

AUDIT AND RISK COMMITTEE REPORT

This report of the audit and risk committee is presented to shareholders in compliance with the requirements of the Companies Act No. 71 of 2008 (the Companies Act).

ROLE AND RESPONSIBILITIES

The audit and risk committee has an independent role with accountability to both the board and to shareholders. The committee's responsibilities include the statutory duties prescribed by the Companies Act, activities recommended by King III and the responsibilities assigned by the board. The responsibilities of the committee are set out on page 38 of the group's Integrated Annual Report.

COMPOSITION OF THE COMMITTEE

The committee currently comprises three non-executive directors who are all suitably skilled, with all three members having relevant financial experience. The committee is elected by shareholders at the annual general meeting (AGM).

Biographical details of the committee members appear on pages 16 and 17 of the Integrated Annual Report.

King III recommends that the chairman of the board should not be a member of the audit and risk committee. The chairman of the board, Syd Muller, currently serves on the committee due to the small size of the board. The board has considered the issue and believes that the chairman's skills, knowledge and experience allow him to make a significant contribution to the committee and the board has therefore recommended that he continues to serve on the committee.

Fees paid to the committee members for 2017 and the proposed fees for 2018 are disclosed in the Integrated Annual Report. The effectiveness

of the committee will be assessed as part of the annual board and committee self-evaluation process.

INTERNAL AUDIT

Internal audit should provide information to assist in the establishment and maintenance of an effective system of internal control to manage the risks associated with the business. The group does not have an independent internal audit function, but engaged various specialist firms to conduct a review on the design and effectiveness of selected key controls within its IT environment in 2017. The reviews did not identify any material weaknesses in the system of internal control.

The finance function is responsible for performing the following duties, inter alia:

- evaluating control processes, including ethics;
- assessing the effectiveness of the risk methodology and internal financial controls; and
- evaluating business processes and associated controls in accordance with the annual audit plan.

INTERNAL CONTROL

Systems of internal control are designed to manage, rather than eliminate, the risk of failure to achieve business objectives and to provide reasonable, but not absolute, assurance against misstatement or loss.

While the board of directors is responsible for the internal control systems and for reviewing their effectiveness, responsibility for their actual implementation and maintenance rests with executive management. The systems of internal control are based on established organisational structures, together

with written policies and procedures, and provide for suitably qualified employees, segregation of duties, clearly-defined lines of authority and accountability. They also include cost and budgeting controls and comprehensive management reporting.

The committee has assessed the effectiveness of the internal control system based on information and explanations given by management, work done by an independent specialist firm and discussions with the external auditor on the results of the audit. Through this process no material matter has come to the attention of the committee that has caused the directors to believe that the group's system of internal controls and risk management is not effective and that the internal financial controls do not form a sound basis for the preparation of reliable financial statements.

EXTERNAL AUDIT

The audit and risk committee appraised the independence and expertise of KPMG Inc. as the external auditor, as well as approving the terms of engagement and the fees paid to KPMG Inc.

The external auditor has unrestricted access to the group's records and management. The auditor furnishes a written report to the committee on significant findings arising from the annual audit and is able to raise matters of concern directly with the chairperson of the committee. The committee is satisfied that the external auditor is independent of the group.

POLICY ON NON-AUDIT SERVICES

Non-audit services provided by the external auditor may not exceed 25% of the total auditor's remuneration except if specifically approved by

the committee. These services should exclude any work which may be subject to external audit and which could compromise the auditor's independence. All non-audit services undertaken during the year were approved in accordance with this policy.

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KPMG Inc.'s audit fee for the year was R1 041 350 (2016: R905 000) and KPMG Inc. received fees of R22 500 (2016: R21 150) for non-audit services relating to turnover rent certificates and the DTI's incentive programme reviews during the year. The increased audit fees made provision for the additional audit work on the two businesses acquired in the year.

The external auditor has unrestricted access to the group's records and management. The auditor furnishes a written report to the committee on significant findings arising from the annual audit and is able to raise matters of concern directly with the chairperson of the committee. The committee is satisfied that the external auditor is independent of the group.

ACTIVITIES OF THE AUDIT AND RISK COMMITTEE

The committee met three times during the financial year. Members of the committee, the external auditor and the group CFO may request a non-scheduled meeting if they consider this necessary.

The chairperson of the audit and risk committee will determine if such a meeting should be convened.

Minutes of the meetings of the committee, except those recording private meetings with the external and internal auditors, are circulated to all directors and supplemented by an update from the audit and risk committee chairman at each board meeting. Matters requiring action or improvement are identified and appropriate recommendations made to the board.

The chairperson of the committee will attend all statutory shareholder meetings to answer any questions on the committee's activities.

The committee performed the following activities relating to the audit function during the year under review, with certain of these duties being required in terms of the Companies Act:

- recommended to the board and shareholders the appointment of the external auditors, approved their terms of engagement and remuneration, and monitored their independence, objectivity and effectiveness;
- determined the nature and extent of any non-audit services which the auditor may provide to the group and preapproved any proposed contracts with the auditor;
- relied on the finance function's review of the group's internal financial control and financial risk management systems;
- reviewed reports by independent specialist firms, following reviews on the design and effectiveness of selected key controls in the IT environment. They did not identify any material weaknesses in the system of internal control; and
- reviewed and recommended to the board for approval the Integrated Annual Report and Annual

Financial Statements for the year ended 28 February 2017.

The Integrated Annual Report provides an overview of the risk management process on pages 42 to 47 of the report.

EVALUATION OF CHIEF FINANCIAL OFFICER

The audit and risk committee is satisfied that the expertise and experience of the chief financial officer is appropriate to meet the responsibilities of the position. This is based on the qualifications, levels of experience and the board's assessment of the financial knowledge of the chief financial officer.

APPROVAL OF THE AUDIT AND RISK COMMITTEE REPORT

The committee confirms that it has functioned in accordance with its terms of reference for the 2017 financial year and that its report to shareholders has been approved by the board.



Keneilwe Moloko
Chairperson: Audit and Risk Committee

Cape Town
5 May 2017