

K.L.E. GROUP LIMITED

INTERIM REPORT TO SHAREHOLDERS

For the 6 months ended June 30, 2013

The Board of Directors of K.L.E Group Limited is pleased to present the unaudited financial results for the company for the period ending June 30, 2013.

Q2 Financial Summary:

For the second quarter, the Company is reporting revenue of \$84.66 million, (2012: \$72.04 million) reflecting growth of 17.5% as compared with the corresponding period in the prior year.

Notwithstanding the improvement in revenue, the company recorded an operating loss of \$18.5 million in the quarter, a decline of \$15.8 million against the performance for the corresponding period in the prior year. Consistent with the first quarter, this is attributable to significant cost increases at both the margin and operating level having occurred without the ability to pass these to customers due to increased competition and a depressed economy. In addition, the results reflect the costs incurred as a result of the start-up costs related to the opening of our successful new venture, Famous Night Club in Portmore and the reorganisation of the company's corporate structure.

Highlights & Outlook

Famous night club is now fully operational and has exceeded budgeted revenue and profits to date since its opening in the middle of May. We are encouraged by the results so far, and our focus will be to continue and build on the positive trend. We believe the club has immense potential, and the results to date are justifying that belief.

Operations at the Odyssey gaming lounge operated by our business partners, the Supreme Ventures group ("SVL") are also gaining momentum. Our expectations are that results in the coming months will exceed projections. SVL has taken steps to improve the marketing and operational aspects of the facility and these factors should produce improved results.

Fiction is executing significant changes related to the brands imaging and positioning. We deem this necessary to sustain the leadership position in the premium nighttime entertainment space. The downturn in the overall revenue performance at Fiction is mainly due to a reduction in overall discretionary spend as well as increased competition. To counteract this trend we are employing strategies which will ultimately deliver completely reengineered marketing and communications efforts, operational restructuring and some facility enhancements.

The company's participation in another successful staging of the SPF weekend over the Independence weekend is expected to contribute positively to the results of the third quarter.

Usain Bolt's Tracks and Records (UBT&R) continues to trend in a positive direction. Marketing initiatives such as the UBRGER burger promotion, NBA Finals and the Behind the Screens live music series have contributed both on incremental business as well as increased ticket average. The marketing coupled with increased operational efficiencies place UBT&R in a good position going into the second half of the year.

We have entered into an arrangement with an overseas entity to complete the franchising arrangements which will enable us to venture into the overseas market. This is a major objective of the company. Jamaica has been charting new dimensions in both music and sports in recent times and it is undisputably an opportune time for us to capitalize on this momentum given our branding.

The Bessa project, a partnership with Sagikor Life Jamaica Limited, is taking shape with preliminary work having already started, following the execution of the partnership agreement in May of this year. Although no financial benefit will accrue in the short to medium term until the project is completed, the expectations are that this will be one of the flagship projects of the company on completion.

We recognise that a significant driver of the revenue performance of the company is the marketing strategy and initiatives, and to accelerate revenue performance, we have set up a marketing committee of the Board which is expected to bring an even greater focus on our marketing efforts.

Additionally, we continue to search for ways to shrink operating expenses, and improve our cost of sales figures. We have done an admirable job in growing revenues, compared to the performance of each business unit in the prior year, especially considering the difficult economic environment in which the company operates, but we will have to work even harder at controlling the expenses that are an inevitable part of our business, so as to improve the company's bottomline and return value to our shareholders.

While the short term operating results for the company have been unfavourable, for the most part the company's performance is in line with our projections, as we continue to transform its business and structure to enable it to take advantage of the opportunities presented by the unique qualities of Brand Jamaica. We remain confident of the medium to long term outlook for the company, and look forward to the continued support of our shareholders, customers and staff.

On behalf of the Board of Directors:



GARY MATALON



K.L.E. GROUP LIMITED
UNAUDITED FINANCIAL STATEMENTS
SIX (6) MONTHS ENDED JUNE 30, 2013

**K.L.E. GROUP LIMITED
UNAUDITED FINANCIAL STATEMENTS
SIX (6) MONTHS ENDED JUNE 30, 2013**

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K.L.E. GROUP LIMITED
UNAUDITED
STATEMENT OF COMPREHENSIVE INCOME
SIX (6) MONTHS ENDED JUNE 30, 2013

	Unaudited Quarter ended June 30, 2013	Unaudited Quarter ended June 30, 2012	Unaudited Year to Date June 30, 2013	Unaudited Year to Date June 30, 2012	Audited Year ended December 31, 2012
	\$	\$	\$	\$	\$
Revenue	84,660,614	72,043,975	146,923,878	132,772,187	288,460,967
Cost of Sales	<u>(28,845,103)</u>	<u>(22,984,581)</u>	<u>(51,643,798)</u>	<u>(41,944,602)</u>	<u>(89,903,162)</u>
Gross profit	55,815,512	49,059,394	95,280,080	90,827,585	198,557,805
Other operating income	4,064,130	2,922,713	5,818,038	7,254,983	10,094,986
Administrative and other expense	<u>(70,960,381)</u>	<u>(46,370,074)</u>	<u>(123,616,482)</u>	<u>(93,804,031)</u>	<u>(198,288,820)</u>
(Loss)/Profit from operations	(11,080,741)	5,612,034	(22,518,365)	4,278,538	10,363,971
Finance and depreciation cost	<u>(7,434,109)</u>	<u>(8,367,001)</u>	<u>(13,266,593)</u>	<u>(13,250,484)</u>	<u>(25,992,872)</u>
Loss before taxation	(18,514,850)	(2,754,967)	(35,784,958)	(8,971,946)	(15,628,901)
Taxation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	2,599,797
Total comprehensive loss for the period	<u>(18,514,850)</u>	<u>(2,754,967)</u>	<u>(35,784,958)</u>	<u>(8,971,946)</u>	<u>(13,029,104)</u>
Number of shares	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000
Loss per stock unit:	<u>(19 cents)</u>	<u>(3 cents)</u>	<u>(36 cents)</u>	<u>(9 cents)</u>	<u>(13 cents)</u>

K.L.E. GROUP LIMITED
UNAUDITED
STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2013

	Notes	Unaudited as at June 30, 2013	Unaudited as at June 30, 2012	Audited as at December 31, 2012
		\$	\$	\$
NON-CURRENT ASSETS				
Property, plant and equipment	3	<u>191,880,028</u>	<u>143,713,178</u>	<u>135,891,641</u>
Total non-current assets		<u>191,880,028</u>	<u>143,713,178</u>	<u>135,891,641</u>
CURRENT ASSETS				
Inventories		8,846,810	5,408,434	6,125,802
Receivables		31,082,768	9,425,287	20,401,939
Cash and cash equivalents		<u>15,511,875</u>	<u>15,601,989</u>	<u>80,718,968</u>
Total current assets		<u>55,441,453</u>	<u>30,435,710</u>	<u>107,246,709</u>
Total assets		<u>247,321,480</u>	<u>174,148,887</u>	<u>243,138,350</u>
EQUITY				
Share capital		122,903,320	32,417,993	122,903,318
Retained earnings		<u>(39,933,087)</u>	<u>(90,969)</u>	<u>(4,148,127)</u>
Total equity		<u>82,970,233</u>	<u>32,327,024</u>	<u>118,755,191</u>
NON-CURRENT LIABILITIES				
Long term loans	4	32,971,027	33,206,113	25,737,888
Deferred tax liability		-	2,599,797	-
Directors loans		-	12,834,893	-
		<u>32,971,027</u>	<u>48,640,802</u>	<u>25,737,888</u>
CURRENT LIABILITIES				
Loans payable	4	15,452,391	10,757,469	13,949,589
Payables	5	115,045,499	81,187,193	81,014,682
Related parties		-	-	2,559,739
Taxation		<u>882,330</u>	<u>1,236,400</u>	<u>1,121,261</u>
Total current liabilities		<u>131,380,221</u>	<u>93,181,060</u>	<u>98,645,271</u>
Total equity and liabilities		<u>247,321,480</u>	<u>174,148,887</u>	<u>243,138,350</u>

Approved by the Board of Directors and signed on its behalf by:

Gary Matalon (Director)



David Shirley (Director)



K.L.E. GROUP LIMITED
UNAUDITED
STATEMENT OF CHANGES IN EQUITY
SIX (6) MONTHS ENDED JUNE 30, 2013

	Share capital ₹	Retained earnings ₹	Total ₹
Audited balances at December 31, 2011	32,417,993	8,880,977	41,298,970
Total comprehensive loss for the period ended June 30, 2012		(8,971,946)	(8,971,946)
Unaudited balances at June 30, 2012	<u>32,417,993</u>	<u>(90,969)</u>	<u>32,327,024</u>
Audited balances at December 31, 2012	122,903,318	(4,148,127)	118,755,191
Total comprehensive loss for the period ended June 30, 2013	-	(35,784,958)	(35,784,958)
Unaudited balances at June 30, 2013	<u>122,903,318</u>	<u>(39,933,085)</u>	<u>82,970,233</u>

K.L.E. GROUP LIMITED
UNAUDITED
STATEMENT OF CASH FLOWS
SIX (6) MONTHS ENDED JUNE 30, 2013

	Unaudited Period ended June 30, 2013 ₹	Unaudited Period ended June 30, 2012 ₹	Audited Year ended December 31, 2012 ₹
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the period / year	(35,784,958)	(8,971,946)	(13,029,104)
Items not affecting cash	11,008,774	9,988,556	17,948,800
Operating (loss)/profit before changes in working capital	(24,776,184)	1,016,609	4,919,696
Changes in working capital:			
Inventories	(2,721,008)	886,324	168,956
Receivables	(10,680,829)	3,421,493	(7,555,159)
Payables	34,030,817	2,550,598	2,378,087
Related party	(2,559,739)	(1,063)	2,558,676
Taxation	(238,931)	(1,125)	(116,264)
Net cash provided/(used in) by operations	(6,945,874)	7,872,836	2,353,992
Cash flows from investing activities			
Interest received	767,404	23,294	529,757
Reverse repurchase agreements			-
Purchase of property, plant and equipment	(67,107,389)	(1,943,416)	(4,218,347)
Proceeds from disposal of property, plant and equipment	-	-	31,500
Net cash (used in)/ provided by investing activities	(66,339,985)	(1,920,122)	(3,657,090)
Cash flows from financing activities			
Director's loan	-	4,254,893	(8,580,000)
Issue of shares	-	-	90,485,325
Proceeds from loans	15,000,000	-	10,850,000
Loan repayment	(6,921,235)	(7,659,431)	(19,387,072)
Loans converted to equity	-	-	(4,400,000)
Net cash (used in) / provided by financing activities	8,078,765	(3,404,537)	68,968,253
Net (decrease)/increase in cash and cash equivalents	(65,207,093)	2,548,178	67,665,155
Cash and cash equivalents at beginning of period:	80,718,968	13,053,813	13,053,813
Cash and cash equivalents at end of period / year	15,511,875	15,601,990	80,718,968

K.L.E. GROUP LIMITED
NOTES TO THE UNAUDITED FINANCIAL STATEMENTS
SIX (6) MONTHS ENDED JUNE 30, 2013

1. IDENTIFICATION AND PRINCIPAL ACTIVITIES

K.L.E Group Limited (the "Company") was incorporated in Jamaica under the Companies Act on September 8, 2008. The Company is domiciled in Jamaica, with its registered office at Unit 6, 67 Constant Spring Road, Kingston 10, Jamaica.

The Company's shares were listed on the Junior Market of the Jamaica Stock exchange on October 22, 2012.

The principal activity of the Company is the provision of live entertainment. It operates two night clubs and a restaurant and is involved in other related activities.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The interim financial statements have been prepared under the historical cost basis and are expressed in Jamaican Dollars.

The Company's financial statements have been prepared in accordance and comply with International Financial Reporting Standards (IFRS).

The interim financial report is to be read in conjunction with the audited financial statements for the year ended December 31, 2012. These explanatory notes attached to the interim financials statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Company since the financial year ended December 31, 2012.

The significant accounting policies adopted are consistent with those of the audited financial statement for the year ended December 31, 2012.

K.L.E. GROUP LIMITED
NOTES TO THE UNAUDITED FINANCIAL STATEMENTS
SIX (6) MONTHS ENDED JUNE 30, 2013

3. PROPERTY, PLANT AND EQUIPMENT	Leashold Improvements \$	Equipment \$	Furniture & Fixtures \$	Security System \$	Construction In Progress \$	Computers \$	Total \$
At cost:							
Beginning of year	94,836,105	25,852,710	46,353,237	1,971,228	-	5,312,786	174,326,066
Additions	24,621,297	22,366,577	15,137,089	2,319,558	-	2,662,868	67,107,389
End of period	119,457,402	48,219,287	61,490,326	4,290,786	-	7,975,654	241,433,455
Accumulated							
Depreciation							
Beginning of year	21,802,640	5,416,107	8,774,742	1,266,079	-	1,174,857	38,434,425
Charge for the period	6,298,035	1,550,470	2,504,606	100,779	-	665,114	11,119,003
End of period	28,100,675	6,966,577	11,279,348	1,366,858	-	1,839,971	49,553,428
Net book value end of period	91,356,727	41,252,710	50,210,978	2,923,929	-	6,135,684	191,880,027
End of prior year	73,033,465	20,436,603	37,578,495	705,149	-	4,137,929	135,891,641

K.L.E. GROUP LIMITED
NOTES TO THE UNAUDITED FINANCIAL STATEMENTS
SIX (6) MONTHS ENDED JUNE 30, 2013

4. LOANS PAYABLE

	Unaudited June 30, 2013 ₹	Unaudited June 30, 2012 ₹	Audited December 31, 2012 ₹
Bank loan - Sagicor Bank Limited			
(i) \$34,480,000 loan	20,742,563	27,879,357	24,511,030
(ii) \$3,000,000 loan	1,918,844	2,416,476	2,124,603
(iii) \$992,778 loan	634,123	798,576	702,120
(iv) \$919,433 loan	598,071	753,174	662,203
(v) \$15,000,000 loan	15,000,000	-	-
Carrying value	38,893,602	31,847,582	27,999,956
Gleaner Company Limited - (US\$15,000)	1,483,298	1,266,000	1,394,700
Other Loan - (US\$125,000)	8,046,519	10,850,000	10,292,821
Total loans	48,423,418	43,963,582	39,687,477
Classified as follows:			
Non-current			
Bank loans	29,876,622	23,894,664	19,530,259
Gleaner Company Limited	1,483,298	1,266,000	1,394,700
Other loan	1,611,107	8,046,511	4,812,929
	32,971,027	33,207,175	25,737,888
Current			
Bank loan	9,016,990	7,952,919	8,469,697
Other loan	6,435,401	2,803,488	5,479,892
	15,452,391	10,756,408	13,949,589
Total loan payable	48,423,418	43,963,582	39,687,477

K.L.E. GROUP LIMITED
NOTES TO THE UNAUDITED FINANCIAL STATEMENTS
SIX (6) MONTHS ENDED JUNE 30, 2013

5. PAYABLES

	Unaudited June 30, 2013 \$	Unaudited June 30, 2012 \$	Audited December 31, 2012 \$
Trade payables	56,550,226	60,977,596	35,950,573
Accruals	7,061,544	3,236,988	2,740,636
Statutory payables	2,473,505	1,388,250	1,664,707
Credit cards	6,033,546	3,471,512	5,133,357
GCT	3,003,284	3,809,778	3,004,759
Deferred income	21,647,050		19,500,000
Royalties payable	12,520,231	7,458,155	9,321,084
Miscellaneous payables	5,756,112	844,915	3,699,566
	<u>115,045,497</u>	<u>81,187,194</u>	<u>81,014,682</u>

K.L.E. GROUP LIMITED
NOTES TO THE UNAUDITED FINANCIAL STATEMENTS
SIX (6) MONTHS ENDED JUNE 30, 2013

6. SEGMENT REPORTING

The company has three reportable segments based on location and services that it offers. These services are described in its principal activities (Note 1). The identification of business segment is based on the management and internal reporting structure. Segment results, assets and liabilities include items directly attributable to a segment, as well as those that can be allocated on a reasonable basis.

Information regarding results of each reportable segment is included below. Performance is measured on segment profit before taxation as included in the management reports. Segment profit before taxation is used to measure performance as management believes that such information is most relevant in evaluating the results of certain segments relative to other entities that operates within these industries.

	Unaudited Six (6) months ended June 30, 2013				
	Famous	Fiction	Tracks & Records	Corporate Office	Total
	£	£	£	£	£
Revenues	<u>13,326,851</u>	<u>45,243,821</u>	<u>88,353,206</u>	<u>-</u>	<u>146,923,879</u>
Segment loss for the period before taxation	<u>(2,256,569)</u>	<u>(12,504,806)</u>	<u>(2,372,021)</u>	<u>(18,651,561)</u>	<u>(35,784,958)</u>
	Unaudited as at June 30, 2013				
	Famous	Fiction	T&R Restaurant	Corporate Office	Total
	£	£	£	£	£
Segment assets	<u>76,784,550</u>	<u>37,831,386</u>	<u>119,194,050</u>	<u>13,511,494</u>	<u>247,321,480</u>
Segment liabilities	<u>11,890,490</u>	<u>22,517,408</u>	<u>79,169,856</u>	<u>50,773,494</u>	<u>164,351,248</u>
	15%	60%	66%	376%	66%

K.L.E. GROUP LIMITED
NOTES TO THE UNAUDITED FINANCIAL STATEMENTS
SIX (6) MONTHS ENDED JUNE 30, 2013

6. SEGMENT REPORTING (CONT'D)

	Unaudited Six (6) months ended June 30, 2012				
	Famous ₹	Fiction	Tracks & Records ₹	Corporate Office ₹	Total ₹
Revenues	-	57,838,902	74,933,285	-	132,772,188
Segment loss for the period before taxation	-	9,049,656	(7,929,534)	(10,092,068)	(8,971,946)
	Unaudited as at June 30, 2012				
	Famous ₹	Fiction	Tracks & Records ₹	Corporate Office ₹	Total ₹
Segment assets	-	40,674,142	133,474,745	-	174,148,887
Segment liabilities	-	24,974,381	116,847,482	-	141,821,863
	Year ended December 31, 2012				
	Famous ₹	Fiction	Tracks & Records ₹	Corporate Office ₹	Total ₹
Revenues	-	116,618,749	171,842,218	-	288,460,967
Segment (loss) / profit for the year before taxation	-	(11,714,752)	14,983,291	(18,897,440)	(15,628,901)
	Audited as at December 31, 2012				
	Famous ₹	Fiction	Restaurant ₹	Corporate Office ₹	Total ₹
Segment assets	-	45,482,196	121,975,154	75,681,000	243,138,350
Segment liabilities	-	23,120,221	73,717,970	27,544,968	124,383,159