



GROUP INTERIM  
REPORT  
(UNAUDITED)

for the six months ended 31 December 2007

KWV LIMITED

## CONDENSED INCOME STATEMENT

	Unaudited		Change %	Audited
	Six months ended 31 December			Year ended 30 June
	2007 R'000	2006 R'000 <i>Restated</i>		2007 R'000
<b>Income</b>	745 184	700 725	<b>6,3</b>	1 320 854
Cost of sales	(470 635)	(438 708)		(865 803)
Gross profit	<b>274 549</b>	262 017	<b>4,8</b>	455 051
<b>Operating profit</b>	<b>38 482</b>	26 022	<b>47,9</b>	(4 207)
Net interest	(20 442)	(16 056)	<b>27,3</b>	(31 321)
Income from associates	<b>164 056</b>	143 607	<b>14,2</b>	248 716
<b>Profit before taxation</b>	<b>182 096</b>	153 573	<b>18,6</b>	213 188
Taxation	(6 488)	(5 446)		3 422
<b>Profit for the period</b>	<b>175 608</b>	148 127	<b>18,6</b>	216 610
<b>Attributable to:</b>				
Ordinary shareholders	<b>109 610</b>	85 677	<b>27,9</b>	111 051
Minority shareholders	<b>65 998</b>	62 450		105 559
	Note			
<b>Earnings per share</b>		<b>Cents</b>		<b>Cents</b>
– Attributable earnings	1	<b>26,4</b>	20,7	27,5
– Headline earnings	1	<b>25,6</b>	19,6	30,6
<b>Dividend per share</b> (declared after year-end)		–	–	7,0

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

## CONDENSED BALANCE SHEET

	Unaudited 31 December		Audited 30 June
	2007	2006	2007
	R'000	R'000	R'000
		<i>Restated</i>	
<b>ASSETS</b>			
<b>Non-current assets</b>	<b>1 646 365</b>	1 451 768	1 564 713
Property, plant and equipment	305 869	304 351	308 937
Intangible assets	29 210	29 917	29 898
Investment in associates	1 271 001	1 081 278	1 188 302
Other investments	2 685	5 187	595
Deferred taxation	37 600	31 035	36 981
<b>Current assets</b>	<b>1 254 882</b>	1 134 787	1 146 251
Inventory	762 723	749 144	832 099
Accounts receivable	445 564	364 203	303 901
Cash and cash equivalents	46 595	21 440	10 251
<b>Total assets</b>	<b>2 901 247</b>	2 586 555	2 710 964
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>	<b>1 983 229</b>	1 823 702	1 864 149
Ordinary shareholders' interest	1 451 379	1 349 254	1 370 625
Minority interest	531 850	474 448	493 524
<b>Non-current liabilities</b>	<b>218 644</b>	250 780	223 161
Long-term liabilities	98 579	130 455	102 578
Deferred payment on acquisition of subsidiary	5 844	10 000	5 844
Deferred taxation	114 221	110 325	114 739
<b>Current liabilities</b>	<b>699 374</b>	512 073	623 654
Short-term portion of long-term borrowings	30 000	30 000	42 446
Other short-term borrowings	376 828	231 485	363 620
Minority interest in partnership with limited liability	6 500	5 971	6 196
Accounts payable and provisions	283 234	236 155	207 387
Taxation payable	2 812	8 462	4 005
<b>Total equity and liabilities</b>	<b>2 901 247</b>	2 586 555	2 710 964
Net asset value per share (cents)	349,5	325,1	330,2
	R'000	R'000	R'000
<b>Capital commitments</b>			
Contracted	12 172	9 468	2 652
Authorised, not contracted	9 636	17 124	33 734

## CONDENSED STATEMENT OF RECOGNISED INCOME AND EXPENSE

	<b>Unaudited</b>	<b>Audited</b>
	<b>Six months ended</b>	<b>Year ended</b>
	<b>31 December</b>	<b>30 June</b>
	<b>2007</b>	<b>2007</b>
	<b>R'000</b>	<b>R'000</b>
	<i>Restated</i>	
<b>Profit for the period</b>	<b>175 608</b>	148 127
Dilution of investment in associate	(555)	(1 834)
Re-valuation of available-for-sale investments	–	–
Currency translation differences	<b>2 400</b>	648
Deferred taxation on change in unrealised profit in closing inventory of group companies	–	–
Interest in associate's "net income recognised directly in equity"	<b>(127)</b>	(60)
<b>Total recognised income for the year</b>	<b>177 326</b>	241 550
<b>Attributable to:</b>		
Minority interest	<b>66 011</b>	61 547
Ordinary equity holders of the company	<b>111 315</b>	126 321

## CONDENSED CASH FLOW STATEMENT

	Unaudited Six months ended 31 December 2007 R'000	2006 R'000 <i>Restated</i>	Audited Year ended 30 June 2007 R'000
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Cash from operations	63 813	54 237	111 340
Changes in working capital	6 521	48 088	(44 767)
<b>Cash generated from operations</b>	<b>70 334</b>	<b>102 325</b>	<b>66 573</b>
Net interest	(20 683)	(16 363)	(31 869)
Taxation paid	(6 949)	(13 227)	(20 052)
<b>Net cash flow from operating activities</b>	<b>42 702</b>	<b>72 735</b>	<b>14 652</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Dividends received	63 955	49 876	100 928
Proceeds on disposal of property, plant and equipment	2 332	45 047	46 700
Property, plant and equipment acquired	(14 498)	(16 660)	(47 428)
Proceeds on disposal of investment	-	-	350
Acquisition of subsidiary	-	(14 984)	(14 984)
Acquisition of additional interests in subsidiaries	-	(13 220)	(52 157)
Sale of subsidiary and acquisition of associate	-	238	(25 533)
Loan repaid by associate	8 522	-	-
<b>Net cash flow from investing activities</b>	<b>60 311</b>	<b>50 297</b>	<b>7 876</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Shares issued/(repurchased)	(3 144)	538	666
Dividends paid	(56 853)	(45 797)	(68 086)
Long-term borrowings repaid	(17 098)	(2 949)	(20 083)
<b>Net cash flow from financing activities</b>	<b>(77 095)</b>	<b>(48 208)</b>	<b>(87 503)</b>
<b>Net increase/(decrease) in cash resources</b>	<b>25 918</b>	<b>74 824</b>	<b>(64 975)</b>
Cash resources at beginning of the period	(353 369)	(284 180)	(284 180)
Translation of foreign currency opening balances	(2 782)	( 689)	(4 214)
<b>Cash resources at end of the period*</b>	<b>(330 233)</b>	<b>(210 045)</b>	<b>(353 369)</b>
<b>*Cash resources at end of the period</b>			
Cash and cash equivalents	46 595	21 440	10 251
Other short-term borrowings	(376 828)	(231 485)	(363 620)
	<b>(330 233)</b>	<b>(210 045)</b>	<b>(353 369)</b>

## NOTES TO THE INTERIM REPORT

for the six months ended 31 December 2007

	Unaudited Six months ended 31 December		Audited Year ended 30 June
	2007	2006 <i>Restated</i>	2007
	Number '000	Number '000	Number '000
<b>1. EARNINGS PER SHARE</b>			
<b>Number of shares</b>			
– issued	415 253	414 977	415 119
– used in calculation of earnings per share	415 385	414 598	414 824
	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>
<b>Reconciliation of headline earnings</b>			
Net profit attributable to ordinary shareholders	109 610	85 677	111 051
– profit on sale of non-current assets	(1 985)	(135)	(394)
– loss on sale of subsidiary	–	–	12 801
– interest in items of associate	(1 388)	(4 386)	(11 211)
<b>Headline earnings</b>	<b>106 237</b>	<b>81 156</b>	<b>112 247</b>
	<b>Cents</b>	<b>Cents</b>	<b>Cents</b>
Earnings per share			
– Attributable earnings	26,4	20,7	26,8
– Headline earnings	25,6	19,6	27,1

	Unaudited		Audited
	Six months ended		Year ended
	31 December		30 June
	2007	2006	2007
	R'000	R'000	R'000
	<i>Restated</i>		
<b>2. CONDENSED RECONCILIATION OF ORDINARY SHAREHOLDERS' INTEREST</b>			
<b>Ordinary shareholders' interest at beginning of the period</b>	<b>1 370 625</b>	1 293 541	1 293 541
<b>Shares (repurchased)/issued</b>	<b>(3 144)</b>	538	666
<b>Changes in distributable reserves</b>			
<i>Retained earnings</i>	<b>22 349</b>	1 858	(26 278)
Net profit attributable to ordinary shareholders	<b>109 610</b>	85 677	111 051
Equity accounted earnings transferred to equity reserve	<b>(57 860)</b>	(51 177)	(79 741)
Dilution of interest in associate	<b>(317)</b>	(1 020)	(2 981)
Unclaimed dividends written back	–	–	6
Goodwill on acquisition of additional interest in subsidiary	–	(7 761)	(30 752)
Dividend paid	<b>(29 084)</b>	(23 861)	(23 861)
<i>Equity reserve</i>	<b>59 061</b>	52 671	99 862
Transfer of equity accounted earnings from retained earnings	<b>57 860</b>	51 177	79 741
Changes in reserves of associate	<b>1 201</b>	1 494	20 121
<b>Changes in non-distributable reserves</b>			
Deferred taxation on loan to foreign entity	<b>(327)</b>	(138)	(296)
Change in currency translation reserve	<b>2 422</b>	710	2 533
Sale of investment, realised to the income statement	–	–	(225)
Revaluation of available-for-sale financial assets	–	–	202
Change in share-based payment reserve	<b>393</b>	74	620
<b>Ordinary shareholders' interest at end of the period</b>	<b>1 451 379</b>	1 349 254	1 370 625

## NOTES TO THE INTERIM REPORT (CONTINUED)

### 3. BASIS OF PREPARATION

The interim report has been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards (IFRS), IAS 34: Interim Financial Reporting and the requirements of the South African Companies Act, Act 61 of 1973, as amended.

The accounting policies and the methods of computation are consistent with those applied in the previous financial periods, with the exception of a number of new statements, amendments and interpretations to IFRS that became effective during the current reporting period. The adoption of these new policies had no impact on the results of either the current or prior periods, except as disclosed in note 4.

### 4. RESTATEMENT OF PRIOR INTERIM PERIOD RESULTS

As disclosed in the annual report for 30 June 2007 the group had changed the accounting treatment regarding the KWV Employee Empowerment Trust (KEET) and it is now consolidated in terms of SIC 12, "Consolidation – Special Purpose Entities". The comparative results for the prior interim period have been restated to reflect this change.

The effect of the above is a decrease of R1,3 million in profit for the six months ended 31 December 2006, due to the consolidation of KEET's expenses and a reduction of 30,35 million in the group's issued shares due to the fact that KEET's shares are now classified as treasury shares. The net result is an increase in attributable earnings and headline earnings per share of 1,1 cents to 20,7 and 19,6 cents, respectively.

Furthermore, the group's comparative interim results have also been restated due to a change in accounting policy regarding Employee Benefits, as allowed in terms of the amended IAS 19 statement and disclosed in the 2007 annual report. The effect of the restatement on the 31 December 2006 interim period is a R12,6 million increase in the investment in associate, coupled with increases of R7,0 million and R5,6 million in equity and minority interest respectively, but the change had no effect on net profit.

### 5. RELATED-PARTY TRANSACTIONS

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

### 6. EVENTS FOLLOWING INTERIM PERIOD

#### *Sale of 87,5% interest in Eggers & Franke*

KWV sold its entire shareholding in its German distribution subsidiary, Eggers & Franke GmbH & Co.KG, to the Racke group. Racke is in the process of merging its own operations with that of Eggers & Franke and the new entity will be known as Racke/Eggers & Franke. The enlarged distribution company will be in a better position to grow KWV's wine portfolio in Germany.

The deal will realise an estimated once-off capital profit of R58 million at ruling exchange rates. The estimated cash inflow will be R90 million and it will result in a marked reduction in interest-bearing debt, a strengthening of the group's balance sheet and improved future profitability.

#### *Reduction in rate of taxation*

On 20 February 2008 the Minister of Finance announced a reduction in South Africa's corporate rate of taxation from 29% to 28%. Although these interim financial statements

are based on a tax rate of 29%, the new reduced rate will be applied to the group's profits for the year ended 30 June 2008.

## 7. OPERATING RESULTS

The group turnover for the six months under review amounts to R745,2 million, an increase of 6,3% over the comparable six months of the prior year.

Profitability remains under pressure, mainly due to a decrease in sales of bulk brandy. The gross profit margin has declined slightly from 37,4% to 36,8%. As a result of these two issues in particular, gross profit grew by 4,8% over the comparable six months of the prior year.

However, total operating expenses remained static and operating profit increased by 47,9% to R38,5 million.

Total income from associates increased by 14,2% to R164,1 million, mainly due to continued improvement in performance by the Distell group.

The headline earnings for the period under review amounted to R106,2 million compared to R81,2 million for the comparative six months in 2006, an increase of 30,9% and a 30,6% improvement in headline earnings per share.

## 8. ASSETS AND FUNDING

Total assets increased by 12,2% to R2,9 billion.

Capital expenditure for the period amounted to R14,5 million compared to R16,7 million during the prior period.

Net cash flow from operating activities amounted to R42,7 million and is lower than that of the prior interim period, mainly due to a smaller reduction in working capital. There was a net positive cash flow of R25,9 million during the review period compared to R74,8 million (including a R44,5 million inflow regarding the sale of property) during the comparable six months.

Net interest-bearing debt increased from R370,5 million to R458,8 million, mainly due to an increase in investments in group companies (R38,9 million in KWV Investments and R25,5 million in Thierry's Wine Services) and debtors. The interest-bearing debt to equity ratio is 23,1%, compared to 20,3% in the prior interim period and this, coupled with rising interest rates, led to a 27,3% increase in net interest.

## 9. PROSPECTS

The economic environment in most of the group's major export markets has toughened in recent months and global economic growth and consumer spending are expected to slow down. The South African consumer, who had prospered in recent years, is straining under the burdens of increased inflation, the weakening of the rand and increased interest rates.

This resulted in pressure on selling prices and sales volumes. At the same time the industry is experiencing significant inflationary pressures on production and other costs. As a consequence the group is seeing a "margin squeeze", although this is partially alleviated by the recent weakening in the rand which supports KWV's export business.

The process of embedding the new strategy is a priority and will continue to result in further cost savings, improved efficiencies, cash generation and profitable growth.

## NOTES TO THE INTERIM REPORT (CONTINUED)

The second half of the financial year is traditionally slower and this trend is expected to affect business performance. The positive effect of the sale of Eggers & Franke will start to show during this period.

The board is confident that the KWV group will show improved profitability for the full year.

### 10. DIVIDENDS

No interim dividend is declared.

Signed on behalf of the board of directors.

**D de Wet**

Chairman

**MJ Loubser**

Chief executive officer

Paarl

12 March 2008

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

### **Directors**

D de Wet (Chairman), MJ Loubser, EE Böhme, AE vZ Botha, VA Christian, AS du Plessis, Ms FA du Plessis, CJ du Toit, PBB Hugo, BS Jack-Pama, JF Mouton, PB Retief, IB Skosana, CC Stewart, CH Wiese

### **Company secretary**

AW Eksteen

### **Registered office**

La Concorde, 57 Main Street, Suider-Paarl, 7646