



HARDWARE WAREHOUSE
ALWAYS THE LOWEST PRICES!

ANNUAL REPORT 2009

Hardware Warehouse Revenue up 32.5%
Hardware Warehouse EBITDA up 9.6%
Hardware Warehouse Net asset value up 23.2%

Group Revenue up 43.8%
Group EBITDA up 2.9%
Group Net asset value up 23.5%
Group stores up 31.3%



HARDWARE WAREHOUSE GROUP
Incorporated in the Republic of South Africa

(Registration number: 2007/004302/06)
Share Code: HWW
ISIN: ZAE000104253

CONSOLIDATED AND COMPANY ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2009

HARDWARE WAREHOUSE GROUP

(Registration Number : 2007/004302/06)

CONSOLIDATED AND COMPANY ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2009

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HARDWARE WAREHOUSE GROUP

DIRECTORATE for the year ended 30 June 2009

I M J Senar

Executive Chairman (B.Com)

Ivan has worked within the building materials retail industry for 14 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

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

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

Non-executive director (B.Com, Practising attorney at law)

Neville has 38 year's experience in the commercial law sector and has been Hardware Warehouse's attorney for 13 years, giving him 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. Amongst 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.

H A Long

Non-executive director CA(SA)

Tony qualified as a Chartered Accountant in 1972 and has approximately 20 years experience as a partner in a medium-sized auditing firm. He has also acted as financial director in the retail industry. Currently he is a director of GBS Mutual Bank, chairing the audit committee. He is also a director of a number of small companies associated with the higher education sector.

HARDWARE WAREHOUSE GROUP

EXECUTIVE CHAIRMAN'S REPORT for the year ended 30 June 2009

NATURE OF BUSINESS

Hardware Warehouse is a retailer of low cost building materials and associated products, selling directly to predominantly cash paying customers including homebuilding, home improvers, contractors, traders and government organisations. It is fast becoming the low cost building material retailer of choice in its selected markets. Whilst a large portion of the group's customer base falls within the lower to middle income rural groups, we have identified that our customers' needs are changing, in that they are becoming more aspirational, and the group will continue to adapt accordingly. With the acquisition of the On-Tap franchise, incorporating Tiles-On-Tap, in a portion of the region of the Eastern Cape, the group has diversified its base to include: urban customers, middle to high LSM groups, plumbing and other contractors. 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 group has developed a specific environment and approach to make the selection of products both comfortable and understandable, with a strong emphasis on supplying quality products at competitive prices.

FINANCIAL PERFORMANCE

These are the group's second set of annual results since listing on AltX in September 2007. Notwithstanding the severe economic downturn, specifically within the residential building market, the group has clearly demonstrated its ability to perform during trying times. For the purposes of comparison it would be prudent to comment separately on Hardware Warehouse Limited and its newly acquired subsidiary, On-Tap Border (Proprietary) Limited - the latter subsidiary only having traded for 7 months of the year under review. Seasonality - the business's turnover is very seasonal. The first six months (July to December) contributed 53.5% to annual turnover and the second six months (January to June) only 46.5%. With overheads fairly constant throughout the year, the effect on net profits on the first and second six month periods is substantial. This should be taken into account when assessing the financial performance of the second half of the year.

SEGMENTAL INFORMATION

Revenue:	2009	2008	% change
Total	R317.1m	R220.5m	43.8
Hardware Warehouse	R292.1m	R220.4m	32.5
On-Tap Border (Pty) Ltd	R 26.5m	-	
Other segments	R 0.6m	R 0.1m	
Inter segment sales	(R 2.2m)	-	
EBITDA:	2009	2008	% change
Total	R17.7m	R17.2m	2.9
Hardware Warehouse	R18.9m	R17.2m	9.6
On-Tap Border (Pty) Ltd	(R 1.2m)	-	

Hardware Warehouse Limited

Revenue grew by 32.5% to R292m and on a store for store comparable basis by 17.6%. Stripping out estimated deflation of 2% and with due consideration to the negative economic environment, the company is pleased with a comparable real growth in store sales of 19.6%. The company's specific inflationary environment did an about turn during the last 8 months, with metal reducing by 42% in cost price. Metal is the main contributing factor to our deflation of 2% (cement is excluded from these calculations). During the financial year under review the company strategically bolstered its management and systems infrastructure in anticipation of the next store growth phase. Notwithstanding the resultant effect on overheads, Hardware Warehouse Limited has done exceptionally well to report an EBITDA growth of 9.6%. During the calendar years 2010 to 2012, the company will be capable of a further strong store roll-out programme, having put in place the correct infrastructure base to support expansion. Given the current economic environment and the bolstered overhead base, the company expects the 2010 financial year to be a difficult year. However, the benefits of the growth strategy remain promising in the medium term. There are 17 Hardware Warehouse stores, of which there are 15 in the Eastern Cape, 1 in Kwa-Zulu Natal and 1 in Mpumalanga.

HARDWARE WAREHOUSE GROUP

EXECUTIVE CHAIRMAN'S REPORT for the year ended 30 June 2009

Subsidiary: On-Tap Border (Proprietary) Limited

The December 2008 conclusion of the acquisition of this business was unavoidably not well timed. This business focuses on the upper end of the market in residential and commercial markets. However, Hardware Warehouse will continue to give attention to the benefits envisaged at the time of acquisition, namely: the companies specialised plumbing supply skills, the gap in the rural, peri-urban and government tendering market for plumbing suppliers and the synergies of trading plumbing products through the existing Hardware Warehouse stores. This approach will ensure that the four On Tap stores revenue base will change to reflect a stronger cash base and less reliance on the bonded, interest sensitive, upper end market. On-Tap Border (Proprietary) Limited added an additional R26.5m to turnover (7 months) and reported an EBITDA loss of R1.156 million. The 2 original stores purchased made a profit during the current period, however the overhead expenses for the two newly opened stores resulted in the loss for On-Tap Border (Proprietary) Limited in the current year. Management expects the original existing stores to remain profitable and the new stores to become profitable in the financial year ended 30 June 2010.

General Group Financial Performance Comments

Notwithstanding the challenging economic environment, underpinned by the worst recession in 17 years, the Board is extremely pleased with the group results. These results clearly reflect the resilience of the business model and bode well for the group during the expected economic recovery. In support of the growing operations base a new position was created, Senior Operations Manager, Garreth Sutherland from Edcon, was appointed. This position reflects the group's emphasis on store performance and controls.

OPERATIONAL PERFORMANCE

The stores operated well during this difficult period and despite not having the benefit of inflation on cost pricing compared to FYE 2008, the improvement on EBITDA of 9.6% for the Hardware Warehouse stores is noteworthy. Currently the group comprises of 21 stores in total.

CASH FLOW

Hardware Warehouse Limited

Cash Flow generated from operations (before tax) grew a pleasing R26.1m as working capital management improved.

Group

Cash Flow generated from operations (before tax) grew a pleasing R11.9m as working capital management improved. This being after working capital requirements for On-Tap Border (Proprietary) Limited is taken into account.

NOTEWORTHY COMMENTARY

As envisaged before the time of listing, the group would require access to capital to fund growth. Having embarked on the planned store growth and the acquisition of On-Tap Border (Proprietary) Limited the normal financing channels, during the downturn, became unavailable.

This placed the business under certain cash flow pressures which were resolved with a fixed rate, 3 year term private loan of R15 million which was obtained on 29 May 2009. The effect on earnings of the group for the year of this loan was an interest expense of R261 437. When the market returns to a modicum of normality, the Board will explore cheaper financing options. During the first half of the year under review the group re-purchased 2 100 000 shares at an average price of 80c per share.

PROSPECTS AND FUTURE PERFORMANCE

During 2009 Hardware Warehouse has prepared for the next expected push of store roll-out. The resultant strategic investments in management and systems, coupled with the current economic environment, will probably hinder the group's financial performance for the year ending 30 June 2010. However, we do expect the benefits of new stores to support this strategy and earnings, as South Africa possibly exits the current economic downturn during the second half of the 2010 financial year. Importantly, the group will use the established store beach-heads in KZN and Mpumalanga to expand in line with its near-term strategy.

HARDWARE WAREHOUSE GROUP

EXECUTIVE CHAIRMAN'S REPORT for the year ended 30 June 2009

Management attention will continue to extract the benefits of the On Tap Border (Proprietary) Limited acquisition and position this division for growth during the expected improvement in the building materials retail environment. The Importing business has now reached critical mass and we look forward to earnings contributions from this investment during the financial year ending 30 June 2010.

These comments on future performance have not been reviewed or reported upon by the group's Auditors.

DIVIDENDS

The Board has not made a decision on its dividend policy for the financial year ending 30 June 2010 as we await a clearer indication on improvements in the economic environment. No dividend will be declared for the current year in line with the group's growth objectives.

GOVERNMENT TENDERING

Government tendering on low cost housing continues to receive management attention and we believe the unfortunate backlog in delivery in the Eastern Cape will shortly receive serious government attention. This is already proving evident. To this end the group will continue to position itself as a serious player in the provinces it operates.

APPRECIATION

The commitment and dedication of our management team and staff, coupled with numerous service providers, has ensured that we achieved good results during relatively hard times, and we look forward to a continuation of this in the tough year ahead. I would also like to thank the group's board members and advisors for guidance over the past year, and look forward to the year ahead with enthusiasm.

IMJ Senar
Executive Chairman

11 November 2009

HARDWARE WAREHOUSE GROUP

STATEMENT OF RESPONSIBILITIES BY THE BOARD OF DIRECTORS for the year ended 30 June 2009

The directors are required by the Companies Act of South Africa, 1973, as amended, to maintain adequate accounting records and are responsible for the content and integrity of the consolidated and company annual financial statements and related financial information included in this report. It is their responsibility to ensure that the consolidated and company annual financial statements fairly present the state of affairs of the group as at the end of the financial year and the results of its operations and cash flows for the year then ended, in conformity with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa, 1973, as amended. The external auditors are engaged to express an independent opinion on the consolidated and company annual financial statements.

The consolidated and company annual financial statements are prepared in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa, 1973, as amended and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

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

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

The directors have reviewed the group's cash flow forecast for the year to 30 June 2010 and, in the light of this review and the current financial position, they are satisfied that it has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the group's consolidated and company annual financial statements. The consolidated and company annual financial statements have been examined by the group's external auditors and their report is presented on page 7.

The consolidated and company annual financial statements set out on pages 14 to 85, which have been prepared on the going concern basis, were approved by the board on 11 November 2009 and were signed on its behalf by:

.....
S C MILLER
Chief Executive Officer

.....
L A RHIND
Financial Director

11 November 2009

HARDWARE WAREHOUSE GROUP

**AUDIT COMMITTEE REPORT
for the year ended 30 June 2009**

Report of the audit committee

The primary role of the audit committee is to review and evaluate the Group's risk profile and its internal controls. It is also required to consider the efficacy of the accounting and financial systems and the external audit process. The group does not employ a formal internal audit process. Controls, particularly over stock-in-trade are conducted by group employees who are independent of the operations managers.

The committee reviews the audit plan with the external auditors. It also reviews the reports of the external auditors and management's response to any recommendations made by the external auditors.

The audit committee has satisfied itself as to the appropriateness of the expertise and experience of the Financial Director. All published financial results and reports are reviewed and approved by the audit committee before they are formally endorsed by the board of directors. The audit committee has therefore recommended the adoption of the annual financial statements by the board.

The committee is chaired by H A Long who is an independent non-executive director. The other member is N E Woollgar, also an independent non-executive director and M Goncalves attends the audit committee meetings as the representative of the Group's designated adviser. The external auditors are required to participate in all audit committee meetings. Certain executive and other advisors attend meetings by invitation. The committee met five times during the year under review at which all committee members were present. The chair provides the opportunity at each audit committee meeting for confidential meetings between the committee members and the external auditor.

During the year under review the audit committee conducted an oversight role for a change in external auditors and it recommended the appointment of BDO Spencer Steward (Johannesburg) Inc. The audit committee is satisfied with the independence of the external auditors. This change was approved at the Group's annual general meeting held in December 2008.

**CERTIFICATE BY GROUP SECRETARY
for the year ended 30 June 2009**

In terms of section 268G(d) of the Companies Act, 1973, as amended, we certify that, to the best of our knowledge and belief, the company has lodged with the Registrar of Companies for the financial year ended 30 June 2009, all such returns as are required of a public company in terms of the Companies Act, 1973, as amended, and that all such returns are true, correct and up to date.

CHARTERIS & BARNES ADMINISTRATIVE SERVICES CC
SECRETARIES

.....
Per: IGNATIUS WALTER WAIT
COMPANY SECRETARY

11 November 2009

REPORT of the INDEPENDENT AUDITORS
to the SHAREHOLDERS of
HARDWARE WAREHOUSE LIMITED

We have audited the group annual financial statements and annual financial statements of Hardware Warehouse Limited, which comprise the consolidated and separate balance sheets as at 30 June 2009, and the consolidated and separate income statements, the consolidated and separate statements of changes in equity and consolidated and separate cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the directors' report as set out on pages 10 to 85.

Directors' Responsibility for the Financial Statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa. 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.

Auditor's 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 about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of Hardware Warehouse Limited as at 30 June 2009, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

BDO Spencer Steward (Johannesburg) Inc
Registered Auditors

PER: N Griffith
Chartered Accountant (SA)
Registered Auditor
Director

13 Wellington Road
Parktown, Johannesburg, South Africa

11 November 2009

HARDWARE WAREHOUSE GROUP
CORPORATE GOVERNANCE REPORT
for the year ended 30 June 2009

Hardware Warehouse endorses the Code of Corporate practices and Conduct as contained in the second King Report on Corporate Governance for South Africa 2002. The company has established mechanisms and policies appropriate to the group's business in keeping with its commitment to best practices in corporate governance. Hardware Warehouse complied with the Code of Corporate practices and Conduct in its entirety and for the whole year under review. The directors are committed to the implementation of, and have complied with the principles to the following extent:

Directorate

The board of directors is responsible for effective control over the affairs of the company including strategic and policy decision-making, financial control, risk management, planning and acquisitions. Hardware Warehouse retains a unitary board structure. The board consists of three executive directors and two independent non-executive directors. Both non-executive directors are experienced professionals who make a significant contribution towards the board's deliberations and decisions. 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. All directors are subject to re-election by shareholders at the first opportunity after their initial appointment.

The roles of the chairman and chief executive officer are separate, with a clear division of responsibilities to ensure a balance of power and authority between them. Although the chairman is an executive director, he, 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.

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. 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 towards corporate governance, an Audit Committee has been established. Although the board delegates certain functions to the Audit Committee, it retains ultimate responsibility for Audit Committee activities.

The board is of the opinion that the sub-committees set out below have effectively discharged their responsibilities, as contained in the board's terms of reference.

Audit committee

The audit committee meets at least three times a year. Its role is to assist the board by performing an objective and independent review of the company's finance, risk and accounting control mechanisms. The committee comprises two non-executive directors. The company's external auditors, the designated advisor and certain executive directors attend meetings by invitation.

The group maintains accounting, risk and administrative controls systems required for the current levels of operations. The audit committee reviews and monitors the following:

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

By virtue of the fact that the group's external auditors are invited to attend all audit committee meetings, they have unrestricted access to the audit committee and its chairperson with a view to ensuring that their independence is not impaired.

HARDWARE WAREHOUSE GROUP
CORPORATE GOVERNANCE REPORT
for the year ended 30 June 2009

Remuneration Committee

The remuneration committee meets annually to discuss annual increases and performance incentives and bonuses. The committee consists of three members, comprising two non-executive directors and the Chief Executive Officer.

Board and committee meetings attendance

The board meets on a regular basis where possible, but at a minimum every three months. The directors receive information timeously so that full consideration is given to all issues under discussion.

Five board meetings were held during the financial year ended 30 June 2009 and one after year end until the date of this report. Five audit committee meetings were held during the year and one after year end.

The attendance of the directors as at 30 June 2009 for the year under review was as follows:

Director	No. of Board Meetings attended	No. of Audit Committee meetings attended
I M J Senar	5	Not applicable
S C Miller	4	Not applicable
L A Rhind	5	Not applicable
N E Woollgar	5	5
H A Long	5	5

Code of Ethics

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

Communication with Stakeholders

The group 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.

Employment Equity

The group 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 position as an employer of choice.

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

HARDWARE WAREHOUSE GROUP

DIRECTORS' REPORT for the year ended 30 June 2009

The directors take pleasure in submitting their annual report, together with the audited consolidated and company annual financial statements for the year ended 30 June 2009.

1. PRINCIPAL ACTIVITIES OF THE GROUP

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

2. GENERAL REVIEW OF OPERATIONS AND PERFORMANCE

Hardware Warehouse's business and operations, and the results thereof, are reflected in the attached consolidated and company annual 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 elsewhere in the annual financial statements and in subsequent events below.

3. SHARE CAPITAL

Full details of the authorised, issued and unissued capital at 30 June 2009 are contained in note 7 to the consolidated annual financial statements.

4. DIVIDENDS

No dividend has been declared or paid during the year and the directors do not recommend one. (2008: RNIL).

5. DIRECTORS

The directors of the group during the year and to the date of this report are as follows:

Name	Nationality
<i>Executive Directors</i>	
I M J Senar	South African
S C Miller	South African
L A Rhind	South African
<i>Non-Executive Directors</i>	
N E Woollgar	South African
H A Long	South African

HARDWARE WAREHOUSE GROUP

DIRECTORS' REPORT for the year ended 30 June 2009

6. DIRECTORS' SHAREHOLDINGS

At 30 June 2009, the directors of the group held the following shares in Hardware Warehouse Limited:

	Shares held directly	Shares held indirectly	Total percentage held directly	Total percentage held indirectly	Total percentage holding
S C Miller	6,042,700	14,625,000	7,76%	18,77%	26,53%
I M J Senar	13,203,500	9,092,500	16,95%	11,67%	28,62%
L A Rhind	1,412,500	-	1,81%	-	1,81%
N E Woollgar	10,000	-	0,01%	-	0,01%

No directors traded in any shares in the post balance sheet period.

At 30 June 2008, the directors of the group held the following shares in Hardware Warehouse Limited:

	Shares held directly	Shares held indirectly	Total percentage held directly	Total percentage held indirectly	Total percentage holding
S C Miller	6,042,700	14,625,000	7,55%	18,28%	25,83%
I M J Senar	13,203,500	9,407,025	16,50%	11,76%	28,26%
L A Rhind	1,412,500	-	1,77%	-	1,77%
N E Woollgar	10,000	-	0,01%	-	0,01%

7. DIRECTORS' INTERESTS IN CONTRACTS

Certain directors are interested in rental contracts for branches. Other than this, the directors are not interested in any further large or material contracts. A register of these interests is maintained by the group's secretary and is available for inspection at the registered office.

8. PROPERTY, PLANT AND EQUIPMENT

The group has undertaken various acquisitions during the year. Refer to note 1 for further information.

No major changes have occurred in the use of the property, plant and equipment of the group during the year.

HARDWARE WAREHOUSE GROUP

DIRECTORS' REPORT for the year ended 30 June 2009

9. INTEREST IN SUBSIDIARIES

Name of subsidiary	% Held	Net income / (loss) after tax
In-Line Trading 142 (Pty) Ltd	100	1,880
Yongani Business Development (Pty) Ltd	100	-
Hardware Warehouse Share Purchase Scheme	Control	-
Hardware Warehouse Empowerment Trust	Control	-
Senar Investments 151 (Pty) Ltd	100	-
Amber Mountain Investments 111 (Pty) Ltd	100	-
On Tap Border (Pty) Ltd	100	(1,857,057)
Golden Dividend 235 (Pty) Ltd	100	(4,205)

Senar Investments 151 (Pty) Ltd, Amber Mountain Investments 111 (Pty) Ltd, On Tap Border (Pty) Ltd and Golden Dividend 235 (Pty) Ltd were acquired in the current year.

Details of the group's investment in subsidiaries are set out in note 27 to the group annual financial statements.

10. BORROWING LIMITATIONS

The directors have unrestricted authorisation to exercise the borrowing powers of the group.

11. GOING CONCERN

The directors are not aware of any matter or circumstance negatively affecting the ability of the group to continue trading as a going concern.

12. CONTINGENCIES

The group did not have any contingent liabilities at year end.

13. EVENTS SUBSEQUENT TO BALANCE SHEET DATE

The directors are not aware of any matter or circumstance arising since the end of the financial year, not otherwise dealt with in the consolidated annual financial statements, which significantly affects the financial position of the group or the results of its operations.

14. AUDITORS

BDO Spencer Steward (Johannesburg) Inc are currently the auditors of the group. Re-appointment of the auditors in terms of section 275 of the Companies Act will be determined at the Annual General Meeting of the group.

15. LEGAL ADVISORS

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

HARDWARE WAREHOUSE GROUP

**DIRECTORS' REPORT
for the year ended 30 June 2009**

16. DESIGNATED ADVISER

The designated advisers of the group are Merchantec (Proprietary) Limited

17. SECRETARY

The secretary of the group is Charteris & Barnes Administrative Services CC. Their business and postal address is as follows:

Business address: 17 Vincent Road, Vincent, East London, 5247

Postal address: P O Box 19728, Tecoma, East London, 5214

18. PHYSICAL ADDRESS AND REGISTERED OFFICE (INCORPORATED IN RSA)

Physical address: 69 Devereux Avenue, Vincent, East London, 5247

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

11 November 2009

HARDWARE WAREHOUSE GROUP
CONSOLIDATED BALANCE SHEET – 30 JUNE 2009

	Notes	2009 R'000	2008 R'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	1	30,668	11,664
Goodwill	2	11,708	9,491
Deferred tax	3	974	-
		<u>43,350</u>	<u>21,155</u>
CURRENT ASSETS			
Inventories	4	72,873	55,485
Trade and other receivables	5	13,327	5,672
Cash and cash equivalents	6	2,197	761
		<u>88,397</u>	<u>61,918</u>
TOTAL ASSETS		<u>131,747</u>	<u>83,073</u>
EQUITY AND LIABILITIES			
EQUITY			
Share capital	7	14	14
Share premium	7	9,300	10,991
Retained earnings		26,246	17,922
Share based payment reserve	8	176	-
		<u>35,736</u>	<u>28,927</u>
LIABILITIES			
NON-CURRENT LIABILITIES			
Interest bearing borrowings	9	23,557	3,733
Related party loans	10	1,791	1,555
Deferred tax	3	-	11
		<u>25,348</u>	<u>5,299</u>
CURRENT LIABILITIES			
Interest bearing borrowings	9	3,678	2,226
Operating lease accrual	11	894	752
Taxation payable		1,849	4,123
Lay-byes	12	2,737	1,780
Trade and other payables	13	48,244	30,285
Bank overdraft	6	13,261	9,681
		<u>70,663</u>	<u>48,847</u>
TOTAL LIABILITIES		<u>96,011</u>	<u>54,146</u>
TOTAL EQUITY AND LIABILITIES		<u>131,747</u>	<u>83,073</u>
Net asset value per share (cents per share)		<u>45,87</u>	<u>40,00</u>
TOTAL NET ASSET VALUE		<u>35,736</u>	<u>28,927</u>

HARDWARE WAREHOUSE GROUP
CONSOLIDATED INCOME STATEMENT
for the year ended 30 June 2009

	Notes	2009 R'000	2008 R'000
REVENUE	14	317,067	220,504
Cost of sales	15	<u>(243,204)</u>	<u>(170,802)</u>
Gross profit		73,863	49,702
Other operating income		3	210
Other operating expenses		(28,446)	(16,759)
Administration expenses		(2,719)	(800)
Personnel costs		<u>(28,392)</u>	<u>(17,073)</u>
Profit from operations	16	14,309	15,280
Investment income	17	578	452
Finance costs	18	<u>(3,262)</u>	<u>(1,304)</u>
Profit before taxation		11,625	14,428
Taxation	19	(3,301)	(3,968)
Profit for the year		<u><u>8,324</u></u>	<u><u>10,460</u></u>
Attributable to equity holders		8,324	10,460
Minority interest		-	-
Earnings per share (cents per share)			
- basic and diluted earnings per share	20	<u>11,85</u>	<u>15,69</u>

HARDWARE WAREHOUSE GROUP
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2009

	Share capital R'000	Treasury share capital R'000	Share premium R'000	Treasury shares R'000	Total share capital R'000	Retained earnings R'000	Shared based payment reserve R'000	Total Equity R'000
Balance at 1 July 2007	10	-	-	-	10	7,462	-	7,472
Profit for the year	-	-	-	-	-	10,460	-	10,460
Issue of shares – private placement	3	-	14,997	-	15,000	-	-	15,000
Issue of shares – share empowerment trust	1	(1)	6,499	(6,499)	-	-	-	-
Rights issue	2	-	-	-	2	-	-	2
Purchase of shares – share purchase scheme	-	(1)	-	(1,999)	(2,000)	-	-	(2,000)
Share issue expenses	-	-	(2,007)	-	(2,007)	-	-	(2,007)
Total changes	6	(2)	19,489	(8,498)	10,995	10,460	-	21,455
Balance at 1 July 2008	16	(2)	19,489	(8,498)	11,005	17,922	-	28,927
Profit for the year	-	-	-	-	-	8,324	-	8,324
Share buyback	-	-	(1,691)	-	(1,691)	-	-	(1,691)
Long term share incentives	-	-	-	-	-	-	176	176
Total changes	-	-	(1,691)	-	(1,691)	8,324	176	6,809
Balance at 30 June 2009	16	(2)	17,798	(8,498)	9,314	26,246	176	35,736
Note	7			7	7			

HARDWARE WAREHOUSE GROUP
CONSOLIDATED CASH FLOW STATEMENT
for the year ended 30 June 2009

	Notes	2009 R'000	2008 R'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		11,625	14,428
Adjustments for:			
Depreciation		3,432	1,964
Loss / (profit) on disposal of property, plant and equipment		4	(187)
Interest received		(578)	(452)
Finance costs		3,262	1,304
Movements in operating lease accruals		142	163
Share based payment expense		176	-
		18,063	17,220
Changes in working capital			
Inventories		(17,388)	(22,580)
Trade and other receivables		(7,655)	(3,009)
Lay-byes		957	635
Trade and other payables		17,959	5,499
		11,936	(2,235)
Cash generated from / (absorbed by) operations		11,936	(2,235)
Interest received		578	452
Finance costs		(3,262)	(1,304)
Taxation paid	25	(6,560)	(3,194)
		2,692	(6,281)
NET CASH GENERATED FROM / (ABSORBED BY) OPERATING ACTIVITIES			
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	1	(22,555)	(7,797)
Proceeds on disposal of property, plant and equipment	1	115	407
Goodwill paid on acquisition of businesses	2	(2,217)	(6,991)
		(24,657)	(14,381)
NET CASH ABSORBED BY INVESTING ACTIVITIES			
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in loans from related parties	10	236	1,555
Advances in interest bearing borrowings		25,381	5,550
Repayments of interest bearing borrowings		(4,105)	(2,854)
Acquisition of treasury shares		-	(2,000)
Issue of shares		-	12,995
Share buyback		(1,691)	-
		19,821	15,246
NET CASH FROM FINANCING ACTIVITIES			
NET DECREASE IN CASH AND CASH EQUIVALENTS			
		(2,144)	(5,416)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR			
		(8,920)	(3,504)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR			
	6	(11,064)	(8,920)

HARDWARE WAREHOUSE GROUP

ACCOUNTING POLICIES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS for the year ended 30 June 2009

ACCOUNTING POLICIES

Hardware Warehouse Limited (the company) is a South African registered company. The consolidated annual financial statements of the group, for the year ended 30 June 2009 comprise the company and its subsidiaries (together referred to as the "group"). The ultimate parent of the group is Hardware Warehouse Limited.

Statement of compliance

The consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS); the interpretations adopted by the International Accounting Standards Board (IASB) and the requirements of the Companies Act of South Africa, 1973, as amended and are consistent with the previous year.

Basis of preparation

The consolidated annual financial statements are presented in South African Rands. They are prepared on the historical cost basis except where otherwise stated.

The accounting policies set out below have been applied consistently by all entities. The consolidated annual financial statements have been prepared on a going concern basis. The entity's owners do not have the power to amend the consolidated annual financial statements after issue.

Basis of consolidation

Subsidiaries

Subsidiaries are those entities, including special purpose entities, over which the group has the power to, directly or indirectly, exercise control over the financial and operating policies, so as to obtain benefits from their activities:

In assessing control, potential voting rights that presently are exercisable are taken into account.

The annual financial statements of subsidiaries are included in the consolidated annual financial statements from the date that control commences until the date that control ceases.

Eliminations on consolidation

Intra-group balances and transactions, and any unrealised gains or losses arising from intra-group transactions, are eliminated in preparing the consolidated annual financial statements.

Property, plant and equipment

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits associated with the item will flow to the group; and
- the cost of the item can be measured reliably.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. Day to day servicing costs are expensed. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

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

HARDWARE WAREHOUSE GROUP

ACCOUNTING POLICIES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS for the year ended 30 June 2009

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:

Buildings	20 years
Plant and machinery	5 years
Furniture, fixtures and shelving	between 5 and 6 years
Motor vehicles	between 4 and 5 years
Office equipment	between 6 and 25 years
Computer equipment	3 years
Computer software	2 years
Leasehold improvements	over the period of the applicable lease
Signage	10 years

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

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 is depreciated separately if the useful life or depreciation method of that part is different to the remainder of the asset.

The assets' residual values, depreciation methods 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.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit and loss.

Goodwill

Goodwill arising from the acquisition of a subsidiary is measured as the excess of the cost of the business combination over the acquirer's interest in the fair value of the identifiable assets, liabilities and contingent liabilities measured in accordance with the accounting policy on business combinations.

Goodwill is subsequently measured at cost less accumulated impairment losses.

Goodwill is allocated to cash-generating units and is tested at least annually for impairment or more frequently if there is an indicator of impairment.

Gains from bargain purchase arising on an acquisition is recognised directly in the profit or loss.

Before recognising a gain on bargain purchase, the acquirer shall reassess the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination.

Premiums and discounts arising on subsequent purchases from, or sales to, minority interest in subsidiaries

Any increase and decrease in ownership interests in subsidiaries without a change in control are recognised as equity transactions in the consolidated annual financial statements.

Accordingly, any premiums or discounts on subsequent purchases of equity instruments from, or sales of equity instruments to, minority interests are recognised directly in the equity of the parent shareholder.

HARDWARE WAREHOUSE GROUP

ACCOUNTING POLICIES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS for the year ended 30 June 2009

Impairment of assets

At each balance sheet date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the group estimates the recoverable amount of the asset in order to determine the extent of the impairment loss.

Irrespective of whether there is any indication of impairment, the group also tests goodwill acquired in a business combination for impairment at least annually.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If there is any indication that an asset may be impaired the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined. An asset's cash-generating unit is the smallest group of assets that includes the asset and generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss.

The group assesses at each reporting date whether there is any indication that an impairment loss recognised in prior years for assets other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated. Where an impairment loss subsequently reverses, the carrying amount of the asset, other than goodwill, attributable to a reversal of an impairment loss, is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

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

Taxation

Current taxation

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

- a transaction or event which is recognised, in the same or a different year, 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 year, directly to equity.

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

Current tax liabilities (assets) for the current and prior years 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.

HARDWARE WAREHOUSE GROUP

ACCOUNTING POLICIES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS for the year ended 30 June 2009

Deferred taxation

Deferred tax is recognised using the balance sheet method, based on temporary differences. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax values.

Deferred tax is not recognised for the following temporary differences:

- the initial recognition of goodwill
- the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit
- differences relating to investments in subsidiaries to the extent that they will not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the balance sheet date. The effect on deferred tax of any changes in tax rates is recognised in profit or loss, except to the extent that it relates to items previously charged or credited directly to equity.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the unused tax losses and deductible temporary differences can be utilised. Deferred tax assets are reassessed annually and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Secondary tax on companies (STC)

STC is recognised as part of the current tax charge in profit and loss when the related dividend is declared. STC is provided in respect of dividends declared net of dividends received or receivable. Unused STC credits are accounted for in deferred taxation to the extent that it is probable that the entity will declare dividends against which the STC credits can be utilised.

Investments in subsidiaries

Investments in subsidiaries are carried at cost less any accumulated impairment. The group recognises income from investments to the extent that distributions are received from them.

The cost of an investment in a subsidiary is the aggregate of:

- the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the group; plus
- any costs directly attributable to the purchase of the subsidiary.

An adjustment to the cost of a business combination contingent on future events is included in the cost of the combination if the adjustment is probable and can be measured reliably.

Inventory

Inventories are measured at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in-first-out (FIFO) method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the year in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the year the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the year in which the reversal occurs.

HARDWARE WAREHOUSE GROUP

ACCOUNTING POLICIES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS for the year ended 30 June 2009

Share capital and equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

If a subsidiary acquires equity instruments in the parent company, those treasury shares are deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the group's own equity instruments. Consideration paid or received is recognised directly in equity.

Provisions

Provisions are recognised when the group 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 except to the extent that they relate to onerous contracts.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligations.

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.

Share-based payments

The group grants share options to its employees under equity compensation plans. In accordance with IFRS 2 – Share Based Payments, the group has recognised an employee benefit expense in the income statement, representing the fair value of share options granted to the group's employees. A corresponding credit to equity has been raised for the equity settled plans. The fair value of the options at grant date is charged to income over the vesting period, adjusted to reflect actual and expected levels of vesting.

Where shares are held or acquired by subsidiary companies for equity compensation plans, they are treated as treasury shares. When these shares are subsequently issued to participants of the equity compensation plans on the vesting date, any gains or losses realised by the plan is recorded in treasury shares.

Treasury Shares

Where subsidiaries hold shares in the holding company's equity share capital, the consideration paid to acquire these shares including any attributable incremental external costs, is deducted from total shareholders' equity as treasury shares. Where such shares are subsequently sold or reissued, the cost of those shares is released, and any realised gains or losses are included in treasury shares. Shares issued to or held by share incentive plans within the group are treated as treasury shares until such time when participants pay for and take delivery of such shares.

Share based payment reserve

This reserve is created in terms of the equity compensation plan for employees. This reserve has been created solely for the purpose of settling share options that have been granted to employees. The fair value of the options at grant date is credited to the equity reserve over the vesting period, adjusted to reflect actual and expected levels of vesting. The reserve is not available for any distribution other than described above.

HARDWARE WAREHOUSE GROUP

ACCOUNTING POLICIES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS for the year ended 30 June 2009

Share premium

The share premium reserve arises as a result of share issues where consideration received is greater than the par value of the shares. This reserve may not be used for the payment of dividends but, subject to the requirements of sections 85 and 90 of the Companies Act of South Africa, 1973, as amended, may in certain circumstances be returned to shareholders and used for the repurchase of shares. Share issue expenses and transactions resulting from rights issues, bonus issues and capitalisation issues are written off against share premium.

Retained earnings

The retained earnings reserve arises as a result of undistributed net profit for the year. This reserve is distributable with no restrictions.

Revenue

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

- the group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the group 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 the group; 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 tax.

(a) Sales of goods – retail

The group 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 in cash, credit card or through retail credit providers.

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

(b) Interest income

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

Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the year in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of profit sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

HARDWARE WAREHOUSE GROUP

ACCOUNTING POLICIES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS for the year ended 30 June 2009

Long-term employee benefits

The group has no obligations relating to long-term employee benefits.

Leases

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

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 year during the lease term so as to produce a constant periodic rate of return 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 liability. This liability is not discounted.

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

Borrowing costs

Borrowing costs are recognised in profit or loss in the year in which they are incurred.

Dividends per share

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

Financial instruments

The group classifies 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 group's balance sheet when the group becomes party to the contractual provisions of the instrument.

Financial instruments are initially measured at fair value, which includes transaction costs, except for those instruments that are classified as at fair value through profit or loss, which are recognised initially at fair value. Financial instruments include cash and cash equivalents, trade and other receivables, loans from related parties, loans from directors, loans to employees, interest bearing borrowings, trade and other payables and other liabilities.

A gain or loss arising from change in a financial asset or liability is recognised as follows:

- a gain or loss on a financial asset or financial liability classified as at fair value through profit or loss is recognised in profit or loss;
- a gain or loss on an available-for-sale financial asset is recognised directly in equity, through the statement of changes in equity, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss; and
- a gain or loss on financial assets and financial liabilities, carried at amortised cost, is recognised in profit or loss when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

HARDWARE WAREHOUSE GROUP

ACCOUNTING POLICIES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS for the year ended 30 June 2009

Subsequent to initial recognition, financial instruments are measured on the basis set out below:

Trade and other receivables

Trade and other receivables are classified as loans and receivables and are measured on initial recognition at fair value, including transaction costs. They 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. Trade and other receivables are written off against the allowance account as unrecoverable when there is certainty that the amount is not recoverable.

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 value. These are subsequently recorded at amortised cost which approximates fair value.

Loans from related entities

These are classified as other financial liabilities and include loans from related parties and are carried at amortised cost.

Interest bearing borrowings

Borrowings are classified as other financial liabilities and are measured at amortised cost, 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 group's accounting policy for borrowing costs.

Trade and other payables

Trade payables are classified as other financial liabilities and are carried at amortised cost.

Bank overdraft

Bank overdrafts are classified as other financial liabilities and are carried at amortised cost.

Loans from directors

Loans from directors are classified as other financial liabilities and are carried at amortised cost.

Loans to employees

Staff loans are classified as loans and receivables and are carried at amortised cost less any accumulated impairment.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the impairment loss is measured as the difference between the loans carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate which was computed at initial recognition. The impairment loss is recognised directly in profit or loss.

A financial asset is derecognised when:

- risks and rewards have been transferred
- control is transferred

A financial liability is derecognised when:

- the debtor discharges the liability by paying the creditor, usually with cash, other financial assets, goods or services
- the entity is legally released from primary responsibilities for the liability either by process of law or by the creditor
- the issuer repurchases the debt instrument

HARDWARE WAREHOUSE GROUP

ACCOUNTING POLICIES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS for the year ended 30 June 2009

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.

Cost of sales

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the year in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories is recognised as an expense in the year the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the year in which the reversal occurs.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. The chief operating decision-makers have been identified as the executive directors committee that makes strategic decisions.

Intersegment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise corporate assets, liabilities and results, as well as assets under construction and related expenses.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

The primary segmental reporting has been prepared based on the group's method of internal reporting, which disaggregates its business by major profit centres. No secondary segmental reporting has been prepared as this would not lead to meaningful analysis as the risks associated in the different regions are not materially different. Inter-segment transfers or transactions are entered into under normal commercial terms and conditions that would also be available to unrelated third parties. These inter- and intragroup transactions are eliminated on consolidation.

Business combinations

The acquisition method is used to account for the acquisition of subsidiaries by the group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired, contingent liabilities and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest unless IFRS 5 – Non-current assets held for sale and discontinued operations, applies.

Goodwill arising from the acquisition of a subsidiary is measured as the excess of the cost of the business combination over the acquirer's interest in the fair value of the identifiable assets, liabilities and contingent liabilities measured in accordance with IFRS 3.

Gains from bargain purchase arising on an acquisition is recognised directly in the profit or loss.

HARDWARE WAREHOUSE GROUP

**NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2009**

1. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings R'000	Plant and machinery R'000	Furniture, fixtures and shelving R'000	Motor vehicles R'000	Office equipment R'000	Computer equipment R'000	Leasehold improvements R'000	Signage R'000	Total R'000
Carrying value - 30 June 2008	-	139	2,963	5,944	256	513	621	1,228	11,664
Cost	-	158	3,595	7,660	277	1,251	899	1,323	15,163
Accumulated depreciation	-	(19)	(632)	(1,716)	(21)	(738)	(278)	(95)	(3,499)
Additions – purchased	-	590	2,880	2,197	212	563	168	634	7,244
Additions – business combinations	13,697	-	371	770	-	473	-	-	15,311
Disposals	-	-	-	(119)	-	-	-	-	(119)
Depreciation	-	(44)	(932)	(1,509)	(28)	(480)	(274)	(165)	(3,432)
Carrying value - 30 June 2009	13,697	685	5,282	7,283	440	1,069	515	1,697	30,668
Cost	13,697	748	6,846	10,395	489	2,287	1,067	1,957	37,486
Accumulated depreciation	-	(63)	(1,564)	(3,112)	(49)	(1,218)	(552)	(260)	(6,818)
Carrying value - 30 June 2007	-	105	1,183	3,613	127	261	671	92	6,052
Cost	-	108	1,346	4,979	136	789	746	96	8,200
Accumulated depreciation	-	(3)	(163)	(1,366)	(9)	(528)	(75)	(4)	(2,148)
Additions – purchased	-	45	2,194	3,301	107	448	153	1,227	7,475
Additions – business combinations	-	5	58	200	34	25	-	-	322
Disposals	-	-	(2)	(210)	-	(9)	-	-	(221)
Depreciation	-	(16)	(470)	(960)	(12)	(212)	(203)	(91)	(1,964)
Carrying value - 30 June 2008	-	139	2,963	5,944	256	513	621	1,228	11,664
Cost	-	158	3,595	7,660	277	1,251	899	1,323	15,163
Accumulated depreciation	-	(19)	(632)	(1,716)	(21)	(738)	(278)	(95)	(3,499)

HARDWARE WAREHOUSE GROUP

**NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2009**

Encumbered as security

Motor vehicles and furniture and fittings with a carrying value of R6 267 867 (2008: R6 371 239) have been encumbered as security for the interest bearing borrowings from ABSA Bank Limited, Wesbank and Nedbank Limited as reflected in note 9, furthermore, the assets are encumbered in terms of a general notarial bond over all of the movable assets of the group as detailed in note 6.

2. GOODWILL

	2009 R'000	2008 R'000
Carrying value - 30 June 2008 / 30 June 2007	9,491	2,500
Cost	9,491	2,500
Accumulated impairments	-	-
Additions through business combinations	2,217	6,991
Carrying value - 30 June 2009 / 30 June 2008	11,708	9,491
Cost	11,708	9,491
Accumulated impairment	-	-
	11,708	9,491

The goodwill relates to specific branches and subsidiaries which have been purchased. Details of these acquisitions have been reflected in note 26.

Impairment test for cash-generating units containing goodwill.

The following units have significant carrying amounts of goodwill

	2009 R'000	2008 R'000
Mthatha region	2,500	2,500
Queenstown region	1,011	1,011
Mtubatuba region	5,972	5,972
On Tap Border (Pty) Ltd	2,172	-
Other units with insignificant goodwill	53	8
	11,708	9,491

Description of impairment tests and key assumptions

Impairment tests are conducted on an annual basis (or more frequently where impairment indicators have been identified). The method used is a discounted cash flow valuation model on the basis of value-in-use. The impairment tests are prepared on the basis of forecast profits generated by the cash-generating unit. Forecasts typically cover a one year period due to the high growth experienced by these acquisitions. The profit generated from each unit is determined and capitalised using an after-tax discount rate which represents the weighted average cost of capital applicable to the group, which is currently 16.34% (2008: 11.73%).

Impairment losses

No impairment losses have been recognised to date.

Useful lives

Useful lives of assets acquired in business combinations are reflected under accounting policies on page 19.

HARDWARE WAREHOUSE GROUP

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2009

3. DEFERRED TAX

The deferred tax asset / (liability) comprises:

	2009	2008
	R'000	R'000
Property, plant and equipment	(456)	(346)
Operating lease accruals	285	210
Accruals	243	67
Provisions for doubtful debts	134	58
Assessed losses	719	-
Provision for employee costs	49	-
	<u>974</u>	<u>(11)</u>

Reconciliation of deferred tax asset / (liability)

	2009	2008
	R'000	R'000
Balance at beginning of the year	(11)	(74)
Property, plant and equipment	(110)	(87)
Operating lease accruals	75	45
Accruals	176	67
Provision for doubtful debts	76	36
Assessed losses	719	-
Reduction due to rate change	-	2
Provision for employee costs	49	-
Balance at the end of the year	<u>974</u>	<u>(11)</u>

4. INVENTORIES

	2009	2008
	R'000	R'000
Finished goods	73,149	55,903
Provision for obsolete stock	(480)	(446)
Consumables	204	28
	<u>72,873</u>	<u>55,485</u>

Inventory encumbered as security

	2009	2008
	R'000	R'000
Inventory encumbered as security for group's overdraft facilities	<u>14,100</u>	<u>7,500</u>

HARDWARE WAREHOUSE GROUP

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2009

5. TRADE AND OTHER RECEIVABLES

	2009 R'000	2008 R'000
Trade receivables	11,086	4,256
Allowance for doubtful debts	(638)	(278)
Staff loans	168	134
Deposits	29	62
Receivables from related parties	1,031	378
Sundry debtors	1,651	1,120
	<u>13,327</u>	<u>5,672</u>

Trade receivables are interest free provided that they are settled within 30 days; thereafter the balance bears interest at the prime interest rate. Staff loans bear interest at 24% per annum and are repayable over 6 months. Deposits and sundry debtors are interest free and have arisen in the normal course of trade. Related party loans bear interest at prime plus 2% and have arisen in the normal course of trade.

Reconciliation of allowance for doubtful debts:

	2009 R'000	2008 R'000
Opening balance	(278)	(109)
Bad debts written off	249	12
Additional receivables provided for	(609)	(181)
Closing balance	<u>(638)</u>	<u>(278)</u>

Trade and other receivables ceded as security

Hardware Warehouse Limited

Trade receivables with a carrying amount of R4 927 447 (2008: R3 746 265) have been ceded as security for the company's bank overdraft facilities. At year end the overdraft amounted to R10 354 695 (2008: R9 669 518).

On Tap Border (Proprietary) Limited

The debtors book of R6 082 578 has been factored with Nedbank Limited with right of recourse.

The allowance for doubtful debts has been determined by providing for specific debtors who have been identified and by considering the specific recoverability of each debtor.

The carrying amount of trade and other receivables approximates their fair value due to the short-term nature of receivables.

HARDWARE WAREHOUSE GROUP

**NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2009**

6. CASH AND CASH EQUIVALENTS

	2009 R'000	2008 R'000
Cash on hand	135	761
Short-term deposits	2,062	-
Bank overdraft	<u>(13,261)</u>	<u>(9,681)</u>
	<u>(11,064)</u>	<u>(8,920)</u>
Current assets	2,197	761
Current liabilities	<u>(13,261)</u>	<u>(9,681)</u>
	<u>(11,064)</u>	<u>(8,920)</u>

The carrying amount of these financial instruments approximates their fair value.

The principal features of the group's overdraft are as follows:

Bank overdrafts are repayable on demand. Overdrafts of R13 261 000 (2008: R9 681 291) have been secured by:

- Cession of trade receivables of R4 927 447 (2008 : R3 746 265)
- General notarial bond of R20 000 000 (2008: R7 500 000) over all moveable assets.

The company has the following undrawn borrowing facilities:

	2009 R'000	2008 R'000
Bank overdraft		
- Expiring within one year	<u>3,745</u>	<u>2,430</u>

The facilities expiring within one year are annual facilities subject to review at various dates during 2009 and 2010.

7. SHARE CAPITAL

	2009 R'000	2008 R'000
Authorised		
500 000 000 Ordinary shares of 0,02c each (2008 : 500 000 000 ordinary shares of 0,02c each)	<u>100</u>	<u>100</u>

The directors have authority to issue the unissued shares of the company.

Issued and fully paid:

77 900 000 Ordinary shares of 0.02c each (2008 : 80 000 000 ordinary shares of 0.02c each)	16	16
Treasury shares at cost	<u>(2)</u>	<u>(2)</u>
	<u>14</u>	<u>14</u>

HARDWARE WAREHOUSE GROUP

**NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2009**

	2009 R'000	2008 R'000
Reconciliation of share capital:		
Reported at incorporation	10	10
Issue of shares – rights issue	2	2
Issue of shares – Hardware Warehouse Empowerment Trust	1	1
Issue of shares – private placement	3	3
Share buyback	-	-
Balance as at 30 June 2009 / 30 June 2008	<u>16</u>	<u>16</u>

Reconciliation of share premium

Share premium	21,496	21,496
Share issue costs written off against share premium	(2,007)	(2,007)
Treasury shares at cost	(8,498)	(8,498)
Share buyback	(1,691)	-
Balance as at 30 June 2009 / 30 June 2008	<u>9,300</u>	<u>10,991</u>

Reconciliation of number of shares issued

Reported at incorporation	<u>10</u>	<u>10</u>
September 2007 – share split – 1 : 5,000	50,000	50,000
September 2007 – issue of shares – rights issue at R1 per share	8,500	8,500
September 2007 – issue of shares – Hardware Warehouse Empowerment Trust at R1 per share	6,500	6,500
September 2007 – issue of shares – private placement at R1 per Share	15,000	15,000
Share buyback	(2,100)	-
Shares in issue – 30 June 2009 / 30 June 2008	<u>77,900</u>	<u>80,000</u>

Between 17 and 19 November 2008 the company bought back 2 100 000 shares at an average price of 80c per share.

8. SHARE BASED PAYMENT RESERVE

During the year the company issued 4,223,957 options to employees under a share incentive scheme. This is an equity settled employment equity plan. The vesting conditions are between a period of 3 and 5 years service unless the employee has been employed in the company for a period longer than 3 years prior to the offer in which case the vesting period is 1 year. The employment equity plan will be settled with the issue of shares at the end of the vesting period.

	2009 R'000	2008 R'000
Share based payment expense	<u>176</u>	<u>-</u>

The total expense recognised for the period arising from transactions accounted for as equity settled share based payment transactions is R176,000. (2008: nil)

HARDWARE WAREHOUSE GROUP

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS for the year ended 30 June 2009

During the year ended 30 June 2009, the group has a share based payment arrangement, which is described below:

	Hardware Warehouse Share Incentive Scheme and Empowerment Trust
Number of shares options granted	4,223,957
Average contractual life	483 days
Vesting conditions	Between 3 – 5 years service, unless with the company longer than 3 years prior to the offer, in which case 1 year

The estimated fair value of each option (in cents) granted in the Hardware Warehouse Share Incentive Scheme and Hardware Warehouse Empowerment Trust is as follows:

Period to vesting	Hardware Warehouse Share Incentive Scheme and Empowerment Trust
1 Year	8.81
3 Years	9.98

The fair values were calculated by applying a binominal option pricing model. The model inputs were:

	1 Year	3 Years
Share price at grant date in cents	72.43	70.82
Average exercise price	83.26	78.00
Expected volatility	35%	35%
Risk free interest rate	8.50%	8.50%

No market conditions were imposed on the options. The options were measured at fair value on grant date.

The total number of shares that are available for issue in the Hardware Warehouse Empowerment Trust is 4 143 747, being the total number of shares that were available for issue (6 500 000) less the number of shares allocated in the current year (2 356 253).

The total number of shares that are available for issue in the Hardware Warehouse Share Incentive Scheme is 132 296, being the total number of shares that were available for issue (2 000 000) less the number of shares allocated in the current year (1 867 704).

HARDWARE WAREHOUSE GROUP

**NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2009**

Further details of the two option share plan is as follows (2008: N/A):

	Number of options	Average exercise price (cents)
Outstanding at the beginning of the year	-	-
Granted during the year	4,223,957	82.41
Forfeited during the year	-	-
Exercised during the year	-	-
Outstanding at the end of the year	4,223,957	82.41
Exercisable at the end of the year	NIL	

No share options were exercised during the year. The options outstanding at 30 June 2009 had an average exercise price of 82.41 cents and an average remaining contractual life of 249 days.

9. INTEREST BEARING BORROWINGS

	2009 R'000	2008 R'000
Held at amortised cost		
ABSA Bank Limited Secured by instalment sale agreements from ABSA Bank Limited over the property, plant and equipment of the group disclosed in note 1.	11,151	5,809
Wesbank Secured by instalment sale agreements from Wesbank over the property, plant and equipment of the group disclosed in note 1.	589	150
Nedbank Limited Secured by instalment sale agreements from Nedbank over the property, plant and equipment of the group disclosed in note 1.	495	-
AAA Investments (Pty) Ltd Secured by a general notarial bond over the movables of the group, which shall rank subordinate to the general notarial bond registered in favour of ABSA bank. This bond was registered subsequent to year end. This has been further secured by personal suretyships from some of the executive directors and senior employees. The loan bears interest at 19,75% pa and the interest is repayable monthly. The capital is repayable after three years in full with no option of early settlement.	15,000	-
	27,235	5,959

HARDWARE WAREHOUSE GROUP

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
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	2009 R'000	2008 R'000
Non-current liabilities		
At amortised cost	23,557	3,733
Current portion included with current liabilities		
At amortised cost	3,678	2,226
	27,235	5,959

Repayment terms and conditions

The instalment sales are repayable in monthly instalments of R342 065 (2008: R237 870). The interest rates on the instalment sales are related to prime and average 14.12% (2008: 14%).

10. LOANS FROM RELATED PARTIES

	2009 R'000	2008 R'000
I M J Senar	-	523
S C Miller	-	232
Shaun Miller Family Trust	-	500
IMJS Family Trust	-	300
Senarvest Property Developments 1 CC	1,791	-
	1,791	1,555

The amounts are unsecured. The loans bear interest at prime plus 2% and are repayable within 1 year.

The amounts in the prior year arose from the sale by the directors to the Hardware Warehouse Share Purchase Scheme. The current loans have arisen in the ordinary course of business.

11. OPERATING LEASE ACCRUAL

At the balance sheet date, the group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2009 R'000	2008 R'000
Operating lease accrual	894	752

Operating lease arrangements

	2009 R'000	2008 R'000
Within one year	6,442	5,737
In the second to fifth years inclusive	8,507	11,548
	14,949	17,285
Liability arising on straight lining of operating leases	(894)	(752)
	14,055	16,533

HARDWARE WAREHOUSE GROUP

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS for the year ended 30 June 2009

Operating lease payments represent rentals payable by the group for certain of its trading premises. Leases are negotiated for periods between three and five years, being an average term of four years.

Most of the leases have renewal clauses at the option of the lessee. No contingent rentals are payable and subletting is permitted with prior approval from the lessors.

12. LAY-BYES

	2009 R'000	2008 R'000
Balance due on lay-byes at year end	<u>2,737</u>	<u>1,780</u>
	2009 R'000	2008 R'000
Carrying value - 30 June 2008 / 30 June 2007	1,780	1,145
Net movement	957	635
Carrying value - 30 June 2009 / 30 June 2008	<u><u>2,737</u></u>	<u><u>1,780</u></u>

The group sells goods to customers on "lay-bye". It is expected that all amounts deposited as lay-byes will be realised in the next year when the customer receives the goods. These deposits may be refundable under certain circumstances in terms of the lay-bye regulations. The carrying value approximates the fair value due to the short term nature of the lay-byes.

13. TRADE AND OTHER PAYABLES

	2009 R'000	2008 R'000
Trade payables	45,581	28,782
Other payables	<u>2,663</u>	<u>1,503</u>
	<u><u>48,244</u></u>	<u><u>30,285</u></u>

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The carrying value of trade and other payables approximates its fair value due to the short term nature of trade payables.

Trade payables are interest free provided they are settled within 30 – 60 days. Thereafter interest is charged at prevailing rates. Other payables are interest free and have arisen in the ordinary course of business.

14. REVENUE

	2009 R'000	2008 R'000
Sale of goods	<u><u>317,067</u></u>	<u><u>220,504</u></u>

HARDWARE WAREHOUSE GROUP

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2009

15. COST OF SALES

	2009	2008
	R'000	R'000
Cost of goods sold	243,204	170,802

16. PROFIT FROM OPERATIONS

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

	2009	2008
	R'000	R'000
Auditors' remuneration – audit services	359	163
Auditors' remuneration – tax and secretarial services	190	4
Loss / (profit) on disposal or scrapping of property, plant and equipment	4	(187)
Bad debts written off	249	183
Legal fees	35	11
Operating lease charges	8,845	5,881
Depreciation	3,432	1,964
Share based payment expense	176	-
Employee costs – short term benefits	28,392	17,073

The group had no post retirement employee benefit obligations.

17. INVESTMENT INCOME

Loans and receivables:

	2009	2008
	R'000	R'000
Bank deposits	145	418
Interest on related party loans which became subsidiaries	318	-
Interest charged on trade and other receivables	49	34
Staff loans	66	-
	578	452

18. FINANCE COSTS

Financial liabilities:

	2009	2008
	R'000	R'000
Finance charges for interest bearing borrowings	1,694	789
Bank overdrafts and revolving credit facilities	1,382	508
Interest paid on trade payables	70	7
Interest paid on related party loans	116	-
	3,262	1,304

HARDWARE WAREHOUSE GROUP

**NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2009**

19. TAXATION

	2009 R'000	2008 R'000
South African normal tax		
Current year	4,286	4,109
Deferred tax		
Current year	(985)	(63)
Secondary tax on companies – overprovision	-	(78)
Tax expense per income statement	3,301	3,968

Company tax is calculated at 28% (2008: 28%) of the estimated assessable profit for the year.

Reconciliation of the tax rate:	%	%
Tax at the South African company tax rate	28	28
Non deductible donations	0,07	0,05
Legal fees and other capital expenditure	0,32	0,01
Over provisions relating to secondary tax on companies	-	(0,54)
Change in tax rate	-	(0,02)
Effective tax rate for the year	28,39	27,50

20. BASIC AND DILUTED EARNINGS AND HEADLINE EARNINGS PER SHARE

The calculation of basic and diluted earnings and headline earnings per share is based on the following:

	2009 R'000	2008 R'000
Attributable earnings – basic earnings	8,324	10,460
Attributable earnings – headline earnings	8,322	10,325
Weighted average and diluted weighted average number of shares in issue (excluding treasury shares)	70,217	66,667
<i>Reconciliation between earnings and headline earnings</i>		
Attributable earnings – basic earnings	8,324	10,460
Adjustments for:		
Profit on sale of property, plant and equipment	(4)	(187)
Tax effect of adjustments	2	52
Minority shareholders' interest	-	-
Attributable earnings – headline earnings	8,322	10,325

The weighted average number of shares has been calculated based on the details of the changes in share capital as reflected in note 7.

HARDWARE WAREHOUSE GROUP

**NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2009**

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 group has no categories of dilutive potential ordinary shares.

	2009 R'000	2008 R'000
Earnings and fully diluted earnings per share (cents)	11,85	15,69
Headline and fully diluted headline earnings per share (cents)	11,86	15,49

21. DIRECTORS' REMUNERATION

	Basic salary/ fees R'000	Annual bonus R'000	Expenses and traveling allowance R'000	Total R'000
Directors' emoluments, for the year ended 30 June 2009 are:				
Executive directors				
I M J Senar	143	-	143	286
S C Miller	382	-	190	572
L A Rhind	265	22	77	364
Non-executive directors				
N E Woollgar	26	-	-	26
H A Long	69	-	6	75
Total directors' emoluments at 30 June 2009	885	22	416	1,323

	Basic salary/ fees R'000	Annual bonus R'000	Expenses and traveling allowance R'000	Total R'000
Directors' emoluments, for the year ended 30 June 2008 are:				
Executive directors				
I M J Senar	137	-	137	274
S C Miller	366	-	182	548
L A Rhind	274	23	51	348
Non-executive directors				
N E Woollgar	-	-	-	-
H A Long	-	-	-	-
Total directors' emoluments at 30 June 2008	777	23	370	1,170

HARDWARE WAREHOUSE GROUP

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS for the year ended 30 June 2009

22. AUDITORS' REMUNERATION

	2009 R'000	2008 R'000
Audit services	359	163
Tax and secretarial services	190	4
	<u>549</u>	<u>167</u>

23. RELATED PARTIES

The directors consider all amounts to be recoverable.

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

Other than the amounts included under trade and other receivables (as per note 5 above), the amounts have been reflected under related party loans (note 10).

Downstream Trading 34 CC is a related party as certain members of the corporation are directors of the company.

Senarvest Property Developments 1 CC is a related party because I M J Senar is the member of the corporation. The corporation acts as lessor to Hardware Warehouse for many of the branches. The corporation investments represents a property portfolio of approximately 50 companies. All rentals are market related and formal lease agreements have been entered into between the parties. Senarvest Property Developments 1 CC also leases property to non Hardware Warehouse related tenants.

I M J Senar is a director and chairman of the group.

S C Miller is a director of the group.

Shaun Miller Family Trust is a related party because S C Miller is a trustee of the trust.

IMJS Family Trust is a related party because I M J Senar is a trustee of the trust.

Remuneration of key management personnel is disclosed in note 21 on directors' remuneration.

A full list of related parties is available at the registered offices of the group.

HARDWARE WAREHOUSE GROUP

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS for the year ended 30 June 2009

The following balances owing have been included under trade and other receivables and loans from related parties and relates to debts arising in the ordinary course of trade:

		Sales to related parties R'000	Purchases from related parties R'000	Amounts owed by related parties R'000	Amounts owed to related parties R'000
Downstream Trading 34 CC	2009	-	-	-	-
	2008	406	-	167	-
Senarvest Property Developments 1 CC	2009	-	-	1,031	1,791
	2008	-	-	211	-
I M J Senar	2009	-	-	-	-
	2008	-	-	-	523
S C Miller	2009	-	-	-	-
	2008	-	-	-	232
Shaun Miller Family Trust	2009	-	-	-	-
	2008	-	-	-	500
IMJS Family Trust	2009	-	-	-	-
	2008	-	-	-	300

The loans arose in the ordinary course of trade.

The value of the lease rentals were as follows:

	Branch	2009 R'000	2008 R'000
Platinum Mile Investments 588 (Pty) Ltd	Mdantsane	245	183
Spring Romance Properties 48 (Pty) Ltd	Port Alfred	230	230
Golden Harvest Bakery (Pty) Ltd	Fleet Street	714	714
Sevenstone Investments 124 (Pty) Ltd	Elliott Street	779	779
Bubesi Investments 127 (Pty) Ltd	Alice	124	186
Senar Investments 151 (Pty) Ltd	Butterworth	407	407
Amber Mountain Investments 111 (Pty) Ltd	Head Office	239	159
		<u>2,738</u>	<u>2,658</u>

The reason for the change is that last year many of the stores were only used by the group for a portion of the year and certain additional storage was let by the group from the entity for portion of the prior year. All transactions with related parties have been concluded at arm's length.

24. RISK MANAGEMENT

Financial instrument risk exposure and management

Risk management is fundamental to the group's business and plays a crucial role in enabling management to operate more effectively in a changing environment. Over time it has evolved into one of the group's core capabilities and is integral to the evaluation of strategic alternatives and the setting of objectives, all within a risk management framework that ensures alignment with the group's risk appetite and overall strategy.

HARDWARE WAREHOUSE GROUP

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS for the year ended 30 June 2009

The approach followed by the group to manage risk is to ensure that all significant risks are identified and managed. Management remains committed to the objective of increasing shareholder value by developing and growing business that is consistent with the chosen risk appetite, and through building more effective risk management capabilities.

The group's trading and financing activities expose it to various financial risks that if left unmanaged, could adversely impact on current or future earnings. Although not necessarily mutually exclusive, these financial risks include credit risk, liquidity risk and market risk, which comprises, interest rate risk.

This note describes the group's overall risk management programme, focusing on the unpredictability of the financial markets and how management seeks to minimise the potential adverse effects on the financial performance of the group. Further quantitative information in respect of these risks is presented throughout these consolidated annual financial statements.

There have been no substantive changes in the group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them are consistent with previous years, unless otherwise stated in this note.

Principal financial instruments

The principal financial instruments used by the group, from which financial instrument risk arises, are as follows:

- Trade receivables
- Cash and cash equivalents
- Receivables from related parties
- Staff loans
- Interest bearing borrowings
- Trade and other payables
- Bank overdraft
- Loans from related parties

The directors have an overall responsibility for the determination of the group's risk management objectives and policies, and whilst retaining ultimate responsibility for them, they ensure that excess cash as generated from operations is invested with recognised financial institutions. Finance is provided by counterparties that are well-recognised financial institutions, and the group only trades with customers of suitable credit worthiness. The executive directors, on a monthly basis, monitor their collections from customers and movements in the prime lending rates. Risks are not hedged through the direct use of derivatives or other financial instruments. Furthermore, financial instruments are not used for speculative purposes.

The overall objective of the board of directors is to set policies that seek to reduce risk that the group is directly exposed to as far as possible without unduly affecting the group's general business operations.

HARDWARE WAREHOUSE GROUP

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2009

Categories of financial instruments

2009	Loans and receivables R'000	Total R'000	Fair value R'000	Type of risk
Financial assets				
Trade receivables	12,128	12,128	12,128	Credit risk Interest rate risk
Cash and cash equivalents	2,197	2,197	2,197	Credit risk Interest rate risk
Receivables from related parties	1,031	1,031	1,031	Credit risk Interest rate risk
Staff loans	168	168	168	Credit risk Interest rate risk
Total	15,524	15,524	15,524	

2008	Loans and receivables R'000	Total R'000	Fair value R'000	Type of risk
Financial assets				
Trade and receivables	5,160	5,160	5,160	Credit risk Interest rate risk
Cash and cash equivalents	761	761	761	Credit risk Interest rate risk
Receivables from related parties	378	378	378	Credit risk Interest rate risk
Staff loans	134	134	134	Credit risk Interest rate risk
Total	6,433	6,433	6,433	

HARDWARE WAREHOUSE GROUP

**NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2009**

2009	Amortised cost R'000	Total R'000	Fair value R'000	Type of Risk
Financial liabilities				
Interest bearing borrowings	27,235	27,235	27,235	Cash flow risk Interest rate risk Liquidity risk
Trade and other payables	48,244	48,244	48,244	Cash flow risk Interest rate risk Liquidity risk
Bank overdraft	13,261	13,261	13,261	Cash flow risk Interest rate risk Liquidity risk
Loans from related parties	1,791	1,791	1,791	Cash flow risk Liquidity risk
Total	90,531	90,531	90,531	

2008	Amortised cost R'000	Total R'000	Fair value R'000	Type of Risk
Financial liabilities				
Interest bearing borrowings	5,959	5,959	5,959	Cash flow risk Interest rate risk Liquidity risk
Trade and other payables	30,285	30,285	30,285	Cash flow risk Interest rate risk Liquidity risk
Bank overdraft	9,681	9,681	9,681	Cash flow risk Interest rate risk Liquidity risk
Loans from related parties	1,555	1,555	1,555	Cash flow risk Liquidity risk
Total	47,480	47,480	47,480	

Credit Risk

The group's credit risk is mainly confined to the risk of customers defaulting on sales invoices raised. Any credit risk arising from cash deposits is deemed to be insignificant because the group manages the risk by ensuring that all relevant counterparties are recognised financial institutions. The group's financial instruments that are exposed to concentrations of credit risk consist primarily of trade and other receivables, however this exposure is not considered excessive due to its diverse customer base and product lines. The group has policies in place to ensure that all sales are made to customers with an appropriate credit history. Trade debtors that are neither past due nor impaired are considered to be of a high credit quality with a historic default rate of 1% (2008: 1%). The group does not request collateral or other guarantees from existing or potential trade debtors, except where appropriate. To date, the group does not hold any collateral with regards to trade and loans receivable. Credit risk relating to staff loans and related parties is considered insignificant.

HARDWARE WAREHOUSE GROUP

**NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2009**

At each balance sheet date, the group determines on a case-by-case basis whether there is objective evidence of an impairment loss. The following factors are considered in determining whether an impairment loss should be provided for:

- The number of days that the debt is in arrears
- Whether the debtor has been liquidated or has closed down the business
- If provisional liquidation has been sought against the debtor
- Any litigation proceedings against the debtor and the likely outcomes
- Any communication from the debtor indicating an inability to pay within the agreed credit terms
- Any evidence of liquidity difficulties experienced by the debtor.

The group does not provide for impairment losses on a general basis. Debts that are past due are impaired based on evidence of the factors cited above. Impairment losses on trade receivables amounted to R638 000 (2008: R278 941).

The maximum exposure of financial assets to credit risk equates to the carrying amounts as presented on the balance sheet and notes thereto.

	Carrying amount R'000	Of which neither impaired nor past due on the reporting date R'000	Of which is not impaired on the reporting date but past due			
			Greater than 30 days R'000	Greater than 60 days R'000	Greater than 90 days R'000	Greater than 120 days R'000
2009						
Trade receivables						
- Local	10,448	3,916	2,757	1,200	699	1,876
	<u>10,448</u>	<u>3,916</u>	<u>2,757</u>	<u>1,200</u>	<u>699</u>	<u>1,876</u>
2008						
Trade receivables						
- Local	3,978	1,666	1,302	542	289	179
	<u>3,978</u>	<u>1,666</u>	<u>1,302</u>	<u>542</u>	<u>289</u>	<u>179</u>

HARDWARE WAREHOUSE GROUP

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2009

Financial assets that are individually impaired:

	Carrying amount before impairment R'000	Impairment loss R'000	Fair value R'000
2009			
Trade receivables	11,086	(638)	10,448
2008			
Trade receivables	4,256	(278)	3,978

The group does not have any foreign trade receivables.

Liquidity Risk

Liquidity risk arises from the group's management of working capital, the finance charges and the principal repayments on the debt instruments as well as operating lease payments. It is the risk that the group will experience financial difficulty in meeting its obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash, and the availability of funding through an adequate amount of committed facilities. The group remains confident that the available cash resources and borrowing facilities will be sufficient to meet its funding requirements. There have been no defaults or breaches on the loan from interest bearing borrowings, loans from related entities, bank overdraft and trade payables during the course of the financial year. Furthermore, no security has been provided on the trade payables. Interest bearing borrowings have been secured with the related leased assets with a value of R 6 267 867 (2008: R6 371 239). The bank overdraft has been secured as detailed in note 6.

The following table presents the group's outstanding contractual maturity profile for financial liabilities. The analysis presented is based on the undiscounted contractual maturities of the group's financial liabilities.

HARDWARE WAREHOUSE GROUP

**NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2009**

Contractual Maturity Analysis:

	Net undiscounted cash flow			Total R'000
	Due on demand/less than 1 year R'000	Due between year 2 to year 5 R'000	Due after 5 years R'000	
2009				
Financial liabilities				
Interest bearing borrowings	3,678	23,557	-	27,235
Trade and other payables	48,244	-	-	48,244
Bank overdraft	13,261	-	-	13,261
Operating lease commitments	6,442	8,507	-	14,949
Loans from related parties	1,791	-	-	1,791
	<u>73,416</u>	<u>32,064</u>	<u>-</u>	<u>105,480</u>

	Net undiscounted cash flow			Total R'000
	Due on demand/less than 1 year R'000	Due between year 2 to year 5 R'000	Due after 5 years R'000	
2008				
Financial liabilities				
Interest bearing borrowings	2,226	3,733	-	5,959
Trade and other payables	30,285	-	-	30,285
Bank overdraft	9,681	-	-	9,681
Operating lease commitments	5,737	11,548	-	17,285
Loans from related parties	1,555	-	-	1,555
	<u>49,484</u>	<u>15,281</u>	<u>-</u>	<u>64,765</u>

Market Risk

Interest Rate Risk

Market risk arises as a result of the group's use of variable interest rate borrowings and bank overdraft carried at amortised cost. It is the risk that the future cash flows relating to a financial instrument will fluctuate because of changes in interest rates. Future changes to the prime lending rates will have a direct impact on the future cash payments towards the settlement of the financial obligations. The risk remains un-hedged at the reporting date. Exposure to cash flow interest rate risk on financial assets and liabilities is monitored on a continuous basis. The benefits of fixing or capping interest rates on the group's various financing activities is considered on a case-by-case basis and project-by-project basis, taking the specific and overall risk profile into consideration.

The group also holds cash and cash equivalents, which earns interest at variable rates and has variable rate loans. Consequently, the group is exposed to cash flow risk.

Cash and cash equivalents comprise cash on hand and bank balances. Excess funds are deposited with reputable financial institutions on a rate quotation basis. This ensures that the group earns the most advantageous rates of interest available.

HARDWARE WAREHOUSE GROUP

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2009

Sensitivity Analysis

The group is sensitive to the movements in the ZAR interest rates which are the only interest rates to which the group is exposed. The group has used sensitivity analysis techniques that measure the estimated change to the income statement of an instantaneous increase or decrease of 2% (200 basis points) in market interest rates on financial liabilities from the applicable rate as at year end, for each class of financial instrument with all other variables remaining constant. The calculations were determined with reference to the outstanding balances for the year. This represents no change from the prior year in the method and assumptions used. This analysis is for illustrative purposes only and represents management's best estimate of reasonably possible changes in interest rates.

	2009		2008	
	After tax effect on profit & loss		After tax effect on profit & loss	
	2% Increase	2% Decrease	2% Increase	2% Decrease
	R'000	R'000	R'000	R'000
Interest bearing borrowings	(90)	90	(119)	119
Trade and other payables	-	-	-	-
Loans from related parties	-	-	-	-
Bank overdraft	(141)	141	(193)	193

Capital risk management

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

In order to maintain or adjust the capital structure, the group 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 group 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.

25. TAX PAID

	2009	2008
	R'000	R'000
Balance at the beginning of the year	(4,123)	(3,286)
Current tax for the year	(4,286)	(4,109)
Secondary tax on companies for the year	-	78
Balance at end of the year	<u>1,849</u>	<u>4,123</u>
	<u>(6,560)</u>	<u>(3,194)</u>

HARDWARE WAREHOUSE GROUP

**NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2009**

26. ACQUISITION OF BUSINESSES

The fair value of the net assets acquired, the consideration paid and goodwill arising on these transactions were:

	Gonubie Tiles on Tap R'000	On Tap Border (Pty) Ltd R'000	Golden Dividend 235 (Pty) Ltd R'000	Amber Mountain Investments 111 (Pty) Ltd R'000	Senar Investments 151 (Pty) Ltd R'000	Total R'000
Date acquired	1 July 2008	1 December 2008	1 January 2009	30 June 2009	30 June 2009	
Property, plant and equipment	-	1,614	1,018	5,604	7,075	15,311
Trade and other receivables	-	-	-	257	429	686
Cash and cash equivalents	-	-	-	40	352	392
Interest bearing borrowings and related party loans	-	(786)	(1,014)	(2,117)	(4,116)	(8,033)
Deferred tax	-	-	-	-	42	42
Trade and other payables	-	-	-	(3,492)	(150)	(3,642)
Taxation	-	-	-	-	(69)	(69)
Net assets acquired	-	828	4	292	3,563	4,687
Goodwill	45	2,172	-	-	-	2,217
Purchase consideration	45	3,000	4	292	3,563	6,904
Cash and cash equivalents	-	-	-	(40)	(352)	(392)
Paid by issue of shares	-	-	-	-	-	-
Cash outflow on acquisition	45	3,000	4	252	3,211	6,512

The following results were earned since acquisition:

Revenue	-	26,475	-	-	-	26,475
Profit / (losses) after tax	-	(1,857)	(4)	-	-	(1,861)

HARDWARE WAREHOUSE GROUP

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS for the year ended 30 June 2009

Had all transactions occurred at 1 July 2008, the group would have recognised revenue of R 335 977 000 and profit attributable to equity shareholders of R 6 999 000. The amounts include the results of the acquired companies and depreciation of the acquired property, plant and equipment recognised on acquisition. The results of the acquired companies for the period before acquisition have not been adjusted to reflect the accounting policies or to reflect the fair value adjustments made on acquisition. The information is provided for comparative purposes only and does not necessarily reflect the actual results that would have occurred, nor is it necessarily indicative of the future results from operations of the combined companies.

Gonubie Tiles on Tap was purchased due to its location as well as for its existing customer base. No intangible assets were recognised as no fair value can be attributed to these as the purchaser does not hold any rights to these assets and they are merely concomitants of the business purchases.

On Tap Border (Pty) Ltd was purchased for its management staff and experience as well as for its existing customer base. No intangible assets were recognised as no fair value can be attributed to these as the purchaser does not hold any rights to these assets and they are merely concomitants of the business purchases.

27. INVESTMENTS IN SUBSIDIARIES

	Country of incorporation	% Holding 2009	% Holding 2008
In-Line Trading 142 (Pty) Ltd	South Africa	100	100
Yongani Business Development (Pty) Ltd	South Africa	100	100
Hardware Warehouse Empowerment Trust	South Africa	Control	-
Hardware Warehouse Share Purchase Scheme	South Africa	Control	-
Senar Investments 151 (Pty) Ltd	South Africa	100	-
Amber Mountain Investments 111 (Pty) Ltd	South Africa	100	-
On Tap Border (Pty) Ltd	South Africa	100	-
Golden Dividend 235 (Pty) Ltd	South Africa	100	-

28. CONTINGENT LIABILITIES

The group did not have contingent liabilities at year end.

29. SIGNIFICANT JUDGEMENTS

Significant judgements and key sources of estimation uncertainty

The preparation of the consolidated annual financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying values of assets and liabilities that are not apparent from other sources.

Significant estimates are required in the determination of future cash flows, probabilities in assessing net recoverable amounts and fair value disclosure purposes. The estimate and underlying assumptions are reviewed on an ongoing basis. Actual results may differ from these estimates. Significant judgements include:

Allowance for slow moving, damaged and obsolete stock

An allowance to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items.

HARDWARE WAREHOUSE GROUP

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS for the year ended 30 June 2009

Lay-byes

Lay-byes are raised on a worst case scenario basis. Even though historically most lay-byes are subsequently completed, the full amount received is raised as a liability.

Taxation

Judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made. The group recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the group to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the group to realise the net deferred tax assets recorded at the balance sheet date could be impacted.

Impairment

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair value less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The group reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each of the assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including the ability of the market to purchase goods, together with economic factors such as inflation and prevailing interest rates.

30. STATEMENTS AND INTERPRETATIONS ISSUED NOT YET EFFECTIVE

New standards issued but not yet effective, comprises:

IFRS 8 – Operating Segments – Effective for annual periods beginning on or after 1 January 2009

This standard requires an entity to report financial and descriptive information about its reportable segments or aggregation of operating segments that meet specified criteria.

An amendment was made to this standard regarding the disclosure of information about segment assets. This amendment to the standard is effective for annual periods beginning on or after 1 January 2010.

This standard has been early adopted, except for the second amendment.

HARDWARE WAREHOUSE GROUP

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS for the year ended 30 June 2009

New interpretations issued but not yet effective, comprises:

IFRIC 13 – Customer Loyalty Programmes – Effective for annual periods beginning on or after 1 July 2009

IFRIC 14 – IAS 19 – The Limited on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – Effective for annual periods beginning on or after 1 January 2009.

IFRIC 15 – Agreements for the Construction of Real Estate – Effective for annual periods beginning on or after 1 January 2009

IFRIC 16 – Hedges of a Net Investment in a Foreign Operation – Effective for annual periods beginning on or after 1 October 2008

IFRIC 17 – Distribution of Non-cash Assets to Owners – Effective for annual periods beginning on or after 1 July 2009

IFRIC 18 – Transfers of Assets from Customers – Effective for annual periods beginning on or after 1 July 2009

Amendments to existing standards issued, but not yet effective comprises:

IFRS 1 – First-time Adoption of International Financial Reporting Standards

IFRS 2 – Share Based Payment

This amendment deals with vesting conditions and cancellations. This amendment to the standard is effective for annual periods beginning on or after 1 January 2009.

This amendment provides clarification of the scope of IFRS2 and IFRS3 revised. This amendment to the standard is effective for annual periods beginning on or after 1 July 2009.

This amendment deals with the accounting for group cash-settled share-based payment transactions and provides clarity on the definition of the term “Group”. This amendment to the standard is effective for annual periods beginning on or after 1 January 2010.

IFRS 3 – Business Combinations

This amendment deals with the accounting for business combinations. This amendment to the standard is effective from annual periods beginning on or after 1 July 2009.

IFRS 5 – Non-current Assets held for Sale and Discontinued Operations

IFRS 7 – Financial Instruments: Disclosures

This amendment deals with presentation of finance costs. This amendment to the standard is effective for annual periods beginning on or after 1 January 2009.

This amendment deals with improving disclosures about financial instruments. This amendment to the standard is effective for annual periods beginning on or after 1 January 2009.

This amendment deals with enhancing disclosures about fair value and liquidity risk. This amendment to the standard is effective for annual periods beginning on or after 1 January 2009.

HARDWARE WAREHOUSE GROUP

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS for the year ended 30 June 2009

IAS 1 – Presentation of Financial Statements

This amendment deals with amendments to the structure of Financial Statements and current/non-current classification of derivatives. This amendment to the standard is effective for annual periods beginning on or after 1 January 2009.

This amendment deals with the current / non-current classification of convertible instruments. This amendment to the standard is effective for annual periods beginning on or after 1 January 2010.

IAS 7 – Statement of Cash Flows

This amendment deals with cash flows from assets held for rental classified as operating activities. This amendment to the standard is effective for annual periods beginning on or after 1 January 2009.

This amendment deals with the classification of expenditures on unrecognised assets. This amendment to the standard is effective for annual periods beginning on or after 1 January 2010.

IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors

This amendment deals with the status of implementation guidance. This amendment to the standard is effective for annual periods beginning on or after 1 January 2009.

IAS 10 – Events after the Reporting Period

This amendment deals with dividends declared after the end of the reporting period. This amendment to the standard is effective for annual periods beginning on or after 1 January 2009.

This amendment arises from the issue of IFRIC 17. This amendment to the standard is effective for annual periods beginning on or after 1 July 2009.

IAS 16 – Property, Plant and Equipment

This amendment deals with recoverable amount and sale of assets held for rental. This amendment to the standard is effective for annual periods beginning on or after 1 January 2009.

IAS 17 – Leases

This amendment deals with the classification of leases of land and buildings. This amendment to the standard is effective for annual periods beginning on or after 1 January 2010.

IAS 18 – Revenue

This amendment deals with costs of originating a loan. This amendment to the standard is effective for annual periods beginning on or after 1 January 2009.

IAS 19 - Employee Benefits

This amendment deals with curtailments and negative past service cost, plan administration costs, replacement of term “fall due” and guidance on contingent liabilities. This amendment to the standard is effective for annual periods beginning on or after 1 January 2009.

IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance

IAS 23 – Borrowing Costs

This amendment only allows the capitalisation model and components of borrowing costs. This amendment to the standard is effective for annual periods beginning on or after 1 January 2009.

HARDWARE WAREHOUSE GROUP

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS for the year ended 30 June 2009

IAS 27 – Consolidated and Separate Financial Statements

This amendment deals with the measurement of the cost of investments when adopting IFRS for the first time. This amendment to the standard is effective for annual periods beginning on or after 1 January 2009.

This amendment deals with consequential amendments from changes to Business Combinations and measurement of a subsidiary held for sale in the separate financial statements. This amendment to the standard is effective for annual periods beginning on or after 1 July 2009.

IAS 28 – Investments in Associates

IAS 29 – Financial Reporting in Hyperinflationary Economies

IAS 31 – Interest in Joint Ventures

IAS 32 – Financial Instruments: Presentation

This amendment deals with certain financial instruments that will be classified as equity whereas, prior to these amendments, they would have been classified as financial liabilities. This amendment to the standard is effective for annual periods beginning on or after 1 January 2009.

IAS 34 – Interim Financial Reporting

This amendment deals with earnings per share disclosures in interim financial reports. This amendment to the standard is effective for annual periods beginning on or after 1 January 2009.

IAS 36 – Impairment of Assets

This amendment deals with disclosure of estimates used to determine the recoverable amount. This amendment to the standard is effective for annual periods beginning on or after 1 January 2009.

This amendment deals with the unit of accounting for goodwill impairment test. This amendment to the standard is effective for annual periods beginning on or after 1 January 2010.

IAS 38 – Intangible Assets

This amendment deals with advertising activities, promotional activities and unit of production method of amortisation. This amendment to the standard is effective for annual periods beginning on or after 1 January 2009.

This amendment deals with additional consequential amendments arising from the revised IFRS 3 as well as measuring the fair value of an intangible asset acquired in a business combination. This amendment to the standard is effective for annual periods beginning on or after 1 July 2009.

HARDWARE WAREHOUSE GROUP

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS for the year ended 30 June 2009

IAS 39 – Financial Instruments: Recognition and Measurement

This amendment deals with reclassification of derivatives into or out of the classification of at fair value through profit or loss, designating and documenting hedges at the segment level and applicable effective interest rate on cessation of fair value hedge accounting. This amendment to the standard is effective for annual periods beginning on or after 1 January 2009.

This amendment clarifies inflation in a financial hedged item and a one-sided risk in a hedged item in hedge accounting. This amendment to the standard is effective for annual periods beginning on or after 1 July 2009.

This amendment deals with treating loan prepayment penalties as closely related embedded derivatives, the scope exemption for business combination contracts and cash flow hedge accounting. This amendment to the standard is effective for annual periods beginning on or after 1 January 2010.

IAS 40 – Investment Property

This amendment deals with property under construction or development for future use as investment property, consistency of terminology with IAS 8 and investment property held under lease. This amendment to the standard is effective for annual periods beginning on or after 1 January 2009.

IAS 41 – Agriculture

The group does not intend to adopt any of these standards early, unless as otherwise stated.

When the relevant standards are implemented, only disclosure will be affected. There will be no affect on the financial position or financial results.

31. SEGMENT INFORMATION

	Hardware Warehouse 12 months ended 30 June 2009 R'000	On Tap 7 months ended 30 June 2009 R'000	Other segments 12 months ended 30 June 2009 R'000	Inter segment 12 months ended 30 June 2009 R'000	Group 12 months ended 30 June 2009 R'000
INCOME STATEMENT					
Revenue	292,131	26,475	625	(2,164)	317,067
Operating profit / (loss)	15,766	(1,450)	(7)	-	14,309
BALANCE SHEET					
Segment assets	128,664	23,777	17,284	(37,978)	131,747
Segment liabilities	82,568	25,634	19,458	(31,649)	96,011
OTHER SEGMENT ITEMS					
Depreciation	3,138	294	-	-	3,432
Capital expenditure	10,460	1,989	-	12,259	24,708

HARDWARE WAREHOUSE LIMITED
COMPANY BALANCE SHEET – 30 JUNE 2009

	Notes	2009 R'000	2008 R'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	1	14,982	11,664
Goodwill	2	9,528	9,483
Investments in subsidiaries	3	3,862	1
Deferred tax	4	212	-
Related party loans	5	31,580	6,945
		<u>60,164</u>	<u>28,093</u>
CURRENT ASSETS			
Inventories	6	61,058	55,485
Trade and other receivables	7	5,642	5,655
Cash and cash equivalents	8	1,798	758
		<u>68,498</u>	<u>61,898</u>
TOTAL ASSETS		<u>128,662</u>	<u>89,991</u>
EQUITY AND LIABILITIES			
EQUITY			
Share capital	9	16	16
Share premium	9	17,798	19,489
Retained earnings		28,104	17,921
Share based payment reserve	10	176	-
		<u>46,094</u>	<u>37,426</u>
LIABILITIES			
NON-CURRENT LIABILITIES			
Interest bearing borrowings	11	18,835	3,733
Related party loans	5	2,815	-
Deferred tax	4	-	11
		<u>21,650</u>	<u>3,744</u>
CURRENT LIABILITIES			
Interest bearing borrowings	11	3,376	2,226
Operating lease accrual	12	894	752
Taxation payable		1,780	4,123
Lay-byes	13	2,737	1,780
Trade and other payables	14	41,776	30,270
Bank overdraft	8	10,355	9,670
		<u>60,918</u>	<u>48,821</u>
TOTAL LIABILITIES		<u>82,568</u>	<u>52,565</u>
TOTAL EQUITY AND LIABILITIES		<u>128,662</u>	<u>89,991</u>

HARDWARE WAREHOUSE LIMITED

COMPANY INCOME STATEMENT
for the year ended 30 June 2009

	Notes	2009 R'000	2008 R'000
REVENUE	15	292,131	220,449
Cost of sales	16	<u>(223,631)</u>	<u>(170,802)</u>
Gross profit		68,500	49,647
Other operating income		3	210
Operating expenses		(24,920)	(16,700)
Administration expenses		(2,463)	(800)
Personnel costs		<u>(25,354)</u>	<u>(17,073)</u>
Profit from operations	17	15,766	15,284
Investment income	18	1,592	450
Finance costs	19	<u>(3,153)</u>	<u>(1,304)</u>
Profit before taxation		14,205	14,430
Taxation	20	<u>(4,022)</u>	<u>(3,968)</u>
Profit for the year		<u>10,183</u>	<u>10,462</u>

HARDWARE WAREHOUSE LIMITED
COMPANY STATEMENT OF CHANGES OF EQUITY
for the year ended 30 June 2009

	Share capital R'000	Share premium R'000	Total share capital and premium R'000	Retained earnings R'000	Share based payment reserve R'000	Total equity R'000
Balance at 1 July 2007	10	-	10	7,459	-	7,469
Profit for the year	-	-	-	10,462	-	10,462
Issue of shares – private placement	3	14,997	15,000	-	-	15,000
Issue of shares – Share Empowerment Trust	1	6,499	6,500	-	-	6,500
Rights issue	2	-	2	-	-	2
Share issue expenses	-	(2,007)	(2,007)	-	-	(2,007)
Total changes	6	19,489	19,495	10,462	-	29,957
Balance at 30 June 2008	16	19,489	19,505	17,921	-	37,426
Profit for the year	-	-	-	10,183	-	10,183
Long term share investments	-	-	-	-	176	176
Share buyback	-	(1,691)	(1,691)	-	-	(1,691)
Total changes	-	(1,691)	(1,691)	10,183	176	8,668
Balance at 30 June 2009	16	17,798	17,814	28,104	176	46,094
Notes	9	9	9		10	

HARDWARE WAREHOUSE LIMITED

**COMPANY CASH FLOW STATEMENT
for the year ended 30 June 2009**

	Notes	2009 R'000	2008 R'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		14,205	14,430
Adjustments for:			
Depreciation		3,138	1,964
Loss / (profit) on disposal of property, plant and equipment		4	(187)
Interest received		(1,592)	(450)
Finance costs		3,153	1,304
Movements in operating lease assets and accruals		142	163
Movement in share based payment reserve		176	-
		<u>19,226</u>	<u>17,224</u>
Changes in working capital:			
Inventories		(5,573)	(22,580)
Trade and other receivables		13	(2,992)
Lay-byes		957	635
Trade and other payables		11,506	5,483
		<u>26,129</u>	<u>(2,230)</u>
Cash generated from / (absorbed by) operations		26,129	(2,230)
Interest received		1,592	450
Finance costs paid		(3,153)	(1,304)
Taxation paid	25	(6,589)	(3,196)
		<u>17,979</u>	<u>(6,280)</u>
NET CASH GENERATED FROM / (ABSORBED BY) OPERATING ACTIVITIES			
		<u>17,979</u>	<u>(6,280)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	1	(6,574)	(7,797)
Proceeds on disposal of property, plant and equipment	1	115	406
Acquisition through business combination		(3,861)	-
Goodwill paid on acquisition of businesses	2	(45)	(6,983)
		<u>(10,365)</u>	<u>(14,374)</u>
NET CASH ABSORBED BY INVESTING ACTIVITIES			
		<u>(10,365)</u>	<u>(14,374)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in loans from related parties	5	2,815	-
Advances in interest bearing borrowings		19,966	5,549
Repayments of interest bearing borrowings		(3,714)	(2,854)
Increase in loans to related parties		(24,635)	(6,945)
Share buyback		(1,691)	-
Issue of shares		-	19,495
		<u>(7,259)</u>	<u>15,245</u>
NET CASH (ABSORBED BY) / FROM FINANCING ACTIVITIES			
		<u>(7,259)</u>	<u>15,245</u>
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENT		355	(5,409)
CASH AND CASH EQUIVALENT AT THE BEGINNING OF THE YEAR		<u>(8,912)</u>	<u>(3,503)</u>
CASH AND CASH EQUIVALENT AT THE END OF THE YEAR		<u>8</u> <u>(8,557)</u>	<u>(8,912)</u>

HARDWARE WAREHOUSE LIMITED
ACCOUNTING POLICIES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2009

PRINCIPAL ACCOUNTING POLICIES

The annual financial statements of the company have been prepared in accordance with International Financial Reporting Standards (IFRS); the interpretation adopted by the International Accounting Standards Board (IASB) and the requirements of the Companies Act of South Africa, 1973, as amended and are consistent with the previous year.

The accounting policies for the holding company are the same as those of the group, where applicable (see the accounting policies in the consolidated annual financial statements).

Investments in subsidiaries are accounted for in the company's annual financial statements at cost.

HARDWARE WAREHOUSE LIMITED
NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2009

1. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery R'000	Furniture, fixtures and shelving R'000	Motor vehicles R'000	Office equipment R'000	Computer equipment R'000	Leasehold improvements R'000	Signage R'000	Total R'000
Carrying value - 30 June 2008	139	2,963	5,944	256	513	621	1,228	11,664
Cost	158	3,595	7,660	277	1,251	899	1,323	15,163
Accumulated depreciation	(19)	(632)	(1,716)	(21)	(738)	(278)	(95)	(3,499)
Additions – purchased	590	2,627	2,073	212	413	168	491	6,574
Disposals	-	-	(118)	-	-	-	-	(118)
Depreciation	(44)	(860)	(1,402)	(28)	(369)	(274)	(161)	(3,138)
Carrying value - 30 June 2009	685	4,730	6,497	440	557	515	1,558	14,982
Cost	748	6,222	9,502	489	1,664	1,067	1,814	21,506
Accumulated depreciation	(63)	(1,492)	(3,005)	(49)	(1,107)	(552)	(256)	(6,524)
Carrying value - 30 June 2007	105	1,183	3,613	127	261	671	92	6,052
Cost	108	1,346	4,979	136	789	746	96	8,200
Accumulated depreciation	(3)	(163)	(1,366)	(9)	(528)	(75)	(4)	(2,148)
Additions – purchased	45	2,194	3,301	107	448	153	1,227	7,475
Additions – business combinations	5	58	200	34	25	-	-	322
Disposals	-	(2)	(210)	-	(9)	-	-	(221)
Depreciation	(16)	(470)	(960)	(12)	(212)	(203)	(91)	(1,964)
Carrying value - 30 June 2008	139	2,963	5,944	256	513	621	1,228	11,664
Cost	158	3,595	7,660	277	1,251	899	1,323	15,163
Accumulated depreciation	(19)	(632)	(1,716)	(21)	(738)	(278)	(95)	(3,499)

HARDWARE WAREHOUSE LIMITED
NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2009

Encumbered as security

Motor vehicles and furniture and fittings with a carrying value of R5 580 102 (2008: R6 371 239) have been encumbered as security for the interest bearing borrowings from ABSA Bank Limited and Wesbank as reflected in note 11, furthermore, the assets are encumbered in terms of a general notarial bond over all of the movable assets as reflected in note 8.

2. GOODWILL

	2009 R'000	2008 R'000
Carrying value - 30 June 2008 / 30 June 2007	9,483	2,500
Cost	9,483	2,500
Accumulated impairments	-	-
Additions through business combinations	45	6,983
Carrying Value - 30 June 2009 / 30 June 2008	9,528	9,483
Cost	9,528	9,483
Accumulated impairment	-	-
	9,528	9,483

The goodwill relates to specific branches which have been purchased. Details of these acquisitions have been reflected in note 26.

Impairment test for cash-generating units containing goodwill.

The following units have significant carrying amounts of goodwill

	2009 R'000	2008 R'000
Mthatha region	2,500	2,500
Queenstown region	1,011	1,011
Mtubatuba region	5,972	5,972
Other units with insignificant goodwill	45	-
	9,528	9,483

Description of impairment tests and key assumptions

Impairment tests are conducted on an annual basis (or more frequently where impairment indicators have been identified). The method used is a discounted cash flow valuation model on the basis of value-in-use. The impairment tests are prepared on the basis of forecast profits generated by the cash-generating unit. Forecasts typically cover a one year period due to the high growth experienced by these acquisitions. The profit generated from each unit is determined and capitalised using an after-tax discount rate which represents the weighted average cost of capital applicable to the group, which is currently 16.34% (2008: 11.73%).

Impairment losses

No impairment losses have been recognised to date.

Useful lives

Useful lives of assets acquired under business combinations are reflected under accounting policies on page 19.

HARDWARE WAREHOUSE LIMITED
NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2009

3. INVESTMENTS IN SUBSIDIARIES

Name of company	Country of incorporation	% holding 2009	% holding 2008	Carrying amount of shares 2009 R'000	Carrying amount of shares 2008 R'000
In-Line Trading 142 (Pty) Ltd Yongani Business	South Africa	100	100	1	1
Development (Pty) Ltd	South Africa	100	100	-	-
Golden Dividend 235 (Pty) Ltd	South Africa	100	-	-	-
On Tap Border (Pty) Ltd	South Africa	100	-	-	-
Senar Investments 151 (Pty) Ltd	South Africa	100	-	3,761	-
Amber Mountain Investments 111 (Pty) Ltd	South Africa	100	-	100	-
				3,862	1

The loans to subsidiary companies are reflected in note 5.

4. DEFERRED TAX

The deferred tax asset / (liability) comprises:

	2009 R'000	2008 R'000
Operating lease accruals	250	210
Accruals	236	67
Provisions for doubtful debts	133	59
Property, plant and equipment	(456)	(347)
Provision for employee costs	49	-
	212	(11)

Reconciliation of deferred tax asset / (liability)

	2009 R'000	2008 R'000
Balance at beginning of the year	(11)	(74)
Taxable Temporary Differences	(109)	(124)
Deductible Temporary Differences		185
Operating lease accruals	40	-
Accruals	169	-
Provisions for doubtful debts	74	-
Provision for employee costs	49	-
Reduction due to rate change	-	2
Balance at the end of the year	212	(11)

HARDWARE WAREHOUSE LIMITED
NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2009

5. RELATED PARTY LOANS

	Loans to related parties		Loans from related parties	
	2009	2008	2009	2008
	R'000	R'000	R'000	R'000
E G Senar	-	100	-	-
I A J Senar	-	95	-	-
M J Willard	-	250	-	-
Hardware Warehouse Empowerment Trust	6,500	6,500	-	-
Senarvest Property Developments 1 CC	-	-	2,815	-
Senar Investments 151 (Pty) Ltd	2,207	-	-	-
Amber Mountain Investments 111 (Pty) Ltd	3,426	-	-	-
Golden Dividend 235 (Pty) Ltd	1,010	-	-	-
On Tap Border (Pty) Ltd	16,437	-	-	-
Hardware Warehouse Share Incentive Scheme	2,000	-	-	-
	<u>31,580</u>	<u>6,945</u>	<u>2,815</u>	<u>-</u>

The terms and conditions of the loans have been disclosed in note 23.

6. INVENTORIES

	2009	2008
	R'000	R'000
Finished goods	61,334	55,903
Provision for obsolete inventory	(480)	(446)
Consumables	204	28
	<u>61,058</u>	<u>55,485</u>
Inventory encumbered as security		
Inventory encumbered as security for company's overdraft facilities.	<u>14,100</u>	<u>7,500</u>

HARDWARE WAREHOUSE LIMITED
NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2009

7. TRADE AND OTHER RECEIVABLES

	2009 R'000	2008 R'000
Trade receivables	4,927	3,746
Allowance for doubtful debts	(631)	(279)
Staff loans	164	134
Deposits	29	62
Receivables from related parties	1,064	855
Sundry debtors	89	1,137
	<u>5,642</u>	<u>5,655</u>

Trade receivables are interest free provided that they are settled within 30 days; thereafter the balance bears interest at the prime interest rate. Staff loans bear interest at 24% per annum and are repayable over 6 months. Deposits and sundry debtors are interest free and have arisen in the normal course of trade. Related party loans bear interest at prime plus 2% and have arisen in the normal course of trade.

Reconciliation of allowance for doubtful debts:

	2009 R'000	2008 R'000
Opening balance	(279)	(110)
Bad debts written off	41	14
Additional debtors provided for	(393)	(183)
Closing balance	<u>(631)</u>	<u>(279)</u>

Trade and other receivables ceded as security

Trade debtors with a carrying amount of R4 927 447 (2008: R3 746 265) have been ceded as security for the company's bank overdraft facilities. At year end the overdraft amounted to R10 354 695 (2008: R9 669 518).

The allowance for doubtful debts has been determined by providing for specific debtors who have been identified and by considering the specific recoverability of each debtor.

The directors consider that the carrying amount of trade and other receivables approximates their fair value due to the short term nature of receivables. Loans and receivables are measured at amortised cost.

HARDWARE WAREHOUSE LIMITED
NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2009

8. CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the balance sheet and cash flow statement comprise cash on hand, balances with banks and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

	2009	2008
	R'000	R'000
Cash on hand	134	758
Short-term deposits	1,664	-
Bank overdraft	(10,355)	(9,670)
	<u>(8,557)</u>	<u>(8,912)</u>
Current assets	1,798	758
Current liabilities	(10,355)	(9,670)
	<u>(8,557)</u>	<u>(8,912)</u>

The principal features of the company's overdraft are as follows:

Bank overdrafts are repayable on demand. Overdrafts of R10 354 695 (2008: R9 669 518) have been secured by:

- Cession of trade receivables of R4 927 447 (2008: R3 746 265)
- General notarial bond of R20 000 000 (2008: R7 500 000) over all moveable assets.

The company has the following undrawn borrowing facilities:

	2009	2008
	R'000	R'000
Bank overdraft:		
- Expiring within one year	<u>3,745</u>	<u>2,430</u>

9. SHARE CAPITAL

	2009	2008
	R'000	R'000
Authorised:		
500,000,000 Ordinary shares of 0.02c each (2008: 500 000 000 ordinary shares of 0,02c each)	<u>100</u>	<u>100</u>

The directors have no authority to issue the unissued shares of the company.

Issued and fully paid:

77,900,000 Ordinary shares of 0.02c each (2008: 80 000 000 ordinary shares of 0,02c each)	<u>16</u>	<u>16</u>
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Reconciliation of shares capital:

Reported at incorporation	10	10
Issue of shares – rights issue	2	2
Issue of shares – Hardware Warehouse Empowerment Trust	1	1
Issue of shares – private placement	3	3
Share buyback	-	-
Balance as at 30 June 2009 / 30 June 2008	<u>16</u>	<u>16</u>

HARDWARE WAREHOUSE LIMITED
NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2009

	2009	2008
	R'000	R'000
Reconciliation of share premium		
Share premium	21,496	21,496
Share issue costs written off against share premium	(2,007)	(2,007)
Share buyback	(1,691)	-
Balance as at 30 June 2009 / 30 June 2008	<u>17,798</u>	<u>19,489</u>
Reconciliation of number of shares issued		
Reported at incorporation	<u>10</u>	<u>10</u>
September 2007 – share split – 1:5,000	50,000	50,000
September 2007 – issue of shares – rights issue at R1 per share	8,500	8,500
September 2007 – issue of shares – Hardware Warehouse Empowerment Trust of R1 per share	6,500	6,500
September 2007 – issue of shares – private placement at R1 per share	15,000	15,000
Share buyback	(2,100)	-
Shares in issue – 30 June 2009 / 30 June 2008	<u>77,900</u>	<u>80,000</u>

Between 17 and 19 November 2008 the company bought back 2 100 000 shares at an average price of 80c per share.

HARDWARE WAREHOUSE LIMITED
NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2009

10. SHARE BASED PAYMENT RESERVE

During the year the company issued 4,223,957 options to employees under share incentive scheme. This is an equity settled employment equity plan. The vesting conditions are between a period of 3 and 5 years service unless the employee has been employed in the company for a period longer than 3 years prior to the offer in which case the vesting period is 1 year. The employment equity plan will be settled with the issue of shares at the end of the vesting period.

	2009	2008
	R'000	R'000
Share based payment expense	<u>176</u>	<u>-</u>

The total expense recognised for the period arising from transactions accounted for as equity settled share based payment transactions is R176,000 (2008:nil).

During the year ended 30 June 2009, the group has a share based payment arrangement, which is described below:

	Hardware Warehouse Share Incentive Scheme and Empowerment Trust
Number of share options granted	4,223,957
Average contractual life	483 days
Vesting conditions	Between 3 – 5 years service, unless with the company longer than 3 years prior to the offer, in which case 1 year

The estimated fair value of each option (in cents) granted in the Hardware Warehouse Share Incentive Scheme and Hardware Warehouse Empowerment Trust is as follows:

	Hardware Warehouse Share Incentive Scheme and Empowerment Trust
Period to vesting	
1 Year	8.81
3 Years	9.98

HARDWARE WAREHOUSE LIMITED
NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2009

The fair values were calculated by applying a binominal option pricing model. The model inputs were:

	1 Year	3 Years
Share price at grant date in cents	72.43	70.82
Average exercise price	83.26	78.00
Expected volatility	35%	35%
Risk free interest rate	8.50%	8.50%

No market conditions were imposed on the options. The options were measured at fair value on grant date.

The total number of shares that are available for issue in the Hardware Warehouse Empowerment Trust is 4 137 747, being the total number of shares that were available for issue (6 500 000) less the number of shares allocated in the current year (2 356 253).

The total number of shares that are available for issue in the Hardware Warehouse Share Incentive Scheme is 132 296, being the total number of shares that were available for issue (2 000 000) less the number of shares allocated in the current year (1 867 704).

Further details of the two option share plan are as follows (2008: N/A):

	Number of options	Average exercise price (cents)
Outstanding at the beginning of the year	-	-
Granted during the year	4,223,957	82.41
Forfeited during the year	-	-
Exercised during the year	-	-
Outstanding at the end of the year	<u>4,223,957</u>	<u>82.41</u>
Exercisable at the end of the year	<u>NIL</u>	

No share options were exercised during the year. The options outstanding at 30 June 2009 had an average exercise price of 82.41 cents and an average remaining contractual life of 249 days.

HARDWARE WAREHOUSE LIMITED
NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2009

11. INTEREST BEARING BORROWINGS

	2009	2008
	R'000	R'000
Held at amortised cost		
ABSA Bank Limited Secured by instalment sale agreements from ABSA Bank Limited over the property, plant and equipment of the company disclosed in note 1.	6,815	5,810
Wesbank Secured by instalment sale agreements from Wesbank over the property, plant and equipment of the company disclosed in note 1.	396	149
AAA Investments (Pty) Ltd Secured by a general notarial bond over the movables of the group, which shall rank subordinate to the general notarial bond registered in favour of ABSA bank. This bond was registered subsequent to year end. This has been further secured by personal suretyships from some of the executive directors and senior employees. The loan bears interest at 19,75% pa and the interest is repayable monthly. The capital is repayable after three years in full with no option of early settlement.	15,000	-
	22,211	5,959
Non-current liabilities		
At amortised cost	18,835	3,733
Current portion included with current liabilities		
At amortised cost	3,376	2,226
	22,211	5,959

Repayment terms and conditions

The instalment sales are repayable in monthly instalments of R309 496 (2008: R237 870). The interest rates on the instalment sales are related to prime and average 14.12% (2008: 14%).

HARDWARE WAREHOUSE LIMITED
NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2009

12. OPERATING LEASE ACCRUAL

At the balance sheet date, the company had outstanding commitments for future minimum lease payments under non-cancelable operating leases, which fall due as follows:

	2009 R'000	2008 R'000
Operating lease accrual	<u>894</u>	<u>752</u>
Operating lease arrangements		
Within one year	6,442	5,737
In the second to fifth years inclusive	<u>8,507</u>	<u>11,548</u>
	14,949	17,285
Liability arising on straight lining of operating leases	<u>(894)</u>	<u>(752)</u>
	<u>14,055</u>	<u>16,533</u>

Operating lease payments represent rentals payable by the company for certain of its trading premises. Leases are negotiated for periods between three and five years, being an average term of four years.

Most of the leases have renewal clauses at the option of the lessee. No contingent rentals are payable and subletting is permitted with prior approval from the lessors.

13. LAY-BYES

	2009 R'000	2008 R'000
Balance due on lay-byes at year end	<u>2,737</u>	<u>1,780</u>
	2009 R'000	2008 R'000
Carrying value - 30 June 2008 / 30 June 2007	1,780	1,145
Net movement	957	635
Carrying value - 30 June 2009 / 30 June 2008	<u>2,737</u>	<u>1,780</u>

The company sells goods to customers on "lay-bye". It is expected that all amounts deposited as lay-byes will be realised in the next year when the customer receives the goods. These deposits may be refundable under certain circumstances in terms of the lay-bye regulations. The carrying value approximates the fair value due to the short term nature of the lay-byes.

HARDWARE WAREHOUSE LIMITED
NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2009

14. TRADE AND OTHER PAYABLES

	2009	2008
	R'000	R'000
Trade payables	39,851	28,765
Other payables	1,925	1,505
	<u>41,776</u>	<u>30,270</u>

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The carrying value of trade payables approximates its fair value due to the short term nature of trade payables.

Trade payables are interest free provided they are settled within 30 – 60 days. Thereafter interest is charged at prevailing rates. Other payables are interest free and have arisen in the ordinary course of business.

15. REVENUE

	2009	2008
	R'000	R'000
Gross revenue	<u>292,131</u>	<u>220,449</u>

16. COST OF SALES

	2009	2008
	R'000	R'000
Cost of goods sold	<u>223,631</u>	<u>170,802</u>

17. PROFIT FROM OPERATIONS

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

	2009	2008
	R'000	R'000
Auditors' remuneration – audit services	355	163
Auditors' remuneration – tax and secretarial services	190	4
Loss / (Profit) on disposal or scrapping of property, plant and equipment	4	(187)
Bad debts	249	183
Legal fees	30	11
Operating lease charges	7,831	5,882
Depreciation	3,138	1,964
Share based payment expense	176	-
Employee costs - short term benefits	25,354	17,073

The company had no post retirement employee benefit obligations.

HARDWARE WAREHOUSE LIMITED
NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2009

18. INVESTMENT INCOME

	2009	2008
	R'000	R'000
<i>Loans and receivables:</i>		
Bank deposits	-	419
Interest charged on trade and other receivables	49	31
Interest received on related party loans which became subsidiaries	1,477	-
Staff loans	66	-
	<u>1,592</u>	<u>450</u>

19. FINANCE COSTS

	2009	2008
	R'000	R'000
<i>Financial liabilities:</i>		
Finance charges for interest bearing borrowings	1,626	790
Bank overdrafts and revolving credit facilities	1,341	507
Interest paid to creditors	70	7
Interest paid on related party loans	116	-
	<u>3,153</u>	<u>1,304</u>

20. TAXATION

	2009	2008
	R'000	R'000
South African normal tax:		
Current year	4,245	4,108
Deferred tax		
Current year	(223)	(63)
Secondary Tax on Companies – overprovision	-	(77)
Tax expense per Income Statement	<u>4,022</u>	<u>3,968</u>

Company tax is calculated at 28% (2008: 28%) of the estimated assessable profit for the year.

Reconciliation of the tax rate:

	%	%
Tax at the South African company tax rate	28,00	28,00
Non deductible donation	0,05	0,05
Legal fees and other capital expenditure	0,26	0,01
Over provision relating to secondary tax on companies	-	(0,54)
Change in tax rate	-	(0,02)
Effective tax rate for the year	<u>28,31</u>	<u>27,50</u>

HARDWARE WAREHOUSE LIMITED
NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2009

21. DIRECTORS' REMUNERATION

	Basic salary/ fees R'000	Annual Bonus R'000	Expenses and traveling allowance R'000	Total R'000
Directors' emoluments, for the year ended 30 June 2009 are:				
Executive directors				
I M J Senar	143	-	143	286
S C Miller	382	-	190	572
L A Rhind	265	22	77	364
Non-executive directors				
N E Woollgar	26	-	-	26
H A Long	69	-	6	75
Total directors' emoluments 30 June 2009	885	22	416	1,323

	Basic Salary/ fees R'000	Annual bonus R'000	Expenses and traveling allowance R'000	Total R'000
Directors' emoluments, for the year ended 30 June 2008 are:				
Executive directors				
I M J Senar	137	-	137	274
S C Miller	366	-	182	548
L A Rhind	274	23	51	348
Non-executive directors				
N E Woollgar	-	-	-	-
H A Long	-	-	-	-
Total directors' emoluments 30 June 2008	777	23	370	1,170

22. AUDITORS' REMUNERATION

	2009 R'000	2008 R'000
Audit services	355	163
Tax and secretarial services	190	4
	545	167

HARDWARE WAREHOUSE LIMITED

**NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2009**

23. RELATED PARTIES

		Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
		R	R	R	R
In-Line Trading 142 (Pty) Ltd	2009	-	-	-	-
	2008	1,209	-	476	-
Downstream Trading 34 CC	2009	-	-	-	-
	2008	407	-	167	-
Senarvest Property Developments 1 CC	2009	-	-	1,064	2,815
	2008	-	-	212	-
I M J Senar	2009	-	-	-	-
	2008	-	-	-	-
I A J Senar	2009	-	-	-	-
	2008	-	-	95	-
M J Willard	2009	-	-	-	-
	2008	-	-	250	-
E G Senar	2009	-	-	-	-
	2008	-	-	100	-
Hardware Warehouse Share Empowerment Trust	2009	-	-	6,500	-
	2008	-	-	6,500	-
Senar Investments 151 (Pty) Ltd	2009	-	-	2,207	-
	2008	-	-	-	-
Amber Mountain Investments 111 (Pty) Ltd	2009	-	-	3,426	-
	2008	-	-	-	-
Golden Dividend 235 (Pty) Ltd	2009	-	-	1,010	-
	2008	-	-	-	-
On Tap Border (Pty) Ltd	2009	-	-	16,437	-
	2008	-	-	-	-
Hardware Warehouse Share Incentive Scheme	2009	-	-	2,000	-
	2008	-	-	-	-

HARDWARE WAREHOUSE LIMITED
NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2009

The balances owing by In-Line Trading 142 (Pty) Ltd, Downstream Trading 34 CC and Senarvest Property Developments 1 CC above have been included under trade and other receivables as these relate to debts arising in the ordinary course of trade.

The directors consider all amounts to be recoverable.

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

Other than the amounts included under trade and other receivables (as per note 7 above), the amounts have been reflected under related party loans (note 5).

E G Senar, I A J Senar and M J Willard are past directors of the company. Hardware Warehouse Share Empowerment Trust is a related party because they are trustees of the trust which is controlled by the company.

Downstream Trading 34 CC is a related party as certain members of the corporation are directors of the company.

Senarvest Property Developments 1 CC is a related party because I M J Senar is the member of the corporation. The corporation acts as lessor to Hardware Warehouse for many of the branches. The corporation investments represent a property portfolio of approximately 50 companies. All rentals are market related and formal lease agreements have been entered into between the parties. Senarvest Property Developments 1 CC also leases property to non Hardware Warehouse related tenants.

I M J Senar is a director and chairman of the group.

S C Miller is a director of the group.

Shaun Miller Family Trust is a related party because S C Miller is a trustee of the trust.

IMJS Family Trust is a related party because I M J Senar is a trustee of the trust.

Remuneration of key management personnel is disclosed in note 21 on directors' remuneration.

A full list of related parties is available at the registered offices of the group.

The value of the lease rentals were as follows:

	Branch	2009 R'000	2008 R'000
Platinum Mile Investments 588 (Pty) Ltd	Mdantsane	245	183
Spring Romance Properties 48 (Pty) Ltd	Port Alfred	230	230
Golden Harvest Bakery (Pty) Ltd	Fleet Street	714	714
Sevenstone Investments 124 (Pty) Ltd	Elliott Street	779	779
Bubesi Investments 127 (Pty) Ltd	Alice	124	186
Senar Investments 151 (Pty) Ltd	Butterworth	407	407
Amber Mountain Investments 111 (Pty) Ltd	Head Office	239	159
		2,738	2,658

The reason for the change is that last year many of the stores were only used by the entity for a portion of the year and certain additional storage was let by the company from the entity for portion of the prior year. All transactions with related parties have been concluded at arm's length.

24. RISK MANAGEMENT

Financial instrument risk exposure and management

Risk management is fundamental to the company's business and plays a crucial role in enabling management to operate more effectively in a changing environment. Over time it has evolved into one of the company's core capabilities and is integral to the evaluation of strategic alternatives and the setting of objectives, all within a risk management framework that ensures alignment with the company's risk appetite and overall strategy.

The approach followed by the company to manage risk is to ensure that all significant risks are identified and managed. The company remains committed to the objective of increasing shareholder value by developing and growing business that is consistent with the chosen risk appetite, and through building more effective risk management capabilities.

The company's trading and financing activities expose it to various financial risks that if left unmanaged, could adversely impact on current or future earnings. Although not necessarily mutually exclusive, these financial risks include credit risk, liquidity risk and market risk, which comprises, interest rate risk.

This note describes the company's overall risk management programme, focusing on the unpredictability of the financial markets and seeking to minimise the potential adverse effects on the financial performance of the company. Further quantitative information in respect of these risks is presented throughout these annual financial statements.

There have been no substantive changes in the company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous years, unless otherwise stated in this note. Information disclosed has not been disaggregated as the financial instruments used by the company share the same economic characteristic and market conditions with the exception of trade receivables and trade payables.

Principal financial instruments

The principal financial instruments used by the company, from which financial instrument risk arises, are as follows:

- Trade receivables
- Staff loans
- Cash and cash equivalents
- Related party receivables
- Interest bearing borrowings
- Trade payables
- Loan from related entities
- Bank overdraft

The directors have an overall responsibility for the determination of the company's risk management objectives and policies, and whilst retaining ultimate responsibility for them, they ensure that excess cash as generated from their operations is invested with recognised financial institutions. Finance is provided by counterparties that are well recognised financial institutions, and only trades with customers of suitable credit worthiness are accepted. The executive directors on a monthly basis, monitor their collections from customers and movements in the prime lending rates. Risks are not hedged through the direct use of financial instruments. Furthermore, financial instruments are not used for speculative purposes.

The overall objective of the board of directors is to set policies that seek to reduce risk that they are directly exposed to as far as possible without unduly affecting the company's general business operations.

HARDWARE WAREHOUSE LIMITED
NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2009

Categories of financial instruments

2009	Loans and receivables	Total	Fair value	Type of risk
	R'000	R'000	R'000	
Financial assets				
Trade receivables	4,414	4,414	4,414	Credit risk Interest rate risk
Staff loans	164	164	164	Credit risk Interest rate risk
Cash and cash equivalents	1,798	1,798	1,798	Credit risk Interest rate risk
Related party receivables	32,644	32,644	32,644	Credit risk Interest rate risk
Total	39,020	39,020	39,020	

2008	Loans and receivables	Total	Fair value	Type of Risk
	R'000	R'000	R'000	
Financial assets				
Trade receivables	4,666	4,666	4,666	Credit risk Interest rate risk
Staff loans	134	134	134	Credit risk Interest rate risk
Cash and cash equivalents	758	758	758	Credit risk Interest rate risk
Related party receivables	7,800	7,800	7,800	Credit risk Interest rate risk
Total	13,358	13,358	13,358	

2009	Amortised cost	Total	Fair value	Type of Risk
	R'000	R'000	R'000	
Financial liabilities				
Interest bearing borrowings	22,211	22,211	22,211	Cash flow risk Interest rate risk Liquidity risk
Trade and other payables	41,776	41,776	41,776	Cash flow risk Interest rate risk Liquidity risk
Loans from related parties	2,815	2,815	2,815	Cash flow risk Liquidity risk
Bank overdraft	10,355	10,355	10,355	Cash flow risk Interest rate risk Liquidity risk
Total	77,157	77,157	77,157	

HARDWARE WAREHOUSE LIMITED
NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2009

2008	Amortised cost R'000	Total R'000	Fair value R'000	Type of Risk
Financial liabilities				
Interest bearing borrowings	5,959	5,959	5,959	Cash flow risk Interest rate risk Liquidity risk
Trade and other payables	30,270	30,270	30,270	Cash flow risk Interest rate risk Liquidity risk
Loans from related parties	-	-	-	Cash flow risk Liquidity risk
Bank overdraft	9,670	9,670	9,670	Cash flow risk Interest rate risk Liquidity risk
Total	45,899	45,899	45,899	

Credit Risk

The company's credit risk is mainly confined to the risk of customers defaulting on sales invoices raised and to loans to related parties. Any credit risk arising from cash deposits is deemed to be insignificant on the basis that all relevant counterparties are recognised financial institutions. The risk on loans to related parties is insignificant as these have been secured. The company's financial instruments that are exposed to concentrations of credit risk consist primarily of trade and other receivables, however this exposure is not considered excessive due to its diverse customer base and product lines. The company has policies in place to ensure that all sales are made to customers with an appropriate credit history. Trade debtors that are neither past due nor impaired are considered to be of a high credit quality with a historic default rate of 1% (2008: 1%). The company does not request collateral or other guarantees from existing or potential trade debtors, except where appropriate. To date, the company does not hold any collateral with regards to trade and loans receivable. Credit risk relating to staff loans and related parties is considered insignificant.

At each balance sheet date, the company determines on a case-by-case basis whether there is objective evidence of an impairment loss. The following factors are considered in determining whether an impairment loss should be provided for:

- The number of days that the debt is in arrears
- Whether the debtor has been liquidated or has closed down the business
- If provisional liquidation has been sought against the debtor
- Any litigation proceedings against the debtor and the likely outcomes
- Any communication from the debtor indicating an inability to pay within the agreed credit terms
- Any evidence of liquidity difficulties experienced by the debtor

The company does not provide for impairment losses on a general basis. Debts that are past due are impaired based on evidence of the factors cited above. Impairment losses on trade receivables amounted to R631 412 (2008: R278 941).

The maximum exposure of financial assets to credit risk equates to the carrying amounts as presented on the balance sheet and notes thereto.

HARDWARE WAREHOUSE LIMITED
NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2009

Reconciliation of the doubtful debts allowance account:

	Carrying Amount R'000	Of which neither impaired nor past due on the reporting date R'000	Of which is not impaired on the reporting date but past due			
			Greater than 30 days R'000	Greater than 60 Days R'000	Greater than 90 Days R'000	Greater than 120 Days R'000
2009						
Trade receivables						
- Local	4,296	1,076	739	332	415	1,734
2008						
Trade receivables						
- Local	3,467	1,155	1,302	542	289	179

Financial assets that are individually impaired:

	Carrying amount before impairment R'000	Impairment loss R'000	Fair value of Collateral R'000
2009			
Trade receivables			
- Local	4,927	(631)	4,296
2008			
Trade receivables			
- Local	3,746	(279)	3,467

The company does not have any foreign trade receivables.

HARDWARE WAREHOUSE LIMITED**NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2009****Liquidity Risk**

Liquidity risk arises from the company's management of working capital, the finance charges and the principal repayments on the debt instruments. It is the risk that the company will experience financial difficulty in meeting their obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash, and the availability of funding through an adequate amount of committed facilities. The company remains confident that the available cash resources and borrowing facilities will be sufficient to meet its funding requirements. There have been no defaults or breaches on the loan from interest bearing borrowings, loans from related entities, bank overdraft and trade payables during the course of the financial year. Furthermore, no security has been provided on the trade payables. Interest bearing borrowings have been secured with the related leased assets with a value of R5 580 102 (2008: R6 371 239). The bank overdraft has been secured as detailed in note 8.

The following table presents the company's outstanding contractual maturity profile for financial liabilities. The analysis presented is based on the undiscounted contractual maturities of the company's financial liabilities.

Contractual Maturity Analysis:

	Net undiscounted cash flow			Total R'000
	Due on demand/ less than 1 year R'000	Due between year 2 to year 5 R'000	Due after 5 years R'000	
2009				
Financial liabilities				
Interest bearing borrowings	3,376	18,835	-	22,211
Loans from related parties	2,815	-	-	2,815
Trade and other payables	41,776	-	-	41,776
Operating lease commitments	6,442	8,507	-	14,949
Bank overdraft	10,355	-	-	10,355
Total	64,764	27,342	-	92,106

HARDWARE WAREHOUSE LIMITED
NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2009

	Net undiscounted cash flow			Total R'000
	Due on demand/ less than 1 year R'000	Due between year 2 to year 5 R'000	Due after 5 years R'000	
2008				
Financial liabilities				
Interest bearing borrowings	2,226	3,733	-	5,959
Loans from related parties	-	-	-	-
Trade and other payables	30,270	-	-	30,270
Operating lease commitments	5,737	11,548	-	17,285
Bank overdraft	9,670	-	-	9,670
Total	47,903	15,281	-	63,184

Market Risk

Interest Rate Risk

Market risk arises as a result of the company's use of variable interest rate borrowings and bank overdraft carried at amortised cost. It is the risk that the future cash flow of a financial instrument will fluctuate because of changes in interest rates. Future changes to the prime lending rates will have a direct impact on the future cash payments towards the settlement of the financial obligation. The risk remains un-hedged at the reporting date. Exposure to cash flow interest rate risk on financial assets and liabilities is monitored on a continuous basis. The benefits of fixing or capping interest rates on the company's various financing activities is considered on a case-by-case basis and project-by-project basis, taking the specific and overall risk profile into consideration.

The company also holds cash and cash equivalents, which earns interest at variable rates and has variable rate debt in issue. Consequently, the company is exposed to cash flow risk.

Cash and cash equivalents comprise cash on hand and bank balances. Excess funds are deposited with reputable financial institutions on a rate quotation basis. This ensures that the company earns the most advantageous rates of interest available.

Sensitivity Analysis

The company is sensitive to the movements in the ZAR interest rates which are the primary interest rates to which the company is exposed. The company has used a sensitivity analysis technique that measures the estimated change to the income statement of an instantaneous increase or decrease of 2% (200 basis points) in market interest rates on financial liabilities from the applicable rate as at year end, for each class of financial instrument with all other variables remaining constant. The calculations were determined with reference to the outstanding financial liability balances for the year. This represents no change from the prior year in the method and assumptions used. This analysis is for illustrative purposes only and represents management's best estimate of reasonably possible changes in interest rates.

HARDWARE WAREHOUSE LIMITED

**NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2009**

	2009		2008	
	After tax effect on profit & loss		After tax effect on profit & loss	
	2% Increase R'000	2% Decrease R'000	2% Increase R'000	2% Decrease R'000
Interest bearing borrowings	(83)	83	(119)	119
Trade and other payables	-	-	-	-
Loans from related parties	-	-	-	-
Bank overdraft	(137)	137	(193)	193

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.

25. TAX PAID

	2009 R'000	2008 R'000
Balance at beginning of the year	(4,123)	(3,288)
Current tax for the year	(4,246)	(4,108)
Secondary tax on companies for the year	-	77
Balance at end of the year	<u>1,780</u>	<u>4,123</u>
	<u>(6,589)</u>	<u>(3,196)</u>

HARDWARE WAREHOUSE LIMITED

**NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2009**

26. ACQUISITION OF BUSINESSES

The book and fair value of the net assets acquired, the consideration paid and goodwill arising on these transactions were:

	Gonubie Tiles on Tap R'000	Golden Dividend 235 (Pty) Ltd R'000	Amber Mountain Investments 111 (Pty) Ltd R'000	Senar Investments 151 (Pty) Ltd R'000	Total R'000
Date acquired	1 July 2008	1 January 2009	30 June 2009	30 June 2009	
Property, plant and equipment	-	1,018	5,604	7,075	13,697
Trade and other receivables	-	-	257	429	686
Cash and cash equivalents	-	-	40	352	392
Interest bearing borrowings and related party loans	-	(1,014)	(2,117)	(4,116)	(7,247)
Deferred tax	-	-	-	42	42
Trade and other payables	-	-	(3,492)	(150)	(3,642)
Taxation	-	-	-	(69)	(69)
Net assets acquired	-	4	292	3,563	3,859
Goodwill	45	-	-	-	45
Purchase consideration	45	4	292	3,563	3,904
Cash and cash equivalents	-	-	(40)	(352)	(392)
Paid by issue of shares	-	-	-	-	-
Cash outflow on acquisition	45	4	252	3,211	3,512
The following results were earned since acquisition:					
Revenue	-	-	-	-	-
Profit / (losses) after tax	-	(4)	-	-	(4)

HARDWARE WAREHOUSE LIMITED

NOTES TO THE COMPANY ANNUAL FINANCIAL STATEMENTS for the year ended 30 June 2009

Had all transactions occurred at 1 July 2008, the group would have recognised revenue of R335 977 000 and profit attributable to equity shareholders of R6 999 000. The amounts include the results of the acquired companies and depreciation of the acquired property, plant and equipment recognised on acquisition. The results of the acquired companies for the period before acquisition have not been adjusted to reflect the accounting policies or to reflect the fair value adjustments made on acquisition. The information is provided for comparative purposes only and does not necessarily reflect the actual results that would have occurred, nor is it necessarily indicative of the future results from operations of the combined companies.

Gonubie Tiles on Tap was purchased due to its location as well as for its existing customer base. No intangible assets were recognised as no fair value can be attributed to these as the purchaser does not hold any rights to these assets and they are merely concomitants of the business purchases.

On Tap Border (Pty) Ltd was purchased for its management staff and experience as well as for its existing customer base. No intangible assets were recognised as no fair value can be attributed to these as the purchaser does not hold any rights to these assets and they are merely concomitants of the business purchases.

HARDWARE WAREHOUSE LIMITED

**RESOLUTION IN WRITING SIGNED BY THE DIRECTORS OF THE COMPANY
IN TERMS OF THE ARTICLES OF ASSOCIATION OF THE COMPANY**

RESOLVED: THAT the consolidated and company annual financial statements for the year ended 30 June 2009 be and are hereby adopted and approved.

.....
I M J SENAR

.....
S C MILLER

.....
L A RHIND

.....
N E WOOLLGAR

.....
H A LONG

11 November 2009

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" or "the group")

SHAREHOLDER SPREAD

Range of shareholders	Number of shareholders	%	Number of shares	% of issued capital
1 – 999	7	2.4	4055	0.01
1 000 – 9 999	66	22.6	294,072	0.38
10 000 – 99 999	177	60.6	4,856,167	6.23
100 000 shares and over	42	14.4	72,745,706	93.38
Total	292	100.00	77,900,000	100.00

Category of Shareholders

Major shareholders (over 10 000 000 shares)	-	-	-	-
Directors	9	3.08	45,750,250	58.56
Other individuals and trusts	257	88.01	27,557,859	35.27
Institutions and other Companies	26	8.90	4,818,891	6.17
Total	292	100	78,127,000	100

Beneficial shareholders holding 5% or more of share capital

Shaun Craig Miller			6,042,700	7.73
Neville Woolgar as nominee for the Hardware Warehouse Empowerment Trust			6,500,000	8.32
Michael John Willard			6,282,107	8.04
IMJS Family Trust			9,092,500	11.64
Ivan Merrick John Senar			13,203,500	16.90
Shaun Miller Family Trust			14,625,000	18.72
Total			55,745,807	71.35

Shareholder spread

Public	280	95.89	23,149,750	29.72
Non-Public	1	0.34	6,500,000	8.34
Directors	9	3.08	45,750,250	58.73
Designated Advisors	2	0.68	2,500,000	3.21
Total	292	100	77,900,000	100

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" or "the group")

NOTICE OF ANNUAL GENERAL MEETING

If you are in any doubt as to what action you should take in respect of the following resolutions, please consult your Central Securities Depository Participant ("CSDP"), broker, banker, attorney, accountant or other professional adviser immediately.

Notice is hereby given that the 2nd annual general meeting of shareholders of the company will be held at Charteris & Barnes, 17 Vincent Road, Vincent, East London at 12h00 on Thursday, 17 December 2009 to conduct the following business:

- To receive, consider and adopt the annual financial statements of the company and the group for the financial year ended 30 June 2009, including the directors' report and the report of the auditors therein.
- To re-elect, Shaun Craig Miller who, in terms of Article 117 of the company's articles of association, retires by rotation at this annual general meeting but, being eligible to do so, offers himself for re-election.
- To re-elect, Neville Errol Woolgar who, in terms of Article 117 of the company's articles of association, retires by rotation at this annual general meeting but, being eligible to do so, offers himself for re-election.

An abbreviated curriculum vitae in respect of each director offering himself for re-election appears on page 1 of the annual report to which this notice is attached.

- The reappointment of BDO Spencer Steward (Johannesburg) Incorporated as independent registered auditors of the company (noting that Mr N Griffith is the individual registered auditor of that firm who will undertake the audit) for the period until the next annual general meeting of the company.

As special business, to consider and, if deemed fit, to pass, with or without modification, the following resolutions:

ORDINARY RESOLUTION NUMBER 1

Control of authorised but unissued ordinary shares

- **"Resolved** by way of a general authority that the authorised but unissued ordinary shares in the capital of Hardware Warehouse Limited ("the company") be and are hereby placed under the control and authority of the directors of the company ("directors"), until the conclusion of the next annual general meeting of the company, and that the directors be and are hereby authorised and empowered to allot and issue all or any of such ordinary shares, or to issue any options in respect of all or any of such ordinary shares, to such person/s on such terms and conditions and at such times as the directors may from time to time and in their discretion deem fit, subject to the provisions of sections 221 and 222 of the Companies Act, 1973 (Act 61 of 1973), as amended, the articles of association of the company and the Listings Requirements of JSE Limited from time to time."

ORDINARY RESOLUTION NUMBER 2

Approval to issue ordinary shares, and to sell treasury shares, for cash

- **“Resolved that** the directors of Hardware Warehouse Limited (“the company”) and/or any of its subsidiaries from time to time be and are hereby authorised, by way of a general authority, to -
 - allot and issue, or to issue any options in respect of, all or any of the authorised but unissued ordinary shares in the capital of the company; and/or
 - sell or otherwise dispose of or transfer, or issue any options in respect of, ordinary shares in the capital of the company purchased by subsidiaries of the company,

for cash, to such person/s on such terms and conditions and at such times as the directors may from time to time in their discretion deem fit, subject to the Companies Act, 1973 (Act 61 of 1973), as amended, the articles of association of the company and its subsidiaries and the Listings Requirements of JSE Limited (“the JSE Listing Requirements”) from time to time.

The JSE Listings Requirements currently provide, *inter alia*, that:

- the securities which are the subject of the issue for cash must be of a class already in issue, or where this is not the case, must be limited to such securities or rights that are convertible into a class already in issue;
- any such issue may only be made to "public shareholders" as defined in the JSE Listings Requirements and not to related parties;
- the number of ordinary shares issued for cash shall not in any one financial year in the aggregate exceed 50% (fifty percent) of the number of issued ordinary shares. The number of ordinary shares which may be issued shall be based, *inter alia*, on the number of ordinary shares in issue, added to those that may be issued in future (arising from the conversion of options/convertibles) at the date of such application, less any ordinary shares issued, or to be issued in future arising from options/convertible ordinary shares issued during the current financial year; plus any ordinary shares to be issued pursuant to a rights issue which has been announced, is irrevocable and is fully underwritten, or an acquisition which has had final terms announced;
- this general authority will be valid until the earlier of the company's next annual general meeting or the expiry of a period of 15 (fifteen) months from the date that this authority is given;
- an announcement giving full details, including the impact on net asset value per share, net tangible asset value per share, earnings per share and headline earnings per share and, if applicable, diluted earnings and headline earnings per share, will be published when the company has issued ordinary shares representing, on a cumulative basis within 1 (one) financial year, 5% (five per cent) or more of the number of ordinary shares in issue prior to the issue;
- in determining the price at which an issue of ordinary shares may be made in terms of this authority, the maximum discount permitted will be 10% (ten per cent) of the weighted average traded price on the JSE Limited of the ordinary shares over the 30 (thirty) business days prior to the date that the price of the issue is agreed between the issuer and the party subscribing for the securities; and
- whenever the company wishes to use ordinary shares, held as treasury stock by a subsidiary of the company, such use must comply with the JSE Listings Requirements as if such use was a fresh issue of ordinary shares."

Under the JSE Limited ("the JSE") Listings Requirements, Ordinary Resolution Number 2 must be passed by a 75% (seventy five) majority of the votes cast in favour of the resolution by all members present or represented by proxy at the annual general meeting.

SPECIAL RESOLUTION NUMBER 1

General approval to acquire shares

- **"Resolved**, by way of a general approval that Hardware Warehouse Limited ("the company") and/or any of its subsidiaries from time to time be and are hereby authorised to acquire ordinary shares in the company in terms of sections 85 to 89 of the Companies Act, 1973 (Act 61 of 1973), as amended, the articles of association of the company and its subsidiaries and the Listings Requirements of JSE Limited ("the JSE") from time to time.

The JSE Listings Requirements currently provide, *inter alia*, that:

- the acquisition of the ordinary shares must be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the company and the counter party;
- this general authority shall only be valid until the earlier of the company's next annual general meeting or the expiry of a period of 15 (fifteen) months from the date of passing of this special resolution;
- in determining the price at which the company's ordinary shares are acquired in terms of this general authority, the maximum premium at which such ordinary shares may be acquired will be 10% (ten per cent) of the weighted average of the market value at which such ordinary shares are traded on the JSE, as determined over the 5 (five) business days immediately preceding the date on which the transaction is effected;
- the acquisitions of ordinary shares in the aggregate in any one financial year may not exceed 20% (twenty per cent) of the company's issued ordinary share capital;
- the company or its subsidiaries may not acquire ordinary shares during a prohibited period as defined in paragraph 3.67 of the JSE Listings Requirements;
- the repurchase of ordinary shares may only be undertaken if, after such repurchase, the company will still comply with paragraphs 3.37 to 3.41 of the JSE Listing Requirements concerning shareholder spread;
- an announcement will be published once the company has cumulatively repurchased 3% (three per cent) of the number of the ordinary shares in issue at the time this general authority is granted ("initial number"), and for each 3% (three per cent) in aggregate of the initial number acquired thereafter; and
- at any point in time, the company may only appoint one agent to effect any acquisition/s on its behalf."

- **Reason for and effect of Special Resolution Number 1**

The reason for and effect of this special resolution number 1 is to obtain an authority for, and to authorise, the company and the company's subsidiaries, by way of a general authority, to acquire the company's issued ordinary shares.

It is the intention of the directors of the company to use such authority should prevailing circumstances (including tax dispensations and market conditions) in their opinion warrant it.

○ **Other disclosure in terms of Section 11.26 of the JSE Listings Requirements**

The JSE Listings Requirements require the following disclosure, which are contained in the annual report of which this notice forms part:

- directors and management – page 1;
- major shareholders of Hardware Warehouse Limited – page 87;
- directors' interests in securities – page 11; and
- share capital of the company – page 31.

○ **Material change**

Other than the facts and developments reported on in the annual report, there have been no material changes in the affairs or financial position of the company and its subsidiaries since the company's financial year end and the date of this notice.

○ **Litigation Statement**

There are no legal or arbitration proceedings, pending or threatened, of which the company is aware, that may have or have had in the last 12 months, a material effect on the company's financial position.

○ **Directors' responsibility statement**

The directors, whose names are given on page 10 of the annual report, collectively and individually accept full responsibility for the accuracy of the information pertaining to special resolution number 1 and certify that to the best of their knowledge and belief there are no facts in relation to special resolution number 1 that have been omitted which would make any statement in relation to special resolution number 1 false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that special resolution number 1 together with this notice contains all information required by law and the JSE Listings Requirements in relation to special resolution number 1.

- **Adequacy of working capital**

At the time that the contemplated repurchase is to take place, the directors will ensure that after considering the effect of the maximum repurchase and for a period of twelve months after the date of this notice of annual general meeting:

- the company and its subsidiaries will be able to pay their debts as they become due in the ordinary course of business;
- the consolidated assets of the company and its subsidiaries, fairly valued in accordance with International Financial Reporting Standards, will be in excess of the consolidated liabilities of the company and its subsidiaries;
- the issued share capital and reserves of the company and its subsidiaries will be adequate for the purpose of the ordinary business of the company and its subsidiaries; and
- the working capital available to the company and its subsidiaries will be sufficient for the group's requirements.

The company may not enter the market to proceed with the repurchase until its Designated Adviser, Merchantec (Proprietary) Limited, has discharged of all of its responsibilities in terms of the JSE Listings Requirements insofar as they apply to working capital statements for the purposes of undertaking an acquisition of its issued ordinary shares.

ORDINARY RESOLUTION NUMBER 3

Signature of documents

- **“Resolved that** each director of Hardware Warehouse Limited (“the company”) be and is hereby individually authorised to sign all such documents and do all such things as may be necessary for or incidental to the implementation of those resolutions to be proposed at the annual general meeting convened to consider this resolution which are passed, in the case of ordinary resolutions, or are passed and registered by the Companies and Intellectual Property Registration Office (formerly the Registrar of Companies), in the case of special resolutions.”

- **Other business**

To transact such other business as may be transacted at the annual general meeting of the company.

Voting and proxies

A shareholder entitled to attend and vote at the annual general meeting is entitled to appoint a proxy or proxies to attend, speak and vote in his/her stead. A proxy need not be a member of the company. For the convenience of registered members of the company, a form of proxy is enclosed herewith.

The attached form of proxy is only to be completed by those ordinary shareholders who:

- hold ordinary shares in certificated form; or
- are recorded on the sub-register in "own name" dematerialised form.

Ordinary shareholders who have dematerialised their ordinary shares through a CSDP or broker without "own name" registration and who wish to attend the annual general meeting, must instruct their CSDP or broker to provide them with the relevant Letter of Representation to attend the meeting in person or by proxy and vote. If they do not wish to attend in person or by proxy, they must provide the CSDP or broker with their voting instructions in terms of the relevant custody agreement entered into between them and the CSDP or broker.

Proxy forms should be forwarded to reach the transfer secretaries, Computershare Investor Services (Proprietary) Limited, at least 48 hours, excluding Saturdays, Sundays and public holidays, before the time of the meeting.

By order of the Board

Mr I W Wait

Company Secretary

23 November 2009

East London

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" or "the group")

Form of proxy

For use only by ordinary shareholders who:

- hold ordinary shares in certificated form ("certificated ordinary shareholders"); or
- have dematerialised their ordinary shares ("dematerialised ordinary shareholders") and are registered with "own-name" registration,

at the 2nd annual general meeting of ordinary shareholders of the company to be held at Charteris & Barnes, 17 Vincent Road, Vincent, East London, at 12h00 on Thursday, 17 December 2009.

Dematerialised ordinary shareholders holding ordinary shares other than with "own-name" registration who wish to attend the annual general meeting must inform their Central Securities Depository Participant ("CSDP") or broker of their intention to attend the annual general meeting and request their CSDP or broker to issue them with the relevant Letter of Representation to attend the annual general meeting in person or by proxy and vote. If they do not wish to attend the annual general meeting in person or by proxy, they must provide their CSDP or broker with their voting instructions in terms of the relevant custody agreement entered into between them and the CSDP or broker. **These ordinary shareholders must not use this form of proxy.**

I/We (BLOCK LETTERS please)

Of (address)

Telephone work ()

Telephone home ()

being the holder/custodian of ordinary shares in the capital of the company do hereby appoint (see note):

1. _____ or failing him / her,

2. _____ or failing him / her,

3. the chairman of the meeting,

as my/our proxy to attend and act for me/us on my/our behalf at the annual general meeting of the company convened for purpose of considering and, if deemed fit, passing, with or without modification, the special and ordinary resolutions to be proposed thereat ("resolutions") and at each postponement or adjournment thereof and to vote for and/or against such resolutions, and/or abstain from voting, in respect of the ordinary shares in the issued share capital of the company registered in my/our name/s in accordance with the following instructions:

		Number of ordinary shares		
		For	Against	Abstain
1.	To receive, consider and adopt the annual financial statements of the company and group for the financial year ended 30 June 2009			
2.	To approve the re-election as director of Mr S C Miller by rotation			
3.	To approve the re-election as director of Mr N E Woollgar who retires by rotation			
4.	To approve the reappointment of BDO Spencer Steward (Johannesburg) Incorporated as auditors of the company			
5.	Ordinary Resolution Number 1 Control of authorised but unissued ordinary shares			
6.	Ordinary Resolution Number 2 Approval to issue ordinary shares, and to sell treasury shares, for cash			
7.	Special Resolution Number 1 General approval to acquire shares			
8.	Ordinary Resolution Number 3 Signature of documents			

Please indicate instructions to proxy in the space provided above by the insertion therein of the relevant number of votes exercisable.

A member entitled to attend and vote at the annual general meeting may appoint one or more proxies to attend and act in his stead. A proxy so appointed need not be a member of the company.

Signed at _____ on _____ 2009

Signature _____

Assisted by (if applicable) _____

Each ordinary shareholder is entitled to appoint one or more proxies (who need not be a shareholder of the company) to attend, speak and vote in place of that shareholder at the annual general meeting.

Notes

The form of proxy must only be completed by shareholders who hold shares in certificated form or who are recorded on the sub-register in electronic form in "own name".

- All other beneficial owners who have dematerialised their shares through a CSDP or broker and wish to attend the annual general meeting must provide the CSDP or broker with their voting instructions in terms of the relevant custody agreement entered into between them and the CSDP or broker.
- A shareholder entitled to attend and vote at the annual general meeting may insert the name of a proxy or the names of two alternate proxies of the shareholder's choice in the space provided, with or without deleting "the Chairperson of the meeting". The person whose name stands first on this form of proxy and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those proxy(ies) whose names follow.
- A shareholder is entitled to one vote on a show of hands and, on a poll, one vote in respect of each ordinary share held. A shareholder's instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by that shareholder in the appropriate space provided. If an "X" has been inserted in one of the blocks to a particular resolution, it will indicate the voting of all the shares held by the shareholder concerned. Failure to comply with this will be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting as he/she deems fit in respect of all the shareholder's votes exercisable thereat. A shareholder or the proxy is not obliged to use all the votes exercisable by the shareholders or by the proxy, but the total of the votes cast and in respect of which abstention is recorded may not exceed the total of the votes exercisable by the shareholder or the proxy.
- A vote given in terms of an instrument of proxy shall be valid in relation to the annual general meeting notwithstanding the death, insanity or other legal disability of the person granting it, or the revocation of the proxy, or the transfer of the ordinary shares in respect of which the proxy is given, unless notice as to any of the aforementioned matters shall have been received by the transfer secretaries not less than forty-eight hours before the commencement of the annual general meeting.
- If a shareholder does not indicate on this form that his/her proxy is to vote in favour of or against any resolution or to abstain from voting, or gives contradictory instructions, or should any further resolution(s) or any amendment(s) which may properly be put before the annual general meeting be proposed, such proxy shall be entitled to vote as he/she thinks fit.
- The Chairperson of the annual general meeting may reject or accept any form of proxy which is completed and/or received other than in compliance with these notes.
- A shareholder's authorisation to the proxy including the Chairperson of the annual general meeting, to vote on such shareholder's behalf, shall be deemed to include the authority to vote on procedural matters at the annual general meeting.
- The completion and lodging of this form of proxy will not preclude the relevant shareholder from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof.
- Documentary evidence establishing the authority of a person signing the form of proxy in a representative capacity must be attached to this form of proxy, unless previously recorded by the company's transfer secretaries or waived by the Chairperson of the annual general meeting.

-
- A minor or any other person under legal incapacity must be assisted by his/her parent or guardian, as applicable, unless the relevant documents establishing his/her capacity are produced or have been registered by the transfer secretaries of the company.

Where there are joint holders of ordinary shares:

- any one holder may sign the form of proxy;
 - the vote(s) of the senior ordinary shareholders (for that purpose seniority will be determined by the order in which the names of ordinary shareholders appear in the company's register of ordinary shareholders) who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote(s) of the other joint shareholder(s).
- **Forms of proxy should be lodged with or mailed to Computershare Investor Services (Proprietary) Limited:**

Hand deliveries to:

Computershare Investor Services
(Proprietary) Limited
Ground Floor, 70 Marshall Street
Johannesburg, 2001

Postal deliveries to:

Computershare Investor Services
(Proprietary) Limited
PO Box 61051
Marshalltown, 2107

to be received by no later than 12h00 on Tuesday 15 December 2009 (or 48 hours before any adjournment of the annual general meeting which date, if necessary, will be notified on SENS).

- A deletion of any printed matter and the completion of any blank space need not be signed or initialled. Any alteration or correction must be signed and not merely initialled.