



KLEIN KAROO
— OUDTSHOORN —
HALLMARK OF QUALITY



KLEIN KAROO Group

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The KLEIN KAROO Agricultural Co-operative (KKAC) celebrated its 60th anniversary on 13 August 2005. KLEIN KAROO, as the most experienced, proud and foremost role player in the ostrich industry, this year also assumed its place in the dynamic, needs-driven convenience food market. KLEIN KAROO Seed Companies again competed well in the international and local seed markets, exporting world-class fruit and offering professional services and products to their members.

Historic highlights at KLEIN KAROO over the past 60 years include:

1826 Wild ostrich feathers are exported for the first time, selling at £2 805 for 1 209 pounds of feathers.

1863 Oudtshoorn was officially proclaimed as a town on 26 August.

1882 The official estimate of ostriches in the Cape Colony stands at 100 000. The feather boom begins and lasts for a year.

1905 The Cape Colony now has 360 830 tame ostriches.

The second feather boom starts and lasts until 1914.

1913 The highest number of tame ostriches - 776 313 – is recorded.

£3 million is earned with 1 023 000 million pounds of feathers.

1926 The Co-operative Agricultural Company is founded on 27 February, with 466 producers wanting to join.

1945 On 13 August the KLEIN KAROO Agricultural Co-operative (KKAC) is registered to negotiate, procure and sell on behalf of producers.

1958 The single-channel ostrich marketing system for ostrich products is launched.

1959 The first South African ostrich skins are cured in the Netherlands.

1964 The first KLEIN KAROO abattoir is completed at a cost of R164 000.

1967 Skins are gradually being marketed abroad and the abattoir is extended.

1970 The KLEIN KAROO Tannery is completed. The first skins are cured in August.

In September 146 skins are cured and in December 514.

1971 The first locally cured skins are exported in May.

1977 In December the first KLEIN KAROO ostrich fillets arrive in Switzerland.

1978 The upgraded abattoir meets export standards.

1979 The new factory incorporates processing and marketing of ostrich feathers as KLEIN KAROO business.

1990 After the opening of a seed laboratory, vegetable seed turnover increases by 57%. 91 820 ostriches are slaughtered; just over 100 000 skins are cured, and ostrich product turnover increases by 21%.

1993 KLEIN KAROO's single-channel marketing of ostrich products comes to an end.

1994 A record year for all business interests: Vegetable seed profit escalates by 175%.

Members vote against conversion of the co-op to a company business form.

The unique *Blue Ostrich* brand of KLEIN KAROO leather is launched in Paris.

1995 In terms of a new Constitution, the name changes to KLEIN KAROO Co-operative (KKC).

The business celebrates its 50th anniversary.

Fresh ostrich meat is exported for the first time in November.

The new abattoir-butchery opens its doors.

1996 Within the co-op, the Seed division becomes autonomous and becomes known as KLEIN KAROO Seed (KKS).

2000 The automobile and furniture industries approve ostrich leather for their products.

2001 Two companies that operate independently within the ostrich and seed industries are established.

Upgrading and expansion of the abattoir and tannery are completed. The KLEIN KAROO brand for

ostrich meat is launched on the retail market – first in South Africa and later in Europe.

2002 Building starts at the abattoir in Swellendam.

KLEIN KAROO hosts the first independent and exclusive ostrich leather fashion show in South Africa.

The tannery and leather marketing secures ISO certification for the first time.

KLEIN KAROO is nominated as a Top 300 Company for the first time.

2003 The KLEIN KAROO ostrich abattoir at Oudtshoorn receives HACCP certification for food safety – a world first.

Slaughtering starts at the new multi-purpose ostrich and lamb export abattoir, *Ostriswell*, at Swellendam.

Producers are paid for skins based on post-curing grade and size - a world first at KLEIN KAROO.

Seed opens Gellman Seed for retail sales and enters into a production and marketing partnership with Bakker Bothers in the Netherlands.

2004 The *Ostriswell* abattoir is officially opened in Swellendam.

New-farmer settlement is boosted with the opening of the Little Karoo Agri Business Centre in Oudtshoorn.

The official launch and facilitation of a staff housing project.

2005 Plums and apricots are exported from Ladismith to the United Kingdom under the KLEIN KAROO name – a historic first.

KLEIN KAROO Seed (KKS) acquires seed dissemination rights from Advanta Seed and Takahara seed in Japan. K2 Agri Seed is formed to deal with this.

KLEIN KAROO Research produces vaccines against Newcastle disease and Clostridium.

International automobile manufacturers consistently place orders for ostrich leather upholstery.

KLEIN KAROO represents Africa as member of the *World Organisation for Animal Health (OIE)* in France.

KLEIN KAROO is nominated for the fourth consecutive time as a Top 300 Company.

HACCP certification is approved for *Ostriswell*, Swellendam.

The RED DOOR (Real Enterprise Development) for Black Economic Empowerment selects KLEIN KAROO, ABSA and the Land Bank's Agri Business centre as its base.

2006 KLEIN KAROO celebrates its 60th anniversary on 13 August.

On 18 November 2005 the 15-month EU export embargo on raw ostrich meat is lifted.

The *KarooCuisine* processing plant opens in Midrand, Gauteng. *KarooCuisine Kant en Klaar* ostrich, lamb and venison dishes are launched in South Africa.

The new marinated ostrich meat range is launched.

KLEIN KAROO acquires a majority share in the Camexo ostrich and venison facilities in Graaff Reinet and Port Elizabeth.

The *KarooCuisine* plant receives EU approval.

The very first HACCP SANS 10330:2006 certification in the Group for the *Ostriswell* plant in Swellendam.

A new name *Agri Supermarket*, with a new logo, for KLEIN KAROO trade outlets.





Piet Kleyn

The KLEIN KAROO Group made a profit of R15 million in 2006.

This was achieved by focusing on lower production costs, growth of new business and aggressive marketing, and thanks to the loyal support of members in our ostrich, seed, fruit and trade divisions.

The ostrich business, with good marketing and excellent sales, succeeded in recording a net profit. Seed operations, which were subject to climatic challenges, managed to break even. Our trade and services divisions, which include Agri Supermarkets, mechanisation, stock marketing, insurance, research and fruit, also closed on a positive note.

External influences

Political and socio-economic conditions in South Africa were generally stable. Unstable conditions in the Middle East and the resultant dramatic increases in the price of crude oil and fuel impacted directly on the profitability of the Group. According to experts and economists this trend will not in the foreseeable future bring any relief for agriculture or other transport-related businesses. Despite high-level negotiations producers remain subject to an unequal playing field in terms of subsidies, yet succeed in producing world-class export

products without any incentive.

The KLEIN KAROO Group had to take many calculated chances during the export embargo. Had we not pushed ahead with investigations and decisions, and the implementation of a comprehensive and capital-intensive action plan, some of our producers would no longer have been here.

Proud achievements

In the previous report year KLEIN KAROO considered drastic strategic changes, and translated various new ostrich and seed opportunities into business. During 2005/2006 structures were created for this purpose and attention was given to the implementation of business plans. The past year can therefore be described as a year of new ideas and innovative action.

There were various highlights in the KLEIN KAROO Group's activities and all role players can be proud of, among other things, the following:

- Lifting of the export embargo on raw ostrich meat exports, which lasted almost 15 months, on 18 November 2005;
- The establishment and opening of our new KarooCuisine meat, vegetable, starch and pasta processing plant in Midrand, Gauteng;
- The launch of the KarooCuisine *Kant & Klaar kos* ostrich, lamb and venison convenience food range on the South African market;
- The development and promotion of a new consumer-friendly marinated

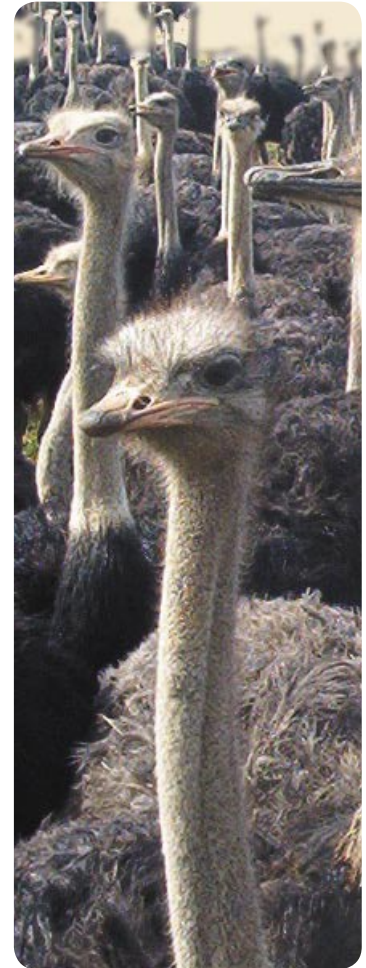
- ostrich fillet, steak and kebab range;
- The 60th anniversary of the KLEIN KAROO Group, which was celebrated on 13 August 2005;
- Further enhancement of the Group's *Blue Ostrich* brand;
- Growth of the local trade network for ostrich meat;
- Establishment of KLEIN KAROO's local seed-marketing network;
- Establishment and expansion of KLEIN KAROO's retail seed-packaging capacity;
- Acquisition of interests in the Camexo ostrich and venison processing plants in Graaff Reinet and Port Elizabeth; and
- European Union audit and approval on 13 November 2005 for:

- The KarooCuisine plant in Midrand for processed convenience-dish meat exports and other *Kant & Klaar kos* dishes.

Prospects for 2007

In 2007 KLEIN KAROO will especially focus on:

- The establishment and expansion of the new meat business and product ranges;
- Stringent health management of ostrich herds at farm level;
- Upgrading of hygiene management in all slaughter and value-adding plants;



- Continued strict stock level management in all the Group's businesses;
- Strategic development of new products for ostrich, seed, trade and fruit; and
- Continued implementation of KLEIN KAROO's Black Economic Empowerment (BEE) initiatives.

services they render to KLEIN KAROO. A special word of thanks goes to the spouses and families of all our board and executive members, our staff and members for supporting them in their tasks. Together we do things better!

We are the world leaders and will strive to maintain this position. I trust that we will, with God's help, tackle the challenges of the new year successfully.

Acknowledgements

The skills of our members, board of directors, management and staff were sorely tested during the past year. The new year will bring new challenges and unique opportunities. This will demand the very best from every role player.


Piet Kleyn
CHAIRMAN

We thank the board and general executive for their strategic plans, perseverance and consistent teamwork.

Without our Group's willing and enthusiastic staff none of our production, value-adding or marketing actions can be successful. A sincere word of thanks to you all.

Our thanks go to all our clients and agents worldwide. You are the heartbeat of our business.

Thanks also to those who provide services and supply products to the KLEIN KAROO Group.

We are grateful to the Group's auditors, advisers, the directorate: veterinary services and the Department of Agriculture, the South African Ostrich Business Chamber, Agri Klein Karoo and the agricultural associations.

We also thank the business community and the local authorities for their support and the





Kobus Goosen

During the past year the KLEIN KAROO Group succeeded in part to recover from the setback caused by the 15-month ban on ostrich meat exports imposed by the EU. New capital projects, which promote hedging against future risks, hampered our financial performance. We were nevertheless able to close the year with a profit.

The export embargo was officially lifted on 18 November 2005. Domestic meat sales remained the main focus of KLEIN KAROO International (KKI) Ostrich Meat until the beginning of 2006. Hard work and perseverance in order to successfully resume exports and to recover international market share made a considerable contribution to group results.

For the first time since the ban was imposed in 2004, ostrich meat was again able to show positive figures. Although the Ostriswell export abattoir is still not showing a profit, its performance was considerably better than the projected loss. Ostriswell managed to exceed its ostrich slaughter budget. Lamb slaughtering also takes place here.

KarooCuisine was not yet able to contribute to the Group's profit during the report year. Good progress was made with product development and branding for KarooCuisine.

Various challenges had to be faced in terms of value-adding and packaging.

The board of directors and management remain confident that KarooCuisine has been a step in the right direction for sustainable ostrich meat exports. A pilot range of *Kant & Klaar* convenience dishes was launched nationally in the main centres. This range consists largely of ready-to-eat KLEIN KAROO ostrich meat, lamb and springbok products.

Meat marketing remains in a turnaround phase while the end of the report year has brought new challenges. Raw meat sales recovered excellently, making a small profit possible.

KKI Ostrich Leather, in a market without fireworks, translated the benefit of increases in the dollar price into a sound profit. Careful management ensured lower-than-expected unit costs and bigger earnings for the division.

KKI Feathers made a proud contribution to the Group's profits. This was the result of increased market prices which allowed for increased prices to our members.

The development of new products and new markets, as well as the innovative growth in the KLEIN KAROO Ostrich Boutique's product range, deserves acknowledgement. The feather business remained well within the expected profit projection.

Camexo, with our abattoir in Graaff Reinet and tannery in Port Elizabeth, just managed to beat the projected profit figure thanks to disciplined management and favourable business conditions for venison.

The stronger rand and the impact of the export embargo, however, hampered the profitability of the ostrich leather and meat business. Slaughter volumes and meat product

sales met expectations.

The restructuring of KLEIN KAROO Seed's production and marketing legs, as well as new management structures positioned our seed business for opportunities both nationally and abroad. With a more streamlined composition and market-oriented identity, world-class products and good service delivery, seed production and sales should come into their own during the next report year.

Ongoing support from KLEIN KAROO members despite daily pressure on the pockets of producers due to input cost increases, led to good performances by the Trade, Mechanisation and Services divisions of the Group. With good service and responsible stock management, our Agri Supermarkets could, despite low profit margins, achieve their budget targets. Mechanisation's market share grew thanks to innovative products and service.

KLEIN KAROO Fruit expanded their previous year's first exports. This included the sale of packaging material, inspection services and exports, as well as domestic sales of deciduous fruit from the Prince Albert and Ladismith areas. However, there was a greater focus on national trade outlets this year.

OSTRICH

Management of export embargo

The European Union's (EU) export ban on all raw ostrich meat exports as from 10 August 2004 had a massive impact on KLEIN KAROO's producers, processing activities and marketing actions.

- Approximately 1 200 members of the KLEIN KAROO Group were directly or indirectly affected.
- All operations were scaled down.

- Approximately 4 000 jobs were lost on farms and elsewhere within the commodity chain.
- Many producers were adversely affected and the personal impact of this was observed.
- Profits in all facets of the business were negatively affected.

Process

- A self-imposed proactive ban on ostrich slaughtering by South Africa's Department of Agriculture demonstrated our industry's responsibility to the market and consumers.
- Initially the EU export embargo was imposed on all unprocessed products. Shortly afterwards the ban on leather and feather products was lifted.
- Meat prices to KLEIN KAROO producers were reduced and constantly monitored.
- Tests conducted on all ostrich farms by the Directorate Veterinary Services confirmed the absence of the H5N2 virus.
- By September 2005 the situation was normal and a request was addressed to the EU to reopen markets.
- On 13 November 2005 the EU's sub-committee decided to reopen markets. The official notice was issued on 18 November.

After the moratorium on ostrich slaughtering at abattoirs was lifted, KLEIN KAROO focused on:

- Providing all relevant role players with information on a continuous and transparent basis;
- Development of alternative uses for ostrich meat;
- Market needs assessment;
- Product development;

- Local market expansion, with value of sales increasing from R20m in 2004/2005 to about R100m in 2005/2006;
- Promoting consumer confidence in ostrich meat products;
- Positioning to overcome future export restrictions;
- The establishment and upgrading of the KarooCuisine pasteurisation plant for convenience foods at Midrand;
- Positioning of the Camexo plants for ostrich and venison as well as leather processing; and
- Improvement and maintenance of all KLEIN KAROO value-adding processes.

KLEIN KAROO International (Pty) Ltd (KKI)

FEATHERS

General Manager: Stephan Terblanche

Feathers performed well during the report year. Market prices increased, as did the producer price. KKI Feathers succeeded in making a significant contribution to group profits.

We concentrated on adding more value to the duster, fashion and colour divisions, and on the development of new markets and products. This division also looks critically at improving productivity on a daily basis. Cost cuts, good stock and debtor management, as well as the motivated KKI Feathers team's perseverance and a will to win, contributed to our success. We will remain focused on the development of new markets and uses for ostrich feathers with a view to a further increase in prices to suppliers.

Support from our producers helped us to grow competitively as the world leader in the provision of quality ostrich feathers.

LEATHER

General Manager: Wim van Rooyen

The leather division recorded very good financial results during the report year.

Despite sluggish international markets, skin sales well exceeded the budget. Dollar price increases, which were passed on to the market early in the year, also resulted in prices in excess of the budget. KKI Leather contributed strongly to KLEIN KAROO's profits.

A consistent focus on productivity, cost management and efficiency resulted in lower unit costs for the tannery. New equipment taken into use during the course of the year contributed to this.

Further technological improvements are planned for the new year. Research and development contributed to improved product properties and added value.

International markets remained under pressure, with little sign of real growth. The Japanese market was under pressure, with a considerable further decline in ostrich leather imports. This trend is not expected to change significantly in the foreseeable future. The markets in South and North America were stable. Good orders were received from Europe. The European market is fashion driven and it remains extremely difficult to predict the trend for the coming year.

All major international leather exhibitions were attended. KLEIN KAROO's wide variety of finishes attracted much attention and remains a distinguishing trait of our product range. A range of new finishes was developed for the European market and was exhibited, among others, at the *Ante Prima* leather show. New finishes for the American boot market also elicited interest.

Serious problems were experienced during the year with pitting, and producers are encouraged to strive continuously to improve their farming practices. KLEIN KAROO Research and Development can offer the necessary technical support.

The acquisition of Camexo's Exotan brand brought new opportunities and the exchange of technical expertise could be beneficial in future. Exotan also brings to the table extensive knowledge regarding other exotic leather.

The new year holds various challenges, especially in terms of the sluggish market in Japan. KKI Leather is well positioned to meet these challenges and will make a concerted effort to improve on the achievements of the past year.

MEAT

General Manager: Nuno Gomes

Despite the problems experienced during the report year, KKI Meats showed acceptable results.

Raw meat exports were resumed in November 2005 after the export embargo. During this period our brand enjoyed no exposure on the export market and demand for ostrich meat declined to the level of available stocks. Substitutes filled the gap. Prices for raw ostrich meat increased, finding a new level at this considerably lower stock position.

With the reopening of the export market for raw meat, our brand was immediately re-established in the retail, food services and wholesale sectors. Market conditions in Europe were generally problematic for meat. In Europe, outbreaks of the H5N1 virus which is harmful to humans, had an adverse effect on

all poultry sales. Despite this, KLEIN KAROO succeeded in recording good meat sales up to financial year-end.

Sales of our branded retail products in the national market showed steady growth, with a 36,6% growth in volume and 41,3% growth in value compared to the previous financial year. We remain focused on building forth on this upward trend in the new year. Whereas export possibilities are becoming increasingly problematic given repeated outbreaks of disease, the domestic sector has become critically important.

Export approval for KarooCuisine was delayed, affecting the resumption of exports of our cooked ostrich meat products. The problem was not only that the approval process was delayed by four months and that fixed product orders had to be cancelled, but such approval eventually also coincided with the reopening of the export market for raw meat. The availability of raw meat dampened interest in our cooked meat products.

After the financial year-end, raw meat exports were again banned. This limited our capacity to service the raw meat export market on a sustainable basis.

However, it also created new opportunities to develop the market for pasteurised products.

It seems that the upheavals and uncertainty of the past two years will continue to afflict our meat business. This is a reality which we will have to accept in our efforts to re-establish sustainability for our business and for producers through the development of new products and markets that are not susceptible to disease.

The acquisition of Camexo's Camdeboo brand will contribute further to stability in that it

offers a slaughter facility in another area.

The addition of venison to the KLEIN KAROO portfolio contributes to the improvement of services and the variety of products offered to the wholesale and retail sectors worldwide.

During the report period KarooCuisine focused on creating and maintaining sustainable capacity to export cooked ostrich.

Various milestones were achieved:

- EU certification of the plant within 90 days after take-over, and ratification thereof four months later;
- HACCP certification of the plant in December 2005 within the planned period;
- Establishment of a healthy business relationship with *Enterprise/Like-it-Lean*, with long-term growth potential;
- Advanced negotiations with a recognised brand in South Africa regarding the possibility of utilising up to 30% of the plant's capacity within three years;
- Access to the local retail market with our own KarooCuisine brand and identity; and
- Implementation of an operating system which is vital for integrated management information for the effective running of the plant.

KarooCuisine's focus for 2007

- **Cooked ostrich exports**
Constantly maintaining export status/capacity.
- **Lamb product exports**
Penetration of export market with our lamb products.
- **Own brand and identity**
Enhancement of *Kant & Klaar* kos as a separate identity and brand.

- **Competitive products for Africa**

Creating products for Africa using protein sources available within the KLEIN KAROO Group.

- **Technology status**

Utilising and supplementing our capacity to compete with ready-to-eat foods with a shelf life varying from weeks to even years.

- **Contract packaging**

Establishing and strengthening alliances and/or contract packaging partnerships.

RESEARCH, DEVELOPMENT AND TECHNOLOGY

General Manager: Dr. Willem Burger

This division is responsible for food safety, research, technical services, diagnostics, stock remedy sales, bio-security and professional services.

Food safety

Worldwide the emphasis is increasingly on quality guarantees for food. Standards and trade barriers are becoming stricter by the day. KLEIN KAROO's focus is on risk management and systems standardisation.

Our laboratory ensures a swift response to quality tests.

Research

Newcastle and Clostridium vaccines were developed by the KLEIN KAROO Group during the report year. These vaccines are already well established within the market and offer good protection. During the next report year attention will be given to an improved Newcastle vaccine.

Research on respiratory diseases done in collaboration with other scientific institutes is

already at an advanced stage. The development of a vaccine is progressing well.

Diagnostics and stock remedies

The focus is on expanding the KLEIN KAROO product range as well as increasing market share with the establishment of the *Ostrimed* brand for specialist ostrich services and remedies.

Bio-security

With the increased risk of Avian Influenza and Newcastle disease in poultry, an early warning system as well as stringent precautionary measures, is a prerequisite.

Professional services

Close co-operation with the Department of Agriculture as well as the EU is essential to maintain our export status.

Towards the end of the report year an EU inspection visit was being planned for the second half of 2006.

Strong emphasis is placed on seeking new markets for meat.

KLEIN KAROO Seed (KKS)

General Manager: David Malan

The year under review could be regarded in all respects as one of the most difficult periods in South African agriculture over the last decade. Import parity remained under pressure for all agricultural product prices for most of the year. The over-production of maize put greater pressure on the maize price, while much less maize and other field crops were planted during the year.

Unfavourable agricultural conditions resulted in a further decline in plantings. The lingering

drought of the past four years continued in the southern parts of the country until June 2006. In the north, the drought was broken in January 2006 when it suddenly started to rain, resulting in one of the wettest years in history. In other words, it was first too dry and shortly afterwards too wet to plant.

These conditions and the decline in area planted caused the seed companies to purchase considerably less seed than in the previous year.

According to the South African National Seed Organisation (SANSOR), vegetable seed sales were 15% lower and maize seed 45% lower than in the previous year. The area planted declined by more than 50%.

In spite of the above, KLEIN KAROO Seed's turnover increased by 6% compared to the previous year.

KLEIN KAROO Seed: Production

Vegetable seed production remains under pressure. The drought in the Little Karoo and Western Cape left various producers without water at critical stages. This caused potential production to decline drastically, resulting in lower-than-expected yield.

The unfavourable weather in November 2005 had a detrimental effect on the activities of bees, hence deficient pollination. Heavy rains in the Northern Cape from January to March destroyed many seedbeds. This also resulted in much higher bulb losses than in the past.

KLEIN KAROO Seed Production's turnover was 5% higher than in the previous year, while the previous year's loss was turned into a small profit.



KLEIN KAROO Seed: Marketing

Gellman Seed has now been established as a marketer of vegetable seed in South Africa, Africa, the Middle East and Southeast Asia. Good work was done to extend Gellman's product range through evaluation and breeding programmes.

This created an opportunity to enter the professional market in South Africa. With the addition of, among other things, the ZERAIM product range, we can now offer competitive cultivars for tomatoes, peppers and other products in an extremely sophisticated market.

The sale of small packets has also reached new heights. It is clear that this market still has great potential.

Onion seed exports recovered well during the past year and there are now opportunities to expand this market even further.



AFRIGRO

Bakker Brothers

Bakker Brothers have resumed their place in the international seed market and this well-

known trademark has regained its former glory and international market share.

With Bakker Brothers we have also increased our market share in Africa and the Middle East and we are still in the process of new market development.

During the past three years Bakker succeeded in increasing their turnover year on year. Bakker Brothers were known for many years as the "green bean company", but in recent years have expanded their product range in order to offer a full range of products.

Spoodwel

Spoodwel is the biggest concession holder of *Mayford Sakata*, one of the foremost vegetable seed companies in South Africa. It is regarded as an extension of the existing service area.

In spite of the drought and subsequent over-abundant rain, Spoodwel fared extremely well.

With excellent bulk seed sales and higher sales figures for poisons, fertiliser and related products, it almost succeeded in meeting its budget and managed to record a good profit.

KLEIN KAROO Co-operative (KKC)

TRADE

General Manager: Stephan Terblanche

KLEIN KAROO's Trade division has, despite difficult conditions within the ostrich industry, succeeded in recording good financial results, making a positive contribution towards the KLEIN KAROO Group's profits.

This was made possible by:

- Good support from our members;
- Further cost cuts;
- Effective stock management;

- Good control over debtors; and
- A focused management team with a hunger for business.

There is a constant focus on the acquisition and retention of as much business as possible at lower margins. In the process we help our producers to remain on their farms because without them we do not have a business.

With members' ongoing support and a further improvement in service levels, KLEIN KAROO Trade will, via our Agri Supermarkets, continue making a positive contribution to the farming achievements in our region.

MECHANISATION

General Manager: Stephan Terblanche

KLEIN KAROO Mechanisation remains on track. We have performed well and ended virtually within budget for 2006. Thanks to increasing support from our members, our market share grew and we achieved our targets.

Mechanisation's most important suppliers remain New Holland, Massey Ferguson and Rovic & Leers.

We are also agents for the TATA vehicle range and Karet trailers. Mechanisation remains a very important service division that must survive unsubsidised. We intend on improving our service delivery levels without stinting on the quality of products we supply to our clients.

FRUIT

General Manager: Stephan Terblanche

The fruit industry continues to face challenges and very little mercy is shown. During the past season our fruit producers grabbed these challenges with both hands and proved that they can compare with the best in the world.



The exchange rate was the most negative factor that influenced income.

International competition from Chile and Brazil is becoming increasingly tough and for this reason we focused more on our national supermarket groups for fruit sales. In our marketing strategy, we will make effective use of our competitive advantage in terms of good shelf life, exceptional taste and timely delivery.

KLEIN KAROO Group

HUMAN RESOURCES

General Manager: Coenie Louw

The year 2006 was marked by the incorporation of our new subsidiaries Camexo and KarooCuisine.

After consultation with the staff and trade unions of the respective companies, the Group's human resources policy and remuneration structures were successfully implemented, with the process of standardisation being taken another step forward.

Expansion of the KLEIN KAROO Group resulted in greater complexity. Aspects such as effective management of the total business, despite geographical distances between the head office in Oudtshoorn and our subsidiaries in the Eastern Cape, Gauteng and North West, as well as the expansion of black economic empowerment (BEE) and equipping staff to master these challenges successfully, are our focus points for 2007.



Kobus Goosen
EXECUTIVE GENERAL MANAGER
KLEIN KAROO Group



For the duration of the year under review, the following persons served on the KLEIN KAROO Group's board of directors:

KLEIN KAROO Group

Piet Kleyn	Chairman
Pieter Schoeman	Vice-chairman
Bartel du Toit	
Johan Koegelenberg	
Nico Loubser	
Herman Olivier	
Francois Potgieter	
Joey Potgieter	
Pierre Schoeman	
Debbie Bruce	External Director
Hennie van der Merwe	Consultant

Management

Kobus Goosen is the Executive General Manager of the KLEIN KAROO Group. Johan Schoeman serves as Administrative General Manager and public official, while Melcus Nel serves as General Manager: Finance.

Auditors

PricewaterhouseCoopers Inc has again agreed to act as the Group's auditors for the new year. A motion requesting their reappointment will serve at the 2005 Annual General Meeting.

ADMINISTRATION

Group's bankers

ABSA Bank
High Street
Oudtshoorn

Nedbank
BOE Building
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Oudtshoorn

Attorneys

Duvenage, Keyser & Jonck
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Piet Kleyn
Chairman



Pieter Schoeman
Vice-chairman



Bartel du Toit



Johan Koegelenberg



Nico Loubser



Herman Olivier



Francois Potgieter



Joey Potgieter



Pierre Schoeman



Debbie Bruce
External Director



Hennie van der Merwe
Consultant



Kobus Goosen
Executive
General Manager



Dr Willem Burger
General Manager:
Research and Development



Nuno Gomes
General Manager:
Meat



Coenie Louw
General Manager:
Human Resources



David Malan
General Manager:
KLEIN KAROO Seed Group



Thys Meyer
General Manager:
KarooCuisine



Melcus Nel
General Manager:
Finance



Hennie Roets
General Manager:
Camexo



Johan Schoeman
General Manager:
Administration



Stephan Terblanche
General Manager:
Feathers, Trade and
Mechanisation



Wim van Rooyen
General Manager:
Leather



This report serves as a true reflection of the KLEIN KAROO Group's financial statements taken as a whole.

This unqualified audit opinion of the Group's independent external auditors, *PricewaterhouseCoopers Inc* was compiled after the audit of the group financial statements had been completed satisfactorily.

The abridged financial statements and annual financial statements for the year ended **30 June 2006** are included in this report and are available for inspection.

TO ALL MEMBERS OF THE KLEIN KAROO Group, ROLE PLAYERS AND STAKEHOLDERS

The KLEIN KAROO Group's board of directors are responsible for and, with integrity and fairness, oversee the drafting and presentation of the financial statements and the relevant financial information.

The appropriate disclosure of particulars of the financial statements, in accordance with South African Statements of Generally Accepted Accounting Practice and the policy of the Group, is reflected in these financial statements.

The financial statements for the current financial year are based on a going-concern assumption.

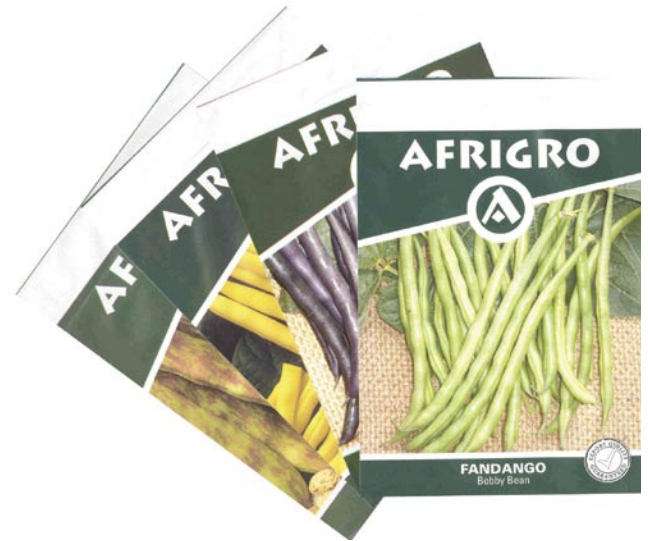
The Board also confirmed that there was no reason to believe that the Group would be unable to operate as a going-concern in the foreseeable future. This view is based on projections and the resources available in the normal course of business.

The complete results and statements were approved by the board of directors and are signed on their behalf by:

P L Kleyn
Chairman

P Schoeman
Vice-chairman

Oudtshoorn
October 2006



KLEIN KAROO



THE INDEPENDENT AUDITORS' REPORT TO MEMBERS OF THE KLEIN KAROO CO-OPERATIVE LTD AND ITS SUBSIDIARIES

The annual financial statements and group financial statements of KLEIN KAROO Co-operative Limited and its subsidiaries for the year ended **30 June 2006**, from which the abridged financial statements are derived, have been audited by us in accordance with International Standards on Auditing.

In our report dated 17 October 2006, we express the opinion that the financial statements from which the abridged statements are derived, represent a true reflection of the financial position of KLEIN KAROO Co-operative Limited and its subsidiaries as on 30 June 2006 and of the results of their operations and cash flows for the year then ended, in accordance with International Standards on Auditing and as required by the Co-operatives Act.

The accompanying abridged financial statements set out in this regard are, in our opinion, in all respects in accordance with the financial statements from which they are derived and in respect of which *PricewaterhouseCoopers Inc.*

has expressed an unqualified opinion.

In order to obtain a better understanding of the scope of our audit and of the financial position of KLEIN KAROO Co-operative Limited and its subsidiaries, and of the results of their operations for 2006, the abridged financial statements should be read with the financial statements from which they are derived, as well as our audit report thereon for the period 1 July 2005 to 30 June 2006.

The complete financial statements are available for inspection at the Group's head office in Oudtshoorn.

PricewaterhouseCoopers Inc

**PricewaterhouseCoopers Incorporated
Director: H Zeelie
Registered Auditor**



as on 30 June 2006 for KLEIN KAROO CO-OPERATIVE LIMITED and its subsidiaries

	Group		Co-operative	
	2006 R '000	2005 R '000	2006 R '000	2005 R '000
ASSETS				
Non-current assets	224,871	190,812	253,713	251,928
Current assets	714,978	590,887	79,787	63,282
Total assets	939,849	781,689	333,500	315,210
EQUITY AND LIABILITIES				
Reserves and members' resources				
Reserves	156,580	121,980	114,352	89,910
Members resources	102,618	116,535	102,618	116,535
Share capital	22,071	22,454	22,071	22,454
Earmarked reserves	36,670	37,115	36,670	37,115
Members' funds	43,877	56,966	43,877	56,966
Total reserves and members' resources	259,198	238,515	216,970	206,445
Outside shareholders' interest	13,199	11,952	–	–
Non-current liabilities	70,592	67,265	12,454	11,478
Current liabilities	596,860	463,957	104,076	97,287
Total equity and liabilities	939,849	781,689	333,500	315,210

for the year ended 30 June 2006 for KLEIN KAROO CO-OPERATIVE LIMITED and its subsidiaries

	Group		Co-operative	
	2006	2005	2006	2005
	R '000	R '000	R '000	R '000
Sales	952,480	752,922	179,104	134,852
Operating profit	65,900	34,647	20,935	17,291
Interest paid	(44,165)	(29,302)	(9,568)	(7,716)
Profit before tax	21,735	5,345	11,367	9,575
Tax	(5,340)	621	(233)	(233)
Net profit after tax	16,395	5,966	11,134	9,352
Outside shareholders' interest	(1,247)	(613)	–	–
Net profit for the year	15,148	5,353	11,134	9,352

Recommended employment of surplus:

Issue of bonus shares	–	2,000
Cash bonus paid to members	7,798	2,000
	7,798	4,000



KLEIN KAROO
— OUDTSHOORN —
HALLMARK OF QUALITY

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KLEIN KAROO Group