



Unit 8, Marketplace, 67 Constant Spring Rd, Kingston, Jamaica W.I.
Tel: (876) 926-6509 (876) 906-3903 • info@klegroupltd.com

K.L.E. GROUP LIMITED

INTERIM REPORT TO SHAREHOLDERS

For the 3 months ended March 31, 2016

The Board of Directors of K.L.E. Group Limited is pleased to present the unaudited financial results for the company for the period ending March 31, 2016.

Q1 Summary:

For the first quarter, the Company is reporting an operating profit of \$4.2 million versus an operating loss of -\$15.3 million, reflecting a swing of \$19.5 million improvement in KLE's performance compared with the corresponding period in the prior year.

Consistent with the restructuring that took place in 2015, KLE's expenses decreased significantly from \$45.6 million in Q1 2015 to \$25.7 million in Q1 2016 or a 43% reduction in expenses against the corresponding period in the prior year. Along with the leaner infrastructure the company benefited greatly from the implementation of the Restaurant System developed as the model for franchising globally. The System uses best practices in all areas of the business from back-of-house administration and controls to front-of-house service, quality and consistency.

Although the company achieved a substantial improvement in profitability, there was a slight reduction in revenue from \$46.6 million in 2015 to \$44.5 million or a 4% reduction against the performance for the corresponding period in the prior year. This is attributable to the divestment of the Famous business unit. This is however significant as the 2016 revenues only came from one business unit as opposed to two in 2015. The gap was closed by the outstanding turnaround performance of Tracks & Records Marketplace.

Directors: Ambassador Audrey Marks (Chairman), Gary Matalon, Christopher Dehring, Marlon A. Hill,
David Shirley, Norman Peart, Stephen Shirley, Joseph Bogdanovich, Zuer Jarrett,
Barrington Daley (Company Secretary)



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Highlights

Tracks & Records Marketplace is now realising the benefits from its development and implementation of the Operations and Training programs now being used in its expansion through franchising. The Marketplace location had revenues in Q1 2016 of \$44.5 million as opposed to just \$36 million in Q1 2015, or an increase of 23% this year over last at the restaurant. The main driver of the revenue performance has been the marketing strategy and initiatives developed by the marketing team with support from the marketing committee and board. These efforts have resulted in increased head counts and price adjustments that in large part fall to the bottom line.

Further focus was placed on the profitability and cost makeup of the model. Since Q4 2015 we have consistently maintained a 33% cost of sales down from an average of 40% for the first three quarters of 2015. Operating costs in Q1 2016 were also reduced by 7% or \$1.8 million when compared to the same period in the previous year. Other areas of notable savings were utilities and salaries.

The end result for Tracks & Records in Q1 2016 was that the Marketplace restaurant contributed over \$4 million in profit to the group as against a loss of over -\$5 million in 2015 for a swing of \$9 million improvement year over year.

In addition to the overall performance improvements in the business, KLE also successfully divested 51% of FranJam, the franchisor company focused on recruiting and supporting franchisees. The main benefits from this divestment were the revaluation of the FranJam asset held in KLE as well as the ability to pay off costly loans in addition to providing much needed capital for cash flow for future franchise expansion.

Outlook

The main point of emphasis is that KLE has consolidated its position as it forges ahead for growth. With the company now profitable and the infrastructure in place to grow through corporate stores and franchised locations, the group is positioned well to benefit significantly from new revenue streams as they are formed.

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The Bessa project, a partnership with Sagikor Life Jamaica Limited, is taking shape with preliminary work having gone out to bid, following the building approval by the Parish Council. Although no financial benefit will accrue in the short to medium term until the project is completed, the expectations are that this will be one of the flagship projects of the company on completion.

We continue to search for ways to further reduce operating expenses, and improve our cost of sales. We have done an admirable job in growing revenues of the Tracks & Records Marketplace business unit, especially considering the difficult economic environment in which the company operates. We will continue to work hard at controlling the expenses that are an inevitable part of our business, so as to improve the company's bottom line and return maximum value to our shareholders.

While the historical operating results for the company have been unfavourable, we are pleased with the progress made despite the many challenges faced and obstacles overcome as we continue to transform the business and structure to enable it to take advantage of the opportunities presented by the unique qualities of Brand Jamaica. We remain confident of the medium to long term outlook for the company, and look forward to the continued support of our shareholders, customers and staff.

On behalf of the Board of Directors:

A handwritten signature in black ink, appearing to read 'GARY MATALON', is written over a horizontal line. Below the line, the name 'GARY MATALON' is printed in a bold, all-caps, sans-serif font.

GARY MATALON

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