HARDWARE WAREHOUSE LIMITED

(Registration number : 2007/004302/06)

EAST LONDON

ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2007

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for the year ended 30 June 2007

INDEX

<u>EAST LONDON</u>
24 July 2007

HARDWARE WAREHOUSE LIMITED

DIRECTORS' RESPONSIBILITIES AND APPROVAL

for the year ended 30 June 2007

The directors are required by the Companies Act in South Africa to maintain adequate accounting records and are responsible for the content and integrity of the financial statements and related financial information included in this report. It is their responsibility to ensure that the financial statements fairly present the state of affairs of the company as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards. The external auditors are engaged to express an independent opinion on the financial statements.

The financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the company and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the directors set standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the company and all employees are required to maintain the highest ethical standards in ensuring the company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the company is on identifying, assessing, managing and monitoring all known forms of risk across the company. While operating risk cannot be fully eliminated, the entity endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

During the current year, the entity was converted from a close corporation to a private company. The company was subsequently converted to a public company.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the company's cash flow forecast for the year to 30 June 2008 and, in the light of this review and the current financial position, they are satisfied that the company has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the company's financial statements. The financial statements have been examined by the company's external auditors and their report is presented on page 2.

The financial statements set out on pages 5 to 27, which have been prepared on the going concern basis, were approved by the directors on 24 July 2007 and were signed on their behalf by:

………………………………………………………..
I M J SENAR

…………………………………………………………
S C MILLER

<u>EAST LONDON</u>
24 July 2007

REPORT of the INDEPENDENT AUDITORS

to the MEMBERS of

HARDWARE WAREHOUSE LIMITED

We have audited the accompanying annual financial statements of Hardware Warehouse Ltd, which comprise, the balance sheet at 30 June 2007, the income statement, the statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 4 to 27.

Directors' Responsibility for the Financial Statements
The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by these standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility
Our responsibility is to express an opinion on these 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 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 auditors' 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 the directors, 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 financial statements present fairly, in all material respects, the financial position of Hardware Warehouse Ltd as at 30 June 2007, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, and the Companies Act in South Africa.

Supplementary information
We draw your attention to the fact that with the supplementary information set out on pages 28 and 29 does not form part of the financial statements and is presented as additional information. We have not audited this information and accordingly do not express an opinion thereon.

<u>CHARTERED ACCOUNTANTS (S A)</u>
Registered Auditors

<u>EAST LONDON</u>
24 July 2007

DIRECTORS' REPORT

The directors present their annual report which forms part of the audited financial statements of the company for the year ended 30 June 2007.

1. Principal Activities of the company

The company carries on the business of building materials retailer.

2. General Review

Hardware Warehouse's business and operations, and the results thereof, are reflected in the attached financial statements and no other fact or circumstance, material to a fair assessment of the financial position of Hardware Warehouse has occurred, save as disclosed in subsequent events below.

3. Dividends

The dividends already declared and paid to the shareholders during the period are reflected in the attached statement of changes in equity.

4. Share Capital

The changes in the authorized or issued share capital of the company during the period under review are disclosed in the statement of changes in equity.

5. Property, Plant and Equipment

There have been no major changes in property, plant and equipment during the relevant period nor any changes in the policy relating to their use, other than those disclosed in the historical financial information.

6. Subsequent Events

There have been no facts or circumstances, of a material nature that have occurred, other than those specifically detailed in the financial statements. (note 28)

7. Going Concern

The directors have no reason to believe that the company will not be a going concern in the foreseeable future based on forecasts and available cash resources.

8. Directors

Details of directors are disclosed in note 29 of the annual financial statements.

9. Secretary

The secretary of the company is Charteris & Barnes Administrative Services CC

Postal Address: P O Box 19728, Tecoma, 5214
Address of Registered Office: 17 Vincent Road, Vincent, East London, 5247

10. Auditors

Charteris & Barnes will continue in office in accordance with section 270(2) of the Companies Act.

11. Legal Advisors

The Legal Advisors of the company are Messrs Hutton & Cook, King William's Town.

12. Branches

At 30 June 2007, the company had the following branches:

Branch

Fleet Street
Sevens
Buffalo Street
Elliott Street
Progress Street
Engcobo
Butterworth
Cofimvaba
Alice
Mdantsane
Port Alfred

13. Directors interest in share capital

At 30 June 2007, the directors of the company held the following shares in Hardware Warehouse Ltd:

	Shares held directly	Shares held indirectly	Percentage held directly	Percentage held indirectly
S C Miller	1,158	2,500	11,58%	25,00%
I M J Senar	2,390	1,500	23,90%	15,00%
L A Rhind	250	-	2,50%	0,00%

14. Directors interest in contracts

The directors are interested in a number of contract. A register of these interests is maintained by the company's secretary and is available for inspection at the registered office.

15. Contingencies

Subsequent to year end, Hardware Warehouse Ltd was released as surety for all group companies.

EAST LONDON
24 July 2007

HARDWARE WAREHOUSE LIMITED

BALANCE SHEET – 30 June 2007

	Notes	2007 R	2006 R
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	6	6,052,019	2,334,680
Goodwill	7	2,500,000	-
		8,552,019	2,334,680
CURRENT ASSETS			
Inventories	9	32,905,336	21,902,700
Trade and other receivables	8	2,662,842	2,343,141
Cash and cash equivalents	10	1,415,892	41,113
		36,984,070	24,286,954
TOTAL ASSETS		45,536,089	26,621,634
EQUITY AND LIABILITIES			
EQUITY			
Share capital	11	10,000	10,000
Retained earnings		7,462,270	4,838,228
		7,472,270	4,848,228
NON-CURRENT LIABILITIES			
Borrowings	13	2,201,810	785,756
Deferred tax	16	73,630	107,738
		2,275,440	893,494
CURRENT LIABILITIES			
Borrowings	13	5,981,128	4,603,466
Trade and other payables	12	26,520,160	14,208,339
Current tax liability		3,287,091	2,068,107
		35,788,378	20,879,912
TOTAL EQUITY AND LIABILITIES		45,536,089	26,621,634

HARDWARE WAREHOUSE LIMITED

INCOME STATEMENT
for the year ended 30 June 2007

	Notes	2007 R	2006 R
REVENUE	16	126,284,754	94,035,095
Cost of sales		98,312,578	72,710,409
Gross profit		27,972,176	21,324,686
Other operating income	17	1,039,845	80,081
Administration expenses		585,982	509,852
Other operating expenses		18,753,120	13,651,354
Profit from operations	18	9,672,919	7,243,561
Investment income	19	83,394	96,540
Finance costs	20	664,559	381,027
Profit before taxation		9,091,754	6,959,074
Taxation	22	2,951,851	2,255,994
Profit for the year		6,139,903	4,703,080

Earnings per share for profit attributable to the equity holders of the company during the year (expressed in cents per share)

- basic earnings per share	23	61,399	47,031
- headline earnings per share	23	52,712	46,788
- dividends per ordinary share	23	35,159	18,255

HARDWARE WAREHOUSE LIMITED

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2007

	Share Capital R	Retained Earnings R	Total R
Balance at 1 July 2005	10,000	1,960,630	1,970,630
Net profit for the year	-	4,703,080	4,703,080
Dividend declared relating to 2006	-	(1,825,482)	(1,825,482)
Balance at 30 June 2006	10,000	4,838,228	4,848,228
Balance at 1 July 2006	10,000	4,838,228	4,848,228
Net profit for the year	-	6,139,903	6,139,903
Dividends declared relating to 2007	-	(3,515,861)	(3,515,861)
Balance at 30 June 2007	10,000	7,462,270	7,472,270
Note	11		

HARDWARE WAREHOUSE LIMITED

CASH FLOW STATEMENT
for the year ended 30 June 2007

	Note	2007 R	2006 R
Profit from operations		9,672,919	7,243,561
Adjustments for:			
Depreciation of property, plant and equipment		762,258	297,262
Profit on disposal of property, plant and equipment		(19,294)	(34,211)
Operating cash flows before movements in working capital		10,415,882	7,506,612
Increase in inventories		(11,002,636)	(7,054,201)
(Increase) / decrease in trade and other receivables		(319,701)	1,530,868
Increase in trade and other payables		12,311,820	805,240
Cash generated by operations		11,405,367	2,788,519
Interest paid		(664,559)	(381,027)
Taxation paid	1	(1,766,977)	(834,309)
NET CASH FROM OPERATING ACTIVITIES		8,973,831	1,573,183
INVESTING ACTIVITIES			
Interest received		83,394	96,540
Proceeds on disposal of property, plant and equipment		35,965	34,211
Purchases of property, plant and equipment		(4,496,266)	(710,508)
Purchases of intangible assets		(2,500,000)	-
NET CASH USED IN INVESTING ACTIVITIES		(6,876,907)	(579,757)
FINANCING ACTIVITIES			
Dividends paid		(3,515,861)	(1,825,482)
Increase in borrowings		1,223,204	223,113
NET CASH USED IN FINANCING ACTIVITIES		(2,292,657)	(1,602,369)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(195,733)	(608,943)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		(3,308,066)	(2,699,123)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		(3,503,799)	(3,308,066)

NOTES TO THE CASH FLOW STATEMENT

1 RECONCILIATION OF TAX PAID	2007 R	2006 R
Change in the income statement	(2,985,959)	(2,151,177)
Increase in taxation liability	1,218,984	1,316,868
Taxation paid	(1,766,975)	(834,309)

1. General Information

Hardware Warehouse Ltd is a retailer of hardware and building products. The company operates in the Eastern Cape but has plans to expand operations nationally. During the year, the company opened three new branches, bringing the current total to twelve stores.

The company is a limited liability company incorporated and domiciled in South Africa. The address of its registered office is 17 Vincent Road, East London.

The company is in the process of listing on the Alternative Exchange of the JSE Securities Exchange.

These annual financial statements were authorised for issue by the Directors on 24 July 2007

2. Summary of significant accounting policies

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

2.1 Basis of preparation

The financial statements of Hardware Warehouse Ltd have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared under the historical cost convention except for certain financial instruments where fair value is required and include the accounting principles set out below.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

a) *Standards, interpretations and amendments to published standards that are not yet effective.*

As at the date of authorisation of these financial statements, the following standards and interpretations were issued but not yet effective:

- IFRS 7 : Financial Instrument : Disclosures
- IFRS 8 : Operating segments

The directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the company.

2.2 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographic segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those segments operating in other economic environments.

2.3 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation less accumulated impairments. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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 company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on assets is calculated using the straight-line method to reduce their cost to their residual values over their estimated useful lives, as follows:

Machinery	5 years
Motor vehicles	4 years
Computers	3 years
Office equipment	5 years
Furniture and fittings	10- 25 years
Signage	10 years
Leasehold improvements	over the period of the applicable lease

East part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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 (Note 2.4).

The depreciation charge for each period is recognised in profit or loss unless it is included in the carrying amount of another asset.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other operating expenses in the income statement.

2.4 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, 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.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in profit or loss.

2.5 Financial instruments

Initial recognition
The company classified financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial assets and financial liabilities are recognised on the company's balance sheet when the company becomes party to the contractual provisions of the instrument.

Loans payable and receivable are initially recognised at fair value.

Subsequent measurement

(a) Loans payable and receivable

Loans with no fixed repayment terms are measured at fair value.

On loans receivable an impairment loss is recognised in profit or loss when there is objective evidence that it is impaired. The impairment is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Impairment losses are reversed in subsequent periods when an increase in the loan's recoverable amount can be related objectively to an event occurring after the impairment was recognised.

(b) Trade receivables

Trade and receivables are measured at initial recognistion at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

(c) Trade and other payables

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

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in fair value. These are initially and subsequently recorded at fair value.

(e) Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised costs, using the effective interest rate method.

Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the company's policy for borrowing costs.

(f) Offset

Where a legally enforceable right of offset exists for recognised financial assets and financial liabilities, and there is an intention to settle the liability and realise the asset simultaneously or to settle on a net basis, all related financial effects are offset.

2.6 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of goods include direct costs and any related transport costs. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.7 Taxation

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:

- a transaction or event which is recognised, in the same or a different period, directly in equity, or
- a business combination.

Current tax and deferred taxes are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

Current tax for current and prior period is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

2.8 Deferred tax

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, effects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

2.9 Provisions

Provisions for laybye purchases are recognised when: the company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligations. Historically, laybyes are settled within 12 months.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2.10 Revenue recognition

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to company; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods and services provided in the normal course of business, net of trade discounts and volume rebates, and value added tax.

(a) *Sales of goods – retail*
The company operates a chain of retail outlets for selling hardware related building products. Sales of goods are recognised when a branch sells a product to the customer. Retail sales are usually in cash, credit card or outsourced finance houses.

It is the company's policy to sell its products to the retail customer with a right to return. Purchases are refundable in certain circumstances or exchangeable for similar goods. The company does not operate any loyalty programmes.

(b) *Interest income*
Interest is recognised, in profit or loss, using the effective interest rate method.

2.11 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases are recognised as assets and liabilities in the balance sheet at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

The lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate on the remaining balance of the liability.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset. This liability is not discounted.

Any contingent rents are expensed in the period in which they are incurred.

2.12 Dividends per share

Dividends per share are calculated by dividing the dividends declared or proposed for the period by the number of shares actually in issue at the date of each dividend declaration.

2.13 Goodwill

Goodwill is initially measured at cost, being the excess of the cost of the business combination over the company's interest of the net fair value of the identifiable assets, liabilities and contingent liabilities.

Subsequently goodwill is carried at cost less any accumulated impairment.

The excess of the company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of the business combination is immediately recognised in profit or loss. Internally generated goodwill is not recognised as an asset.

2.14 Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

3. Financial risk management

3.1 Financial risk factors

The company's activities expose it to the following financial risks: credit risk and liquidity risk.

Risk management is carried out by the directors. The directors provide written principles for overall risk management, as well as written policies covering specific areas, such as credit risk.

(a) *Credit risk*
Credit risk is managed on a company - wide basis. Credit risk arises from credit exposures to retail customers, including outstanding receivables and committed transactions. The utilisation of credit limits are regularly monitored. Sales to retail customers are settled in cash, using major credit cards or outsource finance houses.

(b) *Liquidity risk*
Prudent liquidity risk management includes maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities.

Management monitors rolling forecasts of the company's liquidity reserve on the basis of expected cash flow.

3.2 Capital risk management

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

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

Consistent with others in the industry, the company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including borrowings and trade and other payables, as shown in the balance sheet) less cash and cash equivalents. Total capital is calculated as equity, as shown in the balance sheet, plus net debt.

4. Critical accounting estimates and judgments

Estimates and judgments 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.

4.1 Critical accounting estimates and assumptions

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

Income taxes
The company is subject to income taxes in South Africa. Judgment is required in the determination of the provision for tax. Certain transactions and calculations are open to interpretation, and will depend on the final assessment by the revenue authorities.

4.2 Critical judgements in applying the entity's accounting policies

Doubtful debt provision
The company determines whether a provision for doubtful debts is required by assessing the credit worthiness of the debtors involved and providing for long outstanding debts from uncreditworthy debtors.

Inventory obsolescence
Judgement is required in the determination of an inventory obsolescence provision. The company's inventory is not prone to obsolescence and only badly damaged stock is provided for.

5. Segment information

5.1 *Primary reporting format – geographical*

At 30 June 2007, the company is organised into two main geographical segments:

- Western region - Alice, King William's Town, Mdantsane, Port Alfred
- Eastern region - Mthatha, Ngcobo, Lusikisiki, Cofimvaba, Butterworth

The basis for the segmentation is the reporting basis used by management. The Western region has more stable growth as this is the established business area. The Eastern region is a high growth area representing the recent expansion area.

All branches have been included between the two geographical segments.

The segment results for the year ended 30 June 2007 are as follows:

	Western Region R	**Eastern Region R**	**Total R**
Segment revenue	63,611,726	62,673,028	126,284,754
Segment cost of sales	(48,381,847)	(49,930,730)	(98,312,578)
Operating profit/segment result	15,229,879	12,742,298	27,972,176
Net operating expenses			(18,299,257)
Investment income			83,394
Finance costs			(664,559)
Profit before taxation			9,091,754
Taxation			(2,951,851)
Profit for the year			6,139,903

The segment results for the year ended 30 June 2006 are as follows:

	Western Region R	**Eastern Region R**	**Total R**
Segment revenue	56,655,365	37,379,730	94,035,095
Segment cost of sales	(43,167,040)	(29,543,369)	(72,710,409)
Operating profit/segment result	13,488,325	7,836,361	21,324,686
Net operating expenses			(14,081,125)
Investment income			96,540
Finance costs			(381,027)
Profit before taxation			6,959,074
Taxation			(2,255,994)
Profit for the year			4,703,080

No further information is presented for the primary segment as the company does not have material dedicated segment assets. The company monitors performance by segment based solely on revenue and gross profit margins.

5.2 *Secondary reporting format – business segments*

The company's two geographical segments operate in one business segment only, retail of hardware products.

6. Property, plant and equipment

	LEASEHOLD IMPROVEMENTS R	MACHINERY R	COMPUTERS R	MOTOR VEHICLES R	OFFICE EQUIPMENT R	FURNITURE & FITTINGS R	SIGNAGE R	TOTAL R
Carrying amount at 1 July 2006	-	109,174	151,919	1,830,060	29,778	213,749	-	2,334,680
At cost	-	192,443	677,902	2,964,552	34,070	288,995	-	4,157,962
Accumulated depreciation	-	(83,269)	(525,983)	(1,134,492)	(4,292)	(75,246)	-	(1,823,282)
Additions	746,234	10,350	229,476	2,254,996	102,040	1,057,482	95,688	4,496,266
Disposals	-	-	-	(16,669)	-	-	-	(16,669)
Depreciation for the year	(74,639)	(14,595)	(119,946)	(456,846)	(4,728)	(87,678)	(3,826)	(762,258)
Carrying amount at 30 June 2007	671,595	104,929	261,449	3,611,541	127,090	1,183,553	91,862	6,052,019
At cost	746,234	108,210	789,029	4,977,348	136,110	1,346,477	95,688	8,199,096
Accumulated depreciation	(74,639)	(3,281)	(527,580)	(1,365,807)	(9,020)	(162,924)	(3,826)	(2,147,077)
Carrying amount at 30 June 2005	-	89,419	185,135	1,384,258	13,290	249,328	-	1,921,430
At cost	-	160,713	563,917	2,431,571	14,850	276,399	-	3,447,450
Accumulated depreciation	-	(71,294)	(378,782)	(1,047,313)	(1,560)	(27,071)	-	(1,526,020)
	-							
Additions	-	31,730	113,985	532,981	19,220	12,596	-	710,512
Depreciation for the year	-	(11,975)	(147,201)	(87,179)	(2,732)	(48,175)	-	(297,262)
Carrying amount at 30 June 2006	-	109,174	151,919	1,830,060	29,778	213,749	-	2,334,680
At cost	-	192,443	677,902	2,964,552	34,070	288,995	-	4,157,962
Accumulated depreciation	-	(83,269)	(525,983)	(1,134,492)	(4,292)	(75,246)	-	(1,823,282)

7. Goodwill

	Goodwill	Total
At 1 July 2006	-	-
Cost	-	-
Year ended 30 June 2007		
Capitalised in terms of IFRS 3	2,500,000	2,500,000
At 30 June 2007	2,500,000	2,500,000
Cost	2,500,000	2,500,000

8. Trade and other receivables

	2007 R	2006 R
Trade receivables	1,319,359	1,146,179
Deposits	219,244	13,800
Sundry debtors	518,074	326,336
Receivables from related parties (note 27)	606,165	856,826
	2,662,842	2,343,141

The carrying values of trade and other receivables are equivalent to their fair values.

Trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. Trade receivables have been ceded to ABSA Bank as security for the company's overdraft facilities.

9. Inventories

	2007 R	2006 R
Finished goods	32,905,336	21,902,700

Purchases recognised as expenditure and included in cost of sales amounted to R109 315 214 (2006 : R79 764 610).

10. Cash and cash equivalents

	2007 R	2006 R
Cash at bank and on hand	815,892	41,113
Short-term bank deposits	600,000	-
	1,415,892	41,113

Cash and cash equivalents and bank overdrafts include the following for the purposes of the cash flow statement:

	2007 R	2006 R
Cash and cash equivalents	1,415,892	41,113
Bank overdrafts	(4,919,691)	(3,349,179)
	(3,503,799)	(3,308,066)

11. Share capital

	2007 R	2006 R
Authorised:		
10 000 ordinary shares of R1 each	10,000	10,000
Issued and fully paid:		
10 000 ordinary shares of R1 each.	10,000	10,000

12. Trade and other payables

	2007 R	2006 R
Trade payables	21,474,305	11,041,547
Sundry creditors	2,622,209	1,241,494
Provision for laybyes (Note 15)	1,145,471	1,236,259
Accrued expenses	350,875	414,788
Dividends payable	339,567	-
Lease straight lining	587,733	274,251
	26,520,160	14,208,339

13. Borrowings

	2007 R	2006 R
Non-current		
Interest bearing borrowings	2,201,810	785,756
Current		
Bank overdrafts	4,919,691	3,349,179
Interest bearing borrowings	1,061,437	457,999
Loan from shareholder	-	796,288
	5,981,128	4,603,466
Total borrowings	8,182,938	5,389,222

Interest bearing borrowings
Interest bearing borrowings mature between year ended 30 June 2008 to year ended 30 June 2011.

Total borrowings include secured liabilities (instalment sales) of R3 263 247 (2006 : R1 243 755). Bank overdrafts are secured by trade receivables (note 8). IMJ Senar has ceded his loan to ABSA bank.

The shareholder's loan has no fixed term of repayment.

The exposure of the company's borrowings to interest rate changes at the balance sheet dates are as follows:

	Nature	Interest Rate	2007 R	2006 R
Wesbank	Instalment sale	Prime less 1% -1,25%	306,699	482,925
ABSA Bank	Instalment sale	Prime less 1% - 1,25%	2,956,548	760,830
I M J Senar	Unsecured loan	Interest free	-	796,288
ABSA Bank	Bank overdraft	Prime	4,919,691	3,349,179
			8,182,938	5,389,222

The carrying amounts of non-current borrowings and short-term borrowings approximate their fair value.

The company has the following undrawn borrowing facilities:

	2007 R	2006 R
Bank overdraft – ABSA		
- Expiring within one year	180,309	150,821

The facilities expiring within one year are annual facilities subject to review at various dates during 2008.

14. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the company and movements thereon during the current and prior reporting period.

	2007 R	2006 R
Balance at the beginning of the year	107,738	2,917
Movements during the year		
- Deductible temporary differences	114,729	67,281
- Taxable temporary difference	80,620	172,102
Balance at the end of the year	73,630	107,738

The balance comprises

- Operating lease straight lining	(170,443)	(79,532)
- Property, plant and equipment allowances	267,891	187,270
- Provision for doubtful debts	23,818	-
	73,630	107,738

15. Provision for other liabilities and charges

	Opening Balance R	Additions R	Used during the Year R	Closing Balance R
Provisions - 2006				
- Laybyes	834,295	1,236,259	(834,295)	1,236,259
Provisions – 2007				
- Laybyes	1,236,259	1,145,471	(1,236,259)	1,145,471

(a) *Laybyes*
The company sells goods to customers on “laybye”. It is expected that all amounts deposited as laybyes will be converted to sales in the next year.

16. Revenue

	2007 R	2006 R
Sales to retail customers	126,284,754	94,035,095

17. Other operating income

	2007 R	2006 R
Sale of trading name	1,000,000	-
Other income	18,687	20,647
Bad debts recovered	1,864	25,223
Profit on sale of property, plant and equipment	19,294	34,211
	1,039,845	80,081

Sale of trading name refers to a transaction during the year in which Hardware Warehouse sold the right to use the name “Builders Warehouse” to Massmart Stores.

18. Profit from operations

Profit from operations has been arrived at after charging / (crediting):

		2007 R	2006 R
Auditors remuneration	- audit	-	-
	- other services	20,091	67,047
Bad debts		96,062	28,846
Depreciation		762,258	297,262
Legal fees		18,000	4,819
Operating lease charges		2,907,530	1,931,705
Profit on sale of property, plant and equipment		(19,294)	(34,211)

No audit fees were incurred in the current and previous reporting period as the company was a close corporation and was not subject to a statutory audit.

19. Investment income

	2007 R	2006 R
Interest on bank deposits	83,394	96,540

20. Finance costs

	2007 R	2006 R
Interest expense:		
Bank overdraft and instalment sales	664,559	381,027

21. Employee benefit expense

	2007 R	2006 R
Wages and salaries	8,664,836	6,093,168
Number of employees	254	181

22. Taxation

	2007 R	2006 R
Local South African normal tax:		
Current year	2,546,471	1,922,988
Deferred tax:		
Current year	(34,108)	104,821
Secondary tax on companies	439,488	228,185
Tax expense per the income statement	2,951,851	2,255,994

Company tax is calculated at 29% of the estimated assessable profit for the year.

The charge for the year can be reconciled to the profit per the income statement as follows:

	2007 R	%	2006 R	%
Profit before tax	9,091,754		6,959,074	
Tax at the local South Africa company tax rate of 29%	2,636,609	29,00	2,018,128	29,00
Expenses not deductible for tax purposes	20,754	0,23	9,681	0,14
50% Capital gain not taxable	(145,000)	(1,59)	-	-
Secondary tax on companies	439,488	4,83	228,185	3,28
Tax expense and effective tax rate for the year	2,951,851	32,47	2,255,994	32,42

23. Earnings per share

(a) *Basic*
Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year.

	2007 R	2006 R
Profit attributable to equity holders of the company	6,139,903	4,703,080
Weighted average number of ordinary shares in issue	10,000	10,000
Basic earnings per shares (cents per share)	61,399	47,031

(b) *Diluted*
Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The company has no categories of dilutive potential ordinary shares.

Headline earnings reconciliation:

2007	Gross Amount	Tax Amount	Net Amount
Profit attributable to equity holders of the company	-	-	6,139,903
Profit on sale of property, plant and equipment	(19,294)	5,595	(13,699)
Sale of trading name	(1,000,000)	145,000	(855,000)
Headline earnings			5,271,204

2006	Gross Amount	Tax Amount	Net Amount
Profit attributable to equity holders of the company	-	-	4,703,080
Profit on sale of property, plant and equipment	(34,211)	9,921	(24,290)
Headline earnings			4,678,790

24. Dividends per share

The dividends paid in 2007 and 2006 were R3 515 861 (35 159 cents per share) and R1 825 482 (18 255 cents per share) respectively.

25. Contingencies

It is not anticipated that any material liabilities will arise from the contingent liabilities other than those provided for.

The company has provided sureties for the following group companies:

Bank	Company	Amount R
Investec Bank	Downstream Trading 34 CC	3,000,000
Investec Bank	Sevenstone Investments 124 (Pty) Ltd	3,290,000
ABSA Corporate	Erf 453 KWT CC	200,000
ABSA Corporate	Senar Investments 151 (Pty) Ltd	2,400,000
ABSA Corporate	Platinum Mile Investments 588 (Pty) Ltd	Unlimited
Nedbank	Golden Harvest Bakery (Pty) Ltd	250,000

The company is exposed to punitive interest on the Mthubathuba contract for payment later than the due date.

26. Commitments

(a) *Operating lease commitments – company as lessee*
The company leases various retail outlets, offices and warehouses under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The company also leases various office equipment under cancellable operating lease agreements. The lease expenditure charged to the income statement during the year is disclosed in Note 18.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2007 R	2006 R
No later than 1 year	4,448,059	2,907,530
Later than 1 year and no later than 5 years	7,929,538	12,377,597
	12,377,597	15,285,127

All lease agreements were renegotiated at the end of the 2005 year.

(b) *Capital commitments*
In July 2007, the company entered into an agreement of sale to purchase a new branch in Mthubathuba, KwaZulu-Natal. The purchase price is R6 million excluding stock in trade.

The effective date is anticipated to be no earlier than 20th September 2007 and no later than 15th October 2007.

27. Related-party transactions

The company entered into the following transactions with related parties during the year:

		Sales to related parties R	Purchases from related parties R	Amounts owed by related parties R	Amounts owed to related parties R
In-Line Trading 142 (Pty) Ltd	2007	1,104,483	-	328,740	-
	2006	1,082,928	-	-	-
Downstream Trading 34 CC	2007	168,640	-	277,425	-
	2006	3,498,259	-	-	-
Novate Property Investments	2007	-	-	-	-
Portfolio	2006	-	-	856,826	-
I M J Senar	2007	-	-	-	-
	2006	-	-	-	796,288

The balance relating to Novate Property Investments above has been included under trade and other receivables.

The amounts outstanding are unsecured and are run on a current account basis. No guarantees have been received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties. The amounts are interest free. The shareholder loan has been ceded to ABSA as security for the company's overdraft.

The entities as mentioned above are related parties due to the fact that they all share common shareholders and / or directors.

The amounts outstanding have been included under trade and other receivables (Note 8).

I M J Senar is a director of the company.

Novate Property Investments acts as the lessor to Hardware Warehouse for many of the branches. Novate Property Investments is owned and operated by similar shareholders and directors as Hardware Warehouse. Novate Property Investments represents a property portfolio of approximately 42 companies. All rentals are market related and formal lease agreements have been entered into between the parties. Novate Property Investments also leases property to non Hardware Warehouse related tenants.

The loans arose from common group companies requiring funds.

The value of the lease rentals were as follows:

	Branch	2007 R	2006 R
Platinum Mile Investments 588 (Pty) Ltd	Mdantsane	211,006	203,367
Spring Romance Properties 48 (Pty) Ltd	Port Alfred	140,531	169,636
Golden Harvest Bakery (Pty) Ltd	Fleet Street	224,517	-
Sevenstone Investments 124 (Pty) Ltd	Elliott Street	779,800	161,635
Bubesi Investments 127 (Pty) Ltd	Alice	185,874	150,322
Senar Investments 151 (Pty) Ltd	Butterworth	365,934	406,986
Amber Mountain Investments 111 (Pty) Ltd	Head Office	103,022	62,910
		2,010,684	1,154,858

The reason for the large increase year on year is due to the number of new stores being opened in property leased from Novate Property Investments, as well as a move of one of the larger stores from a property previously leased from an outside party to a property owned and managed by Novate Property Investments. All transactions with related parties have been concluded at arms length.

28. Subsequent events

Subsequent to balance sheet date, the company indicated an intention to list on the Alternative Exchange of the JSE Securities Exchange

The company entered into an agreement of sale for a new branch in Mthubathuba, KwaZulu-Natal. Full details have been included under the commitments note (note 26).

The company formed the Hardware Warehouse Empowerment Trust for employees. The company also restructured the share capital subsequent to year end.

29. Directors' information

Executive	Nationality	Date of appointment / (Resignation)
E G Senar	South African	(30 June 2007)
I A J Senar	South African	(30 June 2007)
M J Willard	South African	(30 June 2007)
S C Miller	South African	9 February 2007
I M J Senar	South African	9 February 2007
L A Rhind	South African	9 February 2007
Non-Executive		
N E Woollgar	South African	30 June 2007

		Basic salary and bonus R	Expenses and traveling allowance R	Total R
29.1	Directors' emoluments, for the year ended 30 June 2007 are:			
	Executive directors			
	E G Senar	219,240	-	219,240
	I A J Senar	174,445	-	174,445
	M J Willard	127,912	120,000	247,912
	S C Miller	223,478	192,000	415,478
	I M J Senar	134,455	297,240	431,695
	L A Rhind	138,548	55,820	194,368
	Non-executive director			
	N E Woollgar	-	-	-
	Total directors' emoluments 30 June 2007	1,018,078	665,060	1,683,138

		Basic salary and bonus R	Expenses and traveling allowance R	Total R
29.2	Directors' emoluments, for the year ended 30 June 2006 are:			
	Executive directors			
	E G Senar	175,525	44,000	219,525
	I A J Senar	162,142	-	162,142
	M J Willard	243,712	60,000	303,712
	S C Miller	384,588	45,100	429,688
	I M J Senar	560,716	116,500	677,216
	L A Rhind	131,161	-	131,161
	Total directors' emoluments 30 June 2006	1,657,844	265,600	1,923,444

30. Business combinations

During the year the company cancelled agreements with other similar traders in the Mthatha area and commenced trading operations for its own account. A settlement agreement was entered into and an amount of R2 500 000 was paid, which has been capitised and is reflected as goodwill on the face of the balance sheet.