



REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF UNGA GROUP LIMITED

Report on the audit of the consolidated financial statements

Our opinion

In our opinion the accompanying consolidated financial statements of Unga Group Limited give a true and fair view of the financial position of the Group and the Company at 30 June 2016, and of its consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

What we have audited

The consolidated financial statements of Unga Group Limited (the “Company”) and its subsidiaries (together, the “Group”) are set out on pages 36 to 83 and comprise:

- the consolidated statement of financial position at 30 June 2016;
- the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended;
- the statement of financial position of the Company standing alone at 30 June 2016; statement of changes in equity for the Company standing alone for the year then ended; and
- notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



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| <i>Key audit matter</i> | <i>How our audit addressed the key audit matter</i> |
|---|---|
| <p><i>Information Technology (IT) systems and controls</i></p> <p>During the year, the company implemented SAP, a new Enterprise Resource Planning (ERP) system. The new system is a fully integrated financial accounting and reporting system.</p> <p>The implementation of a new system has an inherent risk of loss of integrity of key financial data being migrated, and the breakdown in operation or monitoring of IT dependent controls within critical business processes such as purchasing selling and recording of transactions, which could lead to financial errors or misstatements and inaccurate financial reporting.</p> <p>The group's financial accounting and reporting systems are heavily dependent on the new system and there is a risk that automated accounting procedures and related IT dependent manual controls are not designed and operating effectively.</p> | <p>We examined the framework of governance over the Group's IT organisation and the controls over program development and changes, access to programs and data and IT operations, including compensating controls where required.</p> <p>We assessed and tested the design and operating effectiveness of the controls over the continued integrity of both the old and the new systems that were relevant to financial accounting and reporting during the year. Where necessary we also carried out direct tests of certain aspects of the security of the Group's IT systems including access management and segregation of duties.</p> <p>We re-performed selected automated computations and compared our results with those from the system and the general ledger.</p> <p>We tested the significant system interfaces to ensure the accuracy and completeness of the data transfer. Our procedures included assessment and testing of the General IT control environment, including IT access and segregation of duties, as well as IT dependent controls within critical business processes.</p> <p>In relation to systems migration, we assessed and tested the controls specifically established over the implementation process and migration of key financial data from the legacy to the new single operating system, and we performed walk through to collaborate this.</p> <p>The combination of these tests of the controls and the direct tests that we carried out gave us sufficient evidence to enable us to rely on the continued and proper operation of the Group's IT systems for the purpose of the audit of the financial statements.</p> |



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| <i>Key audit matter</i> | <i>How our audit addressed the key audit matter</i> |
|--|---|
| <p><i>Goodwill Impairment assessment</i></p> <p>As shown in Note 27(b) of the financial statements, the directors assess the impairment of goodwill arising from acquisitions at the cash generating unit level using value-in-use calculations.</p> <p>We focused on the Goodwill impairment assessment because the value-in-use calculations involves significant judgements about the future results of the business and the discount rates applied to the future cash flow forecasts.</p> | <p>We evaluated and challenged the composition of management's future cash flow forecasts and the underlying assumptions based on the historical performance of the business, industry-specific reports and the macro economic outlook. We assessed the projected cash flows against the approved strategic and business plan of the cash generating unit.</p> <p>We independently assessed the reasonableness of the five year forecast cash flows based on recent actual performance and the 'short-term financial approved budgets of the business.</p> <p>We also challenged management's assumptions in relation to the:</p> <ul style="list-style-type: none"> - Long term growth rates by comparing them to economic and industry forecasts - Pre-tax discount rate by assessing the cost of capital for the company and comparable organisations, as well as considering country specific factors <p>We found the assumptions to be consistent and in line with our expectations.</p> <p>We challenged management on the adequacy of their sensitivity calculations. We determined that the calculations were most sensitive to assumptions for gross margin and the pre-tax discount rates as disclosed in Note 27(b) of the financial statements.</p> <p>We discussed the likelihood of such a movement with management and satisfied ourselves that this has been appropriately disclosed in the financial statements.</p> |



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Other information

The directors are responsible for the other information. The other information comprise the directors' reports, business review reports, corporate governance reports and other statements included within the annual report (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of directors and those charged with governance for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and with the Kenyan Companies Act, and for such internal control as the directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



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- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

As required by the Kenyan Companies Act, we report to you, based on our audit, that:

- we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- in our opinion proper books of account have been kept by the Company, so far as appears from our examination of those books; and
- the Company's statement of financial position and statement of profit or loss are in agreement with the books of account.

The engagement partner on the audit resulting in this independent auditor's report is CPA Michael Mugasa – P/No. 1478.

A handwritten signature in black ink, appearing to read 'Michael Mugasa', is written over a horizontal line.

Certified Public Accountants
Nairobi.

29 September 2016