CHANGES IN WORKING CAPITAL				
Profit before taxation	215 503	120 383	113 875	62 550
Adjusted for:				
– Income from associates	(150 516)	(113 606)	–	–
– Profit on sale of interest in associate	(72 430)	–	(83 325)	–
– Net interest	83 301	74 564	17 933	(49)
– Dividends received	(7 976)	(16 618)	(42 425)	(42 630)
– Depreciation	37 021	36 645	–	–
– Profit on disposal of non-current assets	(1 547)	(4 234)	–	–
– Growth in carrying value of investment	(9 892)	(20 055)	(9 892)	(20 055)
– Fair value adjustment: Loan to KWV Share Incentive Trust	–	–	3 405	–
– Property, plant and equipment scrapped	–	1 048	–	–
– Inventory variances and write-offs	17 080	23 442	–	–
– Decrease in unrealised profit in closing inventory of associates	(17 581)	(1 717)	–	–
– Decrease in bonuses payable	–	(6 962)	–	–
– Other non-cash flow items	6 390	(4 886)	–	–
	99 353	88 004	(429)	(184)
32. CHANGES IN WORKING CAPITAL				
Increase in inventory	(43 765)	(93 546)	–	–
Decrease/(increase) in receivables	120 301	(131 335)	(49)	(2 653)
(Decrease)/increase in payables	(31 922)	55 959	3 203	(127)
	44 614	(168 922)	3 154	(2 780)
33. NET INTEREST				
Net interest per income statement	(83 301)	(74 564)	(17 933)	49
Adjusted for:				
– Financing component of SAWIT liability	18 011	11 999	–	–
– Present value adjustments	18 153	–	18 153	–
– Other non-cash flow items	704	4 029	–	–
	(46 433)	(58 536)	220	49
34. DIVIDENDS PAID				
Paid to minority shareholders	(28 120)	(21 194)	–	–
Paid to ordinary class A shareholders	(118 699)	(22 058)	(118 699)	(22 296)
	(146 819)	(43 252)	(118 699)	(22 296)
35. TAXATION (PAID)/REFUNDED				
(Payable)/refundable at beginning of the year	(15 077)	(5 501)	1	(9)
Accounted for in the income statement	(2 047)	(2 142)	950	(3 023)
Adjustment for deferred taxation	(15 379)	(3 022)	(4 073)	3 008
Translation of foreign currency taxation liabilities	892	(2 116)	–	–
Payable/(refundable) at end of the year	7 909	15 077	3 096	(1)
	(23 702)	2 296	(26)	(25)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 30 June 2005

	GROUP		COMPANY	
	2005 R'000	2004 R'000	2005 R'000	2004 R'000
36. COMPOSITION OF CASH AND CASH EQUIVALENTS				
Bank and cash balances	15 222	11 797	34	330
Bank overdrafts	(47 386)	(36 446)	–	–
Call borrowings	(148 686)	(297 582)	–	–
Short-term euro borrowings	(3 027)	(3 138)	–	–
	(183 877)	(325 369)	34	330
37. ACQUISITION OF FOREIGN SUBSIDIARY Ludwig von Kappf GmbH & Co. (LvK)				
A 100% interest was acquired in LvK, a mail order distributor in Germany, on 1 April 2005 and its results were consolidated from that date. The purchase consideration of €258 000 was funded through borrowings and own resources.				
<i>Effect on the movement of:</i>				
Property, plant and equipment	46	–		
Intangible assets	495	–		
Inventory	8 097	–		
Receivables	3 335	–		
Cash and bank balances	10	–		
Trade and other payables	(5 265)	–		
Short-term borrowings	(4 640)	–		
Purchase consideration and fair value of assets acquired	2 078	–		
38. COMPARATIVE FIGURES				
Comparative figures have been restated for the following:				
38.1 Pre-paid excise duty, previously included in inventory, disclosed as other receivables				
Impact on balance sheet: current assets				
– increase in other receivables	note 9	25 531		
– decrease in inventory	note 8	(25 531)		
Impact on cash flow statement: changes in working capital				
– additional increase in receivables	note 32	(15 228)		
– reduction in cash outflow from inventory	note 32	15 228		
38.2 Excise duties recovered, previously included in gross sales	note 19	61 341		
This had no impact on revenue or profit, since revenue reported in the income statement excludes excise duty.				

ANNEXURE A – SUBSIDIARY COMPANIES, JOINT VENTURES AND ASSOCIATES

at 30 June 2005

	Issued share capital R'000	Effective percentage interest		Company carrying amount	
		2005 %	2004 %	2005 R'000	2004 R'000
INTEREST IN SUBSIDIARY COMPANIES					
KWV Finance (Pty) Ltd	0,1	100,00	100,00	155 500	–
KWV Intellectual Property (Pty) Ltd					
– Shares	0,1	100,00	100,00	–	–
– Loan				11 250	–
KWV International (Pty) Ltd					
– Shares	0,5	100,00	100,00	57 664	57 664
– Loan				180 000	–
KWV Investments Ltd	42 000	55,63	55,63	32 584	32 584
KWV Projects (Pty) Ltd	0,1	100,00	100,00	–	–
KWV South Africa (Pty) Ltd					
– Shares	10,0	100,00	100,00	10	10
– Loan				147	38 283
Edward Cavendish & Sons Ltd (incorporated in the United Kingdom) *		100,00	100,00	–	–
KWV 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	–	–
INTEREST IN JOINT VENTURE					
Golden Kaan Ltd (incorporated in the United Kingdom)	0,1	50,00	–	8 574	–
				445 729	128 541

* Subsidiary of KWV International (Pty) Ltd

GROUP INTEREST IN ASSOCIATES	Percentage interest		Group carrying amount	
	2005 %	2004 %	2005 R'000	2004 R'000
Unlisted				
Ceres Fruit Juices (Pty) Ltd	–	25,00	–	39 058
Paarl Valley Bottling Company (Pty) Ltd	28,09	28,09	5 409	5 083
Remgro-KWV Investments Ltd	50,00	50,00	848 834	759 446
			854 243	803 587

The main business of Golden Kaan Ltd is the marketing and distribution of wine.

The main business of Ceres Fruit Juices (Pty) Ltd is the production, packaging and distribution of single strength fruit juices and fruit juice blends. KWV's interest was sold during the year.

The main business of Paarl Valley Bottling Company (Pty) Ltd is the contract bottling of beverages, especially wine.

The only asset of Remgro-KWV Investments Limited is a 59,8% (2004: 59,8%) share in the issued share capital of Distell Group Limited (Distell). The main business of Distell is the manufacture, distribution and marketing of wine, spirits and alcoholic fruit beverages.

Some shares in KWV 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, JOINT VENTURES AND ASSOCIATES (CONTINUED)

at 30 June 2005

	2005 R'000	2004 R'000
ASSOCIATES		
SUMMARY OF ASSETS AND LIABILITIES		
<i>at 30 June 2005</i>		
ASSETS		
Property, plant and equipment	1 197 321	1 373 253
Biological assets	107 170	98 939
Other financial assets	307 437	546 387
Current assets	3 371 786	3 141 425
Total assets	4 983 714	5 160 004
EQUITY AND LIABILITIES		
Share capital and reserves	2 860 392	2 715 254
Minority interest	1 653	1 259
Long-term borrowings	341 983	801 430
Deferred taxation (net)	50 795	42 485
Interest-free liabilities	22 328	46 905
Short-term borrowings	674 588	362 110
Current liabilities	1 031 975	1 190 561
Total equity and liabilities	4 983 714	5 160 004
RESULTS OF OPERATIONS		
<i>for the year ended 30 June 2005</i>		
Income		
	6 416 805	6 445 021
Profit before taxation	706 460	512 004
Taxation	(198 559)	(132 316)
Minority interest	(394)	(390)
Net profit attributable to ordinary shareholders	507 507	379 298
Contingent liabilities	83 500	–
Capital commitments	222 650	142 681

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 (30 September 2004) and Paarl Valley Bottling Company (Pty) Ltd (31 January 2005). The group's interest in the results of Ceres Fruit Juices is included for the period up to the date of disposal of the investment. For the purposes of these financial statements the results according to the management accounts to 30 June were used.

	2005 R'000	2004 R'000
INTEREST IN JOINT VENTURE		
Proportionately consolidated amounts of joint venture included in the consolidated financial statements		
Receivables	5 660	–
Cash and bank balances	1 949	–
Payables	(5 549)	–
Interest in joint venture	2 060	–
Revenue	21 807	–
Net cash generated	(6 625)	–

ANNEXURE B – PROPERTY, PLANT AND EQUIPMENT

at 30 June 2005

GROUP

	Carrying value at 30 Jun 2004 R'000	Additions R'000	Disposals R'000	Depre- ciation R'000	Exchange rate adjustments R'000	Carrying value at 30 Jun 2005 R'000
Land and buildings	69 517	8 284	(226)	(3 744)	1 990	75 821
Machinery and equipment	259 747	27 208	(126)	(24 382)	37	262 484
Furniture and fittings	12 145	6 164 *	(90)	(8 043)	84	10 260
Vehicles	2 103	1 250	(205)	(852)	1	2 297
Plant under construction	64	(12)	–	–	3	55
Total	343 576	42 894	(647)	(37 021)	2 115	350 917

Carrying value at 30 June 2005	Cost R'000	Accumulated Depreciation R'000	Carrying value R'000
Land and buildings	147 919	(72 098)	75 821
Machinery and equipment	486 044	(223 560)	262 484
Furniture and fittings	64 227	(53 967)	10 260
Vehicles	10 848	(8 551)	2 297
Plant under construction	55	–	55
Total	709 093	(358 176)	350 917

Carrying value at 30 June 2004			
Land and buildings	134 877	(65 360)	69 517
Machinery and equipment	461 135	(201 388)	259 747
Furniture and fittings	62 121	(49 976)	12 145
Vehicles	10 040	(7 937)	2 103
Plant under construction	64	–	64
Total	668 237	(324 661)	343 576

* Additions include furniture and fittings obtained with the acquisition of a foreign subsidiary. (note 37)

ANNEXURE C – SEGMENT REPORT

for the year ended 30 June 2005

Primary reporting format – business segments

The group is engaged in the manufacturing, marketing and distribution of branded liquor products and 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		2005	2004	
		R'000	R'000	
Income				
South Africa	47%	507 705	424 535	41%
Europe and United Kingdom	42%	461 669	461 868	45%
Rest of the world	11%	121 036	149 969	14%
		1 090 410	1 036 372	
Assets				
South Africa	86%	1 233 305	1 284 947	86%
Europe and United Kingdom	13%	173 627	188 315	12%
Rest of the world	1%	20 687	26 449	2%
		1 427 619	1 499 711	
Capital expenditure				
South Africa	96%	40 946	46 689	96%
Europe and United Kingdom	4%	1 901	2 073	4%
		42 847	48 762	

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 KVV LIMITED

Notice is hereby given that the eighth 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 26 October 2005 to:

1. Consider and approve the annual financial statements for the year ended 30 June 2005.
2. Place 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 of 1973.
3. Elect directors in the place of Messrs C J du Toit and P B Retief, who retire in terms of the articles. Both are eligible and available for re-election.

Note:

A shareholder who wishes to nominate another candidate for election should notify the secretary in accordance with article 12.11 of the company's articles of association.

4. Authorise the directors in terms of a general authority and the Companies Act of 1973, such authority expiring at the next annual general meeting, to buy back any shares of the company on terms and conditions which the directors may decide from time to time.
5. 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 secretary at 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
Company Secretary

Suider-Paarl
14 September 2005

SHAREHOLDERS' DIARY

Annual general meeting

26 October 2005

Financial reports

– annual report: 30 June 2005

– interim report: 31 December 2005

October 2005

March 2006

ADMINISTRATIVE INFORMATION

AUDITORS

PricewaterhouseCoopers Incorporated
PricewaterhouseCoopers Building
Zomerlust Estate
Berg River Boulevard
Paarl

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 Konsult Limited

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 no. 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 26 October 2005 and at any adjournment thereof as follows:

		For	Against	Abstain
Resolution (1)	Approval of the financial statements			
Resolution (2)	Placing of the unissued shares under directors' control			
Resolution (3)	Election of directors			
	CJ du Toit.....			
	PB Retief.....			
			
			
			
Resolution (4)	Buy-back of company shares			

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

Signed this _____ day of _____ 2005

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 by ballot in his stead. A proxy need not be a member of the company.
2. This proxy form, duly signed and completed, must reach the company secretary at the registered office of the company not later than 48 hours before the time set for this meeting.

