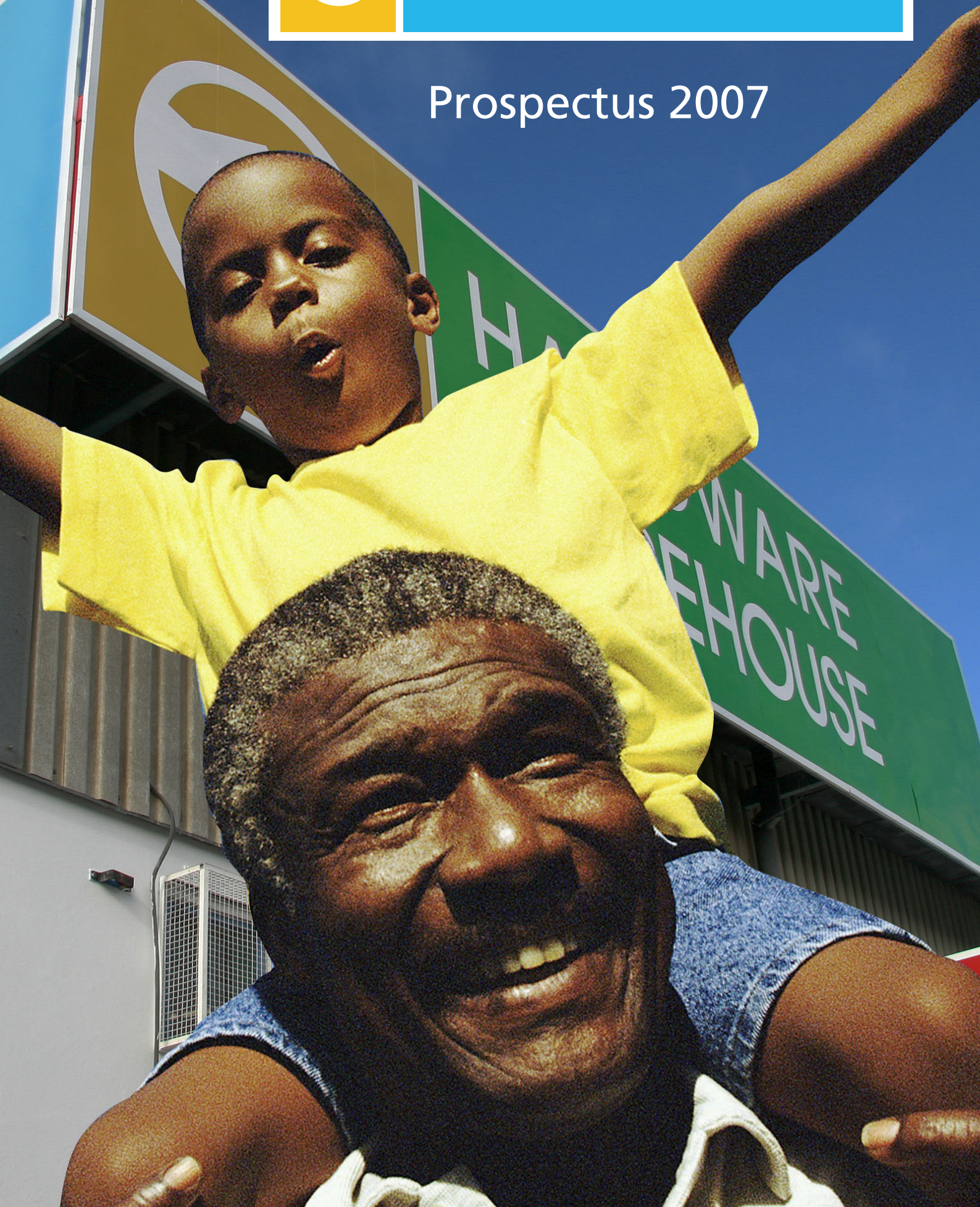




HARDWARE WAREHOUSE
ALWAYS THE LOWEST PRICES!

Prospectus 2007





HARDWARE WAREHOUSE LIMITED

Incorporated in the Republic of South Africa
(Registration number: 2007/004302/06)
Share code: HWW ISIN: ZAE000104253
("Hardware Warehouse" or "the company")

PROSPECTUS

Prepared and issued in terms of the Listings Requirements ("the Listings Requirements") of JSE Limited ("the JSE") and the Companies Act, 1973 (Act 61 of 1973), as amended ("the Act"), relating to a private placement of ordinary shares in Hardware Warehouse by way of an offer by Hardware Warehouse for the subscription of 15 000 000 ordinary shares in the issued share capital of the company at an issue price of 100 cents per ordinary share thereby raising R15 million before expenses (hereinafter, "the private placement") and the subsequent listing of the ordinary shares in Hardware Warehouse on the Alternative Exchange ("AltX") of the JSE.

Opening date of private placement at 09:00 on
Closing date of private placement at 12:00 on*
Anticipated listing date on AltX at commencement of trade on

Tuesday, 18 September 2007
Thursday, 20 September 2007
Friday, 28 September 2007

* Shareholders wishing to receive ordinary shares in dematerialised form must advise their Central Securities Depository Participant ("CSDP") or broker of their acceptance of the offer to subscribe for ordinary shares in the manner and within the cut-off time stipulated by their CSDP or broker.

This prospectus is not an invitation to the general public to subscribe for ordinary shares in Hardware Warehouse. This is an offer to selected members of the public to subscribe for ordinary shares in Hardware Warehouse and is issued in compliance with the Listings Requirements and the Act for the purpose of providing information to subscribers, as well as to the public and prospective/future investors with regard to Hardware Warehouse.

At the date of listing, the authorised share capital of Hardware Warehouse will comprise 500 000 000 ordinary shares having a par value of 0.02 cents each. Prior to the private placement, the issued share capital of Hardware Warehouse will consist of 65 000 000 ordinary shares of 0.02 cents each. After the private placement and at the date of the listing, the issued share capital of Hardware Warehouse will consist of 80 000 000 ordinary shares of 0.02 cents each.

The ordinary shares issued in terms of the private placement will rank *pari passu* with all other ordinary shares issued by Hardware Warehouse. Applications for ordinary shares in Hardware Warehouse must be for a minimum of 5 000 ordinary shares and in multiples of 1 000 ordinary shares thereafter.

Subject to the required spread of public shareholders in terms of the Listings Requirements being achieved pursuant to the private placement, the JSE has granted a listing in respect of 80 000 000 ordinary shares in the capital of Hardware Warehouse on AltX under the abbreviated name "Hardware", share code "HWW" and ISIN ZAE000104253, with effect from the commencement of business on Friday, 28 September 2007.

The directors of Hardware Warehouse, whose names are set out in Annexure 1 commencing on page 36 of this prospectus, accept, collectively and individually, full responsibility for the accuracy of the information given herein and certify that, to the best of their knowledge and belief, no facts have been omitted which would make any statement false or misleading and that they have made all reasonable enquiries to ascertain such facts and that this prospectus contains all information required by law and the Listings Requirements.

Charteris & Barnes and BDO Spencer Steward (Johannesburg) Inc, whose reports are included in this prospectus, have given and have not, prior to registration of this prospectus, withdrawn their written consent to the inclusion of their reports in the form and context in which they appear. The Designated Adviser, auditors and independent reporting accountants, limited assurance provider, attorneys, commercial banker and transfer secretaries, whose names are set out in this prospectus, have given and have not, prior to registration, withdrawn their written consents to the inclusion of their names in the capacities stated.

An English copy of this prospectus, accompanied by the documents referred to under "Documents available for inspection" as set out in paragraph 28 of this prospectus, was registered by the Registrar of Companies on Thursday, 13 September 2007 in terms of Section 155(1) of the Act.

Designated adviser



Auditors and independent reporting accountants



CHARTERED ACCOUNTANTS (S.A.)

Limited assurance provider



BDO

BDO Spencer Steward
Chartered Accountants

A relationship at work

Corporate adviser



Attorneys



Website: www.fluxmans.com
fluxmans Inc. Registration No: 2000/024775/21

Date of issue: Tuesday, 18 September 2007

CORPORATE INFORMATION

Company secretary and registered office

Charteris & Barnes Administrative Services CC
(Registration number CK 1988/013996/23)
17 Vincent Road
Vincent
East London, 5247
(PO Box 19728, Tecoma, 5214)

Auditors and independent reporting accountants

Charteris & Barnes
Chartered Accountants (SA)
(Practice number 949914)
17 Vincent Road
Vincent
East London, 5247
(PO Box 19728, Tecoma, 5214)

Transfer secretaries

Computershare Investor Services 2004
(Proprietary) Limited
(Registration number 2004/003647/07)
Ground Floor
70 Marshall Street
Johannesburg, 2001
(PO Box 61051, Marshalltown, 2107)

Commercial banker

ABSA Group Limited
(Registration number 1986/003934/06)
Corner Frere and Bell Road
Vincent
East London, 5247
(PO Box 19369, Tecoma, 5214)

Designated adviser

Merchant Sponsors (Proprietary) Limited
(Registration number 2003/005493/07)
2nd Floor, North Block
Hyde Park Office Tower
Corner 6th Road and Jan Smuts Avenue
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(PO Box 41480, Craighall, 2024)

Limited assurance provider

BDO Spencer Steward (Johannesburg) Inc
(Registration number 1995/002310/21)
13 Wellington Road
Parktown, 2193
(Private Bag X60500, Houghton, 2041)

Attorneys

Fluxmans Inc.
(Registration number 2000/024775/21)
11 Biermann Avenue
Rosebank, Johannesburg, 2196
(Private Bag X41, Saxonwold, 2132)

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SALIENT FEATURES

The salient features are a summary only. For a full appreciation, this prospectus should be read in its entirety. The definitions commencing on page 10 of this prospectus apply *mutatis mutandis* to these salient features.

1. INTRODUCTION

Hardware Warehouse has operated in the building materials retailing industry for over ten years. The company provides affordable building materials, such as cement, corrugated iron roof sheeting, doors, windows and timber to customers of low to medium income levels who are mainly from the rural areas of the Eastern Cape. The company currently operates from 12 stores and continues to expand.

In order to implement its expansion strategy, the company will leverage its unique knowledge and experience of its target market and proven business model to roll out new stores within Southern Africa. It will also seek to broaden its store base into selected, under-serviced urban areas of South Africa, where higher margins can be achieved.

Hardware Warehouse's core competencies are in the understanding of its niche market, the precise selection of retail sites in chosen areas and the choice of product range to meet the particular needs of the target market, and in ensuring that its product range remains at the most competitive prices.

2. INCORPORATION AND HISTORY

The business conducted by Hardware Warehouse was established in 1996 in King Williams Town and Hardware Warehouse was incorporated as a close corporation on 2 September 1996. Its vision was to provide the rural communities of the Eastern Cape with affordable building materials on a cash basis. The first warehouse-style operation quickly expanded to three other stores and from this base the company opened one to two further stores per year in the towns of Alice, Butterworth, Port Alfred, Mdantsane, Ngcobob, Mthatha, Cofimvaba and most recently, Lusikisiki. The company has finalised the acquisition of its first store in KwaZulu-Natal, which will provide a base for expansion into the north eastern provinces of South Africa and neighbouring territories.

Hardware Warehouse was converted into a private company on 9 February 2007 and subsequently to a public company on 10 May 2007.

Recent growth in turnover has been exponential, largely due to the increasing number of rural customers being able to build and improve their own houses. Continued growth is forecast on the back of Government investment into low cost housing.

3. NATURE OF THE COMPANY'S BUSINESS AND INDUSTRY

Hardware Warehouse is a retailer of low cost building materials and associated products, selling directly to predominately cash paying customers including homebuilders, home improvers, contractors, traders and Government organisations. It is fast becoming the low cost building material retailer of choice in its selected markets. While Hardware Warehouse has a diverse customer base, spread between contractors, DIY individuals and municipal/Government projects, a large portion of the company's customer base falls within the lower to middle income rural groups. The company is experiencing a growing exposure to urban customers, which is a key part of its strategy, in addition to its ability "to offer the lowest prices" to its target market.

4. PROSPECTS

The directors of Hardware Warehouse are of the opinion that Hardware Warehouse has exciting prospects, both locally and in neighbouring countries for the following reasons:

The homebuilding sector of the construction industry in the regions within which Hardware Warehouse currently and in the future intends to operate is expected to continue to experience further growth. Government spend, a buoyant economy and recent trends indicate that Hardware Warehouse's markets

will continue to grow, supported by Government's drive to increase home ownership, and the continued drive by builders of private homes and developers to meet the demands of an increasing number of individuals who want to own and improve their homes, particularly in the lower LSM levels, which is the company's core target market.

One of the Department of Housing's major objectives is to eradicate all forms of informal housing by 2014. For this reason, Government has initiated several projects to replace these settlements. Projects include the provision of housing, hostel and infrastructure upgrading such as roads and the provision of electricity and street-lighting. Social infrastructure such as child-care facilities, schools, clinics, sports fields, libraries, police stations, centres for the aged, post offices and playgrounds are also to be provided.

In the short term, Hardware Warehouse will seek to expand its operations by first targeting regions adjacent to the Eastern Cape including KwaZulu-Natal, Lesotho, Mpumalanga and the Limpopo Provinces. In the medium to long term, the company will seek to establish itself in selected, identified, under-serviced SADC countries exhibiting the same need for affordable building materials, specifically Namibia, Botswana and Mozambique.

Hardware Warehouse also plans to expand into urban areas within current regions of operation. Such areas were previously avoided due to the high demand for credit; however, the directors are of the opinion that the potential for higher margins within such urban areas will outweigh the associated risk of offering credit.

5. SUMMARY OF HISTORICAL AND FORECAST INCOME STATEMENTS

The summarised historical and forecast financial information of Hardware Warehouse for the financial year ended 30 June 2007 and the financial years ending 30 June 2008 and 30 June 2009, the preparation of which is the responsibility of the directors, is set out below. The financial information must be read in conjunction with the independent reporting accountants' reports thereon reproduced in Annexures 3 and 5.

5.1 Extracts from the historical and forecast income statements

	Audited 2007 R	Forecast 2008 R	Forecast 2009 R
Revenue	126 284 754	197 001 607	268 985 108
Cost of sales	98 312 578	156 408 341	212 003 009
Gross profit	27 972 176	40 593 266	56 982 099
Other operating income	1 039 845	–	–
Operating costs	19 339 102	26 339 353	35 554 611
Profit from operations	9 672 919	14 253 913	21 427 488
Investment Income	83 394	377 934	1 059 073
Finance costs	664 559	648 218	537 037
Profit before taxation	9 091 754	13 983 629	21 949 524
Taxation	2 951 851	4 055 252	6 365 362
Profit for the year	6 139 903	9 928 377	15 584 162
<i>Pro forma</i> weighted average ordinary shares in issue	65 000 000	76 250 000	80 000 000
<i>Pro forma</i> earnings per ordinary share (cents)	9.4	13.0	19.5
<i>Pro forma</i> headline earnings per ordinary share (cents)	8.1	13.0	19.5

Notes:

1. The *pro forma* weighted average number of ordinary shares in issue at 30 June 2007 is based on the sub-division of the ordinary shares in issue into 50 000 000 ordinary shares, an issue of an additional 8 500 000 ordinary shares to current shareholders at par value and an issue of an additional 6 500 000 ordinary shares to The Hardware Warehouse Empowerment Trust at 100 cents per share as set out in paragraph 18.3 of this prospectus.

2. The main assumptions on which the forecast income statements are based are set out in paragraph 11.2 of this prospectus.
3. The above income statement takes into account the effects of the anticipated issue of ordinary shares detailed in paragraph 18 of this prospectus.
4. Surplus cash will be applied to the organic and acquisitive growth of the business in the short term and therefore no dividends are planned for the forecast period.

6. PURPOSE OF THE PRIVATE PLACEMENT AND THE LISTING

6.1 The purpose of the private placement and the listing is:

- to fund future growth; as Hardware Warehouse continues to expand its number of stores, an increased level of financial commitment will be required. The company needs an efficient and cost effective mix of funding to deliver this growth;
- to enhance the company's profile and increase its brand awareness amongst all stakeholders including suppliers, partners and customers;
- to incentivise staff by introducing a share purchase scheme which will reward and attract quality employees;
- to reward existing quality staff by way of The Hardware Warehouse Empowerment Trust;
- to further enhance the company's BBBEE rating, by finding suitable partners who will be able to invest in Hardware Warehouse as equity shareholders;
- to fund an increased stock holding that will be sufficient to supply the growing number of local builders undertaking Government's low cost housing and community upliftment projects in the regions within which it operates;
- to fund the company's credit extension plans to be offered to Government and municipalities building within the regions in which Hardware Warehouse operates.

6.2 The private placement encompasses an offer to selected private individuals, corporations and institutions by Hardware Warehouse for the subscription of 15 000 000 ordinary shares at an issue price of 100 cents per ordinary share, thereby raising R15 million, before issue and listing expenses. The proceeds of the private placement will allow the company to achieve its objectives as set out in paragraph 6.1 above.

6.3 Those private individuals, corporations and institutions who have been invited to apply should do so by completing the attached private placement application form in accordance with the provisions of this prospectus and the instructions contained in the attached private placement application form.

6.4 No offer will be made to the general public in terms of the private placement. The private placement will be made to selected applicants only.

6.5 Subject to the achievement of the required spread of public shareholders, the JSE has formally approved the listing of 80 000 000 ordinary shares in the share capital of Hardware Warehouse on AltX with effect from commencement of business on Friday, 28 September 2007. The shares will trade under the abbreviated name "Hardware" with the JSE code "HWW" and ISIN ZAE000104253.

7. DETAILS OF PLACEMENT

7.1 Salient features

7.1.1 *The salient features of the private placement are as follows:*

Offer price per ordinary share (cents)	100
Par value per ordinary share (cents)	0.02
Premium per ordinary share (cents)	99.98
Number of ordinary shares offered by the company for subscription in terms of the private placement	15 000 000
Issue consideration to be received by the company before expenses	R15 million

7.1.2 The opening and closing dates of the private placement are as follows:

Opening date of the private placement at 09:00 on	Tuesday, 18 September 2007
Closing date of private placement at 12:00 on	Thursday, 20 September 2007
Anticipated listing date on AltX at commencement of trade on	Friday, 28 September 2007

7.1.3 The placement will not be underwritten and is not subject to a minimum subscription being achieved. Applications for ordinary shares in Hardware Warehouse must be for a minimum of 5 000 ordinary shares and in multiples of 1 000 ordinary shares thereafter.

8. COPIES OF THE PROSPECTUS

Copies of the prospectus, in English, may be obtained during business hours, prior to the closing of the private placement from the registered offices of Hardware Warehouse, the office of the Designated Adviser and the transfer secretaries, details of which are set out in the "Corporate information" section of this prospectus.

IMPORTANT DATES AND TIMES

2007

Abridged prospectus released on SENS on	Tuesday, 18 September
Opening date of the private placement at 09:00 on	Tuesday, 18 September
Closing date of private placement at 12:00 on	Thursday, 20 September
Payment to be received by 12:00 on	Wednesday, 26 September
Listing of Hardware Warehouse on AltX at commencement of trade on	Friday, 28 September
Accounts at CSDP or broker updated in respect of dematerialised shareholders on	Friday, 28 September
Posting of share certificates in respect of certificated shareholders on or about	Friday, 28 September

Notes:

1. The above dates are subject to change. Any such change will be released on SENS.
2. Shareholders wishing to receive ordinary shares in dematerialised form must advise their CSDP or broker of their acceptance of the offer to subscribe for or to purchase shares in the manner and within the cut-off time stipulated by their CSDP or broker.

DEFINITIONS

In this prospectus, the annexures and the private placement application form attached hereto, unless the context indicates otherwise, references to the singular include the plural and *vice versa*, words denoting one gender include the others, expressions denoting natural persons include juristic persons and associations of persons and *vice versa*, and the words in the first column hereunder have the meanings stated opposite them in the second column, as follows:

“Act”	the Companies Act, 1973 (Act 61 of 1973), as amended;
“AltX”	the Alternative Exchange of the JSE;
“applicants”	selected private individuals, corporations and institutions who have been invited to subscribe for ordinary shares in terms of the private placement;
“auditors” or “independent reporting accountants”	Charteris & Barnes, Chartered Accountants (SA), Registered Auditors (Practice number 949914);
“BBBEE”	the economic empowerment of all black people, including women, workers, youth, people with disabilities and people living in rural areas, through diverse but integrated socio-economic strategies as defined in the Broad-Based Black Economic Empowerment Act, (Act 53 of 2003);
“business day”	any day other than a Saturday, Sunday or a public holiday in South Africa;
“certificated shareholders”	holders of certificated ordinary shares;
“certificated shares”	ordinary shares which have not been dematerialised, title to which is represented by physical documents of title;
“CIPRO”	Companies and Intellectual Property Registration Office (formerly the Registrar of Companies);
“common monetary area”	South Africa, the Republic of Namibia and the Kingdoms of Swaziland and Lesotho;
“CSDP”	a Central Securities Depository Participant, accepted as a participant in terms of the Securities Services Act, 2004 (Act 36 of 2004), as amended, appointed by an individual shareholder for purposes of, and in regard to the dematerialisation of documents of title for purposes of incorporation into Strate;
“dematerialised shareholder”	a holder of dematerialised ordinary shares;
“dematerialised shares”	ordinary shares which have been incorporated into Strate and which are no longer evidenced by physical documents of title, but the evidence of ownership of which is determined electronically and recorded in a sub-register maintained by a CSDP;
“Designated Adviser”	Merchant Sponsors (Proprietary) Limited (Registration number 2003/005493/07), a company incorporated in accordance with the laws of South Africa, and a Designated Adviser as contemplated in the Listings Requirements;
“directors” or “board”	the directors of the company whose details are set out in Annexure 1 to this prospectus;

“documents of title”	share certificates, certified transfer deeds, balance receipts and/or any other acceptable form of documents of title in respect of ordinary shares;
“emigrant”	an emigrant from South Africa whose address is outside the common monetary area;
“Exchange Control Regulations”	the Exchange Control Regulations, promulgated in terms of Section 9 of the Currency and Exchanges Act, 1933 (Act 9 of 1933), as amended;
“Government”	the Government of South Africa;
“Hardware Warehouse” or “the company”	Hardware Warehouse Limited (Registration number 2007/004302/06), initially incorporated as a close corporation in accordance with the laws of South Africa, converted to a private company on 9 February 2007 and, subsequently, to a public company on 10 May 2007;
“Hardware Warehouse Empowerment Trust”	The Hardware Warehouse Empowerment Trust, the salient features of which are set out in Annexure 10 to this prospectus;
“Hardware Warehouse Share Purchase Scheme”	The Hardware Warehouse Share Purchase Scheme, the salient features of which are set out in Annexure 9 to this prospectus;
“IFRS”	International Financial Reporting Standards, which comprise standards and interpretations approved by the International Accounting Standards Board, International Financial Reporting Interpretations Committee and International Accounting Standards, and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee;
“incorporation”	the date of incorporation of Hardware Warehouse as a close corporation, being 2 September 1996;
“JSE”	JSE Limited (Registration number 2005/022939/06), a public company duly incorporated in accordance with the laws of South Africa and licensed as an exchange under the Securities Services Act, 2004 (Act 36 of 2004);
“last practicable date”	the last practicable date prior to the finalisation of this prospectus, being Friday, 7 September 2007;
“the listing”	the proposed listing of the entire issued ordinary share capital of Hardware Warehouse on AltX, on Friday, 28 September 2007;
“Listings Requirements”	the Listings Requirements of the JSE, as amended from time to time by the JSE;
“limited assurance provider”	BDO Spencer Steward Johannesburg Inc., Registered Auditors (Registration number 1995/002310/21);
“non-resident”	a person whose registered address is outside the common monetary area, but who is not an emigrant;
“ordinary shares”	ordinary shares with a par value of 0.02 cents each in the share capital of the company;
“own-name registration”	shareholders who hold or will hold ordinary shares which have been dematerialised and are recorded by a CSDP on the sub-register kept by that CSDP in the name of such shareholder;
“private placement” or “placement”	the private placement of 15 000 000 ordinary shares by way of an offer for the subscription of 15 000 000 new ordinary shares at an issue price of 100 cents per ordinary share to selected institutions, corporations and individuals, for cash;

“private placement application form”	the application form in respect of the private placement, attached to and forming part of this prospectus;
“prospectus”	this bound document, issued on Tuesday, 18 September 2007, including all annexures and the private placement application form attached hereto;
“Rand” or “R” or “cents”	the official currency of South Africa;
“SA GAAP”	South African Statements of Generally Accepted Accounting Practice;
“SARB”	the South African Reserve Bank;
“SENS”	Securities Exchange News Service of the JSE;
“shareholders”	holders of ordinary shares;
“South Africa”	the Republic of South Africa;
“Strate”	the settlement and clearing system used by the JSE, managed by Strate Limited (Registration number 1998/022242/06), a public company duly incorporated in accordance with the laws of South Africa;
“sub-register”	the record of dematerialised shares administered and maintained by a CSDP and which forms part of the company’s register of members as defined in the Act, excluding any nominees; and
“transfer secretaries”	Computershare Investor Services 2004 (Proprietary) Limited (Registration number 2004/003647/07), a private company duly incorporated in accordance with the laws of South Africa.



HARDWARE WAREHOUSE
ALWAYS THE LOWEST PRICES!

HARDWARE WAREHOUSE LIMITED

Incorporated in the Republic of South Africa

(Registration number: 2007/004302/06)

Share code: HWW ISIN: ZAE000104253

(“Hardware Warehouse” or “the company”)

Directors

I M J Senar *(Executive Chairman)*
S C Miller *(Chief Executive Officer)*
L A Rhind *(Financial Director)*
N E Woollgar *(Non-executive Director)*

PROSPECTUS

1. INTRODUCTION

Hardware Warehouse has operated in the building materials retailing industry for over ten years. The company provides affordable building materials, such as cement, corrugated iron roof sheeting, doors, windows and timber to customers of low to medium income levels who are mainly from the rural areas of the Eastern Cape. The company currently operates from 12 stores and continues to expand.

In order to implement its expansion strategy, the company will leverage its unique knowledge and experience of its target market and proven business model to roll out new stores within Southern Africa. It will also seek to broaden its store base into selected, under-serviced urban areas of South Africa, where higher margins can be achieved.

Hardware Warehouse’s core competencies are in the understanding of its niche market, the precise selection of retail sites in chosen areas and the choice of product range to meet the particular needs of the target market, and in ensuring that its product range remains at the most competitive prices.

Hardware Warehouse intends to list on the AltX as a strategic step that will allow the company to raise capital in support of its vision to be the building materials retailer of choice as it develops a national footprint in the building materials retail industry.

The residential building industry in the regions in which Hardware Warehouse currently operates and proposes to operate is experiencing significant growth, assisted by large Government investment into low cost housing in the rural communities of South Africa.

2. INCORPORATION AND HISTORY

The business conducted by Hardware Warehouse was established in 1996 in King Williams Town and Hardware Warehouse was incorporated as a close corporation on 2 September 1996. Its vision was to provide the rural communities of the Eastern Cape with affordable building materials on a cash basis. The first warehouse-style operation quickly expanded to three other stores and from this base the company opened one to two further stores per year in the towns of Alice, Butterworth, Port Alfred, Mdantsane, Ngcobo, Mthatha, Cofimvaba and most recently, Lusikisiki. The company has finalised the acquisition of its first store in KwaZulu-Natal, which will provide a base for expansion into the north eastern provinces of South Africa and neighbouring territories.

Hardware Warehouse was converted into a private company on 9 February 2007 and subsequently to a public company on 10 May 2007.

Recent growth in turnover has been exponential, largely due to the increasing number of rural customers being able to build and improve their own houses. Continued growth is forecast on the back of Government investment into affordable housing.

3. INDUSTRY BACKGROUND

The South African building industry is worth approximately R66 billion per annum – building materials making up approximately R33 billion of this figure. The main driving forces within the industry are; the increased access to title or formal permission to occupy land on which to live and build a home; commercial banks' increased commitment to provide home loans within Hardware Warehouse's target market; the buoyant economy and its associated increase in personal spending; the enhanced aspirations of lower income groups to own a (better and bigger) family home and Government's renewed efforts to build or make funds available for housing within lower income groups.

Government spending on housing has risen from R4.2 billion in 2003 to a projected R9.5 billion in the 2008/09 financial year, with a major objective to eradicate all forms of informal housing by 2014. For this reason, Government has initiated several projects to eradicate settlements in favour of more formal dwellings. Projects include the provision of housing, hostel and infrastructure upgrading such as roads and the provision of electricity and street-lighting. Social infrastructure such as child-care facilities, schools, clinics, sports fields, libraries, police stations, centres for the aged, post offices and playgrounds are also to be provided.

It is anticipated that the disposable income of lower to middle income individuals and hence the renovation sector of the building materials industry will experience spin-off expansion as a result of the ripple effect of growth in jobs created by Government investment on affordable housing in the rural areas of South Africa.

The availability of certain building materials in South Africa remains the most important supply constraint. Despite the fact that the market is experiencing large volumes of building activity, the industry remains competitive.

Sources: Statistics South Africa Primary Tables: Eastern Cape, Census 1996 and 2001, Afrifocus Securities (Pty) Limited Research (*A Pillay*) and property24.com

4. NATURE OF BUSINESS

Hardware Warehouse is a retailer of low cost building materials and associated products, selling directly to predominately cash paying customers including homebuilders, home improvers, contractors, traders and Government organisations. It is fast becoming the low cost building material retailer of choice in its selected markets. While Hardware Warehouse has a diverse customer base, spread between contractors, DIY individuals and municipal/Government projects, a large portion of the company's customer base falls within the lower to middle income rural groups. The company is experiencing a growing exposure to urban customers, which is a key part of its strategy in addition to its ability "to offer the lowest prices" to its target market.

Acknowledging that the buying of materials to build or improve a home can be a significant expenditure and a daunting process to its target market, the company has developed a specific environment and approach to make the selection and buying of products both comfortable and understandable.

Hardware Warehouse also carries a limited range of furniture and appliances as an additional service to its customers in areas where such products are not readily available.

5. PROSPECTS

The directors of Hardware Warehouse are of the opinion that Hardware Warehouse has exciting prospects, both locally and in neighbouring countries for the following reasons:

The homebuilding sector of the construction industry in the regions within which Hardware Warehouse currently and in the future intends to operate is expected to continue to experience further growth. Government spend, a buoyant economy and recent trends indicate that Hardware Warehouse's markets will continue to grow, supported by Government's drive to increase home ownership, and the continued drive by builders of private homes and developers to meet the demands of an increasing number of

individuals who want to own and improve their homes, particularly in the lower LSM levels, which is the company's core target market.

One of the Department of Housing's major objectives is to eradicate all forms of informal housing by 2014. For this reason, Government has initiated several projects to replace these settlements. Projects include the provision of housing, hostel and infrastructure upgrading such as roads and the provision of electricity and street-lighting. Social infrastructure such as child-care facilities, schools, clinics, sports fields, libraries, police stations, centres for the aged, post offices and playgrounds are also to be provided.

In the short term, Hardware Warehouse will seek to expand its operations by first targeting regions adjacent to the Eastern Cape including KwaZulu-Natal, Lesotho, Mpumalanga and Limpopo Provinces. In the medium to long term, the company will seek to establish itself in selected, identified, under-serviced SADC countries exhibiting the same need for affordable building materials, specifically Namibia, Botswana and Mozambique.

Hardware Warehouse also plans to expand into urban areas within current regions of operation. Such areas were previously avoided due to the high demand for credit; however, the directors are of the opinion that the potential for higher margins within such urban areas will outweigh the associated risk of offering credit.

6. MAJOR SHAREHOLDERS

6.1 Save as set out in the table below, there are no shareholders directly or indirectly beneficially interested in 5% or more of the issued ordinary share capital of Hardware Warehouse at the last practicable date and who will, as far as the directors of Hardware Warehouse are aware, hold 5% or more of the issued ordinary share capital of Hardware Warehouse following the private placement, as set out below:

Name of shareholder	Percentage held before private placement	Percentage held after private placement	Number of shares after private placement
The Shaun Miller Family Trust	22.50	18.28	14 625 000
I M J Senar*	20.31	16.50	13 203 500
I M J S Family Trust	13.50	10.97	8 775 000
M J Willard	10.74	8.72	6 977 750
The Hardware Warehouse Empowerment Trust**	10.00	8.13	6 500 000
S C Miller*	9.30	7.55	6 042 700
Total	86.35	70.15	56 123 950

* Director

** Neville Woollgar, as nominee on behalf of The Hardware Warehouse Empowerment Trust, will hold the shares until registration of The Hardware Warehouse Empowerment Trust.

6.2 No shareholder, other than the shareholders as set out in paragraph 6.1 above being the directors, trusts of which the directors and their dependants are beneficiaries and The Hardware Warehouse Empowerment Trust, will directly or indirectly, hold 5% or more of the issued ordinary share capital of Hardware Warehouse following the private placement. The company will have a public shareholding of at least 100 shareholders that will hold a minimum of 10% of the ordinary shares on the day of listing. There will be no controlling shareholder in Hardware Warehouse after the listing.

6.3 There will be no change in the controlling shareholding as a result of the private placement.

6.4 There have been no changes in the controlling shareholders and trading objects of Hardware Warehouse during the last five years except for the shareholder I M J Senar, whose membership in Hardware Warehouse CC was reduced from an effective 65% on 3 October 2003 to his current shareholding as per paragraph 6.1 above.

7. DIRECTORS AND EXECUTIVE MANAGEMENT

Details of the directors and executive management, including the appointment, remuneration, borrowing powers of directors and directors' interests and declarations are set out in Annexure 1.

8. PURPOSE OF PLACEMENT AND LISTING ON AltX

8.1 Subject to the achievement of the required spread of public shareholders, the JSE has formally approved the listing of 80 000 000 ordinary shares in the share capital of Hardware Warehouse on AltX, with effect from commencement of business on Friday, 28 September 2007. The shares will trade under the abbreviated name "Hardware", with the share code "HWW" and ISIN ZAE000104253.

8.2 Hardware Warehouse had an ordinary share capital, including share premium and distributable reserves, of R7 472 270 at 30 June 2007. The company will have a public shareholding of at least 100 shareholders who will hold a minimum of 10% of the ordinary shares on the day of listing.

8.3 An amount of R15 million, before share issue and listing expenses, will be raised by the company by the issue of 15 000 000 ordinary shares for cash to selected private individuals, corporations and institutions. The proceeds of the private placement will be utilised to achieve Hardware Warehouse's objectives as set out in paragraph 8.4 below.

8.4 The purpose of the placement and the listing are:

- to fund future growth; as Hardware Warehouse continues to expand its number of stores both within and beyond South Africa, an increasing level of financial commitment will be required. The company needs an efficient and cost effective mix of funding to deliver this growth;
- to enhance the company's profile and increase its brand recognition amongst all stakeholders including suppliers, partners and customers;
- to incentivise staff by introducing a share purchase scheme which will reward and attract and retain quality employees;
- to reward existing quality staff by way of The Hardware Warehouse Empowerment Trust;
- to further enhance the company's BBBEE rating, by finding suitable partners who will be able to invest in Hardware Warehouse as equity shareholders;
- to fund increased stock holdings required to supply the growing number of local builders undertaking Government's low cost housing and community upliftment projects in the regions within which it operates;
- to fund the company's credit extension plans to be offered to governmental, provincial and local authority structures within the regions in which Hardware Warehouse operates.

9. DETAILS OF THE PRIVATE PLACEMENT

9.1 Salient features

9.1.1 The salient features of the private placement are as follows:

Offer price per ordinary share (cents)	100
Par value per ordinary share (cents)	0.02
Premium per ordinary share (cents)	99.98
Number of ordinary shares offered by the company for subscription in terms of the private placement	15 000 000
Issue consideration to be received by the company before expenses	R15 million

9.1.2 The opening and closing dates of the private placement are as follows:

Opening date of the private placement at 09:00 on	Tuesday, 18 September 2007
Closing date of private placement at 12:00 on	Thursday, 20 September 2007
Anticipated listing date on AltX at commencement of trade on	Friday, 28 September 2007

- 9.1.3** Those private individuals, corporations and institutions who have been invited to apply should do so by completing the attached private placement application form in accordance with the provisions of this prospectus and the instructions contained in the attached private placement application form.
- 9.1.4** No offer will be made to the general public in terms of the private placement. The private placement will be made to selected applicants only.
- 9.1.5** The ordinary shares issued in terms of the private placement will rank *pari passu* with all other ordinary shares issued in Hardware Warehouse.

9.2 Procedure for subscription of ordinary shares in Hardware Warehouse

- 9.2.1** Applications for the private placement must be made on the attached private placement application form provided to selected applicants. Photocopies or reproductions will be accepted. Each application will be regarded as a single application.
- 9.2.2** The rights granted to selected applicants in terms of the private placement may not be ceded, renounced or assigned in favour of any third party by the applicant to whom it is addressed.
- 9.2.3** The private placement shares may not be applied for in the name of a minor, deceased estate or partnership. Executors, trustees and individual partners may apply for private placement shares in their own name or through nominee companies. No documentary evidence of capacity need accompany the private placement application form, but the directors of Hardware Warehouse reserve the right to call upon any applicant to furnish such evidence for noting.
- 9.2.4** Private placement applications are irrevocable once received by the Designated Adviser.
- 9.2.5** No receipts will be issued for applications and/or payments received.
- 9.2.6** Applications must be for a minimum of 5 000 ordinary shares and in multiples of 1 000 ordinary shares thereafter.
- 9.2.7** Ordinary shares will only be traded in electronic form and accordingly, all shareholders who elect to receive certificated shares will first have to dematerialise their share certificates should they wish to trade their shares. Applicants are advised that it takes between one and ten days to dematerialise certificated shares, depending on the volumes being processed by Strate at the time of dematerialisation.
- 9.2.8** Once allotment has been confirmed, payment should be made by bank guaranteed cheque (crossed "not transferable"), banker's draft or electronic transfer (followed by fax or electronic proof of payment in the case of electronic transfers). Postal orders, cash, or telegraphic transfers will not be accepted. Cheques must be made payable in favour of "**Hardware Warehouse Limited Private Placement**". All cheques and banker's drafts will be deposited by the Designated Adviser, immediately upon receipt, in a designated account under the control of Hardware Warehouse with a registered South African bank.
- 9.2.9** Private placement allocations will only be regarded as complete once payment for the total amount of the allocation has been received and the monies cleared. Should any cheque or banker's draft subsequently be dishonoured, the company may, in its sole discretion, regard the relevant allocation as invalid or take such other steps in regard thereto as it may deem fit.

9.2.10 “Blocked Rand” may be used by emigrants and non-residents of the common monetary area for payment in terms of the private placement. In this regard, reference should be made to paragraph 9.11 below dealing with Exchange Control Regulations.

9.3 Application for dematerialised shares

Applicants who elect to receive their allocated ordinary shares in dematerialised form may do so, in which case **the private placement application form and particularly the section in respect of their CSDP or broker must be completed and stamped or signed by the relevant CSDP or broker, and returned to the Designated Adviser:**

<i>if delivered by hand or courier:</i>	<i>if posted:</i>	<i>if faxed:</i>
Designated Adviser	Designated Adviser	Designated Adviser
Merchant Sponsors (Proprietary) Limited	Merchant Sponsors (Proprietary) Limited	Merchant Sponsors (Proprietary) Limited
2nd Floor, North Block	PO Box 41480	Fax: 011 325 6362
Hyde Park Office Tower	Craighall	
Corner 6th Road and	2024	
Jan Smuts Avenue		
Hyde Park, Johannesburg, 2196		

so as to be received by no later than 12:00 on Thursday, 20 September 2007.

No late applications will be accepted.

9.4 Application for certificated shares

Applicants who elect to receive their allocated ordinary shares in certificated form may do so, in which case the private placement application form must be completed and returned to the Designated Adviser:

<i>if delivered by hand or courier:</i>	<i>if posted:</i>	<i>if faxed:</i>
Designated Adviser	Designated Adviser	Designated Adviser
Merchant Sponsors (Proprietary) Limited	Merchant Sponsors (Proprietary) Limited	Merchant Sponsors (Proprietary) Limited
2nd Floor, North Block	PO Box 41480	Fax: 011 325 6362
Hyde Park Office Tower	Craighall	
Corner 6th Road and	2024	
Jan Smuts Avenue		
Hyde Park, Johannesburg, 2196		

so as to be received by no later than 12:00 on Thursday, 20 September 2007.

No late applications will be accepted.

9.5 Disadvantages of holding shares in certificated form

9.5.1 The current risks associated with the holding of shares in certificated form, including the risk of loss, in respect of tainted scrip, remain.

9.5.2 When a shareholder wishes to transact on the JSE, he will be required to appoint a CSDP or broker to dematerialise the relevant ordinary shares prior to his broker being able to transact in such shares. Such dematerialisation can take up to 10 days. A certificated shareholder will have no recourse in the event of delays occasioned by the validation process or the acceptance or otherwise of his certificated shares by a CSDP.

9.6 Payment in respect of allotment of ordinary shares

9.6.1 Payment by electronic transfer

Successful applicants who have been allotted ordinary shares and who wish to pay for their allocation by way of electronic transfer may do so, in which case the **proof of such payment by electronic transfer must be delivered by hand, posted or faxed to the Designated Adviser (and not the transfer secretaries) to:**

*if delivered by hand
or courier:*

Designated Adviser
Merchant Sponsors (Proprietary)
Limited
2nd Floor, North Block
Hyde Park Office Tower
Corner 6th Road and
Jan Smuts Avenue
Hyde Park, Johannesburg, 2196

if posted:

Designated Adviser
Merchant Sponsors
(Proprietary) Limited
PO Box 41480
Craighall
2024

if faxed:

Designated Adviser
Merchant Sponsors
(Proprietary) Limited
Fax: 011 325 6362

so as to be received by no later than 12:00 on Wednesday, 26 September 2007.

9.6.2 Payment by electronic transfer must be made into the following bank account:

Bank: Absa Bank
Branch: Absa Bank East London
Branch code: 632 005
Account name: Hardware Warehouse Limited Private Placement
Account number: 4055036858

9.6.3 Hardware Warehouse accepts no responsibility and will not be liable for the correctness of any allocation of private placement shares pursuant to payment being made or alleged to have been made by way of electronic transfer due to proof of such payment not being received or purported proof of such payment being insufficient or defective or Hardware Warehouse, for any reason, not being able to reconcile a payment or purported payment with a particular application for private placement shares.

9.6.4 Payment by bank guaranteed cheque or banker's draft

Successful applicants who have been allotted ordinary shares and who wish to pay for their allocation by way of **bank guaranteed cheque or banker's draft** may do so, in which case payment in the form of a bank guaranteed cheque or banker's draft (crossed "not transferable" and drawn in favour of "**Hardware Warehouse Limited Private Placement**") must be delivered in an envelope marked "**Hardware Warehouse Limited Private Placement**" to the **Designated Adviser (and not the transfer secretaries):**

if delivered by hand or courier:

Designated Adviser
Merchant Sponsors (Proprietary) Limited
2nd Floor, North Block
Hyde Park Office Tower
Corner 6th Road and Jan Smuts Avenue
Hyde Park, Johannesburg, 2196

so as to be received by no later than 12:00 on Wednesday, 26 September 2007.

9.7 Reservation of rights

9.7.1 The directors of Hardware Warehouse reserve the right to accept or refuse any application(s), either in whole or in part, or to pro-rate any or all application(s) (whether or not received timeously) in such manner as they may, in their sole and absolute discretion, determine.

9.7.2 The directors of Hardware Warehouse reserve the right to accept or reject, either in whole or in part, any applications should the terms and the instructions contained in this prospectus and the instructions contained on the private placement application form not be properly complied with.

9.8 No minimum subscription

The private placement is not subject to a minimum subscription being achieved and is not underwritten.

9.9 Oversubscriptions

Should the private placement be oversubscribed, the directors of Hardware Warehouse reserve the right to allocate shares at their sole and absolute discretion.

9.10 Issue of private placement shares

9.10.1 All private placement shares will be issued at the expense of Hardware Warehouse.

9.10.2 All private placement shares to be issued are subject to the provisions of Hardware Warehouse's memorandum and articles of association and will rank *pari passu* in all respects with the existing ordinary shares in issue. Annexure 1 contains relevant extracts from Hardware Warehouse's articles of association.

9.10.3 The ordinary shares will only be traded on the JSE in electronic form and as such, all shareholders will have to dematerialise their shares should they wish to trade them. Applicants are advised that it takes between one and ten days to dematerialise certificated shares, depending on volumes being processed by Strate at the time of the dematerialisation.

9.10.4 The principle features of the Strate system are as follows:

- trades executed on the JSE must be settled within five business days;
- penalties are levied for late settlement;
- electronic record of ownership replaces share certificates and physical delivery of certificates; and
- all investors are required to appoint either a broker or CSDP to act on their behalf and to handle all settlement requirements.

9.11 Exchange Control Regulations

The following summary is intended as a guide and is therefore not comprehensive. If you are in any doubt hereto, please consult your professional adviser.

9.11.1 A former resident of the common monetary area who has emigrated from South Africa may use blocked Rand to subscribe for ordinary shares in terms of this prospectus.

9.11.2 All payments in respect of ordinary shares by non-residents using blocked Rand must be made through an authorised dealer in foreign exchange.

9.11.3 All payments in respect of subscriptions for shares by an emigrant, using emigrant blocked funds, must be made through the authorised dealer in foreign exchange controlling the blocked assets.

9.11.4 Share certificates issued in respect of certificated shares subscribed for using blocked Rand in terms of this prospectus will be endorsed "non-resident". Such share certificates will be placed under the control of the authorised dealer through whom the payment was made. Statements issued to non-resident dematerialised shareholders will be restrictively endorsed as "non-resident".

9.11.5 Any shares issued pursuant to the use of emigrant blocked funds, will be credited to their blocked share accounts at the CSDP controlling their blocked portfolios.

9.11.6 If applicable, refund monies payable in respect of unsuccessful applications, emanating from blocked Rand accounts will be returned to the authorised dealer administering such blocked Rand accounts for the credit of such unsuccessful applicants' blocked Rand account.

9.11.7 If applicable, refund monies payable in respect of unsuccessful applications or partly successful applications, as the case may be, for shares in terms of this prospectus emanating from emigrant blocked accounts, will be returned to the authorised dealer in foreign exchange through whom the payments were made, for credit to such applicants blocked accounts.

9.11.8 Applicants resident outside the common monetary area

A person who is not resident in the common monetary area should obtain advice as to whether any governmental, and/or legal consent is required and/or whether any other formality must be observed to enable an application to be made in terms of the private placement.

This prospectus accordingly does not constitute an offer in any area or jurisdiction in which it is illegal to make such an offer. In such circumstances, this prospectus and the attached private placement application form are provided for information purposes only. All share certificates issued to non-residents of South Africa will be endorsed "non-resident" in terms of the Exchange Control Regulations. Statements issued to dematerialised shareholders will be restrictively endorsed as "non-resident".

10. MATERIAL CHANGES

The directors report that there have been no material changes in the financial or trading position of Hardware Warehouse that have occurred since the end of the last financial period, other than as disclosed below.

Hardware Warehouse has not acquired any material assets from any director during the three years preceding the publication of the prospectus.

Hardware Warehouse has concluded an agreement to acquire the business of Build and Save CC, located at Lot 195, Nkcomatuba Road, Mthubathuba, KwaZulu-Natal from members George and Theo Viachos. The nature of this business is very similar to the current hardware retailing operations of Hardware Warehouse.

The effective date of the acquisition is anticipated to be no earlier than 20 September 2007 and no later than 15 October 2007. The sellers have agreed to a restraint of trade preventing them from competing with Hardware Warehouse within a 200 kilometre radius of the acquired business for a period of three years.

Build and Save is a Close Corporation and showed an unaudited profit before and after tax of R792 000 and R612 000 respectively for the twelve months to February 2006, and R1 108 000 and R787 000 respectively for the twelve months to February 2007.

The revenue contribution from this business for the first eight months after the effective date to June 2008 is expected to be R18 million, with profit before tax of R1.6 million and profit after tax of R1.1 million. The purchase consideration for the business payable by Hardware Warehouse will be no more than R6 million plus the amount of the trading inventory. The purchase consideration will be settled in cash. As the purchase price is only seven and a half percent of the anticipated market capitalisation of the company on listing, the transaction is not considered significant.

The above financial projections have been taken into account in the forecasts on an apportioned basis from 1 November 2007 and have been reviewed by the reporting accountant.

11. PROFIT HISTORY, FORECASTS, UNAUDITED *PRO FORMA* FINANCIAL INFORMATION AND DIVIDEND POLICY

11.1 Income statements for Hardware Warehouse for the three financial years ended 30 June 2005, 30 June 2006 and 30 June 2007

The historical financial information for Hardware Warehouse, the preparation of which is the responsibility of the directors, is presented in Annexure 2. Annexures 3 and 4 contain the independent reporting accountants' report on the historical financial information of Hardware Warehouse.

	Audited 12 months 30 June 2007 R	Reviewed 12 months 30 June 2006 R	Reviewed 16 months 30 June 2005 R
Revenue	126 284 754	94 035 095	80 486 285
Cost of sales	98 312 578	72 710 409	63 594 039
Gross profit	27 972 176	21 324 686	16 892 246
Other operating income	1 039 845	80 081	–
Other operating expenses	19 339 102	14 161 206	13 322 855
Goodwill written-off	–	–	980 000
Profit from operations	9 672 919	7 243 561	2 589 391
Investment income	83 394	96 540	36 893
Finance costs	664 559	381 027	415 878
Profit before tax	9 091 754	6 959 074	2 210 406
Tax	2 951 851	2 255 994	1 024 868
Profit for the year	6 139 903	4 703 080	1 185 538
<i>Pro forma</i> weighted average number of ordinary shares in issue	65 000 000	65 000 000	65 000 000
<i>Pro forma</i> earnings per ordinary share (cents)	9.4	7.2	1.8
<i>Pro forma</i> headline earnings per ordinary share (cents)	8.1	7.2	3.4

Notes:

1. The *pro forma* weighted average number of ordinary shares in issue for 30 June 2007 is based on the increase in and sub-division of the ordinary shares in issue into 50 000 000 ordinary shares in issue, the subsequent issue of 8 500 000 ordinary shares to existing shareholders and the subsequent issue of 6 500 000 ordinary shares to The Hardware Warehouse Empowerment Trust by the last practicable date as set out in paragraph 18.3 of this prospectus.
2. The actual number of ordinary shares in issue, earnings per ordinary share and headline earnings per ordinary share figures are set out in Annexure 2.
3. The 2006 and 2005 financial years have not been audited as Hardware Warehouse operated as a close corporation during these periods.
4. The 2005 financial year comprises a 16 month period due to Hardware Warehouse having changed its financial year end from February to June in line with other major building supply retailers.

11.2 Profit forecasts for the years ending 30 June 2008 and 30 June 2009

The profit forecasts of Hardware Warehouse for the years ending 30 June 2008 and 30 June 2009, the preparation of which is the responsibility of the directors, are set out below. The accounting policies applied in arriving at forecast income are consistent in all respects with IFRS and with those accounting policies applied in the historic information presented. The forecasts should be read in conjunction with the independent reporting accountants' report thereon as set out in Annexure 5.

	Forecast 2008 R	Forecast 2009 R
Revenue	197 001 607	268 985 108
Cost of sales	156 408 341	212 003 009
Gross profit	40 593 266	56 982 099
Operating costs	26 339 353	35 554 611
Profit from operations	14 253 913	21 427 488
Investment income	377 934	1 059 073
Finance/(Costs)	648 218	537 037
Profit before taxation	13 983 629	21 949 524
Taxation	4 055 252	6 365 362
Profit for the year	9 928 377	15 584 162
<i>Pro forma</i> weighted average ordinary shares in issue	76 250 000	80 000 000
<i>Pro forma</i> earnings per ordinary share (cents)	13.0	19.5

Main assumptions:

1. The forecasts have been prepared based on current market conditions, taking into account the 30 June 2007 year-end results.
2. The forecasts have been prepared in terms of IFRS.
3. The forecast revenue of approximately R197 million in respect of the 2008 forecast financial year is based on organic growth from the current 12 stores, new stores which will be opened, as well as the proposed acquisition from 1 November 2007, the details of which are set out in paragraph 10 of the prospectus.
4. Forecast revenue for 2009 includes organic growth from current stores as well as new stores which will be opened.
5. The forecast numbers include additional interest earned on the proceeds of the private placement less cash paid for the acquisition, as well as the resultant tax consequences.
6. The forecast has been prepared using consistent gross profit margins.
7. Surplus cash will be applied to the organic and acquisitive growth of the business in the medium-term and therefore no dividends are included for the duration of the forecast period.

Comments on the forecast financial information

The forecast financial information is based on the assumption that circumstances which affect the company's business, but which are outside the control of the directors, will not have any material effect on the trading of the company. More specifically:

- trading conditions are not expected to be materially different in any of the forecast periods;
- costs will increase due to additional expenses attributable to a listed entity; and
- interest rates and the basis and rate of taxation, both direct and indirect, will not change materially.

In addition, the forecast financial information is based on the assumptions that:

- there will be continuity in existing management and trading policies; and
- there will be no change in the present accounting policies.

In the opinion of the directors, the above assumptions are significant to the forecasts as being key factors upon which the financial results of the company will depend. However, certain assumptions may not materialise and/or certain unforeseen events may occur or circumstances may arise subsequent to the forecasts being made. Accordingly, the results achieved for the periods referred to above may differ from those forecast and any such variations may be material.

11.3 Unaudited *pro forma* income statement and balance sheet

The unaudited *pro forma* income statement and balance sheet are provided for illustrative purposes only to provide information about how the private placement may impact on Hardware Warehouse's results and financial position. Due to the nature of the unaudited *pro forma* financial information, it may not give a fair presentation of the company's results and financial position after the private placement. The unaudited *pro forma* income statement and balance sheet are based on the audited results of Hardware Warehouse at 30 June 2007 as set out in Annexure 2 and reported on by the independent reporting accountants' report in Annexure 3. The unaudited *pro forma* income statement and balance sheet are presented in a manner consistent with the basis on which the historical information has been prepared in terms of the accounting policies of Hardware Warehouse. The unaudited *pro forma* income statement and balance sheet should be read in conjunction with the independent reporting accountants' report thereon as set out in Annexure 6. The directors of Hardware Warehouse are responsible for the preparation of the unaudited *pro forma* financial information of Hardware Warehouse.

Unaudited *pro forma* income statement reflecting the private placement adjustments

	Audited 12 months ended 30 June 2007 R	Pre-private placement capital restruc- turing R	Unaudited <i>pro forma</i> after adjustments 30 June 2007 R	Private placement adjust- ments R	Unaudited <i>pro forma</i> after adjustments 30 June 2007 R
Revenue	126 284 754		126 284 754		126 284 754
Cost of sales	98 312 578		98 312 578		98 312 578
Gross profit	27 972 176		27 972 176		27 972 176
Other operating income	1 039 845		1 039 845		1 039 845
Other operating expenses	19 339 102		19 339 102		19 339 102
Profit from operations	9 672 919		9 672 919		9 672 919
Investment income	83 394		83 394		83 394
Finance costs	664 559		664 559		664 559
Profit before tax	9 091 754		9 091 754		9 091 754
Tax	2 951 851		2 951 851		2 951 851
Profit for the year	6 139 903		6 139 903		6 139 903
<i>Pro forma</i> weighted average number of ordinary shares in issue	50 000 000	15 000 000	65 000 000	15 000 000	80 000 000
<i>Pro forma</i> earnings per ordinary share (cents)	12.3		9.4		7.7
<i>Pro forma</i> headline earnings per ordinary share (cents)	10.5		8.1		6.6

Notes:

1. The *pro forma* income statement has been prepared using the audited financial statements for the year ended 30 June 2007.
2. *Pro forma* earnings per share and *pro forma* headline earnings per share have been calculated using the *pro forma* weighted average number of ordinary shares in issue as disclosed in the table above, the continuing effect of the restructuring to share capital as disclosed in paragraph 18.3 of this prospectus and the earnings and headline earnings as disclosed in note 25 in Annexure 2 of this prospectus.
3. The subsequent event adjustments are in respect of the continuing effects of a restructuring to the share capital of Hardware Warehouse that occurred after the 30 June 2007 financial year end of Hardware Warehouse but before the private placement of R15 000 000 Hardware Warehouse shares. The details of the restructuring are set out in paragraph 18.3 of this prospectus.

4. The unaudited *pro forma* income statement was prepared on the basis that:
- 4.1 the private placement had been completed on 1 July 2006;
 - 4.2 a total of R15 million less preliminary expenses of R1 886 000, as disclosed in paragraph 13 of this prospectus, is raised;
 - 4.3 the 15 000 000 shares are fully subscribed upon listing.

Unaudited *pro forma* balance sheet reflecting the private placement adjustments

	Audited 12 months ended 30 June 2007 R	Pre-private placement capital restruc- turing R	Unaudited <i>pro forma</i> after adjustments 30 June 2007 R	Private placement adjust- ments R	Unaudited <i>pro forma</i> after adjustments 30 June 2007 R
ASSETS					
Non-current assets	8 552 019		15 052 019		15 052 019
Property, plant and equipment	6 052 019		6 052 019		6 052 019
Trust debtor		6 500 000	6 500 000		6 500 000
Goodwill	2 500 000		2 500 000		2 500 000
Current assets	36 984 070		36 985 770		50 099 770
Inventories	32 905 336		32 905 336		32 905 336
Trade and other receivables	2 662 842		2 662 842		2 662 842
Cash and cash equivalents	1 415 892	1 700	1 417 592	13 114 000	14 531 592
Total assets	45 536 089	6 501 700	52 037 789	13 114 000	65 151 789
EQUITY AND LIABILITIES					
Equity	7 472 270		13 973 970		27 087 970
Share capital	10 000	3 000	13 000	3 000	16 000
Share premium	–	6 498 700	6 498 700	13 111 000	19 609 700
Retained earnings	7 462 270		7 462 270		7 462 270
Non-current liabilities	2 275 440		2 275 440		2 275 440
Borrowings	2 201 810		2 201 810		2 201 810
Deferred tax	73 630		73 630		73 630
Current liabilities	35 788 379		35 788 379		35 788 379
Borrowings	5 981 128		5 981 128		5 981 128
Trade and other payables	26 520 160		26 520 160		26 520 160
Current income tax liability	3 287 091		3 287 091		3 287 091
Total equity and liabilities	45 536 089	6 501 700	52 037 789	13 114 000	65 151 789

	Audited 12 months ended 30 June 2007 R	Pre-private placement capital restruc- turing R	Unaudited <i>pro forma</i> after adjustments 30 June 2007 R	Private placement adjust- ments R	Unaudited <i>pro forma</i> after adjustments 30 June 2007 R
<i>Pro forma</i> number of ordinary shares in issue	50 000 000	15 000 000	65 000 000	15 000 000	80 000 000
Net asset value per <i>pro forma</i> ordinary share (cents)	14.9		21.5		33.9
Net tangible asset value per <i>pro forma</i> share (cents)	9.9		17.7		30.7

Notes:

1. The audited financial information of Hardware Warehouse is set out in Annexure 2.
2. The unaudited *pro forma* balance sheet was prepared on the basis that the private placement was completed on 28 September 2007.
3. A total of R15 million capital raised has been applied, less preliminary expenses in connection with the share issue amounting to R1 886 000, as disclosed in paragraph 13 of the prospectus, to the cash balance.
4. The 15 000 000 shares are fully subscribed upon listing.
5. The subsequent event adjustments are in respect of the continuing effects of a restructuring to the share capital of Hardware Warehouse that occurred after the 30 June 2007 financial year end of Hardware Warehouse but before the private placement of R15 000 000 Hardware Warehouse shares. The details of the restructuring are set out in paragraph 18.3 of this prospectus.

11.4 Dividends

11.4.1 Surplus cash will be applied to the organic and acquisitive growth of the business in the medium term and therefore no dividends are included for the forecast period.

11.4.2 Any dividends not claimed for a period of not less than three years from the date on which such dividends become payable, may be forfeited for the benefit of the company.

11.4.3 There is no arrangement under which any future dividends will be waived or have been waived.

12. AMOUNTS PAID TO PROMOTERS, BROKERAGES AND COMMISSIONS

12.1 There were no payments made to the promoters of Hardware Warehouse since its incorporation and none are proposed to be made.

12.2 Hardware Warehouse has not entered into any promoters' agreements during the three years preceding this prospectus.

12.3 Since incorporation, no commission has been paid or is payable by Hardware Warehouse in respect of underwriting.

12.4 No commissions, discounts, brokerages or other special terms have been granted, during the three years preceding the date of this prospectus in connection with the issue or sale of any securities or stock of the company, where this has not been disclosed in any audited annual financial statements.

13. PRELIMINARY EXPENSES AND ISSUE EXPENSES

13.1 The estimated expenses of the private placement and the listing are detailed in the table below:

	R
Printing, publication, distribution and advertising expenses	200 000
JSE documentation fees	56 000
JSE listing fees	20 000
Share issue expenses, fiscal duties and taxes	10 000
Transfer secretaries – Computershare Investor Services 2004 (Proprietary) Limited	20 000
Investor relations	60 000
Designated Adviser – Merchant Sponsors (Proprietary) Limited	600 000
Fund raising fees – Merchantec (Proprietary) Limited	375 000
Independent reporting accountants – Charteris & Barnes	200 000
Limited assurance provider – BDO Spencer Steward Johannesburg Inc.	60 000
Attorneys – Fluxmans Inc.	185 000
Sundry listing expenses	100 000
Estimated total	1 886 000

All amounts above are stated exclusive of VAT.

13.2 The abovementioned estimated expenses, which will not exceed the share premium, will be written-off against the share premium account to the extent permissible by the Act.

14. LOANS PAYABLE AND BORROWING POWERS

14.1 Save as set out in the table below, there are no other loans, neither secured nor unsecured, due by Hardware Warehouse as at 30 June 2007:

Lender	Loan amount R	Interest rate	Security	Reason for loan	Maturity
ABSA Bank	2 956 548	Prime less 1.0% – 1.25%	Vehicles	Business assets	1 – 5 years
Wesbank	306 699	Prime less 1.0% – 1.25%	Equipment	Business assets	1 – 5 years
ABSA Bank	4 919 691	Prime	Cession of debtors	Working capital	Reviewed annually
<i>Less: Current Portion included in short-term borrowings</i>					
ABSA Bank	4 919 691	Prime less 1.0% – 1.25%	Cession of debtors	Working capital	
Wesbank and ABSA	1 061 437	Prime less 1.0% – 1.25%	Vehicles and equipment	Business assets	
Total	2 201 810				

14.2 The borrowing powers of the company have not been exceeded during the three years preceding the date of this prospectus.

14.3 The borrowing powers of the directors are set out in paragraph 7 of Annexure 1 to this prospectus.

14.4 Certain directors have provided personal surety for the company's financing facilities.

14.5 No loan capital repayment is overdue or outstanding. The loans payable above include portions that are capital in nature.

14.6 All the borrowings listed above have no conversion or redemption rights.

14.7 The repayment of the short-term portion of the borrowings will be financed through operational profit.

15. CAPITAL COMMITMENTS, LEASE PAYMENTS AND CONTINGENT LIABILITIES

15.1 Save as disclosed in paragraph 22.3 below the company had no capital commitments and no contingent liabilities at the last practicable date. There have been no material changes to the capital commitments and contingent liabilities of the company between 30 June 2007 and the last practicable date.

15.2 Save as set out in the table 14.1 above and save for the lease payments disclosed in paragraph 22.2 below, the company had no other material commitment at 30 June 2007. There have been no material changes to the company's commitments between 30 June 2007 and the last practicable date.

16. LOANS RECEIVABLE

16.1 Save as set out in the table below, the company had no other loans receivable as at 30 June 2007:

Date of loan	To whom loan was made	Loan amount R	Names and addresses of directors of companies	Reason for loan
31 May 2007	Downstream Trading 34 CC	277 425	I M J Senar, 5 Montrose Place, Bunkers Hill, East London, 5241 A B Ressel, Unit 124 – Gate 4, Victoria Junction, Prestwich Street, Greenpoint, Cape Town P R Wheatley, Portion 56 of Farm 807, Main Road, Gonubie, 5257	Current trading account
30 June 2007	In-Line Trading 142 (Pty) Limited	328 740	S C Miller, 19 Chestnut Crescent, Beacon Bay, East London, 5241 M P Mosie, 82 Durban Street, King William's Town, 5600	Current trading account
Total		606 165		

Note:

The loans above have been included under trade and other receivables in the June 2007 year ended financial statements, since they are repayable within 12 months from the financial year ended 30 June 2007.

16.2 No material loans have been advanced by Hardware Warehouse between 30 June 2007 and the last practicable date.

16.3 Loans are interest free.

16.4 Loans are secured by personal sureties from directors and members.

16.5 The loans arose from companies with common directorships to those of Hardware Warehouse requiring funds. This practice will not continue in the future. All loans have or will be paid by 14 September 2007.

16.6 The entities listed above, from whom loans are receivable, constitute related parties as a result of common directorships with Hardware Warehouse.

17. PROPERTY AND SUBSIDIARIES OWNED, ACQUIRED AND DISPOSED OF

17.1 The company does not presently have any subsidiaries.

17.2 Save as disclosed in paragraph 10 and paragraph 17.3, during the past three years the company has not made any material acquisitions of securities, subsidiaries, business undertakings of other companies or business enterprises, immovable property or other property or options to acquire such property.

17.3 The company has finalised the acquisition of the business of a hardware company in KwaZulu-Natal as disclosed in paragraph 10 of this prospectus and intends making further strategic acquisitions as and when opportunities arise.

17.4 No material property, or subsidiaries have been disposed of within the last three years preceding the date of the prospectus, nor is it intended that any material property is disposed of following the listing.

17.5 The company does not own any immovable property.

18. SHARE CAPITAL

18.1 Authorised and issued share capital

The authorised and issued share capital of Hardware Warehouse, taking into account the private placement and listing costs as set out in paragraph 13.1 above, which are to be offset against the share premium, are set out below:

	Rand
Authorised	
500 million ordinary shares of 0.02 cent each	100 000
Issued, before the private placement	
65 million ordinary shares of 0.02 cent each	13 000
Share premium	6 498 700
Issued, after the private placement	
80 million ordinary shares of 0.02 cent each	16 000
Share premium	19 609 700
	19 625 700

18.1.1 All the authorised and issued ordinary shares are of the same class and rank *pari passu* in every respect. There are no preferential conversion and/or exchange rights in relation to any ordinary shares.

18.1.2 Save as set out in paragraph 18.2 and 18.3 below, there have been no alterations to the authorised share capital of the company during the three years preceding the date of issue of this prospectus.

18.1.3 Save as set out in paragraph 18.2 below, there have been no offers for the subscription for or sale of shares during the three-year period preceding the date of issue of this prospectus.

18.2 Alterations to authorised share capital

18.2.1 Hardware Warehouse was incorporated with an authorised ordinary share capital of R10 000 divided into 10 000 ordinary shares having a par value of 100 cents each.

18.2.2 The company:

18.2.2.1 increased its authorised share capital from 10 000 to 100 000 by the creation of 90 000 ordinary shares of 100 cents each on 6 September 2007;

18.2.2.1 sub-divided its authorised share capital of 100 000 ordinary shares of 100 cents into 500 000 000 ordinary shares of 0.02 cent each on 6 September 2007.

18.2.3 Hardware Warehouse has a total authorised share capital of R100 000, comprising 500 000 000 ordinary shares of 0.02 cent each.

18.2.4 The special resolutions passed to alter the authorised share capital, as set out in paragraphs 18.2.2 above, were registered on 6 September 2007.

18.3 Issue of shares

No shares were issued or agreed to be issued by the company during the past three years, other than for cash. No assets were acquired out of the proceeds of any issue.

18.3.1 Subsequent to its incorporation, Hardware Warehouse issued and allotted 100 ordinary par value shares of 100 cents each.

18.3.2 The company:

– sub-divided its issued share capital of 10 000 ordinary shares of 100 cents each into 50 000 000 ordinary shares of 0.02 cents each on 6 September 2007;

– issued 8 500 000 ordinary shares with a par value of 0.02 cents per share on 6 September 2007 at their par value and for cash, to the existing shareholders of Hardware Warehouse in their current shareholding proportions;

– issued 6 500 000 ordinary shares with a par value of 0.02 cents per share to Neville Woollgar as nominee on behalf of The Hardware Warehouse Empowerment Trust on 7 September 2007 for cash and at the par value thereof plus a premium of 99.98 cents per ordinary share, which shares will, upon registration of The Hardware Warehouse Empowerment Trust be transferred to The Hardware Warehouse Empowerment Trust. Neville Woollgar as nominee on behalf of The Hardware Warehouse Empowerment Trust will, until such time, be entitled to vote the shares held by The Hardware Warehouse Empowerment Trust.

18.3.3 The issue to existing shareholders at par value, as detailed in paragraph 18.3.2 above is to facilitate an appropriate shareholding to current shareholders before the introduction of The Hardware Warehouse Empowerment Trust as a shareholder.

18.3.4 There were no shares issued at a discount to par value by Hardware Warehouse during the preceding three years.

18.3.5 At the date of issue of this prospectus, before the private placement, Hardware Warehouse had a total issued ordinary share capital (including share premium) of R6 511 700.

18.4 The ordinary resolutions, necessary to approve the above issues of shares, were passed at the time of the issues. In terms of an ordinary resolution passed by a majority of 75% of shareholders passed on 6 September 2007, the directors have the power to allot and issue ordinary shares of the company for cash, subject to the following conditions:

– compliance with the provisions of the Act, the Listings Requirements and the memorandum and articles of association of Hardware Warehouse;

- that the securities be of a class already in issue;
- that securities be issued to public shareholders and not to related parties;
- that an announcement giving full details, including the impact on net asset value and earnings per share, be published at the time of any issue representing, on a cumulative basis within one financial year, 5% or more of the number of securities in issue prior to the issue/s;
- that issues in the aggregate in any one financial year shall not exceed 50% of the company's issued share capital of that class;
- that, in determining the price at which an issue of securities will be made in terms of this authority, the maximum discount permitted shall be 10% of the weighted average traded price of those securities over the 30 business days prior to the date that the price of the issue is determined or agreed by the directors; and
- that the approval will be valid until the next annual general meeting or for 15 months from the date of the resolution, whichever period is the shorter.

18.5 Unissued shares

In terms of a resolution passed at a general meeting of Hardware Warehouse on 6 September 2007, it was resolved that after the allotment and issue of the private placement shares, the 420 000 000 authorised but unissued ordinary shares in the company will be under the control of the directors of Hardware Warehouse until its first annual general meeting, subject to the provisions of Sections 221 and 222 of the Act, the provisions of the articles of association of the company and the Listings Requirements.

18.6 Voting and variation of rights

The articles of association of the company provide that, subject to any special terms as to voting upon which any share may be issued, every person present in person or by proxy, and entitled to vote at any general meeting shall, on a show of hands, have only one vote, but upon a poll, each such person shall have one vote for every share held or represented by him.

Any variation in rights attaching to shares will require the consent of the holders of not more than three-fourths of the issued shares of that class, or with the sanction of a resolution passed in the same manner as a special resolution of the company at a separate general meeting of the holders of the shares of that class.

18.7 Rights

The company in general meeting or the directors, may from time to time, declare a dividend to be paid to shareholders in accordance with the provisions of the articles of association of the company in respect of all shares held by them. Dividends shall be payable to shareholders recorded as such on a date subsequent to the date of the declaration of the dividend.

The company in a general meeting may, upon the recommendation of the directors, resolve that any surplus moneys in the hands of the company representing capital profits, be distributed amongst the ordinary shareholders, subject to shareholder approval.

If the company is wound up, the assets remaining after payment of the debts and liabilities of the company and the costs of the liquidation shall, subject to the rights of the holders of shares, if any, issued upon special terms be applied as follows:

- to repay to the shareholders the amounts received on issue in respect of the shares held by each of them; and
- the balance, if any, shall be distributed among the shareholders in proportion to the number of shares held by each of them.

18.8 No other listings

The issued ordinary shares of Hardware Warehouse will be listed on AltX. No shares of Hardware Warehouse are currently listed on any stock exchange.

There are no other classes of securities currently listed on any stock exchange.

19. ADEQUACY OF WORKING CAPITAL

The directors of the company are of the opinion that the working capital available to Hardware Warehouse, prior to the private placement, is adequate for the present requirements of Hardware Warehouse, i.e. for a period of 12 months from the date of issue of this prospectus and that:

- the company will be able, in the ordinary course of business, to pay its debts for a period of 12 months after the date of this prospectus;
- the assets of the company will be in excess of the liabilities of the company for a period of 12 months after the date of this prospectus. For this purpose, the assets and liabilities should be recognised and measured in accordance with the accounting policies used in the latest audited consolidated annual financial statements;
- the share capital and reserves of the company will be adequate for ordinary business purposes for a period of 12 months after the date of this prospectus; and
- the working capital of the company will be adequate for ordinary business purposes for a period of 12 months after the date of this prospectus.

20. OPTIONS AND PREFERENTIAL RIGHTS IN RESPECT OF SHARES

Other than The Hardware Warehouse Share Purchase Scheme and The Hardware Warehouse Empowerment Trust, the salient features of which are set out in Annexure 9 and Annexure 10 respectively, there are no other contracts or arrangements, either actual or proposed, whereby any option or preferential right of any kind has been or will be given to any person to subscribe for any shares in the company.

21. THE HARDWARE WAREHOUSE EMPOWERMENT TRUST

The Hardware Warehouse Empowerment Trust, the salient features of which are set out in Annexure 10, was adopted in September 2007 as an Empowerment Trust holding 10% of the company's shares, which shares were subscribed for by The Hardware Warehouse Empowerment Trust at the par value thereof plus a premium of 99.98 cents per ordinary share. Subsequent to the private placement and the listing, it will hold 8% of the company's shares, as set out in paragraph 6.1 above. No shares will be issued to The Hardware Warehouse Empowerment Trust by the company in the future and any shares that would be acquired by it would be through the open market.

22. MATERIAL CONTRACTS

22.1 Save for the Service Agreements with directors setting out their remuneration referred to in Annexure 1, the lease agreements detailed in paragraph 22.2 below, the withdrawal by the relevant banks of the suretyships referred to in paragraph 22.3 below and the proposed acquisition as detailed in paragraph 10 of this prospectus, there are no material contracts which have been entered into by Hardware Warehouse during the three years preceding the date of this prospectus, other than in the ordinary course of business conducted by the company.

22.2 Hardware Warehouse has entered into lease agreements in respect of the following premises:

	Address of leased property	Size of property m²	Landlord	Current lease expires	Monthly rentals R
1.	Sandile Road, Mdantsane	755	Platinum Mile Investments 588 (Pty) Limited	2011	19 995
2.	Main Road, Port Alfred	777	Spring Romance Properties 48 (Pty) Limited	2010	18 000
3.	16 Fleet Street, King Williams Town	2 004	Golden Harvest Bakery (Pty) Limited	2010	55 000
4.	8 Elliot Street, Mthatha	1 640	Sevenstone Investments 124 (Pty) Limited	2011	56 500

	Address of leased property	Size of property m²	Landlord	Current lease expires	Monthly rentals R
5.	2 Bridge Street, Alice	470	Bubesi Investments 127 (Pty) Limited	2009	16 143
6.	12 High Street, Butterworth	1 200	Senar Investments 151 (Pty) Limited	2009	38 160
7.	67 Devereux Avenue, East London	187	Amber Mountain Investments 111 (Pty) Limited	2010	12 500
8.	11 Buffalo Road, King Williams Town	3 600	JJEA Eiendomme (BPS) Beperk	2010	20 247
9.	10 Progress Street, Vulindlela Heights, Mthatha	1 127	Quantum leap Investments 757 (Pty) Limited	2009	18 347
10.	12 Bridge Street, King Williams Town	386	Printhouse (Pty) Limited	2008	9 526
11.	189 High Street, Ngcobo	1 040	Noosa Trust, Tiger Property Trust and St Cyprians Parish	2010 2010 2012	13 000 27 420 1 800
12.	80 Matanzima Street, Cofimvaba	1 074	Trakprops 146 (Pty) Limited	2011	37 800
13.	10 Jacaranda Street, Lusikisiki	680	L. Hadden and E. Hadden	2010	27 000

The lessors of the properties number 1 – 7 above have common directors with Hardware Warehouse as detailed in the related party note to the financial statements in Annexure 2. The rentals detailed above were market-related rentals at the respective times of the relevant agreements and are so currently. The rental agreements are subject to typical annual escalation clauses and are in line with normal market conditions. The majority of the leases have options to renew at the election of Hardware Warehouse for a further 3 to 5 years.

22.3 All of the suretyships by the company for certain of the liabilities of the directors that existed as at 30 June 2007, as disclosed in note 27 of Annexure 2 of this prospectus, have been withdrawn in writing by the relevant banks and are no longer applicable.

22.4 The company is not subject to any management or royalty agreements. The company has not paid any material technical or secretarial fees during the three years preceding the issue of this prospectus.

22.5 The company has not entered into any promoters' agreements during the three years preceding the date of this prospectus.

23. LITIGATION STATEMENT

There are no legal or arbitration proceedings against the company nor, as far as the directors are aware, are there any legal or arbitration proceedings pending or threatened against the company which may have, or have had, in the 12 months preceding the date of this prospectus a material effect on the company's financial position.

24. ADVISERS' INTERESTS

24.1 Save as disclosed in paragraph 24.2 hereunder, none of the advisers, whose particulars are set out in the "Corporate information" section, hold any shares in the company or have agreed to acquire any shares in the company at the date of this prospectus.

24.2 The following directors and employees of the Designated Adviser will subscribe for the following number of ordinary shares under the same terms and conditions as the private placement:

Name and capacity	Number of shares	Percentage holding in Hardware Warehouse	Name of beneficial owner
Merchantec staff share pool – Employees	170 000	0.2	Merchantec staff share pool
D Truda – Director	2 200 000	2.8	LFI Capital (Proprietary) Limited Merchantec (Proprietary) Limited
B Rainier – Director	450 000	0.6	B Rainier Merchantec (Proprietary) Limited
T De Aguiar – Director	50 000	0.1	T De Aguiar
F C Snyman – Director	50 000	0.1	F C Snyman

24.3 Fifty percent of the ordinary shares in the table above will be held in trust by the attorneys as set out in paragraph 5.1.3 of Annexure 1.

25. CONSENTS

The Designated Adviser, auditors and independent reporting accountants, limited assurance provider, attorneys, commercial banker and the transfer secretaries have consented in writing to act in the capacities stated and to their names appearing in this prospectus and have not withdrawn their consents prior to the registration of this prospectus.

26. CORPORATE GOVERNANCE

The company's Corporate Governance statement is set out in Annexure 8.

27. DIRECTORS' RESPONSIBILITY STATEMENT

The directors, whose names are set out in Annexure 1 commencing on page 36 of this prospectus, collectively and individually, accept full responsibility for the accuracy of the information given and certify that to the best of their knowledge and belief there are no other facts the omission of which would make any statement false or misleading and that they have made all reasonable enquiries to ascertain such facts and that this prospectus contains all information required by law and the Listings Requirements.

28. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents which have been submitted to CIPRO will be available for inspection at the registered office of the company and from Merchant Sponsors (Proprietary) Limited, at 2nd Floor, North Block, Hyde Park Office Towers, Corner 6th Road and Jan Smuts Avenue, Hyde Park, Johannesburg, 2196, at any time during normal business hours for a period of 21 days from the date of this prospectus:

- the memorandum and articles of association of the company;
- the signed reports by the independent reporting accountants, the texts of which are set out in Annexures 3, 4, 5 and 6;
- the signed report by the limited assurance provider, the text of which is set out in Annexure 7;
- the written consents of the company's advisers and transfer secretaries to act in those capacities, which consents have not been withdrawn prior to registration;
- the written consents by the auditors and independent reporting accountants and the limited assurance provider for the inclusion of their respective reports, referred to above, in the form and context in which they appear in annexures 3 to 7;

- The Hardware Warehouse Share Purchase Scheme;
- The Hardware Warehouse Empowerment Trust;
- the directors' Service Agreements referred to in Annexure 1;
- the annual financial statements of Hardware Warehouse for the years ended 30 June 2005, 30 June 2006 and 30 June 2007;
- a signed copy of this prospectus;
- the lease agreements referred to in paragraph 22.2;
- the acquisition agreement as detailed in paragraph 10;
- the withdrawals by the relevant banks of the suretyships by the company for certain liabilities of the directors that existed at 30 June 2007.

29. PARAGRAPHS OF SCHEDULE 3 TO THE ACT WHICH ARE NOT APPLICABLE

The numbers of the paragraphs in Schedule 3 to the Act, which are not applicable, are:

1(b), 2(d), 6(d), 6(e)(i), 6(e)(ii), 6(g), 6(h), 8(b), 8(d), 9(b), 12(d), 12(e), 13, 14, 17(b), 17(c), 18(b), 20(b), 21, 24, 26, 27, 28 and 30.

Signed at Johannesburg by S C Miller for himself as a director and on behalf of all the other directors of the company on 12 September 2007, being duly authorised in terms of a power of attorney granted to him by such directors.

SGD

S C Miller, in his capacity as a director

SGD

For: I M J Senar, in his capacity as a director, herein represented by S C Miller under and in terms of a power of attorney executed on 20 August 2007

SGD

For: L A Rhind, in her capacity as a director, herein represented by S C Miller under and in terms of a power of attorney executed on 20 August 2007

SGD

For: N E Woollgar, a director, herein represented by S C Miller under and in terms of a power of attorney executed on 20 August 2007

DIRECTORS, EXECUTIVE MANAGEMENT, APPOINTMENT, QUALIFICATION, REMUNERATION AND BORROWING POWERS OF DIRECTORS

1. DETAILS OF DIRECTORS

The full names, ages and designations of the directors are as follows:

Name	Age	Designation
Ivan Merrick John Senar	43	<i>Executive Chairman</i>
Shaun Craig Miller	41	<i>Chief Executive Officer</i>
Lesley Ann Rhind	40	<i>Financial Director</i>
Neville Errol Woollgar §	67	<i>Non-executive Director</i>

§ Member of the Audit Committee.

The business address of the directors is 69 Devereux Avenue, Vincent, East London, 5241.

All directors are South African citizens.

Neither the business of Hardware Warehouse nor any part thereof is managed or proposed to be managed by a third party under a contract or arrangement.

2. EXPERIENCE OF DIRECTORS

I M J Senar, 43 – Executive Chairman

B.Com

Ivan has worked within the building materials retail industry for 12 years. His previous experience includes working in the marketing and human resource divisions for SA Breweries and Mercedes-Benz in Johannesburg. Ivan has developed a number of business and property interests.

S C Miller, 41 – Chief Executive Officer

B.Compt. FQE. CTA

Shaun worked in public practice as a chartered accountant until 2001 when he joined Hardware Warehouse as their financial director. He became the company's Chief Executive Officer in 2004. While in public practice Shaun was the accounting officer of Hardware Warehouse since its incorporation.

L A Rhind, 40 – Financial Director

Lesley joined Hardware Warehouse in 2003 as the company's financial accountant, having previously completed her articles at PricewaterhouseCoopers, where she gained substantial financial management and supervisory experience including the preparation of management accounts and annual financial statements. Lesley now carries out all financial aspects on behalf of the business.

N E Woollgar, 67 – Non-executive Director

B.Com, Practising attorney at law

Neville has 36 year's experience in the commercial law sector and has been Hardware Warehouse's attorney for 11 years, giving him a full insight into its operations.

Neville has vast experience, serving on high level boards of Public Companies and institutions as Chairman or long serving board member. Among others are: Unibank Limited (Chairman and Audit Committee member); Income Tax Appeal Court: Eastern-Cape, Transkei and Ciskei Small Business Development Corporation Limited; Rhodes University (Chairman of Finance Committee, Vice Chairman of Council, Member of Audit Committee and others), a number of pension funds as Trustee, and member/trustee of numerous Educational Councils.

Neville has held a number of directorships and sat on many governing bodies within the local community, giving him knowledge of the Hardware Warehouse customer base.

3. QUALIFICATION, APPOINTMENT, REMUNERATION AND BORROWING POWERS OF DIRECTORS

3.1 The relevant provisions of the articles of association of Hardware Warehouse relating to qualification, appointment, remuneration and borrowing powers of directors are set out in paragraph 7 below.

3.2 In terms of the declarations lodged by the directors in accordance with Schedule 21 of the Listings Requirements, none of the directors of Hardware Warehouse have, save as set out in paragraph 3.3 below:

- been sequestrated or have effected any voluntary arrangements with creditors;
- been a director, with an executive function, of any company which has been liquidated (other than voluntarily) or reached a compromise of any nature with its creditors, been censured or publicly criticised by any statutory authorities or disqualified by a court from acting as a director of a company or from acting in the management of the affairs of any company;
- been convicted of any offence involving dishonesty, fraud or embezzlement, nor been found guilty in any disciplinary proceedings of any such conduct;
- been barred from any entry into any profession or occupation; and/or
- been convicted in any jurisdiction of any criminal offence or offence under legislation relating to the Act, nor have any companies of which the directors are or have been involved in the capacity of director or alternate director been convicted of such an offence.

3.3 N E Woollgar was a non-executive director of Norris Garage (Proprietary) Limited, which was liquidated in April 2003.

4. DIRECTORS' REMUNERATION

4.1 The directors' remuneration in respect of the year ended 30 June 2007 was as follows:

	Basic salary and bonus R	Expenses and travel allowances R	Total R
E G Senar ^{2 and 3}	219 240	–	219 240
I A J Senar ²	174 445	–	174 445
M J Willard ²	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
N E Woollgar ¹	–	–	–
	1 018 078	665 060	1 683 138

1 N E Woollgar was appointed to the board on 30 June 2007.

2 Resigned as director at 30 June 2007. I A J Senar's resignation is as a result of his entering into retirement. Although E G Senar and M J Willard have resigned as directors of the company they will continue to perform their functions of branch and regional managers respectively.

3 E G Senar will be retiring early in 2008.

The directors' terms of agreement shall be deemed to have commenced on 1 July 2007 and shall, subject to the provisions of the directors service agreements as referred to in paragraph 28 of this prospectus, continue for an indefinite period thereafter and shall be terminable by either party upon the giving of not less than 3 (three) calendar months' written notice of termination, provided that no notice of termination shall be given by either party prior to 30 June 2008.

- 4.2** There will be no variation in the remuneration receivable by any of the directors as a direct consequence of the private placement and listing.
- 4.3** No payments were made, or accrued as payable, or were proposed to be paid within the three years preceding the date of this prospectus, either directly or indirectly, in cash or securities or otherwise to:
- the directors in respect of management, consulting, technical, secretarial fees or restraint payments;
 - a third party in lieu of directors' fees in their capacity as directors;
 - the directors as fees;
 - the directors as an inducement to qualify them as directors.
- 4.4** None of the directors have any commission, gain or profit-sharing arrangements.
- 4.5** No director or promoter has any material beneficial interest, direct or indirect, in the promotion of Hardware Warehouse and in any property to be acquired or proposed to be acquired by Hardware Warehouse out of the proceeds of the issue or during the three years preceding the date of this prospectus.
- 4.6** No shares have been issued to the directors in terms of the Hardware Warehouse Share Purchase Scheme, the salient features of which are set out in Annexure 9.

5. DIRECTORS' SHAREHOLDINGS IN HARDWARE WAREHOUSE

- 5.1** Save as set out below, there has been no change in the directors' interests since the end of the financial year and the date of the prospectus. After the private placement, the directors will hold, directly and indirectly, the following ordinary shares in Hardware Warehouse:

Director	Percentage held before the private placement	Percentage held after the private placement	Beneficial		Non-beneficial		Total shares
			Direct	Indirect	Direct	Indirect	
I M J Senar	33.81	27.47	13 203 500	8 775 000	–	–	21 978 500
S C Miller	31.80	25.83	6 042 700	14 625 000	–	–	20 667 700
L A Rhind	2.17	1.77	1 412 500	–	–	–	1 412 500
Total	67.78	55.07	20 658 700	23 400 000	–	–	44 058 700

5.1.1 The change in the abovementioned directors' interests since publication of the most recent annual financial statements are due to the sub-division of the issued ordinary share capital of 10 000 ordinary shares of 100 cents each into 50 000 000 ordinary shares of 0.02 cents each, the issue of 8 500 000 ordinary shares at par value to existing shareholders and the issue of 6 500 000 ordinary shares to The Hardware Warehouse Empowerment Trust. Furthermore, the abovementioned directors, together with existing shareholders but excluding their trusts, have collectively offered for sale 2 000 000 ordinary shares in proportion to their existing shareholding to the Hardware Warehouse Share Purchase Scheme.

5.1.2 No director has or had any interest, directly or indirectly, in any transaction, which is, or was, material to the business of Hardware Warehouse and which was effected by the company since incorporation, which remains in any respect outstanding or unperformed.

5.1.3 Hardware Warehouse's attorneys will hold in trust 50% of the shareholding of each director and the Designated Adviser ("the relevant securities") from the date of listing and a certificate to that effect has been lodged with the JSE by Hardware Warehouse's attorneys. The relevant securities are to be held in trust until the publication of the audited results for 30 June 2009, after which 50% may be released, and the balance one year thereafter. The shares will not be released before notification to the JSE.

5.1.4 No loans (save as disclosed in paragraph 16 of this prospectus) or securities were furnished by Hardware Warehouse to or for the benefit of any director or manager or any associate of any director or manager of Hardware Warehouse.

5.1.5 Save as set out in paragraph 5.1.1 above, no share options have been granted or awards been made or shares issued and allocated in terms of The Hardware Warehouse Empowerment Trust and The Share Purchase Scheme at the last practicable date.

5.2 Directors' service agreements

Each of the executive directors has a service agreement with Hardware Warehouse containing such terms as are normal for such contracts on the terms relating to remuneration which are set out in paragraph 4.1 above.

6. OTHER DIRECTORSHIPS HELD BY DIRECTORS OF HARDWARE WAREHOUSE AND THE COMPANY

6.1 Names of companies and partnerships to which the directors have been a director or partner at anytime in the previous five years:

Director	Current directorships/Memberships	Registration number
I M J Senar	Amber Mountain Investments 111 (Pty) Limited	2004/033742/07
	Almond Falls Investments (Pty) Limited	2006/000028/07
	Big Eye Investments 374 CC	2001/027521/23
	Bish Property Investments (Pty) Limited	1994/001504/07
	Blue Cloud Investments 246 (Pty) Limited	2003/024054/07
	Blue Dot Properties 583 (Pty) Limited	2002/023748/07
	Blue Pansy Investments (Pty) Limited	2005/034958/07
	Bridoon Trade & Invest 86 (Pty) Limited	2005/027844/07
	Bubesi Investments 127 (Pty) Limited	2002/028904/07
	City Square Trading 44 (Pty) Limited	2004/008553/07
	C-Max Investments 313 (Pty) Limited	2003/016347/07
	Coral Pearl Investments (Pty) Limited	2005/038504/07
	Coral Red Developments CC	2005/138956/23
	Crimson River Investments (Pty) Limited	2005/023984/07
	Downstream Trading 34 CC	2003/040127/23
	Emerald Mountain Investments (Pty) Limited	2005/024010/07
	Erf 453 KWT CC	1999/031688/23
	Golden Falls Trading 114 (Pty) Limited	2004/008547/07
	Golden Harvest Bakery (Pty) Limited	2000/023014/07
	Green Clover Investments (Pty) Limited	2004/033730/07
	Ivory Mountain Investments (Pty) Limited	2005/023006/07
	Kismet Investments 13 (Pty) Limited	2005/014545/07
	Lavender Valley Developments (Pty) Limited	2005/023037/07
	Lilac River Investments (Pty) Limited	2005/034967/07
	Oceanside Trading 88 CC	2004/014153/23
	Olive Hill Investments (Pty) Limited	2005/038626/07
	Oyster Sands Developments (Pty) Limited	2005/024056/07
	Platinum Mile Investments 588 (Pty) Limited	2003/007645/07
	In Line Trading 142 (Pty) Limited	2003/011574/07

Director	Current directorships/Memberships	Registration number
	Ruby Star Trading 32 CC	2002/060104/23
	Senarvest Property Developments 1 CC	2004/061504/23
	Senarvest Property Investments 51 CC	2004/061506/23
	Senar Developments 101 (Pty) Limited	2004/014425/07
	Senar Investments 151 (Pty) Limited	2004/015187/07
	Silver Orchid Investments (Pty) Limited	2005/034954/07
	Spring Romance Properties 48 (Pty) Limited	2003/018482/07
	Teal Sands Developments CC	2005/138947/23
	Truwill Contractors (Pty) Limited	1970/013427/07
	Viking Pony Properties 327 (Pty) Limited	2003/001568/07
	Yellow Medal Developments (Pty) Limited	2005/024060/07
	Zander Falls Investments (Pty) Limited	2005/038736/07
S C Miller	Blue Cloud Investments 246 (Pty) Limited	2003/024054/07
	Bubesi Investments 127 (Pty) Limited	2002/028904/07
	C-Max Investments 313 (Pty) Limited	2003/016347/07
	Golden Dividend 235 (Pty) Limited	2005/034562/07
	In-Line Trading 142 (Pty) Limited	2003/011574/07
	Ivory Mountain Investments (Pty) Limited	2005/023006/07
	Oceanside Trading 88 CC	2004/014153/23
	Platinum Mile Investments 588 (Pty) Limited	2003/007645/07
	Ruby Star Trading 32 CC	2002/060104/23
	Senar Investments 151 (Pty) Limited	2004/015187/07
	Sevenstone Investments 124 (Pty) Limited	2004/025027/07
	Spring Romance Properties 48 (Pty) Limited	2003/018482/07
N E Woollgar	Ashlar Properties (Pty) Limited	1996/007742/07
	Black Ginger 49 (Pty) Limited	2004/016597/07
	Ciskei Holdings (Pty) Limited	1984/090336/07
	Choice Decisions 50 (Pty) Limited	2000/023329/07
	Cinmar Investments (Pty) Limited	1969/004498/07
	Copperglow Investments 116 (Pty) Limited	2004/017105/07
	Coup De Foudre Investments (Pty) Limited	1993/000961/07
	Eagle Moon Investments (Pty) Limited	2004/006021/07
	Easlo Investments (Pty) Limited	1994/010275/07
	Erf 1200 KWT (Pty) Limited	1992/002031/07
	Fame and Fortune Trading 197 (Pty) Limited	2005/001231/07
	Febmon Investments (Pty) Limited	1995/001455/07
	Flaming Silver Trading 290 (Pty) Limited	2006/001738/07
	Formprops 24 (Pty) Limited	1999/010385/07
	Gabeka Properties (Pty) Limited	1968/011005/07
	Galactic Deals 200 (Pty) Limited	2006/023367/07
	Huttco (King Williams Town) (Pty) Limited	1991/000073/07
	Huttonco (Pty) Limited	1967/003006/07
	Imbali Props 1 (Pty) Limited	2005/004305/07
	Kei Properties (Pty) Limited	1994/092561/07

Director	Current directorships/Memberships	Registration number
	Ligitprops 145 (Pty) Limited	1998/001460/07
	Logoprops 2 (Pty) Limited	1995/009805/07
	Marble Gold 101 (Pty) Limited	2004/016494/07
	Mascodor 193 (Pty) Limited	2005/035781/07
	Maywool Investments (Pty) Limited	1968/012202/07
	Norris Garage (Pty) Limited	1957/003663/07
	Noswad Investments (Pty) Limited	1993/005638/07
	Portel Investments (Pty) Limited	1992/006621/07
	Port Ferry Properties 77 (Pty) Limited	2000/014132/07
	Profitic Investments (Pty) Limited	1994/005649/07
	Quantum Leap Investments 185 (Pty) Limited	2000/000116/07
	Rowan Tree 81 (Pty) Limited	2003/028135/07
	Sightfull 111 (Pty) Limited	2000/014644/07
	Silkstar 128 (Pty) Limited	2005/034777/07
	Silo (Pty) Limited	1996/092792/07
	Vardac (Pty) Limited	1979/000203/07
	Williams Brothers (Cape) (Pty) Limited	1964/007922/07
	Zippit Enterprises (Pty) Limited	1990/002366/07

6.2 The directors are still directors of all of the above companies save as set out in paragraph 3.3 above.

7. RELEVANT PROVISIONS OF THE ARTICLES OF ASSOCIATION OF THE COMPANY PROVIDING FOR THE APPOINTMENT, QUALIFICATION, REMUNERATION AND BORROWING POWERS OF DIRECTORS

Extracts from the articles of association of Hardware Warehouse are set out below:

“DIRECTORS NUMBER, QUALIFICATION AND REMUNERATION

- 89.** The number of directors shall be not less than four.
- 90.** A director shall not be obliged to hold any qualification shares.
- 91.** The remuneration of the directors for their services as such shall be determined from time to time by a general meeting.
- 92.** The directors shall be paid all travelling, subsistence, and other expenses properly incurred by them in the execution of their duties in or about the business of the company and which are authorised or ratified by a disinterested quorum of the directors, which may be in addition to or in substitution for any other remuneration.

ALTERNATE DIRECTORS

- 93.** Each director shall have the power to appoint any person to act as alternate director in his place during his absence or inability to act as such, and at his discretion to remove such alternate director, and to appoint another in his stead, provided that the appointment of such alternate director shall be made in writing and approved by the directors. On such appointment being made and approved, the alternate director shall (except as regards the power to appoint an alternate and remuneration) in all respects be subject to the terms and conditions existing with reference to the other directors of the company and each alternate director, whilst so acting, shall be entitled to receive notice of all meetings of the directors or of any committee of the directors of which his

appointer is a member, and to attend and vote at any such meeting at which his appointer is not personally present. The alternate shall generally be entitled to exercise and discharge all the functions, powers and duties of his appointer in such appointer's absence as if he were a director. The remuneration of an alternate director shall be payable only out of the remuneration payable to the director appointing him and he shall have no claim against the company for such remuneration.

94. The appointment of an alternate director shall be cancelled and the alternate director shall cease to hold office on the happening of any event which, if he were a director, would cause him to cease to hold office in terms of these articles, or if the director who appointed him shall cease to be a director or shall give notice in writing to the secretary that the alternate director representing him shall have ceased to do so. In the event of the disqualification or resignation of any alternate director during the absence or inability to act of the director whom he represents, the vacancy so arising shall be filled by the chairman of the directors who shall appoint a person to fill such vacancy subject to the approval of the board. A director retiring at any general meeting and being re-elected shall not for the purposes of this article, be deemed to have ceased to be a director. However, any appointment of a director as an addition to the board shall be confirmed at the next annual general meeting.
95. A person may be appointed as alternate to more than one director and where a person is alternate to more than one director, or where an alternate director is a director; he shall have a separate vote, on behalf of each director he is representing, in addition to his own vote, if any.

GENERAL POWERS OF DIRECTORS

96. The management of the business and the control of the company shall be vested in the directors who, in addition to the powers and authorities by these articles expressly conferred upon them, may exercise all such powers, and do all such acts and things as may be exercised or done by the company and are not hereby or by the Act expressly directed or required to be exercised or done by the company in general meeting, but subject nevertheless, to such management and control not being inconsistent with these articles nor with any resolution passed at any general meeting of the members in accordance therewith. No resolution passed by the company in general meeting shall invalidate any prior act of the directors which would have been valid if such resolution had not been passed. The general powers given by this article shall not be limited or restricted by any special authority or power given to the directors by any other article.
97. Although the directors shall have power, pursuant to section 228 of the Act, to enter into a provisional contract for the sale or alienation of the whole or substantially the whole of the undertaking of the company, or the whole or the greater part of the assets of the company, such contract shall only become binding on the company in the event of the specific transaction proposed by the directors being authorised or ratified in terms of a resolution passed by a majority of the votes cast at a general meeting convened for that purpose. All the provisions of these articles as to general meetings shall apply *mutatis mutandis* to meetings convened under this article for such purposes.

PAYMENTS TO SHAREHOLDERS

98. Subject to the provisions of section 90 of the Act (and, if applicable, any relevant regulations and/or requirements of the JSE), the company is hereby authorised to make payments to its shareholders. Any such payment to shareholders shall not be made on the basis that the amount paid may be called up again by the company.

BORROWING POWERS

99. The directors may exercise all the powers of the company to borrow money and to mortgage or encumber its undertaking, property or any part thereof and to issue debentures or debenture stock, whether secured or unsecured, and other securities (with such special privileges, if any, as to allotment of shares or stock, attending and voting at general meetings, appointment of directors or otherwise as may be sanctioned by a general meeting) whether outright or as security for any debt, liability or obligation of the company or of any third party.

- 100.** For the purpose of the provisions of Article 99, the borrowing powers of the directors shall be unlimited.
- 101.** Subject to Article 105, the directors may give pensions, gratuities and allowances to and make payments for or towards the insurance of any employees or ex-employees, including directors or ex-directors, of the company, or of any company which is or was a subsidiary of the company or is or was in any way allied to or associated with it or any such subsidiary, and the wives, widows, families and dependants of such persons and may establish and maintain any non-contributory pension, superannuation, provident and benefit funds for the benefit of any such persons and make contributions to any such funds and pay premiums for the purchase of any such gratuity, pension, allowance, life assurance or other benefit.

LOCAL BOARDS, AGENTS AND COMMISSIONS OF THE BOARD

- 102.** The directors may establish any local boards, committees or agencies in the Republic or elsewhere for managing any of the affairs of the company and may:
- 102.1** appoint any persons to be members of such local boards or committees, or any managers or agents;
 - 102.2** fix the remuneration of the persons referred to in Article 102.1;
 - 102.3** delegate to any local board, committee, manager or agent any of the powers, authorities and discretions vested in the directors with power to sub-delegate;
 - 102.4** authorise the members of any local board or committee or any of them, to fill any vacancies therein and to act notwithstanding vacancies.

Any such appointment or delegation may be made upon such terms and subject to such conditions as the directors may think fit, and the directors may remove any person so appointed, or annul or vary any such delegation, but no person dealing in good faith and without notice of any such annulment or variation shall be affected thereby.

- 103.** The directors may by power of attorney appoint any company, firm or person or any fluctuating body of persons, whether nominated directly or indirectly by the directors, to be the attorney or agent of the company for such purposes and with such powers, authorities and discretions (not exceeding those vested in or exercisable by the directors under these articles) and for such period and subject to such conditions as they may think fit. Any such power of attorney may contain such provisions for the protection and convenience of persons dealing with any such attorney as the directors think fit, and may also authorise any such attorney to sub-delegate all or any of the powers, authorities and discretions vested in him or them.
- 104.** The directors may delegate any of their powers to an executive or other committee whether consisting of a member of their body or not as they think fit. Any committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed on it by the directors and any such regulations may authorise the appointment of sub-committees.

MANAGING AND EXECUTIVE DIRECTORS

- 105.** A disinterested quorum of directors may from time to time appoint one or more of their body to be managing director, assistant managing director, general manager or executive director (with or without specific designation) of the company or to any other executive office with the company for such period and, subject to the provisions of section 225 of the Act, at such remuneration (whether by way of salary, commission or participation in profits, or partly in one way and partly in another) and generally on such terms as they may think fit, and may, subject to any contract between him or them and the company, from time to time terminate his or their appointment and appoint another or others in his or their place or places.
- 106.** A managing director may be appointed by a disinterested quorum of directors and he shall not be subject to retirement by rotation or be taken into account in determining the rotation or retirement of directors, except during the period of any such appointment, provided that less than half of the

directors may be appointed managing directors on the condition that they shall not be subject to retirement by rotation. Subject to the terms of his appointment, a managing director shall be subject to the same provisions as to removal as the other directors, and if he ceases to hold the office of director for any reason, he shall *ipso facto* cease to be a managing director.

- 107.** A disinterested quorum of directors may from time to time entrust to and confer upon a director appointed to any position or executive office under Article 105 such of the powers exercisable under these articles by the directors as they think fit, and may confer such powers for such time, and to be exercised for such objects and purposes and upon such terms and conditions and with such restrictions, as they think expedient, and they may confer such powers either collaterally with or to the exclusion of and in substitution for all or any of the powers of the directors in that behalf, and may from time to time revoke, withdraw, alter or vary all or any of such powers.

CASUAL VACANCIES

- 108.** Without prejudice to the powers of the company in general meeting to appoint any person to be a director, a disinterested quorum of directors shall have power at any time and from time to time to appoint any person to be a director, either to fill a casual vacancy or as an addition to the existing board, but so that the total number of directors shall not at any time exceed the maximum number, if any, fixed by or in accordance with these articles. Any director so appointed shall hold office only until the next following annual general meeting and shall then be eligible for re-election. The appointment of a director to fill a casual vacancy shall therefore be confirmed at the next annual general meeting.

DISQUALIFICATION AND PRIVILEGES OF DIRECTORS

- 109.** The office of a director shall *ipso facto* be terminated and vacated if the director:

- 109.1** ceases to be a director by virtue of any of the provisions of the Act, or is disqualified from acting as, or becomes prohibited from being a director by reason of any order made under the Act; or
- 109.2** files a petition for the surrender of his estate, or an application for an administration order, or if his estate is sequestrated, or if he commits an act of insolvency as defined in the insolvency law for the time being in force or if he makes any arrangement, compromise or composition with his creditors generally; or
- 109.3** is found to be lunatic or becomes of unsound mind; or
- 109.4** is removed by a resolution of the company in terms of section 220 of the Act with effect from the date of, or such later date as is provided for in, such resolution; or
- 109.5** resigns his office by notice in writing to the company with effect from the date of, or such later date as is provided for in, such notice; or
- 109.6** absents himself from meetings of directors for six consecutive months without special leave of absence from the other directors who resolve that his office shall be vacated, provided that this provision shall not apply to a director who is represented by an alternate who does not so absent himself; or
- 109.7** becomes retired in terms of Articles 117 to 124 inclusive.

- 110.** No director or prospective director shall be disqualified by his office from contracting with the company either as vendor, purchaser, lender, underwriter, guarantor for commission or profit on any shares or securities or liability of the company, or of any company in which the company may be interested, or in any other manner whatsoever. No such contract or arrangement entered into by or on behalf of the company in which any director shall be in any way interested, nor any contract or agreement entered into with any company or partnership of or in which any director shall be a member, director or partner or otherwise interested, shall be or be liable to be invalidated or voided by any such reason or by reason of the board of directors of the company not constituting an independent executive or disinterested quorum.

- 111.** Any director so contracting or being so interested or acquiring any benefit under any contract or arrangement made or entered into by or on behalf of any person, company or partnership in relation to the affairs of the company shall not be liable to account to the company for any profits or benefits realised by or under such contract or arrangement by reason of such director holding that office or by reason of the fiduciary relationship thereby established.
- 112.** Any director so interested or acquiring any such benefits shall not be entitled to vote at any board meeting or otherwise in relation to such contract.
- 113.** Notwithstanding the foregoing, any director so interested or acquiring any such benefit shall disclose the fact of his possessing any interest, whether as director or member or otherwise, whether or not it appears on the face of the contract or arrangement, in accordance with the provisions of sections 234 and 240 of the Act. Subject to the provisions of section 234(3) of the Act and the Listing Requirements of the JSE, a general notice in writing given to the directors by a director to the effect that he is a member of a specified company or firm and is to be regarded as interested in any contract which may, after the date of the notice, be made with that company or firm, shall be deemed to be a sufficient disclosure in relation to any contract or proposed contract so made or to be made.
- 114.** Without detracting from the generality of Articles 110 to 113 inclusive, a director (and, in the case of article 113 any firm of which he is a member) may, subject to the provisions of the Act:
- 114.1** be employed by or hold any other office or place of profit in the company, or any holding or subsidiary company of the company or any company controlled by the company, other than that of auditor, in conjunction with his directorship, and upon such terms as to appointment, and subject to the provisions of section 225 of the Act, remuneration and tenure of office and otherwise as a disinterested quorum of directors may determine;
 - 114.2** act in a professional capacity for the company, and he or such firm shall be entitled to remuneration for those professional services as if he were not a director, provided that nothing herein contained shall authorise a director or any firm of which he is a member, to act as auditor of the company or of any holding or subsidiary company of the company;
 - 114.3** be or become a director of any subsidiary or other company promoted by the company or in which it may be interested as vendor, shareholder or otherwise;
 - 114.4** represent the company in the management of any business operation or concern in which the company may be interested as a partner or otherwise.
- 115.** Notwithstanding any such interest, any such director may be counted in the quorum present at any meeting at which any such matter is being considered and vote thereon as though he had no interest therein, and no such director shall be accountable to the company for any remuneration, profit, gain or other benefit received in any capacity as aforesaid, subject to the Listings Requirements of the JSE.
- 116.** Any voting power conferred by the shares in a company referred to in article 114.3, or exercisable by the directors as directors of such company, may be exercised by the directors in such manner in all respects as they think fit, including the exercise thereof in favour of any resolution appointing themselves or any of them directors or other officers of such company. Any director may vote in favour of the exercise of such voting rights in such manner, notwithstanding that he may be, or about to be, appointed a director or other officer of such company and as such, or in any other manner, is or may become interested in the exercise of such voting rights in the manner aforesaid, save that any resolution relating to the payment of remuneration to the directors or officers of such company shall be voted on by a disinterested quorum of directors.

ROTATION OF DIRECTORS AND REMOVAL

- 117.** At each annual general meeting of the company one-third of the directors, or if their number is not a multiple of three then the number nearest thereto, but not less than one-third shall retire from office, provided that in determining the number of directors to retire no account shall be taken of

any director who by reason of the provisions of Article 106 is not subject to retirement. The directors so to retire at each annual general meeting shall, subject to any provision to the contrary in these articles, be the directors who have been longest in office. As between two or more directors who have been in office an equal length of time, the directors to retire shall, in default of agreement between them be determined by lot. The length of time a director has been in office shall be computed from the date of his last election or appointment. A retiring director shall hold office until the conclusion of the meeting at which he retires.

- 118.** Notwithstanding the above, if a director is appointed a managing director, or as an employee of the company in any other capacity, the contract under which he is appointed may provide that he shall not, while he continues to hold that position or office under contract for a term of rotation, be subject to retirement by such contract and he/she shall not in such case be taken into account in determining the rotation or retirement of directors, provided that less than half of the directors may be appointed to any such position.
- 119.** Retiring directors shall be eligible for re-election. No person other than a retiring director shall be eligible for election to the office of director at any annual general meeting unless he, or some member intending to propose him, has at least seven clear days before the meeting left at the office a notice in writing, duly signed, signifying his candidature for that office or the intention of such member to propose him. The power to elect directors at general meetings other than annual general meetings shall be exercisable only when special notice has been given of the intended resolution exercising such power.
- 120.** Subject to Article 116, the company in general meeting at which any directors retire in the manner aforesaid may, subject to any resolution reducing the number of directors, fill the vacated offices by electing a like number of persons to be directors, and may fill any other vacancies.
- 121.** If, at any general meeting at which an election of directors ought to take place, the place of any retiring director is not filled, he shall continue in office until the dissolution of the annual general meeting in the next year, and so on from year to year until his place is filled, unless it shall be determined at such meeting to reduce the number of the directors.
- 122.** Subject to the provisions of section 220 of the Act, the company may by ordinary resolution remove any director and elect another person in his stead.
- 123.** The company may by ordinary resolution in general meeting from time to time increase or reduce the number of directors and may also determine in what manner or rotation such increased or reduced number is to go out of office. Whenever such increase is made the members at the said meeting, or failing them, the directors, may fill the new seats so created. The appointment of any director to fill a casual vacancy or as an addition to the board must be confirmed at the next annual general meeting.
- 124.** No appointment of a director, except that of a retiring director, re-elected at an annual general meeting or a general meeting, shall take effect until consent of such director to act as a director of the company has been lodged with the company.”

HISTORICAL FINANCIAL INFORMATION OF HARDWARE WAREHOUSE

The income statements, balance sheets, statements of changes in equity, cash flow statements and the related notes have been extracted, with adjustment, from Hardware Warehouse's financial statements for the periods ended 30 June 2005, 30 June 2006 and 30 June 2007.

The audited financial statements of Hardware Warehouse have been prepared in the manner required by the Act and in accordance with IFRS for the 2007 financial year end.

The financial statements for the periods ended 30 June 2005 and 30 June 2006 have not been audited due to Hardware Warehouse having operated in the form of a close corporation during this period.

The financial statements for the 2006 and 2005 financial year ends have been reviewed by the auditors of Hardware Warehouse.

The independent reporting accountants' reports on the historical financial information of Hardware Warehouse for the years ended 30 June 2005, 30 June 2006 and 30 June 2007 are set out in Annexures 3 and 4 to this prospectus.

The auditors of Hardware Warehouse, Charteris & Barnes, have issued an unqualified audit opinion in respect of the historical financial information for the year ended 30 June 2007.

FINANCIAL STATEMENT COMMENTARY

Share capital

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

Principal activities

The company carries on the business of a building materials retailer.

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.

Property, plant and equipment

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

Dividends

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

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.

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.

Directors

Details of directors are disclosed in note 31 of the annual financial statements.

Secretary

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

Postal address: PO Box 19728, Tecoma, 5214

Registered Office: 17 Vincent Road, Vincent, East London, 5247

Auditors

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

Legal advisors

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

BALANCE SHEETS

The balance sheets of Hardware Warehouse as at 30 June 2005, 30 June 2006 and 30 June 2007 are set out below:

	Notes	Audited 2007 R	Reviewed 2006 R	Reviewed 2005 R
ASSETS				
Non-current assets				
Property, plant and equipment	8	6 052 019	2 334 680	1 921 430
Goodwill	9	2 500 000	–	–
		8 552 019	2 334 680	1 921 430
Current assets				
Inventories	10	32 905 336	21 902 700	14 848 499
Trade and other receivables	11	2 662 842	2 343 141	3 874 009
Cash and cash equivalents	12	1 415 892	41 113	93 657
		36 984 070	24 286 954	18 816 165
Total assets		45 536 089	26 621 634	20 737 595
EQUITY AND LIABILITIES				
Equity				
Share capital	13	10 000	10 000	10 000
Retained earnings		7 462 270	4 838 228	1 960 630
		7 472 270	4 848 228	1 970 630
Non-current liabilities				
Borrowings	15	2 201 810	785 756	987 363
Deferred tax	16	73 630	107 738	2 917
		2 275 440	893 494	990 280
Current liabilities				
Borrowings	15	5 981 128	4 603 466	3 622 347
Trade and other payables	14	26 520 160	14 208 339	13 403 099
Current tax liability		3 287 091	2 068 107	751 239
		35 788 379	20 879 912	17 776 685
Total equity and liabilities		45 536 089	26 621 634	20 737 595
<i>Pro forma</i> number of ordinary shares in issue		65 000 000	65 000 000	65 000 000
Net asset value per <i>pro forma</i> ordinary share (cents)		11.5	7.5	3.0
Net tangible asset value per <i>pro forma</i> share (cents)		7.6	7.5	3.0
Actual number of ordinary shares		10 000	10 000	10 000
Net asset value per <i>actual number of</i> ordinary share (cents)		74 723	48 482	19 706
Net tangible asset value per <i>actual number of</i> share (cents)		49 723	48 482	19 706

INCOME STATEMENTS

The income statements of Hardware Warehouse for the financial years ended 30 June 2005, 30 June 2006 and 30 June 2007 are set out below:

	Notes	Audited 2007 R	Reviewed 2006 R	Reviewed for the 16-month period ended 30 June 2005 R
Revenue	18	126 284 754	94 035 095	80 486 285
Cost of sales		98 312 578	72 710 409	63 594 039
Gross profit		27 972 176	21 324 686	16 892 246
Other operating income	19	1 039 845	80 081	-
Administration expenses		585 982	509 852	452 681
Other operating expenses		18 753 120	13 651 354	12 870 174
Goodwill written off		-	-	980 000
Profit from operations	20	9 672 919	7 243 561	2 589 391
Investment income	21	83 394	96 540	36 893
Finance costs	22	664 559	381 027	415 878
Profit before tax		9 091 754	6 959 074	2 210 406
Tax	24	2 951 851	2 255 994	1 024 868
Profit for the year		6 139 903	4 703 080	1 185 538
Earnings per share for profit attributable to the equity holders of the company during the year				
(expressed in cents per share)				
- basic	25	61 399	47 031	64 854
- headline earnings per share	25	52 712	46 788	119 618
- dividends per ordinary share	25	35 159	18 255	7 377
Based on the following weighted number of ordinary shares in issue for the relevant financial periods				
		10 000	10 000	1 828

STATEMENTS OF CHANGES IN EQUITY

The statements of changes in equity of Hardware Warehouse for the financial years ended 30 June 2005, 30 June 2006 and 30 June 2007 are set out below:

	Share capital R	Retained earnings R	Total R
Balance at 1 March 2004	100	1 512 776	1 512 876
Balance as previously reported	100	1 308 134	1 308 234
Cumulative effect of adjustments due to IFRS		204 642	204 642
Net profit for the period	–	1 185 538	1 185 538
Dividend declared relating to 2005	–	(737 684)	(737 684)
Shares issued	9 900	–	9 900
Balance at 30 June 2005	10 000	1 960 630	1 970 630
Restated balance at 1 July 2005	10 000	1 960 630	1 970 630
Balance as previously reported	10 000	1 953 491	1 963 491
Cumulative effect of adjustments due to IFRS	–	7 139	7 139
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
Restated balance at 1 July 2006	10 000	4 838 228	4 848 228
Balance as previously reported	10 000	4 574 457	4 584 457
Cumulative effect of adjustments due to IFRS	–	263 771	263 771
Net profit for the year	–	6 139 903	6 139 903
Dividend declared relating to 2007	–	(3 515 861)	(3 515 861)
Balance at 30 June 2007	10 000	7 462 270	7 472 270

Note 13

* The Issued Share Capital Balance on 29 February 2004 was R100.

CASH FLOW STATEMENTS

The cash flow statements of Hardware Warehouse for the financial years ended 30 June 2005, 30 June 2006 and 30 June 2007 are set out below:

Notes	Audited 2007 R	Reviewed 2006 R	Reviewed 2005 R
Profit from operations	9 672 920	7 243 561	2 589 390
<i>Adjustments for:</i>			
Goodwill written off	–	–	980 000
Depreciation of property, plant and equipment	762 258	297 262	1 155 777
(Profit)/Loss on disposal of property, plant and equipment	(19 294)	(34 211)	29 682
Operating cash flows before movements in working capital	10 415 884	7 506 612	4 754 849
Increase in inventories	(11 002 636)	(7 054 201)	(8 547 181)
Decrease/(Increase) in trade and other receivables	(319 701)	1 530 868	(3 167 259)
Increase in trade and other payables	12 311 820	805 240	8 269 165
Cash generated by operations	11 405 367	2 788 519	1 309 574
Interest paid	(664 559)	(381 027)	(415 878)
Taxation paid	1 (1 766 975)	(834 309)	(1 041 483)
Net cash from/(used in) operating activities	8 973 833	1 573 183	(147 787)
Investing activities			
Interest received	83 394	96 540	36 893
Proceeds on disposal of property, plant and equipment	35 965	34 211	65 318
Purchases of property, plant and equipment	(4 496 266)	(710 508)	(1 934 410)
Purchase of goodwill	(2 500 000)	–	–
Net cash used in investing activities	(6 876 909)	(579 757)	(1 832 199)
Financing activities			
Dividends paid	(3 515 861)	(1 825 482)	(737 684)
Increase in borrowings	1 223 204	223 113	756 381
Proceeds of share issue	–	–	9 900
Net cash (used in)/from financing activities	(2 292 657)	(1 602 369)	28 597
Net decrease in cash and cash equivalents	(195 733)	(608 943)	(1 951 389)
Cash and cash equivalents at the beginning of the year	(3 308 066)	(2 699 123)	(747 734)
Cash and cash equivalents at the end of the year	(3 503 799)	(3 308 066)	(2 699 123)

Notes to the Cash Flow Statement

1. Reconciliation of Tax Paid

	2007 R	2006 R	2005 R
Charge in the income statement	(2 985 959)	(2 151 177)	(1 105 535)
Increase in taxation liability	1 218 984	1 316 868	64 052
Taxation paid	(1 766 975)	(834 309)	(1 041 483)

1. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

Commencing with the current year, the company has adopted all new and revised International Financial Reporting Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations. All adjustments (detailed in note 3) are disclosed in accordance with IFRS 1: First time adoption of International Financial Reporting Standards and are effective from 1 March 2004.

2. GENERAL INFORMATION

Hardware Warehouse Limited 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 AltX of the JSE.

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

3. EFFECT OF TRANSITION TO IFRS

IFRS has been applied by the company, for the first time for the year ended 30 June 2007. The standards have been applied retrospectively and the comparatives contained in these financial statements differ from those disclosed in the respective annual financial statements published for the two financial years ended 30 June 2005 and 30 June 2006. The date of transition was 1 March 2004 and the effect of the transition was as follows:

	As reported under previous SA GAAP R	Effects of transition to IFRS R	IFRS R
<i>Reconciliation of equity at 1 March 2004 (date of transition to new standards)</i>			
Non-current assets	1 929 571	288 228	2 217 799
Property, plant and equipment	1 929 571	288 228	2 217 799
Equity	1 308 135	204 641	1 512 776
Retained earnings	1 308 135	204 641	1 512 776
Non-current liabilities	–	83 587	83 587
Deferred taxation	–	83 587	83 587
<i>Reconciliation of equity at 30 June 2005</i>			
Non-current assets	2 813 162	(891 732)	1 921 430
Property, plant and equipment	1 869 128	52 302	1 921 430
Loans to associate entities	944 034	(944 034)	–
Current assets	2 929 975	944 034	3 874 009
Trade receivables	2 929 975	944 034	3 874 009
Equity	1 953 491	7 139	1 960 630
Retained earnings	1 953 491	7 139	1 960 630

	As reported under previous SA GAAP R	Effects of transition to IFRS R	IFRS R
Non-current liabilities	428 147	(425 230)	2 917
Member's loan	428 147	(428 147)	–
Deferred taxation	–	2 917	2 917
Current liabilities	16 555 053	470 393	17 025 446
Interest bearing borrowings	401 420	3 220 927	3 622 347
Trade and other payables	13 360 853	42 246	13 403 099
Bank overdrafts	2 792 780	(2 792 780)	–
<i>Reconciliation of equity at 30 June 2006</i>			
Non-current assets	2 743 030	(408 350)	2 334 680
Property, plant and equipment	1 688 921	645 759	2 334 680
Loans to associate entities	1 054 109	(1 054 109)	–
Current assets	1 289 032	1 054 109	2 343 141
Trade receivables	1 289 032	1 054 109	2 343 141
Equity	4 574 457	263 771	4 838 228
Retained earnings	4 574 457	263 771	4 838 228
Non-current liabilities	796 288	(688 550)	107 738
Member's loan	796 288	(796 288)	–
Deferred taxation	–	107 738	107 738
Current liabilities	20 656 141	223 771	20 879 912
Interest bearing borrowings	457 999	4 145 467	4 603 466
Trade and other payables	14 853 668	(645 329)	14 208 339
Bank overdrafts	3 349 179	(3 349 179)	–
Current tax liability	1 995 295	72 812	2 068 107

	As reported under previous SA GAAP R	Effects of transition to IFRS R	IFRS R
<i>Reconciliation of profit for the year ended 30 June 2005</i>			
Revenue	80 486 285	–	80 486 285
Cost of sales	63 594 039	–	63 594 039
Gross profit	16 892 246	–	16 892 246
Other operating income	–	–	–
Other operating expenses	13 044 684	278 171	13 322 855
Goodwill written-off	–	980 000	980 000
Profit from operations	3 847 562	(1 258 171)	2 589 391
Investment income	36 893	–	36 893
Finance costs	415 878	–	415 878
Profit before tax	3 468 577	(1 258 171)	2 210 406
Taxation	1 105 538	(80 670)	1 024 868
Profit for the year	2 363 039	(1 177 501)	1 185 538
<i>Reconciliation of profit for the year ended 30 June 2006</i>			
Revenue	94 035 095	–	94 035 095
Cost of sales	72 710 409	–	72 710 409
Gross profit	21 324 686	–	21 324 686
Other operating income	80 081	–	80 081
Other operating expenses	14 522 655	(361 449)	14 161 206
Goodwill written-off	–	–	–
Profit from operations	6 882 112	361 449	7 243 561
Investment income	96 540	–	96 540
Finance costs	381 027	–	381 027
Profit before tax	6 597 625	361 449	6 959 074
Taxation	2 151 174	104 820	2 255 994
Profit for the year	4 446 451	256 629	4 703 080

Explanation of material adjustments to cash flow statement

There were no material adjustments to the cash flow statement for the two financial years ended 30 June 2006 and 30 June 2005, other than those mentioned above.

IAS 17: Leases

The standard requires that all operating leases be accounted for on a straight line basis over the period of the lease. In the past, the company accounted for leases on a payments basis, which included annual escalations. The effect of the transition has been disclosed in note below.

IAS 35: Segment Reporting

Prior to the current year, the company was not subject to the provisions of IAS 14 as its shares were not publicly traded. However, during the current year the company indicated an intention to list on the Alternative Exchange of the JSE. This intention triggers a requirement to comply with the provisions of IAS 14: Segment Reporting. The effect of this transition is not included in note 3.5 below, as the requirements of this standard relate to additional disclosures only.

IFRS 3: Business Combinations

This standard requires that internally generated goodwill be expensed through the income statement and not shown as an asset on the balance sheet. In the previous year, this amount was written off in the statement of changes of equity. The effect of this transition is thus RNil on the equity for the year.

IAS 16: Property, plant and equipment

This standard requires that items of property, plant and equipment be assessed annually to determine useful lives and residual values. This had not previously been performed. The effect of the transition has been disclosed above.

4. 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.

4.1 Basis of preparation

The financial statements of Hardware Warehouse Limited 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 6.

(a) Standards, interpretations and amendments to published standards that are not yet effective as at the date of the authorisation of these financial statements,

The following standards and interpretations were in issue but not yet effective:

- IFRS 7: Financial Instrument: Disclosure
- 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.

4.2 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 of segments operating in other economic environments.

4.3 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

Each 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 4.4).

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.

4.4 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.

4.5 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 recognition 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.

4.6 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.

4.7 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.

4.8 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, affects 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.

4.9 Provisions

Provisions for lay-by 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, lay-byes 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.

4.10 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, volume rebates and value added taxes.

(a) *Sales of goods – retail*

The company operates a chain of retail outlets for selling hardware and related building products. Sales of goods are recognised when a branch sells a product to the customer. Retail sales are usually paid for 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 circumstance or exchangeable for similar goods. The company does not operate any loyalty programmes, but is in the process of implementing one.

(b) *Interest income*

Interest is recognised, in profit or loss, using the effective interest rate method.

4.11 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.

4.12 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.

4.13 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.

4.14 Borrowing costs

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

5. FINANCIAL RISK MANAGEMENT

5.1 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, major credit cards or outsourced 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.

5.2 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.

6. 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.

6.1 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.

6.2 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.

7. SEGMENT INFORMATION

7.1 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 basis 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	48 381 848	49 930 730	98 312 578
Operating profit/segment result	15 229 878	12 742 298	27 972 176
Net operating expenses			18 299 257
Investment income			83 394
Finance costs			664 559
Profit before tax			9 091 754
Tax			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 tax			6 959 074
Tax			2 255 994
Profit for the year			4 703 080

The segment results for the period ended 20 June 2005 are as follows:

	Western region R	Eastern region R	Total R
Segment revenue	61 607 340	18 878 945	80 486 285
Segment cost of sales	48 359 139	15 234 900	63 594 039
Operating profit/segment result	13 248 201	3 644 045	16 892 246
Net operating expenses			14 302 855
Investment income			36 893
Finance costs			415 878
Profit before tax			2 210 406
Tax			1 024 868
Profit for the year			1 185 538

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.

7.2 Secondary reporting format – business segments

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

8. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improve- ments	Machinery	Computers	Motor vehicles	Office equipment	Furniture and fittings	Signage	Total
	R	R	R	R	R	R	R	R
Carrying value 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 value 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 value at 1 July 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
Disposals	-	-	-	-	-	-	-	-
Depreciation for the year	-	11 975	147 201	87 179	2 732	48 175	-	297 262
Carrying value 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

8. PROPERTY, PLANT AND EQUIPMENT (continued)

	Leasehold improve- ments	Machinery	Computers	Motor vehicles	Office equipment	Furniture and fittings	Signage	Total
	R	R	R	R	R	R	R	R
Carrying value at 1 July 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
Disposals	-	-	-	-	-	-	-	-
Depreciation	-	11 975	147 201	87 179	2 732	48 175	-	297 262
Carrying value 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
Carrying value at 1 March 2004	-	101 289	166 340	970 169	-	-	-	1 237 798
At cost	-	160 713	335 399	1 206 928	-	-	-	1 703 040
Accumulated depreciation	-	59 424	169 059	236 759	-	-	-	465 242
Additions	-	-	228 518	1 414 643	14 850	276 399	-	1 934 410
Disposals	-	-	-	95 001	-	-	-	95 001
Depreciation for the year	-	11 870	209 723	905 553	1 560	27 071	-	1 155 777
Carrying value 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

9. GOODWILL

	Goodwill R	Total R
Carrying amount at 1 March 2004	980 000	980 000
At cost	980 000	980 000
Goodwill written-off in terms of IFRS 3	(980 000)	(980 000)
Carrying amount at 30 June 2005	–	–
At cost	–	–
Carrying amount at 30 June 2006	–	–
At cost	–	–
Carrying amount at 1 July 2006	–	–
At cost	–	–
Goodwill capitalised in terms of IFRS 3	2 500 000	2 500 000
Carrying amount at 30 June 2007	2 500 000	2 500 000
Cost	2 500 000	2 500 000

10. INVENTORIES

	2007 R	2006 R	2005 R
Goods for resale	32 905 336	21 902 700	14 848 499
Purchases recognised as expenses and included in cost of sales amounted to R109 315 214 (2006: R79 764 610; 2005: R72 141 220).			

11. TRADE AND OTHER RECEIVABLES

	2007 R	2006 R	2005 R
Trade receivables	1 319 359	1 146 179	908 520
Deposits	219 244	13 800	11 300
Sundry debtors	518 074	326 336	656 220
Receivables from related parties (note 29)	606 165	856 826	2 297 969
	2 662 842	2 343 141	3 874 009

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.

12. CASH AND CASH EQUIVALENTS

	2007 R	2006 R	2005 R
Cash at bank and on hand	815 892	41 113	31 714
Short-term bank deposits	600 000	–	61 943
	1 415 892	41 113	93 657

	2007 R	2006 R	2005 R
Cash, cash equivalents and bank overdrafts include the following for the purposes of the cash flow statement:			
Cash and cash equivalents	1 415 892	41 113	93 657
Bank overdrafts	(4 919 691)	(3 349 179)	(2 792 780)
	(3 503 799)	(3 308 066)	(2 699 123)

13. SHARE CAPITAL

	2007 R	2006 R	2005 R
Authorised:			
10 000 ordinary shares of R1.00 each	10 000	10 000	10 000
Issued and fully paid:			
10 000 ordinary shares of R1.00 each	10 000	10 000	10 000

14. TRADE AND OTHER PAYABLES

	2007 R	2006 R	2005 R
Trade payables	21 474 305	11 041 547	5 927 430
Sundry creditors	2 622 209	1 241 494	6 344 323
Provisions (Note 17)	1 145 471	1 236 259	834 295
Accrued expenses	350 875	414 788	254 806
Dividends payable	339 567	–	–
Lease straight lining	587 733	274 251	42 245
	26 520 160	14 208 339	13 403 099

15. BORROWINGS

	2007 R	2006 R	2005 R
Non-current			
Interest bearing borrowings	2 201 810	785 756	987 363
Current			
Bank overdrafts	4 919 691	3 349 179	2 792 780
Interest bearing borrowings	1 061 437	457 999	401 420
Loan from shareholder	–	796 288	428 147
	5 981 128	4 603 466	3 622 347
Total borrowings	8 182 938	5 389 222	4 609 710

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; 2005: R1 388 783). Bank overdrafts are secured by trade receivables (note 11). I M J 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:

Lender	Nature	Interest rate	2007 R	2006 R	2005 R
Wesbank	Instalment sale	Prime less 1.0% – 1.25%	306 699	482 925	866 894
ABSA Bank	Instalment sale	Prime less 1.0% – 1.25%	2 956 548	760 830	521 889
I M J Senar	Unsecured loan	Interest free	–	796 288	428 147
ABSA Bank	Bank overdraft	Prime	4 919 691	3 349 179	2 792 780
			8 182 938	5 389 222	4 609 710

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	2005 R
Bank overdraft:			
– Expiring within one year	180 309	150 821	707 220

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

16. 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	2005 R
Balance at the beginning of the year	107 738	2 917	83 586
Movements during the year			
– Deductable temporary differences	(114 728)	(67 281)	(12 251)
– Taxable temporary differences	80 620	172 102	(68 418)
Balance at the end of the year	73 630	107 738	2 917
The balance comprises			
– Operating lease straight lining	(170 443)	(79 532)	(12 251)
– Provision for doubtful debts	(23 818)		
– Property, plant and equipment	267 891	187 270	15 168
	73 630	107 738	2 917

17. PROVISION FOR OTHER LIABILITIES AND CHARGES

	Opening balance R	Additions R	Used during the year R	Closing balance R
Provisions – 2005				
Lay-byes	–	834 295	–	834 295
Provisions – 2006				
Lay-byes	834 295	1 236 259	(834 295)	1 236 259
Provisions – 2007				
Lay-byes	1 236 259	1 145 471	(1 236 259)	1 145 471

(a) Lay-byes

The company sells goods to customers on "lay bye". It is expected that all amounts deposited as lay-byes will be converted to sales in the next year.

18. REVENUE

	2007	2006	2005
	R	R	R
Sales to retail customers	126 284 754	94 035 095	80 486 285

19. OTHER OPERATING INCOME

	2007	2006	2005
	R	R	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 trading name "Builders Warehouse" to Massmart stores.

20. PROFIT FROM OPERATIONS

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

	2007	2006	2005
	R	R	R
Auditors remuneration – audit	–	–	–
– other services	20 091	67 047	3 500
Bad debts	96 062	28 846	–
Depreciation	762 258	297 262	1 155 777
Legal fees	18 000	4 819	6 156
Operating lease rentals	2 907 530	1 931 705	1 660 841
(Profit)/Loss on sale of property, plant and equipment	(19 294)	(34 211)	29 682

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

21. INVESTMENT INCOME

	2007	2006	2005
	R	R	R
Interest on bank deposits	83 394	96 540	36 893

22. FINANCE COSTS

	2007	2006	2005
	R	R	R
Interest expense:			
Bank overdraft and instalment sales	664 559	381 027	415 878

23. EMPLOYEE BENEFIT EXPENSE

	2007	2006	2005
	R	R	R
Wages and salaries	8 664 836	6 093 168	5 272 878
Number of employees	254	181	167

24. TAX

	2007 R	2006 R	2005 R
Local South African normal tax:			
Current year	2 546 471	1 922 988	1 013 327
Deferred tax:			
Current year	(34 108)	104 821	(80 669)
Secondary tax on companies	439 488	228 185	92 210
Tax expense per the income statement	2 951 851	2 255 994	1 024 868

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	%	2005 R	%
Profit before tax	9 091 754		6 959 074		2 210 406	
Tax at the SA company tax rate of 29%	2 636 609	29.00	2 018 128	29.00	641 018	29.00
Expenses not deductible for tax purposes	20 754	0.23	9 681	0.14	291 640	13.19
50% capital gain not taxable	(145 000)	(1.59)	–	–	–	–
Secondary tax on companies	439 488	4.83	228 185	3.28	92 210	4.17
Tax expense and effective tax rate for the year	2 951 851	32.47	2 255 994	32.42	1 024 868	46.36

25. 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	2005 R
Profit attributable to equity holders of the company	6 139 903	4 703 080	1 185 538
Weighted average number of ordinary shares in issue	10 000	10 000	1 828
Basic earnings per shares (cents per share)	61 399	47 031	64 854

(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:

	Gross amount	Tax amount	Net amount
2007			
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			<u>5 271 204</u>
2006			
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			<u>4 678 790</u>
2005			
Profit attributable to equity holders of the company	–	–	1 185 538
Loss on sale of property, plant and equipment	29 682	(8 608)	21 074
Internally generated goodwill written off	980 000	–	980 000
Headline earnings			<u>2 186 612</u>

26. DIVIDENDS PER SHARE

The dividends paid in 2007, 2006 and 2005 were R3 515 861 (35 159c per share), R1 825 482 (18 255c per share) and R737 684 (7 377c per share) respectively.

27. 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 companies with common directorships:

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

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

28. 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 20.

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

	2007 R	2006 R	2005 R
No later than 1 year	4 448 059	2 907 530	1 931 705
Later than 1 year and no later than 5 years	7 929 538	12 377 597	–
	12 377 597	15 285 127	1 931 705

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 20 September 2007 and no later than 15 October 2007.

29. 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) Limited	2007	1 104 483	–	328 740	–
	2006	1 082 928	–	–	–
	2005	6 766 883	–	–	–
Downstream Trading 34 CC	2007	168 640	–	277 425	–
	2006	3 498 259	–	–	–
	2005	2 365 117	–	–	–
Novate Property Investments Portfolio	2007	–	–	–	–
	2006	–	–	856 826	–
	2005	–	–	2 297 969	–
I M J Senar	2007	–	–	–	–
	2006	–	–	–	796 288
	2005	–	–	–	428 147

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 11) and Borrowings (Note 15).

I M J Senar is a director of the company.

Novate Property Investments acts as an administrative lessor to Hardware Warehouse for many of the branches. 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 companies with directors common to Hardware Warehouse requiring funds.

The value of rentals are as follows:

Lessor	Branch	2007 R	2006 R	2005 R
Platinum Mine Investments 588 (Pty) Limited	Mdantsane	211 006	203 367	200 240
Spring Romance Properties 48 (Pty) Limited	Port Alfred	140 531	169 636	183 773
Golden Harvest Bakery (Pty) Limited	Fleet Street	224 517	–	–
Sevenstone Investments 124 (Pty) Limited	Elliott Street	779 800	161 635	–
Bubesi Investments 127 (Pty) Limited	Alice	185 874	150 322	58 221
Senar Investments 151 (Pty) Limited	Butterworth	365 934	406 986	294 053
Amber Mountain Investments 111 (Pty) Limited	Head Office	103 022	62 910	10 485
		2 010 684	1 154 858	746 772

The reason for the large increase year on year is due to the number of new stores being opened and 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.

30. SUBSEQUENT EVENTS

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

The company entered into an agreement of sale for a new branch in Mthubathuba, Kwa-Zulu Natal. Full details have included under the commitments note (Note 28)

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

31. 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	Nationality	Date of appointment/(resignation)
N E Woollgar	South African	30 June 2007

	Basic salary and bonus R	Expenses and travel allowances R	Total R
--	---	---	--------------------

31.1 Directors Emoluments for the year ended 30 June 2007 are:

Executive directors

E G Senar ²	219 240	–	219 240
I A J Senar ²	174 445	–	174 445
M J Willard ²	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
N E Woollgar ^{x1}	–	–	–
	1 018 078	665 060	1 683 138

¹ N E Woollgar was appointed to the board on 30 June 2007.

² Resigned as director at 30 June 2007.

^x Non executive director.

	Basic salary and bonus R	Expenses and travel allowances R	Total R
--	---	---	--------------------

31.2 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
	1 657 844	265 600	1 923 444

	Basic salary and bonus R	Expenses and travel allowances R	Total R
--	---	---	--------------------

31.3 Directors' emoluments, for the year ended 30 June 2005 are:

Executive directors

E G Senar	225 825	44 000	269 825
I A J Senar	255 981	–	255 981
M J Willard	237 481	60 000	297 481
S C Miller	302 265	45 100	347 365
I M J Senar	527 344	116 500	643 844
	1 548 896	265 600	1 814 496

32. 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 capitalised and is reflected as goodwill on the face of the balance sheet.

INDEPENDENT REPORTING ACCOUNTANTS' REPORT ON THE HISTORICAL FINANCIAL INFORMATION OF HARDWARE WAREHOUSE FOR THE 2007 FINANCIAL YEAR

"The Directors
Hardware Warehouse Limited
PO Box 19514
Tecoma
5214

Monday, 10 September 2007

Dear Sirs,

INDEPENDENT REPORTING ACCOUNTANTS' REPORT ON THE HISTORICAL FINANCIAL INFORMATION OF HARDWARE WAREHOUSE LIMITED ("HARDWARE WAREHOUSE") FOR THE 2007 FINANCIAL YEAR

Introduction

The definitions commencing on page 10 of the prospectus have been used in this report. Hardware Warehouse proposes to list its ordinary shares on the Alternative Exchange ("AltX") of JSE Limited ("JSE").

Purpose of this report

At your request, we present our report on the historical financial information of Hardware Warehouse, for the purposes of complying with the Listings Requirements of the JSE and for its inclusion in the prospectus, to be dated on or about 18 September 2007.

We have audited the accompanying annual financial statements of Hardware Warehouse, 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 in Annexure 2 of this prospectus.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting 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 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 financial statements present fairly, in all material respects, the financial position of Hardware Warehouse 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.

Yours faithfully,

Charteris & Barnes

Registered Auditors

Chartered Accountants (SA)

17 Vincent Road, Vincent
East London, 5247

Gavin Jean Le Roux

Chartered Accountants (SA)

Registered Auditors

INDEPENDENT REPORTING ACCOUNTANTS' REPORT ON THE HISTORICAL FINANCIAL INFORMATION OF HARDWARE WAREHOUSE FOR THE 2006 AND 2005 FINANCIAL YEARS

"The Directors
Hardware Warehouse Limited
PO Box 19514
Tecoma
5214

Monday, 10 September 2007

Dear Sirs,

INDEPENDENT REPORTING ACCOUNTANTS' REPORT ON THE HISTORICAL FINANCIAL INFORMATION OF HARDWARE WAREHOUSE CC ("HARDWARE WAREHOUSE") FOR THE FINANCIAL YEARS ENDED 30 JUNE 2005 AND 30 JUNE 2006

Introduction

The definitions commencing on page 10 of the prospectus have been used in this report. Hardware Warehouse proposes to list its ordinary shares on the Alternative Exchange ("AltX") of JSE Limited ("JSE").

Purpose of this report

At your request, we present our report on the historical financial information of Hardware Warehouse, for the purposes of complying with the Listings Requirements of the JSE and for its inclusion in the prospectus, to be dated on or about the 18 September 2007.

Responsibility

The directors of Hardware Warehouse are responsible for compilation, contents and preparation of the prospectus and for the accuracy of the information contained therein. The directors of Hardware Warehouse are also responsible for the financial information to which this independent reporting accountants' report of Hardware Warehouse relates, and from which such report has been prepared.

Our responsibility is to issue a report on the historical financial information of Hardware Warehouse. We have reviewed the balance sheets of Hardware Warehouse at 30 June 2005 and 30 June 2006, and the income statements, statements of changes in equity and cash flow statements for the years then ended. Our responsibility is to issue a report on these financial statements based on our review.

Scope

We conducted our review in accordance with the International Standard on Review Engagements 2400. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free from material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Report

Based on our review, nothing has come to our attention that causes us to believe that the financial statements for the years ended 30 June 2005 and 30 June 2006 are not fairly presented in accordance with International Financial Reporting Standards.

Yours faithfully,

Charteris & Barnes

Registered Auditors

Chartered Accountants (SA)

17 Vincent Road, Vincent

East London, 5247

Gavin Jean Le Roux

Chartered Accountants (SA)

Registered Auditors

INDEPENDENT REPORTING ACCOUNTANTS' REPORT ON THE PROFIT FORECAST OF HARDWARE WAREHOUSE

"The Directors
Hardware Warehouse Limited
PO Box 19514
Tecoma
5214

Monday, 10 September 2007

Dear Sirs,

INDEPENDENT AUDITORS ASSURANCE REPORT ON THE PROFIT FORECAST OF HARDWARE WAREHOUSE LIMITED ("HARDWARE WAREHOUSE")

Introduction

The definitions commencing on page 10 of the prospectus have been used in this report. Hardware Warehouse proposes to list its ordinary shares on the Alternative Exchange ("AltX") of the JSE Limited ("JSE").

We have examined the accompanying forecast of Hardware Warehouse for the years ending 30 June 2008 and 30 June 2009 set out in the prospectus to be dated on or about 18 September 2007 ("prospectus").

Directors' responsibility

The directors are responsible for the forecast, including the assumptions set out in paragraph 11.2 on which it is based, and for the financial information from which it has been prepared. The responsibility, arising from compliance with the Listings Requirements of the JSE, includes: determining whether the assumptions, barring unforeseen circumstances, provide a reasonable basis for the preparation of the forecast; whether the forecast has been properly compiled on the basis stated and whether the forecast is presented on a basis consistent with the accounting policies of the company.

Auditor's responsibility

Our responsibility is to provide a limited assurance report on the forecast prepared for the purpose of complying with the Listings Requirements of the JSE and for inclusion in the prospectus. We conducted our assurance engagement in accordance with International Standard on Assurance Engagements applicable to the Examination of Prospective Financial Information and in accordance with the Revised Guide on Forecasts issued by the South African Institute of Chartered Accountants in September 2005. The standard requires us to obtain sufficient appropriate evidence as to whether or not:

- management's best-estimate assumptions on which the forecast is based are not unreasonable and are consistent with the purpose of the information;
- the forecast is properly prepared on the basis of the assumptions;
- the forecast is properly presented and all material assumptions are adequately disclosed;
- the forecast is prepared and presented on a basis consistent with the accounting policies of the company for the period concerned.

In a limited assurance engagement, the evidence-gathering procedures are more limited than for a reasonable assurance engagement and, therefore, less assurance is obtained than in a reasonable assurance engagement. We believe our evidence obtained is sufficient and appropriate to provide a basis for our limited assurance conclusion.

Conclusion

Based on our examination of the evidence obtained, nothing has come to our attention that causes us to believe that:

- (i) the assumptions, barring unforeseen circumstances, do not provide a reasonable basis for the preparation of the forecast;
- (ii) the forecast has not been properly compiled on the basis stated;
- (iii) the forecast has not been properly presented and all material assumptions are not adequately disclosed;
- (iv) the forecast, is not presented on a basis consistent with the accounting policies of the company.

Actual results are likely to be different from the forecast, since anticipated events frequently do not occur as expected and the variation may be material; accordingly, no assurance is expressed regarding the achievability of the forecast.

Consent

We consent to the inclusion of this letter and the reference to our opinion in the prospectus to be issued by Hardware Warehouse in the form and context in which it appears.

Yours faithfully,

Charteris & Barnes

Registered Auditors
Chartered Accountants (SA)
17 Vincent Road, Vincent
East London, 5247

Gavin Jean Le Roux
Chartered Accountants (SA)
Registered Auditors

**INDEPENDENT REPORTING ACCOUNTANTS' REPORT ON THE UNAUDITED
PRO FORMA FINANCIAL INFORMATION OF HARDWARE WAREHOUSE**

"The Directors
Hardware Warehouse Limited
PO Box 19514
Tecoma
5214

Monday, 10 September 2007

Dear Sirs,

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE UNAUDITED
PRO FORMA FINANCIAL INFORMATION OF HARDWARE WAREHOUSE LIMITED ("HARDWARE
WAREHOUSE")**

We have performed our limited assurance engagement in respect of the *pro forma* financial information set out in paragraph 11.3 of the prospectus, to be dated on or about 18 September 2007, issued in connection with the private placement of 15 million ordinary shares in Hardware Warehouse ("the private placement") that is the subject of the prospectus.

The *pro forma* financial information has been prepared in accordance with the Listings Requirements of the JSE Limited ("JSE"), for illustrative purposes only, to provide information about how the private placement might have affected the reported historical financial information presented, had the corporate action been undertaken at the commencement of the period or at the date of the *pro forma* balance sheet being reported on.

Directors' responsibility

The directors are responsible for the compilation, contents and presentation of the *pro forma* financial information contained in the prospectus and for the financial information from which it has been prepared. Their responsibility includes determining that: the *pro forma* financial information that has been properly compiled on the basis stated; the basis is consistent with the accounting policies of Hardware Warehouse; and the *pro forma* adjustments are appropriate for the purposes of the *pro forma* financial information disclosed in terms of the JSE Listings Requirements.

Independent reporting accountants' responsibility

Our responsibility is to express our limited assurance conclusion on the *pro forma* financial information included in the prospectus of Hardware Warehouse. We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements applicable to *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and the *Guide on Pro Forma Financial Information* issued by The South African Institute of Chartered Accountants. This standard requires us to obtain sufficient appropriate evidence on which to base our conclusion.

We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the *pro forma* financial information, beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Sources of information and work performed

Our procedures consisted primarily of comparing the unadjusted financial information with the source documents, considering the *pro forma* adjustments in light of the accounting policies of Hardware

Warehouse, considering the evidence supporting the *pro forma* adjustments and discussing the adjusted *pro forma* financial information with the directors of the company in respect of the corporate actions that are the subject of the prospectus.

In arriving at our conclusion, we have relied upon financial information prepared by the directors of Hardware Warehouse and other information from various public, financial and industry sources.

While our work performed has involved an analysis of the historical published audited financial information and other information provided to us, our assurance engagement does not constitute an audit or review of any of the underlying financial information conducted in accordance with *International Standards on Auditing or International Standards on Review Engagements* and accordingly, we do not express an audit or review opinion.

In a limited assurance engagement, the evidence-gathering procedures are more limited than for a reasonable assurance engagement and therefore less assurance is obtained than in a reasonable assurance engagement. We believe our evidence obtained is sufficient and appropriate to provide a basis for our conclusion.

Conclusion

Based on our examination of the evidence obtained, nothing has come to our attention, which causes us to believe that, in terms of Sections 8.17 and 8.30 of the JSE Listings Requirements:

- the *pro forma* financial information has not been properly compiled on the basis stated;
- such basis is inconsistent with the accounting policies of the issuer;
- the adjustments are not appropriate for the purposes of the *pro forma* financial information as disclosed.

Consent

We consent to the inclusion of this report and the reference to our opinion in the prospectus to be issued by Hardware Warehouse in the form and context in which it appears.

Yours faithfully,

Charteris & Barnes

Registered Auditors
Chartered Accountants (SA)
17 Vincent Road, Vincent,
East London, 5247

Gavin Jean Le Roux
Chartered Accountants (SA)
Registered Auditors

LIMITED ASSURANCE PROVIDER'S REPORT OF HARDWARE WAREHOUSE

"The Directors
Hardware Warehouse Limited
PO Box 19514
Tecoma
5214

Monday, 10 September 2007

Dear Sirs,

INDEPENDENT LIMITED ASSURANCE REPORT REGARDING THE PRESENTATION AND DISCLOSURES OF HISTORICAL FINANCIAL INFORMATION, *PRO FORMA* FINANCIAL INFORMATION AND PROFIT FORECAST INFORMATION, CONTAINED IN THE PROSPECTUS FOR THE PROPOSED LISTING OF HARDWARE WAREHOUSE LIMITED ("HARDWARE WAREHOUSE"), IN COMPLIANCE WITH SECTION 8 AND SECTIONS 7A AND 7B OF THE LISTINGS REQUIREMENTS OF THE JSE LIMITED AND SCHEDULE 3 OF THE SOUTH AFRICAN COMPANIES ACT

Introduction

Hardware Warehouse proposes to list its ordinary shares on the Alternative Exchange ("AltX") of the JSE Limited ("JSE"). At your request, we have completed our assurance engagement to provide limited assurance regarding the presentation and disclosures contained in the Historical Financial Information, *Pro Forma* Financial Information and Profit Forecast Information, set out in Annexures 2 to 6 to the prospectus and in the body of the prospectus of Hardware Warehouse, to be dated on or about 18 September 2007 ("prospectus"), in compliance with the requirements of Section 8 and Sections 7A and 7B of the Listings Requirements of the JSE and Schedule 3 to the South African Companies Act, 61 of 1973, as amended ("Act").

We are not the auditors of Hardware Warehouse, and have not performed an audit or a review of the audited Annual Financial Statements for the year ended 30 June 2007, prepared in accordance with International Financial Reporting Standards ("IFRS"), on which the Historical Financial Information, *Pro Forma* Financial Information and Profit Forecast Information is based. The independent reporting accountants issued an unqualified opinion on the Hardware Warehouse Annual Financial Statements for the year ended 30 June 2007.

Responsibility of the directors and the independent reporting accountants

The directors of Hardware Warehouse are responsible for the compilation, contents and preparation of the prospectus and for the accuracy of the information, including the financial information, contained therein and for the financial information from which it has been prepared. The independent reporting accountants are responsible for reporting on the Historical Financial Information, *Pro Forma* Financial Information and Profit Forecast Information of Hardware Warehouse as presented in Annexures 2 to 6 to the prospectus.

Responsibility of the assurance provider

Our responsibility is to report any instances of non-compliance to you and to express our limited assurance conclusion, on whether or not the presentation and disclosure requirements of the relevant paragraphs of Section 8 and Sections 7A and 7B of the Listings Requirements of the JSE and Schedule 3 to the Act have been met, in the Historical Financial Information, *Pro Forma* Financial Information and Profit Forecast Information disclosed in Annexures 2 to 6 to the prospectus.

Our assurance engagement was performed in accordance with the International Standard on Assurance Engagements, ISAE 3000: *Assurance Engagements other than Audits or Reviews of Historical Financial*

Information. This standard requires us to comply with ethical requirements and to plan and perform our assurance engagement to obtain limited assurance, expressed below, regarding the subject matter of the engagement.

Work performed

Our procedures did not involve an independent examination of the financial information of Hardware Warehouse included in the prospectus and consisted primarily of comparing the audited Annual Financial Statements for the year ended 30 June 2007 to the presentation and disclosure of the Historical Financial Information and the *Pro Forma* Financial Information of Hardware Warehouse included in the prospectus.

Thereafter, we compared the Historical Financial Information, the *Pro Forma* Financial Information and Profit Forecast Information of Hardware Warehouse included in the prospectus to the disclosure requirements of Section 8 and Sections 7A and 7B of the Listings Requirements and Schedule 3 to the Act. In addition, the presentation and disclosure guidance contained in the *Revised Guide on Pro Forma Financial Information* and the *Revised Guide on Forecasts* both issued by The South African Institute of Chartered Accountants, and in the International Standard on Assurance Engagements ISAE 3400: *The Examination of Prospective Financial Information*, was considered.

Our additional procedures performed with regard to the *Pro Forma* Financial Information, consisted primarily of comparing the unadjusted audited Financial Information of Hardware Warehouse with the source documents, considering the *pro forma* adjustments in light of the accounting policies of Hardware Warehouse and evidence supporting the *pro forma* adjustments, recalculating the amounts based on the information obtained, and discussing the *pro forma* financial information with the directors and auditors of Hardware Warehouse.

In arriving at our conclusion, we have relied upon financial information prepared by the directors of Hardware Warehouse and other information from various public, financial and industry sources.

Because the above procedures do not constitute either an audit or review performed in accordance with *International Standards on Auditing* or *International Standards on Review Engagements*, we do not express any assurance on the fair presentation of the financial information of Hardware Warehouse included in the prospectus. Had we performed additional procedures, or had we performed an audit or review of the financial information of Hardware Warehouse included in the prospectus, other matters might have come to our attention that would have been reported to you.

In a limited assurance engagement the evidence-gathering procedures are more limited than for a reasonable assurance engagement and therefore less assurance is obtained than in a reasonable assurance engagement.

We believe our evidence is sufficient and appropriate to provide a basis for our conclusion.

Conclusion

Based on our work, nothing has come to our attention that causes us to believe that the presentation and disclosures of the Historical Financial Information for the year ended 30 June 2007, prepared in accordance with International Financial Reporting Standards, the *Pro Forma* Financial Information and the Profit Forecast Information of Hardware Warehouse, included in Annexures 2 to 6 of the prospectus is not in accordance with Section 8 and Sections 7A and 7B of the Listings Requirements of the JSE and Schedule 3 to the Act.

Yours faithfully,

BDO Spencer Steward (Johannesburg) Inc.

Chartered Accountants (SA)

Registered Auditors

13 Wellington Road, Parktown, 2193"

CORPORATE GOVERNANCE STATEMENT OF HARDWARE WAREHOUSE

The definitions commencing on page 10 of this prospectus apply, *mutatis mutandis*, to this section.

CORPORATE GOVERNANCE STATEMENT

The directors of Hardware Warehouse fully support the principles of good corporate governance as advocated by the Second King Report on Corporate Governance (Code of Corporate Practices and Conduct). The directors are committed to the implementation of, and have complied with the principles to the following extent:

FINANCIAL STATEMENTS

In terms of the Companies Act No 61 of 1973, as amended, ("Act") the directors are responsible for the preparation, integrity and fair representation of the annual financial statements of Hardware Warehouse. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and in the manner required by the Act.

To enable the directors to fulfil their responsibility, management sets standards and implements systems of internal control designed to provide certainty that assets are safeguarded, and that transactions are performed and recorded in accordance with the company's policies and procedures. These standards and controls include proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties.

BOARD OF DIRECTORS

Hardware Warehouse retains a unitary board structure. The board consists of three executive directors and one non-executive director. The non-executive director is an experienced professional who makes a significant contribution towards the board's deliberations and decisions. The composition of the board of directors is as follows:

Executive

I M J Senar (*Executive Chairman*)

S C Miller (*Chief Executive Officer*)

L A Rhind (*Financial Director*)

Non-executive

N E Woollgar (*Non-executive Director*)

Full details of the directorate are set out in Annexure 1 to this prospectus.

In accordance with the articles of association, one-third of the directors retire by rotation at every annual general meeting and their re-appointment is subject to shareholders' approval. Notwithstanding the above, if a director is appointed as managing director, his contract may provide that, as long as he is employed as managing director, he shall not be subject to retirement by rotation and as such, shall not be taken into account in determining the rotation or retirement of directors. All directors are subject to re-election by shareholders at the first opportunity after their initial appointment.

The roles of chairman and Chief Executive Officer are separate with a clear division of responsibilities to ensure a balance of power and authority between them. The chairman is an executive director who, together with the Chief Executive Officer, provide leadership and guidance to the board and encourage proper deliberation on all matters requiring the board's attention while obtaining input from the other directors. New appointments to the board are submitted to the board for approval prior to appointment.

The board is responsible for effective control over the affairs of the company, including: strategic and policy decision-making, financial control, risk management, communication with stakeholders, internal controls and the asset management process.

Although there was no specific committee tasked with identifying, analysing and reporting on risk during the financial year, this was nevertheless part of the everyday function of the directors and was managed at board level.

Directors are entitled, in consultation with the chairman to seek independent professional advice about the affairs of the company, at the company's expense.

BOARD AND BOARD COMMITTEE MEETINGS

The board retains overall accountability for the day-to-day management and strategic direction of the company, as well as for attending to the legislative, regulatory and the best practice requirements. The board has delegated to the managing director and the executive management authority to run day-to-day affairs of the company. Accountability to shareholders remains paramount in board decisions, and this is balanced against the demands of the regulatory environment in which the company operates and the concern of its other stakeholders.

To assist the board in discharging its collective responsibility for corporate governance, an Audit Committee has been established, to which certain of the board's responsibilities have been delegated.

Although the board delegates certain functions to the Audit Committee, it retains ultimate responsibility for Audit Committee's activities.

BOARD APPOINTMENTS

A disinterested quorum of directors may from time to time appoint one or more of their body to be managing director, assistant managing director, executive director (with or without specific designation) or general manager of the company or to any other executive office with the company for such period and, subject to the provisions of section 225 of the Act, at such remuneration (whether by way of salary, commission or participation in profits, or partly in one way and partly in another) and generally on such terms as they may think fit, and may, subject to any contract between him or them and the company, from time to time terminate his or their appointment and appoint another or others in his or their place or places.

AUDIT COMMITTEE

The chairperson, Neville E Woollgar, is a Non-executive director and the Designated Adviser is a member. The company's external auditors will attend meetings by invitation. The Audit Committee meets at least twice a year and its role is to assist the board by performing an objective and independent review of the company's finance and accounting control mechanisms. The company maintains accounting and administrative control systems required for the current levels of operations. The Audit Committee will review and monitor the following:

- the effectiveness of the company's information systems and other systems of internal control;
- the effectiveness of the internal audit function;
- the reports of both the external and internal auditors;
- the annual report and specifically the annual financial statements included therein;
- the accounting policies of the company and any proposed revisions thereto;
- the external audit findings, reports and fees and the approval thereof; and
- compliance with applicable legislation and requirements of regulatory authorities.

The Audit Committee sets the principles for recommending the external auditors for non-audit services use.

By virtue of the fact that the company's external auditors will attend all Audit Committee meetings, they will have unrestricted access to the Audit Committee and its chairperson with a view to ensuring that their independence is not impaired.

REMUNERATION COMMITTEE

The company currently does not have a Remuneration Committee, as this is not an AltX requirement.

EMPLOYMENT EQUITY

The company upholds and supports the objectives of the Employment Equity Act. Hardware Warehouse has implemented an Empowerment Trust for the benefit of its employees, the majority of which come from previously disadvantaged backgrounds, strengthening its positioning as an employer of choice.

The company's employment policies are designed to provide equal opportunities, without discrimination, to all employees.

CODE OF ETHICS

All employees of the company are required to maintain the highest ethical standards in ensuring that the company's business practices are conducted in a manner, which in all circumstances is above reproach.

COMMUNICATION WITH STAKEHOLDERS

The company is committed to ongoing and effective communication with stakeholders. It subscribes to a policy of sound corporate governance and open and timeous communication in line with JSE guidelines.

DEALINGS IN SECURITIES

In respect of dealings in securities of the company as applies to the directors and the company secretary, the chairman is required to authorise such dealings in securities, prior to deals being executed. The non-executive director is required to authorise the chairman's dealings in securities, prior to deals being executed. All of the directors and the company secretary are aware of the legislation regulating insider trading. A record of dealings by directors and the company secretary is retained by the company secretary. In accordance with the Listings Requirements of the JSE, the company's directors and company secretary are prohibited from dealing in securities during closed periods.

SALIENT FEATURES OF THE HARDWARE WAREHOUSE SHARE PURCHASE SCHEME

The salient features of The Hardware Warehouse Share Purchase Scheme, which was, established as an incentive to promote the continued growth of the Company by giving employees an opportunity to acquire shares therein, are set out below:

1. DEFINITIONS

“Acceptance Date”	the date of acceptance by a Participant of an offer for the purchase of Scheme Shares in terms of clause 6 or to acquire Rights and Options to purchase Allocation Shares in terms of clause 23;
“Eligible Applicant”	a person eligible for participation in this Scheme, namely, any Employee of the Group as well as a non-executive director of the Company;
“Employee”	an employee of the Group, being at management-level, and supervisory staff, including an executive director of the Group, to whom an offer shall have been made to acquire Shares;
“Group”	the Company and its subsidiaries;
“Purchase Price”	in relation to Scheme Shares and/or Allocation Shares, an amount equivalent to the closing price of the Shares on the JSE on the trading day immediately preceding that on which a resolution of the Board is passed for the purposes of allotting Scheme Shares or granting Rights and Options to purchase Allocation Shares. The closing price of the Shares on the JSE shall be determined by way of a certificate issued by a stockbroker licensed to trade on the JSE;
“Repurchase Price”	at any time, such amount as may be required by the Trust in order: <ul style="list-style-type: none"> – to refund in full to the Participant all amounts actually paid by him/her to the Trust in respect of his Share Scheme Debt and/or Allocation Shares which have not been released to the Participant; and – to discharge, by way of set off, amounts thereafter owing by the Participant to the Trust in respect of the acquisition by the Participant of the Scheme Shares and/or Allocation Shares; – to leave neither party with any claim against the other arising out of the Participant’s participation in the Scheme;
“Scheme Shares”	Shares purchased by a Participant under this Scheme for as long as the Participant has not made payment in full of his Share Scheme Debt relating to those Shares, which Shares shall rank <i>pari passu</i> in every respect with the existing ordinary issued shares of the Company;
“Service Period”	the number of years of uninterrupted service given by an Employee;
“Shares”	ordinary shares in the capital of the Company.

2. PURPOSE AND NATURE

It is the intention of the Company to promote the effective participation in the Company of Employees of the Group and to incentivise such Employees.

3. PURCHASE OF OR SUBSCRIPTION FOR SCHEME SHARES AND/OR ALLOCATION SHARES

The Directors shall from time to time instruct the Trustees to offer the opportunity to acquire Rights and Options to purchase Allocation Shares or to acquire Scheme Shares to Eligible Applicants in respect of such number of Shares, which in aggregate, together with any Shares issued in terms of The Hardware Warehouse Empowerment Trust and any Scheme Shares already in issue and/or the number of Allocation Shares at that time shall not exceed 20% (twenty percent) of the ordinary issued share capital of the Company at the date of the offer or such increased percentage as may from time to time be approved by the JSE and by the Company in general meeting.

The maximum number of shares which may presently be issued in terms of the Scheme and in terms of The Hardware Warehouse Empowerment Trust after listing is therefore 16 000 000 (sixteen million) Shares being 20% of the issued share capital of 80 000 000 (eighty million) Shares. The maximum number of Shares in respect of which any single Participant shall have rights in terms of the Scheme shall be limited to 1% (one percent) of the ordinary issued share capital of the Company from time to time, provided that the Board may resolve to increase such maximum number of Shares in respect of a single Participant to not more than 2% of the ordinary issued capital of the Company from time to time. The Directors shall forward to the Trustees a certified copy of the resolution authorising an offer of Scheme Shares and/or Allocation Shares to specific Eligible Applicants and the Trustees shall offer the number of Scheme Shares and/or Allocation Shares referred to in such resolution to the Eligible Applicant named in such resolution. Scheme Shares and/or Allocation Shares shall be offered at the Purchase Price referred to in 1.1.16.

4. ACQUISITION OF SCHEME SHARES BY THE CREDIT SALE METHOD

The Trustees shall, on the authority of a resolution of the Board and subject to the provisions of clause 6.2, offer Eligible Applicants the right to purchase Scheme Shares at the Purchase Price, which Purchase Price may be higher or lower than the price at which the Scheme Shares in question were acquired by the Trust.

5. RELEASE PERIOD

All amounts paid by a Participant shall be applied rateably toward payment of the Purchase Price of all of the Scheme Shares which such Participant has purchased unless the Participant allocates, in writing at the time that he makes such payment, the payment to specific Scheme Shares. The balance of the Share Scheme Debt of a Participant may be paid by him to the Trust at any time; provided that the Share Scheme Debt shall be paid in full by no later than the 6th (sixth) anniversary of the Acceptance Date; provided further that the Board may, in its discretion, increase the period for repayment stipulated in this clause 7.2, either generally or in any particular case.

When the Share Scheme Debt in respect thereof will have been paid in full, a Participant shall, subject to 3.16, be entitled to the release of his Scheme Shares from the operation of this Scheme after the expiry of:

- 5.1** a period equal to 4 (four) years after the Acceptance Date, as reduced by the length of the Service Period, in respect of 33 1/3% (thirty three and one third percent) of the Scheme Shares, or part thereof;
- 5.2** a period equal to 5 (five) years after the Acceptance Date, as reduced by the length of the Service Period, in respect of a further 33 1/3% (thirty three and one third percent) of the Scheme Shares, or part thereof;
- 5.3** a period of 6 (six) years after the Acceptance Date, as reduced by the length of the Service Period in respect of a further 33 1/3% (thirty three and one third percent) of the Scheme Shares, or part thereof;

Provided that in all cases the minimum holding period shall be 1 (one) year from the Acceptance Date.

A Participant's Share Scheme Debt shall bear interest on the balance thereof outstanding from time to time. Such interest shall be at a rate which is not less than the rate of interest stipulated from time to time in terms of the Seventh Schedule of the Income Tax Act, 1962, as amended. The Board may in its discretion alter the rate of interest from time to time; provided that no alteration in the rate shall have retrospective effect.

If the full amount of the Share Scheme Debt is not paid on the due date for payment thereof in terms of the Scheme, the Trustees shall call upon the Participant in writing to effect such payment and if such demand is not complied with within 21 (twenty one) days of the date thereof, the Trustees may claim payment of the amount due or cancel the sale and take possession of such Scheme Shares, in which latter mentioned event the Participant shall be released from all further liability in respect of his Share Scheme Debt. Alternatively, the Trustees may, in their sole and absolute discretion, permit the Participant to sell so many of the Scheme Shares as may be necessary to enable the Participant to discharge his Share Scheme Debt so as to procure the release of the remainder of the Scheme Shares to which he is entitled.

6. DEATH, RETIREMENT OR DISABILITY OR RESIGNATION

Retirement or disability

If a Participant becomes retired in terms of the rules of the Company's pension fund or who retires with the approval of the Board or who becomes permanently incapacitated prior to the 3rd (third) anniversary of the Acceptance Date, shall, within 2 (two) years after his becoming retired or permanently incapacitated, have the right and obligation at his election to pay his Share Scheme Debt in full in respect of all of his Scheme Shares and have them released to him or to have his Scheme Shares repurchased by the Trustees at the Repurchase Price of the Scheme Shares, in which latter mentioned event such retired or incapacitated Participant shall be released from all liability in respect of his Share Scheme Debt.

Death

If a Participant dies before the arrival of the 3rd (third) anniversary of the Acceptance Date, then at any time before the finalisation of his estate or within 2 (two) years after his death, whichever is the earlier, the Participant's executor shall have the right and obligation at his election to pay the Share Scheme Debt in full and have the Scheme Shares released or to have such Scheme Shares repurchased by the Trustees at the Repurchase Price of the Scheme Shares, in which latter mentioned event the estate of the Participant shall be released from all liability in respect of the Share Scheme Debt.

Dismissal

If the employment of a Participant with the Group is terminated by the Group as a result of dishonesty or upon such other grounds as will justify a summary dismissal in law, the Trustees shall forthwith thereafter purchase from the Participant who shall sell to the Trust the Scheme Shares which have then not been released to him at a price equal to the closing price of the Shares on the JSE on the trading day immediately preceding the date of purchase. The Trustees shall apply the proceeds of the sale to repay the Participant's Share Scheme Debt. Any excess of the proceeds over the Share Scheme Debt shall be forfeited to the Trust and the Participant shall be released from any further liability in respect of his Share Scheme Debt.

Cessation of employment for other reasons

- If a Participant for any reason other than his dismissal, death, retirement or permanent incapacity in terms of retirement, death or is dismissal, does not remain employed by the Group for a period of three years from the Acceptance Date; or
- the Participant remains an Employee of the Group but desires, at any time prior to the expiry of 3 (three) years from the Acceptance Date, to terminate his participation in the Scheme,
- then within a period of 30 (thirty) days from the date upon which he ceases to be employed by the Group or the date upon which he notifies the Trustees in writing that he no longer wishes to participate as a member of the Scheme, whichever is appropriate, the Trustees in their sole and absolute

discretion may repurchase the Scheme Shares from the Participant at the Repurchase Price. The Participant shall in the above events have no further rights or claims against the Trust arising from the acquisition of his Scheme Shares.

7. AMENDMENTS

It shall be competent for the Board and the Trustees to amend any of the provisions of the Scheme provided that:

- 7.1** no such amendment shall affect the vested rights of any Participant; and
- 7.2** no such amendment affecting any of the following matters shall be competent unless it is sanctioned by the Company in general meeting:
 - 7.2.1** the eligibility of Participants under this Scheme;
 - 7.2.2** the proportion, expressed as a percentage, which the Shares that may be acquired by the Trustees for purposes of the Scheme, bears to the entire issued ordinary share capital of the Company for the time being;
 - 7.2.3** the maximum number of Scheme Shares that may be acquired by any Participant;
 - 7.2.4** the Purchase Price;
 - 7.2.5** the voting, dividend, transfer and other rights, including those arising on a liquidation of the Company, attaching to the Scheme Shares;
 - 7.2.6** any amendment of this clause 7.2.

8. TRUSTEES

There shall at all times be a minimum of two Trustees in office. Gavin J Le Roux, ID number: 5808295069083 and Craig A Schenk, ID number: 7803165022088 (not being salaried directors or Employees of the Group) are appointed as Trustees of the Trust and accept that appointment by their signatures hereto;

If any Trustee shall cease to hold office, the Board shall appoint a person willing to act as such as Trustee in his place; provided that no salaried director or Employee of the Company shall be eligible for appointment as a Trustee.

9. ANNUAL DISCLOSURE

The Company shall in its annual financial statements, provide particulars of:

- the number of Scheme Shares which have been taken up by Participants in terms of offers made to them and which Scheme Shares are subject to the Scheme;
- any changes in the number of Scheme Shares which have been taken up by Participants during the year;
- the number of Scheme Shares initially taken up by Participants as Scheme Shares and which during the year have ceased to be Scheme Shares;
- the Purchase Price at which Employees were offered Scheme Shares during the year and the total number of Scheme Shares taken up by Eligible Applicants at such Purchase Price;
- the total number of Scheme Shares still available to be taken up by Eligible Applicants in terms of the Scheme; and
- the aggregate amount owing by Participants to the Trust at the end of each year.

SALIENT FEATURES OF THE HARDWARE WAREHOUSE EMPOWERMENT TRUST

The Hardware Warehouse Empowerment Trust was adopted in September 2007. Neville Woollgar, as nominee on behalf of The Hardware Warehouse Empowerment Trust, holds 10% of the company's shares, which were issued at R1.00 per share. The Hardware Warehouse Empowerment Trust has entered into a loan agreement with the company in respect of payment for these shares. Subsequent to the private placement and the listing, Neville Woollgar, as nominee on behalf of The Hardware Warehouse Empowerment Trust will hold 6 500 000 shares, being 8.13% of the company's shares until registration of The Hardware Warehouse Empowerment Trust, as set out in paragraph 6.1 of the prospectus.

The shares owned by The Hardware Warehouse Empowerment Trust rank *pari passu* with all other ordinary shares issued by Hardware Warehouse and will be voted by the Trustees, the majority of whom are appointed by the participants. Dividends paid to The Hardware Warehouse Empowerment Trust may, at the discretion of the Trustees, be set off against the loan or distributed to the participants.

1. DEFINITIONS

"Acceptance Date"	the date of acceptance by a Participant of an offer for the purchase of Scheme Shares in terms of clause 6 or to acquire Rights and Options to purchase Allocation Shares in terms of clause 23;
"Eligible Applicant"	a person eligible for participation in this Scheme, namely, any Employee of the Group who has not less than 12 (twelve) months uninterrupted service with the Group or as may be otherwise determined from time to time by the Board;
"Employee"	a full time employee of the Group to whom an offer shall have been made to acquire Shares, being Empowerment Employees and Non-Empowerment Employees;
"Empowerment Employees"	full time employees of the Group who qualify as empowerment Participants in terms of the Broad Based Black Economic Empowerment Act 53 of 2003;
"Group"	the Company and its subsidiaries;
"Non-Empowerment Employees"	full-time employees of the Group apart from Empowerment Employees;
"Participant"	an Eligible Applicant who has accepted the offer made to him/her to purchase Scheme Shares or who has accepted a Right and Option, including his heirs, executors and administrators;
"Purchase Price"	in relation to Scheme Shares and/or Allocation Shares, an amount equivalent to the closing price of the Shares on the JSE on the trading day immediately preceding that on which a resolution of the Board is passed for the purposes of allotting Scheme Shares or granting Rights and Options to purchase Allocation Shares. The closing price of the Shares on the JSE shall be determined by way of a certificate issued by a stockbroker licensed to trade on the JSE;
"Repurchase Price"	at any time, such amount as may be required by the Trust in order: <ul style="list-style-type: none"> – to refund in full to the Participant all amounts actually paid by him/her to the Trust in respect of his Share Scheme Debt and/or Allocation Shares which have not been released to the Participant; and

- to discharge, by way of set off, amounts thereafter owing by the Participant to the Trust in respect of the acquisition by the Participant of the Scheme Shares and/or Allocation Shares;
- to leave neither party with any claim against the other arising out of the Participant's participation in the Scheme;

“Scheme Shares”	Shares purchased by a Participant under this Scheme for as long as the Participant has not made payment in full of his Share Scheme Debt relating to those Shares, which Shares shall rank <i>pari passu</i> in every respect with the existing ordinary issued shares of the Company;
“Service Period”	the number of years of uninterrupted service given by an Employee;
“Shares”	ordinary shares in the capital of the Company.

2. PURPOSE AND NATURE

The purpose of The Hardware Warehouse Empowerment Trust is to enable the company to promote the interests of its employees, to provide, *inter alia*, the opportunity for employees of the company to have an interest in the company, to act as a vehicle for ownership in the company in compliance with the Broad Based Black Economic Empowerment Act 53 of 2003 and to facilitate Broad Based Black Empowerment.

3. PURCHASE OF OR SUBSCRIPTION FOR SCHEME SHARES AND/OR ALLOCATION SHARES

The Directors shall from time to time instruct the Trustees to offer the opportunity to acquire Rights and Options to purchase Allocation Shares or to acquire Scheme Shares to Eligible Applicants in respect of such number of Shares, which in aggregate, together with any Shares issued in terms of The Hardware Warehouse Share Purchase Scheme and together with any Scheme Shares already in issue and/or the number of Allocation Shares at that time shall not exceed 20% (twenty percent) of the ordinary issued share capital of the Company at the date of the offer or such increased percentage as may from time to time be approved by the JSE and by the Company in general meeting.

The maximum number of shares which may presently be issued in terms of The Hardware Warehouse Empowerment Trust and The Hardware Warehouse Share Purchase Scheme is therefore 16 000 000 (sixteen million) Shares being 20% of the issued share capital of 80 000 000 (eighty million) Shares post the private placement and the listing. The maximum number of Shares in respect of which any single Participant shall have rights in terms of the Scheme shall be limited to 1% (one percent) of the ordinary issued share capital of the Company from time to time, provided that the Board may resolve to increase such maximum number of Shares in respect of a single Participant to not more than 2% of the ordinary issued capital of the Company from time to time. The Directors shall forward to the Trustees a certified copy of the resolution authorising an offer of Scheme Shares and/or Allocation Shares to specific Eligible Applicants and the Trustees shall offer the number of Scheme Shares and/or Allocation Shares referred to in such resolution to the Eligible Applicant named in such resolution. Scheme Shares and/or Allocation Shares shall be offered at the Purchase Price referred to in 1.1.16.

Notwithstanding anything to the contrary herein contained:

- 75% (seventy five percent) of the Shares acquired by the Trust for the purposes of the Scheme shall be offered to and acquired by Empowerment Employees; and
- 25% (twenty five percent) of the Shares acquired by the Trust for the purpose of the Scheme shall be offered to and acquired by Non-Empowerment Employees.

4. ACQUISITION OF SCHEME SHARES BY THE CREDIT SALE METHOD

The Trustees shall, on the authority of a resolution of the Board and subject to the provisions of clause 6.2, offer Eligible Applicants the right to purchase Scheme Shares at the Purchase Price, which Purchase Price may be higher or lower than the price at which the Scheme Shares in question were acquired by the Trust.

5. RELEASE PERIOD

All amounts paid by a Participant shall be applied rateably toward payment of the Purchase Price of all of the Scheme Shares which such Participant has purchased unless the Participant allocates, in writing at the time that he makes such payment, the payment to specific Scheme Shares. The balance of the Share Scheme Debt of a Participant may be paid by him to the Trust at any time; provided that the Share Scheme Debt shall be paid in full by no later than the 6th (sixth) anniversary of the Acceptance Date; provided further that the Board may, in its discretion, increase the period for repayment stipulated in this clause 7.2, either generally or in any particular case.

When the Share Scheme Debt in respect thereof will have been paid in full, a Participant shall, subject to 3.16, be entitled to the release of his Scheme Shares from the operation of this Scheme after the expiry of:

- 5.1** a period equal to 4 (four) years after the Acceptance Date, as reduced by the length of the Service Period, in respect of 33 1/3% (thirty three and one third percent) of the Scheme Shares, or part thereof;
- 5.2** a period equal to 5 (five) years after the Acceptance Date, as reduced by the length of the Service Period, in respect of a further 33 1/3% (thirty three and one third percent) of the Scheme Shares, or part thereof;
- 5.3** a period of 6 (six) years after the Acceptance Date, as reduced by the length of the Service Period in respect of a further 33 1/3% (thirty three and one third percent) of the Scheme Shares, or part thereof;

Provided that in all cases the minimum holding period shall be 1 (one) year from the Acceptance Date.

A Participant's Share Scheme Debt shall bear interest on the balance thereof outstanding from time to time. Such interest shall be at a rate which is not less than the rate of interest stipulated from time to time in terms of the Seventh Schedule of the Income Tax Act, 1962, as amended. The Board may in its discretion alter the rate of interest from time to time; provided that no alteration in the rate shall have retrospective effect.

If the full amount of the Share Scheme Debt is not paid on the due date for payment thereof in terms of the Scheme, the Trustees shall call upon the Participant in writing to effect such payment and if such demand is not complied with within 21 (twenty one) days of the date thereof, the Trustees may claim payment of the amount due or cancel the sale and take possession of such Scheme Shares, in which latter mentioned event the Participant shall be released from all further liability in respect of his Share Scheme Debt. Alternatively, the Trustees may, in their sole and absolute discretion, permit the Participant to sell so many of the Scheme Shares as may be necessary to enable the Participant to discharge his Share Scheme Debt so as to procure the release of the remainder of the Scheme Shares to which he is entitled.

6. DEATH, RETIREMENT OR DISABILITY OR RESIGNATION

Retirement or disability

If a Participant becomes retired in terms of the rules of the Company's pension fund or who retires with the approval of the Board or who becomes permanently incapacitated prior to the 3rd (third) anniversary of the Acceptance Date, shall, within 2 (two) years after his becoming retired or permanently incapacitated, have the right and obligation at his election to pay his Share Scheme Debt in full in respect of all of his Scheme Shares and have them released to him or to have his Scheme Shares repurchased by the Trustees at the Repurchase Price of the Scheme Shares, in which latter mentioned event such retired or incapacitated Participant shall be released from all liability in respect of his Share Scheme Debt.

Death

If a Participant dies before the arrival of the 3rd (third) anniversary of the Acceptance Date, then at any time before the finalisation of his estate or within 2 (two) years after his death, whichever is the earlier,

the Participant's executor shall have the right and obligation at his election to pay the Share Scheme Debt in full and have the Scheme Shares released or to have such Scheme Shares repurchased by the Trustees at the Repurchase Price of the Scheme Shares, in which latter mentioned event the estate of the Participant shall be released from all liability in respect of the Share Scheme Debt.

Dismissal

If the employment of a Participant with the Group is terminated by the Group as a result of dishonesty or upon such other grounds as will justify a summary dismissal in law, the Trustees shall forthwith thereafter purchase from the Participant who shall sell to the Trust the Scheme Shares which have then not been released to him at a price equal to the closing price of the Shares on the JSE on the trading day immediately preceding the date of purchase. The Trustees shall apply the proceeds of the sale to repay the Participant's Share Scheme Debt. Any excess of the proceeds over the Share Scheme Debt shall be forfeited to the Trust and the Participant shall be released from any further liability in respect of his Share Scheme Debt.

Cessation of employment for other reasons

If a Participant for any reason other than his dismissal, death, retirement or permanent incapacity in terms of retirement, death or is dismissal, does not remain employed by the Group for a period of three years from the Acceptance Date; or

- the Participant remains an Employee of the Group but desires, at any time prior to the expiry of three years from the Acceptance Date, to terminate his participation in the Scheme,
- then within a period of 30 (thirty) days from the date upon which he ceases to be employed by the Group or the date upon which he notifies the Trustees in writing that he no longer wishes to participate as a member of the Scheme, whichever is appropriate, the Trustees in their sole and absolute discretion may repurchase the Scheme Shares from the Participant at the Repurchase Price. The Participant shall in the above events have no further rights or claims against the Trust arising from the acquisition of his Scheme Shares.

7. AMENDMENTS

It shall be competent for the Board and the Trustees to amend any of the provisions of the Scheme provided that:

7.1 no such amendment shall affect the vested rights of any Participant; and

7.2 no such amendment affecting any of the following matters shall be competent unless it is sanctioned by the Company in general meeting:

7.2.1 the eligibility of Participants under this Scheme;

7.2.2 the proportion, expressed as a percentage, which the Shares that may be acquired by the Trustees for purposes of the Scheme, bears to the entire issued ordinary share capital of the Company for the time being;

7.2.3 the maximum number of Scheme Shares that may be acquired by any Participant;

7.2.4 the Purchase Price;

7.2.5 the voting, dividend, transfer and other rights, including those arising on a liquidation of the Company, attaching to the Scheme Shares;

7.2.6 any amendment of this clause 7.2.

8. TRUSTEES

There shall at all times be a minimum of three Trustees in office, 2 (two) of whom shall be appointed by the Participants and 1 (one) of whom shall be appointed by the Board. Neville Errol Woollgar (Identity Number: 3912215015085), Gavin Jean Le Roux (Identity Number: 5808295069083) and Craig Alan Schenk (Identity Number: 7803165022088) are appointed as Trustees of the Trust and accept that appointment by their signatures hereto.

If any Trustee shall cease to hold office, the Board shall appoint a person willing to act as such as Trustee in his place; provided that no salaried director or Employee of the Company shall be eligible for appointment as a Trustee.

9. ANNUAL DISCLOSURE

The Company shall in its annual financial statements, provide particulars of:

- the number of Scheme Shares which have been taken up by Participants in terms of offers made to them and which Scheme Shares are subject to the Scheme;
- any changes in the number of Scheme Shares which have been taken up by Participants during the year;
- the number of Scheme Shares initially taken up by Participants as Scheme Shares and which during the year have ceased to be Scheme Shares;
- the Purchase Price at which Employees were offered Scheme Shares during the year and the total number of Scheme Shares taken up by Eligible Applicants at such Purchase Price;
- the total number of Scheme Shares still available to be taken up by Eligible Applicants in terms of the Scheme; and
- the aggregate amount owing by Participants to the Trust at the end of each year.



HARDWARE WAREHOUSE
ALWAYS THE LOWEST PRICES!

HARDWARE WAREHOUSE LIMITED

Incorporated in the Republic of South Africa

(Registration number: 2007/004302/06)

Share code: HWW ISIN: ZAE000104253

("Hardware Warehouse" or "the company")

PRIVATE PLACEMENT APPLICATION FORM

In respect of the private placement by way of an offer for subscription of 15 000 000 Hardware Warehouse ordinary shares at an issue price of 100 cents per ordinary share in terms of the prospectus, registered by the Registrar of Companies on 13 September 2007 and issued on 18 September 2007 ("the prospectus")

No payment should be submitted with this private placement application form to the Designated Adviser, Merchant Sponsors (Proprietary) Limited. Successful applicants who are allotted ordinary shares will be required to make payment in respect of such shares so as to be received by no later than 12:00 on Wednesday, 26 September 2007. Please refer to the instructions overleaf before completing this private placement application form.

1. APPLICATION FOR ORDINARY SHARES

Applicants should complete the private placement application form and deliver by hand, post or fax it to:

if delivered by hand or courier:

Designated Adviser
Merchant Sponsors (Proprietary)
Limited
2nd Floor, North Block
Hyde Park Office Tower
2024

if posted:

Designated Adviser
Merchant Sponsors
(Proprietary) Limited
PO Box 41480
Craighall
Jan Smuts Avenue

if faxed:

Designated Adviser
Merchant Sponsors
(Proprietary) Limited
Fax: 011 325 6362
Corner 6th Road and
Hyde Park, Johannesburg, 2196

so as to be received by no later than 12:00 on Thursday, 20 September 2007.

1.1 Application for dematerialised shares

Applicants who elect to receive their allocated ordinary shares in dematerialised form may do so, in which case this **private placement application and the section on their CSDP or broker must be completed and stamped or signed by the relevant CSDP or broker, and returned to the Designated Adviser.**

Applicants, who wish to receive their allocated ordinary shares in dematerialised form, can also complete and return this private placement application form to their duly appointed CSDP or broker by the time and date stipulated in the agreement governing their relationship with their CSDP or broker, together with the method of payment as stipulated in such agreement.

1.2 Application for certificated shares

Applicants who elect to receive their allocated ordinary shares in certificated form may do so, in which case this private placement application form must be completed and returned to the Designated Adviser.

2. PAYMENT IN RESPECT OF ALLOTMENT OF ORDINARY SHARES

Successful applicants who are allocated shares may elect to make payment by way of **electronic transfer** or by way of **bank guaranteed cheque** or **banker's draft**.

2.1 Payment by electronic transfer

Applicants who have been allotted ordinary shares and who wish to pay for their allocation by way of **electronic transfer** may do so, in which case **proof of such payment by electronic transfer must be delivered by hand, posted or faxed to the Designated Adviser (and not the transfer secretaries) to:**

Applicants should complete the private placement application form and deliver by hand, post or fax it to:

if delivered by hand or courier:

Designated Adviser
Merchant Sponsors (Proprietary)
Limited
2nd Floor, North Block
Hyde Park Office Tower
2024

if posted:

Designated Adviser
Merchant Sponsors
(Proprietary) Limited
PO Box 41480
Craighall
Jan Smuts Avenue

if faxed:

Designated Adviser
Merchant Sponsors
(Proprietary) Limited
Fax: 011 325 6362
Corner 6th Road and
Hyde Park, Johannesburg, 2196

so as to be received by no later than 12:00 on Wednesday, 26 September 2007.

Payment by electronic transfer must be made into the following bank account:

Bank: Absa Bank
Branch: Absa Bank East London
Branch code: 632005
Account name: Hardware Warehouse Limited Private Placement
Account number: 4055036858

Hardware Warehouse accepts no responsibility and will not be liable for the correctness of any allocation of private placement shares pursuant to payment being made or alleged to have been made by way of electronic transfer due to proof of such payment not being received or purported proof of such payment being insufficient or defective or Hardware Warehouse, for any reason, not being able to reconcile a payment or purported payment with a particular application for private placement shares.

2.2 Payment by bank guaranteed cheque or banker's draft

Applicants who have been allotted ordinary shares and who wish to pay for their allocation by way of **bank guaranteed cheque** or **banker's draft** may do so, in which case payment in the form of a bank guaranteed cheque or banker's draft (crossed "not transferable" and drawn in favour of "**Hardware Warehouse Limited Private Placement**") must be delivered in an envelope marked "**Hardware Warehouse Limited Private Placement**" to the **Designated Adviser (and not the transfer secretaries):**

if delivered by hand or courier:

Designated Adviser
Merchant Sponsors (Proprietary)
Limited
2nd Floor, North Block
Hyde Park Office Tower
2024

so as to be received by no later than 12:00 on Wednesday, 26 September 2007.



AT THE DISCRETION OF THE DIRECTORS, LATE APPLICATIONS MAY NOT BE ACCEPTED.

Reservation of rights

The directors of Hardware Warehouse reserve the right to accept or refuse any application(s), either in whole or in part, or to *pro rata* any or all application(s) (whether or not received timeously) in such manner as they may, in their sole and absolute discretion, determine.

The directors of Hardware Warehouse reserve the right to accept or reject, either in whole or in part, any private placement applications should the terms contained in this prospectus of which this private placement application form forms part and the instructions herein are not be complied with.

Applications must be for a minimum of 5 000 ordinary shares and in multiples of 1 000 ordinary shares thereafter.

To the directors

Hardware Warehouse Limited

1. I/We, the undersigned, confirm that I/we have full legal capacity to contract and, having read the prospectus, hereby irrevocably apply for and request you to accept my/our application for the undermentioned number of ordinary shares in Hardware Warehouse at 100 cents per share or any lesser number that may, in your absolute discretion, be allotted to me/us, subject to the articles of association of Hardware Warehouse.
2. I/We wish to receive my/our allocated ordinary shares in dematerialised form and will hand this private placement application form to the Designated Adviser, Merchant Sponsors (Proprietary) Limited, and will provide appropriate instructions to my/our appointed CSDP or broker, as the case may be, with regard to the application herein and the payment in respect thereof, as stipulated in the agreement governing my/our relationship with my/our CSDP or broker, as the case may be. I/We accept that payment in respect of the application will be, in terms of the custody agreement entered into between me/us and my/our CSDP or broker, on confirmation of allotment.

or

3. I/We wish to receive my/our allocated ordinary shares in certificated form and commit to accept the physical share certificate.
4. I/We understand that the subscription for ordinary shares in terms of the prospectus is conditional on the granting of a listing of the ordinary shares of Hardware Warehouse, by Friday, 28 September 2007 or such later date as the directors may determine, on the Alternative Exchange ("AltX") of JSE Limited.

Dated _____ 2007 Telephone number () _____

Signature _____

Assisted by (where applicable) _____

Surname of individual or Name of entity	Mr Mrs Miss Other title
First names (in full)	
To be completed by all applicants	
Postal address (Preferably PO Box address) Share certificate, if applicable, will be sent to this address	
Telephone number	()
Email address	
Total number of ordinary shares applied for Note: Minimum number of 5 000 ordinary shares and thereafter in multiples of 1 000 ordinary shares	(Enter figures only – not words)

Section must be completed if ordinary shares are required in dematerialised form. Required information must be completed by CSDP or broker.

CSDP name	
CSDP contact person	
CSDP contact telephone number	()
CSA or Bank CSD account number	
Scrip account number	
Settlement bank account number	
CSDP signature or stamp	

This application will constitute a legal contract between Hardware Warehouse and the applicant. The issuer of the ordinary shares is Hardware Warehouse. Application forms for certificated or uncertificated ordinary shares will not be accepted unless the above information has been furnished.

Instructions:

1. No payment should be submitted with this private placement application form to the Designated Adviser, Merchant Sponsors (Proprietary) Limited. Successful applicants who are allocated shares must ensure that payment is paid into the bank account detailed in paragraph 2.1 of this private placement application form so as to be received by no later than 12:00 on Wednesday, 26 September 2007.
2. Applications must be made on this private placement application form. Photocopies or reproductions of this private placement application form will be accepted.
3. Applications are irrevocable and may not be withdrawn once submitted to the Designated Adviser.
4. All CSDPs and brokers will be required to retain this private placement application form for presentation to the directors if required.
5. Please refer to the terms and conditions of the private placement set out in paragraph 9 of the prospectus. Applicants should consult their brokers, bankers, or other professional advisers in case of doubt as to the correct completion of this private placement application form.
6. Applications must be for a minimum of 5 000 ordinary shares and thereafter in multiples of 1 000 ordinary shares.
7. Applicants who wish to receive their ordinary shares in dematerialised form must advise their CSDP or broker in terms of the custody agreement entered into between them and their CSDP or broker.
8. Applicants who wish to receive their ordinary shares in certificated form must submit only one private placement application form. To the extent that more than one application is submitted, the first private placement application form received will be the one in respect of which Hardware Warehouse ordinary shares will be allocated in terms of the prospectus and further private placement application form(s) may be ignored, at the sole and absolute discretion of the directors of Hardware Warehouse.
9. No receipts will be issued for private placement application forms.
10. All alterations on this private placement application form must be authenticated by full signature.
11. Hardware Warehouse will use the "certified transfer deeds" and other temporary "documents of title" procedure approved by JSE Limited and therefore will issue only a "block" certificate for the ordinary shares allotted in terms of this private placement application for an applicant who requests a share certificate.
12. Blocked Rand may be used by emigrants and non-residents of the common monetary area (comprising the Republics of South African and Namibia and the Kingdoms of Swaziland and Lesotho) for payment in terms of this private placement application and reference should be made to paragraph 9.11 of the prospectus, which deals with South African Exchange Control Regulations.
13. If any cheque or banker's draft is dishonoured, the company may, in its sole discretion, regard the relevant allocation as invalid or take such other steps in regard thereto as it may deem fit.

