

K.L.E. GROUP LIMITED

Management Report to Shareholders

For the 3 months ended March 31, 2014

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 March 31, 2014.

Q1 Financial Summary:

For the first quarter, the Company is reporting revenue of \$62.4m, (2013: \$62.2m) reflecting little change as compared with the corresponding period in the prior year.

Despite the increase in the cost of doing business in recent times, the company has been tremendously successful in executing its cost reduction strategy. Beginning the last quarter of 2013, KLE has reorganised its operating and corporate structure to achieve significant savings and align the business with the new realities of the current economy. Expenses were reduced from \$52.6 million in 2013 to \$47.2 million Q1 this year. This represents a \$5.4 million or 10% savings over the corresponding period last year. This resulted in an improvement in EBITDA of almost \$6.8m over the corresponding period last year.

Highlights & Outlook

In addition to continued restructuring, the main thrust of the business since the year started has been preparation of the Franchising model for Tracks and Records. A contract was signed in January this year with the iFranchise Group to carry us through the process right to the point of selling franchises. The process is on schedule to be completed by mid-June. In addition we engaged one of the top franchise lawyers in the US to draft the agreements necessary to allow us to sell franchises globally.

Usain Bolt's Tracks and Records Marketplace (UBT&R) continues to trend in a positive direction. Marketing initiatives and operational improvements have increased both the traffic at the location and further enhanced the customer experience. The upcoming sporting calendar including Champions League, NBA and World Cup provides a tremendous opportunity for the company to showcase the improvements and drive top line in Q2.

Famous Nightclub came out of an extremely strong Christmas into Q1. As is customary with this seasonal industry, we saw a drop off in traffic. To combat the slow season a calendar of live events was established to drive additional activity ahead of the upcoming summer season. With increased efficiencies along with the summer traffic the outlook for Famous is positive.

The Bessa project, a partnership with Sagicor Life Jamaica Limited, is taking shape with the design stage well underway. We look forward to having this finalised by the end of May at which time the submission for all requisite approvals will be made. The construction budget has been approved

and financing is in place. 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.

KLE is continuing efforts to reorganize the business in response to the challenges faced in the external environment. We aim to capitalize on our ability to target and generate foreign exchange. As we conclude this final stage of franchise development the company is preparing to launch a global campaign with focus on specific territories aimed at expanding our T&R concept internationally. In addition, opportunities are being pursued in and around the major tourism centers locally and regionally. The focus being placed on the expansion of the T&R brand provides a major growth prospect for the group.

While we aggressively execute our growth strategy the successful transition within the operating and control environment continues to ensure optimized efficiency and alignment with our existing revenue streams. The new reality has had an impact on the industry as a whole but we are confident in the strength of our brands, experience of our team and our ability to not only improve the current position but also realize the tremendous possibilities for growth and development in the coming months.

On behalf of the Board of Directors:



GARY MATALON

K.L.E. GROUP LIMITED

UNAUDITED FINANCIAL STATEMENTS

THREE (3) MONTHS ENDED MARCH 31, 2014

K.L.E. GROUP LIMITED
UNAUDITED FINANCIAL STATEMENTS
THREE (3) MONTHS ENDED MARCH 31, 2014

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K.L.E. GROUP LIMITED
UNAUDITED
STATEMENT OF COMPREHENSIVE INCOME
THREE (3) MONTHS ENDED MARCH 31, 2014

	Unaudited Quarter ended March 31, 2014	Unaudited Quarter ended March 31, 2013	Audited Year ended December 31, 2013
	\$	\$	\$
Revenue	62,433,291	62,263,264	333,875,393
Cost of Sales	<u>(26,091,803)</u>	<u>(22,798,695)</u>	<u>(127,913,004)</u>
Gross profit	36,341,488	39,464,569	205,962,389
Other operating income	6,248,866	1,753,908	16,661,117
Administrative and other expenses	<u>(47,257,436)</u>	<u>(52,656,103)</u>	<u>(246,891,824)</u>
Loss from operation	(4,667,082)	(11,437,624)	(24,268,318)
Finance and depreciation cost	<u>(7,995,683)</u>	<u>(5,832,484)</u>	<u>(31,597,940)</u>
Loss before taxation	(12,662,765)	(17,270,108)	(55,866,258)
Taxation	<u>-</u>	<u>-</u>	<u>-</u>
Total comprehensive loss for the period / year	<u><u>(12,662,765)</u></u>	<u><u>(17,270,108)</u></u>	<u><u>(55,866,258)</u></u>
Number of shares	100,000,000	100,000,000	100,000,000
Loss per stock unit:	<u>13 cents</u>	<u>17 cents</u>	<u>56 cents</u>

K.L.E. GROUP LIMITED
UNAUDITED
STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2014

	Notes	Unaudited as at March 31, 2014	Unaudited as at March 31, 2013	Audited as at December 31, 2013
		\$	\$	\$
NON-CURRENT ASSETS				
Property, plant and equipment	3	178,018,184	185,771,064	185,103,478
Total non-current assets		178,018,184	185,771,064	185,103,478
CURRENT ASSETS				
Inventories		6,322,405	5,933,774	9,230,141
Trade and other Receivables		25,269,250	15,896,056	22,311,722
Related Party		518,770	-	518,770
Cash and cash equivalents		12,956,661	23,426,082	21,471,491
Total current assets		45,067,086	45,255,912	53,532,124
Total assets		223,085,270	231,026,976	238,635,602
EQUITY				
Share capital		122,903,318	122,903,318	122,903,318
Retained earnings		(72,677,150)	(21,418,235)	(60,014,385)
Total equity		50,226,168	101,485,083	62,888,933
NON-CURRENT LIABILITIES				
Long term loans	4	20,328,260	26,377,819	16,271,050
CURRENT LIABILITIES				
Loans payable	4	26,506,919	10,573,115	24,745,518
Payables	5	118,802,353	91,678,839	120,486,170
Bank Overdraft		2,933,938	-	9,455,799
Related parties		3,407,712	-	3,908,212
Taxation		879,920	912,120	879,920
Total current liabilities		152,530,842	103,164,074	159,475,619
Total equity and liabilities		223,085,270	231,026,976	238,635,602

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


 Gary Malton (Director)


 David Shirley (Director)

K.L.E. GROUP LIMITED
UNAUDITED
STATEMENT OF CHANGES IN EQUITY
THREE (3) MONTHS ENDED MARCH 31, 2014

	Share capital	Retained earnings	Total
	\$	\$	\$
Audited balances at December 31, 2012	122,903,318	(4,148,127)	118,755,191
Total comprehensive loss for the period ended March 31, 2013		(17,270,108)	(17,270,108)
Unaudited balances at March 31, 2013	<u>122,903,318</u>	<u>(21,418,235)</u>	<u>101,485,083</u>
Audited balances at December 31, 2013	122,903,318	(60,014,385)	62,888,933
Total comprehensive loss for the period ended March 31, 2014	-	(12,662,765)	(12,662,765)
Unaudited balances at March 31, 2014	<u>122,903,318</u>	<u>(72,677,150)</u>	<u>50,226,168</u>

K.L.E. GROUP LIMITED
UNAUDITED
STATEMENT OF CASH FLOWS
THREE (3) MONTHS ENDED MARCH 31, 2014

	Unaudited Quarter ended March 31, 2014 \$	Unaudited Quarter ended March 31, 2013 \$	Audited Year ended December 31, 2013 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the period / year	(12,662,765)	(17,270,108)	(55,866,258)
Items not affecting cash	<u>7,249,586</u>	<u>5,067,451</u>	<u>24,546,187</u>
Operating loss before changes in working capital	(5,413,179)	(12,202,658)	(31,320,071)
Changes in working capital:			
Inventories	2,907,736	192,028	(3,104,339)
Receivables	(2,957,532)	4,505,884	(1,909,782)
Payables	(1,683,817)	10,664,157	40,531,190
Related party	(500,500)	(2,559,739)	(230,000)
Taxation	-	(209,141)	(241,341)
Net cash (used in)/provided/ by operations	(7,647,292)	<u>390,531</u>	<u>3,725,657</u>
Cash flows from investing activities			
Interest received	1,793	669,597	1,121,433
Purchase of property, plant and equipment	(166,080)	(54,959,294)	(74,879,457)
Net cash used in investing activities	(164,287)	<u>(54,289,697)</u>	<u>(73,758,024)</u>
Cash flows from financing activities			
Proceeds from loans	8,274,816	-	(10,702,972)
Loan repayment	(2,456,206)	(3,393,720)	12,032,063
Net cash provided/(used in) by financing activities	5,818,610	<u>(3,393,719)</u>	<u>1,329,091</u>
Net decrease in cash and cash equivalents	(1,992,969)	(57,292,885)	(68,703,276)
Cash and cash equivalents at beginning of period:	12,015,692	80,718,968	80,718,968
Cash and cash equivalents at end of period / year	10,022,723	<u>23,426,082</u>	<u>12,015,692</u>

K.L.E. GROUP LIMITED
NOTES TO THE UNAUDITED FINANCIAL STATEMENTS
THREE (3) MONTHS ENDED MARCH 31, 2014

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, 2013. 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, 2013.

The significant accounting policies adopted are consistent with those of the audited financial statement for the year ended December 31, 2013.

K.L.E. GROUP LIMITED
NOTES TO THE UNAUDITED FINANCIAL STATEMENTS
THREE (3) MONTHS ENDED MARCH 31, 2014

3. PROPERTY, PLANT AND EQUIPMENT

	Leashold Improvements \$	Equipment \$	Furniture & Fixtures \$	Security System \$	Computers \$	Total \$
At cost:						
Beginning of year	123,708,145	48,483,154	62,483,535	4,392,718	10,137,973	249,205,525
Additions	-	59,999	-	-	106,081	166,080
End of period	<u>123,708,145</u>	<u>48,543,153</u>	<u>62,483,535</u>	<u>4,392,718</u>	<u>10,244,054</u>	<u>249,371,605</u>
Accumulated						
Depreciation						
Beginning of year	35,687,216	9,406,764	14,448,412	1,582,852	2,976,803	64,102,047
Charge for the period	3,831,465	1,188,385	1,558,497	101,163	571,864	7,251,374
End of period	<u>39,518,681</u>	<u>10,595,149</u>	<u>16,006,909</u>	<u>1,684,015</u>	<u>3,548,667</u>	<u>71,353,421</u>
Net book value end of period	<u>84,189,464</u>	<u>37,948,004</u>	<u>46,476,626</u>	<u>2,708,703</u>	<u>6,695,387</u>	<u>178,018,184</u>
End of prior year	<u>88,020,929</u>	<u>39,076,390</u>	<u>48,035,123</u>	<u>2,809,866</u>	<u>7,161,170</u>	<u>185,103,478</u>

K.L.E. GROUP LIMITED
NOTES TO THE UNAUDITED FINANCIAL STATEMENTS
THREE (3) MONTHS ENDED MARCH 31, 2014

4. LOANS PAYABLE

	Unaudited March 31, 2014 ₹	Unaudited March 31, 2013 ₹	Audited December 31, 2013 ₹
Bank loan - Sagikor Bank Limited			
(i) \$34,480,000 loan	-	22,734,174	-
(ii) \$3,000,000 loan	-	1,970,587	-
(iii) \$992,778 loan	-	651,223	-
(iv) \$919,433 loan	-	614,198	-
(v) \$25.2 Million Loan	19,530,259	-	20,280,188
(vi) \$25 million Loan	16,666,667	-	13,841,566
Carrying value	36,196,926	25,970,181	34,121,754
Gleaner Company Limited - (US\$15,000)	1,595,666	1,483,298	1,595,665
Other Loan - (US\$175,000)	9,042,587	9,497,454	5,299,149
Total loans	46,835,178	36,950,933	41,016,568
Classified as follows:			
Non-current			
Bank loans	13,282,879	20,490,300	14,675,385
Gleaner Company Limited	1,595,666	1,483,298	1,595,665
Other loan	5,449,715	4,404,221	-
	20,328,260	26,377,819	16,271,050
Current			
Bank loan	22,914,047	5,479,892	19,446,369
Other loan	3,592,872	5,093,223	5,299,149
	26,506,919	10,573,115	24,745,518
Total loan payable	46,835,178	36,950,933	41,016,568

K.L.E. GROUP LIMITED
NOTES TO THE UNAUDITED FINANCIAL STATEMENTS
THREE (3) MONTHS ENDED MARCH 31, 2014

5. PAYABLES

	Unaudited March 31, 2014	Unaudited March 31, 2013	Audited December 31, 2013
	\$	\$	\$
Trade payables	63,973,742	39,850,979	60,144,903
Accruals	7,639,153	4,370,258	8,371,253
Statutory payables	2,058,391	1,293,162	3,062,374
Credit cards	5,243,081	5,516,368	6,722,989
GCT	4,261,711	869,404	4,799,231
Deferred income	19,193,559	24,160,000	20,991,559
Royalties payable	10,975,496	10,927,066	11,668,584
Other payables	5,457,220	4,691,602	4,725,277
	<u>118,802,353</u>	<u>91,678,839</u>	<u>120,486,170</u>

K.L.E. GROUP LIMITED
NOTES TO THE UNAUDITED FINANCIAL STATEMENTS
THREE (3) MONTHS ENDED MARCH 31, 2014

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			
	Three (3) months ended March 31, 2014			
	Night Club	Restaurant	Corporate Office	Total
	\$	\$	\$	\$
Revenues	<u>27,558,483</u>	<u>34,874,809</u>	<u>-</u>	<u>62,433,291</u>
Segment loss for the period before taxation	<u>(7,326,373)</u>	<u>(3,265,400)</u>	<u>(2,070,990)</u>	<u>(12,662,765)</u>

	Unaudited			
	as at March 31, 2014			
	Night Club	Restaurant	Corporate Office	Total
	\$	\$	\$	\$
Segment assets	<u>92,574,934</u>	<u>108,468,653</u>	<u>22,041,682</u>	<u>223,085,269</u>
Segment liabilities	<u>64,736,874</u>	<u>72,588,486</u>	<u>35,533,767</u>	<u>172,859,127</u>

K.L.E. GROUP LIMITED
NOTES TO THE UNAUDITED FINANCIAL STATEMENTS
THREE (3) MONTHS ENDED MARCH 31, 2014

6. SEGMENT REPORTING (CONT'D)

	Unaudited Three (3) months ended March 31, 2013			
	Night Club	Restaurant	Corporate Office	Total
	\$	\$	\$	\$
Revenues	<u>21,922,531</u>	<u>40,340,732</u>	<u>-</u>	<u>62,263,264</u>
Segment loss for the period before taxation	<u>(3,607,780)</u>	<u>(5,610,111)</u>	<u>(8,052,217)</u>	<u>(17,270,108)</u>

	Unaudited as at March 31, 2013			
	Night Club	Restaurant	Corporate Office	Total
	\$	\$	\$	\$
Segment assets	<u>38,478,926</u>	<u>125,939,683</u>	<u>66,608,367</u>	<u>231,026,976</u>
Segment liabilities	<u>15,335,128</u>	<u>75,111,307</u>	<u>39,095,458</u>	<u>129,541,893</u>

	Audited Year ended December 31, 2013			
	Night Club	Restaurant	Corporate Office	Total
	\$	\$	\$	\$
Revenues	<u>164,071,973</u>	<u>183,885,199</u>	<u>2,579,338</u>	<u>350,536,510</u>
Segment (loss) / profit for the year before taxation	<u>(17,233,480)</u>	<u>(3,195,280)</u>	<u>(35,437,498)</u>	<u>(55,866,258)</u>

	Audited as at December 31, 2013			
	Night Club	Restaurant	Corporate Office	Total
	\$	\$	\$	\$
Segment assets	<u>108,721,552</u>	<u>120,393,444</u>	<u>9,520,606</u>	<u>238,635,602</u>
Segment liabilities	<u>36,765,382</u>	<u>84,612,795</u>	<u>54,368,136</u>	<u>175,746,313</u>