

> REPORT OF THE AUDIT COMMITTEE

For the year ended 30 June 2016

The audit committee has pleasure in submitting this report, which has been approved by the Board and has been prepared in accordance with section 94(7) of the Companies Act No 71 of 2008 ("the Act") and incorporating the recommendations of the King Code of Corporate Governance ("King III").

In summary, this committee assists the board in its responsibilities covering the:

- > internal and external audit processes for the group taking into account the significant risks,
- > adequacy and functioning of the group's internal controls and
- > integrity of the financial reporting

The committee has performed all the duties required in section 94(7) of the Companies Act 71 of 2008.

MEMBERS OF THE AUDIT COMMITTEE AND ATTENDANCE AT MEETINGS

The audit committee consists of the non-executive directors listed below and meets at least four times per annum in accordance with its charter. All members act independently as described in the Act. The members of the committee for the year ended 30 June 2016 comprised Mr M Kgosana (Chairman), Mr G Dempster, Mrs T Dingaana, Ms P Langeni, Mr RJA Sparks and Mr Y Waja ("the committee"), all of whom are independent non-executive directors of the Company.

The members are being recommended by the board for appointment for the financial year ending 30 June 2017, and their appointments are being submitted to shareholders for approval at the next Annual General Meeting (AGM) on 1 November 2016. The abridged curricula vitae of the members are included in the "Our Leadership" section in the integrated report, which is available on the Group's website at www.imperial.co.za.

During the year under review, four meetings were held and attendance of those meetings is set out in the table below.

Member	Number of meetings attended
RM Kgosana (Chairman) (Member since 1 September 2015)	3/3
GW Dempster (Member since 1 September 2015)	3/3
T Dingaana (Member since 2014)	4
P Langeni (Member since 2005)	4
RJA Sparks (Member since 2006)	4
Y Waja (Member since 2008)	4

The head of the internal audit department and external auditors, in their capacities as auditors to the group, attend and report at all audit committee meetings. The Group risk management function is also represented by the head of risk. Executive directors and relevant senior financial managers attend meetings by invitation. In addition the chairman and deputy chairman of the board and the chairman of the Regent audit committee attend all meetings.

ROLE OF THE AUDIT COMMITTEE

The audit committee has adopted a formal charter, approved by the board, setting out its duties and responsibilities as prescribed in the Act and incorporating additional duties delegated to it by the Board.

The committee:

- > fulfills the duties that are assigned to it by the Act and as governed by other legislative requirements, including the statutory audit committee functions required for subsidiary companies;
- > assists the Board in overseeing the quality and integrity of the group's integrated reporting process, including the financial statements, sustainability reporting and announcements in respect of the financial results;
- > ensures that an effective control environment in the group is maintained;
- > provides the chief financial officer, external auditors and the head of internal audit with unrestricted access to the committee and its chairman as is required in relation to any matter falling within the ambit of the committee;
- > meets with the external auditors, senior managers and executive directors as the committee may elect;
- > meets confidentially with the internal and external auditors without other executive board members and the company's chief financial officer being present;
- > reviews and recommends to the Board the preliminary and interim financial results and the integrated and annual financial statements;
- > oversees the activities of, and ensures coordination between, the activities of the internal and external auditors;
- > fulfills the duties that are assigned to it by the Act and as governed by other legislative requirements, including the statutory audit committee functions required for subsidiary companies;

- > receives and deals with any complaints concerning accounting practices, internal audit or the content and audit of its financial statements or related matters;
- > conducts annual reviews of the audit committee's work and terms of reference; and
- > Assesses the performance and effectiveness of the audit committee and its members on a regular basis.

FINANCE RISK REVIEW COMMITTEES ("FRRC")

Due to the size and diverse nature of the group, the audit committee has established divisional FRRC's which perform the functions of the audit committee at the divisions. These FRRC's are chaired by an independent person and report to the group audit committee.

EXECUTION OF FUNCTIONS DURING THE YEAR

The committee is satisfied that, for the 2016 financial year, it has performed all the functions required to be performed by an audit committee as set out in the Act and the committee's terms of reference.

The audit committee discharged its functions in terms of the charter and ascribed to it in terms of the Act during the year under review as follows:

External audit

The Committee among other matters:

- > nominated Deloitte & Touche and Mr. A Mackie as the external auditor and designated auditor respectively to shareholders for appointment as auditor for the financial year ending 30 June 2016, and ensured that the appointment complied with all applicable legal and regulatory requirements for the appointment of an auditor;
- > nominated the external auditor and the independent auditor for each material subsidiary company for re-appointment;
- > reviewed the audit effectiveness and evaluated the external auditor's internal quality control procedures;
- > obtained an annual confirmation from the auditor that their independence was not impaired;
- > maintained a policy setting out the categories of non-audit services that the external auditor may and may not provide, split between permitted, permissible and prohibited services;
- > approved non-audit services with Deloitte & Touche in accordance with its policy;
- > approved the external audit engagement letter, the plan and the budgeted audit fees payable to the external auditor;
- > obtained assurances from the external auditor that adequate accounting records were being maintained by the company and its material subsidiaries;
- > considered whether any reportable irregularities were identified and reported by the external auditor in terms of the Auditing Profession Act, No. 26 of 2005; and
- > considered any reported control weaknesses, management's response for their improvement and assessed their impact on the general control environment.

The committee is satisfied that Deloitte & Touche is independent of the group after taking the following factors into account:

- > representations made by Deloitte & Touche to the committee;
- > the auditor does not, except as external auditor or in rendering permitted non-audit services, receive any remuneration or other benefits from the company;
- > the auditors' independence was not impaired by any consultancy, advisory or other work undertaken by the auditor;
- > the auditors' independence was not prejudiced as a result of any previous appointment as auditor; and
- > the criteria specified for independence by the Independent Regulatory Board for Auditors and international regulatory bodies.

Internal audit

The audit committee:

- > reviewed and approved the internal audit charter and annual audit plan and evaluated the independence, effectiveness and performance of the internal audit department and compliance with its charter;
- > considered the reports of the internal auditor on the group's systems of internal control including financial controls, business risk management and maintenance of effective internal control systems;
- > received assurance that proper and adequate accounting records were maintained and that the systems safeguarded the assets against unauthorised use or disposal thereof; and
- > reviewed significant issues raised by the internal audit processes and the adequacy of corrective action in response to significant internal audit findings.

The head of internal audit reports functionally to the chair of the committee and administratively to the chief financial officer.

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For the year ended 30 June 2016 – Continued

Adequacy and functioning of the group's internal controls

The committee reviewed the plans and work outputs of the external and internal auditors and concluded that these were adequate to address all significant financial risks facing the business.

As noted above, it also reviewed the reporting around the adequacy of the internal controls and based on this concluded that there had been no material breakdowns in internal control, including financial controls, business risk management and the maintenance of effective material control systems.

Financial reporting

The audit committee ensures that the financial reporting to stakeholders fairly presents the state of affairs of the Group. This covers the annual financial statements, integrated report, interim and preliminary reports.

The committee among other matters:

- > confirmed the going concern as the basis of preparation of the interim and annual financial statements;
- > reviewed compliance with the financial conditions of loan covenants and determined that the capital of the company was adequate;
- > examined and reviewed the preliminary and interim reports and the integrated and annual financial statements, as well as all financial other information disclosed prior to the submission to the board for their approval and then for disclosure to stakeholders;
- > ensured that the annual financial statements fairly present the financial position of the company and of the group as at the end of the financial year and the results of operations and cash flows for the financial year and considered the basis on which the company and the group was determined to be a going concern;
- > considered the appropriateness of the accounting policies adopted and changes thereto;
- > reviewed the external auditor's audit report and key audit matters included;
- > reviewed the representation letter relating to the annual financial statements which was signed by management;
- > considered any problems identified and reviewed any significant legal and tax matters that could have a material impact on the financial statements; and
- > considered accounting treatments, significant unusual transactions and accounting judgments.

Significant areas of judgement

In arriving at the figures disclosed in the financial statements there are many areas where judgement is needed. These are outlined in note 1.28 to the annual financial statements. The audit committee has considered the quantum of the assets and liabilities on the statement of financial position and other items that require significant judgement and decided to expand on the following:

- > Inventories
- > Trade receivables
- > Land, buildings and leasehold improvements
- > Goodwill and intangible assets
- > Tax
- > Discontinued operations
- > Maintenance and warranty contracts
- > Put option liabilities

In making its assessment in each of the above areas the FRRC's and the audit committee examined the external auditors report and questioned senior management in arriving at their conclusions.

Inventories

The major risks relating to this asset are the physical verification and valuation thereof being at the lower of cost and net realisable value. The group has adopted a strict process to count inventory on a regular basis and to follow up on any discrepancies to the accounting records. There were no material adjustments during the year.

The valuation of the inventory is assessed in relation to its anticipated realisable value and the necessary impairments raised. The necessary impairments raised were largely relating to used vehicles and certain imported vehicles where the imported cost due to the depreciation of the Rand was above the anticipated selling price.

The FRRC's and audit committee considers the carrying value of inventory to be fairly stated. Refer to note 12 in the consolidated annual financial statements for the amounts.

Trade receivables

The major risk relating to this asset is credit risk. Credit extension assessment processes are the responsibility of management. The audit committee has assessed that these are adequate and has examined the aging of the group's trade receivables. Based on the aging and management's judgement of the receivable's collectability, a provision for doubtful debts is raised.

The FRRC's and audit committee considers the carrying value of trade receivables to be fairly stated. Refer to note 38.1.5 in the consolidated annual financial statements.

Land, buildings and leasehold improvements

These assets need to be assessed annually for their residual value, useful lives and impairment. Buildings have estimated useful lives of up to 20 years. To arrive at the residual value of a building in today's values, the usage of the building and its forecasted residual value at the end of its useful life needs to be assessed and then this amount is present valued. This requires the use of capitalisation rates and discount factors with a high level of judgement.

To further advance the review, the group has a process of valuing its property portfolio to assess for impairments. All properties will be valued over a five year cycle. The valuation was done by an internal expert using the income approach method.

There were no material impairments during the year. The FRRC's and the audit committee considered the carrying values to be fairly stated. Refer to notes 6 and 28 in the consolidated annual financial statements.

Goodwill and intangible assets

Goodwill and other indeterminate useful life intangible assets are assessed annually for impairment. The key assumptions used are cash flow projections, growth rates and discount rates applied. The cash flow projections are approved by senior management. The discount rates are established by an independent expert taking into account the geographic and other risk factors relating to the particular cash generating unit being assessed. The audit committee considered the impairment tests noting the assumptions used, their sensitivities and the head room.

FRRC's and the audit committee agreed with the impairment of the goodwill and intangible assets and that the carrying value of the goodwill is fairly stated. Refer to notes 4 and 29 in the annual financial statements for further details.

Tax

The Group operates in different jurisdictions with complex tax legislation requiring judgements in recognising tax liabilities. There are also judgements needed in recognising deferred tax assets.

The FRRC's and audit committee questioned management on the computation and tax risks relating to the group. Where appropriate, the audit committee also considers the opinions of the group's independent tax advisors. The audit committee considers the probability of the recovery of significant deferred tax assets, based on forecasts prepared by management.

No major tax issues arose during the year.

The effective tax rate of 27.7% was up compared to 25.8% in the prior year mainly due to higher impairment of goodwill and other intangible assets which are not tax deductible. The tax rate benefitted from prior year over provisions.

Refer to notes 1.28, 8 and 31 in the consolidated annual financial statements for further details.

Maintenance and warranty contracts

This liability is required to cover contractual costs of maintenance and warranty work to be carried out in the future. The adequacy of this amount is actuarially determined by forecasted burn rates which are affected by exchange rates, inflation and incident levels. These require a high level of judgement.

Independent actuarial experts are used to determine the inputs needed resulting in the revenue recognition and the final liability. The FRRC in this area is chaired by an independent actuary to strengthen the review process.

The audit committee considers the assumptions supporting the liability to be reasonable and the carrying value to be fair. Refer to notes 1.28 and 22 for further details.

Put option liabilities

This liability arises when new acquisitions have contractual obligations enabling non-controlling interest shareholders to put their shares back to the group at an agreed price. The initial recognition of this amount is debited directly to equity with subsequent movements to the liability recognised in the statement of profit or loss.

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In arriving at the liability the future earnings need to be assessed and discounted back to calculate the present value. This requires a high level of judgement.

The FRRC chairman for this area questioned management on the inputs and considers that they resulted in a liability that fairly presents the obligation to be settled. The audit committee considers that the carrying value is fairly reflected. Refer to notes 1.28, 23, 38.2.2 and the statement of changes in equity for further details.

Discontinued operation

The sale of the Regent Group is regarded as highly probable in terms of the accounting standards. The sale will only be confirmed once the regulatory approvals have been completed.

As a result the statement of profit and loss has been split between continuing and discontinued operations, and on the statement of financial position Regent's assets are included under 'Assets of discontinued operations' and its liabilities under 'Liabilities of discontinued operations'. The net assets held for sale are required to be held at the lower of its carrying value and net realisable value. Our assessment is that there is no need for impairment.

The audit committee agrees with the classification of the Regent Group as a discontinued operation and the disclosures made.

Refer to note 15 for further details.

Quality of earnings

The reconciliation of the attributable profits to headline and core earnings is outlined in note 32.

There were no other material once off income or expense items that affected the operating profit.

Risk management and information technology ("IT") governance

The committee:

- > reviewed the group's policies on risk assessment and risk management, including fraud risks and IT risks as they pertain to financial reporting and the going concern assessment, and found them to be sound; and
- > considered the relevant findings and recommendations of the risk committee.

Legal and regulatory requirements

To the extent that these may have an impact on the annual financial statements, the committee:

- > reviewed legal matters that could have a material impact on the group;
- > reviewed the adequacy and effectiveness of the group's procedures, including its risk management framework, to ensure compliance with legal and regulatory responsibilities;
- > monitored complaints received via the group's whistleblowing service; and
- > considered reports provided by management, internal audit and the external auditors regarding compliance with legal and regulatory requirements.

Expertise and experience of chief financial officer and the finance function

As required by 3.84(h) of the JSE Limited Listings Requirements, the audit committee has satisfied itself that the chief financial officer, Mr OS Arbee, has the appropriate expertise and experience. In addition, the committee satisfied itself that the composition, experience and skills set of the finance function met the group's requirements.

Subsidiary companies

The functions of the committee are also performed for each subsidiary company of Imperial Holdings Limited that has not appointed an audit committee, on the basis that the committee delegates the performance of such functions to sub-committees referred to as finance and risk review committees. Divisional finance and risk review committees have been constituted and these committees report significant issues to the group audit committee. Each divisional finance and risk review committee is chaired by an independent chairman with no operational role in the divisions.

ANNUAL FINANCIAL STATEMENTS

Following the review by the committee of the consolidated and separate annual financial statements of Imperial Holdings Limited for the year ended 30 June 2016, the committee is of the view that in all material respects they comply with the relevant provisions of the Act and International Financial Reporting Standards and fairly present the consolidated and separate financial positions at that date and the results of operations and cash flows for the year then ended.

Having achieved its objectives, the committee has recommended the consolidated and separate annual financial statements for the year ended 30 June 2016 for approval to the board. The board has subsequently approved the report, which will be open for discussion at the forthcoming annual general meeting.



M KGOSANA
Chairman

22 August 2016