

K.L.E. GROUP LIMITED
FINANCIAL STATEMENTS
31 DECEMBER 2021

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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of K.L.E. Group Limited (the company) set out on pages 6 to 48, which comprise the statements of financial position as at 31 December 2021, 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 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of 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 Standard Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with the IESBA code.

We believe that 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

How our audit addressed the Key audit matters

Investment in Joint venture

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

As at 31 December 2021, investment in joint venture represents approximately 7% of the company's total assets.

Investment in joint venture is originally carried at cost. 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.

We assessed the status of the agreement by obtaining third party confirmation to ensure that the agreement between K.L.E. 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 concluded that the project is viable and no adjustments were considered necessary.

Effect of COVID - 19 Pandemic

See note 28 to financial statements for management's disclosures.

The company's revenue is derived from its operation of a restaurant. Given the impact of the COVID-19 Pandemic on the sector, we focused on the appropriateness of preparing the financial statements on the going concern basis.

We assessed and tested the appropriateness of preparing the financial statements of the company on the going concern basis.

Based on our review, management has identified an uncertainty that may cast doubt on the company's ability to continue as a going concern. Various strategies were put in place, including the discontinuation of the restaurant operation which was transferred to a related entity, to mitigate against the effects.

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 requirements of the 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)

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

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

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

Report on additional matters as required by the Jamaican Companies Act

We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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



Chartered Accountants

28 April 2022

K.L.E. GROUP LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

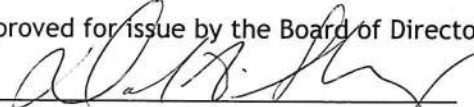
YEAR ENDED 31 DECEMBER 2021

	<u>Note</u>	<u>2021</u> <u>\$'000</u>	<u>2020</u> <u>\$'000</u>
REVENUE	6	-	151,379
Cost of sales	9	-	(44,370)
GROSS PROFIT		-	107,009
Other operating income	7	78,476	505
Administrative and other expenses	9	(21,357)	(186,062)
OPERATING PROFIT/(LOSS)		57,119	(78,548)
Finance costs	8	(16,169)	(10,552)
Share of post-tax loss of equity accounted associate	16	40,950 (6,978)	(89,100) (13,230)
Profit/(loss) before taxation		33,972	(102,330)
Taxation	11	(8,241)	(1,627)
Profit/(loss) from continuing operation		25,731	(103,957)
Loss from discontinued operation	27	(11,400)	-
		14,331	(103,957)
OTHER COMPREHENSIVE INCOME:			
Items that may be reclassified to profit or loss - Unrealised loss on investments	15	(528)	(531)
TOTAL COMPREHENSIVE PROFIT/(LOSS)		<u>13,803</u>	<u>(104,488)</u>
EARNINGS PER STOCK UNIT BASIC AND DILUTED	12	<u>\$0.14</u>	<u>(\$1.04)</u>

K.L.E. GROUP LIMITED
STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2021

	<u>Note</u>	<u>2021</u> <u>\$'000</u>	<u>2020</u> <u>\$'000</u>
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	13	-	108,562
Investments in joint venture	14	15,276	14,078
Investments	15	34,702	7,889
Investment in associate	16	68,356	42,634
Long term receivables	17	-	7,330
Deferred tax asset	18	-	8,241
Right of use asset	19	<u>27,820</u>	<u>32,791</u>
		<u>146,154</u>	<u>221,525</u>
CURRENT ASSETS:			
Inventories	20	-	3,525
Receivables	17	6,402	10,509
Due from related parties	21	-	44,734
Cash and bank balances	22	<u>57,233</u>	<u>4,457</u>
		<u>63,635</u>	<u>63,225</u>
		<u>209,789</u>	<u>284,750</u>
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	23	122,903	122,903
Fair value reserve	24	1,379	1,907
Accumulated deficit		<u>(115,630)</u>	<u>(129,961)</u>
		<u>8,652</u>	<u>(5,151)</u>
NON-CURRENT LIABILITIES:			
Long term liabilities	25	86,882	178,545
Lease liability	19	18,093	25,413
Due to related party	21	<u>12,420</u>	<u>-</u>
		<u>117,395</u>	<u>203,958</u>
CURRENT LIABILITIES:			
Payables	26	54,624	53,755
Lease liability		14,348	10,444
Bank overdraft	22	9,294	9,035
Taxation		45	646
Current portion of long term liabilities	25	<u>5,431</u>	<u>12,063</u>
		<u>83,742</u>	<u>85,943</u>
		<u>209,789</u>	<u>284,750</u>

Approved for issue by the Board of Directors on 28 April 2022 and signed on its behalf by:


 David Shirley - Chairman


 Gary Matalon - Director

K.L.E. GROUP LIMITED
STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31 DECEMBER 2021

	<u>Share Capital</u> <u>\$'000</u>	<u>Fair Value Reserve</u> <u>\$'000</u>	<u>Accumulated Deficit</u> <u>\$'000</u>	<u>Total</u> <u>\$'000</u>
BALANCE AT 1 JANUARY 2020	<u>122,903</u>	<u>2,438</u>	<u>(26,004)</u>	<u>99,337</u>
TOTAL COMPREHENSIVE LOSS				
Net loss	-	-	(103,957)	(103,957)
Other comprehensive loss	<u>-</u>	<u>(531)</u>	<u>-</u>	<u>(531)</u>
	<u>-</u>	<u>(531)</u>	<u>(103,957)</u>	<u>(104,488)</u>
BALANCE AT 31 DECEMBER 2020	<u>122,903</u>	<u>1,907</u>	<u>(129,961)</u>	<u>(5,151)</u>
TOTAL COMPREHENSIVE PROFIT				
Net profit	-	-	14,331	14,331
Other comprehensive loss	<u>-</u>	<u>(528)</u>	<u>-</u>	<u>(528)</u>
	<u>-</u>	<u>(528)</u>	<u>14,331</u>	<u>13,803</u>
BALANCE AT 31 DECEMBER 2021	<u>122,903</u>	<u>1,379</u>	<u>(115,630)</u>	<u>8,652</u>

K.L.E. GROUP LIMITED

STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2021

	<u>2021</u> <u>\$'000</u>	<u>2020</u> <u>\$'000</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss profit/(loss)	14,331	(103,957)
Items not affecting cash resources:		
Amortisation of ROU assets	4,971	9,434
Depreciation	9,290	21,241
Interest income	(17)	(5)
Effects of exchange translation	(1,084)	(3,952)
Share of loss from associate	6,978	13,230
Interest expense	16,169	10,552
Bad debt provision	-	8,765
Taxation	8,241	1,627
Gain on transfer to related party	(6,382)	-
	<u>52,497</u>	<u>(43,065)</u>
Changes in operating assets and liabilities:		
Inventories	3,525	(64)
Receivables	11,437	9,102
Related parties	30,234	8,845
Payables	869	11,628
Fixed asset transfer to related party	99,390	-
	<u>197,952</u>	<u>(13,554)</u>
Taxation paid	(601)	-
Cash provided by/(used in) operating activities	<u>197,351</u>	<u>(13,554)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	17	5
Purchase of investments	(26,813)	-
Purchase of property, plant and equipment	(118)	(106,895)
Proceeds from sales of investments	-	<u>3,400</u>
Cash used in investing activities	<u>(26,914)</u>	<u>(103,490)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Lease liability payments	(5,202)	(6,368)
Loan interest paid	(14,383)	(7,468)
Lease interest paid	(1,786)	(3,084)
Loan repayments	(97,633)	(65,052)
Loan proceeds	-	<u>190,608</u>
Cash (used in)/provided by financing activities	<u>(119,004)</u>	<u>108,636</u>
Increase/(decrease) in cash and cash equivalents	51,433	(8,408)
Effect of exchange gains on foreign balances	1,084	3,952
Cash and cash equivalents at beginning of year	(4,578)	(122)
CASH AND CASH EQUIVALENTS AT END OF YEAR (note 22)	<u>47,939</u>	<u>(4,578)</u>

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2021

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 were the operation of a restaurant under the brand of "Tracks and Records", and the provision of management services to T & R Restaurant Systems Limited. During the year the company discontinued the restaurant operation and the related assets and liabilities of the restaurant operation were transferred to T & R Restaurant Systems Limited, a related company.
- (c) K.L.E. 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. Amounts are rounded to the nearest thousand, unless otherwise stated.

(a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards and International Accounting Standards as issued by the International Accounting Standards Board (IASB) and interpretations (collectively IFRS). The financial statements have been prepared under the historical cost convention as modified by certain properties and financial assets that are measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. 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 2021

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D):

(a) Basis of preparation (cont'd)

New, standards, interpretations and amendments effective in the current year

Certain new standards and 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 there were no new standards, interpretations and amendments which are relevant to its operations.

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

The following amendment to standard which is not yet effective and has not been adopted early in these financial statements, will or may have an effect on the company's future financial statements:

Amendments to IAS 1, 'Presentation of Financial Statements' on Classification of the Liabilities (effective for accounting periods beginning on or after 1 January 2023). These narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectation of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability. The company will assess the impact of future adoption of this amendment on its financial statements.

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 recognized in the statement of financial position at cost.

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2021

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D):

(a) Basis of preparation (cont'd)

Associates (cont'd)

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 recognized 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 recognized 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 2021

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D):

(a) Basis of preparation (cont'd)

Joint ventures (cont'd)

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

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

(b) Foreign currency translation

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

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

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

(c) Property, plant and equipment

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

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

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2021

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D):

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

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

Equipment	10%
Furniture and fixtures	10%
Leasehold improvements	12.5%
Security system	10%
Computers	20%

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

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

(d) Leases

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of 12 months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the company's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2021

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D):

(d) Leases (cont'd)

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the company if it is reasonable certain to assess that option;
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right of use assets are initially measured at an amount equal to the initial value of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the company contractually required to dismantle, remove or restore the leased asset.

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

When the company revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted using a revised discount rate. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised, except the discount rate remains unchanged. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term. If the carrying amount of the right-of-use asset is adjusted to zero, any further reduction is recognised in profit or loss.

K.L.E. GROUP LIMITED**NOTES TO THE FINANCIAL STATEMENTS****31 DECEMBER 2021****3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D):****(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 asset exceeds its recoverable amount, which is the greater of an asset's net selling price and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identified cash flows.

(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) Recognition and derecognition**

Financial assets are initially recognised on the settlement date, which is the date that an asset is delivered to the company. This includes regular purchases of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

The company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains all or substantially all the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such de-recognised financial assets that is created or retained by the company is recognised as a separate asset or liability.

(ii) Classification

The company classifies all of its financial instruments at initial recognition based on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value, except in the case of financial assets recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

The company classifies its financial assets as those measured at amortised cost and fair value through other comprehensive income.

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2021

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D):

(f) Financial instruments (cont'd)

Financial assets (cont'd)

(iii) Measurement category

Amortised cost

These assets arise principally from the provision of goods and services to customers (eg. trade receivables), but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest (SPPI). They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

The company's financial assets measured at amortised cost comprise receivables and cash and cash equivalents in the statement of financial position.

Fair value through other comprehensive income

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

(iv) **Impairment**

Impairment provisions for current and non-current trade receivables are recognised based on the simplified approach within IFRS 9 using a provision matrix in the determination of the lifetime expected credit losses (ECL).

During this process the probability of the non-payment of the trade receivables is assessed by taking into consideration historical rates of default for each segment of trade receivables as well as the estimated impact of forward looking information. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime ECL for the trade receivables. For trade receivables, which are reported net, such provisions are recorded in a separate provision account with the loss being recognised within the statement of profit or loss. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2021

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D):

(f) Financial instruments (cont'd)

Financial assets (cont'd)

(iv) Impairment (cont'd)

Impairment provisions for receivables from related parties and loans to related parties are recognised based on a forward-looking expected credit loss model. The methodology used to determine the amount of the provision is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset. For those where the credit risk has not increased significantly since initial recognition of the financial asset, twelve month expected credit losses are recognised.

For those for which credit risk has increased significantly, lifetime expected credit losses are recognised. For those that are determined to be credit impaired, lifetime expected credit losses are recognised.

Financial liabilities

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

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

Trade and other payables are measured at amortised cost.

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

(g) 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.

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D):

(h) 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) above.

(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.

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2021

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D):

(i) 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.

(j) 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) Revenue recognition

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

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2021

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D):

(k) Revenue recognition (cont'd)

Sale of meals

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

Management fee

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

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

Sponsorship income

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

Dividend income

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

Interest income

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

Other operating income

Other income includes gains on the sale of 9% interest in the Bessa Project representing sweat equity.

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2021

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D):

(l) 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.

(m) 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.

(a) Key sources of estimation uncertainty

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

(i) Fair value estimation

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

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2021

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

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

(i) Fair value estimation (cont'd)

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

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

Level 1	Quoted prices in active markets for identical assets or liabilities (unadjusted).
Level 2	Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
Level 3	Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

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

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

The company measures investments at fair value.

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

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2021

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

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

(i) Fair value estimation (cont'd)

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

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

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

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

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

(ii) Allowance for impairment losses on receivables

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

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2021

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

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

(iii) Depreciable assets

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

(iv) Income taxes

Estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The company recognizes liabilities for possible tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were originally recorded, such differences will impact income tax and deferred tax provisions in the period in which such determination is made.

(v) Net realizable value of inventories

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

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

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2021

5. FINANCIAL RISK MANAGEMENT:

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

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

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

There have been no substantive changes in the company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

(i) Principal financial instruments

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

- Investments
- Receivables
- Cash and bank balances
- Payables
- Long term liabilities

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2021

5. FINANCIAL RISK MANAGEMENT (CONT'D):

(ii) Financial instruments by category

Financial assets

	<u>Amortised cost</u>		<u>Fair value through other comprehensive income</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Investments	-	-	34,702	7,889
Receivables	-	9,081	-	-
Cash and bank balances	<u>57,233</u>	<u>4,457</u>	<u>-</u>	<u>-</u>
Total financial assets	<u>57,233</u>	<u>13,538</u>	<u>34,702</u>	<u>7,889</u>

Financial liabilities

	<u>At amortised cost</u>	
	<u>2021</u>	<u>2020</u>
	<u>\$'000</u>	<u>\$'000</u>
Bank overdraft	9,294	9,035
Payables	670	43,824
Lease liabilities	32,441	35,857
Long term liabilities	<u>92,313</u>	<u>190,608</u>
Total financial liabilities	<u>134,718</u>	<u>279,324</u>

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2021

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:

	<u>Level 1</u>	
	<u>2021</u>	<u>2020</u>
	<u>\$'000</u>	<u>\$'000</u>
Financial assets		
Investments	34,702	7,889
Total financial assets	<u>34,702</u>	<u>7,889</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

Foreign exchange risk

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

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

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2021

5. FINANCIAL RISK MANAGEMENT (CONT'D):

(iv) Financial risk factors (cont'd)

(i) Market risk (cont'd)

Foreign exchange risk (cont'd)

Concentration of currency risk

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

	<u>2021</u> <u>\$'000</u>	<u>2020</u> <u>\$'000</u>
Cash and bank balances	54,098	1,381
Payables	-	<u>(3,383)</u>
	<u>54,098</u>	<u>(2,002)</u>

Foreign currency sensitivity

The following table indicates the sensitivity of loss before taxation to changes in foreign exchange rates. The change in currency rate below represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis represents outstanding foreign currency denominated cash and bank balances, receivables and payables and adjusts their translation at the year-end for 8% (2020 - 6%) depreciation and a 2% (2020 - 2%) appreciation of the Jamaican dollar against the US dollar.

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

	<u>% Change in</u> <u>Currency Rate</u> <u>2021</u>	<u>Effect on</u> <u>Profit before</u> <u>Tax</u> <u>31 December</u> <u>2021</u> <u>\$'000</u>	<u>% Change in</u> <u>Currency Rate</u> <u>2020</u>	<u>Effect on</u> <u>Loss before</u> <u>Tax</u> <u>31 December</u> <u>2020</u> <u>\$'000</u>
Currency:				
USD	-8	(4,328)	-6	(120)
USD	<u>+2</u>	<u>1,082</u>	<u>+2</u>	<u>40</u>

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2021

5. FINANCIAL RISK MANAGEMENT (CONT'D):

(iv) Financial risk factors (cont'd)

(i) Market risk (cont'd)

Foreign currency sensitivity (cont'd)

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

At 31 December 2021 - J\$151.62 - US\$1.00

At 31 December 2020 - J\$143.27 - US\$1.00

Price risk

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

Cash flow and fair value interest rate risk

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

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

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

Interest rate sensitivity

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

There is no significant exposure to interest rate risk on borrowings as the interest rates are fixed.

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2021

5. FINANCIAL RISK MANAGEMENT (CONT'D):

(iv) Financial risk factors (cont'd)

(ii) Credit risk

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

Cash and bank balances

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

Investments

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

Trade receivables

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

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2021

5. FINANCIAL RISK MANAGEMENT (CONT'D):

(iv) Financial risk factors (cont'd)

(ii) Credit risk (cont'd)

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

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

(iii) Liquidity risk

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

Liquidity risk management process

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

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

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2021

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>	Over 5 Years <u>\$'000</u>	Total <u>\$'000</u>
31 December 2021					
Trade payables	670	-	-	-	670
Finance lease	15,477	14,235	5,775	-	35,487
Bank overdraft	9,294	-	-	-	9,294
Accruals and other payables	14,436	-	-	-	14,436
Long term liabilities	<u>13,063</u>	<u>17,651</u>	<u>25,008</u>	<u>64,263</u>	<u>119,985</u>
Total financial Liabilities (contractual maturity dates)	<u>52,940</u>	<u>31,886</u>	<u>30,783</u>	<u>64,263</u>	<u>179,872</u>
	Within 1 Year <u>\$'000</u>	1 to 2 Years <u>\$'000</u>	2 to 5 Years <u>\$'000</u>	Over 5 Years <u>\$'000</u>	Total <u>\$'000</u>
31 December 2020					
Bank overdraft	9,035	-	-	-	9,035
Trade payables	32,124	-	-	-	32,124
Finance lease	13,499	14,562	15,620	5,433	49,114
Accruals and other Payables	43,024	-	-	-	43,024
Long term liabilities	<u>20,207</u>	<u>17,764</u>	<u>99,634</u>	<u>94,108</u>	<u>231,713</u>
Total financial Liabilities (contractual maturity dates)	<u>117,889</u>	<u>32,326</u>	<u>115,254</u>	<u>99,541</u>	<u>365,010</u>

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2021

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>2021</u> <u>\$'000</u>	<u>2020</u> <u>\$'000</u>
Sponsorship income	-	500
Gain on sale of investment	77,348	-
Interest income	17	5
Other income	<u>1,111</u>	<u>-</u>
	<u>78,476</u>	<u>505</u>

8. FINANCE COSTS:

	<u>2021</u> <u>\$'000</u>	<u>2020</u> <u>\$'000</u>
Lease interest expense	1,786	3,084
Interest on loans	<u>14,383</u>	<u>7,468</u>
	<u>16,169</u>	<u>10,552</u>

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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9. EXPENSES BY NATURE:

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

	<u>2021</u> <u>\$'000</u>	<u>2020</u> <u>\$'000</u>
Advertising	-	9,510
Auditors' remuneration	-	1,997
Movement in provision	(8,765)	21,617
Bank charges	2,056	6,411
Cost of inventory recognized as expense	-	44,370
Couriers	-	1,025
Depreciation	-	21,241
Amortization on right of use assets	4,971	9,434
Insurance	-	2,713
IT expenses	-	1,711
Janitorial expense	940	2,220
Legal and professional fees	-	3,308
Maintenance charges	2,284	4,873
Other expenses	-	8,394
Rent	470	2,162
Repairs and maintenance	-	3,586
Royalties	2,938	5,965
Security	-	3,130
Staff costs (note 10)	-	58,059
Travel and entertainment	-	2,394
Utilities	-	17,262
Penalties and interest	17,547	275
Gas	-	2,773
Exchange gain	(1,084)	(3,998)
	<u>21,357</u>	<u>230,432</u>

10. STAFF COSTS:

	<u>2021</u> <u>\$'000</u>	<u>2020</u> <u>\$'000</u>
Wages and salaries	-	50,497
Statutory contributions	-	5,616
Staff welfare	-	1,946
Uniform	-	-
	<u>-</u>	<u>58,059</u>

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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11. TAXATION EXPENSE:

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

	<u>2021</u> <u>\$'000</u>	<u>2020</u> <u>\$'000</u>
Deferred tax (note 18)	(8,241)	(1,627)

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

	<u>2021</u> <u>\$'000</u>	<u>2020</u> <u>\$'000</u>
Profit/(loss) before taxation	40,950	(89,100)
Tax calculated at 25%	10,238	(22,275)
Adjusted for the effects of:		
Disallowed expenses	9,858	24,800
Depreciation charge and capital allowances	(1,478)	(3,466)
Other charges, remission and credits	(26,859)	(686)
Taxation charge to profit or loss	(8,241)	(1,627)

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2021

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 \$Nil (2020 - \$220,961,692) available for set-off against future profits. A deferred tax asset was not recognized in respect of these losses.

Remission of income tax:

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

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

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

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

Earnings per stock unit is calculated by dividing the net loss 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>2021</u>	<u>2020</u>
Net profit/(loss) attributable to stockholders (\$'000)	14,331	(103,957)
Number of ordinary stock units (weighted average) ('000)	100,000	100,000
Basic and diluted earnings per stock unit (\$)	<u>0.14</u>	<u>(1.04)</u>

K.L.E. GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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13. PROPERTY, PLANT AND EQUIPMENT:

	Leasehold Improvements \$'000	Equipment \$'000	Furniture & Fixtures \$'000	Security System \$'000	Computers \$'000	Total \$'000
Cost -						
1 January 2020	77,157	25,193	38,999	2,373	10,782	154,504
Additions	62,176	8,517	32,231	2,449	1,522	106,895
31 December 2020	139,333	33,710	71,230	4,822	12,304	261,399
Additions	-	118	-	-	-	118
Transfer	(139,333)	(33,828)	(71,230)	(4,822)	(12,304)	(261,517)
31 December 2021	-	-	-	-	-	-
Depreciation -						
1 January 2020	73,122	17,644	34,147	1,324	5,359	131,596
Charge for the year	8,168	3,005	6,724	26	3,318	21,241
31 December 2020	81,290	20,649	40,871	1,350	8,677	152,837
Charge for the year	4,395	1,032	2,565	273	1,025	9,290
Transfer	(85,685)	(21,681)	(43,436)	(1,623)	(9,702)	(162,127)
31 December 2021	-	-	-	-	-	-
Net book value -						
31 December 2021	-	-	-	-	-	-
31 December 2020	58,043	13,061	30,359	3,472	3,627	108,562

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14. INVESTMENT IN JOINT VENTURE:

	<u>2021</u> <u>\$'000</u>	<u>2019</u> <u>\$'020</u>
Bessa Project	<u>15,276</u>	<u>14,078</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 plus US\$200,000 sweat equity. However, in 2017 the Board of Directors of K.L.E. decided to reduce its direct funding in respect of the Bessa Project to a maximum of US\$100,007 and accordingly invited a small company of investors (the "Participants") to assume the risk and reward of participating in the Bessa Partnership to the extent of US\$250,000, and US\$200,000.

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.

K.L.E. GROUP LIMITED

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14. INVESTMENT IN JOINT VENTURE (CONT'D):

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

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

Investment in 'Bessa' is carried at cost as the project is close to completion.

15. INVESTMENTS:

	<u>2021</u> <u>\$'000</u>	<u>2020</u> <u>\$'000</u>
<u>Quoted shares</u>		
Opening net book amount	7,889	12,919
Additions during the year	27,341	-
Disposals	-	(4,499)
Fair value adjustment	(528)	(531)
	<u>34,702</u>	<u>7,889</u>

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16. INVESTMENT IN ASSOCIATE:

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

	<u>2021</u> <u>\$'000</u>	<u>2020</u> <u>\$'000</u>
Investment at beginning of year	42,634	55,864
Additional investment	32,700	-
Share of results after tax	(6,978)	(13,230)
At end of year	<u>68,356</u>	<u>42,634</u>

Additional investment represents \$32.7 million of receivables owed by a related party that was converted to investments during the year.

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

	<u>2021</u> <u>\$'000</u>	<u>2020</u> <u>\$'000</u>
Assets	200,075	23,690
Liabilities	226,520	102,849
Revenue	102,668	1,941
Net loss	<u>(14,240)</u>	<u>(27,000)</u>

17. RECEIVABLES:

	<u>2021</u> <u>\$'000</u>	<u>2020</u> <u>\$'000</u>
Trade receivables		
Trade receivables	-	504
Related party (note 21)	<u>-</u>	<u>8,577</u>
Total financial assets other than cash and cash equivalents classified as amortised cost	-	9,081
Prepayments and other receivables	6,402	8,758
Less: long term portion - other receivables	<u>-</u>	<u>(7,330)</u>
	<u>6,402</u>	<u>10,509</u>

The long term portion of other receivables represent amounts due to K.L.E. Group Ltd for performing its obligations under the ongoing Bessa Project (see note 14).

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18. DEFERRED TAX:

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

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

The movement in the deferred tax account is as follows:

	<u>Accelerated</u> <u>Tax</u> <u>Depreciation</u> <u>\$'000</u>	<u>2020</u> <u>\$'000</u>
Balance at start of year	8,241	9,868
Charge for the year (note 11)	(8,241)	(1,627)
Balance at end of year	<u> -</u>	<u>8,241</u>

19. RIGHT OF USE ASSET:

The company recognized the right -of-use asset for its leased premises as follows:

	<u>2021</u> <u>\$'000</u>	<u>2020</u> <u>\$'000</u>
Adoption of IFRS 16	32,791	42,225
Amortisation	(4,971)	(9,434)
Balance 31 December	<u>27,820</u>	<u>32,791</u>

The following table presents the lease obligation for the company:

	<u>2021</u> <u>\$'000</u>	<u>2020</u> <u>\$'000</u>
Adoption of IFRS 16	35,857	39,141
Interest expense on lease obligation	1,786	3,084
Rent payments	(5,202)	(6,368)
	<u>32,441</u>	<u>35,857</u>

K.L.E. GROUP LIMITED
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19. **RIGHT OF USE OF ASSETS (CONT'D):**

The company recognized the right-of-use asset for its leased premises as follows:

	<u>2021</u> <u>\$'000</u>	<u>2020</u> <u>\$,000</u>
Current portion	14,348	10,444
Non-current portion	<u>18,093</u>	<u>25,413</u>
31 December	<u><u>32,441</u></u>	<u><u>35,857</u></u>
	<u>2021</u> <u>\$'000</u>	<u>2020</u> <u>\$'000</u>
Short term lease expenses	<u>470</u>	<u>2,473</u>

K.L.E. Group Ltd leases the property for fixed periods of up to five (5) years with option to renew and obtain lease term extensions. When measuring the leases obligation, the company discounted the remaining lease payments using its incremental borrowing rate at the date of initial application which is 8% per annum.

20. **INVENTORIES:**

	<u>2021</u> <u>\$'000</u>	<u>2020</u> <u>\$'000</u>
Goods for resale	<u>-</u>	<u>3,525</u>

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

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

Sales/revenue -

During the year, the company earned management fees of \$Nil (2020 - \$3,600,000).

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21. RELATED PARTY TRANSACTIONS AND BALANCES (CONT'D):

(b)	Key management compensation	<u>2021</u>	<u>2020</u>
		<u>\$'000</u>	<u>\$'000</u>
	Wages and salaries	18,549	16,914
	Payroll taxes - Employer's portion	<u>2,054</u>	<u>1,791</u>
		<u>20,603</u>	<u>18,705</u>
	Director's emoluments - Management remuneration (included above)	<u>-</u>	<u>2,942</u>
(c)	Year end balances arising from transactions with related parties	<u>2021</u>	<u>2020</u>
		<u>\$'000</u>	<u>\$'000</u>
	Due (to)/from - T & R Restaurant Systems Limited	(12,420)	53,499
	Less: ECL provision	<u>-</u>	<u>(8,765)</u>
		<u>(12,420)</u>	<u>44,734</u>

22. CASH AND CASH EQUIVALENTS:

		<u>2021</u>	<u>2020</u>
		<u>\$'000</u>	<u>\$'000</u>
	Cash and bank balances	57,233	4,457
	Bank overdraft	<u>(9,294)</u>	<u>(9,035)</u>
		<u>47,939</u>	<u>(4,578)</u>

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23.	SHARE CAPITAL:	<u>2021</u> <u>\$'000</u>	<u>2020</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>2021</u> <u>\$'000</u>	<u>2020</u> <u>\$'000</u>
	Related party loan	94,108	94,108
	Transferred to T & R Restaurant Systems Limited	(94,108)	-
		-	<u>94,108</u>
	Sagicor Bank Limited		
	\$70 million loan	66,620	70,000
	\$26.5 million loan	<u>25,693</u>	<u>26,500</u>
		92,313	190,608
	Less: current portion	<u>(5,431)</u>	<u>(12,063)</u>
		<u>86,882</u>	<u>178,545</u>

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25. LONG TERM LIABILITIES (CONT'D):

Loan in the amount of \$70 million and \$26.5 million attracts interest at a rate of 13% per annum and are for a period of 96 months. They are secured by first demand debenture over fixed and floating assets supported by receivables, plant, property and equipment stamped to cover J\$31.8 million. It is also secured by debenture to be stamped for a further J\$38.7 million and to be held in registrable form and assignment of commercial all risks insurance valuing \$60 million. They are also secured by hypothecation of various Sigma Funds unit investments in both Jamaican and United States dollars currency.

The assets were transferred to a related party during the year which is controlled by the major shareholder.

26. PAYABLES:

	<u>2021</u> <u>\$'000</u>	<u>2020</u> <u>\$'000</u>
Trade payables	670	32,124
Accruals	1,871	2,073
Statutory liabilities	17,507	3,937
GCT	22,011	5,994
Royalties payable	<u>12,565</u>	<u>9,627</u>
	<u>54,624</u>	<u>53,755</u>

The company is liable to the Tax Administration Jamaica (TAJ) in respect of unpaid GCT, statutory liabilities and related interest and penalties. The interest and penalties were not booked by the company as it is in discussion with (TAJ) regarding a waiver of these amounts.

27. DISCONTINUED OPERATION:

	<u>2021</u> <u>\$'000</u>	<u>2020</u> <u>\$'000</u>
Total revenue	73,364	-
Cost of sales	(22,744)	-
GROSS PROFIT	50,620	-
Gain on sale of discontinued operation	<u>6,382</u>	-
	<u>57,002</u>	<u>-</u>

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27. DISCONTINUED OPERATION (CONT'D):

	<u>2021</u> <u>\$'000</u>	<u>2020</u> <u>\$'000</u>
ADMINISTRATIVE AND OHER EXPENSES:		
Advertising	3,996	-
Auditors' remuneration	2,287	-
Couriers	494	-
Depreciation	9,290	-
Insurance	966	-
IT expenses	493	-
Legal and professional fees	4,673	-
Other expenses	3,744	-
Repairs and maintenance	1,065	-
Security	798	-
Staff costs (note 10)	29,212	-
Travel and entertainment	608	-
Utilities	8,901	-
Gas	<u>1,875</u>	<u>-</u>
	<u>68,402</u>	<u>-</u>
LOSS FROM DISCONTINUED OPERATION	<u>(11,400)</u>	<u>-</u>

The gain on the discontinued operations was determined as follows:

Total consideration	-	-
Net book value of property, plant and equipment receivables and inventories	105,658	-
Non-current and current liabilities	<u>(112,040)</u>	<u>-</u>
Gain on transfer of discontinued operations	<u>6,382</u>	<u>-</u>

The statement of cash flows included the following amounts relating to discontinued operation:

	<u>2021</u> <u>\$'000</u>	<u>2020</u> <u>\$'000</u>
Operating activities	6,382	-
Investing activities	<u>(6,382)</u>	<u>-</u>
Net cash flow on discontinued operation	<u>-</u>	<u>-</u>

28. IMPACT OF COVID -19:

The COVID-19 Pandemic saw our industry taking a major hit as a result of government restrictions, lockdown and public perception. To combat these effects the company instituted a number of promotions and strategies since the onset of the pandemic. New opportunities were exploited and management would have done all they could to ensure the brand remained vibrant.

The brand later however, had to take a decision as to the future of the restaurant division. The Board of Directors made the decision to undergo a restructuring to inject capital into the company as well as revitalize the brand as a whole.

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28. IMPACT OF COVID -19 (CONT'D):

K.L.E. Group (“KLE”, “the Company”) advises that during 2021 the Board of Directors took the decision to pursue with T&R Restaurant Systems Limited (t/a “Franjam”), an associated company in which KLE owns a 49% stake, a restructuring of the Company’s operations with an effective date of July 1, 2021, conditional on obtaining the approval of its bankers. Formal agreement on the terms of the restructuring having been reached between KLE and Franjam, we sought and have obtained the approval of our bankers, allowing this announcement to be made.

The Board based its decision to pursue the initiative of the urgency of the need to stem the losses which KLE has been incurring since the onset of the COVID-19 pandemic and the severely restricted operations that have impacted our food and beverage business. It was therefore the Board’s considered opinion on the matter that the Company required an urgent and significant restructuring of its assets and liabilities in order to protect against the further erosion of shareholder value.

The restructuring sees the Company’s restaurant operations, and its associated assets transferred to Franjam, on the basis that in return for such transfer, Franjam assumes full responsibility for the liabilities associated with the restaurant operations, thereby relieving KLE of these significant operating costs. This is a non-cash transaction between the entities, the assets of \$105,658,050 and liabilities of \$112,039,560 resulted in a gain of \$6,381,510.

KLE will continue to manage its other significant and substantially more valuable business line, i.e., the Bessa development project (with its partner Sagicor Group Jamaica Limited), which is now in the final stages. The Board anticipates it will realise a positive return on that project, and will also enjoy revenue from the property management function at Bessa which it will assume on the completion of the project.

Additionally, in order to provide much needed liquidity for the Company, during the final quarter of the financial year, the Board also took the opportunity to conclude a commercial arrangement with a director of the company, through which he provided immediate funding to the Company on a non-recourse basis in exchange for the Company paying over to him, as and when received, an agreed portion of its share of profit that it is currently projected to earn at the conclusion of the Bessa development. A key advantage of the arrangement is that it enabled the company to retire a long outstanding obligation it had in connection with professional services provided to the company at the inception of the project. The arrangement was completed on 24 December 2021.

The effect of the restructuring is that the Company’s focus will pivot away from operating a food and beverage business towards property development and management, while the Company’s balance sheet will have been significantly streamlined and better positioned to power the Company forward in a dynamic environment. Through its continued ownership of a 49% stake in Franjam, KLE will remain in a position to reap indirectly a share of the financial benefits of any turnaround in the operating results of the divested restaurant business, while being insulated from the associated costs of operating that business. The Board will also continue to pursue additional business opportunities as they arise.

The Board remains firmly of the view that these actions taken and the outcomes are in the best interest of the Company and its shareholders in the medium to long term.