



# KWV LIMITED

Reg No 1997/020857/06

## GROUP INTERIM REPORT (UNAUDITED)

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FOR THE SIX MONTHS ENDED  
31 DECEMBER 2005

## CONDENSED BALANCE SHEET

	31 December		30 June
	2005	2004	2005
	R'000	R'000	R'000
		<i>Restated</i>	<i>Restated</i>
<b>ASSETS</b>			
<b>Non-current assets</b>	<b>1 324 175</b>	1 219 266	1 266 791
Property, plant and equipment	331 370	327 984	343 236
Intangible assets	6 897	3 126	3 576
Investment in associates	934 860	845 893	868 999
Other investments	18 180	17 526	18 405
Deferred taxation	32 868	24 737	32 575
<b>Current assets</b>	<b>1 102 727</b>	1 079 109	1 096 248
Inventory	764 922	762 718	849 036
Accounts receivable	318 332	279 782	231 990
Cash and cash equivalents	19 473	36 609	15 222
<b>Total assets</b>	<b>2 426 902</b>	2 298 375	2 363 039
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>	<b>1 677 369</b>	1 539 733	1 587 612
Ordinary shareholders' interest	1 255 291	1 160 376	1 194 114
Minority interest	422 078	379 357	393 498
<b>Non-current liabilities</b>	<b>290 650</b>	213 465	315 626
Long-term liabilities	107 177	3 666	113 979
South African Wine Industry Trust	79 556	110 397	95 346
Deferred taxation	103 917	99 402	106 301
<b>Current liabilities</b>	<b>458 883</b>	545 177	459 801
Short-term portion of long-term borrowings	30 000	–	42 692
Other short-term borrowings	164 410	326 751	199 556
Accounts payable and provisions	248 824	190 246	207 361
Taxation payable	15 649	28 180	10 192
<b>Total equity and liabilities</b>	<b>2 426 902</b>	2 298 375	2 363 039
Net asset value per share (cents)	282,5	259,1	268,0
	R'000	R'000	R'000
<b>Capital commitments</b>			
Contracted	10 602	16 286	820
Authorised, not contracted	13 923	5 769	28 202

## CONDENSED STATEMENT OF CHANGES IN EQUITY

	Six months ended		Year ended
	31 December	2004	30 June
	2005	2004	2005
	R'000	R'000	R'000
		<i>Restated</i>	<i>Restated</i>
<b>Ordinary shareholders' equity at beginning of the period</b>	<b>1 194 114</b>	1 066 670	1 066 670
<b>Shares (repurchased)/issued</b>	<b>(3 042)</b>	755	(3 551)
<b>Changes in distributable reserves</b>			
<i>Retained earnings</i>	<b>29 276</b>	85 080	106 667
Net profit attributable to ordinary shareholders	72 451	108 625	145 612
Realisation of equity accounted earnings with sale of interest in associate	–	30 228	31 471
Equity accounted earnings transferred to equity reserve	(23 187)	(38 096)	(54 739)
Dividend paid	(19 988)	(15 677)	(15 677)
<i>Equity reserve</i>	<b>36 693</b>	7 208	22 059
Realisation of equity accounted earnings with sale of interest in associate	–	(30 228)	(31 471)
Transfer of equity accounted earnings from retained earnings	23 187	38 096	54 739
Changes in reserves of associate	13 506	(660)	(1 209)
<b>Changes in non-distributable reserves</b>			
Deferred taxation on loan to foreign entity	636	(192)	(535)
Change in currency translation reserve	(2 552)	739	2 527
Change in share-based payment reserve	166	116	277
<b>Ordinary shareholders' equity at end of the period</b>	<b>1 255 291</b>	1 160 376	1 194 114
<b>Minority interest</b>	<b>422 078</b>	379 357	393 498
<b>Total equity</b>	<b>1 677 369</b>	1 539 733	1 587 612

# CONDENSED INCOME STATEMENT

	Six months ended		Year ended	
	31 December		30 June	
	2005	2004	%	2005
	R'000	R'000	Change	R'000
		<i>Restated</i>		<i>Restated</i>
<b>Income</b>	635 747	581 009	9,4	1 090 410
Cost of sales	(398 523)	(384 725)		(725 970)
Gross profit	237 224	196 284	20,9	364 440
<b>Operating profit</b>	59 553	119 053		141 158
– normal operations	59 553	45 381	31,2	68 728
– profit on sale of interest in associate	–	73 672		72 430
Dividend income	–	7 972		7 976
Net interest	(16 511)	(67 320)		(83 301)
Income from associates	80 893	94 206	(14,1)	153 347
– dividends received	39 312	29 924		62 841
– dilution of interest	(4 537)	–		–
– BEE expense	(22 031)	–		–
– share of retained earnings	68 149	64 282		90 506
<b>Profit before taxation</b>	123 935	153 911		219 180
Taxation	(15 824)	(1 110)		(2 348)
<b>Profit for the period</b>	108 111	152 801	(29,2)	216 832
<b>Attributable to:</b>				
Ordinary shareholders	72 451	108 625	(33,3)	145 612
Minority shareholders	35 660	44 176		71 220

	Six months ended		Year ended	
	31 December		30 June	
	2005	2004	%	2005
	R'000	R'000	Change	R'000
		<i>Restated</i>		<i>Restated</i>
<b>HEADLINE EARNINGS RECONCILIATION</b>				
(after taxation and minority interest)				
Net profit attributable to ordinary shareholders	72 451	108 625		145 612
– profit on sale of non-current assets	(608)	(425)		(1 547)
– profit on acquisition of subsidiary	(3 453)	–		–
– profit on sale of investment in associate	–	(70 506)		(69 370)
– dilution of interest in associate	2 524	–		–
– interest in items of associate	(137)	(16)		(1)
<b>Headline earnings</b>	70 777	37 678	87,8	74 694
Adjustments for exceptional and non-recurring items:				
– South African Wine Industry Trust: Finance cost	4 944	12 271		18 011
– Interest in BEE expense of associate	12 256	–		–
– Present value adjustment: Loan to KWV Employee Empowerment Trust	(485)	13 390		12 889
<b>Adjusted headline earnings</b>	87 492	63 339	38,1	105 594
<b>Number of shares ('000)</b>				
– issued	444 288	447 923		445 607
– used in calculation of earnings per share	444 431	447 844		447 615
	<b>Cents</b>	<b>Cents</b>		<b>Cents</b>
<b>Earnings per share</b>				
– Attributable earnings	16,3	24,3	(32,8)	32,5
– Headline earnings	15,9	8,4	89,3	16,7
– Adjusted headline earnings	19,7	14,1	39,2	23,6
<b>Dividend per share (declared after year-end)</b>	–	–		4,5

**Note:** The impact of dilution on the earnings per share due to share options is negligible.

# CONDENSED CASH FLOW STATEMENT

	Six months ended		Year ended
	31 December	2004	30 June
	R'000	R'000	R'000
		Restated	Restated
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Cash from operations	83 048	55 156	99 353
Changes in working capital	43 345	78 100	44 614
<b>Cash generated from operations</b>	<b>126 393</b>	<b>133 256</b>	<b>143 967</b>
Net interest	(11 859)	(37 002)	(46 433)
Taxation paid	(12 593)	(6 486)	(23 702)
Payments to the South African Wine Industry Trust	(29 768)	(28 778)	(37 574)
<b>Net cash flow from operating activities</b>	<b>72 173</b>	<b>60 990</b>	<b>36 258</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Dividends received	39 366	29 924	62 846
Proceeds on sale of investment in associate	–	110 000	110 000
Proceeds on sale of other investments	–	91 880	92 400
Preference dividend received	–	70 120	70 120
Loans repaid by associates	–	13 159	16 554
Net repayment by/(loan to) the KWV Employee Empowerment Trust	907	(36 451)	(36 451)
Property, plant and equipment acquired	(7 823)	(11 119)	(42 847)
Other	1 079	1 303	509
<b>Net cash flow from investing activities</b>	<b>33 529</b>	<b>268 816</b>	<b>273 131</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Shares (repurchased)/issued	(3 042)	154	(3 551)
Dividends paid	(37 226)	(131 711)	(146 819)
Long-term borrowings repaid	(15 000)	(162 000)	(12 000)
<b>Net cash flow from financing activities</b>	<b>(55 268)</b>	<b>(293 557)</b>	<b>(162 370)</b>
Net increase in cash resources	50 434	36 249	147 019
Cash resources at beginning of the period	(184 334)	(325 369)	(325 369)
Cash resources of subsidiary on acquisition	(14 365)	–	–
Change in shareholders' loan due to IFRS adjustments	–	(346)	(457)
Translation of foreign currency opening balances	3 328	(676)	(5 527)
<b>Cash resources at end of the period*</b>	<b>(144 937)</b>	<b>(290 142)</b>	<b>(184 334)</b>
<b>*Cash resources at end of the period</b>			
Cash and cash equivalents	19 473	36 609	15 222
Other short-term borrowings	(164 410)	(326 751)	(199 556)
	(144 937)	(290 142)	(184 334)

The composition of the cash flow statement has been changed and dividends received and dividends paid, previously included in cash from operating activities, are now reflected under cash from investing activities and cash from financing activities.

# NOTES

## 1. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

### Basis of preparation

The group has adopted International Financial Reporting Standards (IFRS) for the year ending 30 June 2006. IFRS 1 "First time adoption of International Financial Reporting Standards" has been applied in preparing the group's interim results, which have been prepared in accordance with IAS 34 "Interim Financial Reporting".

### Transitional arrangements

The date of transition to IFRS for the group is 1 July 2004 and therefore, as required by IFRS 1, the group's opening balance sheet at 1 July 2004 has been restated to comply with all existing IFRS statements expected to be applicable at 30 June 2006.

In principle, full retrospective application of all new IFRS accounting policies are required. However, IFRS 1 allows for a number of exceptions and exemptions from this requirement.

### IFRS 1 elections

In applying IFRS, the group has made the following notable elections:

- Business combinations:** not to retrospectively apply the requirements of IFRS 3 for business combinations that occurred prior to 1 July 2004;
- Cumulative foreign currency translation adjustment:** to deem the cumulative translation differences in respect of foreign operations to be zero at 1 July 2004, thus reclassifying the foreign currency translation reserves at that date as retained earnings;
- Share-based payments:** to apply the provisions of IFRS 2 "Share-based Payment" only to equity settled awards granted after 7 November 2002, that have not vested by 1 January 2005.

## 2. RESTATEMENT OF PRIOR PERIOD RESULTS

### Application of AC 501: Accounting for secondary taxation on companies (STC) in the prior interim period

AC 501 was adopted in the prior financial year. In the interim report for December 2004 deferred tax was recognised on the group's unutilised STC-credits. At year-end this view was revised since it is unlikely that these credits will be utilised in the foreseeable future. Therefore the results for the six months ended 31 December 2004 have been restated to also reflect this view.

### Present value adjustment: Loan to KWV Employee Empowerment Trust

The impairment of the interest free loan to the KWV Employee Empowerment Trust as recognised in the prior interim period was re-classified, in accordance with the accounting at year-end, as a present value adjustment against finance cost. The effect of this change is that both operating profit and net interest paid for the six months ended 31 December 2004 increase by R19,1 million with no impact on net profit.

## NOTES (CONTINUED)

### 2. RESTATEMENT OF PRIOR PERIOD RESULTS (continued)

#### IFRS implementation adjustments:

##### IAS 16: Property, plant and equipment

Under IFRS significant components of property, plant and equipment are separately identified and the useful lives and residual values of these components are re-assessed on each balance sheet date. Depreciation ceases when the carrying value of an asset equals its residual value.

Previously property, plant and equipment were depreciated on a straight-line basis to their estimated residual values. These residual values were fixed at the date of acquisition and not re-assessed annually.

Furthermore, in the past vats and casks used for the maturation of wines were written off according to their projected usage. These items are now depreciated according to the diminishing balance method.

##### IFRS 2: Share-based payments

The fair value of share options and deferred delivery shares granted to employees is recognised as an expense with a corresponding increase in equity. The fair value is measured at grant date and expensed over the period during which the employee becomes unconditionally entitled to the equity instruments. The fair value of the instruments granted is measured using generally accepted valuation techniques, taking into account the terms and conditions upon which the instruments are granted.

This accounting policy has been applied to all equity instruments granted after 7 November 2002 that had not yet vested at 1 January 2005. The fair value of share based payments was not recognised as an expense under the group's previous accounting policies.

##### IFRS 1: Foreign currency translation adjustment

Non-distributable reserves relating to foreign currencies, as at 1 July 2004, were re-classified as retained earnings.

##### Adjustments in respect of associates

The implementation of IFRS also impacted on the results of associates. These results are equity accounted in the consolidated financial statements.

The adjustments to equity accounted earnings, the carrying value of the investment in associates, the equity reserve and minority interest reflect the group's interest in IFRS adjustments to associates' net profit and net asset value.

#### Directors' statement

Whilst the directors believe the adjustments are correct in terms of current IFRS practice in South Africa, accounting statements and reporting requirements are subject to ongoing revision and interpretation. Further changes arising there from could take place prior to the group's financial year ending 30 June 2006.

### RECONCILIATION OF BALANCE SHEET

	31 Dec 2004 R'000	30 Jun 2005 R'000	1 July 2004 R'000
<b>ASSETS</b>			
Restated in terms of SA GAAP	2 287 647	2 350 224	2 636 969
Previously reported in terms of SA GAAP	2 290 227	2 350 224	2 636 969
Prior year adjustments			
– Deferred tax asset: STC-credits	(2 580)	–	–
IFRS adjustments	10 728	12 815	10 719
– Property, plant and equipment	(5 376)	(4 600)	(5 601)
– Investment in associates	13 417	14 756	13 423
– Deferred tax assets	2 687	2 659	2 897
<b>Reported in terms of IFRS</b>	<b>2 298 375</b>	<b>2 363 039</b>	<b>2 647 688</b>
<b>LIABILITIES</b>			
Restated in terms of SA GAAP	759 631	776 197	1 233 286
Previously reported in terms of SA GAAP	746 129	776 197	1 233 286
Prior year adjustments			
– Deferred tax liability: STC-credits	13 502	–	–
IFRS adjustments	(989)	(770)	(863)
– Minority interest in property, plant and equipment adjustments	346	457	245
– Deferred tax liabilities	(1 335)	(1 227)	(1 108)
<b>Reported in terms of IFRS</b>	<b>758 642</b>	<b>775 427</b>	<b>1 232 423</b>
<b>EQUITY</b>			
<b>Attributable to ordinary shareholders</b>			
Restated in terms of SA GAAP	1 154 613	1 187 076	1 061 044
Previously reported in terms of SA GAAP	1 170 695	1 187 076	1 061 044
Prior year adjustments			
– Deferred tax on STC-credits	(16 082)	–	–
IFRS adjustments	5 763	7 038	5 626
– Property, plant and equipment	(1 700)	(1 171)	(1 841)
– Interest in adjusting items of associate	7 463	8 209	7 467
<b>Reported in terms of IFRS</b>	<b>1 160 376</b>	<b>1 194 114</b>	<b>1 066 670</b>
<b>Minority interest</b>			
– Previously reported in terms of SA GAAP	373 403	386 951	342 639
– Interest in IFRS adjusting items of associate	5 954	6 547	5 956
<b>Reported in terms of IFRS</b>	<b>379 357</b>	<b>393 498</b>	<b>348 595</b>
<b>Total equity reported in terms of IFRS</b>	<b>1 539 733</b>	<b>1 587 612</b>	<b>1 415 265</b>

# NOTES (CONTINUED)

## RECONCILIATION OF NET PROFIT

	Attributable profit		Adjusted Headline earnings	
	Six months ended 31 Dec 2004	Year ended 30 June 2005	Six months ended 31 Dec 2004	Year ended 30 June 2005
	R'000	R'000	R'000	R'000
<b>NET PROFIT</b>				
<b>Attributable to ordinary shareholders</b>				
Restated in terms of SA GAAP	107 955	143 686	62 669	103 668
Previously reported in terms of SA GAAP	113 546	143 686	68 260	103 668
Prior year adjustments				
– Deferred tax on STC-credits	(5 591)	–	(5 591)	–
<b>Minority interest</b>				
Previously reported minority interest	43 555	69 770	–	–
<b>IFRS adjustments</b>	1 291	3 376	670	1 926
– Property, plant and equipment	227	822	130	628
– Share-based payment transactions	(116)	(277)	(116)	(277)
– Interest in adjusting items of associate	1 180	2 831	1 180	2 831
– Minority interest in adjusting items of associate	–	–	(524)	(1 256)
<b>Reported in terms of IFRS</b>	<b>152 801</b>	<b>216 832</b>	<b>63 339</b>	<b>105 594</b>

## 3. ACQUISITION OF FOREIGN SUBSIDIARY

### Acquisition

A 100% interest was acquired in Reidemeister & Ulrich GmbH, a respected wine and spirits distributor in Germany, on 1 August 2005 and its results were consolidated from that date. The company was acquired for a nominal purchase consideration of EUR 1.

The distribution rights acquired through this transaction were valued at EUR 574 000. All other assets were valued at their carrying amounts immediately prior to the acquisition.

### Net assets acquired:

Property, plant and equipment	212
Inventory	21 697
Receivables	20 412
Trade- and other payables	(27 956)
Cash and short-term borrowings	(14 365)
Intangible asset: Distribution rights	4 610
<b>Fair value of assets acquired</b>	<b>4 610</b>
Purchase consideration (EUR 1)	–
Profit on acquisition	4 610
Attributable to:	
Ordinary shareholders	3 453
Minority shareholders	1 157

## Impact on group's results

Reidemeister & Ulrich has continued making losses, amounting to R5,8 million in the five months since acquisition. Management is in the process of restructuring and consolidating the business and is confident of its future profitability.

Had the acquisition been made at the beginning of the period, turnover would have increased by R5,7 million and the impact on net profit would have been immaterial.

## 4. RELATED PARTY TRANSACTIONS

The group, in the ordinary course of business, enters into various sale transactions on an arm's length basis at market rates with related parties.

## 5. OPERATING RESULTS

The group turnover for the six months under review amounts to R635,7 million which is 9,4% higher than for the comparable six months of the prior year.

Total sales of branded products increased by 6,4% driven by volume growth of 37,9% in the local market while export volumes showed a small decline of 1,2%. The growth in the local market is particularly encouraging given the healthy advance made by KWV brandy in a declining market.

Sales of grape juice concentrate declined sharply by 29,0% due to strike action at a major client. It is expected that sales will recover to normal levels in the next six months.

Gross profit has increased by 20,9%, mainly due to profitable growth in the local market. Operating profit, excluding the R73,7 million profit on the sale of the group's interest in Ceres Fruit Juices reflected in the comparable six months of the previous year, has increased by 31,2% from R45,4 million to R59,6 million.

Total income from associates declined by 14,1% from R94,2 million to R80,9 million, despite improved operational performance by associates. This is due to the once-off cost of Distell Group Limited's Black Economic Empowerment transaction, as well as the dilution of the group's interest in Distell due to additional shares issued in terms of Distell's share incentive scheme.

The headline earnings for the period under review amounted to R70,8 million compared to R37,7 million for the comparative six months, an increase of 87,8%. Adjusted headline earnings amounted to R87,5 million, an increase of 38,1% over the prior period.

## 6. ASSETS AND FUNDING

Total assets increased by 5,6% to R2,43 billion.

Capital expenditure for the period amounted to R7,8 million compared to R11,1 million during the prior period.

There was a net positive cash flow of R50,4 million during the review period compared to R36,2 million during the comparable six months. Net short-term borrowings at the end of the period amounted to only R144,9 million compared to R290,1 million (restated) at the end of the comparable six month period.

## 7. INCOME TAX QUERY

There have been no further developments regarding the tax queries, as disclosed in the 2005 annual report, that the group had received from the South African Revenue Service.

## NOTES (CONTINUED)

### 8. PROSPECTS

International trading conditions in the wine industry remain difficult and extremely competitive. Consumer spending in general and specifically the demand for wine, remains fairly flat while there remains a huge over-supply of wine globally. The South African category is suffering in this very aggressive environment and the remaining volume growth is seen largely in buyers' own label, discount products and bulk exports. These conditions are aggravated by South African rand maintaining its relatively strong position against the basket of currencies in which the group trades.

On the domestic front economic conditions are more positive and growth in consumer expenditure is expected to remain favourable. However, trading conditions remain very competitive in a stagnant wine market while the brandy market is in decline.

While these conditions persist the group's income will come under pressure. The positive results achieved during the first six months of the financial year will probably not be repeated during the second six month period.

### 9. DIVIDENDS

No interim dividend is declared.

Signed on behalf of the board of directors.

**D de Wet**

*Chairman*

Paarl

29 March 2006

**W J Barnard**

*Chief Executive Officer*



**Directors:** D de Wet (Chairman), WJ Barnard, JB Bestbier, W Bestbier, AE vZ Botha, VA Christian, AS du Plessis, Ms FA du Plessis, CJ du Toit, WR Hewett, PBB Hugo, LP Mondl, BS Jack-Pama, PB Retief, CH Wiese.

**Company secretary:** AW Eksteen

**Registered office:** La Concorde, 57 Main Street, Suider-Paarl, 7646

**Website:** [www.kwv.co.za](http://www.kwv.co.za)

**Transfer secretaries:** PSG Konsult Limited