

## AUDITED FINANCIAL REPORT TO THE SHAREHOLDERS

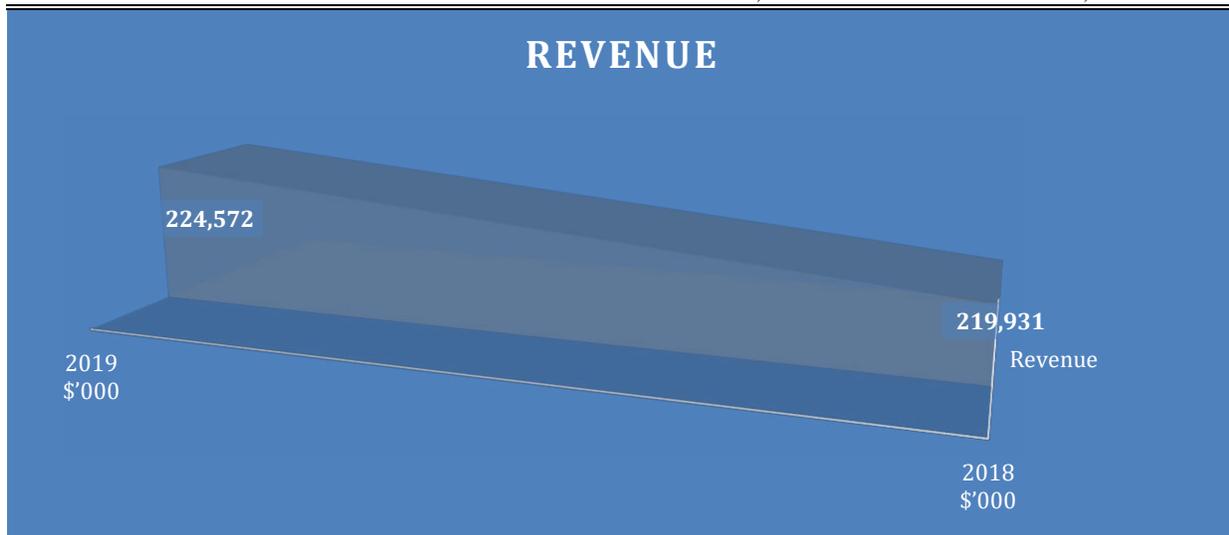
On behalf of the Board of Directors of K.L.E. Group Limited we are pleased to release the audited financial statements for the year ended December 31, 2019.

### OVERVIEW

The financial year ended December 31, 2019 can be described as rewarding as the company has now recovered from the major challenges faced in the previous couple of years by the road works along the constant spring road network.

The company's total revenue for the 2019 financial year amounted to \$224,572 million compared to \$219,931 million in 2018, an increase of approximately 2.10%. Revenue is directly related to sales from our flagship restaurant, Tracks and Records Marketplace and Management fees earned throughout the year.

Category	2019 \$'000	2018 \$'000
Restaurant	210,172	205,781
Management fee	14,400	14,150
	224,572	219,931



Sales from the restaurant performed better than expected as the major construction on Constant Spring Road continued into the 2019 year as well as the Marketplace location underwent a major renovation to the complex which made it difficult for customers to access the property. Management embarked on innovative marketing strategies to combat these issues resulting in the increase sales

from the restaurant. The table below shows the improvement in sales revenue from the restaurant during the latter part of 2019, once the constant spring road was moving closer to completion:

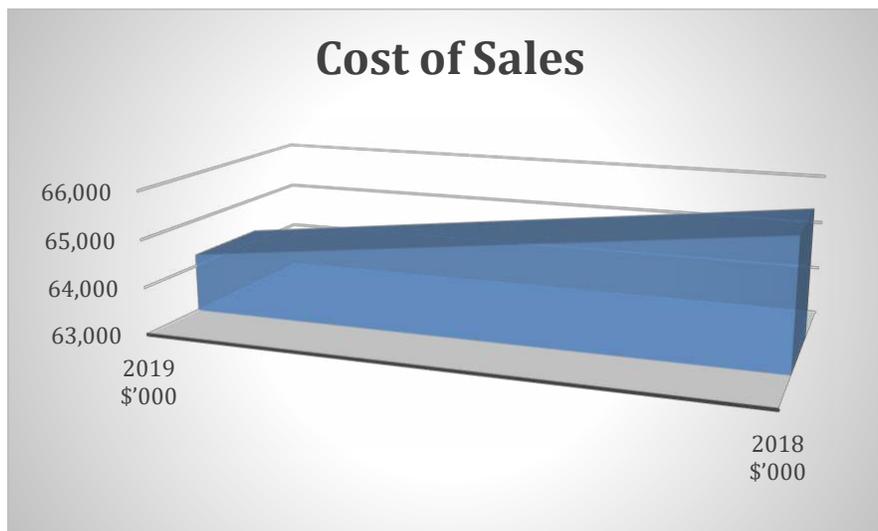
Restaurant sales performance analysis

Category	2019 \$'000	2018 \$'000	\$ change	% change
January to June	101,872	106,376	(4,504)	(0.04)
July to December	108,300	99,065	9,235	0.09
	210,172	205,441	4,731	0.05

The company's Earnings Before Interest, Taxes Depreciation and Amortization also improved in the current year. See table below;

	2019 \$'000	2018 \$'000
Profit from operations (before finance costs, depreciation and taxation)	\$7,128	\$1,640
Total Comprehensive (loss)/profit for the year	(\$14,844)	(\$25,587)

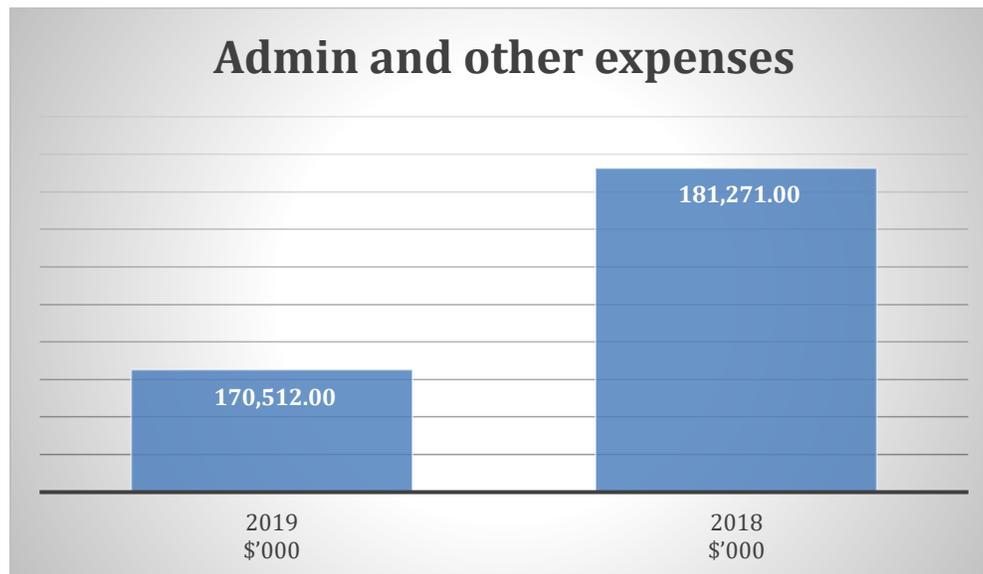
The company's total direct expenses (cost of sales) remain in line with our expected cost margins and mark up. The decline in the cost of sales is related to the better supply prices based on price negotiation and contractual terms with vendors.



Administrative and other expenses amounted to \$170,512 million when compared to the \$181,271 for the previous year.

The expense categories which showed the major increases were:

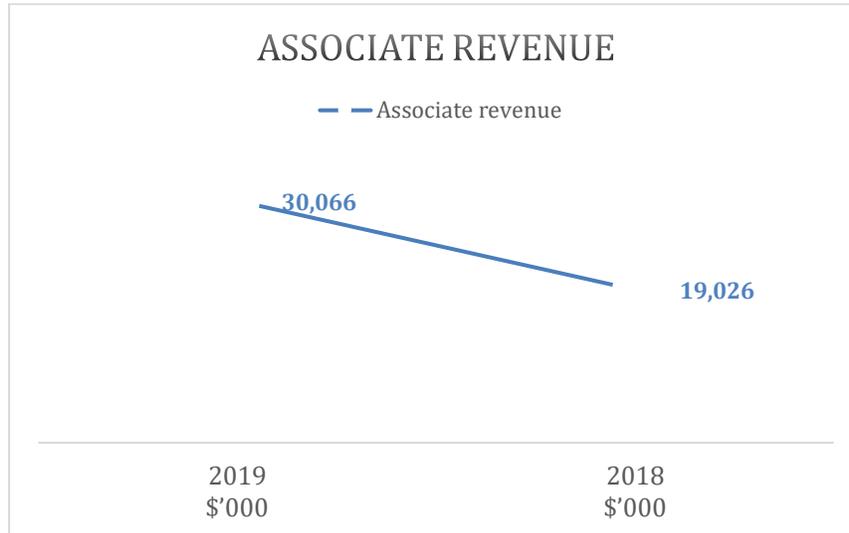
- Rent expense showed a 21% increase, this is directly related to the foreign exchange movements during the year.
- Advertising and Marketing, this category increased by \$3.5 million or 24%. The company undertook increased marketing efforts in 2019 to combat the negative effects of the road work and the renovations of Marketplace.
- Kitchen and Bar Supplies increase by over 100% and is attributable mainly to the change in the packaging of Materials used in compliance to the single use plastic and styrofoam ban.



The categories which showed a reduction when compared to the previous year includes:

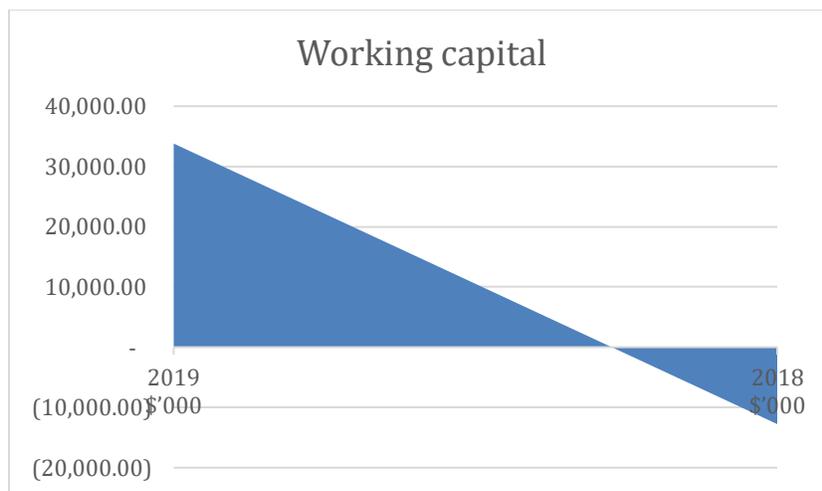
- Utilities, the company saw a 13.2% reduction when compared to the prior year. Utilities includes light, water, telephone and cable.
- Repairs and Maintenance decreased by \$1.04 million and is due on part to effective servicing and maintaining of equipment
- Legal fees, Bad Debt and Interest and Penalties also showed significant decrease which is as a result of one-off expenditures incurred in the previous year.

The company absorbed a \$4.7 million loss from its associate company T&R Restaurant Systems Limited T/A Franchise Jamaica which was a significant contributor to its net loss position. The company has performed significantly better in 2019 than the previous year. Franchise Jamaica reported total revenues of \$30 million for the 2019 year in comparison to 19 million in 2018.



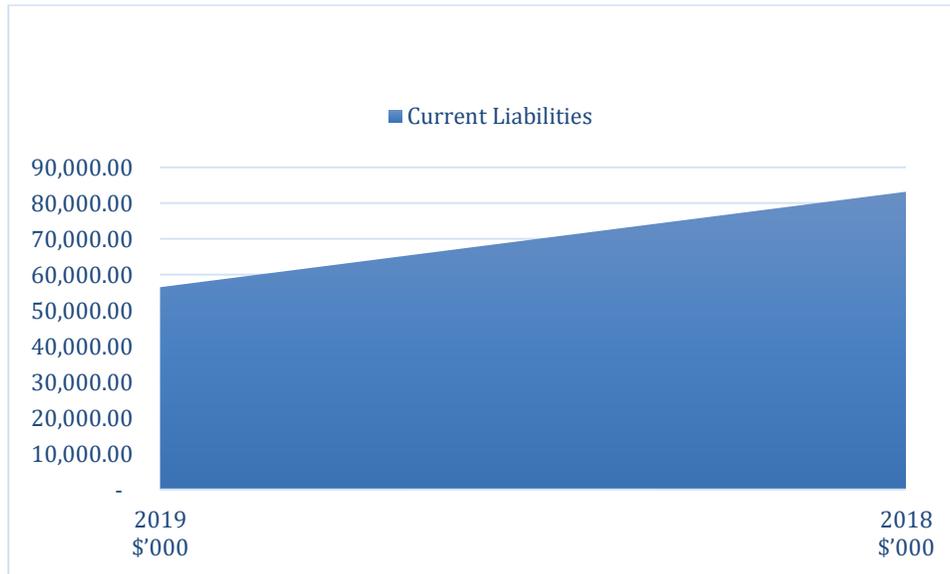
Total Assets Increased by \$15.6 million moving from \$198,885 million in 2018 to \$214,496 million in 2019. The major contributing factor is the increasing of our investment portfolio, in the current year the company purchased \$9.75 million in investments.

The company is reporting positive working capital and current ratios as well as improvements in its liquidity for the 2019 financial period. These positive ratios are expected to further improve in the short to medium term.



Directors: David Shirley (Chairman), Gary Matalon, Christopher Dehring, Marlon A. Hill, Norman Peart, Stephen Shirley, Joseph Bogdanovich, Zuar Jarrett, Stephen Greig (Company Secretary)

Long term liabilities reflect the loan which was negotiated in the February of 2019. Current liabilities have been reduced significantly as the company has managed to pay down some of these liabilities with the proceeds of the loan.



Shareholders equity for the period decreased by 13% and is directly related to the negative earnings generated for the year.

From a cash flow point of view, the company generated a negative cash flow from operating activities due in large part to the increases in its assets and the reduction in payables. The company has more cash inflows when compared to the previous year.

The overall liquidity if the company has improved when a comparison was done with the 2018 financial year, this is expected to continue in the short to medium term.



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## OUTLOOK

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Going forward the KLE Group will execute its strategy for sustainable growth and profitability.

To begin with, the company has successfully operated the Kingston location of Tracks and Records for the past 9 years. The infrastructure that exists to operate this business unit has been underutilized in the past. The domestic growth will aid in achieving these economies of scale.

The franchising model will serve us better in major markets where we can capitalize on the infrastructure and market knowledge of major players already operating in these markets. This has proven very effective with our London franchisee.

In order to achieve this and other key elements to our growth program, we are moving towards a significant capital raise which will enable the business to execute the plan. The last time the company had any injection of capital was in 2011.

As a result, the KLE strategy will follow these few main points;

- Recapitalize the company
- Retire some of the long-term debt
- Establish smaller format fast-casual concept
- Expand the 'corporate-owned' footprint throughout Jamaica
- Focus on franchising through FranJam in the international markets

The international franchising will grow through partnerships with investors similar to the UK Franchisee. This investor profile requires a different level of support than the smaller single unit franchisee. On top of this we are zeroing in on two additional markets to move in while the UK market penetration continues. The focus will be on Toronto and South Florida. The focused approach has already resulted in some solid leads with investors we feel fit the bill.

KLE Group Limited would like to express a sincere thank you and appreciation to our hardworking and dedicated employees, who have all contributed to our accomplishments during the year. Also, our loyal customers for believing in our brands and their continued support to our business. Finally, to our shareholders and directors for their continued confidence and direction.

Gary Matalon - CEO

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