KLE GROUP LTD

ANNUAL REPORT

KINGSTON LIVE ENTERTAINMENT

Celebrate
Success

2016

www.klegroupltd.com

VISION / MISSION STATEMENTS

Our Vision

To be the premier entertainment and lifestyle group in Jamaica and beyond.

The KLE Group is now pursuing exciting new projects in franchising, entertainment, tourism and real estate development.

Our Mission

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

Our Brands

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

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

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Board of Directors

BOARD OF DIRECTORS

The K.L.E. Group Board of Directors is a group of individuals with the knowledge, experience and expertise required to maintain and grow a successful business. Comprised of some of Jamaica's top business leaders and entrepreneurs, the K.L.E. Group Board is dedicated to driving financial growth and delivering exceptional shareholder value. The Board will achieve the highest standards of corporate governance and be responsible for the effectiveness of the business entities, ensuring proper controls, monitoring performance, and directing management towards growth and success with the utmost integrity.

CORPORATE GOVERNANCE

The K.L.E. Group is guided by the Jamaica Stock Exchange Junior Market Rules and the Private Sector Organization of Jamaica (PSOJ) Corporate Governance Code which was adopted by a properly constituted Board of Directors in 2013. The Board has implemented many of the best practice recommendations as set out by the PSOJ Governance code. The Board's role is also to ensure transparency in achieving the goals of the business. A procurement policy was put in place by the Board to ensure transparency in the procurement of goods and services. It outlines a set of general principles and procurement procedures that should be adhered to in the procurement of all materials, goods and services.

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

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

CHRIS DEHRING, BSc.
Non-Executive Director

JOE BOGDANOVICH
Non-Executive Director

MARLON A. HILL, ESQ
Non-Executive Director

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

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

NORMAN PEART
Non-Executive Director

BOARD COMMITTEES

The Board's function is to monitor the business systems, review business processes, make decisions, and set policy accordingly to drive the business forward, drive shareholder value, and achieve success. The Board has initially established two committees with clearly defined responsibilities:

Audit Committee

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

As at the date of this Annual Report, the Members of the Audit Committee, as appointed by the Board of Directors are:
("I" denotes Independent Director)

David Shirley	(Chairman)
Leary Mullings	Member
Gary Matalon	Member
Norman Peart	Memeber

Remuneration Committee

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

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

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

Chairman's Report

KLE had a phenomenal 2016 which highlighted our strengths and proudly displayed the ability of our brand to overcome challenges. The amazing turnaround which was realized under the guidance of our resilient CEO and key board members has been years in the making. I am proud to have taken the helm at this critical juncture and would also like to express my appreciation for the incredible work our former Chairman Ambassador Audrey Marks carried out during her tenure.

KLE Group is a cutting edge dynamic entertainment and investment company which continues to break down barriers and chart new courses for Jamaican concepts. The management team is a group of talented determine and exceptionally creative individual that seek to increase the profitability of K.L.E by being innovative in the market. We have excelled in our objective to streamline operations and establish profitability. Despite the economic pressures we remain competitive and viable. In recent years our exchange rate has moved from $70 to $130 against the US dollar yet we prevail while maintaining the standard our customers have come to expect. Like a prized fighter, we are lean and ready for peak performance.

We are looking forward to a 2017 which brings further innovation and sustained profits. We would like to thank our founders, directors, shareholders and employees for their continued support. Without you none of this would be possible. We are encouraged by the current trajectory of KLE and will do everything to play our part in developing our blessed country of Jamaica.

DAVID ALEXANDER SHIRLEY
Chairman

DAVID ALEXANDER SHIRLEY, B.A.

CEO's Message

K.L.E Group successfully ended the financial year of 2016 remarkably owing this to its restructuring efforts over the past three (3) years. This restructuring exercise has enhanced our core business model. During this challenging period the entire K.L.E team have persevered despite speculation and uncertainty. We are undoubtedly on track to implement further cost saving strategies while increasing profits and shareholder value.

Our franchising model through Franjam has proven to be a great success. The company officially opened its head office which allows for greater emphasis on recruiting, training and development. At the end of 2016 FranJam had signed two franchise agreements bringing the total number of Usain Bolt's Tracks and Records units to 3 including K.L.E.'s corporate store. The Ocho Rios franchise which was launched in September 2016 is doing particularly well while the most recent Montego Bay franchise will open in the second half of the year.

There has been a change in the leadership of K.L.E Group in 2016 where Ambassador Audrey P. Marks has been duly appointed by the government of Jamaica once again to be the Ambassador to the United States of America. We are grateful for her contribution to the company and wish her success in fulfilling her role on behalf of the Jamaican People. Our new chairman Mr. David Shirley, a founder of the company officially assumed the position in September 2016. He is an entrepreneur with years of experience with an overarching vision for the company while elevating the brand worldwide. We are confident that David will be a resounding success as we propel K.L.E to the apex of its industry."

We have achieved many of our major targets within the 2016 period. This would not have been possible without the patience and determination of our team. We would like to thank everyone who has made this vision possible including our board of directors, shareholders, team members and customers. We look forward to an even brighter 2017 filled with endless possibilities.

GARY C. MATALON
CEO

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

MANAGEMENT DISCUSSION AND ANALYSIS

Management Discussion and Analysis

Overview

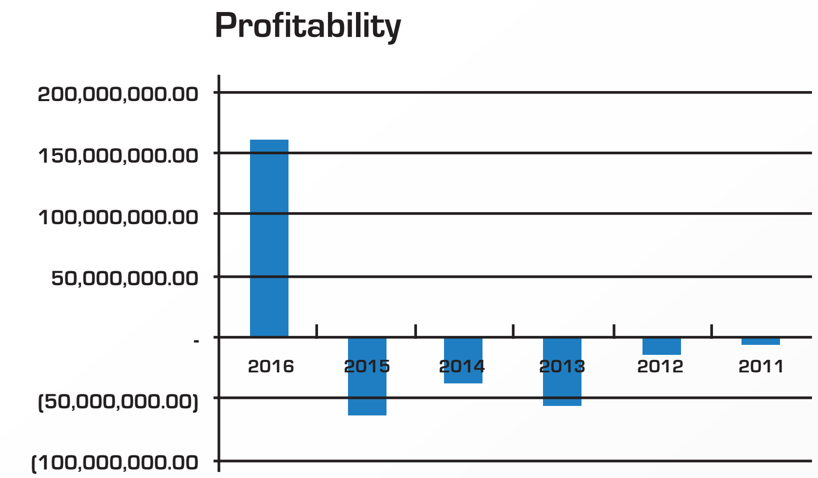
Fiscal year 2016 has been an outstanding one for KLE. The company has achieved a turnaround that positions it for further growth and sustained profitability. Ongoing restructuring efforts have led to greater efficiency in the company's operations and the managment of FranJam which proved a great success for the Tracks and Records brand which will soon have a third location. This newest location will be in Montego Bay, Jamaica and is slated to open in the second half of 2017.. Successful efforts to streamline the company have allowed KLE to maintain a strong focus on the development of the Bessa Project and its franchising model through the company's stake in FranJam..

Sustained Profitability and Growth

KLE recorded an operating profit of $172m which exceeds the previous year's loss of -$34m. A plethora of factors all contributed to this result including prudent financial management, strategic decision making and the diminished initial impact of divesting Famous Night Club. Like 2015, the cost of sales continued to decrease. It went from $68m (40%) in 2015 to $63m (32%) in 2016. Improved supply chain, menu restructuring and new pricing strategies have kept the cost of goods sold at an optimal rate despite economic pressures.

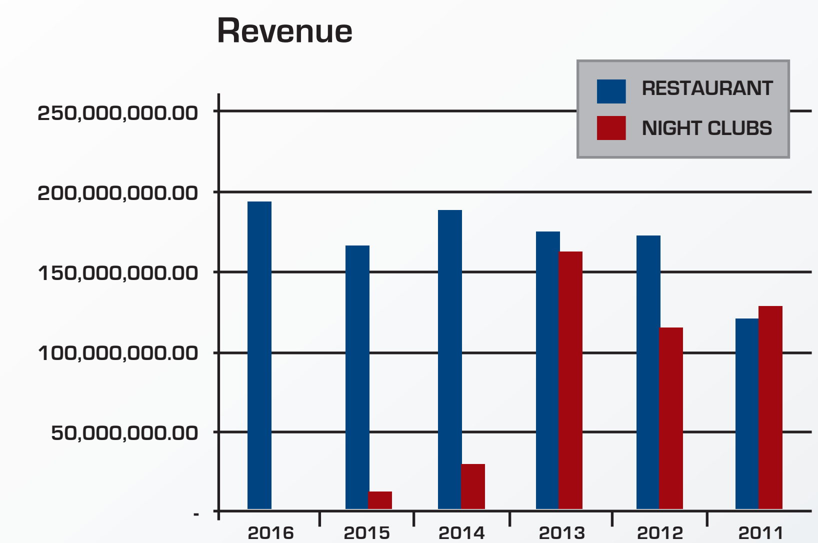
Total revenue for 2016 amounted to $196m compared to $174m in 2015, an increase of more than 12%. Overall expenditure and liabilities have decreased while cash flows have increased from the previous year's negative balance of -1.3m to 6.2m in 2016.

To accommodate further franchising, we have developed FranJam, a franchisor company that will recruit and support franchisees. Through this entity it is expected that several more locations in key international markets will open in the near future. KLE will benefit from this profitable model through its management contract and 49% ownership stake in the company.



Greater Efficiency and Streamlined Operations

Continued restructuring efforts have led to greater efficiency and more streamlined operations. With the divestment of Famous and the continued focus on optimizing operations KLE has consolidated a trend that allows it to remain competitive yet financially sound.



Increased Franchising Activity

Franjam has sold 2 new franchises over the course of the 2015 – 2016 period. Its first, Tracks and Records Ocho Rios officially opened its doors on the 10th of September 2016. Since then, it has recorded substantial revenue and has exceeded expectations. The latest franchise slated to open in Montego Bay during the second half of 2017, is expected to perform favourably within the popular tourist destination. In addition, expansion of the franchising model is being explored with new ideas and concepts currently being researched and developed.

Official Opening of FranJam Head Office

KLE has officially opened its head office at the Barbican Business Centre. FranJam's primary operations will also be conducted from here and will include franchise training, research and development and marketing. The acquisition of the space allows the company to place greater emphasis on effecting a consistent application of the franchising procedures. Already, Tracks and Records Marketplace has increasingly adopted the prescribed model for individual franchises which has contributed significantly to its exceptional 2016 performance.

Construction of the Bessa Project

The construction Phase of the Bessa Project is now underway. Work started in February of 2017. The projected timeline has the boutique lifestyle development being completed within 2 years. Sales and marketing activities are expected to be implemented by the second half of 2017.

KLE has met all its financial targets in the fiscal year ended 2016 including sustained profits, reduced expenditure and instituting more streamlined business strategies. We are at a pivotal point which allows us to focus entirely on new business development, the recruitment of more franchisees and the Bessa Project. Once we have met these objectives, the additional revenue streams will enhance the profitability of the Company.

Outlook

KLE has ended 2016 on a high note with a strong balance sheet, increased profitability and additional revenue streams. These results have been 5 years in the making and have culminated with a uniquely Jamaican franchising concept developed for foreign markets. Each franchise will be built on the 4 pillars of Tracks and Records: food, music, sports and Jamaica/Bolt. We now have the ability to capitalize on home grown brands that can earn stronger foreign currencies which are directly beneficial to the Jamaican economy.

Over the coming months we will be strengthening our strategic initiative. We have engaged Stacey Hines, an expert in project management, corporate strategy, digital marketing and business systems. We are confident that our efforts will further streamline operations and bolster KLE's profitability. Additionally, work will continue at Tracks and Records Marketplace where we have already begun partial renovations and image enhancements to maintain the innovative fusion of contemporary and vintage Jamaican décor.

A solid foundation has been laid. As we move forward we remain resolute in our determination to maintain the strength of the Group, expand on our franchising model and increase shareholder value.

Corporate Social Responsibility

KLE 's philanthropic efforts were fully supported by its management and staff throughout the 2016 period. Several fundraising initiatives were put forward by schools and charitable associations. This allowed us to tailor specific programmes and contributions that would have an immediate impact at the community level.

Gift Certificate Giveaways
Throughout the course of the year we offered gift certificates for a number of charitable causes. The annual Bellevue Hospital Award Ceremony rewarded members of staff with our gift certificates in recognition of their patient service. We partnered with Chas E Ramson by providing gift certificates for their fundraising efforts geared towards an employee who was recently diagnosed with cancer. We also provided gift certificates to Campion College and Liguanea Prep for their respective fundraising activities.

UWI's Halls of Residence Annual Cultural and Awareness Pageant
We also provided support for UWI's Halls of Residence Annual Cultural and Awareness Pageant which is an event focusing on the development of students' global awareness, communication skills, deportment, public speaking skills, team work and self-confidence. The training and preparation required for this event helps to prepare participants for the global work environment.

Dinner Reception for Ballaz International

Ballaz International, a charitable organisation that uplifts the community through football activities, brought an all-star Brazilian team to Jamaica where they played and met with young, vulnerable footballers from troubled communities. We were delighted to assist in making this event possible by hosting the team for dinner at Tracks and Records Market Place.

Avant Music Academy Scholarship Program
We are very proud to be a part of the scholarship programme that is currently being developed for Avant Music Academy. Though it is in its infancy, we have already begun talks to develop a scholarship for musically inclined youngsters who are talented but lack the resources to hone their skills. Upon completion of this programme graduates will showcase their abilities at Tracks and Records venues across the island.

Shareholdings

TEN LARGEST SHAREHOLDERS | AT QUARTER 31 DECEMBER 2016

NAMES	CONNECTED SHARES	PERSONAL SHARES	PERCENTAGE OWNERSHIP
1 Bogdanovich, Joseph		23,168,835	23.17%
2 Matalon, Gary		16,073,628	16.07%
(Neustone Ltd. - connected company)	1,000,000		
(Highbourne Ltd.- connected company)	1,450,000		
(Construction Systems International -connected company)	405,405		
3 Shirley, Stephen		10,111,500	10%
4 Sherwood Holdings Limited		6,757,000	6.76%
5 Shirley, David		6,227,750	6.23%
(Shani McGraham-Shirley - connected party)	150,000		
6 The Gleaner Company Limited		4,971,526	4.97%
7 Jarrett, Zuar		4,200,000	4.20%
8 Supreme Ventures Limited		3,480,000	3.48%
9 Powell, Craig		2,000,000	2.00%
10 JCSD Trustee Services Ltd. - Sigma Venture		3,309,710	3.31%
Total		80,299,949	80.30%
Others		19,700,051	19.70%
Total Issued Shares		100,000,000	100.00%

SHAREHOLDINGS OF DIRECTORS | AT QUARTER 31 DECEMBER 2016

NAMES	CONNECTED SHARES	NO. OF SHARES
1 Gary Matalon		16,073,628
(Neustone Ltd. - connected company)	1,000,000	
(Highbourne Ltd.- connected company)	1,450,000	
(Construction Systems International - connected company)	405,405	
2 David Shirley		6,227,750
(Shani McGraham-Shirley - connected party)	150,000	
3 Joseph Bogdanovich		23,168,835
4 Zuar Jarrett		4,200,000
5 Stephen Shirley		10,111,500
6 Audrey Marks (Chairperson)		Nil
7 Norman Peart		Nil
8 Marlon Hill		Nil
9 Christopher Dehring		Nil

SHAREHOLDINGS OF EXECUTIVE MANAGEMENT | AT QUARTER 31 DECEMBER 2016

NAMES	CONNECTED SHARES	NO. OF SHARES
1 Gary Matalon		16,073,628
(Neustone Ltd. - connected company)	1,000,000	
(Highbourne Ltd.- connected company)	1,450,000	
(Construction Systems International - connected company)	405,405	
2 Herms Stanley		Nil
3 Kevin L. Robinson		18,182
4 Venice Williams		Nil

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BDO

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Chartered Accountants
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Kingston 5, Jar

INDEPENDENT AUDITORS' REPORT

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

Report on Audit of the Financial Statements

Opinion

We have audited the separate financial statements of K.L.E. Group Limited ("the Company"), and the consolidated financial statements of the Company and its subsidiary ("the Group") set out on pages 6 to 60, which comprise the separate and consolidated statements of financial position as at 31 December 2016, the separate and consolidated 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 separate and consolidated financial statements give a true and fair view of the financial position of the Company and the Group as at 31 December 2016, and of its separate and consolidated 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 Consolidated Financial Statements section of our report*. We are independent of the Group 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 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(b) and 15 to financial statements for management's disclosures of related accounting policies. As at 31 December 2016, investment in joint venture represents approximately 6% of the Group's total assets. Investment in joint venture is carried at cost. The Bessa project is still in its preliminary stage. We focused on assessing the carrying value of this investment 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 KLE Group Limited and Sagicor 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 is set to be broken in 2017. We therefore concluded that the project is viable and the carrying value is fairly stated.
Investment in associate	
See note 3(b) and 18 to financial statements for management's disclosures of related accounting policies. As at 31 December 2016, investment in associate represents approximately 32% of the Group's total assets. During the year, KLE sold 51% of its holdings in T & R Restaurant Systems Limited trading as Franjam, resulting in a change from a wholly owned subsidiary to an associate. We focused on assessing whether control was lost and the fair value of the investment which was retained.	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 evaluated the direct future cash flow forecasts, and the process by which they were drawn up, including testing the underlying calculations and comparing them to the latest Board approved budgets. We challenged: - The directors' key assumptions for long term growth rates in the forecasts by comparing them to historical results, economic and industry forecast.

INDEPENDENT AUDITORS' REPORT (CONT'D)

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

Key audit matters (cont'd)	How our audit addressed the key audit matters (cont'd)
Investment in associate (cont'd)	
We assessed the matter of control and significant influence as well as the valuation of the investment and the assumptions used in the valuation. We focused on reviewing the valuation report as it requires significant level of judgement and technical expertise in choosing appropriate assumptions. A number of key assumptions can have a material impact on the calculation of the net earnings potential of the Group, including: • Inflation • Discount rates • Projected cash flows • Adjustments to account for the risks/uncertainties associated with the failure of the associate company to issue the full complement of franchise licences.	We tested the reasonableness of management's projection on: • the number of franchise licences to be issued over the five-year period 2016-2020; • projected annual sales; • inflation rates; and • risk assessment and adjustments. The following procedures were performed: • We obtained management discounted cash flow model (DCF), including qualitative and quantitative analyses and obtained an understanding of the process used to determined net earning potential. • We tested the mathematical accuracy, including verifying spreadsheet formulas, of the DCF model. • We compared the 31 December 2016, financial information to audited results for reasonableness. We verified management's assumptions as follows: • *Revenue growth rates* - we compared the revenue growth rates to historical revenue growth, and industry analysis; and • *Gross margins* - we compared gross margins to historical results, reconciling variances to underlying supporting data and current period results.

INDEPENDENT AUDITORS' REPORT (CONT'D)

Key audit matters (cont'd)

How our audit addressed the key audit matters (cont'd)

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

There were no significant exceptions noted for our procedures performed. We found the assumptions to be consistent and in line with our expectations.

Going concern

See note 29 to financial statements for disclosure on management's assessment of the Group's ability to continue as a going concern into the foreseeable future.

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

We also reviewed loan agreements for compliance with loan covenants.

We have tested the quality of management forecasting by comparing cash flow forecasts from prior period to actual outcomes.

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

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

We also challenged management's assumptions in the forecast for:

- Long term growth rates, by comparing them to economic and industry forecasts; and
- The discount rates, by assessing the cost of capital for the company and comparable organizations.

We found the assumptions consistent and in line with our expectations

Based on our review, the client was found to be compliant with loan covenants.

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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 Consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Group'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 Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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 Consolidated Financial Statements (cont'd)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group 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 consolidated 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.

BDO

Chartered Accountants

27 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME YEAR ENDED 31 DECEMBER 2016

	Note	2016 $'000	2015 $'000
REVENUE	7(a)	195,939	174,255
Cost of sales		(62,697)	(67,663)
GROSS PROFIT		133,242	106,592
Other operating income	7(b)	182,703	2,306
Administrative and other expenses		(144,182)	(143,276)
OPERATING PROFIT/(LOSS)		171,763	(34,378)
Finance costs	8	(2,756)	(1,750)
		169,007	(36,128)
Share of results of associate company	18	(4,581)	-
Profit/(loss) before taxation		164,426	(36,128)
Taxation	11	857	2,484
NET PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		165,283	(33,644)
Net loss from discontinued operation	12	(1,362)	(30,467)
NET PROFIT/(LOSS) FOR THE YEAR, BEING TOTAL COMPREHENSIVE INCOME/(LOSS)		163,921	(64,111)
EARNINGS/(LOSS) PER STOCK UNIT	13	$1.64	($0.64)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION 31 DECEMBER 2016

	Note	2016 $'000	2015 $'000
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	14(a)	60,896	65,349
Investment in joint venture	15	12,754	11,969
Intangible asset	16	-	15,710
Investment in associate	18	72,782	-
Deferred tax asset	19	6,098	5,166
		152,530	98,194
CURRENT ASSETS:			
Inventories	20	3,214	4,497
Receivables	21	22,759	3,927
Due from related parties	22	35,596	3,834
Cash and bank balances	23	9,443	9,281
		71,012	21,539
Non-current asset classified as held for sale	24	-	35,053
		71,012	56,592
		223,542	154,786
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	25	122,903	122,903
Accumulated surplus/(deficit)		7,299	(156,622)
		130,202	(33,719)
NON-CURRENT LIABILITIES:			
Long term liabilities	26	11,217	-
Due to related party	22	1,782	28,788
		12,999	28,788
CURRENT LIABILITIES:			
Payables	27	72,492	87,807
Due to related parties	22	-	49,549
Bank overdraft	23	3,426	9,437
Taxation		859	860
Current portion of long term liabilities	26	3,564	12,064
		80,341	159,717
		223,542	154,786

Approved for issue by the Board of Directors on 27 March 2017 and signed on its behalf by:

Gary Matalon Director

David Shirley - Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31 DECEMBER 2016

	Share Capital $'000	Accumulated (Deficit)/Surplus $'000	Total $'000
BALANCE AT 1 JANUARY 2015	122,903	(92,511)	30,392
TOTAL COMPREHENSIVE LOSS			
Net loss	-	(64,111)	(64,111)
BALANCE AT 31 DECEMBER 2015	122,903	(156,622)	(33,719)
TOTAL COMPREHENSIVE INCOME			
Net profit	-	163,921	163,921
BALANCE AT 31 DECEMBER 2016	122,903	7,299	130,202

CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED 31 DECEMBER 2016

	2016 $'000	2015 $'000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net profit/(loss)	163,921	(64,111)
Items not affecting cash resources -		
Depreciation	16,863	20,388
Interest income	(5)	(50)
Effects of exchange translation	(327)	2,985
Share of loss from associate	4,581	-
Profit on partial disposal of subsidiary	(77,363)	-
Loss on disposal property, plant and equipment	1,129	-
Interest expense	2,756	1,750
Taxation	(857)	(2,484)
	110,698	(41,522)
Changes in operating assets and liabilities -		
Inventories	1,283	2,235
Receivables	5,231	21,453
Related parties	(94,579)	6,418
Payables	(15,997)	3,584
	6,636	(7,832)
Taxation paid	(77)	(60)
Net cash provided by/(used in) operating activities	6,559	(7,892)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	5	50
Purchase of property, plant and equipment	(2,507)	(1,250)
Intangible asset	-	(15,710)
Net cash used in investing activities	(2,502)	(16,910)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Interest expense	(2,756)	(1,750)
Loan repayments	(13,883)	(4,002)
Proceeds from long term loan	16,600	-
Net cash used in financing activities	(39)	(5,752)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	4,018	(30,554)
Effect of exchange gains on foreign balances	2,155	190
Cash and cash equivalents at beginning of year	(156)	30,208
CASH AND CASH EQUIVALENTS AT END OF YEAR (note 23)	6,017	(156)

COMPANY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME YEAR ENDED 31 DECEMBER 2016

	Note	2016 $'000	2015 $'000
REVENUE	7(a)	195,939	168,243
Cost of sales		(62,697)	(67,663)
GROSS PROFIT		133,242	100,580
Other operating income	7(b)	175,906	2,303
Administrative and other expenses		(144,242)	(130,419)
OPERATING PROFIT/(LOSS)		164,906	(27,536)
Finance costs	8	(2,756)	(1,750)
Profit/(loss) before taxation		162,150	(29,286)
Taxation	11	872	2,484
NET PROFIT/(LOSS)		163,022	(26,802)
Net loss from discontinued operation	12	(1,362)	(30,467)
NET PROFIT/(LOSS) FOR THE YEAR, BEING TOTAL COMPREHENSIVE INCOME/(LOSS)		161,660	(57,269)

COMPANY STATEMENT OF FINANCIAL POSITION 31 DECEMBER 2016

	Note	2016 $'000	2015 $'000
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	14(b)	60,896	64,246
Investment in joint venture	15	12,754	11,969
Investment in subsidiary	17	-	1
Investment in associate	18	77,363	-
Deferred tax asset	19	6,098	5,166
		157,111	81,382
CURRENT ASSETS:			
Inventories	20	3,214	4,497
Receivables	21	22,759	3,926
Due from related parties	22	35,596	26,071
Cash and bank balances	23	9,443	8,084
		71,012	42,578
Non-current asset classified as held for sale	24	-	35,053
		71,012	77,631
		228,123	159,013
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	25	122,903	122,903
Accumulated surplus/(deficit)		11,880	(149,780)
		134,783	(26,877)
NON-CURRENT LIABILITIES:			
Long term liabilities	26	11,217	-
Due to related party	22	1,782	28,788
		12,999	28,788
CURRENT LIABILITIES:			
Payables	27	72,492	85,193
Due to related parties	22	-	49,548
Bank overdraft	23	3,426	9,437
Taxation		859	860
Current portion of long term liabilities	26	3,564	12,064
		80,341	157,102
		228,123	159,013

Approved for issue by the Board of Directors on 27 March 2017 and signed on its behalf by:

Gary Matalon - Director

David Shirley - Director

COMPANY STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31 DECEMBER 2016

	Share Capital $'000	Accumulated (Deficit)/Surplus $'000	Total $'000
BALANCE AT 1 JANUARY 2015	122,903	(92,511)	30,392
TOTAL COMPREHENSIVE LOSS			
Net loss	-	(57,269)	(57,269)
BALANCE AT 31 DECEMBER 2015	122,903	(149,780)	(26,877)
TOTAL COMPREHENSIVE INCOME			
Net profit	-	161,660	161,660
BALANCE AT 31 DECEMBER 2016	122,903	11,880	134,783

COMPANY STATEMENT OF CASH FLOWS
YEAR ENDED 31 DECEMBER 2016

	2016 $'000	2015 $'000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net profit/(loss)	161,660	(57,269)
Items not affecting cash resources -		
Depreciation	16,828	20,388
Interest income	(5)	(47)
Effect of foreign exchange translation	(327)	2,985
Gain on partial disposal of subsidiary	(77,363)	-
Interest expense	2,756	1,750
Taxation	(872)	(2,484)
	102,677	(34,677)
Changes in operating assets and liabilities -		
Inventories	1,283	2,235
Receivables	5,230	21,453
Related parties	(88,051)	(15,269)
Payables	(13,383)	430
	7,756	(25,828)
Taxation paid	(61)	(71)
Net cash provided by/(used in) operating activities	7,695	(25,899)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	5	47
Purchase of property, plant and equipment	(2,446)	(147)
Net cash used in investing activities	(2,441)	(100)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Interest expense	(2,756)	(1,750)
Proceeds from long term loan	16,600	-
Loan repayments	(13,883)	(4,002)
Net cash used in financing activities	(39)	(5,752)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	5,215	(31,751)
Effect of exchange gains on foreign balances	2,155	190
Cash and cash equivalents at beginning of year	(1,353)	30,208
CASH AND CASH EQUIVALENTS AT END OF YEAR (note 23)	6,017	(1,353)

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016

1. **IDENTIFICATION AND PRINCIPAL ACTIVITIES:**

(a) K.L.E. Group Limited ('the Company') 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 activity of the Company is the operation of a restaurant under the brand of "Tracks and Records". In prior years, the company's principal activities included the provision of live entertainment, however, the operation of the Famous Night Club was discontinued during 2015.

(c) Previously, T&R Restaurant Systems Limited was a 100% subsidiary of the Company. On 28 March 2016, KLE Company Limited sold 51% of the issued share capital of T & R Restaurant Systems Limited trading as Franjam, to a related party. T & R Restaurant Systems Limited was formed to own, develop, manage and license "Tracks & Records" themed restaurants, as well as manage the future growth, franchising and licensing of other "Tracks & Records" themed restaurants. KLE currently has a 49% shareholding in T & R Restaurant Systems Limited.

2. **REPORTING CURRENCY:**

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the Group operates ('the functional currency'). These consolidated statements are presented in Jamaican dollar which is the Group'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. They are also prepared in accordance with requirements of the Jamaican Companies Act.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016

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

(a) **Basis of preparation (cont'd)**

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 Group'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.

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 Group has assessed the relevance of all such new standards, interpretations and amendments and has concluded that the following standards, interpretations and amendments are immediately relevant to its operations.

Amendment to IAS 1, 'Presentation of Financial Statements: Disclosure Initiative' (effective for accounting periods beginning on or after 1 January 2016). These amendments clarify the existing requirements of IAS 1 and provide additional assistance to apply judgement when meeting the presentation and disclosure requirements in IFRS. The amendment does not affect recognition and measurement and is not expected to have a significant impact on the financial statements.

Amendments to IAS 16, 'Property, Plant and Equipment' and IAS 38, 'Intangible Assets' (effective for accounting periods beginning on or after 1 January 2016). In these amendments, the International Accounting Standards Board (lASB) has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The Group does not expect any impact from the adoption of the amendments on its financial statements as it does not use revenue-based depreciation or amortisation methods.

Amendments to IAS 27, 'Equity Method in Separate Financial Statements' (effective for accounting periods beginning on or after 1 January 2016). The amendments allow the use of the equity method in separate financial statements, and apply to the accounting for subsidiaries, associates, and joint ventures.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016

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 (cont'd)

Amendments to IFRS 10, 'Consolidated Financial Statements' and IAS 28, 'Investments in Associates and Joint Ventures' (effective for accounting periods beginning on or after 1 January 2016). The amendments require that when a parent loses control of a subsidiary in a transaction with an associate or joint venture, the full gain be recognised when the assets transferred meet the definition of a 'business' under IFRS 3, *Business Combinations*.

IASB Annual Improvements - The IASB annual improvements project for the 2012 - 2014 cycle resulted in amendments to the following standards which are relevant to the Group's operations. These amendments are effective for the accounting periods beginning on or after 1 January 2016.

IFRS 5, 'Non-current Assets Held for Sale and Discontinued Operations'. The standard has been amended to clarify that if an entity changes the method of disposal of an asset or disposal group – i.e. reclassifies an asset or disposal group from held for distribution to owners to held for sale or vice versa without any time lag, then the change in classification is considered a continuation of the original plan of disposal and the entity continues to apply held for distribution or held for sale accounting. At the time of the change in method, the entity measures the carrying amount of the asset or disposal group and recognises any write-down (impairment loss) or subsequent increase in the fair value less costs to sell/distribute of the asset or disposal group. If an entity determines that an asset or disposal group no longer meets the criteria to be classified as held for distribution, then it ceases held for distribution accounting in the same way as it would cease held for sale accounting.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016

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

(a) **Basis of preparation (cont'd)**

New standards, amendments and interpretation 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 Group's future financial statements:

IFRS 9, 'Financial Instruments' (effective for accounting periods beginning on or after 1 January 2018). The standard addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. 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 the 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 though profit or loss (FVTPL) - are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different. IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

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.

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

(a) Basis of preparation (cont'd)

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

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 2016. 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.

Amendments to IAS 7, 'Statement of Cash Flows' (effective for accounting periods beginning on or after 1 January 2017), requires an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows.

Amendment to IAS 12, 'Income Taxes' (**effective for accounting periods beginning on or after 1 January 2017).** The amendment clarifies the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. The amendments confirm that a temporary difference exists whenever the carrying amount of an asset is less than its tax base at the end of the reporting period, an entity can assume that it will recover an amount higher than the carrying amount of an asset to estimate its future taxable profit, where the tax law restricts the source of taxable profits against which particular types of deferred tax assets can be recovered, the recoverability of the deferred tax assets can only be assessed in combination with other deferred tax assets of the same type and that tax deductions resulting from the reversal of deferred tax assets are excluded from the estimated future taxable profit that is used to evaluate the recoverability of those assets.

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

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

(b) **Basis of consolidation**

In March 2016, the Group sold 51% of the shares of T & R Restaurant Systems Limited which was previously a 100% owned subsidiary, now an associate. The consolidated statement of profit or loss and other comprehensive income combine the operating results of the company and the then subsidiary up to the time of disposal and also takes into account the Company's share of operating loss of the associate for the remaining nine months. The consolidated statements of financial position and cash flows show the results of the company for 2016 and of the company and its subsidiary for 2015, after eliminating significant intra-group balances and transactions. Unrealized gains or losses on transactions between Group companies are eliminated on consolidation. The company and its subsidiary were collectively referred to in the financial statements as "the Group".

Subsidiaries are entities controlled by the Group. Control exists when the Group is exposed to, or has right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiary are included in the financial statements from the date control commences until the date control ceases.

When the group ceases to have control any retained interest is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

In the company's financial statements for 2015, interest in subsidiary was stated at cost, less impairment loses.

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

(b) **Basis of consolidation (cont'd)**

Associates

Where the Group 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 consolidated statement of financial position at cost. Subsequently associates are accounted for using the equity method where the Group's share of post-acquisition profits or losses and other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income, (except that losses in excess of the Group'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 Group 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 Group'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 Group's associate company, incorporated in Jamaica is T & R Restaurant Systems Limited. The Group has a 49% interest in the company (see note 1c).

Joint ventures

The Group 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 Group and at least one other party. Joint control is assessed under the same principles as control over subsidiaries.

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

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

(b) **Basis of consolidation (cont'd)**

Joint ventures (cont'd)

In assessing the classification of interest in joint arrangement, the Group 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).

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 Group's share of profits and losses and other comprehensive income is recognized in the consolidated 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. Non-monetary items measured at historical cost denominated in a foreign currency are translated using the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

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.

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

(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 Group 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.

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.

K i n g s t o n   L i v e   E n t e r t a i n m e n t
KLE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016

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

(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 Group classifies its financial assets as loans and receivables. 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.

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 Group'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.

(ii) **Recognition and Measurement**

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Group 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 Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method, less provision for impairment.

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

(f) **Financial instruments (cont'd)**

Financial assets (cont'd)

(ii) **Recognition and Measurement (cont'd)**

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

For loans and receivables impairment provisions are recognized when there is objective evidence that the Group 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.

Financial liabilities

The Group'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, due to related party, payables and bank overdraft.

(g) **Lease**

Operating lease

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

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

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

(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.

(i) **Intangible asset**

Intangible asset represents the costs that are directly associated with specialised know how and embodied in an operations manual for franchise operations that are expected to generate economic benefits exceeding costs, beyond one year. It is recognised initially at cost and is stated at cost less impairment losses. It is determined to have an indefinite useful life as there is no foreseeable limit to the period over which the franchise operations are expected to generate net cash inflows for the Group. It is tested annually for impairment.

(j) **Related parties**

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

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

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

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

- (i) The entity and the Group 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 Company of which the other entity is a member).

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

(j) Related parties (cont'd)

(ii) An entity is related to the Group if any of the following condition applies (cont'd):

(iii) Both entities are joint ventures of the same third party.
(iv) One entity is a joint venture of a third entity and the entity is an associate of the third entity.
(v) The entity is a post-employment benefit plan for the benefit plan for the benefit of employees of either the Group or an entity related to the Group.
(vi) The entity is controlled, or jointly controlled by a person identified in (i).

(vii) A person identified in (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the charged).

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

(iii) Identity of related parties

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

(k) **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.

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

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 Group's liability for current tax is calculated at tax rates that have been enacted at the reporting date.

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

(l) **Current and deferred income taxes (cont'd)**

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, except where it relates to items charged or credited to other comprehensive income or equity, in which case deferred tax is also dealt with in other comprehensive income or equity.

(m) **Provisions**

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

(n) **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.

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

(o) **Segment reporting**

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. Operating segments are reported in a manner consistent with internal reporting to the Group's chief operating decision maker.

(p) **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.

(q) **Franchise operations**

The Group through its associate, executes franchise agreement for each unit operated by third parties which set out the terms of our arrangement with the franchisee. The franchise agreements typically require the franchisee to pay an initial, non-refundable fee and continuing fees based upon a percentage of sales. Subject to approval and payment of a renewal fee, a franchisee may generally renew the franchise agreement upon its expiration.

The internal costs incurred to provide support services to franchisees are charged to administrative expenses as incurred. Certain direct costs of the franchise operations are charged to franchise expenses. These costs include direct incremental franchise support costs.

(r) **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.

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

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

In the process of applying the Group'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 Group 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) **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 Group 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.

(ii) **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 Group 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.

(iii) **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.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016

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

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

(iii) **Net realizable value of inventories (cont'd)**

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 Group is exposed through its operations to the following financial risks:

- 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 Group is exposed to risks that that arise from its use of financial instruments. This note describes the Group'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 Group'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 Group, from which financial instrument risk arises, are as follows:

- Receivables
- Cash and cash equivalents
- Payables
- Amounts due to/from related parties
- Long term liabilities

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016

5. **FINANCIAL RISK MANAGEMENT (CONT'D):**

(ii) **Financial instruments by category**

Financial assets

	The Group Loans and Receivables	
	2016 $'000	**2015 $'000**
Receivables	21,579	3,569
Amounts due from related parties	35,596	3,834
Cash and bank balances	9,443	9,281
Total financial assets	66,618	16,684

	The Company Loans and Receivables	
	2016 $'000	**2015 $'000**
Receivables	21,579	3,569
Amounts due from related parties	35,596	26,071
Cash and bank balances	9,443	8,084
Total financial assets	66,618	37,724

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016

5. **FINANCIAL RISK MANAGEMENT (CONT'D):**

(ii) **Financial instruments by category (cont'd)**

Financial liabilities

	The Group		The Company	
	Financial Liabilities At Amortised Cost			
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Bank overdraft	3,426	9,437	3,426	9,437
Payables	46,774	63,989	46,774	63,989
Amounts due to related parties	1,782	78,337	1,782	78,336
Long term liabilities	14,781	12,064	14,781	12,064
Total financial liabilities	66,763	163,827	66,763	163,826

(iii) **Financial instruments not measured at fair value**

Financial instruments not measured at fair value includes cash and cash equivalents, receivables, payables and long term liabilities.

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

Long term liabilities reflect the Group's contractual obligations and are carried at amortised cost, which is deemed to approximate fair value.

(iv) **Financial risk factors**

The Board of directors has overall responsibility for the determination of the Group'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 Group's finance function.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016

5. **FINANCIAL RISK MANAGEMENT (CONT'D):**

(iv) **Financial risk factors (cont'd)**

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group'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 Group manages this risk by ensuring that the net exposure in foreign assets and liabilities is kept to an acceptable level by monitoring currency positions.

Concentration of currency risk

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

	The Group and The Company	
	2016 $'000	2015 $'000
Cash and bank balances	4,539	3,726
Receivables	607	180
Payables	(5,385)	-
Due to related parties	-	(77,284)
	(239)	(73,378)

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016

5. **FINANCIAL RISK MANAGEMENT (CONT'D):**

(iv) **Financial risk factors (cont'd)**

(i) Market risk (cont'd)

Foreign currency sensitivity

The following table indicates the sensitivity of profit/(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, payables, loans and amounts due to related parties and adjusts their translation at the year-end for 6% (2015 – 8%) depreciation and a 1% (2015 – 1%) appreciation of the Jamaican dollar against the US dollar.

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

	The Group and The Company			
	% Change in Currency Rate 2016	Effect on Profit before Tax 31 December 2016 $'000	% Change in Currency Rate 2015	Effect on Loss before Tax 31 December 2015 $'000
Currency:				
USD	-6	(14)	-8	5,870
USD	+1	2	+1	(734)

Exchange rate in terms of the Jamaican dollar to United States dollar at the statement of financial position dates were as follows:

	2016	2015
US$1	127.48	120.42

Kingston Live Entertainment
KLE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016

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 Group does not have a significant exposure, market price fluctuations are not expected to have a material effect on the net results or stockholders' 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 Group to cash flow interest rate risk, whereas fixed rate instruments expose the Group to fair value interest rate risk.

The Group is primarily exposed to cash flow interest rate risk on its variable rate borrowings. The Group analyses its interest rate exposure arising from borrowings on an ongoing basis, taking into consideration the options of refinancing, renewal of existing positions and alternative financing.

Short term deposits and borrowings are the only interest bearing assets and liabilities respectively, within the Group. The Group's short term deposits and borrowings are 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 (2015 – 1% increase/1.5% decrease) in interest rates on Jamaican dollar borrowings would result in a $147,808 decrease/$120,643 increase (2015 - $120,643 increase/$180,964 decrease) in profit/(loss) before tax.

5. **FINANCIAL RISK MANAGEMENT (CONT'D):**

(iv) **Financial risk factors (cont'd)**

(i) Market risk (cont'd)

Interest rate sensitivity (cont'd)

A 1% increase/0.5% decrease (2015 – 1% increase/0.5% decrease) in interest rates on US dollar borrowings would result in a $NIL increase/$NIL decrease (2015 - $772,117 increase/$386,059 decrease) in profit /(loss) before tax.

(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, due from related parties and cash and bank balances.

Trade receivables

Revenue transactions in respect of the Group's primary operations are settled either in cash or by using major credit cards. For its operations done on a credit basis, the Group 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 Group 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.

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 2016, trade receivables of $1,000,841 (2015 - $2,210,251) were past due but not impaired. These relate to independent customers for whom there is no recent history of default.

Trade receivables that are past due and impaired

As of 31 December 2016, the Group had trade receivables of $NIL (2015 – $994,612) that were impaired. The amount of the provision was $NIL (2015 – $994,612). These receivables were aged over 90 days.

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

	The Group and The Company	
	2016	**2015**
	$	**$**
At 1 January	995	5,360
Provision for receivables impairment	-	1,850
Bad debt written off	(995)	(6,215)
At 31 December	-	995

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.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016

5. **FINANCIAL RISK MANAGEMENT (CONT'D):**

(iv) **Financial risk factors (cont'd)**

(ii) **Credit risk (cont'd)**

Trade receivables that are past due and impaired (cont'd)

The aging of trade receivables is as follows:

	The Group		The Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
0-30 days	51	1,257	51	1,257
31-60 days	64	20	64	20
61-90 days	29	-	29	-
Over 90 days	857	1,928	857	1,928
	1,001	3,205	1,001	3,205

Concentration of risk - trade receivables

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

Concentration of risk - trade receivables

	The Group and The Company	
	2016 $'000	2015 $'000
Corporate customers	959	1,918
Walk in customers	-	718
Other	42	569
	1,001	3,205
Less: Provision for impairment of receivables	-	(955)
	1,001	2,210

K i n g s t o n L i v e E n t e r t a i n m e n t
KLE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016

5. **FINANCIAL RISK MANAGEMENT (CONT'D):**

(iv) **Financial risk factors (cont'd)**

(iii) **Liquidity risk**

Liquidity risk is the risk that the Group 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 Group's liquidity management process, as carried out within the Group

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

Cash flows of financial liabilities

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

	The Group and The Company			
	Within 1 Year $'000	1 to 2 Years $'000	2 to 5 Years $'000	Total $'000
31 December 2016				
Due to related parties	1,782	-	-	1,782
Bank overdraft	3,426	-	-	3,426
Trade payables	9,145	-	-	9,145
Accruals and other payables	37,629	-	-	37,629
Long term liabilities	5,532	10,955	1,895	18,382
Total financial Liabilities (contractual maturity dates)	57,514	10,955	1,895	70,364

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016

5. **FINANCIAL RISK MANAGEMENT (CONT'D):**

(iv) **Financial risk factors (cont'd)**

(iii) **Liquidity risk (cont'd)**

Cash flows of financial liabilities (cont'd)

		The Group and The Company		
	Within 1 Year $'000	1 to 2 Years $'000	2 to 5 Years $'000	Total $'000
31 December 2015				
Due to related parties	29,249	31,046	29,248	89,543
Bank overdraft	9,437	-	-	9,437
Trade payables	10,081	-	-	10,081
Accruals and other payables	53,908	-	-	53,908
Long term liabilities	14,975	-	-	14,975
Total financial Liabilities (contractual maturity dates)	117,650	31,046	29,248	177,944

(vi) **Capital management**

The Group's objectives when managing capital are to safeguard the Group'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 Group 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 Group is subject.

NOTES TO THE FINANCIAL STATEMENTS
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6. **SEGMENT REPORTING:**

The Group is managed in two main business segments based on business activities. The designated segments are as follows:

(i) Restaurant division – this division is involved in the operation of a restaurant;
(ii) Corporate division – this division incorporates activities that do not fit in (i) above or (iii) below; and
(iii) Night club division – this division was involved in the provision of live entertainment. This division was closed in 2015.

	2016		
	Restaurant Activities $'000	Corporate (Head Office) Activities $'000	Total $'000
Revenue	195,939	182,703	378,642
Assets	100,977	122,565	223,542
Liabilities	52,991	40,349	93,340
Other items			
Capital expenditure	2,507	-	2,507
Depreciation	16,863	-	16,863
Interest expense	2,756	-	2,756

During 2015, Famous Night Club was sold and as a result the Group now operates as one segment. Note was retained for comparative purposes only.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016

6. **SEGMENT REPORTING (CONT'D):**

	2015			
	Restaurant Activities $'000	Night Club Activities $'000	Corporate (Head Office) Activities $'000	Total $'000
Revenue	168,244	8,317	-	176,561
Assets	118,673	35,053	1,060	154,786
Liabilities	36,800	68,604	83,101	188,505
Other items				
Capital expenditure	1,250	-	-	1,250
Depreciation	16,086	4,079	223	20,388
Interest expense	1,750	-	-	1,750

7(a). **REVENUE:**

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

7(b). **OTHER OPERATING INCOME:**

	The Group		The Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Sponsorship income	7,811	2,256	7,811	2,256
Interest income	5	50	5	47
Other income	11,180	-	11,400	-
Profit on sale of shares in subsidiary	163,707	-	156,690	-
	182,703	2,306	175,906	2,303

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KLE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016

8. **FINANCE COSTS:**

	The Group		The Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Interest on loans	2,756	1,750	2,756	1,750

9. **EXPENSES BY NATURE:**

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

	The Group		The Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Director's fees	450	250	450	250
Auditors' remuneration -				
- current year	1,485	1,350	1,485	1,350
- prior year under provision	664	-	664	-
Depreciation	16,863	16,309	16,828	16,309
Staff costs (note 10)	45,469	48,964	48,944	40,823
Advertising	11,142	6,902	11,142	6,902
Cost of inventory recognized as expense	62,697	67,663	62,697	67,663
Insurance	2,573	1,637	2,571	1,637
Legal and professional fees	5,307	4,317	2,347	3,585
Repairs and maintenance	2,255	1,471	2,255	1,467
Security	728	765	728	765
Utilities	15,304	16,501	15,207	16,289
Bank charges	9,898	10,747	9,898	10,734
Rent	14,030	10,880	13,879	11,379
Janitorial expense	2,427	2,165	2,382	2,165
Couriers	1,421	1,319	1,421	1,319
IT expenses	2,382	1,085	2,382	1,085
Travel and entertainment	-	535	-	-
Royalties	7,960	5,864	7,960	6,783
Bad debts	1,064	4,243	1,064	4,243
Loan interest	2,756	1,750	2,756	1,750
Other expenses	7,341	7,972	2,635	3,334
	214,216	212,689	209,695	199,832

NOTES TO THE FINANCIAL STATEMENTS
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10. STAFF COSTS:

	The Group		The Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Wages and salaries	41,061	41,865	44,227	34,364
Statutory contributions	3,636	5,714	3,945	5,714
Staff welfare	303	1,227	303	587
Uniform	469	158	469	158
	45,469	48,964	48,944	40,823

11. TAXATION:

(a) Taxation is based on the operating results for the year, as adjusted for taxation purposes, and comprises deferred tax at 25% (2015-25%) and minimum business tax of$60,000 (2015 – $60,000).

	The Group		The Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Minimum business tax	(75)	(60)	(60)	(60)
Deferred tax (note 19)	932	2,544	932	2,544
	857	2,484	872	2,484

NOTES TO THE FINANCIAL STATEMENTS
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11. TAXATION (CONT'D):

(b) Reconciliation of theoretical tax charge that would arise on profit/ (loss) before tax using the applicable tax rate to actual tax charge:

	The Group		The Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Profit/(loss) before taxation -				
- continuing operation	164,426	(36,128)	162,150	(29,286)
- discontinued operation	(1,362)	(30,467)	(1,362)	(30,467)
	163,064	(66,595)	160,788	(59,753)
Tax at 25%	40,766	(16,649)	40,197	(14,938)
Expenses not deductible for tax purposes	4,216	2,946	4,207	2,946
Net effect of other charges and allowances	(44,125)	16,187	(43,532)	14,476
Taxation in statement of comprehensive income	857	2,484	872	2,484

(c) Subject to the agreement of the Commissioner, Taxpayer Audit and Assessment, at the end of the reporting period the Group has tax losses of approximately $165,195,309 (2015 - $175,970,332) available for set-off against future profits. A deferred tax asset was not recognized in respect of these losses.

(d) 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 the full benefit of the tax remission.

NOTES TO THE FINANCIAL STATEMENTS
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12. **NET LOSS FROM DISCONTINUED OPERATION:**

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

Result of discontinued operations:

	The Group and The Company	
	2016 $'000	2015 $'000
Revenue	-	33,662
Expenses incurred	(1,362)	(64,129)
Net loss from discontinued operations	(1,362)	(30,467)

13. **EARNINGS/(LOSS) PER STOCK UNIT ATTRIBUTABLE TO STOCKHOLDERS OF THE GROUP:**

Earnings/(loss) per stock unit is calculated by dividing the net profit/(loss) attributable to stockholders by the number of ordinary stock units in issue at year end.

	2016	2015
Net profit/(loss) attributable to stockholders ($'000)	163,921	(64,111)
Number of ordinary stock units (weighted average) ('000)	100,000	100,000
Basic earnings loss per stock unit ($)	1.64	(0.64)

NOTES TO THE FINANCIAL STATEMENTS
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14(a). **PROPERTY, PLANT AND EQUIPMENT:**

The Group

	Leasehold Improvements $'000	Equipment $'000	Furniture & Fixtures $'000	Security System $'000	Computers $'000	Total $'000
Cost -						
1 January 2015	102,230	38,423	52,311	3,818	9,619	206,401
Additions	892	-	297	-	61	1,250
Classified as held for sale	(25,534)	(24,340)	(16,430)	(1,597)	(458)	(68,359)
31 December 2015	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
Depreciation -						
1 January 2015	39,257	10,703	15,531	1,487	3,349	70,327
Charge for the year	10,761	4,283	4,648	94	602	20,388
Classified as held for sale	(7,001)	(5,720)	(3,520)	(345)	(186)	(16,772)
31 December 2015	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
Net Book Value -						
31 December 2016	25,115	13,609	15,631	971	5,570	60,896
31 December 2015	34,571	4,817	19,519	985	5,457	65,349

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

14(b). **PROPERTY, PLANT AND EQUIPMENT:**

The Company

	Leasehold Improvements $'000	Equipment $'000	Furniture & Fixtures $'000	Security System $'000	Computers $'000	Total $'000
Cost -						
1 January 2015	102,230	38,423	52,311	3,818	9,619	206,401
Additions	7	-	79	-	61	147
Classified as held for sale	(25,534)	(24,340)	(16,430)	(1,597)	(458)	(68,359)
31 December 2015	76,703	14,083	35,960	2,221	9,222	138,189
Additions	408	1,402	201	-	435	2,446
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
Depreciation -						
1 January 2015	39,257	10,703	15,531	1,487	3,349	70,327
Charge for the year	10,761	4,283	4,648	94	602	20,388
Classified as held for sale	(7,001)	(5,720)	(3,520)	(345)	(186)	(16,772)
31 December 2015	43,017	9,266	16,659	1,236	3,765	73,943
Charge for the year	8,979	3,260	4,253	14	322	16,828
31 December 2016	51,996	12,526	20,912	1,250	4,087	90,771
Net Book Value -						
31 December 2016	25,115	13,609	15,631	971	5,570	60,896
31 December 2015	33,686	4,817	19,301	985	5,457	64,246

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

15. **INVESTMENT IN JOINT VENTURE:**

	The Group and The Company 2016 $'000	2015 $'000
Bessa Project	12,754	11,969

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 2015 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 preferable 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 the project was approved by the authorities during 2016, ground was not broken until after the yea-end.

16. **INTANGIBLE ASSET:**

This represents specialized know how embodied in a Franchise Operations Manual. This asset was derecognized on the partial disposal of the subsidiary during 2016.

17. **INVESTMENT IN SUBSIDIARY:**

In 2015 financial year, this represented 100% holding of the issued shares in T & R Restaurant Systems Limited comprising 1000 ordinary shares for the company costing $1,000. During the reporting period 51% of the issued shares were sold to a related party, therefore at year end the previous subsidiary is represented as an associate.

18. **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).

	Group		Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Investment at beginning of year	-	-	-	-
Share of results after tax	(4,581)	-	-	-
Addition	77,363	-	77,363	-
At end of year	72,782	-	77,363	-

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18. **INVESTMENT IN ASSOCIATE (CONT'D):**

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

	2016 $'000	2015 $'000
Assets	40,434	18,011
Liabilities	56,799	24,851
Revenue	10,257	6,015
Net loss	(9,525)	(6,841)

The Group has 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 attempts to determine 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.

19. **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 Group and The Company	
	Accelerated Tax Depreciation $'000	Total $'000
Deferred tax	-	-
At 1 January 2015		
Credit to statement of profit or loss	5,166	5,166
At 31 December 2015	5,166	5,166
Credit to statement of profit or loss	932	932
At 31 December 2016	6,098	6,098

20. **INVENTORIES:**

	The Group and The Company 2016 $'000	2015 $'000
Goods for resale	3,214	4,497

21. **RECEIVABLES:**

	The Group 2016 $'000	2015 $'000	The Company 2016 $'000	2015 $'000
Trade receivables	1,001	3,205	1,001	3,205
Provision for doubtful debts	-	(995)	-	(995)
Net trade receivables	1,001	2,210	1,001	2,210
Deposits	676	1,358	676	1,358
Other receivables	21,082	359	21,082	358
	22,759	3,927	22,759	3,926

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

K i n g s t o n L i v e E n t e r t a i n m e n t
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NOTES TO THE FINANCIAL STATEMENTS
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22. **RELATED PARTY TRANSACTIONS AND BALANCES:**

	The Group 2016 $'000	2015 $'000	The Company 2016 $'000	2015 $'000
(a) Key management compensation:				
Directors' fees	450	250	450	250
Salaries	7,036	20,097	7,036	20,097

(b) Year end balances arising from transactions with related parties:

	The Group 2016 $'000	2015 $'000	The Company 2016 $'000	2015 $'000
Due from -				
T & R Restaurant Systems Limited	31,612	1,551	31,612	23,788
Director	3,984	2,283	3,984	2,283
	35,596	3,834	35,596	26,071
Due to -				
Director's loan (US$650,000)	-	(77,284)	-	(77,284)
Director's current account	(1,782)	(1,053)	1,782	(1,052)
	(1,782)	(78,337)	1,782	(78,336)

Director's loan represented a promissory note that was unsecured and attracted interest at 7.9% per annum. During 2015, the company renegotiated the terms of the loan.

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 Group's indebtedness to the said director.

23. **CASH AND CASH EQUIVALENTS:**

	The Group		The Company	
	2016	2015	2016	2015
	$'000	$'000	$'000	$'000
Cash at bank and in hand	8,267	8,105	8,267	6,908
Deposit and short-term instruments	1,176	1,176	1,176	1,176
Cash and bank balances	9,443	9,281	9,443	8,084
Bank overdraft	(3,426)	(9,437)	(3,426)	(9,437)
	6,017	(156)	6,017	(1,353)

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

	2016	2015
	%	%
Jamaican dollar (J$)	5.00	4.35 – 4.55
United States dollar (US$)	2.00	1.50 – 3.00

These deposits mature within 365 and 30 days respectively (2015 – 365 and 30 days respectively).

Significant non-cash transactions are as follows:

	2016	2015
	$'000	$'000
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	15,710	-
Financing activities		
Debt converted to equity	79,327	-

23. **CASH AND CASH EQUIVALENTS (CONT'D):**

Bank overdraft

The company does not currently have a bank overdraft facility. However, during 2015 one was held with Sagicor Bank Jamaica Limited, totaling $6,500,000. This attracted interest at 48% and was immediately rate sensitive. The overdrawn balance/excess of the actual overdraft balance above the stated facility include unpresented cheques of $4,567,265 at year end (2015 - $2,936,204). Details of securities held are included at note 26.

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.

24. **NON-CURRENT ASSET CLASSIFIED AS HELD FOR SALE:**

Famous Night Club was operated by KLE as a night club at its location in Portmore, St. Catherine. Following strategic review carried out, management concluded that considerable cost saving could be achieved if Famous was operated as a venue for events instead of as a night club opening to the public for the entire week. Substantial progress towards a sale was made before the end of 2015, and the disposal was completed in January 2016. The assets and liabilities of Famous Night Club have been classified as held for sale in the statement of financial position.

The following major classes of assets and liabilities relating to these operations have been classified as held for sale in the statement of financial position on 31 December 2015:

	The Group and The Company	
	Famous Night Club	
	2016	2015
	$'000	$'000
Property, plant and equipment	-	51,587
Due on early termination of lease	-	(16,534)
Net assets held for sale	-	35,053*

*This includes assets amounting to $11,032 (thousands) which were classified as non-current asset classified as held for sale in 2015 that the company decided to utilize in its current continuing operations.

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25. **SHARE CAPITAL:**

	The Group and The Company	
	2016	**2015**
	$'000	**$'000**
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	122,903	122,903

26. **LONG TERM LIABILITIES:**

	The Group and The Company	
	2016	**2015**
	$'000	**$'000**
Sagicor Bank Limited		
$25.2 million loan (i)	-	6,560
$16 million loan (ii)	-	5,504
$16.6 million loan (iii)	14,781	-
	14,781	12,064
Less: current portion	(3,564)	(12,064)
	11,217	-

Loan (i) attracted interest at a rate of 12.45% per annum and was for a period of 944 days.
Loan (ii) attracted interest at a rate of 9.5% per annum and was for a period of 545 days.

The above loans were secured by a promissory note executed by the company supported by debenture over fixed and floating assets of the company.

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26. **LONG TERM LIABILITIES (CONT'D):**

On 8 April 2016, Sagicor Bank Jamaica Limited approved an amortized loan facility ((iii) above) in the amount of Sixteen Million Six Hundred Thousand Jamaican dollars ($16,600,000). The purpose of this loan was to restructure existing loans and overdrawn current account for orderly payment. This loan attracts interest at a rate of 16.4% per annum and is for a period of 48 months. It is secured by 1st Debenture over fixed and floating assets of KLE Group 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.

Breach of covenant

In 2015, the loans were classified as current liabilities due to breach of certain loan covenants. The company restructured the loans in 2016 and continues to make regular monthly payments.

27. **PAYABLES:**

	The Group		The Company	
	2016	**2015**	**2016**	**2015**
	$'000	**$'000**	**$'000**	**$'000**
Trade payables	9,145	10,081	9,145	10,081
Accruals	19,333	-	19,333	
Statutory liabilities	11,352	11,793	11,352	11,793
Credit cards	11,215	12,595	11,215	12,595
GCT	14,366	10,921	14,366	10,921
Royalties payable	2,475	7,415	2,475	7,415
Deferred income	-	6,594	-	6,594
Other	4,606	28,408	4,606	25,794
	72,492	87,807	72,492	85,193

NOTES TO THE FINANCIAL STATEMENTS
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28. **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 for 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 would 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.

29. **GOING CONCERN**

The Group sustained operating loss of $64,110,967 for the financial year ended 31 December 2015. There existed the issue of going concern due to continued losses by the business and its related entities. However, the company had the full support of its majority shareholders. Management remained optimistic on the direction of the company, and refined strategies aimed at propelling the company towards profitability. Management also believes that the company is at its best position to achieve real growth, having successfully disposed of the major loss making segments. For the year ended 31 December 2016, the Group reflected operating profit of $163,920,967. The profit on the sale of shares in T & R Restaurant Systems Limited was the major contributing factor. The company had projected to significantly improve its operating results and by extension to reduce operating losses. The results were in line with projections. Based on projections going forward the company remains propelled towards profitability.

The working capital of the Group has significantly improved as well as its net cash flow position which is now positive. Also, the associate has successfully started a franchise and is in the final stages of negotiation with another. In light of the foregoing, the client is now considered to be a going concern.

30. **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.

Celebrate Success

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