KWV

ESTABLISHED 1918

KWV HOLDINGS LIMITED
ANNUAL REPORT 2012

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PROFILE

KWV IS ONE OF THE LEADING WINE AND SPIRITS PRODUCERS IN SOUTH AFRICA.

Our head office is located in Paarl, in the Western Cape region – one of the country's top wine-producing regions.

The company sources wines and grapes from the best and most sought-after viticultural regions in South Africa.

KWV is known internationally for brands such as Roodeberg, KWV wines, Laborie, Golden Kaan, Cathedral Cellar, The Mentors, Café Culture, Wild Africa Cream and the KWV 3, 5, 10, 15 and 20 Year Old brandies.

KWV is a founder member of the Industry Association for the Responsible Use of Alcohol (ARA).

BRANDS

In the year under review, KWV's wines and brandies received a vast amount of trophies, medals and awards in local and international competitions.

Top awards included:

- *KWV* The Mentors Orchestra 2010 and Cathedral Cellar Chenin blanc 2011 received Gold medals at the prestigious 2012 Decanter International Wine Challenge whilst the *KWV* The Mentors Orchestra 2008 received a Trophy and Gold medal at the Decanter World Wine Awards during 2011, with the Cathedral Cellar Chardonnay 2010 receiving a Gold Medal.
- *KWV* The Mentors Viognier 2011 was declared the National Winner of the SA Terroir Wine Awards.
- *KWV* The Mentors Shiraz 2009, *KWV* The Mentors Pinotage 2009, *KWV* The Mentors Orchestra 2009, *KWV* The Mentors Sauvignon blanc/Semillon 2009 all secured Gold medals, with the *KWV* Heritage Liquer Wine 1937 awarded a Trophy and Gold medal at the 2011 Michelangelo International Wine Awards. Recently the *KWV* The Mentors Cabernet Franc 2010 received a Gran D'Or at the 2012 Michelangelo International Wine Awards.
- Rapidly becoming one of 2012's most celebrated South African fortified wines, the *KWV* Classic NV Tawny has again come up trumps by winning gold recently at two major wine competitions – Mundus Vini in Germany and the Michelangelo International Wine Awards during 2012. The *KWV* Classic NV Tawny received a Grand Gold medal at Mundus Vini and at the Michelangelo International Wine Awards, the wine was awarded a coveted Gran D'Or, along with another equally renowned fortified – the *KWV* 1930 Muscadel.
- The *KWV* The Mentors Orchestra 2009 was awarded a Gold Medal at the Five Nations Wine Challenge 2011.
- *KWV* The Mentors Sauvignon Blanc 2009, Mentors Petit Verdot 2009, *KWV* Classic Tawny NV and *KWV* Heritage Muscadel 1930 were awarded Double Gold at the 2011 Veritas Awards, with Gold awarded to the *KWV* The Mentors Canvas 2009, Mentors Sauvignon Blanc/Semillon 2009 and Cathedral Cellar Triptych 2009.
- *KWV* received seven gold medals at the 2011 MUNDIS VINI International Wine Awards with the *KWV* The Mentors Grenache blanc 2010, Petit Verdot 2009, Shiraz 2009, Orchestra 2008 and Canvas 2009, as well as gold for the Jean Taillefert 2009 and Roodeberg 2009.
- *KWV* The Mentors Chardonnay 2011 was awarded as the Best White Wine on Show and received the Trophy for the Best Chardonnay, whilst the *KWV* Heritage Reserve Port 1929 was awarded Best Fortified in the Museum Class at the 2012 Old Mutual Trophy Wine Show. *KWV* The Mentors Orchestra 2009, *KWV* Heritage Jerepigo 1933 and Cathedral Cellar Cabernet Sauvignon 1995 all received Gold medals and Trophies at the 2011 Old Mutual Trophy Wine Show.
- The *KWV* Red Muscadel received a gold medal and was recognised at one of the Top 10 wines at the Muscats du Monde competition in France.
- *KWV* The Mentors Pinotage 2009 was recognised as one of the Top 10 wines at the annual Top 10 Pinotage Competition.
- *KWV* 10 Year Old was awarded the title of "Best Brandy of the world 2011" at the International Spirits Challenge and *KWV* 15 Year Old was awarded a Platinum award at SAWI 2012 as well as a Double Gold award at the International Spirits competition.
- Laborie received the Veritas Gold 2011 award and Imoya the International Spirits Competition Gold 2011 award.

SALIENT FEATURES – GROUP FINANCIAL RESULTS

for the year ended 30 June 2012

	2012 R'000 Audited	2011 R'000 Audited	% change
GROUP SUMMARY			
Revenue	761 907	677 766	12,4
Loss before taxation	(65 213)	(7 416)	
Loss for the year	(49 587)	(2 948)	
Headline earnings	(50 082)	(17 582)	(184,8)
Net loss attributable to ordinary shareholders	(49 587)	(2 948)	
Total equity	1 215 601	1 264 735	(3,9)
Shares			
Issued shares	68 538	68 538	
Used in the calculation of earnings per share	68 538	68 538	
PERFORMANCE PER ORDINARY SHARE	Cents	Cents	
Attributable earnings	(72,3)	(4,3)	
Headline earnings	(73,1)	(25,7)	(184,4)
Net asset value	1 773,6	1 845,3	(3,9)
Share price	911,0	1 050,0	

BOARD OF DIRECTORS

Non-executive

MJA Golding (Chairman)	Appointed:	10 February 2011	
JA Copelyn	Appointed:	10 February 2011	
F-A du Plessis	Appointed:	3 August 2009	
NL Ellis	Appointed:	22 July 2009	
MN Joubert	Elected:	27 October 2010	
KI Mampeule	Appointed:	22 July 2009	
KR Moloko	Elected:	27 October 2010	
LA van Dyk	Appointed:	1 February 2010	
A van der Veen	Appointed:	10 February 2011	Resigned: 15 July 2011

Executive

A van der Veen	Appointed:	15 July 2011
MJ Loubser	Resigned:	15 July 2011

BOARD COMMITTEES

Group Audit and Risk Management Committee

F-A du Plessis (Chairman)			
KR Moloko	Appointed:	27 October 2010	
A van der Veen	Appointed:	10 February 2011	Resigned: 15 July 2011
JA Copelyn	Appointed:	15 July 2011	

Empowerment Committee

KI Mampeule (Chairman)
LA van Dyk

The board noted the report by the committee chairman. In view of the requirements of the new Companies Act, 2008, the board resolved that the Empowerment Committee be dissolved and its functions be incorporated in the mandate of the Social and Ethics Committee.

Human Resources and Remuneration Committee

LA van Dyk (Chairman)			
MJA Golding	Appointed:	10 February 2011	
A van der Veen	Appointed:	13 June 2011	Resigned: 15 July 2011

Social and Ethics Committee

MJA Golding (Chairman)	Appointed:	31 August 2011
JA Copelyn	Appointed:	31 August 2011
KI Mampeule	Appointed:	31 August 2011
LA van Dyk	Appointed:	31 August 2011

ANALYSIS OF SHAREHOLDERS

as at 30 June 2012

	Number of shareholders	%	Number of shares	%
RANGE OF SHAREHOLDINGS				
0 – 1 000 shares	1 791	53,9	691 600	1,0
1 001 – 10 000 shares	1 183	35,6	4 217 619	6,1
10 001 – 50 000 shares	313	9,4	5 959 733	8,6
50 001 – 100 000 shares	14	0,4	828 976	1,2
100 001 – 1 000 000 shares	13	0,4	4 195 494	6,1
more than 1 000 000 shares	7	0,3	53 086 952	77,0
	3 321	100,0	68 980 374	100,0
TYPE OF SHAREHOLDERS				
KWV Employee Empowerment Trust	1	–	6 040 689	8,8
Withmore 1 Investments (Pty) Ltd (previously Phetogo)	1	–	12 639 929	18,3
HCI – KWV Holdings (Pty) Ltd	1		24 345 303	35,3
Total BEE shareholders			43 025 921	62,4
KWV SA (Pty) Ltd	1	–	442 711	0,6
Other	3 317	100,0	25 511 742	37,0
	3 321	100,0	68 980 374	100,0

TRADING STATISTICS	**2012**	2011
Number of shares traded	**2 561 309**	2 144 688
Percentage of issued shares traded	**3,71%**	3,11%
Value of shares traded	**R23 039 152**	R24 018 781
Number of transactions	**325**	302
Market price per class A ordinary share		
– average	**R9,00**	R11,20
– highest	**R11,00**	R13,00
– lowest	**R7,00**	R10,27
– closing	**R9,11**	R10,50

A register of shareholders is available at the registered office for the information of stakeholders.

The trading statistics disclosed above only reflect shares traded through our brokers' trading system. (These, therefore, do not include direct transactions between shareholders that are registered directly with the share transfer secretaries.)

CHAIRMAN'S REPORT

The alignment of shareholders, the board and management is the cornerstone for the successful management of any business. During the year we have achieved this and we have clarity about the future strategy of the group, the risks that we are taking and the potential investment required to achieve this.

Our goal is to become a global diversified alcoholic beverage business. In the short term we need to restore profitability – the drive for short-term profits needs to be balanced against the longer-term requirement to support current brands and the products we are launching in new categories.

It is clear that the path to profitability and growth is a difficult one that requires a longer-term view of the business. Building brands requires investment and the failure rate of new products is high in a very competitive market. Our responsibility as a board is to ensure that the rate of investment is balanced against the financial solvency and liquidity requirements of the group.

We have to factor very difficult economic conditions into our deliberations about the strategy and performance of the group. Growth in key European markets does not exist. This lack of growth is exacerbated by a decline in brandy consumption in South Africa which, in turn, exerts more pressure on the group to develop products in growing categories.

The group is faced with increasing risks in the regulatory environment where specifically, the South African authorities have increased the excise duty on brandy by 20%. By far the largest portion of the selling price of our products is now paid to government who has indicated that the increase for 2013 will be another 20%. With each increase in duties our brandy becomes less affordable to our customers who are increasingly being driven to lower-quality products. We believe that these high duties are also leading to a proliferation of non-regulated and illicit products and that government's aims to reduce consumption will not be successful.

Government, in its attempt to reduce consumption, has also indicated that it is planning to ban alcohol advertising. If implemented this will have a significant effect on the industry, with established brands enjoying a considerable advantage over new entrants. We are formulating strategies to counter the effect of this ban if implemented, but we anticipate the consequences for our business in the South African market to be very negative.

We expect market conditions to remain challenging but are confident that the long-term plans for the group are sound in the face of the conditions and strategic challenges we face.

Our employees have worked very hard in a challenging year and we thank them for their dedication and effort. Their contributions on a day-to-day basis make the difference and we look forward to working with them in the year ahead as we continue on our journey to realise the potential of KWV.

I also wish to thank my fellow board members for their insight and contributions during year. Their guidance and insight was invaluable.

Marcel Golding
Chairman

CHIEF EXECUTIVE OFFICER'S REPORT

A business is ultimately judged by its financial performance and, using that yardstick, KWV did not come close to meeting the expectations of management or its shareholders. In a loss-making business, short-term gains can easily be made by reducing advertising and marketing costs and curtailing investment in new products. We are fortunate that our board and shareholders have enabled us to make decisions aimed at improving the long-term future of the business, but the current year's results were still below our expectations. Our losses were increased by investments in new markets and new products but these investments should ultimately strengthen KWV and diversify the business into new markets and new product categories.

While our financial performance was below par, KWV's wines and brandies enjoyed unprecedented recognition and awards during the reporting period. Our wine team was recognised as the best producer at the Veritas and Old Mutual wine competitions, and the brandy portfolio garnered numerous local and international awards. KWV was also listed as the 27th most recognised wine brand by Drinks International, the only South African wine brand on this list.

Despite these accolades, the overall trading environment for wine and brandy remains challenging. Our expectations last year and at the interim stage that market conditions were unlikely to improve significantly, proved to be correct and the business was unable to grow its own product volumes. While margins remained fairly stable, they remain below our targeted levels and the levels required to amortise KWV's fixed cost base. The lower sales resulted in inventory provisions in the wine portfolio as procurement is contracted long in advance. In addition, packaging changes required in order to reposition some of our major brands resulted in the write-off of obsolete packaging material. The extent of the write-off exceeded our expectations at the interim reporting period.

Growth prospects for wine sales in our traditional European markets are limited given the financial conditions and the fact that the South African wine category is under pressure. Our plans to expand sales into Africa and Asia are progressing well and our investment in people and agents is already delivering results. This growth is, however, off a low base and it remains critical that we maintain volume in our European markets.

In South Africa our wine sales are improving through efforts to expand our distribution and on-shelf presence. KWV enjoys significant brand recognition, but availability is relatively low across the product range due to route-to-market and distribution constraints. Where we increase availability we can immediately see the benefit of increased sales. The group has invested a large amount in additional sales staff and route-to-market capability during the second half of the financial year to increase distribution – the benefits of this investment must be realised in 2013 in order to become profitable in the South African market.

Brandy sales are mainly in South Africa where the market is declining. However, KWV 3 Year brandy has increased its market share and overall brandy volumes increased from the prior year. It is anticipated that the brandy market will continue to face pressure from malted whisky and cognac at the upper end.

The South African market remains very competitive and reduced margins have resulted in many of our customers facing financial difficulties. The preliminary liquidation of a large independent retailer mostly resulted in our bad debt provision increasing by R6 million compared to a negligible amount in the prior year. In addition, the introduction of restrictions by government to limit advertising of alcoholic products appears inevitable and requires us to develop contingency plans to be able to communicate with consumers when restrictions are imposed. Our expanded sales force forms part of this contingency plan.

The group, as part of its strategy to grow its product portfolio, invested significantly in new products aimed at the South African market during the year. CIAO volumes have exceeded initial forecasts but required a higher advertising spend. The ready mix cocktail market is growing very fast in South Africa and "lite" versions of our products were introduced to expand CIAO's consumption appeal.

Jimmijagga is the group's first attempt at a ready-to-drink ("RTD") product. The RTD market is very competitive and new brands are launched on a continual basis. The challenge to establish a new product is significant and very costly, but is ultimately required if KWV is to expand its product basket and access this high-growth market segment. In addition, RTDs offer the benefit of lower working capital as there is no maturation requirement for the product. Jimmijagga is sufficiently differentiated in packaging and concept to have stand-out potential in this cluttered segment. Consumers have also provided very favourable feedback on the product. The principal challenge is now to distribute the product as widely as possible, at the right price point. Distribution must be supported by a well-executed merchandising plan and we have to be vigilant to ensure that the marketing spend does not grow too far ahead of volumes.

Our plans for 2013 are:

- *Leverage the investment in the South African office and sales force to improve our product distribution and to assist with the roll-out of new products*
- *Develop and grow high-potential markets, such as Africa and Asia, through increased investment in our sales teams*
- *Continue to manage our advertising and marketing spend as a ratio of sales and implement metrics to ensure that our investment yields an appropriate return on a volume per rand spent basis*
- *Support our new RTD portfolio with investment and focus while managing the overall cost*
- *Continue with efforts to reduce overhead costs*
- *Increase our margins across the portfolio by increasing prices of marginal products or culling them*

In order to become profitable, KWV requires additional volume through its business in order to amortise the significant fixed cost base. It is unlikely that significant reductions can be achieved in the fixed cost of the business without compromising the group's ability to produce and deliver its product portfolio as it is currently structured. The plans for 2013 are aimed to increase volume across the portfolio and to move the portfolio into higher-growth and higher-margin segments. This strategy is not without risk, especially where costs have to be expended well in advance of revenue. We are, however, motivated by the success we have achieved in new markets, our new product pipeline and the value of the KWV brand.

André van der Veen
Chief Executive Officer

FINANCIAL REPORT

Revenue of R762 million increased by 12,4% (volume by 10%) compared to the previous year, which was mainly due to new business and the growth in the group's contract bottling business. Excluding contract bottling sales, revenue increased by only 4%.

Total wine sales volumes declined by 7%, and total volume for the sale of spirits increased by 1% with other sales relating mainly to contract bottling.

The two areas where volumes and revenues were under pressure were Europe, traditionally KWV's most important export market, and South Africa. The satisfactory growth in the African and Asian markets could not offset these declines.

The rand weakened by about 10% compared to last year against other major currencies and this boosted export revenue and profit margins. Direct production costs were also controlled well. However, these gains were largely negated by abnormal production variances, mainly relating to product write-offs and impairments as well as cost increases above inflation in areas such as electricity costs. In addition, lower throughput in the cellar and maturation facilities negatively impacted capacity variances.

The significant increase in the group's contract bottling business, which contributes to capacity utilisation, but at lower profit margins than KWV's branded business impacted negatively on overall profit margins. As a result, the group's gross profit margin declined from 33,0% to 30,8% and the group's gross profits increased at a slower rate (5,1%) than revenue to R235 million. Excluding contract bottling, the gross percentage remained stable at 35,2% from 35% in the prior year.

Other gains and losses declined by R29 million from 2011, mainly due to significant sale of assets that were not repeated in the current year. The prior period also contained exchange rate profits of R4,5 million. In contrast with the prior year, exchange rate losses in the current year amounted to R4,5 million. Part of these losses (R2 million) relates to a strategic decision to hedge most of the budgeted sales for 2013.

KWV continued to invest in sales and marketing expenses, both in the form of advertising and promotion and in its sales force capacity. It has expanded its global sales team, spent significant amounts on its new ready-to-drink ("RTD") business, and changed its distribution model in the local market to insource its local sales force in the last quarter of the year. As a result, the promotion, marketing and distribution costs increased by 12% to R225 million in the year under review. Sales expenses are 18,5% of revenue, excluding contract bottling, as compared to 17,6% in the previous period.

Operational and administrative expenses increased by 16% to R100 million. Included in the above are retrenchment costs of R16 million and, excluding this amount, the costs would have decreased marginally.

The net effect is that the group made an operating loss of R80 million compared to a loss of R22 million in the prior year. Non-recurring expenses in the current year that contributed to the operating loss were quality provisions (R9 million), inventory variances (R34 million), retrenchment costs (R16 million) and bad debt provisions (R6 million). This was somewhat offset by finance income and taxation accruals and the net result is a headline loss of R50,1 million (73,1 cents per share) compared to a loss of R17,6 million (25,7 cents per share) in the prior year.

With regard to the group's financial position and cash flows the most noticeable changes were a significant increase in inventory levels and receivables, an increase in payables and a decrease in cash resources.

The increase in inventory, R727 million to R809 million, primarily stems from three sources: higher levels of packed stocks as KWV is striving to prevent going out of stock in the local market where our distribution footprint has grown from three warehouses to twelve; increased stockholding of dry goods necessitated by the contract bottling business; and internal inefficiencies.

Receivables have increased by about R90 million due to an increase in:

- *trade receivables driven by revenue growth,*
- *overdue debts,*
- *excise duty recoverable due to the 20% increase in excise duties from February 2012, and*
- *increased inventory levels of blended and packed spirits.*

This growth in excise duty recoverable is largely offset by a corresponding increase in excise duty payable that is the most significant contributor to the R105 million increase in payables.

The losses in the business and the increased investment in working capital were the main reasons for the decline in cash resources at the end of the financial period.

KWV's net asset value declined marginally from R18,45 to R17,73 per share.

SUSTAINABILITY

Sustainability of the environment, our suppliers and our communities are a high priority for the group. The pressure on viticulture practices due to climate change requires constant adaptation. Our suppliers are under pressure from lower-cost producers around the world where many of their competitors have benefited from subsidies. Investment in new vineyards is declining which will place pressure on yields and prices. In the communities in which we operate, alcohol abuse and general poverty are highly prevalent. Our sustainability strategy aims to create awareness of the issues facing our stakeholders and to assist in certain areas by providing financial support to develop programmes that have longer-term impact. As such the nature of our programmes may change over time as we focus on building a self-sustaining sustainability plan.

ENVIRONMENT

KWV's approach towards environmental management is codified in its Integrated Management System (IMS). Under the IMS, practices and procedures relating to the purchase of raw materials, production and packaging operations are continuously evaluated to constantly reduce detrimental effects on the environment.

The IMS also places the focus on product quality, food safety, personnel health and safety as well as sustainable business practices.

KWV and its suppliers of grapes and wine products are accredited members of the Integrated Production of Wine (IPW) Scheme. The IPW Scheme is an international forerunner of sustainable and responsible viticulture farming and production practices.

KWV has a continuous focus on the sustainable principles of the IPW Scheme and has spent time with suppliers of raw material to understand and apply the principles.

Biodiversity

The Laborie Estate is a member of the Biodiversity Wine Initiative (BWI). During the course of the 2012 financial year, the Laborie farming activities were contracted to an external contractor, who is IPW and WIETA (Wine Industry Ethical Trade) accredited.

Water and energy management

Water and energy management is a key priority in the KWV sustainability programme. Our efforts are focused on reducing pollution and overall usage. During the year, real-time monitoring devices were installed on the respective electricity and water distribution networks at KWV Paarl production site to establish a consumption base line for these resources.

From the electricity consumption base line the following actions have been taken:

- A lighting energy audit has been completed on the production site. From this audit it was found that lighting amounts to 14,6% of the KWV electricity consumption. The next phase is the installation of energy-efficient lighting, whereafter other energy components will be analysed.
- The refrigeration compressors consume the most electrical energy in the production process and warehouses. SCADA systems, soft starters and other means to enhance the functioning and utilisation of the refrigeration compressors are being reviewed for implementation.

A new optimally sized HFO boiler has been installed to replace an oversized boiler. The new boiler has upgraded control systems that enhance boiler efficiency and reduce fuel consumption.

KWV is continuously investigating smaller techniques and technologies to improve operational efficiencies and in the process reduce the impact of our collective carbon footprint. One of those efforts enabled KWV Worcester to achieve a saving of 43,8% on coal consumption due to changes in process practices and equipment modifications.

Waste management and recycling

By actively managing and monitoring our waste management system KWV has, in collaboration with recycling partners, improved recycling rates by recycling a total of 435 tons of solid waste.

KWV has initiated the process of implementing the ISO 14001 Environmental Management Standard by compiling an environmental risk register to identify its environment aspects and impacts.

As required by the National Environmental Management Waste Act, KWV submitted its industry waste management plan to the Department of Environmental Affairs and Development Planning.

KWV safety and process Risk management

Afri Compliance has conducted an audit at KWV and has awarded KWV a certificate of compliance for complying with Afri Compliance Protocol and for practices kept in terms of local legislation and regulations promulgated under applicable Acts.

COMMUNITY DEVELOPMENT AND SOCIAL UPLIFTMENT

KWV has developed a social strategy which is aligned with the Millennium Development Goals and the King III Report of contributing to the company's overall mission and vision, while making a measurable impact in the community.

The objectives of KWV's social policy:

- *Create positive, sustainable impact on communities through investment in improving the quality of life and prosperity of disadvantaged communities*
- *Build and improve relationships with the company's existing and potential stakeholders and create strategic partnerships*
- *Advocate and promote the responsible use of our products and other alcoholic beverages within the self-regulatory environment in which KWV operates*

One of the key building blocks of our social strategy is socio-economic development, where we have funded a number of impactful projects.

1. **The International Hotel School (IHS) traineeship programmes**
   KWV has sponsored 23 students since January 2011 – nine from KwaZulu-Natal, and seven each from the Western Cape and Gauteng. Trainees spend two or three years in the work environment, receive on the job training and are continuously assessed against nationally recognised standards. The courses are modelled on the apprenticeship formula where the trainee follows a planned journey through the various departments while studying with the IHS on a distance-learning basis. The latest results from the first intake onto the programme are encouraging. The majority of the current trainees are expected to complete their studies between 2012 and 2014.

2. **Infinity Culinary Training (ICT) and Let's Sell Lobster**
   Infinity Culinary Training is a non-profit school training young men and women during a 12-week programme which focuses on basic kitchen skills and the professional tools needed to obtain job placements within the hospitality industry. Let's Sell Lobster presented an additional course on food and wine pairing. KWV has sponsored six students who have completed their studies during the period July 2011 to July 2012 and are all currently employed.

3. **The Pebbles Project**
   KWV has continued its sponsorship of The Pebbles Project in 2012. The purpose of sponsorship is to benefit the lives of children, with special educational needs, from disadvantaged communities. In April 2012, Pebbles received a donation from the Cape Argus 2012 KWV and Arvid Nordquist cycling team. This donation was utilised to establish the Pebbles After-school Club Sport Programme, which benefits 240 children.

Responsible use of alcohol

KWV has supported Life Talk, a non-profit organisation which provides a comprehensive and thought-provoking look at the challenges and situations faced by today's adolescents and their parents. Life Talk has conducted training of 250 social workers at five different welfare organisations in Cape Town to assist in their existing community projects. The response to the workshops was overwhelmingly positive.

KWV, as a founding member of the Industry Association for Responsible Alcohol Use (ARA), is committed to support the ARA in its objectives to reduce alcohol-related harm through combating the misuse and abuse of alcoholic beverages.

The ARA is one of the main funders of the Foundation for Alcohol Related Research (FARR) which does extensive research in the area of foetal alcohol syndrome (FAS) and foetal alcohol spectrum disorders (FASD). Their intervention programme in De Aar has led to a 30% reduction in the incidence of FAS and FASD in the area.

KWV subscribes to the ARA Code of Commercial Communication (CCC) and is committed to complying with the Code in support of the self-regulatory environment in which the business operates.

TRANSFORMATION

Broad-based black economic empowerment (BBBEE)

KWV again improved on its BBBEE rating and confirmed its position as one of the leaders in BBBEE in the wine and spirits industry by achieving a level 3 rating during its previous evaluation. The company started as a level 7 contributor in 2007 and was on level 4 last year.

The KWV Employee Empowerment Trust (KEET) holds 4,4% shareholding in KWV and 3% in Capevin. KEET has 450 previously disadvantaged beneficiaries and remains a significant shareholder within the wine and brandy-producing sectors.

The total black shareholding within KWV is currently at 62%.

CORPORATE GOVERNANCE

The KWV group is committed to the principles of good corporate governance and upholds the highest standards of integrity, accountability and transparency. The group accepts and supports in principle the King Code of Governance Principles ("King III") and complies with the principles and requirements thereof insofar as considered practicable and applicable.

BOARD OF DIRECTORS

Board composition and operation

The company maintains a unitary board. The board currently consists of nine directors (one of whom is the chief executive officer) with sufficient non-executive directors independent of management to ensure that shareholder interests (including minority interests) are protected. The size of the board is sufficiently large to ensure the presence of a wide range of skills, knowledge and experience without compromising common purpose, involvement participation and a sense of responsibility amongst the members necessary to meet the company's strategic objectives.

The board considers all of the circumstances relevant to a director, in determining whether he or she is free from any material interest and any substantial business or other relationship which could, or could reasonably be perceived to, interfere with the director's ability to act in the best interests of the company. The board reviews the independence of directors annually and is satisfied that, from a practical point of view, there are sufficient directors that do not have significant contractual relationships with the company or group and are free from any business or other relationship that could be seen to materially interfere with their capacity to act in an independent manner. The non-executive directors who are not considered to be independent are nevertheless independent of thought and action and act in the best interests of the company.

The board annually elects a chairman from its own ranks. There is a clearly accepted division of responsibilities between the role of the chairman and that of the chief executive officer.

All directors have access to the advice and services of the company secretary and are entitled to seek independent professional advice at the group's expense if reasonably required in the execution of their corporate responsibilities.

Mr André van der Veen will continue to be the CEO of KWV on the basis of a management agreement entered into between KWV and HCI. In terms of this agreement HCI's services will include the CEO's function.

Board charter

The KWV board operates under an approved charter which regulates the way in which the board conducts itself and governs the business of the group. The charter is modelled on the principles recommended by King III, where deemed practical and applicable, and incorporates the powers of the board. It provides a clear division of responsibilities and determines the accountability of board members, collectively and individually, to ensure an appropriate balance of power and authority. The board retains full and effective control over the company and directs and supervises the business and affairs of the company, and remains responsible and accountable for the overall success of the approved plans and strategies.

Board meeting attendance

The board meets at least once per quarter, or more frequently if required by circumstances. The following board meetings were held during the year under review and details of individual attendance at board meetings are set out below:

Director	31 Aug	8 Dec	21 Feb	12 June
JA Copelyn	√	√	√	√
F-A du Plessis	√	√	√	√
NL Ellis	√	√	√	√
MJA Golding	√	A	√	√
MN Joubert	√	√	√	√
KI Mampeule	√	√	√	√
KR Moloko	√	√	√	√
A van der Veen	√	√	√	√
LA van Dyk	√	√	√	√

√ Present A Absent with apologies

RISK MANAGEMENT AND INTERNAL CONTROL

Effective risk management forms an integral part of the group's objective to continuously add value to the group's business.

The board is ultimately accountable for the process of risk management and the system of internal control and is assisted in its accountability by the Group Audit and Risk Management Committee. The day-to-day responsibility for risk management, and the design and implementation of the appropriate process to manage risk, resides with management.

The risk management process is designed to ensure that:

- *All relevant risks are identified and classified, based on their likelihood of occurrence and potential impact on the business;*
- *A maximum of ten key risks with the highest rating are reported regularly to the Group Audit and Risk Management Committee and to the board;*

- *Risks and the required processes and controls to manage these risks are assessed in line with the board's risk appetite; and*
- *Appropriate management information and monitoring processes are in place to manage the exposure to each of the key risks so that, where required, necessary corrective action may be taken.*

During the year the executive management committee regularly evaluated those key risks and related controls which are important to the group as a whole. The key risks and their status are regularly reported to the Group Audit and Risk Management Committee and the board.

The directors are satisfied that the internal control systems implemented and maintained throughout the group are adequate to mitigate the significant identified risks to acceptable levels. These systems are designed to manage and provide reasonable assurance against, rather than eliminate absolutely, the risk of not achieving the group's stated objectives.

The further development of the risk management process is a dynamic and ongoing one. It is the stated intention of management to continue to develop the necessary processes which will ensure that risk management forms an integral part of everyday tasks and procedures.

The group has a documented and tested disaster recovery plan in respect of its main business application system, SAP. In the event of a disaster resulting in the failure of business systems, the SAP development equipment, situated in a different location, will be used for the live production system. The procedures required for the recovery of SAP systems, as well as infrastructure equipment, are tested regularly.

In respect of other business processes, independent of the main information technology environment, there are a variety of other procedures and continuity plans in place appropriate to the specific business area and associated risks. Business continuity in many of these cases is adequately ensured by the existence of multiple plants or installations (often also spread geographically) which provide sufficient capacity to maintain operations in the event of specific equipment or procedure failure.

The company has board representation in its associate, Paarl Valley Bottling Company (Pty) Ltd and thereby ensures that satisfactory risk management and internal control procedures are maintained.

Information technology

The board assumes responsibility for the governance of information technology ("IT") and has established and implemented an IT charter and policies. IT forms an integral part of the company's risk management, and the Group Audit and Risk Management Committee assists the board in carrying out its IT responsibilities, ensuring that IT risks are adequately addressed. The responsibility for the implementation of an IT governance framework is delegated to management and the board monitors and evaluates significant investments and expenditure. IT assets are managed effectively.

Board committees

The board has established a number of committees to assist in ensuring compliance with its duties and responsibilities but remains ultimately responsible for decisions relating to matters which have been delegated to committees. The membership of the committees and attendance at meetings for the year under review is indicated below per committee. The chief executive officer attends all committee meetings and other directors are free to attend any such meetings at will. Committees may invite experts and members of management to participate in meetings about specific matters. Membership of the respective committees is reviewed by the board on an annual basis.

Group Audit and Risk Management Committee ("Audit Committee")

The Audit Committee, which operates under a board-approved charter, provides additional focus on financial and risk management issues of material significance to the group but which are not fully addressed by the whole board. The committee is responsible for reviewing, evaluating and making recommendations to the board on the following issues:

- *Compliance with local and international accounting standards, legal and regulatory requirements, the memorandum of incorporation, the group's code of ethics and conduct as well as rules or regulations imposed by the board*
- *The group's interim results, annual financial statements, dividend announcements and any other financial information for shareholders or for publication in the media*
- *Special documents, such as prospectuses and circulars*
- *Announcements about ethical standards or requirements for the group*
- *The company's dividend policy and dividends to be declared*
- *Appointment and dismissal of external auditors*
- *Planning and scope of the external audit, the performance of the external auditors and their fees*
- *Appointment or dismissal of the chief internal auditor*
- *The independence and effectiveness of the internal audit function, particularly in respect of objectively reporting on the operational efficiency of the group's system of internal control and reporting*
- *The internal control system implemented by management to ensure that accounting systems and related controls are adequate and operating efficiently*

- *Risk management*
- *Important findings by internal and external auditors*
- *Material issues relating to accounting measurements and disclosure*
- *Differences and disputes between management and auditors*
- *Significant transactions not in the ordinary course of business*
- *Special investigations and, if required, making use of expert advice*
- *Other supervisory functions requested by the board*

The committee meets at least twice per year on predetermined dates but the board or any member thereof, including a member of the committee, the external auditors or the head of the internal audit may request that additional meetings be convened. For attendance of meetings see the report on page 19.

Internal auditors

The internal audit function is divided into two, namely:

- *the specialist information technology audit environment which is outsourced to an independent external auditor that operates independently from the external audit function; and*
- *the internal audit department of the group which is responsible for the rest of the internal audit function.*

Internal audit performs an independent, objective evaluation and advisory function which adds value and improves the execution of the group's activities. It assists in achieving the objectives of KWV by following a systematic, disciplined approach to review and improve the effectiveness of risk management, internal control and management processes.

The outsourced audit of the information technology systems and processes is performed according to agreed conditions of appointment and terms of reference. KWV's internal audit department acts in terms of a documented guideline which has been approved by the Audit Committee. The internal audit programme is presented annually at the planning meeting of the committee during which members of the Audit Committee also have the opportunity of directing specific requests or instructions to the internal auditor. The internal auditor reports comprehensively to management on an ongoing basis, with copies sent directly to the chief executive officer. The internal auditor is required to regularly submit a complete written report of his activities to the Audit Committee. However, the internal auditor retains the authority to submit specific detailed reports to the committee should he deem it necessary. This enables the internal auditor to report wholly independently to the committee any irregularities in which management may possibly be involved.

External auditors

The group's external auditors attend all meetings of the Audit Committee and have direct access to the chairman of the committee. The external auditors are required to provide written information to the committee in respect of the following:

- *Their audit approach, objectives and important risk areas on which the emphasis will be during the audit*
- *Co-operation with and extent of reliance on internal audit*
- *Evaluation of the internal control environment and the degree in which it is relied upon*

Human Resources and Remuneration Committee ("Remuneration Committee")

The group's remuneration philosophy, which serves as a guideline for the remuneration of all directors and staff, focuses on:

- *Retaining the services of existing directors and employees*
- *Fair and market-related remuneration of directors and employees, including short- and long-term incentive remuneration systems*
- *Avoidance of discrimination*
- *Recognition and encouragement of exceptional and value-adding performance*

The Remuneration Committee, which operates under a board-approved charter, comprises at least two non-executive directors and meets at least twice per year. The chief executive officer attends all committee meetings. The committee is chaired by Prof LA van Dyk.

Attendance at meetings held during the year under review was as follows:

Director	23 Aug	12 June
LA van Dyk	√	√
MJA Golding	A	√

√ Present A Absent with apologies

The Remuneration Committee ensures that directors are appropriately remunerated in a manner aimed at aligning the interests of directors with those of shareholders. The committee is responsible for reviewing, evaluating and making recommendations to the board on the following issues:

- *The group's remuneration policy in general and in particular for executive management (The executive responsible for human resources acts in an advisory capacity to the committee in this respect and the committee may also consult independent experts if required.)*

- *Remuneration packages for executive management (The chief executive officer is excluded from and does not participate in discussions or decisions related to his own remuneration.)*
- *Incentive schemes, including share incentive schemes and plan*
- *Annual assessment of the performance of individual directors, excluding the chairman*
- *Criteria for the performance assessment of directors and executives*
- *The general level of remuneration of directors and board committee members*
- *Labour legislation which may be applicable to the group*
- *Relevant human resource policies*

Non-executive directors are not permitted to participate in the group's share incentive scheme or to obtain personal loans from the group.

Social and Ethics Committee

In terms of the new Companies Act, Act 71 of 2008, as amended, the public interest score of the company is of such a magnitude that the establishment of a social and ethics committee is required. The board has appointed such a committee which is chaired by the chairman of the board, and consists of four non-executive directors.

The operation and activities of the committee are regulated by its terms of reference approved by the board. The functions of the committee which are contained in its terms of reference are prescribed by regulation, and its main role is to monitor the company's activities regarding social and economic development, good corporate citizenship, the environment, health and public safety, consumer relations and labour and employment.

The committee met once in the year under review and attendance was as follows:

Director	12 June
MJA Golding	√
JA Copelyn	√
KI Mampeule	√
LA van Dyk	√

√ Present

DEALING IN SECURITIES

In terms of group policy, directors of the company and identified employees in the group are prohibited from dealing in securities of the company during price-sensitive periods.

GROUP SECRETARY

To enable him to properly fulfil his duties, the secretary has been fully empowered by the board and has complete access to people and resources required.

The secretary plays an important role in supporting the chairman and the chief executive officer. He also provides a central source of guidance and advice on business ethics and good governance. Relevant information on new regulations and legislation, that may be relevant to directors, is tabled when necessary.

GOING CONCERN

In accordance with Companies Act requirements, the board records its opinion on the group as a going concern in the annual report.

The board reviews the going concern status of the group at least once per year with reference to, among others, the following:

- *The current financial position of the group based on the board's deliberations on the annual financial statements*
- *The following year's strategic business plan and budgets*
- *Net available funds and the liquidity thereof*

The facts and assumptions underlying the board's assessment are documented. The directors' approval of the annual financial statements, containing the going concern declaration, is set out in the Directors' Responsibility for Financial Reporting on page 18.

ACCESS TO INFORMATION

The group complies with the regulations of the Promotion of Access to Information Act, Act 2 of 2000 which ensures the constitutional right of reasonable access to information required for the exercising or protection of any rights.

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Notice in terms of Section 29 of the Companies Act, 2008 ("the Act")

These annual financial statements have been audited by our external auditor PricewaterhouseCoopers Inc.
in compliance with the applicable requirements of the Companies Act, 2008.
The annual financial statements were prepared under supervision of Mr DP Smit CA(SA).

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 International Financial Reporting Standards (IFRS) 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 external 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 and continue to adopt the going concern basis in preparing the financial statements.

The financial statements which appear on pages 21 to 64 were approved by the board of directors on 6 September 2012 and are signed on their behalf by:

Marcel Golding
Chairman

André van der Veen
Chief Executive Officer

DECLARATION BY THE COMPANY SECRETARY

I hereby confirm, in my capacity as company secretary of KWV Holdings Ltd, that for the year ended 30 June 2012, the company has filed all required returns and notices in terms of the Companies Act, 2008, and that all such returns and notices are to the best of my knowledge and belief true, correct and up to date.

Albert Eksteen
Company Secretary

REPORT OF THE GROUP AUDIT AND RISK MANAGEMENT COMMITTEE

The Group Audit and Risk Management Committee ("Audit Committee") consists of a minimum of three directors, the majority of whom are independent non-executive directors. The board chairperson and the chief executive officer attend meetings by invitation while the external and internal auditors, together with relevant members of management, also attend meetings by invitation. Directors who are not members of the Audit Committee may attend committee meetings. The internal and external auditors enjoy unrestricted access to the Audit Committee.

Attendance at meetings held during the year under review, was as follows:

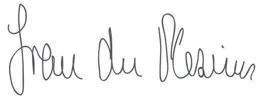
Director	29 Aug	20 Feb
F-A du Plessis (chairman)	√	√
KR Moloko	A	√
JA Copelyn	√	A

√ Present   A Absent with apologies

The committee reports that it has considered the matters set out in section 94(7)(f) of the Companies Act, 2008, and is satisfied with the independence and objectivity of the external auditor, PricewaterhouseCoopers Inc. The committee has considered and recommended the fees payable to the external auditor.

Based on the information and explanations given by management and discussions with the independent external auditor regarding the results of their audit, the committee is satisfied that there was no material breakdown in the internal accounting controls during the financial year under review.

The committee has evaluated the financial statements of KWV Holdings Limited and the group for the year ended 30 June 2012 and, based on the information provided to the committee, considers that the group complies, in all material respects, with the requirements of the Companies Act, 2008 and International Financial Reporting Standards (IFRS).



F-A du Plessis
Chairman of the Audit Committee

6 September 2012

INDEPENDENT AUDITOR'S REPORT

to the members of KWV Holdings Limited

We have audited the consolidated and separate financial statements of KWV Holdings Limited set out on pages 21 to 64, which comprise the statements of financial position as at 30 June 2012, and the statements of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information, and the directors' report.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The company's directors are responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated and separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated and separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of KWV Holdings Limited as at 30 June 2012, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

PricewaterhouseCoopers Inc

PricewaterhouseCoopers Inc.
Director: TS Bruwer
Registered Auditor

PO Box 215
Paarl
7620

6 September 2012

DIRECTORS' REPORT

NATURE OF ACTIVITIES

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

- The purchase of grapes, wine and distilling wine for processing and maturation, which products are eventually sold in the form of wine, 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.

DIVIDEND

No dividend (2011: 0 cents) per ordinary share is declared for the year under review.

EVENTS AFTER YEAR-END

Refer to note 35 for details of the loan to KWV Employment Equity Trust that was repaid in full in July 2012.

No other material events which may have a significant influence on the financial position of the company occurred between the date of the financial year-end and the date of approval of the financial statements.

DIRECTORS

The complete board of directors as at 6 September 2012 is set out on page 3.

SHAREHOLDING ANALYSIS

Disclosure by the directors indicates that at 30 June 2012 the direct interest of directors and those of their families amounted to 0% of the issued shares of the company and this remains unchanged as at the date of this report.
(See analysis of shareholders on page 4.)

CONTINGENT LIABILITIES

Details of contingent liabilities are fully disclosed in note 23 of the financial statements.

STATEMENT OF FINANCIAL POSITION

as at 30 June 2012

	Note	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
ASSETS					
Non-current assets		249 605	304 436	743 611	838 884
Property, plant and equipment	4	204 696	198 521	–	–
Intangible assets	5	20 040	19 679	–	–
Investments in subsidiaries	6	–	–	743 611	838 884
Interest in associates and joint ventures	7	15 094	14 328	–	–
Loans and receivables	8	2 000	60 757	–	–
Deferred taxation	13	7 775	11 151	–	–
Current assets		1 245 076	1 151 595	–	229
Inventory	9	809 369	727 231	–	–
Trade and other receivables	10	330 816	243 142	–	–
Current income tax assets		1 713	3 924	–	8
Derivative financial instruments	11	2 422	756	–	–
Loans and receivables	8	45 453	7 778	–	–
Bank and cash balances		55 303	168 764	–	221
Total assets		1 494 681	1 456 031	743 611	839 113
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	12	1	1	1	1
Share premium		425 722	425 722	425 722	425 722
Reserves		789 878	839 012	317 527	413 170
Total equity		1 215 601	1 264 735	743 250	838 893
Non-current liabilities					
Deferred taxation	13	38 608	61 532	–	–
Current liabilities		240 472	129 764	361	220
Trade and other payables	14	233 811	129 592	220	220
Derivative financial instruments	11	5 156	110	–	–
Current income tax liabilities		1 505	62	141	–
Total equity and liabilities		1 494 681	1 456 031	743 611	839 113

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2012

	Note	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
Revenue	15	761 907	677 766		
Cost of sales		(526 874)	(454 191)		
Gross profit		235 033	223 575		
Other income	16	7 305	10 170	6 316	23 453
Other gains and losses – net	17	2 487	31 443	(101 214)	(3 044)
Operating expenses		(325 036)	(287 053)	(217)	(353)
Promotion, marketing and distribution		(225 388)	(201 317)	–	–
Operational and administrative expenses		(99 648)	(85 736)	(217)	(353)
Operating profit/(loss)	18	(80 211)	(21 865)	(95 115)	20 056
Finance income	19	14 702	12 255	–	–
Finance costs	19	(137)	(638)	–	–
Share of profit/(loss) of associates and joint ventures	7	433	2 832	–	–
Profit/(loss) before taxation		(65 213)	(7 416)	(95 115)	20 056
Taxation expense	20	15 626	4 468	(528)	(325)
Profit/(loss) for the year		(49 587)	(2 948)	(95 643)	19 731
Other comprehensive income					
Change in foreign currency translation reserve		453	214	–	–
Total comprehensive income/(loss)		(49 134)	(2 734)	(95 643)	19 731
(Attributable to equity holders of the company)					
Earnings per share		Cents	Cents		
(Attributable to equity holders of the company)					
– Attributable earnings	21	(72,3)	(4,3)		
– Diluted earnings	21	(72,3)	(4,3)		

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2012

	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
Share capital				
Balance at beginning and end of the year	1	1	1	1
Share premium				
Balance at beginning and end of the year	425 722	425 722	425 722	425 722
Reserves				
Common control reserve				
Balance at beginning and end of the year	787 230	787 230		
Retained earnings				
Balance at beginning of the year	51 745	80 301	413 170	416 892
Net profit/(loss) attributable to ordinary shareholders	(49 587)	(2 948)	(95 643)	19 731
Profit on sale of treasury shares	–	84	–	–
Equity accounted earnings transferred to equity reserve	(233)	(2 389)	–	–
Dividends paid	–	(23 303)	–	(23 453)
Balance at end of the year	1 925	51 745	317 527	413 170
Treasury shares				
Balance at beginning of the year	(2 923)	(2 965)		
Treasury shares sold by the group	–	42		
Balance at end of the year	(2 923)	(2 923)		
Equity reserve				
Balance at beginning of the year	2 391	2		
Transfer of equity accounted earnings from retained earnings	233	2 389		
Balance at end of the year	2 624	2 391		
Currency translation reserve				
Balance at beginning of the year	569	355		
Movement during the year	453	214		
Balance at end of the year	1 022	569		
Total reserves at end of the year	789 878	839 012	317 527	413 170
Equity at end of the year	1 215 601	1 264 735	743 250	838 893

STATEMENT OF CASH FLOWS

for the year ended 30 June 2012

	Note	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash from operations before changes in working capital	28	(39 724)	(16 215)	(217)	(353)
Changes in working capital	29	(83 405)	(841)	–	220
Cash utilised in operations		(123 129)	(17 056)	(217)	(133)
Interest received	30	14 702	12 255	–	–
Finance costs	30	(5 676)	(1 614)	–	–
Taxation paid	31	(306)	(65)	(379)	(368)
Net cash outflow from operating activities		(114 409)	(6 480)	(596)	(501)
CASH FLOW FROM INVESTING ACTIVITIES					
Acquisition of property, plant and equipment					
– replacements		(11 118)	(11 156)	–	–
– additions		(17 653)	(13 426)	–	–
		(28 771)	(24 582)	–	–
Proceeds on disposal of property, plant and equipment		1 692	27 137	–	–
Acquisition of software		(2 049)	(407)	–	–
Acquisition of trademarks	33	(10)	(357)	–	–
Investment in joint venture		(533)	(4 799)	–	–
Capital repayments received from group companies		–	–	2 709	2 322
Investments sold		–	17 605	–	–
Loan repayments received		28 350	12 496	–	–
Dividends received		2 269	2 947	6 316	23 453
Loans made to group entities		–	–	(8 650)	(1 600)
Net cash inflow from investing activities		948	30 040	375	24 175
CASH FLOW FROM FINANCING ACTIVITIES					
Repurchase of shares		–	125	–	–
Dividends paid		–	(23 303)	–	(23 453)
Net cash outflow from financing activities		–	(23 178)	–	(23 453)
Net increase/(decrease) in cash and cash equivalents		(113 461)	382	(221)	221
Cash and cash equivalents at beginning of the year		168 764	168 382	221	–
Cash and cash equivalents at end of the year	32	55 303	168 764	–	221

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

1. BASIS OF PREPARATION

The principal accounting policies applied in the preparation of these consolidated annual financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The consolidated annual financial statements of the group have been prepared in accordance with, and comply with, International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued and effective at the time of preparing these financial statements. The consolidated annual financial statements are prepared on the historic cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 27 to the consolidated annual financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New and amended accounting standards and interpretations effective in 2012

The following standards, amendments and interpretations became effective for the current reporting period beginning on 1 July 2011:

– Amendments to IFRS 1: Severe hyperinflation and removal of fixed dates for first-time adopters (effective 1 July 2011)
– Amendments to IFRS 7: Improved disclosures for transfer transactions of financial assets issued (effective 1 July 2011)
– Amendments to IAS 24: Related party disclosures (effective 1 January 2011)
– Improvements to IFRSs: Improvements to IFRSs 2010 (effective 1 January 2011)
– Amendment to IFRIC 14: Prepayments of a minimum funding requirement (effective 1 January 2011)
– AC 504: IAS 19 (AC 116) – The Limit on a defined benefit asset, minimum funding requirements and their interaction in the South African Pension Fund Environment (effective 1 January 2011)

The relevance of these standards, interpretations and amendments to published standards has been assessed by management with respect to the group's operations and it was concluded that, other than the additional presentational disclosures required, they did not have a material impact on the group.

2.1 Basis of consolidation

Business combinations

The acquisition method of accounting is used to account for business combinations by the group. The consideration transferred for the acquisition of a business is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. Subsequently, the carrying amount of non-controlling interest is the amount of the interest at initial recognition plus the non-controlling interest's share of the subsequent changes in equity. Total comprehensive income is attributed to non-controlling interest even if this results in the non-controlling interest having a deficit balance.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group until the date on which control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Investments in subsidiaries are accounted for at cost less accumulated impairment losses in the stand-alone financial statements of the company.

Loans to subsidiaries, with no specific terms of repayment, are considered to be a capital distribution to the subsidiary and are included in the carrying amount of the investment.

Transactions and non-controlling interests

The group treats transactions with non-controlling interests as transactions with equity owners of the group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Foreign subsidiaries

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each statement of financial position presented are translated at the closing rate at the reporting date;
(b) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the exchange rates at the dates of the transactions, in which case income and expense items are translated at the exchange rates at the dates of the transactions); and
(c) all resulting exchange differences are recognised in 'other comprehensive income'.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation, and translated at the closing rate at each reporting date.

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.

All jointly controlled ventures are accounted for according to the equity method as with associated companies.

Loans to joint ventures, with no specific terms of repayment, are considered to be a capital distribution to the joint venture and are included in the carrying amount of the investment.

In the stand-alone financial statements of the holding company investments in associates are carried at cost less accumulated impairment losses.

Associates

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss. See note 2.4 for the impairment of non-financial assets including goodwill.

The group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

Dilution gains and losses arising in investments in associates are recognised in profit or loss.

Loans to associates, with no specific terms of repayment, are considered to be a capital distribution to the associate and are included in the carrying amount of the investment.

In the stand-alone financial statements of the holding company investments in associates are carried at cost less accumulated impairment losses.

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

2.2 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes all costs directly attributable to bringing the asset into operation for its intended use. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation of property (excluding land), plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	Average useful life (years)
Buildings	40
Machinery and equipment	10 – 50
Furniture and fittings (including heritage assets)	5 – 10
Vehicles	5 – 15

The assets' residual values and useful lives are reviewed annually at reporting date and adjusted where necessary. Assets under construction are not depreciated.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are accounted for within 'Other gains and losses – net' in profit or loss for the period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. (Refer to note 2.4)

2.3 Intangible assets

Goodwill

Goodwill represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

Trademarks and intellectual property

The cost of trademarks and intellectual property which are established and developed internally by the group is expensed when incurred. Expenditure on acquired trademarks and intellectual property is capitalised and amortised on a straight-line basis over their estimated useful lives (5 to 20 years).

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring into use the specific software. These costs are amortised over their estimated useful lives (5 to 8 years). Costs associated with customising or maintaining computer software programmes are recognised as an expense as incurred.

2.4 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets, other than goodwill, that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.5 Inventory

Inventory is stated at the lower of cost, calculated on the weighted average method, and net realisable value. For manufactured products all direct expenses and production overheads, at normal activity levels, are included in the cost of inventory. 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.

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.6 Derivative financial instruments

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

Derivative instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value.

Hedge accounting is not applied and changes in the fair value of any derivative instruments are taken to profit or loss.

Disclosure about financial instruments to which the group is a party is provided in note 26.

2.7 Financial assets (other than derivatives)

The group classifies its financial assets in the following categories: loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date which are classified as non-current assets. The group's loans and receivables comprise 'trade and other receivables' and cash and cash equivalents in the statement of financial position.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of them within 12 months after the reporting date.

Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade date (the date on which the group commits to purchase or sell the asset). Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value with gains or losses recognised in other comprehensive income. Loans and receivables are carried at amortised cost using the effective-interest method.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in profit or loss as 'gains and losses from investment securities'. Interest on available-for-sale securities, calculated using the effective-interest method, is recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the group's right to receive payment is established.

The fair values of listed investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the group establishes fair value by using appropriate valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Impairment of financial assets

(a) Assets carried at amortised cost

The company assesses at the end of each reporting period whether there is objective evidence that a financial asset or

group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the company uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the company, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- the probability that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  (i) adverse changes in the payment status of borrowers in the portfolio; and
  (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The company first assesses whether objective evidence of impairment exists.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

(b) Assets classified as available for sale

The company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the group uses the criteria referred to in (a) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the asset is impaired. If any such evidence exists for an available-for-sale financial asset the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss. If in a subsequent period the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.8 Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective-interest method, less provision for impairment.

2.9 Bank and cash balances

Bank and cash balances include cash on hand and investments in money market instruments. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

2.10 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of any tax, from the proceeds.

Where any group company purchases the company's equity share capital such shares are classified as treasury shares. The consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the company's equity holders until the shares are cancelled, re-issued or disposed of. Where such shares are subsequently sold or re-issued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders. 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 in issue.

2.11 Reserves

Common control reserve

This reserve originated when the company acquired fellow subsidiaries, associates and joint-venture companies from the former holding company of the KWV group at amounts below their book values.

Equity reserve

The equity reserve comprises the group's share of associates' post-acquisition reserves, excluding non-controlling interests.

Currency translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries and joint ventures.

2.12 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective-interest method.

2.13 Current and non-current borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred and are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective-interest method.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

2.14 Provisions

Provisions are recognised when the group has a present 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 if the monetary value of the liability can be reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as finance costs.

2.15 Taxation

Current and deferred income taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Secondary taxation on companies (STC) and dividends tax (DT)

South African resident companies are subject to a dual corporate tax system. One part of the tax being levied on taxable income and the other, secondary tax (STC), on distributed income. A company incurs an STC charge on the declaration or deemed declaration of dividends, as defined in the income tax act, to its shareholders. STC is not a withholding tax on shareholders, but a tax on companies.

The STC tax consequence of dividends is recognised as a taxation charge in the statement of comprehensive income in the same period that the related dividend is accrued as a liability. The STC liability is reduced by dividends received during the dividend cycle. Where dividends declared exceed the dividends received during a cycle, STC is payable at

the current STC rate on the net amount. Where dividends received exceed dividends declared within a cycle, there is no liability to pay STC. The potential tax benefit related to excess dividends received is carried forward to the next dividend cycle as an STC credit. Deferred tax assets are recognised on unutilised STC credits to the extent that it is probable that dividends will be declared against which the unutilised STC credits will be utilised.

During the current financial year STC was effectively replaced by dividends withholding tax regulations as from 1 April 2012. No deferred tax assets are recognised for any unused STC credits as DT is levied on the recipient of the dividend and is not a taxable benefit for the group.

2.16 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown net of excise duty, value added tax, returns, rebates and discounts, and after eliminating sales within the group.

The group recognises revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the group's activities as described below. The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Sale of goods

Sale of goods is accounted for when the risks and rewards pass to the customer and collectability of related receivables is reasonably assured. It excludes excise duty to the extent that it was directly recovered from clients and also value added tax, sales tax, rebates and discounts. Sales within the group are eliminated.

Revenue is recognised at the fair value of consideration received or receivable.

Interest income

Interest income is recognised on a time-proportion basis using the effective-interest method. When a loan and receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables are recognised using the original effective interest rate.

Dividend income

Dividend income is recognised when the right to receive payment is established.

2.17 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised.

2.18 Dividend distribution

Dividend distributions to the company's shareholders are recognised as a liability in the group's financial statements in the period in which the dividends are approved by the company's board of directors.

2.19 Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in South African rands, which is the holding company's functional currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation, at year-end exchange rates, of monetary assets and liabilities denominated in foreign currencies are recognised within 'Other gains and losses – net'.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale are included in the available-for-sale reserve in equity.

Group companies

Translation of the results and financial position of group companies is dealt with in note 2.1.

2.20 Segment reporting (Annexure D)

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive management of the group, who makes strategic decisions.

2.21 Employee benefits

Pension obligations

It is the company's policy to provide retirement benefits for its employees. For this purpose there are two funds with defined contributions, both which are regulated by the Pension Funds Act of 1956. A defined-contribution plan is a pension plan under which the group pays fixed contributions into a separate entity. The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. All the company's employees are members of the funds and contribute to the funds monthly.

For defined-contribution plans, the group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Short-term benefits

The cost of all short-term employee benefits, such as salaries, employee entitlements to leave pay, bonuses, medical aid and other contributions, are recognised during the period in which the employee renders the related service. The group recognises the expected cost of bonuses only when the group has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

Share-based payments

The group operates a cash-settled share appreciation rights scheme (as per note 25). The cost of cash-settled transactions is measured initially at fair value at the grant date, taking into account the terms and conditions upon which the instruments were granted. The fair value of the employee services received is recognised as an expense over the vesting period, with recognition of a corresponding liability. The liability is remeasured at each reporting date up to and including the settlement date with changes in the fair value recognised in profit or loss.

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed

formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the year-end date are discounted to their present value.

Leave pay policy

The leave pay accrual relates to vested leave pay to which employees may become entitled upon leaving the employment of the group. The accrual arises as employees render a service that increases their entitlement to future compensated leave. The accrual is utilised when employees who are entitled to leave pay, leave the employment of the group or when the accrued leave due to an employee, is utilised.

2.22 Statement of cash flows

The statement of cash flows is prepared using the indirect method.

2.23 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

2.24 Biological assets

Biological assets are carried at fair value less expected cost to sell. Gains and losses arising from changes in fair value are accounted for in profit and loss during the period in which they arise. Fair value is calculated by discounting the net cash flows of the vineyards over the remaining lives thereof at an appropriate discount rate. Agricultural products are initially stated at fair value less estimated point-of-sale costs at the time of harvest. Subsequent to initial recognition, agricultural products are stated at the lower of cost or net realisable value.

2.25 Earnings per share

Earnings and headline earnings per share are calculated by dividing the net profit attributable to shareholders and headline earnings respectively, by the weighted average number of ordinary shares in issue during the year, excluding the ordinary shares held by the group as treasury shares.

3. Standards, interpretations and amendments to published standards, not yet effective

The following amendments and interpretations to standards will be adopted in future financial years:

- Amendments to IFRS 1: First-time Adoption of International Financial Reporting Standards (IFRS): Government loans (effective 1 January 2013)
- Amendments to IFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities (effective 1 January 2013)
- IFRS 9: Financial Instruments (effective 1 January 2015)
- IFRS 10: Consolidated Financial Statements (effective 1 January 2013)
- IFRS 11: Joint Arrangements (effective 1 January 2013)
- IFRS 12: Disclosure of Interests in Other Entities (effective 1 January 2013)
- IFRS 13: Fair Value Measurement (effective 1 January 2013)
- Amendments to IAS 1: Presentation of Financial Statements (effective 1 July 2012)
- Amendments to IAS 12: Deferred Tax – Recovery of Underlying Assets (effective 1 January 2012)
- Amendments to IAS 19: Employee Benefits (effective 1 January 2013)
- Amendments to IAS 27: Separate Financial Statements (effective 1 January 2013)
- Amendments to IAS 28: Investments in Associates and Joint Ventures (effective 1 January 2013)
- Amendments to IAS 32: Offsetting Financial Assets and Financial Liabilities (effective 1 January 2014)
- Improvements to IFRSs: Improvements to IFRSs 2011 (effective 1 January 2013)
- IFRIC 20: Stripping Costs in Production Phase Surface Mine (effective 1 January 2013)

		Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
4.	**PROPERTY, PLANT AND EQUIPMENT (Annexure B)**				
	Carrying value at end of the year				
	Land and buildings	30 555	29 304		
	Machinery and equipment	149 942	151 188		
	Furniture and fittings	19 751	14 443		
	Vehicles	3 528	3 540		
	Plant under construction	920	46		
		204 696	198 521		
	The registers of land and buildings are available for inspection at the registered offices of the company and its subsidiaries.				
5.	**INTANGIBLE ASSETS (Annexure C)**				
	Carrying value at end of the year				
	Trademarks	17 118	18 103		
	Computer software	2 922	1 576		
		20 040	19 679		
6.	**INVESTMENTS IN SUBSIDIARIES (Annexure A)**				
6.1	**Unlisted equity interests**			414 206	518 129
	Golden Kaan South Africa Proprietary Limited			–	–
	KWV Intellectual Property Proprietary Limited			28 786	130 000
	KWV International Proprietary Limited			57 664	57 664
	KWV International Holding GmbH			2 746	5 455
	KWV Projects Proprietary Limited			–	–
	KWV South Africa Proprietary Limited			325 010	325 010
6.2	**Loans**			329 405	320 755
	Loan: KWV International Proprietary Limited			81 358	81 358
	Loan: KWV South Africa Proprietary Limited			248 047	239 397
	These loans are unsecured, interest free and not subject to any specific repayment terms.				
				743 611	838 884

	Group 2012 R'000	Group 2011 R'000
7. INTEREST IN ASSOCIATES AND JOINT VENTURES (Annexure A)		
Equity interests		
Unlisted shares at cost less impairment	3 500	3 500
Interest in post-acquisition reserves	6 262	6 029
	9 762	9 529
Loans		
Solamoyo Processing Company (Pty) Ltd	5 332	4 799
The loan is unsecured, interest free and it has no fixed terms of repayment.		
	15 094	14 328
Reconciliation of equity interest		
Balance at beginning of the year	9 529	9 403
Sale of interest in joint venture	–	(2 606)
Share of profit of associates and joint ventures	433	2 832
Dividends received from associates	(200)	(100)
Balance at end of the year	9 762	9 529

		Group 2012 R'000	Group 2011 R'000
8.	**LOANS AND RECEIVABLES**		
8.1	**Loan: Eggers & Franke GmbH & Co. KG** The loan amounts to €354 861 (2011: €590 367) is unsecured and bears interest at average European Central Bank interest rates of 2,875% (2011: 3,125%). It is repayable in quarterly instalments of €62 500. The loan is carried at an impaired amortisation valuation.	**2 542**	3 688
8.2	**Loan: Edward Cavendish & Sons Ltd ("ECS")** The loan amounts to £129 526 (2011: £299 095) and bears interest at 14,17% per annum (2011: 14,17%). It is repayable in monthly instalments of £19 500 and the loan is guaranteed by ECS's holding company, Thierry's Wine Services. The loan is carried at impaired valuation as there is doubt with regard to its recoverability.	–	2 125
8.3	**Loan: KWV Employee Empowerment Trust** The loan is interest free and was initially repayable by November 2014. It has a nominal value of R21 840 518 (2011: R24 190 401) and was carried at amortised cost at a discount rate of 11% per year (2011: 11%). The trust is the owner of 16 228 468 (2011: 16 228 468) shares in Capevin Holdings Limited, the former holding company of the KWV group, and 6 040 689 (2011: 6 040 689) shares in KWV Holdings Limited, the current holding company of the KWV group. The contract stipulates that 80% of all cash dividends received on these shares is used to repay the loan. During July 2012 KEET sold 3 020 345 shares at R8,50 per share to HCI-KWV Holdings Proprietary Limited. The proceeds were used to settle the loan of R21 840 518 resulting in the reversal of the amortised interest of R4 184 718 at the end of the period.	**21 841**	18 617
8.4	**Loan: Orange River Wine Cellar Co-op Ltd** This loan is unsecured and bears interest at prime rate less 2% per annum. The capital portion of the loan is repayable in yearly instalments of R2 000 000 at the end of March. The accrued interest is also paid at the end of March yearly.	**4 070**	6 105
8.5	**Loan: Freewheel Trade and Invest 23 (Pty) Ltd** This loan is secured by mortgage of R38 million over property held by Freewheel. (2011: The loan was secured by mortgage as well as session of another mortgage over property sold by Freewheel to Robertson Winery.) Interest is charged at a fixed amount of R150 000 (2011: R300 000) per month and the loan is repayable in June 2013. During the year under review Robertson Winery paid R19 000 000 of the loan and the interest was reduced to R150 000 per month.	**19 000**	38 000
		47 453	68 535
	Current portion of loans and receivables	**45 453**	7 778
	Non-current loans and receivables	**2 000**	60 757

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012 *(continued)*

		Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
9.	**INVENTORY**				
	Liquid inventory	735 256	691 827		
	Auxiliary material	74 113	35 404		
		809 369	727 231		
	Inventory carried at net realisable value	10 248	5 553		
	Cost of inventories recognised as expense and included in "cost of sales"	460 301	401 281		
10.	**TRADE AND OTHER RECEIVABLES**				
	Trade receivables	194 962	166 519		
	Less: Provision for impairment of trade receivables	(8 306)	(1 767)		
	Trade receivables – net	186 656	164 752		
	Excise duty recoverable	129 110	55 470		
	Other receivables	15 050	22 920		
		330 816	243 142		
11.	**DERIVATIVE FINANCIAL INSTRUMENTS**				
	– Foreign exchange options ("zero cost collar")				
	Current assets	–	162		
	Current liabilities	(964)	–		
	– Forward exchange contracts				
	Current assets	2 422	594		
	Current liabilities	(4 192)	(110)		
		(2 734)	646		
	The fair value of forward exchange contracts is determined by using forward exchange rates at 30 June 2012. The table below shows the forward exchange contracts measured at fair value by hierarchy level:				
	Level 1 (unadjusted quoted prices in active markets for identical assets or liabilities)	–	–		
	Level 2 (inputs other than quoted prices)	(2 734)	646		
	Level 3 (inputs for assets and liabilities – not based on observable market data)	–	–		
		(2 734)	646		

Refer to note 26 for detailed disclosure on derivative financial instruments.

		Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
12. SHARE CAPITAL					
Shares authorised					
200 000 000 ordinary profit-sharing shares of R0,00001 each		2	2	2	2
		2	2	2	2
Shares issued					
Ordinary profit-sharing shares of R0,00001 each					
Issued and fully paid (opening and closing balance)	68 980 374				
Held by a subsidiary	(442 711)				
Net	68 537 663	1	1	1	1
13. DEFERRED TAXATION					
Attributable to temporary differences:					
Balance at beginning of the year		50 381	60 184		
– Charged against profit or loss		(19 548)	(9 803)		
Balance at end of the year		30 833	50 381		
The balance comprises:					
– Capital allowances		43 609	42 542		
– Inventory revaluation		40 839	40 839		
– Provisions and accruals		(8 815)	(6 368)		
– STC credits		–	(329)		
– Computed taxation losses		(44 800)	(26 303)		
		30 833	50 381		
The amounts disclosed in the statement of financial position are as follows:					
– Group companies with net deferred tax assets		(7 775)	(11 151)		
– Group companies with net deferred tax liabilities		38 608	61 532		
		30 833	50 381		

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012 *(continued)*

	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
14. TRADE AND OTHER PAYABLES				
Trade payables	**74 445**	42 271	**–**	–
Excise duty payable	**117 717**	50 296	**–**	–
Other payables and accruals	**38 520**	37 025	**220**	220
Amounts due to related parties	**3 129**	–	**–**	–
	233 811	129 592	**220**	220
The carrying amounts of trade and other payables approximate their fair value.				
15. REVENUE				
Gross sales	**945 426**	849 561		
Less: Excise duty directly recovered	**(183 519)**	(171 795)		
	761 907	677 766		
16. OTHER INCOME				
Rental received	**1 254**	2 560	**–**	–
Dividend income	**2 069**	3 599	**6 316**	23 453
Other	**3 982**	4 011	**–**	–
	7 305	10 170	**6 316**	23 453
17. OTHER GAINS AND LOSSES – NET				
Profit on sale of property, plant and equipment	**1 279**	17 116	**–**	–
Foreign currency gains/(losses)	**(4 486)**	4 510	**–**	–
Writeback of impairment of loans and receivables	**767**	4 954	**–**	–
Impairment of investment in subsidiary	**–**	–	**(101 214)**	(3 044)
Excise recovered in excess of excise paid	**4 927**	6 824	**–**	–
Impairment of trademark	**–**	(14 355)	**–**	–
Profit on sale of joint venture	**–**	12 394	**–**	–
	2 487	31 443	**(101 214)**	(3 044)

		Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
18.	**OPERATING PROFIT/(LOSS)**				
	Operating profit/(loss) is stated after taking into account the following expenses:				
	Depreciation				
	Land and buildings	1 036	912		
	Machinery and equipment	15 431	16 326		
	Furniture and fittings	4 252	3 973		
	Vehicles	471	545		
		21 190	21 756		
	Amortisation of intangible assets	1 698	2 215		
	Inventory written off	14 184	6 876		
	Auditors' remuneration				
	Audit fees – provision for the current year	1 255	1 163	–	–
	Audit fees – under/(over)provision of prior year	(25)	1 054	217	353
	Internal audit services	343	218	–	–
	Accounting and legal services – foreign subsidiaries	–	58	–	–
		1 573	2 493	217	353
	Operating lease contracts				
	Land and buildings	1 492	2 791		
	Equipment	168	187		
	Vehicles	1 303	1 022		
	Impairment losses				
	Property, plant and equipment	994	–		
	Fees for external services				
	Management, technical and administrative services	6 295	11 239		
	Staff costs	154 156	131 147		
	Included in staff costs are:				
	Retirement benefits – employer contributions	10 798	11 308		
	Retrenchment costs	16 223	–		
19.	**FINANCE INCOME AND COSTS**				
	Finance income				
	Investments and deposits	5 112	6 406	–	–
	Loan to joint-venture company	–	62	–	–
	Loans and receivables	3 951	4 340	–	–
	Amortised income of loan to KWV Employee Empowerment Trust	5 574	1 032		–
	Other	65	415	–	–
		14 702	12 255	–	–
	Finance costs				
	Borrowings: non-current	–	–		
	current	137	638		
		137	638		
	Net finance income	14 565	11 617	–	–

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012 *(continued)*

	Note	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
20. TAXATION					
South African normal taxation		18 463	6 162	(528)	(325)
– Current		(1 543)	(5 606)	(528)	(325)
– Deferred		20 006	11 768	–	–
Over/(under)provision previous years		(2 547)	378		
– Current		(2 418)	307		
– Deferred		(129)	71		
Foreign taxation		39	(36)		
– Current		39	(36)		
– Deferred		–	–		
Secondary Tax on Companies (STC)		(329)	(2 036)		
– Current		–	–		
– Deferred		(329)	(2 036)		
Taxation for the year		15 626	4 468	(528)	(325)
Reconciliation of the tax rate					
		%	%	%	%
Normal rate for companies		28,00	28,00	28,00	28,00
Adjusted for:					
– Exempt income		0,89	13,59	1,86	(32,74)
– Income from associates		0,19	10,69	–	–
– Income of a capital nature		0,16	108,92	(0,40)	5,87
– Disallowed expenditure		(0,92)	(86,63)	(0,06)	0,49
– Adjustment for foreign taxation		0,06	8,04	–	–
– Impairment of investment		0,06	–	(29,80)	–
– Profits of foreign subsidiary taxed in South Africa		–	–	(0,16)	–
– Adjustment for STC		(0,50)	(27,45)	–	–
– Over/(under) provision previous year		(3,91)	5,10	–	–
Net reduction		(3,97)	32,26	(28,56)	(26,38)
Effective rate		24,03	60,26	(0,56)	1,62
		R'000	R'000		
Gross calculated tax losses available for utilisation against future taxable income		159 999	93 939		
Tax relief calculated at current tax rates		44 800	26 303		
Utilised to reduce deferred taxation	13	(44 800)	(26 303)		
Tax relief available for offset against future taxation		–	–		
Secondary Tax on Companies (STC)					
STC credits available for utilisation against future dividend payments		–	3 295		
Tax relief calculated at current STC rates		–	329		
Utilised to reduce deferred taxation		–	(329)		
Tax relief available for offset against future taxation		–	–		

		Note	Group 2012 Number	Group 2011 Number
21.	**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 shares issued.			
	Ordinary shares			
	– Shares in issue at beginning of the year		**68 538**	68 526
	– Treasury shares	25.5	**–**	12
	– Net issued shares at end of the year		**68 538**	68 538
	Used in the calculation of earnings per share		**68 538**	68 538

	Gross 2012 R'000	Tax 2012 R'000	Net amount 2012 R'000	Net amount 2011 R'000
Continuing operations				
Net profit/(loss) attributable to ordinary shareholders	(65 213)	15 626	**(49 587)**	(2 948)
Adjusted for:				
– Profit on sale of property, plant and equipment	(1 279)	68	**(1 211)**	(16 595)
– Impairment of property, plant and equipment	994	(278)	**716**	–
– Impairment of trademark	–	–	**–**	14 355
– Profit on sale of joint-venture company	–	–	**–**	(12 394)
Headline earnings	(65 498)	15 416	**(50 082)**	(17 582)

	2012 Cents	2011 Cents
Earnings per share		
– Attributable earnings	**(72,3)**	(4,3)
– Headline earnings	**(73,1)**	(25,7)
Diluted earnings per share		
– Attributable earnings	**(72,3)**	(4,3)
– Headline earnings	**(73,1)**	(25,7)

		2012	2011
22.	**COMMITMENTS**		
22.1	**Capital commitments**		
	Incomplete contracts for capital expenditure	**8 079**	5 180
	Capital expenditure authorised by the board not yet contracted for	**50 889**	27 405
		58 968	32 585

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

	Group 2012 R'000	Group 2011 R'000
22. COMMITMENTS *(continued)*		
22.2 Operating lease commitments		
The group leases farm land, administrative offices, vehicles, office equipment and production equipment under various non-cancellable operating lease agreements. These leases have varying terms, escalation clauses and renewal rights. The lease expenditure charged to profit or loss during the year is disclosed in note 19.		
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:		
No later than one year	3 642	2 251
Later than one year and no later than five years	7 689	1 784
Later than five years	2 261	2 357
	13 592	6 392
23. CONTINGENT LIABILITIES		
Guarantees		
Employee housing loans	130	138

KWV Holdings Limited provides an unlimited guarantee to various financial institutions in respect of any claims against KWV South Africa Proprietary Limited.

24. RELATED PARTY TRANSACTIONS

In accordance with the requirements of IAS 24: Related Party Disclosure, transactions with related parties in the group that are eliminated on consolidation are not disclosed.

24.1 Trading activities

The company's subsidiaries enter into various sales transactions with associates and wine and grapes are sometimes purchased from directors. These transactions occur under terms no more favourable than those negotiated with third parties.

	Group 2012 R'000	Group 2011 R'000
Sales to associates	10	–
Due by associates at end of the year	1	1
Sales to a joint-venture company	–	11
Services rendered to a joint-venture company	–	2 199
Purchases from company controlled by director of holding company	640	–
Purchases from joint-venture company	–	1 061
Purchases from associates	2 571	703
Purchases, marketing and administration expenses from group companies	3 073	–
Due to associate at end of the year	83	–
Due to other group companies	3 129	–
Due to company controlled by director of holding company	615	–

The above are included with income and receivables, investments in associates, as well as inventory or cost of sales, in the group financial statements.

		Group 2012 R'000	Group 2011 R'000

24. RELATED PARTY TRANSACTIONS *(continued)*

24.2 Key management personnel compensation

(including executive directors' remuneration)

	Group 2012 R'000	Group 2011 R'000
Salaries	13 590	15 694
Retrenchment cost	5 007	–
HCI Managerial Services	2 713	–
– Short-term benefits*	21 310	15 694
– Retirement contributions	1 269	1 640
– Share-based payments	5 120	2 992
	27 699	20 326

** Includes retrenchment cost of R5 007 107 and management fees paid to HCI for services as managing director and other services.*

24.3 Directors' remuneration

	Salaries and fees R'000	Performance incentives R'000	Retirement contributions R'000	Realised gain relating to share incentive scheme R'000	Other allowances R'000	Total 2012 R'000	Total 2011 R'000
Executive							
MJ Loubser *	4 352	–	111	3 507	94	8 064	3 961
A van der Veen **	2 721	–	–	–	–	2 721	50
	7 073	–	111	3 507	94	10 785	3 961
Non-executive	873	–	–	–	–	873	1 142
MJA Golding (Chairman)	152	–	–	–	–	152	48
JA Copelyn	105	–	–	–	–	105	38
MM du Toit	–	–	–	–	–	–	153
F-A du Plessis	115	–	–	–	–	115	119
NL Ellis	95	–	–	–	–	95	96
AE Jacobs	–	–	–	–	–	–	77
MN Joubert	96	–	–	–	–	96	67
KI Mampeule	95	–	–	–	–	95	112
JF Mouton	–	–	–	–	–	–	56
KR Moloko	95	–	–	–	–	95	71
PB Retief	–	–	–	–	–	–	83
AEvZ Botha	–	–	–	–	–	–	112
LA van Dyk	120	–	–	–	–	120	110
Retired directors (pensions)	–	–	–	–	19	19	19
Total directors' emoluments	7 946	–	111	3 507	113	11 677	5 122
Less: Paid by subsidiaries						(11 677)	(5 122)
						–	–

** Retrenchment cost of R3 820 046 included*

*** Include management fees (R2 713 069) paid to HCI Managerial Services (Pty) Ltd for services as director and other services.*

24. RELATED PARTY TRANSACTIONS *(continued)*

Unexercised phantom shares of executive director: MJ Loubser

	Date granted	Number of unexercised phantom shares: 1-Jul-11	Exercise price per share	Market value at grant date	Phantom shares taken up	Proceeds per phantom share	Number of unexercised phantom shares: 30-Jun-12	Cumulative unrealised gain: 30-Jun-12
*	1-Jul-2009	233 299	R0,00	R6,23	233 299	R10,84	–	R0
	1-Oct-2009	212 143	R6,23	R8,00	212 143	R4,61	–	R0
**	27-Oct-2010	201 343	R0,00	R11,25	201 343		–	R0
		646 785			646 785		–	R0

* *These instruments were granted in lieu of share options and phantom shares foregone when the group was unbundled from Capevin Holdings. (Note 26.2)*

** *These options have lapsed*

Market value per share – 30 June 2012 R9,11

25. SHARE-BASED COMPENSATION BENEFITS

25.1 Share appreciation rights ("SARs")

The group offers phantom shares to selected employees. These phantom shares are linked to the share price of KWV Holdings.

Exercise and expiry dates of SARs:

Each SAR will be exercisable in portions of ⅓ (one-third) exercisable after the 2nd (second), 3rd (third) and 4th (fourth) years respectively from the date the right is granted. Each right will remain in force for a period not exceeding 4½ years (4 years and 6 months) from the grant date.

SARs granted in terms of the CEO scheme, differ from the above in that they are exercisable after the 1st (first), 2nd (second) and 3rd (third) years respectively from the date the right is granted.

Settlement of SARs

The difference between the strike price on the date the SAR is exercised and the exercise price (reduced by all dividends and/or distributions (net of taxation) to shareholders in the period between the granting of the SAR and the vesting thereof) will be settled in cash.

Note: The group has the discretion to choose to settle the net amount owed to any participant by transferring shares in KWV Holdings.

The strike price will be the weighted average market price of KWV Holdings Limited's share for the 2 (two) calendar months preceding the vesting of the offer, as determined from the company's official trading platform.

	Exercise price	Group 2012 Number	Group 2011 Number
25. SHARE-BASED COMPENSATION BENEFITS *(continued)*			
25.2 SARs allotted during the year			
27 October 2010 ("CEO scheme")	R0,00	–	201 343
The CEO of KWV was offered SARs with an exercise price of Rnil in exchange for a reduction in his remuneration.			
25.3 SARs held by employees			
Outstanding at 1 July		**1 825 983**	2 012 990
Allotted: ("CEO scheme")		–	201 343
Exercised/taken up in terms of contracts		**(887 420)**	(356 517)
Lapsed		**(219 110)**	(31 833)
Outstanding at 30 June 2012		**719 453**	1 825 983

Terms of the SARs outstanding at 30 June 2012 and the financial years in which they become payable:

Unconditional during the year ended	@ Rnil	@ R6,23	@ R10,00	Total 2012 R	Total 2011 R
30 June 2011	17 513	–	–	**17 513**	30 551
30 June 2012	45 007	21 019	150 000	**216 026**	710 726
30 June 2013	86 489	40 476	150 000	**276 965**	651 801
30 June 2014	18 480	40 469	150 000	**208 949**	432 905
	167 489	101 964	450 000	**719 453**	1 825 983

25.4 Recognition of SARs in the financial statements

The fair value of services received in return for SARs granted is measured by reference to the fair value of the instruments granted. The estimate of this fair value is based on a binominal option valuation model.

At 30 June the fair value of all outstanding SARs are estimated again. This value is apportioned between an amount related to past services rendered by employees and an amount relating to future services still to be received by the group. A creditor is raised for the amount relating to past services and it is expensed.

For the year ended 30 June the key inputs into this model were:

		2012	2011
Market price		**R9,11**	R10,50
Exercise price	Various, as per note 25.3		
Contractual life of phantom shares	⅓ (one-third) tranches after the 2nd, 3rd and 4th anniversaries of the grant date		
Dividend yield		**0,0%**	0,0%
Expected volatility of the share price		**30,0%**	30,0%
Risk-free rate		**7,95%**	8,59%

	R'000	R'000
Total estimated value of qualifying share options granted as at year-end	**2 402**	13 451
Amount recognised as a liability (included in 'Other payables' in note 14)	**(2 308)**	(8 872)
Estimated amount to be recognised in future years	**94**	4 579
Share-based payment expense relating to options, recognised for the year:		
Actual amount paid (either in cash or in shares) to employees	**6 600**	3 613
Increase in accrual for share-based expense payable	**(6 565)**	2 062
	35	5 675

	Number	Group 2012 R'000	Group 2011 R'000
25.5 Treasury shares owned by the group			
Balance at beginning and end of the year	442 711		
Fair value of shares		4 033	4 648

26. FINANCIAL RISK MANAGEMENT

The group's activities expose it to a variety of financial risks: market risk (including cash flow interest rate risk and price risk), currency risk, credit risk and liquidity risk. The group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance. The group uses derivative financial instruments to hedge certain risk exposures.

26.1 Foreign exchange risk

Exchange rates used in these financial statements

	Group			
	2012		2011	
	Closing rate	Average rate for the year	Closing rate	Average rate for the year
Euro	10,34	10,40	9,83	9,52
CAD	8,03	7,74	7,01	7,00
GBP	12,83	12,31	10,92	11,14
USD	8,17	7,77	6,79	7,01

The group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the euro, US dollar, Canadian dollar, Japanese yen and the UK pound. Foreign exchange risk primarily arises 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 rand, the holding company'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 hedged as soon as any material foreign currency exposure arises.

Foreign currency forward contracts or other appropriate derivatives 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.

Management decided to hedge a significant portion of the 2013 budgeted sales during 2012 as detailed below.

Group
2012

26. FINANCIAL RISK MANAGEMENT *(continued)*

26.1 Foreign exchange risk *(continued)*

Forward foreign exchange options and contracts as at 30 June 2012

Contracts and options to sell foreign currency	Contracted foreign amount FC'000	Average exchange rate	Total contracted amount R'000	Foreign currency receivables and cash balances R'000	Contracts to cover cash balances/ (uncovered receivables) as at 30 June R'000
2012					
Euro	5 656	10,39	58 780	58 573	207
CAD	1 152	8,10	9 333	8 372	961
USD	1 825	8,24	15 045	14 372	673
GBP	195	12,96	2 532	2 524	8
JPY	9 866	0,08	835	987	(152)
			86 525	84 828	1 697
2012 (hedging iro future sales)					
Euro	19 200	10,34	198 576	–	198 576
CAD	2 600	8,02	20 844	–	20 844
USD	7 000	8,07	56 504	–	56 504
GBP	270	12,39	3 346	–	3 346
JPY	135 000	0,10	12 833	–	12 833
			292 103	–	292 103
Total for 2012			378 628	84 828	293 800
2011					
Euro	5 953	9,86	58 711	52 044	6 667
CAD	780	7,06	5 508	5 256	252
USD	1 239	6,93	8 582	8 085	497
GBP	156	11,11	1 737	1 691	46
JPY	14 144	0,09	1 223	1 184	39
			75 761	68 260	7 501

Contracts to buy foreign currency	Contracted foreign amount FC'000	Average exchange rate	Total contracted amount R'000	Foreign currency payables R'000	Uncovered payables as at 30 June R'000
2012					
Euro	–		–	6 469	(6 469)
CAD	–		–	556	(556)
USD	–		–	304	(304)
GBP	–		–	1 884	(1 884)
			–	9 213	(9 213)
2011					
Euro	461	9,95	4 592	12 130	(7 538)
CAD	–		–	64	(64)
USD	–		–	103	(103)
GBP	–		–	997	(997)
			4 592	13 294	(8 703)

The fair value of these financial instruments are disclosed in note 11.

		Note	Group 2012 R'000	Group 2011 R'000
26.	**FINANCIAL RISK MANAGEMENT** *(continued)*			
26.1	**Foreign exchange risk** *(continued)*			

Sensitivity analysis

			Group 2012 R'000	Group 2011 R'000
Net foreign currency exposure: 30 June			**(298 135)**	(5 083)
Operational assets:	Trade receivables		**82 227**	68 260
	Bank and cash balances		**5 049**	6 022
Hedging instruments:	Forward exchange contracts		**(317 625)**	(53 525)
	Options		**(61 003)**	(17 644)
Loans and receivables:			**2 542**	5 813
Operational liabilities:	Payables and accruals		**(9 325)**	(14 009)

Impact of movements in exchange rates

As at 30 June, had the rand ("ZAR") strengthened or weakened against the basket of currencies in which the group operates (primarily the euro, US dollar, Canadian dollar, Japanese yen and the UK pound), the impact on profit after tax would have been as follows:

Increase/(decrease) in profit after tax	Group 2012 R'000	Group 2011 R'000
5% strengthening of ZAR	**10 733**	183
10% strengthening of ZAR	**21 466**	366
5% weakening of ZAR	**(10 733)**	(183)
10% weakening of ZAR	**(21 466)**	(366)

26.2 Cash flow interest rate risk

Details of all borrowings incurred by the group are provided in notes 8 and 14.

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 by entering into fixed interest rate loans, hedging interest rate volatility through the use of derivative financial instruments and by being able to source funding from several competing financial institutions.

Sensitivity analysis

	Note	Group 2012 R'000	Group 2011 R'000
Unhedged interest rate exposure: 30 June		**61 915**	178 557
Borrowings at floating rates		–	–
Loan: Eggers & Franke GmbH & Co. KG	8.1	**2 542**	3 688
Loan: Orange River Wine Cellar Co-op Ltd	8.4	**4 070**	6 105
Bank and cash balances		**55 303**	168 764

Impact of movements in interest rates

Based on the statement of financial position as at 30 June, had there been a change in interest rates, the impact on profit after tax for the year would have been as follows:

	Group 2012 R'000	Group 2011 R'000
1% increase in interest rates	**446**	1 286
2% increase in interest rates	**892**	2 571
1% decrease in interest rates	**(446)**	(1 286)
2% decrease in interest rates	**(892)**	(2 571)

26. **FINANCIAL RISK MANAGEMENT** *(continued)*

26.3 **Credit risk**

Credit risk encompasses all forms of counterparty exposure, i.e. when counterparties default on their obligations to the group in relation to lending, hedging, settlement and other financial activities.

With regard to derivative financial instruments and cash and cash equivalents, the group only enters into transactions with financial institutions of investment grade or better and the risk of these counterparties defaulting is considered to be minimal.

The group's largest concentration of credit risk lies in its trade receivables. Trade receivables are disclosed net of a provision for impairment. Credit risk exposure is managed through investigations into the creditworthiness of customers, credit limits placed on trading partners and credit insurance on selected customers. These limits and exposures are managed on an ongoing basis.

Analysis of credit risk	Note	Impaired R'000	Fully performing R'000	**Group 2012 Total R'000**
26.3.1 Loans and receivables: 2012				
Gross amounts owing		6 636	44 911	**51 547**
Less: Provision for impairment		(4 094)	–	**(4 094)**
Net amount owing	8	2 542	44 911	**47 453**
Security for amounts owing		–	19 000	**19 000**
Credit insurance for amounts owing		–	–	**–**
Unsecured debt/exposure to credit risk		2 542	25 911	**28 453**
Credit rating on unsecured debt:				
Aa: No caution needed for credit transaction		–	21 841	**21 841**
Ba: Capable of meeting normal commitments		2 542	–	**2 542**
C: Good for the amount quoted		–	4 070	**4 070**
Loans and receivables: 2011				
Gross amounts owing		9 070	62 722	71 792
Less: Provision for impairment		(3 257)	–	(3 257)
Net amount owing	8	5 813	62 722	68 535
Security for amounts owing		–	38 000	38 000
Credit insurance for amounts owing		–	–	–
Unsecured debt/exposure to credit risk		5 813	24 722	30 535
Credit rating on unsecured debt:				
Aa: No caution needed for credit transaction		–	18 617	18 617
Ba: Capable of meeting normal commitments		5 813	–	5 813
C: Good for the amount quoted		–	6 105	6 105

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012 *(continued)*

	Group 2012 R'000	Group 2011 R'000
26. FINANCIAL RISK MANAGEMENT *(continued)*		
26.3 Credit risk *(continued)*		
26.3.1 Loans and receivables *(continued)*		
Reconciliation of provision for impairment		
Provision at beginning of the year	**3 257**	8 793
Provision utilised during the year	**1 604**	(582)
Increase in provision	**340**	–
Provision written back	**(1 107)**	(4 954)
Provision at end of the year	**4 094**	3 257
26.3.2 Bank and cash balances: Fully performing		
Gross amounts owing	**55 303**	168 764
Less: Provision for impairment	**–**	–
Net amount owing (Unsecured debt/Exposure to credit risk)	**55 303**	168 764

Credit rating on unsecured debt (Fitch credit rating):

F1: Highest short-term credit quality.

26.3.3 Trade receivables: 2012

		Impaired R'000	Past due, but not impaired R'000	Fully performing R'000	**Total R'000**
Gross amounts owing	Note 10	8 306	34 306	152 350	**194 962**
Less: Provision for impairment		(8 306)	–	–	**(8 306)**
Net amount owing		–	34 306	152 350	**186 656**
Credit insurance for amounts owing		–	2 032	45 144	**47 176**
Unsecured debt/exposure to credit risk		–	32 274	107 206	**139 480**
Credit rating on unsecured debt:					
Aa: No caution needed for credit transaction			72	918	990
A: General unfavourable factors will not cause fatal effect			12	154	166
Ba: Capable of meeting normal commitments			4 794	35 095	39 889
B: Good for the amount quoted			–	17	17
C: Good for the amount quoted – if strictly in the way of business			27 396	71 022	98 418

	Note	Impaired R'000	Past due, but not impaired R'000	Fully performing R'000	Total R'000
26. FINANCIAL RISK MANAGEMENT *(continued)*					
26.3.3 Trade receivables: 2011					
Gross amounts owing	10	1 767	8 769	155 983	166 519
Less: Provision for impairment		(1 767)	–	–	(1 767)
Net amount owing		–	8 769	155 983	164 752
Credit insurance for amounts owing		–	2 288	90 674	92 962
Unsecured debt/exposure to credit risk		–	6 481	65 309	71 790
Credit rating on unsecured debt:					
Aa: No caution needed for credit transaction			271	3 920	4 191
A: General unfavourable factors will not cause fatal effect			–	42	42
Ba: Capable of meeting normal commitments			4 876	16 421	21 297
B: Good for the amount quoted			–	57	57
C: Good for the amount quoted – if strictly in the way of business			1 334	44 869	46 203

	Group 2012 R'000	Group 2011 R'000
Age analysis for trade debt that is overdue, but not impaired	34 306	8 769
Less than 30 days	12 755	5 606
Less than 60 days	7 041	2 136
Less than 90 days	5 354	506
More than 90 days	9 156	521
Reconciliation of provision for bad debt		
Provision at beginning of the year	1 767	3 525
Provision utilised during the year	–	(364)
Increase/(decrease) in provision	6 539	(1 394)
Provision at end of the year	8 306	1 767

The company has guaranteed various revolving credit facilities of R250 million in the group of which the undrawn balance is available to fund future investments. These guarantees have also been disclosed as part of the company's liquidity risk below.

	Group 2012 R'000	Group 2011 R'000

26. FINANCIAL RISK MANAGEMENT *(continued)*

26.4 Liquidity risk

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 2012 R'000	Group 2011 R'000
Gross contractual financial liabilities		
Trade and other payables	233 811	129 592
Derivative financial instruments	5 156	110
Current income tax liabilities	1 505	–
	240 472	129 702
Maturity analysis of contractual financial liabilities		
No later than one year	240 472	129 702
Between 1 and 2 years	–	–
Between 2 and 5 years	–	–
Later than 5 years	–	–
The group has the following undrawn, uncommited borrowing facilities:		
Uncommitted facilities at banks and financial institutions	248 400	248 400
Utilisation	–	–
Undrawn facilities	248 400	248 400

Due to Basel III requirements the group's bankers insist on charging a fee for committed credit lines. In light of the group's current cash surplus "headroom facilities" which only require a fast- track credit approval process and can typically be accessed within 48 hours, are deemed to be sufficient in order to address liquidity risk.

26.5 Capital risk management

The company manages its shareholders' equity, i.e. its issued capital (including share premium), reserves and treasury shares, as capital. The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders in the form of dividends and capital appreciation.

In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

In the short term the group's objective is to improve profitability and return on equity before setting an objective regarding a specific gearing ratio.

26.6 Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The group is not exposed to significant price risk.

26.7 Fair value estimation of financial instruments

The fair value of financial instruments traded in active markets, including exchange traded derivative financial liabilities, is based on quoted market prices at the year-end date. The quoted market price used for financial assets held by the group is the current bid price.

Apart from the items mentioned below the fair value of financial instruments that are not traded in an active market is determined by the fair value of the underlying (quoted) investments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The carrying values, less impairment provision of receivables and payables, are assumed to approximate their fair values. The fair value of borrowings for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate.

The fair values of receivables, payables, loans, cash and bank balances are equal to their values on the statement of financial position. The fair values of borrowings are disclosed in note 14.

27. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It requires management to exercise its judgement in the process of applying the group's accounting policies and in reporting assets and liabilities, income and expenses. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are mainly impairment of receivables, useful life and impairment of property, plant and equipment, inventory provisions and deferred and current income taxes.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The judgements and assumptions that are particularly relevant to the group's operations, are:

– **Property, plant and equipment, excluding land**

Changes in business landscape or technological innovations may impact on the useful lives and estimated residual values of these assets. Similar assets are grouped together, but residual values and useful lives may vary significantly between individual assets in a category. Management reviews assets' residual values, useful lives and the related depreciation charges annually at each reporting date.

– **Business combinations, acquisitions and disposals in the prior year**

The group was involved in several business combinations. In accounting for these transactions management had to apply judgement in allocating the purchase price to the tangible and intangible assets of the acquired businesses, as well as to goodwill.

In addition, the tests for impairment of subsidiaries and associates requires the use of various valuation assumptions regarding these businesses and their environment, mainly relating to their future profitability and cash flows.

– **Inventory valuation**

The group manufactures and trades with perishable products. Judgement is required to determine the saleability of these products. In addition, a significant portion of the group's matured wines and brandies has a lengthy production cycle. The saleability and valuation of work-in-progress inventories are dependent on market and consumer trends. Stringent quality control, detailed sales planning and forecasting and procurement planning are key factors in ensuring that the valuation of the group's inventory is reasonable.

– **Recognition of deferred tax asset**

These assets are recognised based on the prospects of the relevant companies and their approved three-year financial budgets that indicate that future taxable profit will be generated against which the tax losses can be utilised.

– **Estimated impairment of investments in subsidiaries, associates, joint ventures and of goodwill**

This determination requires significant judgement. The main indicators of possible impairment are profitability and cash flows that are poor or significantly below expectations.

Where indications of impairment exist more detailed analyses are performed, including an assessment of the approved three-year financial budgets and cash flow projections. Longer-term projections performed using stable working capital ratios and reasonable growth rates in both income and costs.

Where goodwill is evaluated it is allocated to the group's cash-generating units. The recoverable amount of such a unit is determined based on value-in-use calculations.

		Note	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
28.	**CASH FROM OPERATIONS BEFORE CHANGES IN WORKING CAPITAL**					
	Profit/(loss) before taxation		**(65 213)**	(7 416)	**(95 115)**	20 056
	Adjusted for:					
	– Share of profits from associates	7	**(433)**	(2 832)	–	–
	– Net interest	19	**(14 565)**	(11 617)	–	–
	– Dividends received	16	**(2 069)**	(3 599)	**(6 316)**	(23 453)
	– Impairment of trademark	17	–	14 355	–	–
	– Impairment of property plant and equipment	18	**994**	–	–	–
	– Profit on sale of joint venture	17	–	(12 394)	–	–
	– Writeback of impairment of loans and receivables	17	**(767)**	(4 954)	–	–
	– Impairment of investment in subsidiary	17	–	–	**101 214**	3 044
	– Depreciation	18	**21 190**	21 756	–	–
	– Amortisation of intangibles	18	**1 698**	2 215	–	–
	– Profit on sale of property, plant and equipment	17	**(1 279)**	(17 116)	–	–
	– Bad debts provided/(written back)		**6 536**	(1 489)	–	–
	– Inventory variances and write-offs	18	**14 184**	6 876	–	–
			(39 724)	(16 215)	**(217)**	(353)
29.	**CHANGES IN WORKING CAPITAL**					
	(Excluding the effects of acquisitions, disposals and exchange differences on consolidation)					
	Change in inventory		**(96 322)**	(6 026)	–	–
	Change in trade and other receivables		**(95 876)**	26 840	–	–
	Change in trade and other payables		**108 793**	(21 655)	–	220
			(83 405)	(841)	–	220
30.	**NET INTEREST**					
	Net interest per statement of comprehensive income	19	**14 565**	11 617	–	–
	Adjusted for:					
	– Amortised income of loan to KEET		**(5 574)**	(1 032)	–	–
	– Other non-cash flow items		**35**	56	–	–
			9 026	10 641	–	–
	Disclosed in the cash flow statement as:					
	– Finance costs		**(5 676)**	(1 614)	–	–
	– Interest received		**14 702**	12 255	–	–
31.	**TAXATION PAID**					
	(Payable)/refundable at beginning of the year		**3 862**	9 089	**8**	(35)
	Accounted for in the statement of comprehensive income		**15 626**	4 468	**(528)**	(325)
	Adjustment for deferred taxation		**(19 548)**	(9 803)	–	–
	Translation of foreign currency taxation liabilities		**(38)**	43	–	–
	Payable/(refundable) at end of the year		**(208)**	(3 862)	**141**	(8)
			(306)	(65)	**(379)**	(368)

	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
32. COMPOSITION OF CASH AND CASH EQUIVALENTS				
Bank and cash balances	**55 303**	168 764	**–**	221
33. ACQUISITION OF TRADEMARKS				
Golden Kaan	**–**	357		
During the 2010 year the group acquired the Golden Kaan brand from the Golden Kaan joint-venture company, for a consideration of €3 million. During 2011 the distribution rights in the USA were acquired for a further amount of USD50 000.				
Other	**10**	–		
	10	357		
34. DISPOSAL OF JOINT-VENTURE COMPANY				
On 30 June 2011 KWV Holdings Ltd sold its 50% investment in Vititec (Pty) Ltd.				
Proceeds on disposal	**–**	15 000		
Carrying value of associate on date of sale	**–**	(2 606)		
Profit on sale of joint-venture company	**–**	12 394		

35. EVENTS AFTER YEAR-END

During July 2012 KEET sold 3 020 345 shares at R8,50 per share to HCI-KWV Holdings Proprietary Limited. The proceeds were used to settle the loan of R21 840 518 resulting in the reversal of the impairment of R4 184 718 at the end of the period.

ANNEXURE A: SUBSIDIARY COMPANIES, JOINT VENTURES AND ASSOCIATES

as at 30 June 2012

(This Annexure is an integral part of the annual financial statements)

	Note	Issued share-capital R'000	Effective percentage interest 2012 %	Effective percentage interest 2011 %	Company carrying amount 2012 R'000	Company carrying amount 2011 R'000
COMPANY'S INTEREST IN SUBSIDIARY COMPANIES						
Golden Kaan South Africa (Pty) Ltd*		0,1	**100,00**	100,00	–	–
KWV Intellectual Property (Pty) Ltd*		0,2	**100,00**	100,00	**28 786**	130 000
KWV International (Pty) Ltd*						
– shares		0,5	**100,00**	100,00	**57 664**	57 664
– loan					**81 358**	81 358
KWV International Holding GmbH (incorporated in Germany)		1 337,0	**100,00**	100,00	**2 746**	5 455
KWV Projects (Pty) Ltd*		0,1	**100,00**	100,00	–	–
KWV South Africa (Pty) Ltd*						
– shares		10,1	**100,00**	100,00	**325 010**	325 010
– loan					**248 047**	239 397
	6				**743 611**	838 884

	2012 R'000	2011 R'000
KWV Intellectual Property (Pty) Ltd		
Carrying value at beginning of year	**130 000**	130 000
Impairment	**(101 214)**	–
Carrying value at end of the year	**28 786**	130 000

	Note	Percentage interest 2012 %	Percentage interest 2011 %	Group carrying amount 2012 R'000	Group carrying amount 2011 R'000
GROUP'S INTEREST IN ASSOCIATE AND JOINT VENTURE					
Paarl Valley Bottling Company (Pty) Ltd*		**28,09**	28,09	**9 962**	9 494
Solamoyo Processing (Pty) Ltd*		**40,00**	40,00	**5 132**	4 834
	7			**15 094**	14 328

* *Incorporated in South Africa*

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

The main business of Solamoyo Processing (Pty) Ltd is the processing of waste water.

	2012 R'000	2011 R'000
ASSOCIATE AND JOINT VENTURE		
SUMMARY OF ASSETS AND LIABILITIES		
as at 30 June 2012		
Non-current assets	**49 558**	48 404
Property, plant and equipment	**49 558**	48 404
Other assets	–	0
Current assets	**20 780**	25 420
Inventory	**4 127**	5 611
Trade and other receivables	**10 647**	12 204
Financial assets	**100**	100
SARS	**742**	–
Deferred tax	**257**	–
Cash and cash equivalents	**4 907**	7 505
Total assets	**70 338**	73 824
Total equity		
Ordinary shareholders' funds	**34 810**	33 818
Non-current liabilities	**25 477**	16 019
Long-term liabilities	**22 361**	13 392
Deferred taxation	**3 116**	2 627
Current liabilities	**10 051**	23 987
Trade payables and provisions	**8 517**	11 829
Interest-bearing borrowings	**1 324**	12 006
Taxation payable	**210**	152
Total equity and liabilities	**70 338**	73 824
RESULTS OF OPERATIONS		
for the year ended 30 June 2012		
Revenue	**18 659**	25 856
Profit before taxation	**620**	2 656
Taxation	**(186)**	(163)
Non-controlling interest	–	–
Net profit attributable to ordinary shareholders	**434**	2 493

As at year-end the group's only associate is Paarl Valley Bottling Company (Pty) Ltd and its joint venture is Solamoyo Processing (Pty) Ltd. The group and its associated companies operate in the same market segment and therefore the financial results of associates and joint ventures are grouped together.

The group's financial year-end differs from that of Paarl Valley Bottling Company (Pty) Ltd (31 January). For the purposes of these financial statements the results according to the management accounts to 30 June were used.

ANNEXURE B: PROPERTY, PLANT AND EQUIPMENT

as at 30 June 2012

(This Annexure is an integral part of the annual financial statements)

						Group
	Land and buildings R'000	Machinery and equipment R'000	Furniture and fittings R'000	Vehicles R'000	Plant under construction R'000	**Total R'000**
At 30 June 2010						
Cost	49 530	412 306	47 765	9 378	1 176	**520 155**
Accumulated depreciation	(15 795)	(258 154)	(34 962)	(5 528)	–	**(314 439)**
Carrying value	33 735	154 152	12 803	3 850	1 176	**205 716**
Year ended 30 June 2011						
Opening carrying value	33 735	154 152	12 803	3 850	1 176	**205 716**
Additions/(transfers)	4 313	15 333	5 668	369	(1 101)	**24 582**
Disposals	(7 832)	(1 971)	(55)	(134)	(29)	**(10 021)**
Depreciation charge	(912)	(16 326)	(3 973)	(545)	–	**(21 756)**
Carrying value	29 304	151 188	14 443	3 540	46	**198 521**
At 30 June 2011						
Cost	41 590	411 418	51 821	9 192	46	**514 067**
Accumulated depreciation	(12 286)	(260 230)	(37 378)	(5 652)	–	**(315 546)**
Carrying value	29 304	151 188	14 443	3 540	46	**198 521**
Year ended 30 June 2012						
Opening carrying value	29 304	151 188	14 443	3 540	46	**198 521**
Additions/(transfers)	2 298	15 430	9 633	536	874	**28 771**
Disposals	–	(282)	(54)	(77)	–	**(413)**
Depreciation charge	(1 036)	(15 431)	(4 252)	(471)	–	**(21 190)**
Impairment of assets	(11)	(963)	(19)	–	–	**(993)**
Carrying value	30 555	149 942	19 751	3 528	920	**204 696**
At 30 June 2012						
Cost	43 888	423 161	61 092	9 472	920	**538 533**
Accumulated depreciation	(13 333)	(273 219)	(41 341)	(5 944)	–	**(333 837)**
Carrying value	30 555	149 942	19 751	3 528	920	**204 696**

Note:

The market value of appreciating assets like land and buildings and certain heritage assets (including works of art, classified under furniture and fittings) are more than their carrying values in the financial statements. The board considers the current accountings policy to be appropriate and does not intend revaluing properties on a regular basis.

ANNEXURE C: INTANGIBLE ASSETS

as at 30 June 2012

(This Annexure is an integral part of the annual financial statements)

	Note	Trademarks/ Brands R'000	Computer software R'000	Group Total R'000
At 30 June 2010				
Cost or valuation		34 926	10 888	45 814
Accumulated amortisation		(1 071)	(9 258)	(10 329)
Carrying value		33 855	1 630	35 485
Year ended 30 June 2011				
Opening carrying value		33 855	1 630	35 485
Additions		357	407	764
Impairments	17	(14 355)	–	(14 355)
Amortisation charge		(1 754)	(461)	(2 215)
Carrying value		18 103	1 576	19 679
At 30 June 2011				
Cost or valuation		35 283	11 295	46 578
Accumulated amortisation		(17 180)	(9 719)	(26 899)
Carrying value		18 103	1 576	19 679
Year ended 30 June 2012				
Opening carrying value		18 103	1 576	19 679
Additions		10	2 049	2 059
Amortisation charge		(995)	(703)	(1 698)
Carrying value		17 118	2 922	20 040
At 30 June 2012				
Cost or valuation		35 293	13 344	48 637
Accumulated amortisation		(18 175)	(10 422)	(28 597)
Carrying value		17 118	2 922	20 040

Impairment test for trademarks

The recoverable amount of a trademark is determined based on value-in-use calculations. As a rule, these calculations use cash flow projections based on financial budgets covering a three-year period.

However, for brands that are newly acquired or in a stronger growth phase the budgeted cash flows are amended by the relevant brand director, and extended to cover a five-year period.

Cash flows beyond these periods, as detailed above, are extrapolated at a growth rate of 5%; and cash flows are discounted at a rate of 14,5%.

ANNEXURE D: SEGMENT REPORT

for the year ended 30 June 2012

(This Annexure is an integral part of the annual financial statements)

		Group 2012 R'000	Group 2011 R'000	
Functional analysis of sales: continuing operations		761 907	677 766	
Wine	46,4%	353 219	343 382	50,7%
Spirits	41,4%	315 263	296 750	43,8%
Other	12,3%	93 425	37 634	5,6%
Regional analysis of sales		761 907	677 766	
South Africa	51,9%	395 609	374 795	55,3%
Europe and the United Kingdom	26,9%	204 789	202 046	29,8%
Rest of the world	21,2%	161 509	100 925	14,9%
Operating profit of wine and spirits: continuing operations		(80 211)	(21 865)	
Trading profit: South Africa		(8 652)	20 701	
Trading profit: Europe and the United Kingdom		3 235	(1 620)	
Trading profit: Rest of the world		14 753	3 177	
Items not allocated to segments:				
Other income, gains and losses		9 792	41 613	
Operational and administrative expenses and a portion of sales and marketing expenses		(99 339)	(85 736)	

Notes:

Management has determined the operating segments based on the accountabilities of senior management and reports reviewed by the executive management that are used to make strategic decisions.

The executive management assesses the performance of the operating segments based on trading profit. This measurement basis excludes other income, gains and losses, as well as operational and administrative expenses.

Segment income excludes sales between different regions.

NOTICE OF THE ANNUAL GENERAL MEETING

NOTICE OF THE ANNUAL GENERAL MEETING

Notice is hereby given in terms of section 62 of the Companies Act, 2008 (Act 71 of 2008) as amended ("the Act") that the annual general meeting of the company will be held on Wednesday 24 October 2012 at 10:00 at La Concorde, 57 Main Street, Paarl, to transact the following business and to consider and, if deemed fit, to pass the following ordinary and special resolutions with or without modification:

PRESENTATION OF FINANCIAL STATEMENTS AND REPORTS

1. **ORDINARY RESOLUTION NUMBER 1**
   Presentation of the directors' report
   To receive and adopt the directors' report for the year ended 30 June 2012.

2. **ORDINARY RESOLUTION NUMBER 2**
   Presentation of audited financial statements
   To receive and adopt the audited financial statements for the year ended 30 June 2012.

3. **ORDINARY RESOLUTION NUMBER 3**
   Presentation of audit committee report
   To receive and adopt the report of the Audit and Risk Management Committee for the year ended 30 June 2012.

ELECTION OF DIRECTORS

Paragraph 15.2 of the company's memorandum of incorporation determines that no person other than a director retiring at the meeting shall, unless recommended by the directors for election, be eligible for election to the office of director at any general meeting unless, not less than 7 (seven) days nor more than 14 (fourteen) days before the day appointed for the meeting, there shall have been given to the secretary notice in writing by some member duly qualified to be present and vote at the meeting for which such notice is given of the intention of such member to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

The directors have recommended the following:

4. **ORDINARY RESOLUTION NUMBER 4**
   To re-elect Prof Laetitia van Dyk who retires at this annual general meeting in terms of the memorandum of incorporation and who is eligible and available for re-election.

   Prof van Dyk is an associate professor at the University of Stellenbosch Business School, where she is the head of the Centre for Learnership Studies. She was previously HR director: UK Banking at Barclays PLC (London), and before that group executive director of Absa Group. Prof van Dyk has vast experience in the field of human resources and is registered as a general practitioner with the Institute of Personal Practice. She was also elected as a Fellow of the Institute of Bankers in South Africa, where she served as chairperson, the first woman to hold this position. She has served, and still serves on the boards of various institutions, including the WWF (previously), North-West University Council (previously), Absa Klein Karoo National Arts Festival and Woordeboek van die Afrikaanse Taal Trust, to name a few.

5. **ORDINARY RESOLUTION NUMBER 5**
   To re-elect Mr Mike Joubert who retires at this annual general meeting in terms of the memorandum of incorporation and who is eligible and available for re-election.

   Mike Joubert started his own strategic brand marketing company, BrandsRock, in 2009, following a career where he acted, inter alia, as strategy consultant, marketing development director for Computicket, marketing director at Gilbey Distillers and Vintners and managing director for Levi Strauss & Co. He studied at the universities of Stellenbosch and Pretoria and was during this time awarded the Abe Bailey Fellowship bursary, BP Education Trust bursary and the Nedcor MBA of the Year award. He received the Sunday Times South African Marketing person of the Year award in 2006.

6. ORDINARY RESOLUTION NUMBER 6

To re-elect Ms Keneilwe Moloko, who retires at this annual general meeting in terms of the memorandum of incorporation and who is eligible and available for re-election.

Keneilwe Moloko is a Chartered Accountant and a Quantity Surveyor. She has expertise in the building and construction industry and investment management field. Keneilwe started her career as a quantity surveyor with Grinaker Building, Dawson & Frazer and CP De Leeuw Quantity Surveyors. After a period of six years in the construction industry, she went back to study in order to become a Chartered Accountant. She completed her articles at KPMG working in the financial services and tax divisions. She later took up the position of development executive at Spearhead Properties. Thereafter, she joined Coronation Fund Managers as a fixed interest credit analyst and a member of the Coronation credit committee. She currently serves in boards and audit committees of several organisations.

APPOINTMENT OF AUDITORS AND AUDIT AND RISK MANAGEMENT COMMITTEE

7. ORDINARY RESOLUTION NUMBER 7

Re-appointment of independent auditors

To re-appoint PricewaterhouseCoopers as independent external auditors of the company and to appoint Mr TS Bruwer as designated auditor, for the ensuing year.

8. ORDINARY RESOLUTION NUMBER 8

To appoint Ms Fran du Plessis as a member of the Audit and Risk Management Committee of the company.

9. ORDINARY RESOLUTION NUMBER 9

To appoint Ms Keneilwe Moloko as a member of the Audit and Risk Management Committee of the company.

10. ORDINARY RESOLUTION NUMBER 10

To appoint Mr John Copelyn as a member of the Audit and Risk Management Committee of the company.

INTERCOMPANY LOAN

11. SPECIAL RESOLUTION NUMBER 1

In terms of the requirements of section 65(11)(f) of the Act, shareholders are requested to approve the following resolution as a special resolution:

"In terms of and pursuant to the provisions of section 45(3)(a)(ii) of the Companies Act, Act 71 of 2008, as amended, the Company is hereby authorised, by way of general authority to:

1.1 provide intercompany loans to companies or corporations which are related or inter-related to the Company; and/or

1.2 provide direct or indirect financial assistance to companies or corporations which are related or inter-related to the Company."

Explanation

Special resolution number 1 is required in terms of section 45 of the Act to grant the directors of the company the authority to cause the company to provide financial assistance by way of loan, guarantee, the provision of security or otherwise, to any company or corporate entity which is related or inter-related to the company. The special resolution does not authorise the provision of financial assistance to a director or prescribed officer of the company.

DIRECTORS' REMUNERATION

12. SPECIAL RESOLUTION NUMBER 2

In terms of the requirements of section 65(11)(h) of the Act, shareholders are requested to approve the following resolution as a special resolution:

"In terms of and pursuant to the provisions of section 66(9) of the Companies Act, Act 71 of 2008, as amended, the Company is hereby authorised to pay remuneration to its non-executive directors for their services as directors as set out in the following table.

Chairman	R150 000 per annum
Director	R90 000 per annum
Chairman of committee	R20 000 per annum
Member of committee	R5 000 per meeting, with a maximum of R10 000."

Explanation

Special resolution number 2 is required in terms of section 66(9) of the Act, which provides that remuneration payable to non-executive directors of a company in respect of their services as directors must be approved by special resolution of the shareholders of the company.

RECORD DATE

The transfer of shares will be suspended from Tuesday 9 October 2012 ("Record Date") until after the annual general meeting. No share transfers from the Record Date up to the date of the meeting will be recognised for voting purposes at the meeting. Only the shareholders as indicated on the share register on the Record Date will be entitled to vote at the meeting being either personally present or represented by proxy.

PROXIES

A shareholder who is entitled to attend and vote at the meeting is entitled to appoint a proxy to attend, participate in and vote at the meeting in the place of the shareholder. Such a proxy need not also be a shareholder of the company. A form of proxy, in which is set out the relevant instructions for its completion, is enclosed for the use of shareholders who are unable to attend the meeting but who wish to be represented thereat. Proxies may only be revoked in writing.

The instrument appointing a proxy and the authority (if any) under which it is signed must reach the office of the company secretary by no later than 10:00 on Monday 22 October 2012.

IDENTIFICATION

The attention of shareholders is drawn to the provisions of section 63(1) of the Act, which determines that:

"Before any person may attend or participate in a shareholders meeting that person must present reasonably satisfactory identification."

Shareholders or their proxies wishing to attend the meeting are therefore advised to bring their identity document, passport or driver's licence and, in the case of a legal person, documentary proof confirming the authority of a person signing the form of proxy in a representative capacity.

VOTES

On a show of hands, any person present and entitled to exercise voting rights shall have one vote.

On a poll, any person present and entitled to exercise voting rights shall have the number of votes determined in accordance with the voting rights associated with the securities held by that shareholder.

RESOLUTIONS

For an ordinary resolution to be approved by shareholders, it must be supported by more than 50% of the voting rights exercised on the resolution.

For a special resolution to be approved by shareholders, it must be supported by at least 75% of the voting rights exercised on the resolution.

By order of the board of directors.

Albert Eksteen
Company Secretary
Paarl
6 September 2012

SHAREHOLDERS' DIARY

ANNUAL GENERAL MEETING	24 October 2012
FINANCIAL REPORTS	
– Annual report: 30 June 2012	September 2012
– Interim report: 31 December 2012	March 2013

ADMINISTRATIVE INFORMATION

Auditors
PricewaterhouseCoopers Incorporated
PwC Building
Zomerlust Estate
Berg River Boulevard
Paarl

Telephone: 021 807 7100

Bankers
Absa Bank Limited
Suider-Paarl

Secretary
AW Eksteen
Telephone: 021 807 3911

Enquiries regarding transfer of shares
Bill Botha
Link Market Services
Telephone: 011 630 0823

Registered office
La Concorde
57 Main Street
Paarl
7646
South Africa

Postal address
PO Box 528
Suider-Paarl
7624

Company registration number
2009/012871/06

www.kwv.co.za

KWV HOLDINGS LIMITED
Registration number 2009/012871/06
("the company")
FORM OF PROXY
Annual General Meeting
Wednesday 24 October 2012

I/We (full names) ______________________________

of (address) ______________________________
being a shareholder of KWV Holdings Limited, hereby appoint

____

of (address) ______________________________

or in the event of the absence of the abovementioned proxy or if a specific proxy is not appointed in terms hereof, the chairman of the general meeting, as my/our proxy to vote for me/us and on my/our behalf at the general meeting to be held on 24 October 2012 at 10:00 and at any adjournment thereof in respect of the resolutions as set out in the notice of the said meeting, as follows:

	For	Against	Abstain
Ordinary Resolution Number 1 **Approval of directors' report**			
Ordinary Resolution Number 2 **Approval of financial statements**			
Ordinary Resolution Number 3 **Approval of audit committee report**			
Ordinary Resolution Number 4 **Re-election of Prof Laetitia van Dyk as a director**			
Ordinary Resolution Number 5 **Re-election of Mr Mike Joubert as a director**			
Ordinary Resolution Number 6 **Re-election of Ms Keneilwe Moloko as a director**			
Ordinary Resolution Number 7 **Appointment of Mr Tertius Bruwer as auditor**			
Ordinary Resolution Number 8 **Appointment of Ms Fran du Plessis as member of the Audit and Risk Management Committee**			
Ordinary Resolution Number 9 **Appointment of Ms Keneilwe Moloko as member of the Audit and Risk Management Committee**			
Ordinary Resolution Number 10 **Appointment of Mr John Copelyn as member of the Audit and Risk Management Committee**			
Special Resolution Number 1 **Inter company loan**			
Special Resolution Number 2 **Directors' remuneration**			

IMPORTANT: PLEASE SEE THE NOTES ON THE BACK OF THIS PROXY FORM.

This proxy appointment is	**Revocable**	**Irrevocable**	(please indicate)

Signed at ______________________ on this the ______________ day of October 2012

Signature of shareholder ______________________________

Signature of witness ______________________________

NOTES:

1. Indicate instructions to proxy in respect of each resolution by way of a clear cross in the applicable block provided above. Unless otherwise instructed my/our proxy may vote as he or she deems fit.

2. A shareholder of the company who is entitled to be present and vote may appoint any individual, including an individual who is not a shareholder of the company, as a proxy to participate in, and speak and vote at, the meeting on behalf of the shareholder.

3. Any amendment or correction made on this Form of Proxy must be initialled by the signatory.

4. The appointment of a proxy is suspended at any time and to the extent that the shareholder chooses to act directly and in person in the exercise of any rights as a shareholder.

5. The appointment of a proxy is revocable unless the proxy appointment expressly states otherwise. If the appointment is revocable the revocation of a proxy must be in writing and signed by the person giving the proxy.

6. A proxy is entitled to exercise, or abstain from exercising, any voting right of the shareholder without direction, except to the extent that the instrument appointing the proxy provides otherwise.

7. This proxy appointment, unless revoked earlier, remains valid only until the end of the meeting.

8. In the case of a legal person (company, CC, trust, etc), documentary proof confirming the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy provided that the chairman of the general meeting may waive this requirement if he is satisfied that the person had the necessary authority.

9. A copy of the instrument appointing a proxy must be deposited at the registered office of the company (For attention: the Group Secretary) not less than 48 (forty eight) hours (excluding Saturdays, Sundays and public holidays) prior to the time determined for the commencement of the meeting, **i.e. by 10:00 on Monday 22 October 2012**. The registered address of the company is La Concorde, 57 Main Street, Paarl, 7646. For purposes of "depositing" proxy forms sent to the company secretary by fax will be accepted, at **fax number 021 807 3000**.

10. Proxies not complying with the above requirements will be rejected.