



KLE
GROUP LTD

KINGSTON LIVE ENTERTAINMENT

ANNUAL REPORT 2019

AR2019

Our Vision ■

To be the premier entertainment and lifestyle group in Jamaica and beyond. The KLE Group is now pursuing exciting new projects in franchising, entertainment, tourism and real estate development.

Our Mission ■

Building dynamic lifestyle brands that will evolve the landscape of entertainment, satisfy our customers, inspire our team, enhance our community and deliver exceptional shareholder value.

Our Brands ■



FRANCHISE JAMAICA
Franchise Jamaica, Franchise specialists



USAIN BOLT'S TRACKS & RECORDS
and **TRACKS & RECORDS**
Jamaican Themed Casual Dining Restaurant and Bar
Kingston, Jamaica



SUMFEST ACOUSTIC CAFE
Jamaican Themed Fast-Casual Restaurant
and Juice Bar



BESSA
Lifestyle Themed Boutique Villa Community.
(Joint venture with Sagico Life)
St. Mary, Jamaica



SPF / FOREVER BEACH
Premium Ultra All Inclusive Party Series

CONTENTS ■

Board of Directors	2
Directors' Profile	4
Management Team	5
Chairman's Message	6
CEO's Message	7
Management Discussion and Analysis	8
Corporate Social Responsibility	11
Shareholding	12
Five Year Historical Review	14
Independent Auditor's Report and Financial Statements	16



BOARD OF DIRECTORS

BOARD OF DIRECTORS

The K.L.E. Group Board of Directors is a group of individuals with the knowledge, experience and expertise required to maintain and grow a successful business. The Board is chaired by David Shirley and comprised of eight members representing some of Jamaica's top business leaders and entrepreneurs. The Directors' qualifications and profiles are set out in the Directors profile.

The K.L.E. Group Board is dedicated to driving financial growth and delivering exceptional shareholder value. The Board will achieve the highest standards of corporate governance and be responsible for the effectiveness of the business entities, ensuring proper controls, monitoring performance, and directing management towards growth and success with the utmost integrity.

CORPORATE GOVERNANCE

The K.L.E. Group is guided by the Jamaica Stock Exchange Junior Market Rules and the Private Sector Organization of Jamaica (PSOJ) Corporate Governance Code which was adopted by a properly constituted Board of Directors in 2013 and is available on the company's website, klegroupltd.com.

The Board has implemented many of the best practice recommendations as set out by the PSOJ Governance code. The Board's role is also to ensure transparency in achieving the goals of the business. A procurement policy was put in place by the Board to ensure transparency in the procurement of goods and services. It outlines a set of general principles and procurement procedures that should be adhered to in the procurement of all materials, goods and services. The Board met on four occasions during the financial year.



GARY C. MATALON, M.B.A., P.M.P.
Director and CEO



JOE BOGDANOVICH
Non-Executive Director



DAVID ALEXANDER SHIRLEY, B.A.
Chairman of the Board of Directors
Non-Executive Director



CHRIS DEHRING, BSc.
Non-Executive Director



STEPHEN ORLANDO SHIRLEY, A.S.
Non-Executive Director



NORMAN PEART
Non-Executive Director



MARLON A. HILL, ESQ
Non-Executive Director



ZUAR ARD JARRETT, B.A., M. Arch.
Non-Executive Director

AUDIT COMMITTEE

The Audit Committee monitors and reviews the objectivity and effectiveness of all business systems. The Committee also monitors and reviews the financial health of the business and approves all budgets, internal audit functions and external financial statements.

The Committee during the year approved announcements on the company's financial performance on a quarterly basis, as well as the audited financials and considered and recommended the group's annual operating and capital budgets.

As at the date of this Annual Report, the Members of the Audit Committee, as appointed by the Board of Directors are:

David Shirley (Chairman)	Non Executive Member
	Independent
Gary Matalon	Executive Member
Norman Peart	Non Executive Member
	Independent

The Committee met on four occasions during the financial year.

REMUNERATION COMMITTEE

The Remuneration Committee reviews and approves all policies related to compensation and incentives of all board members and senior management of the company.

As at the date of this Annual Report, the Members of the Remuneration Committee as appointed by the Board of Directors are:

Marlon Hill	(Chairman)
Steven Shirley	Member
Josef Bogdanovich	Member
David Shirley	Member.

Circumstances did not warrant having a meeting during the financial year. Shareholders wishing a copy of the Annual Report or have any queries can forward the request or queries to info@klegroupltd.com.

Shareholders wishing to request a copy of the company's last Annual General meeting please send written correspondence to the office at 67 Constant Spring Road, Unit 8, Market Place, Kingston 10.

DIRECTOR'S PROFILES

DAVID SHIRLEY

David A. Shirley, B.A., is a Founding Member and Chairman of the K.L.E. Group Ltd. His illustrious career spans over a decade and multiple industries in Jamaica, including Coffee, Sports, Entertainment, Tourism and, of course, Food! He is Chairman and Co-founder of Locker Room Sports and the Director and Co-founder of Velle Sport International. David has also holds the position of Managing Director of the Jamaica Coffee Corporation Limited since 2004. He is currently Director of the Jamaica Coffee Corporation, Stoneleigh Coffee Processors Limited, and Stoneleigh Coffee Roasters Limited. Along with KLE where he also serves as Director of the Bessa Villa Development, David is a Deputy Chairman of the Independence Park Ltd and Director of the Barbican Football Club. He is a Member of the Board for the Sports Development Foundation. When not in an office or meeting, David enjoys playing various sports, including tennis, football and squash.

GARY MATALON

Gary Matalon is the Co-Founder and CEO of the KLE Group. He has made a name for himself as a business mogul, serial entrepreneur and innovative trendsetter who is eager to take on new adventures and revolutionize businesses. Matalon has founded several businesses including Project and Enterprise Management firm Neustone Ltd, KLE Group, FranJam and Sumfest Acoustic Cafe. Under his guidance, these companies have managed the development of several establishments such as the Marriott Courtyard, Richmond Estates, Fiction Lounge, Usain Bolt's Tracks & Records and more recently, luxury real estate development, Bessa. Matalon achieved his BA in Business Management and Entrepreneurship from Lynn University and his MA in Business from the University of Liverpool. He also holds the prestigious credentials of a Project Management Professional (PMP) from Boston University. Gary is also Chairman of the Board of Directors of the Hillel Foundation.

CHRIS DEHRING

Chris is a Director of the KLE Group and an experienced Senior Executive and Entrepreneur. He is well known across the Caribbean as one of the founders of Dehring, Bunting and Golding, Jamaica's first investment bank. He was responsible for launching the sports television channel, Sportsmax, and was the CEO of the ICC Cricket World Cup in 2007. A former Senior Executive with Cable and Wireless, he played numerous roles in the telecommunications industry with C&W in Jamaica and the Caribbean including: Chairman, Chief Marketing and Commercial Officer, Senior Vice President, and Member of the Government Relations

and Executive Leadership Team. He has taken his various experiences and applied it to the successful launching of his new company, Ready TV. Chris played both football and cricket for Jamaica, with outstanding club careers in both sports. Awarded a football scholarship to West Virginia Wesleyan College in 1981, he won the USA National Soccer Championships, was awarded the Wall Street Journal Student Achievement Award for Economics and graduated with honours with a BSc. in Marketing and Economics.

JOE BOGDANOVICH

Joseph James Bogdanovich is the Founder and CEO of DownSound Entertainment owners of Downsound Records and a Member of the Board of the KLE Group. He is an accredited, self-made urban visionary and entrepreneur. He holds an Undergraduate Degree in Political Science from Boston University and and a Master's in Fine Arts (Film) from the California Institute of the Arts. In 1992, he began pursuing his greatest passion full time music. He founded the ACID JAZZ Record Company in California and then DownSound Records in Los Angeles a year later. He was introduced to reggae and dancehall through an artist on his label, and after this, the California-born and raised businessman adopted Jamaica as his new homeland. Joe immediately began getting involved in the music and entertainment scene in Jamaica. In 2012 he became a full partner in the staging of Sting, the legendary one-night dancehall stage show. Then, in 2014, Bogdanovich became the largest shareholder in the KLE Group. By March 2016, DownSound Entertainment acquired the major Jamaican summer music festival brand, Reggae Sumfest where KLE launched its second franchise, Sumfest Acoustic Cafe and later that year also aquired Hardware & Lumber, Rapid True Value. In 2018 Joe, went on to aquire The R Hotel in Kignston Jamaica.

MARLON HILL

Marlon A. Hill is a Director of the KLE Group Ltd. and a partner in the Miami office of Hamilton, Miller & Birthisel, LLP. With over 24 years of legal experience, Mr. Hill represents the interests of entrepreneurs, corporations, and non-profit organizations, especially in the tourism, hospitality, and media/entertainment industries. A past student of St. George's College, Mr. Hill is one of the Inaugural Fellows in the Miami Foundation's Miami Fellows Initiative and a current Member of the Board of Directors of the Miami Parking Authority, Miami Book Fair International, Greater Miami Chamber of Commerce, and Jamaican Men of Florida. Mr. Hill is a past member of Jamaican Diaspora Advisory Board representing the Southern United

States (2006-2011). Mr. Hill is a weekly commentator on Caribbean Riddims, "The People's Politics", WNMA 1210AM, a recurring OpEd contributor to SunSentinel, SF 100 and former public affairs roundtable contributor to WPLG Local 10 "This Week in South Florida". Mr. Hill is currently a candidate for the Miami Dade County Commission, District 9, representing residents in S.W. Miami-Dade County communities.

STEPHEN SHIRLEY

Stephen Shirley, past Chairman of the Board and current Director of the KLE Group, has a love for business, entertainment and everything sports! It was this love that led to Stephen's involvement in the establishment of Locker Room Sports in 1998, the KLE Group in 2008, and Velle Sport International in 2009. He currently serves as a Director on the Board for all three companies. His expertise also extends to the Coffee Industry. In 2017, he took on the role of CEO of Stoneleigh Coffee Roasters Limited., the company responsible for our 100% Jamaican Blue Mountain Roasted Coffee. He is also the Managing Director of Stoneleigh Coffee Processors Ltd, and Director of Jamaica Coffee Ltd. Stephen spent his school days between Munro College and Hillel Academy before attending the Miami Dade Community College where he received his Associate Degree in Business Management. Stephen Shirley is most comfortable and excited on the tennis court, football field, and any other sports arena he can get his hands on.

ZUAR JARRETT

Zuar Ard Jarrett is one of the founders of the KLE Group and the founder and Managing Director of Zuar Limited, a premier architectural, planning and interior design firm. Founded in 2004, Zuar Ltd's portfolio spans government, corporate and a host of well appointed residences. His extensive portfolio of work include KLE's previously owned Fiction Lounge as well as Tracks & Records restaurant. Mr. Jarrett brings tremendous experience in

the entertainment industry, being a founder/director of DNA entertainment since 2004, an entity instrumental in the hosting and execution of the ATI Negril weekend and a host of other premium events. Mr. Jarrett received various certifications in business from the Institute of Management and Production in Jamaica. He is also qualified as a designer in the areas of Architecture, Planning and Interior design from the Caribbean School of Architecture. Here, he was awarded a Bachelor of Arts in Architectural Studies with second class honors in 2000. He further received the European Union scholarship to pursue a Masters of Architecture which was completed in 2004.

NORMAN O. PEART

Norman Peart is a Member of the Board of the KLE Group and Business Manager to world-renowned international sprint sensation Usain Bolt. His areas of expertise are business and finance. He began his career in business by pursuing a Bachelor's degree in Business Administration and Finance from the University of Technology in Jamaica. Afterward, he worked for the Government of Jamaica as a tax auditor from 2001 to 2009. Norman became Usain's manager in 2003 when the sprinter was in high school and started showing glimpses of his prodigious talent. Under Norman's tutelage, Usain's career as a professional athlete took off! Peart organized for Bolt to sign with Puma and his relocation himself to Kingston. He also brought PACE Sports Management on board and facilitated the move to Coach Glen Mills in 2004. Peart is also a licensed Jamaica Securities Dealer and IAAF authorized athlete representative. He loves live music and good food, which made him the perfect fit for the KLE Group team where he could enjoy both at all Usain Bolt's Tracks and Records restaurant locations.

MANAGEMENT TEAM



Nicholas Taylor
General Manager



Vaughn Hutchinson
Financial Controller



Angiel Shaw
Group Marketing
Manager



Melissa McFarlane
Assistant
General Manager



Christina Edwards
Assistant
General Manager

CHAIRMAN’S REPORT

Kingston Live Entertainment Group (KLE) was founded on a VISION to make entertainment and lifestyle in Jamaica inspirational. From the conception of FICTION Night Club our company has been a trend setter, looking to promote the best of Brand Jamaica in an international way. We have partnered with some of the most respected companies, athletes and entertainers in our country to execute our mission, creating added value to our sport, music, food, entertainment and cultural opportunities.

Restaurant & Entertainment

In 2019 our focus was on expanding our Tracks & Records brand in Jamaica, whilst supporting our UK franchisee with the development of the first international location which opened in November 2018. In the summer of 2019 we continued to support the SPF Weekend project and executed our signature summer event Forever Beach “Midnight Bonfire Event”. These events allowed KLE to remain relevant in the entertainment space, spotting trends in music, food and consumer behavior in our industry.

Investments

KLE continues to play its part in the development of the Bessa 86 unit beach front property development. We have been privileged to be able to partner with Sagicor to bring a unique opportunity to real estate investors. KLE has been noting interest of potential purchasers and we look forward to commencing the sales process in 2020.

Corporate Governance

The Board of Directors have met their obligations in attendance of meetings and support to the management team when needed. KLE continues to participate on the Jamaica Junior Stock Exchange and will continue to strive to create value for its shareholders.

Meet the challenges, enjoy the journey.

DAVID ALEXANDER SHIRLEY
Chairman



DAVID ALEXANDER SHIRLEY, B.A.

CEO’S MESSAGE

In 2019 KLE Group continued its mission to build a global powerhouse brand in the restaurant industry while showcasing our country, cuisine and culture to people from all over. In addition, we advanced our real estate project to the point where construction will finish up within the coming year and the sales process can begin for the 86 unit Bessa development.

The KLE flagship, Tracks and Records location in Marketplace performed exceptionally well and is responsible for over 90% of the company’s total revenue in 2019. Sustained customer support and brand loyalty combined with operational improvements contributed to the profit from operations and has positioned the business for a bright future.

The Bessa project broke ground in February 2017 and is now in the final stages of development. The 86-unit villa community features prime beachfront property in Oracabessa, St. Mary. In addition, its proximity to the Ian Fleming Airport and accessibility from Kingston and Montego Bay make it a solid real estate investment. Along with our partners Sagicor Life we look forward to going to sale with this project in 2020.

KLE has had a positive trajectory over the past few years. The investments made over the past couple years have certainly put the business in a great position to reap benefits as we prepare for future growth.

2018 and 2019 were challenged due to road work and resulting impeded access which had a tremendous effect on Tracks and Records Marketplace revenue. Despite this, the Marketplace business unit continues to operate favorably contributing strong profits to the group. Now that the road work appears to be behind us, we are anticipating even greater opportunities for this location.

In an effort to grow and diversify the business from the ‘single source’ of revenue marketplace provided for KLE, the team successfully negotiated the purchase of the Montego Bay Tracks and Records location which will provide significant benefit and value to the group in the coming year. This is in keeping with the strategy to own and operate all the Jamaica restaurant operations within KLE to take advantage of increased revenues and economies of scale.

Recapitalization has been another key focus for the business and is absolutely imperative for the company’s growth and development. The board and management have been working assiduously to execute financing options available to us. We look forward to a strong capital injection and the opportunities this will provide for KLE in the new year.

KLE Group is moving aggressively towards realizing its potential and capitalizing on the solid equity and value that has been created. As we continue our focus on the global markets, we will attack the opportunities in front of us and continue to seek out new ones on our mission to return shareholder value. We remain steadfast on this mission and thank our team members, customers, shareholders and all stakeholders for your belief in the company and commitment to making this effort a reality.

GARY C. MATALON
CEO



GARY C. MATALON, M.B.A., P.M.P.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The financial year ended December 31, 2019 can be described as rewarding as the company has now recovered from the major challenges faced in the previous couple of years by the road works along the constant spring road network.

Strong Revenues despite road work setback

The company's total revenue for the 2019 financial year amounted to \$224,572 million compared to \$219,931 million in 2018, an increase of approximately 2.10%. Revenue is directly related to sales from our flagship restaurant, Tracks and Records Marketplace and Management fees earned throughout the year.

REVENUE

Category	2019 \$'000	2018 \$'000
Restaurant	210,172	205,781
Management fee	14,400	14,150
	224,572	219,931

Sales from the restaurant performed better than expected as the major construction on Constant Spring Road continued into the 2019 year as well as the Marketplace location underwent a major renovation to the complex which made it difficult for customers to access the property. Management embarked on innovative marketing strategies to combat these issues resulting in the increase sales from the restaurant. The table below shows the improvement in sales revenue from the restaurant during the latter part of 2019, once the constant spring road was moving closer to completion:

Restaurant sales performance analysis

Category	2019 \$'000	2018 \$'000	\$	%
January to June	101,872	106,376	(4,504)	(0.04)
July to December	108,300	99,065	9,235	0.09
	210,172	205,441	4,731	0.05

Increased Profitability

The company's Earnings Before Interest, Taxes Depreciation and Amortization also improved in the current year. See table below;

	2019 \$'000	2018 \$'000
Profit from operations (before finance costs, depreciation and taxation)	\$7,128	\$1,640
Total Comprehensive (loss)/profit for the year	(\$14,844)	(\$25,587)

Improvements in Direct Cost

The company's total direct expenses (cost of sales) remain in line with our expected cost margins and mark up. The decline in the cost of sales is related to the better supply prices based on price negotiation and contractual terms with vendors.

Administrative and General Expenses

Administrative and other expenses amounted to \$170,512 million when compared to the \$181,271 for the previous year.

The expense categories which showed the major increases were:

- Rent expense showed a 21% increase, this is directly related to the foreign exchange movements during the year.
- Advertising and Marketing, this category increased by \$3.5 million or 24%. The company undertook increased marketing efforts in 2019 to combat the negative effects of the road work and the renovations of Marketplace.
- Kitchen and Bar Supplies increase by over 100% and is attributable mainly to the change in the packaging of Materials used in compliance to the single use plastic and styrofoam ban.

The categories which showed a reduction when compared to the previous year includes:

- Utilities, the company saw a 13.2% reduction when compared to the prior year. Utilities includes light, water, telephone and cable.
- Repairs and Maintenance decreased by \$1.04 million and is due on part to effective servicing and maintaining of equipment
- Legal fees, Bad Debt and Interest and Penalties also showed significant decrease which is as a result of one-off expenditures incurred in the previous year.

Increased profitability from Associate Company

The company absorbed a \$4.7 million loss from its associate company T&R Restaurant Systems Limited T/A Franchise Jamaica which was a significant contributor to its net loss position. The company has performed significantly better in 2019 than the previous year. Franchise Jamaica reported total revenues of \$30 million for the 2019 year in comparison to 19 million in 2018.

Assets and Liabilities

Total Assets Increased by \$15.6 million moving from \$198,885 million in 2018 to \$214,496 million in 2019. The major contributing factor is the increasing of our investment portfolio, in the current year the company purchased \$9.75 million in investments.

The company is reporting positive working capital and current ratios as well as improvements in its liquidity for the 2019 financial period. These positive ratios are expected to further improve in the short to medium term.

Long term liabilities reflect the loan which was negotiated in the February of 2019. Current liabilities have been reduced significantly as the company has managed to pay down some of these liabilities with the proceeds of the loan.

Shareholders equity for the period decreased by 13% and is directly related to the negative earnings generated for the year.

Cash Flow

From a cash flow point of view, the company generated a negative cash flow from operating activities due in large part to the increases in its assets and the reduction in payables. The company has more cash inflows when compared to the previous year.

The overall liquidity if the company has improved when a comparison was done with the 2018 financial year, this is expected to continue in the short to medium term.

Outlook

Going forward the KLE Group will execute its strategy for sustainable growth and profitability.

To begin with, the company has successfully operated the Kingston location of Tracks and Records for the past 9 years. The infrastructure that exists to operate this business unit has been underutilized in the past. The domestic growth will aid in achieving these economies of scale.

The franchising model will serve us better in major markets where we can capitalize on the infrastructure and market knowledge of major players already operating in these markets. This has proven very effective with our London franchisee.

In order to achieve this and other key elements to our growth program, we are moving towards a significant capital raise which will enable the business to execute the plan. The last time the company had any injection of capital was in 2011.

As a result, the KLE strategy will follow these few main points;

- Recapitalize the company
- Retire some of the long-term debt
- Establish smaller format fast-casual concept
- Expand the ‘corporate-owned’ footprint throughout Jamaica
- Focus on franchising through FranJam in the international markets

The international franchising will grow through partnerships with investors similar to the UK Franchisee. This investor profile requires a different level of support than the smaller single unit franchisee. On top of this we are zeroing in on two additional markets to move in while the UK market penetration continues. The focus will be on Toronto and South Florida. The focused approach has already resulted in some solid leads with investors we feel fit the bill.

KLE Group Limited would like to express a sincere thank you and appreciation to our hardworking and dedicated employees, who have all contributed to our accomplishments during the year. Also, our loyal customers for believing in our brands and their continued support to our business. Finally, to our shareholders and directors for their continued confidence and direction.

CORPORATE SOCIAL RESPONSIBILITY

KLE values the community in which we serve and we take great pride in making meaningful contributions to the people, the institutions and the society as a whole. We are proud to have continued programmes that were utilized in the previous calendar year, as well as indulge in new initiatives and we are certain that these will become staples within our annual calendar of events. We have also crafted new affiliations with charitable organizations and remain entirely committed to the promotion of nation building and youth empowerment.

Hospitality and Tourism Summer Programme

In Summer 2019, we once again welcomed students from the Hospitality and Tourism Department from the University of Technology Jamaica, as interns in different divisions of our operations. We provided these young vibrant students, gainful hands-on practical experience to compliment their academic education and a beneficial step toward their future careers. We look forward to exercising this rewarding challenge again in the Summer of 2020 as we continue to do our part to help train tomorrow’s workforce.

Kingston City Marathon

We were proud sponsors of the Kingston City Run Marathon in 2019; the event is not-for-profit with proceeds going towards deserving charities such as the Open Arms Development Centre, Alpha Boys Institute, Marie Atkins Night Shelter and others. Since its inception, focus has been specifically on the homeless population and we had the honour of hosting the Kingston City Run launch at Usain Bolt’s Tracks & Records Kingston, where everyone, including registered participants, enjoyed some real Jamaican vibes!

Christmas Gift Certificates

In 2019 we again donated gift certificates to worthy causes as staff treats. These were given to various companies and presented as rewards to their hard-working and loyal employees in recognition of their significant contribution to each respective organization. These individuals received a UBTR dining experience for two or more persons, along with assorted gift baskets.

Hall Development Gift Certificates

UBTR made donations throughout the year with gift certificates and paraphernalia given to various halls on tertiary campuses including the University of the West Indies Taylor Hall (UWI) and the University of Technology Garvey Hall (UTECH). These donations were used as prizes for hall development initiatives and youth development programmes. We look forward as always, to supporting these great student initiatives in 2020.

SHAREHOLDINGS

TEN LARGEST SHAREHOLDERS | AT QUARTER 31 DECEMBER 2019

NAMES	CONNECTED SHARES	PERSONAL SHARES	PERCENTAGE OWNERSHIP
1 Bogdanovich, Joseph		23,168,835	23.17%
2 Matalon, Gary (Highbourne Ltd.- connected company)	1,450,000	17,479,033	17.48%
3 Shirley, Stephen (Anna-Kaye Martin-Shirley - connected party)		10,111,500	10%
4 Sherwood Holdings Limited		6,757,000	6.76%
5 Shirley, David (Shani N. McGraham-Shirley - connected party)		6,377,750	6.38%
6 Jarrett, Zuar		4,200,000	4.20%
7 Steele, Colin		3,840,558	3.84%
8 JCSD Trustee Services Ltd. - Sigma Global Venture		3,309,710	3.31%
9 Drummond, Drum M. (Cai M. Manley-Drummond; Lek I. Manley-Drummond & Tyla M. Herrera; Rachel Manley - connected parties)		2,002,254	2.00%
10 Jamaica Properties Limited		2,000,000	2.00%
Total		79,246,640	79.25%
Others		20,753,360	20.75%
Total Issued Shares		100,000,000	100.00%

SHAREHOLDINGS OF DIRECTORS | AT QUARTER 31 DECEMBER 2019

NAMES	CONNECTED SHARES	NO. OF SHARES
1 Gary Matalon (Highbourne Ltd.- connected company)	1,450,000	17,479,033
2 David Shirley (Shani McGraham-Shirley - connected party)		6,377,750
3 Joseph Bogdanovich		23,168,835
4 Zuar Jarrett		4,200,000
5 Stephen Shirley		10,111,500
6 Norman Peart		Nil
7 Marlon Hill		Nil
8 Christopher Dehring		Nil

SHAREHOLDINGS OF EXECUTIVE MANAGEMENT | AT QUARTER 31 DECEMBER 2019

NAMES	CONNECTED SHARES	NO. OF SHARES
1 Gary Matalon (Highbourne Ltd.- connected company)	1,450,000	17,479,033
2 Vaughn Hutchinson		Nil
3 Stephen Greig		Nil

FIVE YEAR HISTORICAL REVIEW

STATEMENT OF COMPREHENSIVE INCOME

	2019 \$'000	2018 \$'000	2017 \$'000	2016 \$'000	2015 \$'000
Revenue	224,572	219,931	226,826	195,939	174,255
Cost of Sales	(64,246)	(65,672)	(69,610)	(62,697)	(67,663)
GROSS PROFIT	160,326	154,259	157,216	133,242	106,592
Other Operating Income	6,091	13,573	5,527	182,703	2,306
Administrative and Other Expenses	(170,512)	(181,271)	(152,484)	(144,182)	(143,276)
Operating (LOSS) / PROFIT	(4,095)	(13,439)	10,259	171,763	(34,378)
Finance Cost	(8,645)	(1,495)	(2,374)	(2,756)	(1,750)
	(12,740)	(14,934)	7,885	167,007	(36,128)
Share of post-tax (loss)/ profit of equity accounted associate	(4,748)	(12,685)	257	(4,581)	-
(Loss) / Profit before Taxation	(17,488)	(27,619)	8,142	167,426	(36,128)
Taxation	682	1,912	810	857	2,484
NET (LOSS)/ PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	(16,806)	(25,707)	8,952	165,283	(33,644)
Net (loss)/ profit from discontinued operation	-	-	-	(1,362)	(30,467)
NET (LOSS)/ PROFIT FOR THE YEAR	(16,806)	(25,707)	8,952	163,921	(64,111)
OTHER COMPREHENSIVE INCOME:					
Items that may be reclassified to profit or loss-					
Share of associate other comprehensive income	-	-	258	-	-
Unrealized gain on available-for-sale investments	1,962	120	356	-	-
		120	614		
TOTAL COMPREHENSIVE INCOME	(14,844)	(25,587)	9,566	163,921	(64,111)
(Loss)/profit per stock unit	\$ (0.17)	\$ (0.26)	\$ 0.09	\$ 1.64	\$ (0.64)

STATEMENT OF FINANCIAL POSITION

	2019 \$'000	2018 \$'000	2017 \$'000	2016 \$'000	2015 \$'000
ASSETS					
NON-CURRENT ASSETS:					
Property, plant and equipment	22,908	31,389	45,497	60,896	65,349
Investment in joint venture	12,979	12,590	13,141	12,754	11,969
Investments	12,919	2,208	2,088	-	15,710
Investment in Associate	55,864	60,612	73,297	72,782	-
Longterm Receivables	9,737	12,490	14,737	-	-
Deferred taxed asset	9,868	9,186	7,080	6,098	5,166
	124,275	128,475	155,840	152,530	98,194
CURRENT ASSETS:					
Inventories	3,461	2,608	2,932	3,214	4,497
Receivables	17,204	15,203	10,399	22,759	3,927
Due from related parties	63,387	46,872	26,109	35,596	3,834
Cash and bank balances	6,169	5,727	9,907	9,443	9,281
	90,221	70,410	49,347	71,012	21,539
	214,496	198,885	205,187	223,542	154,786
EQUITY AND LIABILITIES					
EQUITY					
Share Capital	122,903	122,903	122,903	122,903	122,903
Fair value reserve	2,438	476	356	-	-
Accumulated (deficit)/ surplus	(26,004)	(9,198)	16,509	7,299	(156,622)
	99,337	114,181	139,768	130,202	(33,719)
NON-CURRENT LIABILITIES					
Long term liabilities	57,690	-	7,038	11,217	-
Due to related party	1,043	1,527	1,360	1,782	28,788
	58,733	1,527	8,398	12,999	28,788
CURRENT LIABILITIES					
Payables	42,125	68,730	48,820	72,492	87,807
Due to related parties	-	-	-	-	49,549
Bank Overdraft	6,291	6,696	3,040	3,426	9,437
Taxation	648	983	967	859	860
Current portion of long term liabilities	7,362	6,768	4,194	3,564	12,064
	56,426	83,177	57,021	80,341	159,717
	214,496	198,885	205,187	223,542	157,786

KLE GROUP LIMITED

INDEX

Independent Auditors' Report
to the Members 17 - 21

FINANCIAL STATEMENTS

Statement of Profit or Loss and Other Comprehensive Income	22
Statement of Financial Position	23
Statement of Changes in Equity	24
Statement of Cash Flows	25
Notes to the Financial Statements	26 - 61



Tel: (876) 926-1616/7, 926-4421
Fax: (876) 926-7580
www.bdo.com.jm

Chartered Accountants
26 Beechwood Avenue
P.O. Box 351
Kingston 5, Jamaica

INDEPENDENT AUDITORS' REPORT

To the Members of
K.L.E. Group Limited

Report on Audit of the Financial Statements

Opinion

We have audited the financial statements of K.L.E. Group Limited set out on pages 6 to 45, which comprise the statements of financial position as at 31 December 2019, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Jamaican Companies Act.

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 *Auditors' Responsibilities for the Audit of the financial statements section of our report*. We are independent of the company in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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

Key Audit Matters

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

Partners: R.L. McFarlane, K.A. Wilson, S.M. McFarlane, J. Green-Hibbert, D. Hobson
Offices in Montego Bay, Mandeville and Ocho Rios
BDO is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
K.L.E. Group Limited

Key audit matters

Investment in Joint venture

See notes 3(a) and 14 to the financial statements for management's disclosures of related accounting policies.

As at 31 December 2019, investment in joint venture represents approximately 6% of the company's total assets.

Investment in joint venture is originally carried at cost. The Bessa project is still in its preliminary stage. We focused on assessing the carrying value of this investment which was primarily towards land purchased for the development to determine whether there was evidence of impairment.

Going concern

See notes 26 to financial statements for disclosure on management's assessment of the company's ability to continue as a going concern into the foreseeable future.

We focused on assessing management's five-year forecasts and projections, the company's working capital and cash flow projections

How our audit addressed the Key audit matters

We assessed the status of the agreement by obtaining third party confirmation to ensure that the agreement between KLE Group Limited and Sagikor Life was still in force.

The criteria we used to determine if there is objective evidence of impairment included:

- Indications of financial difficulty of the joint venture partners; and
- Observable market data indicating whether there is a decline in the estimated future viability of the project.

We reviewed periodic status reports and confirmed that work to date primarily included obtaining relevant approvals and undertaking land preparation.

We therefore concluded that the project is viable and no adjustments were considered necessary.

We have tested the quality of management forecasting by comparing cash flow forecasts from prior period to actual outcomes. We also challenged management's assumptions in the forecast and reviewed documentary evidence of financing included in the cash flows.

We tested the appropriateness of the disclosures made in the company's financial statements in respect of going concern.

We evaluated and challenged the composition of management's future cash flow forecast and the process by which they were drawn up.

We found the assumptions consistent and in line with our expectations.

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
K.L.E. Group Limited

Other Information

Management is responsible for the other information. The other information comprises the annual report but does not include the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements, in accordance with IFRS and the Jamaican Companies Act, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 company or to cease operations, or has no realistic alternative but to do so.

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



INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
K.L.E. Group Limited

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 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 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 company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that presents a true and fair view.



INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
K.L.E. Group Limited

Auditors' Responsibilities for the Audit of the Financial Statements (cont'd)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the company 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 financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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 additional matters as required by the Jamaican Companies Act

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 accounting records have been kept, so far as appears from our examination of those records, and the financial statements, which are in agreement therewith, give the information required by the Jamaican Companies Act, in the manner required.

The engagement partner on the audit resulting in this independent auditors' report is Kenneth Wilson.

Chartered Accountants

5 March 2020

KLE GROUP LIMITED

**STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
YEAR ENDED 31 DECEMBER 2019**

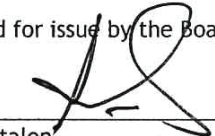
	<u>Note</u>	<u>2019</u> <u>\$'000</u>	<u>2018</u> <u>\$'000</u>
REVENUE	6	224,572	219,931
Cost of sales	9	(64,246)	(65,672)
GROSS PROFIT		160,326	154,259
Other operating income	7	6,091	13,573
Administrative and other expenses	9	(170,512)	(181,271)
OPERATING LOSS		(4,095)	(13,439)
Finance costs	8	(8,645)	(1,495)
		(12,740)	(14,934)
Share of post-tax loss of equity accounted associate	16	(4,748)	(12,685)
Loss before taxation		(17,488)	(27,619)
Taxation	11	682	1,912
NET LOSS FOR THE YEAR		(16,806)	(25,707)
OTHER COMPREHENSIVE INCOME:			
Items that may be reclassified to profit or loss - Unrealised gain on investments	15	1,962	120
TOTAL COMPREHENSIVE LOSS		(14,844)	(25,587)
EARNINGS PER STOCK UNIT BASIC AND DILUTED	12	(\$0.17)	(\$0.26)

KLE GROUP LIMITED

**STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2019**

	<u>Note</u>	<u>2019</u> <u>\$'000</u>	<u>2018</u> <u>\$'000</u>
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	13	22,908	31,389
Investment in joint venture	14	12,979	12,590
Investments	15	12,919	2,208
Investment in associate	16	55,864	60,612
Long term receivables	17	9,737	12,490
Deferred tax asset	18	9,868	9,186
		<u>124,275</u>	<u>128,475</u>
CURRENT ASSETS:			
Inventories	19	3,461	2,608
Receivables	17	17,204	15,203
Due from related parties	20	63,387	46,872
Cash and bank balances	21	6,169	5,727
		<u>90,221</u>	<u>70,410</u>
		<u>214,496</u>	<u>198,885</u>
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	22	122,903	122,903
Fair value reserve	23	2,438	476
Accumulated deficit		(26,004)	(9,198)
		<u>99,337</u>	<u>114,181</u>
NON-CURRENT LIABILITIES:			
Long term liabilities	24	57,690	-
Due to related party	20	1,043	1,527
		<u>58,733</u>	<u>1,527</u>
CURRENT LIABILITIES:			
Payables	25	42,125	68,730
Bank overdraft	21	6,291	6,696
Taxation		648	983
Current portion of long term liabilities	24	7,362	6,768
		<u>56,426</u>	<u>83,177</u>
		<u>214,496</u>	<u>198,885</u>

Approved for issue by the Board of Directors on 5 March 2020 and signed on its behalf by:

Gary Matalon  Director

David Shirley  Director

KLE GROUP LIMITED**STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31 DECEMBER 2019**

	Share Capital \$'000	Fair Value Reserve \$'000	Accumulated Deficit \$'000	Total \$'000
BALANCE AT 1 JANUARY 2018	<u>122,903</u>	<u>356</u>	<u>16,509</u>	<u>139,768</u>
TOTAL COMPREHENSIVE INCOME				
Net loss	-	-	(25,707)	(25,707)
Other comprehensive income	<u>-</u>	<u>120</u>	<u>-</u>	<u>120</u>
	<u>-</u>	<u>120</u>	<u>(25,707)</u>	<u>(25,587)</u>
BALANCE AT 31 DECEMBER 2018	<u>122,903</u>	<u>476</u>	<u>(9,198)</u>	<u>114,181</u>
TOTAL COMPREHENSIVE INCOME				
Net loss	-	-	(16,806)	(16,806)
Other comprehensive income	<u>-</u>	<u>1,962</u>	<u>-</u>	<u>1,962</u>
	<u>-</u>	<u>1,962</u>	<u>(16,806)</u>	<u>(14,844)</u>
BALANCE AT 31 DECEMBER 2019	<u>122,903</u>	<u>2,438</u>	<u>(26,004)</u>	<u>99,337</u>

KLE GROUP LIMITED**STATEMENT OF CASH FLOWS
YEAR ENDED 31 DECEMBER 2019**

	2019 \$'000	2018 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	(16,806)	(25,707)
Items not affecting cash resources:		
Depreciation	11,223	17,060
Interest income	(34)	(3)
Effects of exchange translation	(3,422)	(1,534)
Share of loss from associate	4,748	12,685
Interest expense	8,645	1,495
Taxation	(682)	(1,912)
Gain on disposal of investment	(500)	-
	<u>3,172</u>	<u>2,084</u>
Changes in operating assets and liabilities:		
Inventories	(853)	324
Receivables	(2,001)	(2,557)
Related parties	(16,999)	(20,596)
Payables	<u>(26,605)</u>	<u>19,910</u>
	<u>(43,286)</u>	<u>(835)</u>
Taxation paid	<u>(149)</u>	<u>(178)</u>
Net cash used in operating activities	<u>(43,435)</u>	<u>(1,013)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	34	3
Purchase of investments	(9,749)	-
Purchase of property, plant and equipment	(2,742)	(2,952)
Proceeds from sales of investments	<u>1,000</u>	<u>-</u>
Net cash used in investing activities	<u>(11,457)</u>	<u>(2,949)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Interest expense	(8,645)	(1,495)
Loan repayments	(12,216)	(4,464)
Loan proceeds	<u>70,500</u>	<u>-</u>
Net cash provided by/(used in) financing activities	<u>49,639</u>	<u>(5,959)</u>
Net decrease in cash and cash equivalents	(5,253)	(9,921)
Effect of exchange gains on foreign balances	6,100	2,085
Cash and cash equivalents at beginning of year	<u>(969)</u>	<u>6,867</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR (note 21)	<u>(122)</u>	<u>(969)</u>

KLE GROUP LIMITED**NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2019****1. IDENTIFICATION AND PRINCIPAL ACTIVITIES:**

- (a) K.L.E. Group Limited is a limited liability company incorporated and domiciled in Jamaica. The registered office of the company is Unit 6, 67 Constant Spring Road, Kingston 10. The company's shares are listed on the Junior Market of the Jamaica Stock Exchange.
- (b) The principal activities of the company are the operation of a restaurant under the brand of "Tracks and Records", and the provision of management services to T & R Restaurant Systems Limited.
- (c) KLE currently has a 49% shareholding in T & R Restaurant Systems Limited.

2. REPORTING CURRENCY:

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the company operates ('the functional currency'). These financial statements are presented in Jamaican dollars which is the company's functional and presentation currency.

3. SIGNIFICANT ACCOUNTING POLICIES:

The principal accounting policies applied in the preparation of these financial statements are set out below. The policies have been consistently applied to all the years presented.

(a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets that are measured at fair value. They are also prepared in accordance with requirements of the Jamaican Companies Act.

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. Although these estimates are based on management's best knowledge of current events and action, actual results could differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

KLE GROUP LIMITED**NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2019****3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D):****(a) Basis of preparation (cont'd)**

Standard, interpretation and amendments to published standards that became effective during the year

IFRS 16, 'Leases' (effective for annual periods beginning on or after 1 January 2019). The new standard eliminates the classification by a lessee of leases as either operating or finance. Instead all leases are treated in a similar way to finance leases in accordance with IAS 17. Leases are recorded in the statement of financial position by recognizing a liability for the present value of its obligation to make future lease payments with an asset (comprised of the amount of the lease liability plus certain other amounts) either being disclosed separately in the statement of financial position (within right-of-use assets) or together with property, plant and equipment. The most significant effect of the new requirements will be an increase in recognized lease assets and financial liabilities. An optional exemption exists for short term and low-value leases. The accounting by lessors will not significantly change. The adoption of this standard is not expected to impact the company because it currently has a month to month rental agreement in place.

IFRIC 23, 'Uncertainty Over Income Tax Treatments' (effective for annual periods beginning on or after 1 January 2019). This IFRIC clarifies how the recognition and measurement requirements of IAS 12 'Income Taxes', are applied where there is uncertainty over income tax treatment. The IFRS had clarified previously that IAS 12, not IAS 37 'Provisions, contingent liabilities and contingent assets; applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. The adoption of this standard is not expected to have a significant impact on the company.

Annual improvements 2015-2017 (effective for annual periods beginning on or after 1 January 2019). These amendments include minor changes to:

- IFRS 11 'Joint arrangements', a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
- IAS 12 'Income Taxes' a company accounts for all income tax consequences of dividend payments in the same way.
- IAS 23, Borrowing costs' a company treats as part of general borrowings any borrowings originally made to develop an asset when the asset is ready for its intended use or sale.

KLE GROUP LIMITED**NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2019****3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D):****(a) Basis of preparation (cont'd)**

New standards, amendments and interpretations not yet effective and not early adopted

IAS 1 and IAS 8 - Definition of Material - Amendments to IAS 1 and IAS 8 (effective for annual periods beginning on or after 1 January 2020). The IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition. The new definition states that, 'information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statement make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. The amendments are not expected to have any impact on the financial statements of the company.

The adoption of these standards are not expected to have a significant impact on the company.

Associates

Where the company has the power to participate in (but not control) the financial and operating policy decisions of another entity, it is classified as an associate. Associates are initially recognised in the statement of financial position at cost.

Subsequently associates are accounted for using the equity method where the company's share of post-acquisition profits or losses and other comprehensive income is recognised in the statement of profit or loss and other comprehensive income, (except that losses in excess of the company's investment in the associate are not recognised unless there is an obligation to make good those losses).

KLE GROUP LIMITED**NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2019****3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D):****(a) Basis of preparation (cont'd)****Associates (cont'd)**

Profits or losses arising on transactions between the company and its associates are recognised only to the extent of unrelated investors' interest in the associate. The investor's share in the associate's profits or losses resulting from these transactions is eliminated against the carrying value of the associate.

Any premium paid for an associate above the fair value of the company's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate. Where there is objective evidence that the investment in an associate has been impaired the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

The company's associate company, incorporated in Jamaica is T & R Restaurant Systems Limited (see note 1c).

Joint ventures

The company is a party to a joint venture when there is a contractual arrangement that confers joint control over the relevant activities of the arrangement to the company and at least one other party. Joint control is assessed under the same principles as control over subsidiaries.

The company classifies its interests in joint arrangement as a joint venture where the company has rights to only the net assets of the joint venture.

In assessing the classification of interest in joint arrangement, the company considers:

- The structure of the joint venture
- The legal form of joint ventures structured through a separate vehicle
- The contractual terms of the joint venture agreement
- Any other facts and circumstances (including any other contractual arrangements).

KLE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D):

(a) Basis of preparation (cont'd)

Joint ventures (cont'd)

Interest in joint venture is initially recognized in the statement of financial position at cost. Subsequently, the joint venture is accounted for using the equity method, where the company's share of profits or losses and other comprehensive income is recognized in the statement of profit or loss and other comprehensive income.

Where there is objective evidence that the investment in a joint venture has been impaired the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

(b) Foreign currency translation

Foreign currency transactions are accounted for at the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currency are translated to Jamaican dollars using the closing rate as at the reporting date.

Exchange differences arising from the settlement of transactions at rates different from those at the dates of the transactions and unrealized foreign exchange differences on unsettled foreign currency monetary assets and liabilities are recognized in profit or loss.

(c) Property, plant and equipment

Items of property, plant and equipment are recorded at historical cost, less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. The carrying amount of any replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

KLE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D):

(c) Property, plant and equipment (cont'd)

Depreciation is calculated on the straight-line basis at such rates as will write off the carrying value of the assets over the period of their estimated useful lives. Annual rates are as follows:

Equipment	10%
Furniture and fixtures	10%
Leasehold improvements	25%
Security system	10%
Computers	20%

Gains and losses on disposals of property, plant and equipment are determined by reference to their carrying amounts and are taken into account in determining profit or loss.

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each reporting date.

(d) Impairment of non-current assets

Property, plant and equipment and other non-current assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the greater of an asset's net selling price and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identified cash flows.

(e) Financial instruments

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity in another entity.

(i) Measurement

The company classifies its financial instruments into two measurement categories:

KLE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D):

(e) Financial instruments (cont'd)

Financial assets

(i) Measurement (cont'd)

Amortised cost: Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets is included in the income statement using the effective interest rate method. Any gain or losses arising on derecognition is recognised directly in profit or loss. Impairment losses are presented as a separate line item in the income statement. The company's financial assets measured at amortised cost comprise receivables and cash and cash equivalents.

Fair value through other comprehensive income: Financial instrument classified as fair value through other comprehensive income are carried at fair value with changes in fair value recognized in other comprehensive income and accumulated in fair value reserve. Upon disposal, any balance within fair value reserves is reclassified directly to retained earnings and is not reclassified to profit or loss. Investments are measured at fair value through other comprehensive income.

Purchases and sale of financial assets measured at fair value through other comprehensive income are recognized on settlement date with any change in fair value between trade date and settlement date being recognized in the fair value reserve.

(iii) Impairment

The Simplified Approach

For trade receivables, the company applies the simplified approach permitted by IFRS 9, which requires that the impairment provision is measured at initial recognition and throughout the life of the receivables using a lifetime ECL. As a practical expedient, a provision matrix is utilized in determining the lifetime ECL for trade receivables.

The lifetime ECL are determined by taking into consideration historical rates of default for each segment of aged receivables as well as the estimated impact of forward looking information.

KLE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D):

(e) Financial instruments (cont'd)

Financial liabilities

The company's financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost using the effective interest method. At the reporting date, the following items were classified as financial liabilities: long term liabilities, payables and bank overdraft.

Long term liabilities are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, long term liabilities are measured at amortised cost using the effective interest method.

Trade and other payables are measured at amortised cost.

The company derecognizes a financial liability when its contractual obligations expire or are discharged or cancelled.

(f) Inventories

Inventories are stated at the lower of cost and fair value less costs to sell, cost being determined on the average cost basis. Fair value less costs to sell is the estimated selling price in the ordinary course of business, less selling expenses.

(g) Related parties

A related party is a person or entity that is related to the company.

(i) A person or a close member of that person's family is related to the company if that person:

- (i) Has control or joint control over the company;
- (ii) Has significant influence over the company; or
- (iii) Is a member of the key management personnel of the company or of a parent of the company.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2019

3. **SIGNIFICANT ACCOUNTING POLICIES (CONT'D):**

(g) **Related parties (cont'd)**

(ii) An entity is related to the company if any of the following condition applies:

- (i) The entity and the company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for employees of either the company or an entity related to the company.
- (vi) The entity is controlled, or jointly controlled by a person identified in (i).

(iii) **Identity of related parties**

The company has a related party relationship with its joint venture partner, associate, and key management personnel. The company's directors and senior executives are referred to as "key management personnel".

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether or not a price is charged.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2019

3. **SIGNIFICANT ACCOUNTING POLICIES (CONT'D):**

(h) **Borrowings**

Borrowings are recognized initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method. Any difference between proceeds, net of transaction costs, and the redemption value is recognized in profit or loss over the period of the borrowings.

(i) **Current and deferred income taxes**

Taxation expense in profit or loss comprises current and deferred tax charges.

Current tax charges are based on taxable profits for the year, which differ from the profit before tax reported because taxable profits exclude items that are taxable or deductible in other years, and items that are never taxable or deductible. The company's liability for current tax is calculated at tax rates that have been enacted at the reporting date.

Deferred tax is the tax that is expected to be paid or recovered on differences between the carrying amounts of assets and liabilities and the corresponding tax bases. Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax is charged or credited to profit or loss.

KLE GROUP LIMITED**NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2019****3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D):****(j) Revenue recognition**

Revenue comprise the fair value of the consideration received or receivable for the sale of goods and serviced in the ordinary course of the company's activities. Revenue is shown net of discounts. The company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the company's activities as described below.

Sale of meals

The company operates a restaurant outlet that provides a range of cuisine and beverages. Sales are recognized when the company sells a meal or beverage to the customer. Sales are usually in cash or by debit/credit card.

Management fee

The company is engaged in providing management services to its associate. These services are provided on a fixed-price contract.

Revenue from fixed-price contracts, typically from delivering management services, is recognized when the service is provided. Revenue is generally recognized at the contractual fee.

Sponsorship income

Sponsorship income is recognized when specific criteria have been met as per the sponsorship agreement.

Dividend income

Dividend income is recognized when the shareholder's right to receive payment is established.

Interest income

Interest income is recognized in the income statement for all interest bearing instruments on an accrual basis unless collectability is doubtful.

KLE GROUP LIMITED**NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2019****3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D):****(k) Dividend distribution**

Dividend distribution to the company's shareholders is recognized as a liability in the company's financial statements in the period in which the dividends are approved by the company's shareholders.

(l) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES:

Judgements and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical judgements in applying the company's accounting policies

In the process of applying the company's accounting policies, management has not made any judgements that it believes would cause a significant impact on the amounts recognized in the financial statements.

(b) Key sources of estimation uncertainty

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Fair value estimation

A number of assets and liabilities included in the company's financial statements require measurement at, and/or disclosure of, at fair value.

KLE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2019

4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (CONT'D):

(h) Key sources of estimation uncertainty (cont'd)

(i) Fair value estimation (cont'd)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement of the company's financial and non financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorized into different levels based on how observable the inputs used in the valuation technique utilized are; (the 'fair value hierarchy'):

Level 1 Quoted prices in active markets for identical assets or liabilities (unadjusted).

Level 2 Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The classification of an item into the above level is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item.

Transfers of items between levels are recognised in the period they occur.

The company measures investments at fair value.

The fair value of financial instruments traded in active markets, such as investments at fair value through other comprehensive income is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the company is the current bid price. These instruments are included in level 1 and comprise equity instruments traded on the Jamaica Stock Exchange.

KLE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2019

4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (CONT'D):

(b) Key sources of estimation uncertainty (cont'd)

(i) Fair value estimation (cont'd)

The fair values of financial instruments that are not traded in an active market are deemed to be/determined as follows:

Financial instruments not measured at fair value includes cash and cash equivalents, trade and other receivables, and trade and other payables and loans and borrowings.

Due to their short-term nature, the carrying value of cash and cash equivalents, trade and other receivables, and trade and other payables approximates their fair value.

The carrying values of long term liabilities approximate their fair values, as these loans are carried at amortised cost reflecting their contractual obligations and the interest rates are reflective of current market rates for similar transactions.

The fair value of related party balances could not be reasonably determined as there is no set repayment date.

(ii) Allowance for impairment losses on receivables

In determining amounts recorded for impairment of accounts receivable in the financial statements, management makes judgements regarding indicators of impairment, that is, whether there are indicators that suggest there may be a measureable decrease in the estimated future cash flows from accounts receivables, for example, repayment default and adverse economic conditions. Management also makes estimates of the likely estimated future cash flows from impaired accounts receivable, as well as the timing of such cash flows. Expected credit losses (ECL) is applied to determine impairment of financial assets. When measuring ECL, the company considers the maximum contractual period over which the company is exposed to credit risk. All contractual terms are considered when determining the expected life. The expected life is estimated based on the period over which the company is exposed to credit risk and where the credit losses would not be mitigated by management actions.

KLE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2019

4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (CONT'D):

(b) Key sources of estimation uncertainty (cont'd)

(iii) Depreciable assets

Estimates of the useful life and the residual value of property, plant and equipment are required in order to apply an adequate rate of transferring the economic benefits embodied in these assets in the relevant periods. The company applies a variety of methods in an effort to arrive at these estimates from which actual results may vary. Actual variations in estimated useful lives and residual values are reflected in profit or loss through impairment or adjusted depreciation provisions.

(iv) Income taxes

Estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The company recognizes liabilities for possible tax 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 originally recorded, such differences will impact income tax and deferred tax provisions in the period in which such determination is made.

(v) Net realizable value of inventories

Estimates of net realisable value are based on the most reliable evidence available at the time the estimates are made, of the amounts the inventories are expected to realise. These estimates take into consideration fluctuations of price or costs directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period.

Estimates of net realisable value take into consideration the purpose for which the inventory is held (see note 3(f)).

KLE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2019

5. FINANCIAL RISK MANAGEMENT:

The company is exposed through its operations to the following financial risks:

- Market risk
- Credit risk
- Fair value or cash flow interest rate risk
- Foreign exchange risk
- Other market price, and
- Liquidity risk

In common with all other businesses, the company is exposed to risks that arise from its use of financial instruments. This note describes the company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these 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 periods unless otherwise stated in this note.

(i) Principal financial instruments

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

- Investments
- Receivables
- Cash and cash equivalents
- Payables
- Long term liabilities

KLE GROUP LIMITED**NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2019****5. FINANCIAL RISK MANAGEMENT (CONT'D):****(ii) Financial instruments by category****Financial assets**

	Amortised	Cost	Fair Value Through Other Comprehensive Income	
	2019	2018	2019	2018
	\$'000	\$'000	\$'000	\$'000
Investments	-	-	12,919	2,461
Receivables	4,941	6,181	-	-
Cash and bank balances	6,169	5,727	-	-
Total financial assets	11,110	11,908	12,919	2,461

Financial liabilities

	Financial liabilities at amortised cost	
	2019	2018
	\$'000	\$'000
Bank overdraft	6,291	6,696
Payables	34,919	45,464
Long term liabilities	65,052	6,768
Total financial liabilities	106,262	58,928

KLE GROUP LIMITED**NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2019****5. FINANCIAL RISK MANAGEMENT (CONT'D):****(iii) Financial instruments measured at fair value**

The fair value hierarchy of financial instruments measured at fair value is provided below:

	Level 1	
	2019	2018
	\$'000	\$'000
Financial assets		
Investments	12,919	2,461
Total financial assets	12,919	2,461

(iv) Financial risk factors

The Board of directors has overall responsibility for the determination of the company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the company's finance function.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the company's competitiveness and flexibility. Further details regarding these policies are set out below:

(i) Market risk**Foreign exchange risk**

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates.

Foreign exchange risk arises from transactions that are denominated in currency other than the Jamaican dollar. The company manages this risk by ensuring that the net exposure in foreign assets and liabilities is kept to an acceptable level by monitoring currency positions.

KLE GROUP LIMITED**NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2019****5. FINANCIAL RISK MANAGEMENT (CONT'D):****(iv) Financial risk factors (cont'd)****(i) Market risk (cont'd)**

Foreign exchange risk (cont'd)

Concentration of currency risk

The exposure to foreign currency risk at the reporting date was as follows:

	<u>2019</u>	<u>2018</u>
	<u>\$'000</u>	<u>\$'000</u>
Cash and bank balances	2,901	2,148
Receivables	229	237
Payables	(1,095)	(5,660)
	<u>2,035</u>	<u>(3,275)</u>

Foreign currency sensitivity

The following table indicates the sensitivity of loss before taxation to changes in foreign exchange rates. The change in currency rate below represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis represents outstanding foreign currency denominated cash and bank balances, receivables and payables and adjusts their translation at the year-end for 6% (2018 - 4%) depreciation and a 4% (2018 - 2%) appreciation of the Jamaican dollar against the US dollar.

The changes below would have no impact on other components of equity.

	<u>% Change in</u>	<u>Effect on</u>	<u>% Change in</u>	<u>Effect on</u>
	<u>Currency Rate</u>	<u>Loss before</u>	<u>Currency Rate</u>	<u>Loss before</u>
	<u>2019</u>	<u>31 December</u>	<u>2018</u>	<u>31 December</u>
		<u>2019</u>		<u>2018</u>
		<u>\$'000</u>		<u>\$'000</u>
Currency:				
USD	-6	(122)	-4	131
USD	<u>+4</u>	<u>81</u>	<u>+2</u>	<u>(66)</u>

KLE GROUP LIMITED**NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2019****5. FINANCIAL RISK MANAGEMENT (CONT'D):****(iv) Financial risk factors (cont'd)****(i) Market risk (cont'd)**

Foreign currency sensitivity (cont'd)

Exchange rates, in terms of Jamaica dollars, were as follows:

At 31 December 2019 - J\$129.78 - US\$1.00
At 31 December 2018 - J\$125.89 - US\$1.00

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. As the company does not have a significant exposure, market price fluctuations are not expected to have a material effect on the statement of changes in equity.

Cash flow and fair value interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

Floating rate instruments expose the company to cash flow interest rate risk, whereas fixed rate instruments expose the company to fair value interest rate risk.

Short term deposits were the only interest bearing assets within the company during the prior year. They were due to mature and re-price respectively, within 3 months of the reporting date.

Interest rate sensitivity

There is no significant exposure to interest rate risk on short term deposits, as these deposits have a short term to maturity and are constantly reinvested at current market rates.

There is no significant exposure to interest rate risk on borrowings. A 1% increase/1% decrease (2018 - 1% increase/1% decrease) in interest rates on Jamaican dollar borrowings would result in a \$650,518 decrease/\$650,518 increase (2018 - \$67,676 decrease/\$67,676 increase) in profit before tax.

KLE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018

5. FINANCIAL RISK MANAGEMENT (CONT'D):

(iv) Financial risk factors (cont'd)

(ii) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit risk arises from receivables and cash and bank balances.

Cash and bank balances

Cash transactions are limited to high credit quality financial institutions. The company has policies that limit the amount of credit exposure to any one financial institution.

Investments

The company limits its exposure by investing mainly in liquid securities, with counterparties that have high credit quality. As a consequence, management's expectation of default is low.

Trade receivables

Revenue transactions in respect of the company's primary operations are settled either in cash or by using major credit cards. For its operations done on a credit basis, the company has policies in place to ensure that sales of services are made to customers with an appropriate credit history.

The aging of trade receivables is as follows:

	<u>2019</u>	<u>2018</u>
	<u>\$'000</u>	<u>\$'000</u>
0-30 days	2,821	1,498
31-60 days	1,835	1,232
61-90 days	390	1,200
Over 90 days	(105)	2,251
	<u>4,941</u>	<u>6,181</u>

KLE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2019

5. FINANCIAL RISK MANAGEMENT (CONT'D):

(iv) Financial risk factors (cont'd)

(ii) Credit risk (cont'd)

The company applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. To measure expected credit losses on a collective basis, trade receivables are grouped based on similar credit risk and aging.

Based on the nature of the business operations, majority of the sales are made on a cash basis and trade receivables are from a related party. Management did an assessment of the expected loss and the resulting amount was immaterial. Therefore no allowance for impairment of receivables was recognised.

(iii) Liquidity risk

Liquidity risk is the risk that the company will be unable to meet its payment obligations associated with its financial liabilities when they fall due. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

Liquidity risk management process

The company's liquidity management process, as carried out within the company and monitored by the directors, includes:

- (i) monitoring future cash flows and liquidity;
- (ii) maintaining a portfolio of short term deposit balances that can easily be liquidated as protection against any unforeseen interruption to cash flow; and
- (iii) maintaining committed lines of credit.

KLE GROUP LIMITED**NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2019****5. FINANCIAL RISK MANAGEMENT (CONT'D):****(iv) Financial risk factors (cont'd)****(iii) Liquidity risk (cont'd)**

Cash flows of financial liabilities

The maturity profile of the company's financial liabilities, based on contractual undiscounted payments, is as follows:

	Within 1 Year \$'000	1 to 2 Years \$'000	Total \$'000
31 December 2019			
Bank overdraft	6,291	-	6,291
Trade payables	15,753	-	15,753
Accruals and other payables	19,166	-	19,166
Long term liabilities	14,904	64,480	79,384
Total financial Liabilities (contractual maturity dates)	56,114	64,480	120,594
	Within 1 Year \$'000	1 to 2 Years \$'000	Total \$'000
31 December 2018			
Bank overdraft	6,696	-	6,696
Trade payables	16,408	-	16,408
Accruals and other payables	29,056	-	29,056
Long term liabilities	7,581	-	7,581
Total financial Liabilities (contractual maturity dates)	59,741	-	59,741

KLE GROUP LIMITED**NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2019****5. FINANCIAL RISK MANAGEMENT (CONT'D):****(v) Capital 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 stockholders and benefits for other stakeholders. The Board of Directors monitors the return on capital, which the company defines as net operating income, excluding non-recurring items, divided by total stockholders' equity.

There are no particular strategies to determine the optimal capital structure. There are also no external capital maintenance requirements to which the company is subject.

6. REVENUE:

Revenue represents the price of goods and services sold after discounts and allowances.

7. OTHER OPERATING INCOME:

	2019 \$'000	2018 \$'000
Sponsorship income	5,504	6,421
Gain on sale of investment	500	-
Interest income	34	3
Other income	53	7,149
	6,091	13,573

8. FINANCE COSTS:

	2019 \$'000	2018 \$'000
Interest on loans	8,645	1,495

KLE GROUP LIMITED**NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2019****9. EXPENSES BY NATURE:**

Total direct, administration and other operating expenses from continued operations:

	<u>2019</u>	<u>2018</u>
	<u>\$'000</u>	<u>\$'000</u>
Auditors' remuneration -		
- current year	1,975	1,820
- prior year under provision	-	108
Depreciation	11,223	17,060
Staff costs (note 10)	68,778	64,287
Advertising	16,728	14,239
Cost of inventory recognized as expense	64,246	65,672
Insurance	3,434	3,250
Legal and professional fees	1,681	4,914
Repairs and maintenance	2,258	3,668
Security	917	750
Utilities	16,203	18,585
Bank charges	7,054	9,287
Rent	14,246	11,916
Janitorial expense	3,235	3,048
Couriers	998	1,328
IT expenses	1,373	1,565
Travel and entertainment	2,567	1,379
Royalties	8,458	8,308
Bad debts	-	4,509
Other expenses	9,384	11,250
	<u>234,758</u>	<u>246,943</u>

KLE GROUP LIMITED**NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2019****10. STAFF COSTS:**

	<u>2019</u>	<u>2018</u>
	<u>\$'000</u>	<u>\$'000</u>
Wages and salaries	59,143	58,249
Statutory contributions	6,717	6,598
Staff welfare	2,444	(1,038)
Uniform	474	478
	<u>68,778</u>	<u>64,287</u>

11. TAXATION EXPENSE:

Taxation is computed on the loss for the year, adjusted for tax purposes, and comprises income tax at 25%.

	<u>2019</u>	<u>2018</u>
	<u>\$'000</u>	<u>\$'000</u>
Income tax	-	(194)
Deferred tax (note 18)	682	2,106
	<u>682</u>	<u>1,912</u>

The tax on the loss before taxation differs from the theoretical amount that would arise using the applicable tax rate of 25%, as follows:

	<u>2019</u>	<u>2018</u>
	<u>\$'000</u>	<u>\$'000</u>
Loss before taxation	(12,740)	(14,934)
Tax calculated at 25%	(3,185)	(3,734)
Adjusted for the effects of:		
Disallowed expenses	3,959	2,055
Employment tax credit	-	(165)
Depreciation charge and capital allowances	1,441	2,783
Other charges and credits	(1,533)	1,167
	682	2,106
Adjustment for the effect of tax remission current year	-	(194)
Taxation credited to profit or loss	<u>682</u>	<u>1,912</u>

KLE GROUP LIMITED**NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2019****11. TAXATION EXPENSE (CONT'D):**

Subject to the agreement of the Commissioner, Taxpayer Audit and Assessment, at the end of the reporting period the company has tax losses of approximately \$161,228,993 (2018 - \$152,854,569) available for set-off against future profits. A deferred tax asset was not recognized in respect of these losses.

Remission of income tax:

The company's shares were listed on the Junior Market of the Jamaica Stock Exchange, effective 22 October 2012. Consequently, the company is entitled to a remission of taxes for ten (10) years in the proportions set out below, provided the shares remain listed for at least 15 years.

Year 1-5	100%
Year 6-10	50%

The financial statements have been prepared on the basis that the company will have 50% benefit of the tax remission.

12. EARNINGS PER STOCK UNIT ATTRIBUTABLE TO STOCKHOLDERS OF THE COMPANY:

Earnings per stock unit is calculated by dividing the net profit attributable to stockholders by the number of ordinary stock units in issue at year end. Diluted earnings per stock unit equals basic earnings per stock unit as there are no potential dilutive ordinary stock units

	<u>2019</u>	<u>2018</u>
Net loss attributable to stockholders (\$'000)	(16,806)	(25,707)
Number of ordinary stock units (weighted average) ('000)	100,000	100,000
Basic and diluted earnings per stock unit (\$)	(<u>0.17</u>)	(<u>0.26</u>)

KLE GROUP LIMITED**NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2019****13. PROPERTY, PLANT AND EQUIPMENT:**

	<u>Leasehold Improvements \$'000</u>	<u>Equipment \$'000</u>	<u>Furniture & Fixtures \$'000</u>	<u>Security System \$'000</u>	<u>Computers \$'000</u>	<u>Total \$'000</u>
Cost -						
1 January 2018	77,136	26,492	37,100	2,373	10,013	153,114
Additions	-	1,750	947	-	255	2,952
Disposal	-	(4,304)	-	-	-	(4,304)
31 December 2018	77,136	23,938	38,047	2,373	10,268	151,762
Additions	21	1,255	952	-	514	2,742
31 December 2019	<u>77,157</u>	<u>25,193</u>	<u>38,999</u>	<u>2,373</u>	<u>10,782</u>	<u>154,504</u>
Depreciation -						
31 December 2018	61,011	15,708	25,227	1,266	4,405	107,617
Charge for the year	9,015	3,235	4,409	29	372	17,060
Eliminated on disposal	-	(4,304)	-	-	-	(4,304)
31 December 2018	70,026	14,639	29,636	1,295	4,777	120,373
Charge for the year	3,096	3,005	4,511	29	582	11,223
31 December 2019	<u>73,122</u>	<u>17,644</u>	<u>34,147</u>	<u>1,324</u>	<u>5,359</u>	<u>131,596</u>
Net Book Value -						
31 December 2019	<u>4,035</u>	<u>7,549</u>	<u>4,852</u>	<u>1,049</u>	<u>5,423</u>	<u>22,908</u>
31 December 2018	<u>7,110</u>	<u>9,299</u>	<u>8,411</u>	<u>1,078</u>	<u>5,491</u>	<u>31,389</u>

KLE GROUP LIMITED**NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018****14. INVESTMENT IN JOINT VENTURE:**

	<u>2019</u>	<u>2018</u>
	<u>\$'000</u>	<u>\$'000</u>
Bessa Project	<u>12,979</u>	<u>12,590</u>

K.L.E. Group Limited (K.L.E.) entered into a Partnership Agreement with Sagicor Life Limited for the purpose of carrying out the Bessa Project; a project for the development of property in Oracabessa, St. Mary. Pursuant to the said Agreement, K.L.E. is obliged to invest the sum of US\$350,007 in cash. However, in 2017 the Board of Directors of K.L.E. decided to reduce its direct funding in respect of the Bessa Project to a maximum of US\$100,007 and accordingly invited a small company of investors (the "Participants") to assume the risk and reward of participating in the Bessa Partnership to the extent of US\$250,000.

The Participants entered into a Participation Agreement with K.L.E., whereby K.L.E. would receive the investment funds paid in by the Participants, pay it into the Bessa Partnership, and manage the process of accounting to the Participants for any returns earned on those funds. K.L.E. does not assume the risk of this investment, and it is expressly acknowledged by the Participants that they undertake this investment at their own risk.

Under this Participation Agreement, K.L.E.'s obligations to the Participants are:

- (a) to report to the investors throughout the life of the Bessa Partnership in respect of the progress of the Bessa Project utilizing the information provided to it as a result of the Partnership Agreement;
- (b) to account to the Participants in respect of all amounts paid to K.L.E. in cash by the Partnership in respect of K.L.E.'s interest therein and promptly pay over to each Participant the amount so received which represents a return of capital and/or profit in respect of the amount provided by each Participant; and
- (c) to receive and hold on trust for the Participants and for itself any non-cash assets received as a distribution from the Partnership, with power to dispose of such assets and to account to the Participants in respect of the net proceeds of such sale. K.L.E. shall promptly pay to each Participant such portion of the net sale proceeds received which represents a return of capital and/or profit in respect of the amount provided by each Participant.

KLE GROUP LIMITED**NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2019****14. INVESTMENT IN JOINT VENTURE (CONT'D):**

K.L.E.'s liability to the Participants only arises in respect of any failure by it to properly account to the Participants in respect of funds received from the Bessa Partnership which are referable to the amount invested by the Participants, and/or to promptly pay over such amounts as are lawfully due to the Participants under the Participation Agreement, where it has received such amounts from the Bessa Partnership.

In return for performing its obligations under the Participation Agreement, K.L.E. is entitled to an annual administration fee equal to 1% of each Participant's invested amount, as well as a bonus payment equal to 15% of the profit earned by each Participant on their investment, where the profit exceeds a specified hurdle rate (i.e., the 12 month United States Dollar LIBOR obtaining as at the date in respect of which the final audited financial statements of the Partnership have been prepared, plus 4%).

Investment in 'Bessa' is carried at cost as there was little activity during the year. Although project was approved by the authorities during 2017 ground was not broken until 2018.

15. INVESTMENTS:

	<u>2019</u>	<u>2018</u>
	<u>\$'000</u>	<u>\$'000</u>
<u>Quoted shares</u>		
Opening net book amount	2,208	2,088
Additions during the year	9,749	-
Disposals	(1,000)	-
Fair value adjustment	<u>1,962</u>	<u>120</u>
	<u>12,919</u>	<u>2,208</u>

KLE GROUP LIMITED**NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2019****16. INVESTMENT IN ASSOCIATE:**

This represents a 49% shareholding of the issued shares in T & R Restaurant Systems Limited comprising of 490 ordinary shares, costing J\$77,363,202 (US\$637,454).

	<u>2019</u> <u>\$'000</u>	<u>2018</u> <u>\$'000</u>
Investment at beginning of year	60,612	73,297
Share of results after tax	(4,748)	(12,685)
At end of year	<u>55,864</u>	<u>60,612</u>

The assets, liabilities, revenue and net loss of the associate are as follows:

	<u>2019</u> <u>\$'000</u>	<u>2018</u> <u>\$'000</u>
Assets	62,023	52,613
Liabilities	114,182	95,082
Revenue	30,066	19,026
Net loss	<u>(9,690)</u>	<u>(25,889)</u>

17. RECEIVABLES:

	<u>2019</u> <u>\$'000</u>	<u>2018</u> <u>\$'000</u>
Trade receivables		
Trade receivables	496	961
Related party (note 20)	<u>4,445</u>	<u>5,220</u>
Total financial assets other than cash and cash equivalents classified as amortised cost	4,941	6,181
Prepayments and other receivables	22,000	21,512
Less: long term portion - other receivables	<u>(9,737)</u>	<u>(12,490)</u>
	<u>17,204</u>	<u>15,203</u>

KLE GROUP LIMITED**NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2019****18. DEFERRED TAX:**

Deferred tax is calculated in full on temporary differences under the liability method using a principal tax rate of 25%.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities. The amounts determined after appropriate offsetting are as follows:

The movement in the deferred tax account is as follows:

	<u>Accelerated Tax Depreciation</u> <u>\$'000</u>	<u>2019</u> <u>\$'000</u>	<u>2018</u> <u>\$'000</u>
Balance at start of year	9,186	9,186	7,080
Charge for the year (note 11)	<u>682</u>	<u>682</u>	<u>2,106</u>
Balance at end of year	<u>9,868</u>	<u>9,868</u>	<u>9,186</u>

19. INVENTORIES:

	<u>2019</u> <u>\$'000</u>	<u>2018</u> <u>\$'000</u>
Goods for resale	<u>3,461</u>	<u>2,608</u>

20. RELATED PARTY TRANSACTIONS AND BALANCES:**(a) Transactions between the company and its associate**

Sales/revenue -

During the year, the company earned management fees of \$14,400,000 (2018 - \$14,150,000).

KLE GROUP LIMITED**NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2019****20. RELATED PARTY TRANSACTIONS AND BALANCES (CONT'D):**

(b) Key mahagement compensation	<u>2019</u>	<u>2018</u>
	<u>\$'000</u>	<u>\$'000</u>
Wages and salaries	22,237	20,237
Payroll taxes - Employer's portion	<u>2,304</u>	<u>2,076</u>
	<u>24,541</u>	<u>22,313</u>
Director's emoluments - Management remuneration (included above)	<u>10,044</u>	<u>9,268</u>
(c) Year end balances arising from transactions with related parties	<u>2019</u>	<u>2018</u>
	<u>\$'000</u>	<u>\$'000</u>
Due from -		
T & R Restaurant Systems Limited	63,346	41,628
Director	<u>41</u>	<u>5,244</u>
	<u>63,387</u>	<u>46,872</u>
T & R Restaurant Systems Limited (included in trade receivables) (note 17)	<u>4,445</u>	<u>5,220</u>
Due to -		
Director's current account	<u>(1,043)</u>	<u>(1,527)</u>

21. CASH AND CASH EQUIVALENTS:

	<u>2019</u>	<u>2018</u>
	<u>\$'000</u>	<u>\$'000</u>
Cash and bank balances	6,169	5,727
Bank overdraft	<u>(6,291)</u>	<u>(6,696)</u>
	<u>(122)</u>	<u>(969)</u>

KLE GROUP LIMITED**NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2019****21. CASH AND CASH EQUIVALENTS (CONT'D):**

Bank overdraft

The company currently has a bank overdraft facility of \$1,500,000. Bank overdraft includes unrepresented cheques of \$4,779,570 (2018 - \$5,746,104). Details of securities held are included at note 24.

Bank accounts previously held in the name of Usain Bolt's Tracks and Records Limited prior to the amalgamation on November 2011 have not been changed to reflect K.L.E. Group Limited at the end of the reporting period.

22. SHARE CAPITAL:

	<u>2019</u>	<u>2018</u>
	<u>\$'000</u>	<u>\$'000</u>
Authorised - 100,000,000 ordinary shares of no par value		
Stated capital, issued and fully paid - 100,000,000 ordinary shares of no par value	<u>122,903</u>	<u>122,903</u>

23. FAIR VALUE RESERVE:

This represents the unrealized surplus on revaluation of investments.

24. LONG TERM LIABILITIES:

	<u>2019</u>	<u>2018</u>
	<u>\$'000</u>	<u>\$'000</u>
Sagicor Bank Limited		
\$70.5 million loan	65,052	-
\$16.6 million loan	-	<u>6,768</u>
	<u>65,052</u>	<u>6,768</u>
Less: current portion	<u>(7,362)</u>	<u>(6,768)</u>
	<u>57,690</u>	<u>-</u>

The \$70.5 million loan attracts interest at a rate of 13% per annum and is for a period of 36 months. It is secured by 1st demand debenture over fixed and floating assets of KLE Group Limited supported by receivables, plant, property and equipment stamped to cover J\$31.8 million. It is also secured by debenture to be stamped for a further J\$38.7 million and to be held in registrable form and assignment of commercial all risks insurance valuing \$60 million. The \$16.6 million loan was fully repaid during the year.

KLE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2019

24. LONG TERM LIABILITIES(CONT'D):

Beach of covenant

In the prior year's financial statements loans previously classified as long term liabilities were shown as current liabilities due to the company's breach of covenant to maintain positive working capital. The company, however, continued to make regular monthly payments and negotiated a new long term loan.

25. PAYABLES:

	<u>2019</u>	<u>2018</u>
	<u>\$'000</u>	<u>\$'000</u>
Trade payables	15,753	16,408
Accruals	1,850	5,689
Statutory liabilities	1,725	8,247
Credit cards	12,358	14,545
GCT	5,282	13,811
Royalties payable	4,958	8,822
Other	<u>199</u>	<u>1,208</u>
	<u>42,125</u>	<u>68,730</u>

The company is liable to the Tax Administration Jamaica (TAJ) in respect of interest and penalties in relation to balances now settled. The interest and penalties were not booked by the company as it is in discussion with (TAJ) regarding a waiver of these amounts.

26. GOING CONCERN:

The company sustained operating loss of \$12,740 (2018 - \$14,934). Despite the loss, the company has a favorable outlook for the short to medium term and has the full support of its directors. The company plans to begin operating a branch in Montego Bay (see note 27) in the near future. Full revenue from this location will flow to KLE, which is expected to put the company in an improved position. The company will also benefit from economies of scale and centralization with this acquisition.

Operating loss in the associate has decreased compared to the previous year and the operation is expected to be profitable in the years to come. Profitability will be achieved through additional franchise locations and reduced costs.

KLE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2019

27. SUBSEQUENT EVENTS:

Effective 7 January 2020, KLE Group Limited acquired the assets of the Montego Bay Franchise of T & R Restaurant System Limited, at a purchase price of US\$700,000. The purchase was financed through a loan from a related party.

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K.L.E. GROUP LTD.
Unit 8, Marketplace
67 Constant Spring Road, Kingston 10

(876) 926-6509
info@klegroupltd.com | www.klegroupltd.com

K.L.E. Group Ltd. Registrar
Sagicor Bank Jamaica Ltd.
Corporate Trust Division

