

K.L.E. GROUP LIMITED
FINANCIAL STATEMENTS
31 DECEMBER 2017

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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

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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 2017, 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 2017, 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.

INDEPENDENT AUDITORS' REPORT (CONT'D)

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

Key audit matters**Investment in Joint venture**

See notes 3(b) and 15 to financial statements for management's disclosures of related accounting policies.

As at 31 December 2017, 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.

Investment in associate

See notes 3(b) and 17 to financial statements for management's disclosures of related accounting policies.

As at 31 December 2017, investment in associate represents approximately 36% of the total assets.

KLE owns 49% of the shares in T & R Restaurant Systems Limited trading as Franjam. Due to the significance of the shareholding, we continue to assess the matter of control and significant influence.

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. Ground was broken in the current financial year.

We therefore concluded that the project is viable and the carrying value is fairly stated.

We reviewed relevant agreements and assessed whether the company's rights are sufficient for it to unilaterally direct the activities that most affect the associate's returns.

We concluded that the company does not have control over the associate.

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 of financial statements, that give a true and fair view 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 Sonia McFarlane.

A handwritten signature in black ink, appearing to read 'BDO', written in a cursive style.

Chartered Accountants

28 March 2018

K.L.E. GROUP LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

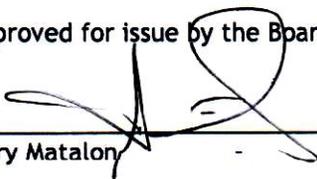
YEAR ENDED 31 DECEMBER 2017

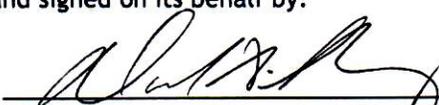
	<u>Note</u>	<u>2017</u> <u>\$'000</u>	<u>2016</u> <u>\$'000</u>
REVENUE	6	215,426	195,939
Cost of sales		(69,610)	(62,697)
GROSS PROFIT		145,816	133,242
Other operating income	7	16,927	182,703
Administrative and other expenses		(152,484)	(144,182)
OPERATING PROFIT		10,259	171,763
Finance costs	8	(2,374)	(2,756)
		7,885	169,007
Share of post-tax profit/(loss) of equity accounted associate	17	257	(4,581)
Profit before taxation		8,142	164,426
Taxation	11	810	857
NET PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		8,952	165,283
Net loss from discontinued operation	12	-	(1,362)
NET PROFIT FOR THE YEAR		<u>8,952</u>	<u>163,921</u>
OTHER COMPREHENSIVE INCOME:			
Items that may be reclassified to profit or loss -			
Share of associate other comprehensive income	17	258	-
Unrealised gain on available-for-sale investments		356	-
		<u>614</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME		<u>9,566</u>	<u>163,921</u>
EARNINGS PER STOCK UNIT BASIC AND DILLITED	13	<u>\$0.09</u>	<u>\$1.64</u>

K.L.E. GROUP LIMITED
STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2017

	<u>Note</u>	<u>2017</u> <u>\$'000</u>	<u>2016</u> <u>\$'000</u>
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	14	45,497	60,896
Investment in joint venture	15	13,141	12,754
Investments	16	2,088	-
Investment in associate	17	73,297	72,782
Deferred tax asset	18	<u>7,080</u>	<u>6,098</u>
		<u>141,103</u>	<u>152,530</u>
CURRENT ASSETS:			
Inventories	19	2,932	3,214
Receivables	20	25,136	22,759
Due from related parties	21	26,109	35,596
Cash and bank balances	22	<u>9,907</u>	<u>9,443</u>
		<u>64,084</u>	<u>71,012</u>
		<u>205,187</u>	<u>223,542</u>
<u>EQUITY AND LIABILITIES</u>			
<u>EQUITY:</u>			
Share capital	23	122,903	122,903
Fair value reserve	24	356	-
Accumulated surplus		<u>16,509</u>	<u>7,299</u>
		<u>139,768</u>	<u>130,202</u>
NON-CURRENT LIABILITIES:			
Long term liabilities	25	7,038	11,217
Due to related party	21	<u>1,360</u>	<u>1,782</u>
		<u>8,398</u>	<u>12,999</u>
CURRENT LIABILITIES:			
Payables	26	48,820	72,492
Bank overdraft	22	3,040	3,426
Taxation		967	859
Current portion of long term liabilities	25	<u>4,194</u>	<u>3,564</u>
		<u>57,021</u>	<u>80,341</u>
		<u>205,187</u>	<u>223,542</u>

Approved for issue by the Board of Directors on 28 March 2018 and signed on its behalf by:


 Gary Matalon - Director


 David Shirley - Director

K.L.E. GROUP LIMITED

STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2017

	<u>Fair Value Reserve</u> \$'000	<u>Share Capital</u> \$'000	<u>Accumulated Surplus</u> \$'000	<u>Total</u> \$'000
BALANCE AT 1 JANUARY 2016	-	122,903	(156,622)	(33,719)
TOTAL COMPREHENSIVE INCOME				
Net profit	<u>-</u>	<u>-</u>	<u>163,921</u>	<u>163,921</u>
BALANCE AT 31 DECEMBER 2016	<u>-</u>	<u>122,903</u>	<u>7,299</u>	<u>130,202</u>
TOTAL COMPREHENSIVE INCOME				
Net profit	-	-	8,952	8,952
Other comprehensive income	<u>356</u>	<u>-</u>	<u>258</u>	<u>614</u>
	<u>356</u>	<u>-</u>	<u>9,210</u>	<u>9,566</u>
BALANCE AT 31 DECEMBER 2017	<u><u>356</u></u>	<u><u>122,903</u></u>	<u><u>16,509</u></u>	<u><u>139,768</u></u>

K.L.E. GROUP LIMITED

STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2017

	<u>2017</u> <u>\$'000</u>	<u>2016</u> <u>\$'000</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net profit	8,952	163,921
Items not affecting cash resources:		
Depreciation	16,846	16,863
Interest income	(11)	(5)
Effects of exchange translation	(2,678)	(327)
Share of profit/(loss) from associate	(257)	4,581
Profit on partial disposal of subsidiary	-	(77,363)
Loss on disposal property, plant and equipment	-	1,129
Interest expense	2,374	2,756
Taxation	(810)	(857)
	24,416	110,698
Changes in operating assets and liabilities:		
Inventories	282	1,283
Receivables	(2,418)	5,231
Related parties	8,638	(94,579)
Payables	(23,089)	(15,997)
	7,829	6,636
Taxation paid	(63)	(77)
Net cash provided by operating activities	<u>7,766</u>	<u>6,559</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	11	5
Purchase of investments	(1,732)	-
Purchase of property, plant and equipment	(1,447)	(2,507)
Net cash used in investing activities	<u>(3,168)</u>	<u>(2,502)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Interest expense	(2,374)	(2,756)
Loan repayments	(3,549)	(13,883)
Proceeds from long term loan	-	16,600
Net cash used in financing activities	<u>(5,923)</u>	<u>(39)</u>
Net (decrease)/ increase in cash and cash equivalents	(1,325)	4,018
Effect of exchange gains on foreign balances	2,175	2,155
Cash and cash equivalents at beginning of year	<u>6,017</u>	<u>(156)</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR (note 22)	<u>6,867</u>	<u>6,017</u>

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

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 (IFRSs), 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 IFRSs 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.

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D):

(a) Basis of preparation (cont'd)

New, revised and amended standards and interpretations that became effective during the year

Certain new standards, interpretations and amendments to existing standards have been published that became effective during the current financial year. The company has assessed the relevance of all such new standards, interpretations and amendments and has concluded that the following amendment are immediately relevant to its operations.

Amendments to IAS 7, 'Statement of Cash Flows' (effective for accounting periods beginning on or after 1 January 2017), requires disclosure of information enabling users to evaluate changes in liabilities arising from financing activities including both cash and non-cash changes.

Amendments to IAS 12, 'Income Taxes' (effective for accounting periods beginning on or after 1 January 2017), clarifies specifically how to account for deferred tax assets related to debt instruments measured at fair value as well as clarifying the guidance for deferred tax assets in general by adding examples and elaborating on some of the requirements in more detail. The amendments do not change the underlying principles for the recognition of deferred tax assets.

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

The following new standards, amendments and interpretations, which are not yet effective and have not been adopted early in these financial statements, will or may have an effect on the company's future financial statements:

IFRS 9, 'Financial Instruments' (effective for accounting periods beginning on or after 1 January 2018), it replaces the existing guidance in *IAS 39 Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial assets and liabilities, including a new expected credit loss model for calculating impairment of financial assets and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. Although the permissible measurement bases for financial assets - amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) - are similar to IAS 39, the criteria for classification into the appropriate measurement categories are significantly different. IFRS 9 replaces the 'incurred loss' model which means that a loss event will no longer need to occur before an impairment allowance is recognised.

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D):

(a) Basis of preparation (cont'd)

New standards, amendments and interpretations not yet effective and not early adopted (cont'd)

The expected credit loss model is more forward looking and will require the use of reasonable and supportable forecasts of future economic conditions to determine increases in credit risk and measurement of expected credit losses. The company's trade and other receivables classified under financial assets will be the most affected due to the new expected credit loss model. It may also result in an increase in the total level of impairment allowance as all financial assets will be assessed for impairment, and the population size will be greater than that for financial assets with objective evidence of impairment under IAS 39.

The company is still assessing the impact the change in model will have on its 2018 financial statements.

IFRS 15, 'Revenue from Contracts with Customers' (effective for accounting periods beginning on or after 1 January 2018). The standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations.

IFRS 16, 'Leases', (effective for accounting periods beginning on or after 1 January 2019). The standard primarily addresses the accounting for leases by lessees. The complete version of IFRS 16 was issued in January 2017. The standard will result in almost all leases being recognised on the statement of financial position, as it removes the current distinction between operating and finance leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short term and low-value leases. The accounting by lessors will not significantly change.

The company is assessing the impact that these standards and amendments to standards will have on the financial statements when they are adopted.

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D):

(b) Basis of preparation (cont'd)

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).

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).

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D):

(b) 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.

(c) 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.

(d) 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.

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D):

(d) 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.

(e) 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 assets 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.

(f) 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.

Financial assets

(i) Classification

The company classifies its financial assets in the following categories: loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D):

(f) Financial instruments (cont'd)

Financial assets (cont'd)

(i) Classification (cont'd)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables) but also incorporate other types of contractual monetary asset.

The company's loans and receivables comprise trade and other receivables and cash and cash equivalents. They are included in current assets.

Cash and cash equivalents are carried in the statement of financial position at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash at bank and in hand and short term deposits with original maturity of three months or less, and bank overdraft.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the financial asset within 12 months of the reporting date. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale.

(ii) Recognition and Measurement

Regular purchases and sales of financial assets are recognized on the trade-date - the date on which the company commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value, with fair value gains or losses being recorded in other comprehensive income. Loans and receivables are subsequently carried at amortised cost using the effective interest method, less provision for impairment.

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D):

(f) Financial instruments (cont'd)

Financial assets (cont'd)

(ii) Recognition and Measurement (cont'd)

The company assesses at each reporting date whether there is objective evidence that a financial asset or a company of financial assets is impaired.

For loans and receivables impairment provisions are recognized when there is objective evidence that the company will not collect all of the amounts due under the terms receivable. The amount of the provision is the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables which are reported net, such provisions are recorded in a separate allowance account with the loss being recognized in profit or loss. On confirmation that the trade receivable is uncollectible, it is written off against the associated allowance. Subsequent recoveries of amounts previously written off are credited to profit or loss.

In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss - is removed from other comprehensive income and recognized in profit or loss. Impairment losses recognized in profit or loss on equity instruments are not reversed through profit or loss.

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.

(g) Lease

Operating lease

Assets held under other leases are classified as operating lease and are not recognised in the company's statement of financial position.

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D):

(g) Lease (cont'd)

Operating lease (cont'd)

Payments made under operating lease are recognised in profit or loss on the straight-line basis over the term of the lease.

(h) 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.

(l) 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.

(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).

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D):

(i) Related parties (cont'd)

(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.

(j) 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.

(k) 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.

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D):

(l) Revenue recognition

Revenue from the provision of services is measured at the fair value of the consideration received or receivable, net of returns and allowances and discounts.

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

(m) 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.

(n) 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:

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

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

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

(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.

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 available-for-sale investments, 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.

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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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:

- (i) The carrying values less any impairment provision of financial assets and liabilities with a maturity of less than one year are estimated to approximate their fair values due to the short term maturity of these instruments. These financial assets and liabilities are cash and cash equivalents, trade receivables and trade payables.
- (ii) 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.
- (iii) The fair value of related party could not be reasonably determined as there is no set repayment date.

(ii) 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.

(iii) 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.

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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

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

(iv) 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(h)).

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.

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

5. FINANCIAL RISK MANAGEMENT (CONT'D):

(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

(ii) Financial instruments by category

Financial assets

	<u>Loans and</u> <u>Receivables</u>		<u>Available-for-sale</u>	
	<u>2017</u> <u>\$'000</u>	<u>2016</u> <u>\$'000</u>	<u>2017</u> <u>\$'000</u>	<u>2016</u> <u>\$'000</u>
Investments	-	-	2,088	-
Receivables	21,431	21,579	-	-
Cash and bank balances	<u>9,907</u>	<u>9,443</u>	<u>-</u>	<u>-</u>
Total financial assets	<u>31,338</u>	<u>31,022</u>	<u>2,088</u>	<u>-</u>

Financial liabilities

	<u>Financial liabilities</u> <u>at amortised cost</u>	
	<u>2017</u> <u>\$'000</u>	<u>2016</u> <u>\$'000</u>
Bank overdraft	3,040	3,426
Payables	42,419	46,774
Long term liabilities	<u>11,232</u>	<u>14,781</u>
Total financial liabilities	<u>56,691</u>	<u>64,981</u>

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

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	
	<u>2017</u> <u>\$'000</u>	<u>2016</u> <u>\$'000</u>
Financial assets		
Investments	<u>2,088</u>	<u>-</u>
Total financial assets	<u>2,088</u>	<u>-</u>

(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

Currency risk

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

Currency 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.

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

5. FINANCIAL RISK MANAGEMENT (CONT'D):

(iv) Financial risk factors (cont'd)

(i) Market risk (cont'd)

Currency risk (cont'd)

Concentration of currency risk

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

	<u>2017</u> <u>\$'000</u>	<u>2016</u> <u>\$'000</u>
Cash and bank balances	2,858	4,539
Receivables	625	607
Payables	(3,586)	(5,385)
	<u>(103)</u>	<u>(239)</u>

Foreign currency sensitivity

The following table indicates the sensitivity of profit 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 4% (2016 - 6%) depreciation and a 2% (2016 - 1%) appreciation of the Jamaican dollar against the US dollar.

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

	% Change in Currency Rate	Effect on Profit before Tax 31 December	% Change in Currency Rate	Effect on Profit before Tax 31 December
	<u>2017</u>	<u>2017</u> <u>\$'000</u>	<u>2016</u>	<u>2016</u> <u>\$'000</u>
Currency:				
USD	-4	(4)	-6	(14)
USD	<u>+2</u>	<u>2</u>	<u>+1</u>	<u>2</u>

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

5. FINANCIAL RISK MANAGEMENT (CONT'D):

(iv) Financial risk factors (cont'd)

(i) Market risk (cont'd)

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 (2016 - 1% increase/1% decrease) in interest rates on Jamaican dollar borrowings would result in a \$112,319 decrease/\$112,319 increase (2016 - \$147,808 decrease/\$147,808 increase) in profit before tax.

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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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.

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.

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.

Maximum exposure to credit risk

The maximum exposure to credit risk is equal to the carrying amount of trade and other receivables and cash and cash equivalents in the statement of financial position.

The aging of trade receivables is as follows:

	<u>2017</u> <u>\$'000</u>	<u>2016</u> <u>\$'000</u>
0-30 days	103	51
31-60 days	76	64
61-90 days	-	29
Over 90 days	<u>403</u>	<u>857</u>
	<u>582</u>	<u>1,001</u>

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

5. FINANCIAL RISK MANAGEMENT (CONT'D):

(iv) Financial risk factors (cont'd)

(ii) Credit risk (cont'd)

Trade receivables that are past due but not impaired

As at 31 December 2017, trade receivables of \$582,471 (2016 - \$1,000,841) were past due but not impaired. These relate to independent customers for whom there is no recent history of default.

As of 31 December 2017, the company had trade receivables of \$NIL (2016 - \$NIL) that were impaired. The amount of the provision was \$NIL (2016 - \$NIL).

Trade receivables that are past due and impaired

Movements on the provision for impairment of trade receivables are as follows:

	<u>2017</u>	<u>2016</u>
	\$	\$
At 1 January	-	995
Bad debt written off	<u>-</u>	<u>(995)</u>
At 31 December	<u>-</u>	<u>-</u>

The creation and release of provision for impaired receivables have been included in expenses in profit or loss. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash. Impairment estimates have been adjusted based on actual collection patterns.

Concentration of risk - trade receivables

The following table summarises the company's credit exposure for trade receivables at their carrying amounts, as categorized by the customer sector:

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

5. FINANCIAL RISK MANAGEMENT (CONT'D):

(iv) Financial risk factors (cont'd)

(ii) Credit risk (cont'd)

Concentration of risk - trade receivables (cont'd)

	<u>2017</u> <u>\$'000</u>	<u>2016</u> <u>\$'000</u>
Corporate customers	582	959
Other	<u>-</u>	<u>42</u>
	<u>582</u>	<u>1,001</u>

(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.

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

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 <u>\$'000</u>	1 to 2 Years <u>\$'000</u>	2 to 5 Years <u>\$'000</u>	Total <u>\$'000</u>
31 December 2017				
Bank overdraft	3,040	-	-	3,040
Trade payables	13,499	-	-	13,499
Accruals and other payables	28,920	-	-	28,920
Long term liabilities	<u>5,686</u>	<u>7,582</u>	<u>-</u>	<u>13,268</u>
Total financial Liabilities (contractual maturity dates)	<u>51,145</u>	<u>7,582</u>	<u>-</u>	<u>58,727</u>
	<u>Within 1 Year \$'000</u>	<u>1 to 2 Years \$'000</u>	<u>2 to 5 Years \$'000</u>	<u>Total \$'000</u>
31 December 2016				
Bank overdraft	3,426	-	-	3,426
Trade payables	9,145	-	-	9,145
Accruals and other payables	37,629	-	-	37,629
Long term liabilities	<u>5,532</u>	<u>10,955</u>	<u>1,895</u>	<u>18,382</u>
Total financial Liabilities (contractual maturity dates)	<u>55,732</u>	<u>10,955</u>	<u>1,895</u>	<u>68,582</u>

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

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:

	<u>2017</u> <u>\$'000</u>	<u>2016</u> <u>\$'000</u>
Sponsorship income	3,317	7,811
Interest income	11	5
Other income	13,599	11,180
Profit on sale of shares in subsidiary	<u>-</u>	<u>163,707</u>
	<u>16,927</u>	<u>182,703</u>

8. FINANCE COSTS:

	<u>2017</u> <u>\$'000</u>	<u>2016</u> <u>\$'000</u>
Interest on loans	<u>2,374</u>	<u>2,756</u>

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

9. EXPENSES BY NATURE:

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

	<u>2017</u> <u>\$'000</u>	<u>2016</u> <u>\$'000</u>
Director's fees	-	450
Auditors' remuneration -		
- current year	1,660	1,485
- prior year under provision	-	664
Depreciation	16,846	16,863
Staff costs (note 10)	55,472	45,469
Advertising	8,854	11,142
Cost of inventory recognized as expense	69,610	62,697
Insurance	3,395	2,573
Legal and professional fees	2,860	5,307
Repairs and maintenance	2,384	2,255
Security	720	728
Utilities	17,727	15,304
Bank charges	5,036	9,898
Rent	12,346	14,030
Janitorial expense	3,053	2,427
Couriers	1,720	1,421
IT expenses	1,599	2,382
Travel and entertainment	1,005	-
Royalties	8,739	7,960
Bad debts	-	1,064
Loan interest	2,374	2,756
Other expenses	<u>9,068</u>	<u>2,760</u>
	<u>224,468</u>	<u>209,635</u>

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

10. STAFF COSTS:

	<u>2017</u> <u>\$'000</u>	<u>2016</u> <u>\$'000</u>
Wages and salaries	49,637	41,061
Statutory contributions	5,281	3,636
Staff welfare	148	303
Uniform	<u>406</u>	<u>469</u>
	<u>55,472</u>	<u>45,469</u>

11. TAXATION EXPENSE:

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

	<u>2017</u> <u>\$'000</u>	<u>2016</u> <u>\$'000</u>
Income tax	(172)	(75)
Deferred tax (note 18)	<u>982</u>	<u>932</u>
	<u>810</u>	<u>857</u>

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

	<u>2017</u> <u>\$'000</u>	<u>2016</u> <u>\$'000</u>
Profit before taxation		
- Continuing operation	8,142	164,426
- Discontinued operation	<u>-</u>	<u>(1,362)</u>
	<u>8,142</u>	<u>163,064</u>
Tax calculated at 25%	2,036	40,766
Adjusted for the effects of:		
Disallowed expenses	214	1,145
Employment tax credit	(749)	-
Depreciation charge and capital allowances	2,751	2,514
Other charges and credits	<u>(1,862)</u>	<u>(43,568)</u>
	2,390	857
Adjustment for the effect of tax remission current year	<u>(1,580)</u>	<u>-</u>
Taxation in statement of comprehensive income	<u>810</u>	<u>857</u>

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

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 \$155,194,782 (2016 - \$165,195,309) 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. NET LOSS FROM DISCONTINUED OPERATION:

The post-tax loss on disposal of discontinued operation was determined as follows:

Result of discontinued operation:

	<u>2017</u> <u>\$'000</u>	<u>2016</u> <u>\$'000</u>
Revenue	-	-
Expenses incurred	-	(1,362)
Net loss from discontinued operation	<u>-</u>	<u>(1,362)</u>

13. 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>2017</u>	<u>2016</u>
Net profit attributable to stockholders (\$'000)	8,952	163,921
Number of ordinary stock units (weighted average) ('000)	100,000	100,000
Basic and diluted earnings per stock unit (\$)	<u>0.09</u>	<u>1.64</u>

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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14. PROPERTY, PLANT AND EQUIPMENT:

	<u>Leasehold Improvements</u> <u>\$'000</u>	<u>Equipment</u> <u>\$'000</u>	<u>Furniture & Fixtures</u> <u>\$'000</u>	<u>Security System</u> <u>\$'000</u>	<u>Computers</u> <u>\$'000</u>	<u>Total</u> <u>\$'000</u>
Cost -						
1 January 2016	77,588	14,083	36,178	2,221	9,222	139,292
Additions	466	1,402	204	-	435	2,507
Disposal	(943)	-	(221)	-	-	(1,164)
Reclassified from held for sale	-	10,650	382	-	-	11,032*
31 December 2016	77,111	26,135	36,543	2,221	9,657	151,667
Additions	25	357	557	152	356	1,447
31 December 2017	<u>77,136</u>	<u>26,492</u>	<u>37,100</u>	<u>2,373</u>	<u>10,013</u>	<u>153,114</u>
Depreciation -						
31 December 2016	43,017	9,266	16,659	1,236	3,765	73,943
Charge for the year	9,008	3,260	4,259	14	322	16,863
Eliminated on disposal	(29)	-	(6)	-	-	(35)
31 December 2016	51,996	12,526	20,912	1,250	4,087	90,771
Charge for the year	9,015	3,182	4,315	16	318	16,846
31 December 2017	<u>61,011</u>	<u>15,708</u>	<u>25,227</u>	<u>1,266</u>	<u>4,405</u>	<u>107,617</u>
Net Book Value -						
31 December 2017	<u>16,125</u>	<u>10,784</u>	<u>11,873</u>	<u>1,107</u>	<u>5,608</u>	<u>45,497</u>
31 December 2016	<u>25,115</u>	<u>13,609</u>	<u>15,631</u>	<u>971</u>	<u>5,570</u>	<u>60,896</u>

*This represents assets that were classified as non-current asset classified as held for sale in 2015 financial year. During 2016, the company decided to utilize them in its continuing operations.

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15. INVESTMENT IN JOINT VENTURE:

	<u>2017</u> <u>\$'000</u>	<u>2016</u> <u>\$'000</u>
Bessa Project	<u>13,141</u>	<u>12,754</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 2016 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.

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15. 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 no activity during the year. Although project was approved by the authorities during 2016 ground was not broken until 2017.

16. INVESTMENTS:

	<u>2017</u> <u>\$'000</u>	<u>2016</u> <u>\$'000</u>
<u>Quoted shares</u>		
Wisynco Group Limited	695	-
VM Investment Limited	<u>143</u>	<u>-</u>
	838	-
Sagicor Sigma Funds	<u>1,250</u>	<u>-</u>
	<u>2,088</u>	<u>-</u>
Opening net book amount	-	-
Additions during the year	1,732	-
Fair value adjustment	<u>356</u>	<u>-</u>
	<u>2,088</u>	<u>-</u>

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17. 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>2017</u> <u>\$'000</u>	<u>2016</u> <u>\$'000</u>
Investment at beginning of year	72,782	-
Share of results after tax	515	(4,581)
Increase in fair value	<u>-</u>	<u>77,363</u>
At end of year	<u>73,297</u>	<u>72,782</u>

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

	<u>2017</u> <u>\$'000</u>	<u>2016</u> <u>\$'000</u>
Assets	39,069	40,434
Liabilities	54,384	56,799
Revenue	31,584	10,257
Net loss	<u>525</u>	<u>(9,525)</u>

In 2016, the company utilized the services of CrichtonMullings & Associates to perform a valuation of T & R Restaurant Systems Limited trading as Franjam to determine the fair value of the investment retained. The valuation utilized an income based approach which determined the net earning potential of the company on the basis of the discounted cash flow value of the estimated future annual earnings of the company.

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:

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18. DEFERRED TAX (CONT'D):

The movement in the deferred tax account is as follows:

	<u>Accelerated Tax Depreciation \$'000</u>	<u>2017 \$'000</u>	<u>2016 \$'000</u>
Balance at start of year	6,098	6,098	5,166
Charge for the year (note 11)	<u>982</u>	<u>982</u>	<u>932</u>
Balance at end of year	<u>7,080</u>	<u>7,080</u>	<u>6,098</u>

19. INVENTORIES:

	<u>2017 \$'000</u>	<u>2016 \$'000</u>
Goods for resale	<u>2,932</u>	<u>3,214</u>

20. RECEIVABLES:

	<u>2017 \$'000</u>	<u>2016 \$'000</u>
Trade receivables	582	1,001
Deposits	676	676
Other receivables	<u>23,878</u>	<u>21,082</u>
	<u>25,136</u>	<u>22,759</u>

Other receivables include \$20,578 (thousand) receivable from the sale of property, plant and equipment previously used in the operations of Famous Night Club.

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21. **RELATED PARTY TRANSACTIONS AND BALANCES:**

(a) **Transactions between the company and its related company**

Sales/revenue -

During the year, the company earned management fees of \$11,400,000 (2016 - \$11,400,000).

(b) **Key management compensation**

	<u>2017</u> <u>\$'000</u>	<u>2016</u> <u>\$'000</u>
Wages and salaries	15,881	13,976
Payroll taxes - Employer's portion	<u>1,387</u>	<u>1,191</u>
	<u>17,268</u>	<u>15,167</u>
Director's emoluments -		
Fees	-	450
Management remuneration (included above)	<u>7,273</u>	<u>6,695</u>

(c) **Year end balances arising from transactions with related parties**

	<u>2017</u> <u>\$'000</u>	<u>2016</u> <u>\$'000</u>
Due from -		
T & R Restaurant Systems Limited	17,753	31,612
Director	<u>8,356</u>	<u>3,984</u>
	<u>26,109</u>	<u>35,596</u>
Due to -		
Director's current account	<u>(1,360)</u>	<u>(1,782)</u>

During 2016, KLE sold 510 shares in T & R Restaurant Systems Limited to a director to which it was indebted for US\$650,000. The aforesaid US\$650,000, was applied as payment of the purchase price for the shares and also served to liquidate the company's indebtedness to the said director.

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22. CASH AND CASH EQUIVALENTS:

	<u>2017</u> <u>\$'000</u>	<u>2016</u> <u>\$'000</u>
Cash at bank and in hand	9,907	8,267
Deposit and short-term instruments	<u>-</u>	<u>1,176</u>
Cash and bank balances	9,907	9,443
Bank overdraft	<u>(3,040)</u>	<u>(3,426)</u>
	<u>6,867</u>	<u>6,017</u>

The weighted average interest rate of short term deposits is as follows:

	<u>2017</u> <u>%</u>	<u>2016</u> <u>%</u>
Jamaican dollar (J\$)	-	5.00
United States dollar (US\$)	<u>-</u>	<u>2.00</u>

These deposits mature within nil and nil days respectively (2016 - 365 and 30 days respectively).

Significant non-cash transactions are as follows:

	<u>2017</u> <u>\$'000</u>	<u>2016</u> <u>\$'000</u>
Investing activities		
Property, plant and equipment from Famous Night Club previously classified as non-current asset classified as held for sale, transferred to KLE based on the company's decision to utilize them in its current continuing operations (see note 14)	-	11,032
Intangible asset derecognized on the partial disposal of subsidiary during the year	<u>-</u>	<u>15,710</u>

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22. CASH AND CASH EQUIVALENTS (CONT'D):

Financing activities

	Non-current Loans and Borrowing <u>\$'000</u> (note 25)	Related Party <u>\$'000</u> (note 21)	Current Loans and Borrowing <u>\$'000</u> (note 25)	Total <u>\$'000</u>
At 1 January 2017	11,217	-	3,564	14,781
Cash flows	-	-	(3,549)	(3,549)
Non-cash flows				
loans and borrowings				
classified as non-current				
as at 31 December 2016				
becoming current				
during 2017	(4,179)	-	4,179	-
At 31 December 2017	<u>7,038</u>	<u>-</u>	<u>4,194</u>	<u>11,232</u>
At 1 January 2016	-	79,325	12,064	91,389
Cash flows	14,781	-	(12,064)	2,717
Non-cash flows				
- debt converted into equity	-	(79,325)	-	(79,325)
- loans and borrowings				
classified as non-current				
at 31 December 2015				
becoming current				
during 2016	(3,564)	-	3,564	-
At 31 December 2016	<u>11,217</u>	<u>-</u>	<u>3,564</u>	<u>14,781</u>

Bank overdraft

The company does not currently have a bank overdraft facility. Bank overdraft represents unrepresented cheques of \$5,268,257 at year end (2016 - \$4,567,265). Details of securities held are included at note 25.

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.

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23.	SHARE CAPITAL:		
		<u>2017</u>	<u>2016</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>
24.	FAIR VALUE RESERVE:		
	This represents the unrealized surplus on revaluation of investments.		
25.	LONG TERM LIABILITIES:		
		<u>2017</u>	<u>2016</u>
		<u>\$'000</u>	<u>\$'000</u>
	Sagicor Bank Limited \$16.6 million loan	11,232	14,781
	Less: current portion	(4,194)	(3,564)
		<u>7,038</u>	<u>11,217</u>
	This loan attracts interest at a rate of 16.4% per annum and is for a period of 48 months. It is secured by 1 st demand Debenture over fixed and floating assets of KLE company Limited supported by receivables, plant, property and equipment stamped to cover J\$31,846,518.74. Debenture to be stamped for a further J\$18,441,759.64 and to be held in registrable form.		
26.	PAYABLES:		
		<u>2017</u>	<u>2016</u>
		<u>\$'000</u>	<u>\$'000</u>
	Trade payables	13,499	9,145
	Accruals	6,,833	19,333
	Statutory liabilities	4,393	11,352
	Credit cards	13,844	11,215
	GCT	2,087	14,366
	Royalties payable	5,764	2,475
	Other	<u>2,400</u>	<u>4,606</u>
		<u>48,820</u>	<u>72,492</u>

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27. OPERATING LEASE COMMITMENTS:

KLE company entered into lease commitments in relation to Famous Night Club which was set to expire on 30 April 2021. However, in accordance with the provisions of the lease, KLE served written notice to terminate the lease effective 31 January 2016. Resulting from the early termination of the lease KLE was indebted to the lessor in the amount of \$20,800,000.

Subsequently, KLE agreed that in settlement of the debt KLE will transfer to the Lessor certain items of equipment and material owned by KLE located in the leased premises and formerly used in the operation of the Famous Night Club together with the benefit of leasehold improvement done by KLE at its expense at the leased premises. This settlement was finalized in 2016.

28. CONTINGENT LIABILITIES:

Tax Administration Jamaica (TAJ)

The company is contingently liable to the Tax Administration Jamaica (TAJ) in respect of statutory liabilities and General Consumption Tax for late payments which attract interest and penalties.