The audit committee is pleased to present its report for the financial year ended 31 March 2016 to the shareholders of TFG.

This report is in compliance with the requirements of the Companies Act of South Africa, No. 71 of 2008 (the Act), and the King Code of Governance for South Africa 2009 (King III).

AUDIT COMMITTEE MANDATE
The committee is governed by a formal audit committee charter that has recently been reviewed and which incorporates all the requirements of the Act. This charter guides the committee in terms of its objectives, authority and responsibilities, both statutory and those assigned by the board.

The audit committee recognises its important role as part of the risk management and corporate governance processes and procedures of TFG.

DUTIES OF THE COMMITTEE
The duties of the audit committee are, inter alia:

Statutory duties as prescribed in the Act
General
• to receive and deal appropriately with any concerns or complaints (whether internal or external) or on its own initiative relating to the accounting practices and internal audit of TFG, the content or auditing of TFG’s financial statements, the internal financial controls of TFG or any related matter.

External auditors
• to evaluate the independence, effectiveness and performance of the external auditors;
• to obtain assurance from the auditors that adequate accounting records are being maintained and appropriate accounting policies are in place, which have been consistently applied;
• to evaluate the appointment of the external auditors on an annual basis and to ensure that such appointment is in terms of the provisions of the Act and any other legislation;
• to approve the audit fee and fees in respect of any non-audit services; and
• to determine the nature and extent of any non-audit services the auditor may provide to the group and pre-approve proposed agreements for non-audit services.

Financial results
• to make submissions to the board on any matter concerning the group’s accounting policies, financial control, records and reporting; and
• to provide, as part of the integrated annual report, a report by the audit committee.

Duties assigned and delegated by the board
General
• to ensure that the respective roles and functions of external audit and internal audit are sufficiently clarified and coordinated and that the combined assurance received is appropriate to address all significant risks; and
• to assist the board in carrying out its risk management and IT responsibilities.

External auditors
• to consider and respond to any questions from the board and shareholders regarding the resignation or dismissal of the external auditor, if necessary;
• to review and approve the external audit plan; and
• to ensure that the scope of the external audit has no limitations imposed by management and that there is no impairment on its independence.

Internal control and internal audit
• to review the effectiveness of the group’s systems of internal control, including internal financial control and risk management, and to ensure that effective internal control systems are maintained;
• to ensure that written representations on internal control are submitted to the board annually by all divisional Managing Directors and General Managers (these being representations that provide assurance on the adequacy and effectiveness of the group’s systems of internal control);
• to monitor and supervise the effective functioning and performance of the internal audit function;
• to review and approve the annual internal audit plan and the internal audit charter;
• to ensure that the scope of the internal audit function has no limitations imposed by management and that there is no impairment on its independence; and
• to review, specifically in the current year, that appropriate internal controls and an internal audit plan are prepared to cover the Phase Eight operations.
Finance function
• to consider the appropriateness of the expertise and experience of the Chief Financial Officer; and
• to satisfy itself of the expertise, resources and experience of the finance function.

Financial results
• to consider any accounting treatments, significant unusual transactions, or accounting judgements and estimates that could be contentious;
• to review management's assessment of going concern and make a recommendation to the board that the going concern concept be adopted by the group; and
• to review the integrated annual report, as well as the annual financial statements, interim reports, preliminary reports or other financial information prior to submission and approval by the board.

COMMITTEE COMPOSITION AND ATTENDANCE AT MEETINGS
The committee comprised four independent non-executive directors and the Chairman of the committee is not the Chairman of the board. The following directors served on the committee during the year under review:

<table>
<thead>
<tr>
<th>NAME OF MEMBER</th>
<th>DATE APPOINTED TO COMMITTEE</th>
</tr>
</thead>
<tbody>
<tr>
<td>S E Abrahams (Chairman)</td>
<td>29 January 1999</td>
</tr>
<tr>
<td>N V Simamane</td>
<td>24 February 2010</td>
</tr>
<tr>
<td>E Oblowitz</td>
<td>1 October 2010</td>
</tr>
<tr>
<td>B L M Makgabo-Fiskerstrand</td>
<td>1 October 2015</td>
</tr>
<tr>
<td>D Friedland (by invitation)</td>
<td></td>
</tr>
</tbody>
</table>

On 1 April 2016, Mr D Friedland was co-opted as a member.

Meeting attendance

<table>
<thead>
<tr>
<th>NAME OF MEMBER</th>
<th>QUALIFICATIONS</th>
<th>25 MAY 2015</th>
<th>7 NOVEMBER 2015</th>
<th>4 MARCH 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>S E Abrahams</td>
<td>FCA CA(SA) B Comm</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>E Oblowitz</td>
<td>CA(SA) CPA(isr)</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>N V Simamane</td>
<td>BSc (Biochem) (Hons)</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>B L M Makgabo-Fiskerstrand*</td>
<td>B Comm, Certificate in the Theory of Accountancy CA(SA)</td>
<td>n/a*</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>D Friedland (by invitation)</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

* Appointed to the committee on 1 October 2015.

The committee held three formal meetings during the 2016 financial year. In addition, the Chairman held ad hoc meetings with management, the Head of Internal Audit and the external auditors from time to time. The committee considered the draft interim and annual financial reports prepared by management and recommended its adoption to the board subject to certain amendments. The Chairman provided written reports to the main board that summarise the committee’s findings and recommendations.

Details of fees paid to committee members appear in note 34 of the annual financial statements.

The Chief Executive Officer, the Chief Financial Officer, the Head of Internal Audit, the Company Secretary and the external audit partner and staff attended meetings invitation of the committee by regular invitation.

David Friedland and Ronnie Stein, non-executive directors, also attend the meetings by invitation of the committee. In addition, other members of executive management are invited to attend various meetings on an ad hoc invitational basis. The Chairman of the group has an open invitation to attend meetings of the audit committee.

COMMITTEE EVALUATION
The annual board evaluation (which includes an evaluation of all subcommittees) in respect of the previous calendar year was completed last year. This evaluation formally assessed the performance of audit committee members during the past year, as well as their independence in terms of the independence requirements of King III and the Companies Act. It is noted that all members of the committee continue to meet the independence requirements.
ELECTION OF COMMITTEE MEMBERS

The following members made themselves available for election to the committee. Such election was recommended by the nomination committee and will be proposed to shareholders at the upcoming annual general meeting:

S E Abrahams
D Friedland
B L M Makgabo-Fiskerstrand
E Oblowitz
N V Simamane

COMMITTEE FUNCTIONING

The committee typically meets three times a year with the main focus of each respective meeting being as follows:

• consideration of control risks and risk management (typically in February/March each year);
• approval of annual results (typically in May each year); and
• approval of interim results (typically in November each year).

Independently of management, members of the committee meet separately with the Head of Internal Audit and the external auditors respectively. The Head of Internal Audit reports directly to the audit committee.

Meeting dates and topics are agreed well in advance each year. Each meeting is preceded by the distribution to each attendee of an audit committee pack, inter alia, comprising:

• a detailed agenda;
• minutes of the previous meeting;
• a report by the external auditors; and
• written reports by management including:
  - compliance and legal,
  - IT governance,
  - internal audit,
  - loss statistics, and
  - fraud.

The Chairman of this committee has an open invitation to attend meetings of the board risk committee (BRC).

SPECIFIC RESPONSIBILITIES

The committee confirms that it has carried out its functions in terms of the board audit committee charter and section 94 (7) of the Companies Act, No. 71 of 2008, by:

• confirming the nomination of KPMG Inc. as the group’s registered auditor for the year ending 31 March 2017 and being satisfied that they are independent of the company;
• approving the terms of engagement and fees to be paid to KPMG Inc.;
• ensuring that the appointment of KPMG Inc. complies with the provisions of the Companies Act;
• determining the nature and extent of any non-audit services, which the external auditors provide to the company or a related company;
• pre-approving proposed agreements with KPMG Inc. for the provision of any non-audit services;
• preparing this report for inclusion in the annual financial statements and in the integrated annual report;
• receiving and dealing appropriately with any relevant concerns or complaints;
• making submissions to the board on any matter concerning the company’s accounting policies, financial control, records and reporting; and
• performing such other oversight functions as may be determined by the board.

INTERNAL FINANCIAL CONTROL AND INTERNAL AUDIT

Based on the assessment of the system of internal financial controls conducted by internal audit, as well as information and explanations given by management and discussions held with the external auditor on the results of their audit, the committee is of the opinion that TFG’s system of internal financial controls is effective and forms a basis for the preparation of reliable financial statements in respect of the year under review.

In addition, during the 2016 financial year, the committee was not made aware of any:

• material breaches of any laws or regulations; or
• material breaches of internal controls or procedures.
RISK MANAGEMENT
While the board is ultimately responsible for the maintenance of an effective risk management process, the committee, together with the risk committee, assists the board in the assessment of the adequacy of the risk management process. The Chairman of this committee has an open invitation to risk committee meetings to ensure that relevant information is regularly shared. The committee fulfils an oversight role regarding financial reporting risks, internal financial controls, fraud risk as it relates to financial reporting and information technology risks as they relate to financial reporting.

As reported last year, the continued cooperation with the board risk committee (BRC) resulted in further clarification and delineation in the roles and responsibilities of both committees. The strategies adopted by each committee ensure timely review of any internal control weakness identified by any of the assurance providers. In addition, there were significant improvements in the development of Enterprise Risk Management (ERM) methodologies, which will further enhance the group’s risk management coverage and focus.

Further details on the risk management approach and process are included in the risk report, which appears on page 111.

PHASE EIGHT
This acquisition received continuing attention during the year and various workshops were arranged and will continue to be convened with the object of fully integrating the Phase Eight operations into the overall risk management framework of the group. Internal audit drew up an audit plan to cover the major risks identified and audits were conducted to cover those risks. No major concerns surfaced from their initial audit work, although it must be appreciated that it is still work in progress to achieve full integration into the group’s risk management framework.

The focus for the 2016 year end was directed at verifying the carrying values of stock and trade debtors. Both internal and external audit provided the board audit committee with positive reports on these significant asset classes.

WHISTLES
As the Whistles operations were acquired by TFG Brands (London) Limited (previously Dress Holdco B Limited) at the end of the financial year, only review work was undertaken by the external auditors. Further to the review on the Phase Eight operations earlier in this report, it is the intention to apply the same procedures to the Whistles operations, with the initial combined workshop to be held in July 2016.

THE FINANCIAL AND BUSINESS ENVIRONMENT
As presented in the previous years’ integrated annual reports, the concerns expressed in this report that relate to the financial and business environment remain relevant and are accordingly once again presented in this report.

The South African political turmoil, which triggered the uncertainty in December 2015 that was caused by the “ins and outs” of finance ministers, the lack of GDP growth and hence the inability to increase job creation, the increased regulatory landscape and intermittent interest rate increases, put our credit customers under immense pressure. It is therefore pleasing to report that, despite the unstable and unfavourable macroeconomic environment, TFG in South Africa achieved an improvement in bad debt statistics. This is as a result of a concerted effort to be vigilant to trends and not to attempt to increase customer numbers by lowering the credit granting criteria. Going forward, the board audit committee will continue to focus on the ability of the group to curtail bad debts. Supported by an in-depth review undertaken by the external auditors, I can confirm that, in the opinion of the board audit committee, the provision for doubtful debts is adequate to sustain the year-end carrying value of trade receivables.

During the year, group management has been able to negotiate more favourable terms for future funding requirements by having an improved balance among short-term, medium-term and longer-term facilities. Although there had always been a significant funding headroom, the quality of the headroom is much improved currently.

The group continues to place importance on IT risk management and consistently reviews the measures to curb the threat of cybercrime and IT fraud in general. The governance over the IT support system is considered to be best of breed and complies with the recommendations contained in King III.

Regrettably, the group continues to suffer from ever-increasing financial loss arising from increased levels of crime-related incidents. Senior management is continuing to explore ways to reduce or curtail these operating losses. The introduction of a specialist ERM division soon to be bolstered by the hiring of a forensics expert are some of the initiatives being introduced to examine ways to make our stores, distribution centres, etc. more secure.
EXTERNAL AUDITORS
The group’s external auditors are KPMG Inc. and the designated auditor is Mr P Farrand. KPMG Inc. is afforded unrestricted access to the group’s records and management, and present any significant issues arising from the annual audit to the committee. In addition, Mr P Farrand, where necessary, raises matters of concern directly with the Chairman of the committee.

The committee gave due consideration to the independence of the external auditors and is satisfied that KPMG Inc. is independent of the group and management and therefore able to express an independent opinion on the group’s annual financial statements.

The committee nominated, for approval at the annual general meeting, KPMG Inc. as the external auditor and Mr P Farrand as designated auditor for the 2017 financial year, having satisfied itself that the audit firm is accredited by the JSE.

FINANCIAL STATEMENTS
The committee reviewed the financial statements of the company and the group and is satisfied that they comply with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa.

In addition, the committee reviewed management’s assessment of going concern and recommended to the board that the going concern concept be adopted by TFG.

INTEGRATED ANNUAL REPORT
The committee fulfils an oversight role in respect of TFG’s integrated annual report. In this regard, the committee gave due consideration to the need for assurance on the sustainability information contained in this report and concluded that obtaining independent assurance would not be beneficial to stakeholders.

The committee considered the sustainability information as disclosed in the integrated annual report, assessed its consistency with the annual financial statements and is satisfied that the sustainability information is in no way contradictory to that disclosed in the annual financial statements.

EXPERTISE OF CHIEF FINANCIAL OFFICER AND FINANCE FUNCTION
The committee considers the appropriateness of the expertise and experience of the Chief Financial Officer and finance function on an annual basis.

In respect of the above requirement, the committee believes that Mr A E Thunström, the Chief Financial Officer, possesses the appropriate expertise and experience to meet his responsibilities in that position.

The committee further considers that the expertise, resources and experience of the finance function are appropriate based on the nature, complexity and size of the group’s operations.

APPROVAL
The committee recommended the approval of the annual financial statements and the integrated annual report to the board.

S E Abrahams
Chairman: Audit committee
29 June 2016