



K.L.E. GROUP LIMITED

INTERIM REPORT TO SHAREHOLDERS

For the 3 months ended September 30, 2016

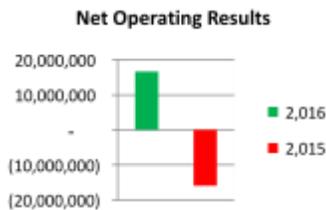
The Board of Directors of K.L.E. Group Limited is pleased to present the unaudited financial results for the company for the period ending September 30, 2016.

Definition:

Q3 means: Third Quarter

Q3 Summary:

For the third quarter, the Company reported an operating profit of \$17 million versus an operating loss of -\$16 million, in the corresponding period in the prior year, which reflected a swing of \$33 million improvement in KLE’s performance.



The improvements which were reported in the first half of 2016 had also impacted KLE’s expenses in a positive way. KLE’s expenses in the third quarter had continued to decrease significantly from \$111.1 million Jan – Sept 2015 to \$82.9 million over the same period in 2016 which was a 25% reduction in expenses against the corresponding period in the prior year. The implementation of a lean infrastructure allowed KLE to promote and develop a model restaurant system for franchising globally. The System used best practices in all areas of the business from back-of-house administration and controls to front-of-house service, quality and consistency.

The impact of last year’s restructure had proven to be extremely beneficial to the company over the course of this year. The improvements in revenues at Tracks & Records, Marketplace had significantly off-set the lost revenue contribution from the divested nightclub. By the end of Q3 2016 group revenues were \$143 million to date for the year from one business unit as



opposed to \$146 million at the end of Q3 2015 from the restaurant and 3 months of nightclub operations.

The improved position has resulted in a massive swing in profitability. Additional revenue streams established from the investment in franchising development is expected to put the company in a sound position to generate healthy profits margins going forward.

Highlights

Tracks & Records Marketplace has realised 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 the first half of the year of \$143 million as opposed to just \$122 million in the first half of 2015, which is an increase of 15% this year compared to the first half of last year at the restaurant. This represented a \$22 million increase over the 9 month period in 2016 against 2015. 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 directives. These efforts have resulted in increased patrons which included new customers and notably a much higher rate of repeat customers resulting from improved customer experience and implementation of a loyalty program.

	2014	2015	2016
	12 months	12 Months	9 Months
Revenue	153,342,862	168,243,318	143,100,757
COG	(61,354,518)	(65,814,467)	(44,766,238)
Operating Cost	(96,273,816)	(95,871,378)	(72,810,617)
EBITDA	653,772	8,814,431	26,744,460
Net position	(16,917,302)	(7,424,299)	17,250,409

The main revenue streams in the business have all seen significant improvements;

- Food Sales up 19%
- Bar Sales up 10%
- Merchandise Sales up 31%

Tracks & Records Marketplace in the first nine months of 2016 contributed approximately \$27 million in operating profit to the group while for the same period in 2015 it made \$7 million resulting in a \$20 million improvement over last year. The main contributing factors



which resulted in a 300% improvement were the increase in sales and enhanced operational efficiencies and reduction in the cost of sales.

Outlook

KLE has continued its progress from the first half of the year by posting favourable results in the Q3, emphasising the improvement over the previous year and continues to gain from the restructured unit. With the realisation of profits by the company and the infrastructure in place to grow through corporate stores and franchised locations, the group is expected to benefit significantly from new revenue streams as they are formed.

Having sold the first franchised Tracks & Records unit last year, which began construction earlier this year, we proudly opened the doors with much fanfare in Ocho Rios in the Q3 of 2016. Both international and local press covered the star studded grand opening event where Usain Bolt made his first public appearance having just done the record breaking “triple-triple”. The Minister of Tourism, The Honourable Edmund Bartlett and the Minister of Entertainment, the Honourable Olivia Grange endorsed the franchised and praised it as excellent for tourism as they addressed the huge crowd as they gathered to welcome the first franchised unit. Additionally, Diamond selling international recording artist Shaggy was attendance as were other local entertainment personalities.. In the very competitive restaurant industry this type of endorsement provides a significant advantage to enter the market locally and internationally.

This location will target the cruise ship and hotel industry while primarily focusing on passengers from Falmouth, Ocho Rios' Piers and North Coast Hotels. The opening coincided with the peak of the tourism season which runs all the way in to Q2 of 2017. This was a huge milestone for the company as it marked the culmination of over 4 years of development of the Tracks and Records concept and franchise program.

The Bessa project, a partnership with Sagicor Life Jamaica Limited, has also progressed beyond major preliminary milestones. We are preparing the start of a marketing phase which will include the construction of the common area amenities and a model unit. Financial benefits will not be realised in the short to medium term because the expectations are that this will be one of the flagship projects of the company and as a result gains will be realised on completion.

We continue to search for ways to further reduce operating expenses, and improve our cost of sales. We have done a remarkable job in growing revenues of the Tracks & Records Marketplace business unit, considering the difficult economic environment in which the



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company operates. We will continue to control the expenses which are a vital part of our business, so as to improve the company's profit and return maximum value to our shareholders.

While operating costs for the period 2014-2015 had been unfavourable, there have been significant progress despite the challenges and obstacles encountered. KLE will 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 in the medium to long term goal and vision for the company, and look forward to the continued support of our shareholders, customers and staff.

On behalf of the Board of Directors:


GARY MATALON