



KWV LIMITED

(Reg No 1997/020857/06)

Group Interim Report

FOR THE SIX MONTHS ENDED 31 DECEMBER 2004

BALANCE SHEET

	Unaudited 31 December 2004		Audited 30 June 2004
	R'000	2003 R'000 <i>Restated</i>	2004 R'000 <i>Restated</i>
ASSETS			
Non-current assets	1 211 118	1 155 882	1 176 063
Property, plant and equipment	336 486	342 288	343 576
Investment in associates	832 476	765 944	803 587
Other investments	17 526	17 198	526
Deferred taxation	24 630	30 452	28 374
Current assets	1 079 109	1 303 340	1 471 397
Inventory	794 021	725 166	847 668
Accounts receivable	248 479	260 537	312 295
Short-term portion of long-term investments	–	280 848	299 637
Cash and cash equivalents	36 609	36 789	11 797
Total assets	2 290 227	2 459 222	2 647 460
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary shareholders' interest	1 170 695	1 160 785	1 071 535
Minority interest	373 403	337 983	342 639
Total equity	1 544 098	1 498 768	1 414 174
Non-current liabilities	201 298	233 351	234 020
Long-term liabilities	3 666	6 271	3 666
South African Wine Industry Trust	110 397	122 333	117 676
Deferred taxation	87 235	104 747	112 678
Current liabilities	544 831	727 103	999 266
Short-term portion of long-term borrowings	–	314 356	316 007
Other short-term borrowings	326 405	194 226	337 166
Accounts payable and provisions	190 246	200 715	227 825
Dividends payable	–	–	103 022
Taxation payable	28 180	17 806	15 246
Total equity and liabilities	2 290 227	2 459 222	2 647 460
Net asset value per share (cents)	261,4	263,2	240,0
	R'000	R'000	R'000
Capital commitments			
Contracted	16 286	10 252	–
Authorised, not contracted	5 769	19 397	37 606

ABBREVIATED CASH FLOW STATEMENT

	Unaudited Six months ended 31 December 2004		Audited Year ended 30 June 2004
	R'000	2003 R'000 <i>Restated</i>	2004 R'000 <i>Restated</i>
CASH FLOW FROM OPERATING ACTIVITIES			
Cash from operations	55 156	48 864	88 004
Changes in working capital	78 100	(643)	(168 922)
Cash generated from operations	133 256	48 221	(80 918)
Net interest	(37 002)	(31 155)	(58 536)
Dividends received	29 924	20 536	47 628
Dividends paid	(131 711)	(31 329)	(43 252)
Taxation (paid)/refunded	(6 486)	(1 168)	2 296
Payments to the South African Wine Industry Trust	(28 778)	(26 806)	(34 727)
Net cash flow from operating activities	(40 797)	(21 701)	(167 509)
CASH FLOW FROM INVESTING ACTIVITIES			
Proceeds on sale of investment in associate	110 000	–	–
Proceeds on sale of other investments	247 380	–	1 880
Preference dividend received	70 120	–	–
Other	(33 108)	(18 606)	(45 737)
Net cash flow from investing activities	394 392	(18 606)	(43 857)
CASH FLOW FROM FINANCING ACTIVITIES			
Shares issued	154	1 847	4 431
Long-term loans repaid	(317 500)	–	–
Net cash flow from financing activities	(317 346)	1 847	4 431
Net decrease in cash resources	36 249	(38 460)	(206 935)
Cash resources at beginning of period	(325 369)	(121 559)	(121 559)
Exchange rate adjustment to foreign currency opening balances	(676)	2 582	3 125
Cash resources at end of period*	(289 796)	(157 437)	(325 369)
*Cash resources at end of period			
Cash and cash equivalents	36 609	36 789	11 797
Other short-term borrowings	(326 405)	(194 226)	(337 166)
	(289 796)	(157 437)	(325 369)

INCOME STATEMENT

	Unaudited Six months ended 31 December 2004		Audited Year ended 30 June 2004
	Notes	R'000 <i>Restated</i>	R'000 <i>Restated</i>
Income		581 009	539 388
Cost of sales		(384 725)	(376 488)
Gross profit		196 284	162 900
Operating profit		26 091	42 323
Dividend income		7 972	8 071
Net interest		(48 192)	(38 709)
Profit on sale of investment in associate	1.2	73 672	–
Income from associates		93 026	70 588
– dividends received		29 924	20 536
– share of retained earnings		63 102	50 052
Profit before taxation		152 569	82 273
Taxation	1.2	4 532	(5 394)
Profit after taxation		157 101	76 879
Minority interest		(43 555)	(30 349)
Net profit attributable to ordinary shareholders		113 546	46 530
HEADLINE EARNINGS RECONCILIATION (after taxation and minority interest)			
Net profit attributable to ordinary shareholders		113 546	46 530
– profit on sale of non-current assets		(425)	(4 877)
– profit on sale of investment in associate	1.2	(70 506)	–
– interest in items of associate		(16)	(113)
Headline earnings		42 599	41 540
Adjustment for exceptional and non-recurring items:			
– South African Wine Industry Trust: Finance cost		12 271	7 676
– Impairment of interest-free loan for empowerment transaction	1.2	13 390	–
Adjusted headline earnings		68 260	49 216
Number of class A shares ('000)			
– issued		447 923	441 002
– used in calculation of earnings per share		447 844	438 271
		Cent	Cent
Earnings per share		25,4	10,6
Headline earnings per share		9,5	9,5
Adjusted headline earnings per share		15,2	11,2
Dividend per share			
– ordinary (declared after year end)		–	3,5
– special (previously declared)		–	23,0

STATEMENT OF CHANGES IN EQUITY

	Unaudited Six months ended 31 December 2004		Audited Year ended 30 June 2004
	R'000	2003 R'000 <i>Restated</i>	2004 R'000 <i>Restated</i>
Equity at beginning of period			
– reported previously	1 061 044	1 111 679	1 111 679
Change in accounting policy: application of AC501	10 491	22 891	22 891
Increase in investment in associate	–	–	1 631
Changes in share capital and premium	755	2 342	5 028
Changes in distributable reserves			
Retained earnings	90 657	(5 305)	(107 055)
Net profit attributable to ordinary shareholders	113 546	46 530	58 048
Realisation of equity income with sale of associate	30 228	–	–
Equity accounted earnings transferred to equity reserve	(37 440)	(29 777)	(40 023)
Dividend paid	(15 677)	(22 058)	(125 080)
Equity reserve	7 212	29 777	40 367
Realisation of equity income with sale of associate	(30 228)	–	–
Transfer of equity accounted earnings from retained earnings	37 440	29 777	40 023
Movement on reserves of associate	–	–	344
Changes in non-distributable reserves			
Deferred taxation on loan to foreign entity	(192)	–	1 124
Change in currency translation reserve	728	(599)	(4 130)
Equity at end of period	1 170 695	1 160 785	1 071 535

NOTES

COMPARATIVE FIGURES AND ACCOUNTING POLICIES

1.1 Application of AC501

The accounting policy of the group has been changed in order to comply with the new South African Statement of Generally Accepted Accounting Practice (GAAP) which deals with "Secondary Tax on Companies (STC)" (AC501). This new statement requires that a deferred tax asset be created if a company has unutilised STC credits which can be applied to reduce STC payable in respect of future dividend payments.

The effect of this change on the results of KWV Limited for the current and previous reporting periods is as follows:

	Unaudited Six months ended 31 December 2004	2003 R'000 <i>Restated</i>	Audited Year ended 30 June 2004 R'000
Increase/(Decrease) in net profit			
• Change in taxation resulting from movement in unutilised STC credits	5 591	(1 400)	(12 400)
Increase in opening balance of retained earnings			
• Deferred tax asset in respect of unutilised STC credits	10 491	22 891	22 891

The accounting policies and methods of computation of the group are in all other respects consistent with those applied in the previous financial year and are in compliance with GAAP.

1.2 Analysis of taxation

Taxation consists of the following components:

	2004 R'000	2003 R'000	2004 R'000
• Capital gains tax on sale of interest in associate	(3 166)	–	–
• Recognition of change in STC credits (restated)	5 591	(1 400)	(12 400)
• Deferred taxation on impairment of interest-free loan for empowerment transaction	5 738	–	–
• Other taxation	(3 631)	(3 994)	(2 142)
Taxation per income statement	4 532	(5 394)	(14 542)

OPERATING RESULTS

The group turnover for the six months under review amounts to R581,0 million which is 7,7% higher than the comparable six months for the prior year.

Total sales volumes of the South African operations increased by 6,1%, attributable mainly to brandy sales in the local market. Total sales of branded products, on the other hand, declined by 4,9%. Local sales of branded products increased by 23,8% following entry into this market during the previous year. Export volumes of branded products, however, declined by 9,8% due to difficult trading conditions in international markets. The sustained strength of the South African rand, global wine surpluses and weak consumer demand are the most important factors which are having a negative impact on export performance.

The operating profit reflects a decline of 38,4% after charging against income an AC133 impairment write-down amounting to R19,1 million (R13,4 million after tax) in respect of the interest-free loan granted to the KWV Employee Empowerment Trust. Excluding this impairment charge, operating profit increased by 6,8% compared to the prior interim period.

The attributable profit for the period under review amounts to R113,5 million, including R70,5 million in respect of the sale of the group's interest in Ceres Fruit Juices. Income from associated companies showed healthy growth of 31,8% compared to the prior period.

After adjustments for exceptional items as reflected in the headline earnings reconciliation, the adjusted headline earnings increased by 38,7% compared to the six months ended 31 December 2003.

INVESTMENTS AND FUNDING

Total assets decreased by 6,9% due to long-term investments which were realised during the review period. Excluding long-term investments, total assets increased by 5,1% despite substantial reductions in both inventory and debtors during the review period.

Capital expenditure for the period amounted to only R11,1 million compared to R18,6 million during the prior period.

There was a net positive cash flow of R36,2 million during the review period compared to a cash outflow of R38,5 million during the comparable six months. Net short-term borrowings at the end of the period amounted to R289,8 million (2003: R157,4 million) after long-term borrowings were repaid during the review period.

INCOME TAX QUERY

As disclosed in the group's financial statements for the year ended 30 June 2004, as well as in the previous interim report, companies in the group have received certain tax queries from the South African Revenue Service (SARS). According to correspondence received SARS is of the opinion that, on the one hand, certain expenses deducted for income tax purposes within the group were of a capital nature and, on the other hand, that the growth in an investment was income in nature as opposed to the group's view that it was capital in nature.

Based on advice from the group's tax and legal advisors the board is convinced that the group does 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 group.

To date KWV has provided SARS with all the information requested by them and there have been no further developments in this respect.

REGULATORY MATTERS

In terms of the Liquor Act 2003, which came into effect on 13 August 2004, all licence holders were required to give notice of conversion to appropriate registrations (manufacturing/distribution). Provincial legislation in respect of sales to the public is still outstanding. KWV is well positioned to comply with all legal requirements.

PROSPECTS

As already mentioned in the review of the operating results, very difficult trading conditions are currently being experienced in especially export markets. While these conditions persist the group income will remain under pressure. This, together with the seasonal nature of the business, will likely lead to weaker results for the second six months than for the first six-month period.

DIVIDENDS

No interim dividend is declared.

Signed on behalf of the board of directors.

D de Wet
Chairman

WJ Barnard
Chief Executive Officer

Paarl
23 March 2005