K&C REIT plc

ANNUAL REPORT
2017

CONTENTS

COMPANY INFORMATION

DIRECTORS	M D M Davies	Chairman
	D A White	Chief executive
	T M James	Property director
	J A Cane	Finance director
	O J Vaughan	Non-executive director
SECRETARY	R J Roberts	
REGISTERED OFFICE	82 St. John Street London EC1M 4JN	
BUSINESS ADDRESS	44/48 Old Brompton Road South Kensington London SW7 3DY	
REGISTERED NUMBER	09080097 (England and Wales)	
INDEPENDENT AUDITOR	Moore Stephens LLP 150 Aldersgate Street London EC1A 4AB	
SOLICITOR	Fladgate LLP 16 Great Queen Street London WC2B 5DG	
NOMINATED ADVISER AND BROKER	Arden Partners Plc 125 Old Broad Street London EC2N 1AR	
BANKERS	Metro Bank plc One Southampton Street London WC1A 5HA	
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FINANCIAL PUBLIC RELATIONS	Yellow Jersey PR Limited 7th floor, 22 Upper Ground London SE1 9PD	
WEBSITE	www.kandc-reit.co.uk	

CHAIRMAN'S STATEMENT

for the year ended 30 June 2017

This is K&C REIT plc's third Annual Report since its admission to AIM.

Market and strategy

The Group operates in the UK residential private rented sector (PRS). It seeks to acquire:

- **under-managed rented property assets and portfolios**
  The team's considerable PRS expertise enables them to improve portfolios and, importantly, tenant experience at under-managed properties, through asset and property management activity. This has resulted in higher rental and property values.

- **in lower price segments**
  The focus on lower price segments ensures that the portfolio is directed towards the highest area of tenant and buyer demand. This is defensive in a downturn and shows strong growth in an upturn.

- **held within UK-incorporated companies**
  The REIT structure itself provides K&C with the opportunity to capitalise on the advantages afforded to REITs to provide an efficient exit route for vendors of SPVs, in particular, managing deferred capital gains tax liabilities.

The residential sales market has slowed over the last year, particularly in higher price-band properties in Central London. The impact of the Brexit vote, a more difficult economy, an inconclusive general election result and significant tax changes, particularly for 'buy-to-let' landlords, all taking place within a relatively short period of time, have been difficult for the market to digest.

It is important to note that, across the UK as a whole, prices and rental values continue to rise, albeit at slower rates. Indeed, the Group's assets, which, on a unit basis, are all in the lower price bands (studio, one and two beds), have performed well.

The positive overall economic fundamentals in the residential sector – strong demand and shortage of supply – will, in our view, deliver attractive rental and capital value performance across the UK over the medium term.

Investment and operations

Osprey has exceeded expectations, having significantly increased revenue from ground rents, sales commissions, lease extensions and other management income. We have invested in the operations of the business and believe that Osprey is well positioned to continue its strong performance in the future.

The Coleherne Road apartments have continued to perform well. The small size of the units (studio, one- and two-bed flats) is exactly what the market is looking for. This has meant that occupancy has been maintained at close to 100 per cent and rents have increased by eight per cent since acquisition in July 2015.

The Group considered a number of UK residential investment opportunities during the year. Post the year-end, the Group completed the acquisition of three residential units at its freehold Heathside property in Hampstead for £935,000 (accepting the surrender of 67-year leasehold interests) using funds raised from the issue of convertible loan notes. The Company continues to implement its value-adding asset-management plan at this property of creating 'marriage value' through the buy-in of leasehold units.

Financial

Income increased from £151,417 to £514,746 in the financial year. The Group reports a consolidated operating loss before separately disclosed administrative items of £636,896, which includes abortive and ongoing acquisition costs of approximately £200,000. The operating loss of £1,029,215 includes a non-cash share-based payment charge of £392,319.

CHAIRMAN'S STATEMENT (continued)
for the year ended 30 June 2017

During the year, the Company issued £599,000 of new ordinary shares at just over 10 pence per share and £350,000 of restricted preference shares at 1p per share. The funds raised have been used to maintain the Group's property assets and cover working capital requirements.

On 9 July 2017, the Company issued 6% Loan Notes in the total sum of £1.35 million, a proportion of which are convertible into ordinary shares. £950,000 had been received in advance at the year-end. The loan notes are redeemable by the Company on 30 June 2020. This capital injection has been used primarily to acquire and refurbish the three Heathside units referred to above.

The net asset value per share at 30 June 2017 is 8.57p. The post-balance sheet active asset management, acquisitions and light refurbishment in the Osprey portfolio has crystallised further value in the portfolio of more than £400,000.

Portfolio valuation

The portfolio at year-end was valued at £7.24 million, an increase of £0.1 million compared to 30 June 2016.

Board changes

We were delighted that Dominic White joined the Board as chief executive in January 2017. His long background in property investment has already proved of great value to the Company.

Christopher James, Tim Oakley and Patricia Farley stepped down from the board at the end of March. Christopher and Tim continue to play important roles as members of the senior management team while Patricia's property expertise and experience remains available to the business. Oliver Vaughan became a non-executive director of the Company in May 2017.

Future prospects

During the year, the Group has raised capital, restructured its Board, and, since year-end, acquired valuable assets. It has continued to build the positive momentum from the previous year.

The Company aims to deliver a strong and growing covered dividend from rental streams and net asset value growth through the professional management of residential assets and the acquisition and management of SPVs with attractive and undervalued portfolios. We have built a significant pipeline of potential UK residential investments that, if acquired, would deliver this outcome.

The Board continues to find and be shown interesting acquisition opportunities and I hope that I will be able to report further positive developments to you before too long.

M D M Davies
Chairman

16 October 2017

GROUP STRATEGIC REPORT

for the year ended 30 June 2017

The directors present the strategic report of K&C REIT plc ('K&C' or the 'Company') and its subsidiaries (together, the 'Group') for the year ended 30 June 2017. The Company was incorporated in England and Wales on 10 June 2014.

Principal activity

The Group carries on the business of acquiring and managing residential property in the UK for letting to third parties on long and short leases. At the year-end, the Group consisted of the Company and three subsidiaries.

1. **K&C (Coleherne) Limited** owns a freehold residential property in Chelsea, London

2. **K&C (Osprey) Limited** owns the freehold of several retirement properties let on long leases to residents and provides management services in respect of these properties and to third party landlords

3. **K&C (Newbury) Limited** owns no property and is now effectively dormant.

Group strategy

The directors intend to build a significant presence in the residential letting market, primarily through the acquisition of UK-registered special purpose vehicles that own residential property for letting to third parties.

Results

The Group reports an operating loss from operating activities of £1,029,215 for the year to 30 June 2017.

Review of business and financial performance

The Board has reviewed whether the Annual Report, taken as a whole, presents a fair, balanced and understandable summary of the Group's position and prospects, and believes that it provides the information necessary for shareholders to assess the Group's position, performance, and strategy.

Information on the financial position and development of the Group is set out in the Chairman's Statement, the report of the directors and the annexed financial statements.

Financial key performance indicators

The directors and management team review a variety of key performance indicators to monitor and improve Group performance, including:

A. At property level

i. Rent per ft^2 compared with comparable market data and with other units in the asset

ii. Vacancy rate in terms of number of units available and potential rental income

iii. Management costs as a percentage of rental income (including repairs and maintenance, insurance, cleaning, agents' fees, legal fees, utilities and council tax)

iv. Gross and net yield compared with target levels

v. Marginal increase in income as a percentage of capital expenditure

vi. Outstanding rents as a percentage of rental income

vii. Implementation of property plans compared with target.

GROUP STRATEGIC REPORT (continued)
for the year ended 30 June 2017

B. At Group level

i. Assets under management compared with target

ii. Overheads as a percentage of gross/net rental income compared with target.

No analysis of performance compared to these KPIs has been provided because the diverse nature of the assets owned by the subsidiary companies, and the changes to the operating models initiated by the Group, make such analyses at this stage of their ownership potentially misleading.

Risks and uncertainties

The Board regularly reviews the risks to which the Group is exposed and ensures through its meetings and regular reporting that these risks are minimised as far as possible.

The principal risks and uncertainties facing the Group at this stage in its development are:

- **Financing and liquidity risk**
  The Company has an ongoing requirement to fund its activities through the equity markets and in future to obtain finance for property acquisition and management. There is no certainty that such funds will be available when needed.

- **Financial instruments**
  Details of risks associated with the Group's financial instruments are given in Note 21 to the financial statements.

- **Valuations**
  The valuation of the investment property portfolio is inherently subjective as it is made on the basis of assumptions made by the valuer that may not prove to be accurate. The outcome of this judgment is significant to the Group in terms of its investment decisions and results.

Internal controls and risk management

The directors are responsible for the Group's system of internal control. Although no system of internal control can provide absolute assurance against material misstatement or loss, the Group's system is designed to provide reasonable assurance that problems are identified on a timely basis and dealt with appropriately.

In carrying out their responsibilities, the directors have put in place a framework of controls to ensure as far as possible that ongoing financial performance is monitored in a timely manner, that, where required, corrective action is taken and that risk is identified as early as practically possible. The directors have reviewed the effectiveness of internal control.

The Board, subject to delegated authority, reviews, among other things, capital investment, property sales and purchases, additional borrowing facilities, guarantees and insurance arrangements.

Bribery risk

The Group has adopted an anti-corruption policy and whistle-blowing policy under the Bribery Act 2010. Notwithstanding this, the Group may be held liable for offences under that Act committed by its employees or subcontractors whether or not the Group or the directors have knowledge of the commission of such offences.

Forward-looking statements

This Annual Report contains certain forward-looking statements that have been made by the directors in good faith based on the information available at the time of the approval of the annual report and financial statements. By their nature, such forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that will or may occur in the future. Actual results may differ from those expressed in such statements.

Outlook

The Group took significant steps forward through its admission to AIM, achieving REIT status and enhancing the performance of its first two acquisitions. It now intends to build on these achievements through further purchases of high quality assets that will be able to support an increasing income yield. The Group is currently investigating several potential acquisitions. To make further acquisitions, the Group will be required to raise more capital and it is working closely with funding sources, both equity and debt providers, to achieve this objective.

On behalf of the board:

James Cane
Director

16 October 2017

REPORT OF THE DIRECTORS

for the year ended 30 June 2017

The directors present their report with the financial statements of the Company and the Group for the year ended 30 June 2017.

A review of the business, risks and uncertainties and future developments is included in the Chairman's Statement, the Strategic Report and in note 21 to the financial statements.

Dividends

The directors do not recommend payment of a dividend for the year (2016 – £nil).

Political donations

The Group made no political donations during the year (2016 – £nil).

Corporate governance statement

The Board is committed to maintaining high standards of corporate governance. The UK Corporate Governance Code, published by the Financial Reporting Council, sets out standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders, providing principles of good governance and a code of best practice for listed companies. The UK Corporate Governance Code does not apply to AIM companies. However, shareholders expect companies in which they invest to be properly governed.

The Company's corporate governance procedures take due regard of the principles of good governance set out in the UK Corporate Governance Code, having regard to the size and the stage of development of the Company. Nonetheless, the Company has not formally adopted any specific corporate governance code.

The Company has established audit, AIM compliance and remuneration committees, with formally delegated duties and responsibilities.

Audit committee

The audit committee currently comprises James Cane and Michael Davies, the chairman. The committee is responsible for ensuring the financial performance, position and prospects of the Group are properly monitored and reported on, and for meeting the auditor and reviewing their reports relating to accounts and internal controls.

Directors

The following directors served during the year to 30 June 2017 and up to the date of approval of this Annual Report:

Name	Date of appointment	Date of resignation
Michael Davies		
Dominic White	1 January 2017	
Timothy James		
James Cane		
Oliver Vaughan		
Christopher James		31 March 2017
Timothy Oakley		31 March 2017
Patricia Farley		31 March 2017
Christopher Bateman	1 April 2017	29 May 2017

The beneficial interests of the directors holding office at 30 June 2017 in the issued share capital of the Company were as follows:

Name	Ordinary Shares No.	Restricted Preference Shares No.	Warrants No.
Timothy James	3,275,000	9,600,000	175,000
Michael Davies	1,240,000	–	–
Oliver Vaughan	675,000	8,100,000	175,000
James Cane	10,000	300,000	10,000
Dominic White	–	5,000,000	–

Included in the total of Oliver Vaughan's holdings above are 665,000 shares and 165,000 warrants held in the name of Grosmont Investments Limited, a company that he controls.

Included in the total of Dominic White's holdings above are 5,000,000 restricted preference shares held in the name of White Amba Limited, a company that he controls.

Since the year-end, the holdings of directors have remained unchanged.

Substantial shareholdings

As at 11 October 2017, the directors had been notified that the following shareholders own a disclosable interest of three per cent or more in the ordinary shares of the Company:

Name	Interest %
Venaglass Limited	18.96
Michael Wellesley-Wesley	7.85
Christopher James	6.35
Timothy James	6.21
Susan Hards	5.69
5XM Finance	5.21
Forbes Ventures	4.74
Xiao Min	4.21
Simon Wharmby	3.83

REPORT OF THE DIRECTORS (continued)

for the year ended 30 June 2017

Directors' remuneration

The following directors received remuneration during the year:

Name	Remuneration £	Benefits-in-kind £
James Cane	44,500	–
Timothy Oakley	32,500	–
Timothy James	15,000	–
Oliver Vaughan	15,000	–
Dominic White	12,500	–
Patricia Farley	9,375	–
Christopher James	3,500	–
Total	**132,375**	**–**

In addition, during the year, the Group paid (i) Perry, Cane, a consultancy business owned by James Cane, fees of £25,000 plus VAT, (ii) CD James (Property Consultants) Limited, a company owned by Christopher James, fees of £26,000 and (iii) DGS Capital Partners LLP, a limited liability partnership of which Michael Davies is a member, fees of £41,600.

Directors' indemnities and insurance

The Company has made qualifying third-party indemnity provisions for the benefit of its directors during the year and they remain in force at the date of approval of this Annual Report.

Going concern

The directors have adopted the going concern basis in preparing the financial statements. This is further explained in the notes to the financial statements.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state that the financial statements comply with IFRS;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement as to disclosure of information to the auditor

So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Group's auditor is unaware, and each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Auditor

The auditor, Messrs Moore Stephens LLP, will be proposed for re-appointment at the forthcoming Annual General Meeting.

On behalf of the board

James Cane
Director

16 October 2017

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF K&C REIT PLC

Our opinion

We have audited the financial statements of K&C REIT plc (the "Company") and its subsidiaries (the "Group") for the year ended 30 June 2017 which comprise:

- the consolidated statement of comprehensive income;
- the consolidated and company statements of financial position;
- the consolidated and company statements of changes in equity;
- the consolidated and company cash flow statements; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRS as adopted by the European Union.

In our opinion, the Group financial statements ("the financial statements"):

- give a true and fair view of the state of the Group's and of the Company's affairs as at 30 June 2017 and of the Group's loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in which the ISAs (UK) require us to report to you where:

- the directors' use of the going-concern basis of accounting in the preparation of the financial statements is not appropriate, or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Company's ability to continue to adopt the going-concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

An overview of the scope of our audit

The Group operates through two trading subsidiary undertakings which were considered to be significant components for the purposes of the Group financial statements. The financial statements consolidate these entities together with a non-trading subsidiary undertaking. In establishing our overall approach to the Group audit, we determined the type of work that needed to be performed in respect of each subsidiary. This consisted of us carrying out a full audit of the two trading subsidiaries as well as the Company.

We have designed our audit approach to identify possible fraud in relation to the associated fraud risk of the Group. We consider the most likely areas where fraud might arise to be within the valuation of investment property and revenue recognition, our approach to these areas have been addressed within the key risk section.

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 and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

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.

Valuation of investment properties

The Group holds investment properties which comprise properties owned by the Group held for capital appreciation, rental income or both. Investment properties are revalued on acquisition by independent external valuers and then by the directors or independent valuers annually thereafter. The Group's investment property portfolio is valued at £7.2 million at the year-end. Due to the uncertainty of the property market, there is a risk that the properties are incorrectly valued.

In this area, our audit procedures included:

- Independent external valuations were carried out for £6.6 million of the total investment property value at the year-end. For these valuations an assessment of the valuers' qualifications, expertise and independence was performed to assess that these are appropriate for the work carried out.
- For the directors' valuations of £0.6 million, we have reviewed the qualifications and expertise of the individual assigned to undertake the valuations to assess that these are appropriate for the work carried out.
- Where appropriate, investment property values have been compared with those in similar areas, to an external source.

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF K&C REIT PLC (continued)

Completeness of revenue

Revenue of the Group was derived mainly from its principal activity, being the letting to third parties of, and management of, property assets owned by the Group. This income includes rental income, management fees and sales commissions. There is a risk that revenue is received and not recorded and, therefore, a potential risk in terms of the completeness of the revenue being recognised.

Our approach to the audit of revenue was as follows:

- We reviewed rental contracts and compared the total rental income expected per the contract to the rental income received as per the accounting records to agree that this is in line with expectations. Total rental income was £155,000.
- Management fee income of £84,000 has been reconciled to expected charges.
- Sales commission income, on sales made by existing leaseholders, of £172,000 has been verified to commission rates charged on the sale of properties.
- Lease extension income of £97,000 has been verified with third party completion statements from relevant solicitors.
- Other revenues amount to £19,000.

Our application of materiality

We set certain thresholds for materiality. These help us to establish transactions and misstatements that are significant to the financial statements as a whole, to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually on balances and on the financial statements as a whole.

In establishing the audit strategy, it was determined that the level of uncorrected misstatements judged to be material for the financial statements and our Group audit overall would be £167,000, approximately 2% of gross assets. Our materiality for each subsidiary was also based on 2% of gross assets. This is the threshold above which missing or incorrect information in financial statements is considered to have an impact on the decision making of users.

We reported to the Audit and Risk Committee all potential adjustments in excess of £8,350, being 5% of the materiality for the financial statements as a whole.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the report of the directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the report of the directors have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the report of the directors.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, set out on pages 10 and 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are 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 the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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(UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities.

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF K&C REIT PLC (continued)

This description forms part of our auditor's report.

Paul Fenner, Senior Statutory Auditor
For and on behalf of **Moore Stephens LLP**
Chartered Accountants and Statutory Auditor
150 Aldersgate Street
London EC1A 4AB

16 October 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2017

	Notes	30 June 2017 £	30 June 2016 £
Continuing operations			
Revenue	3	**514,746**	151,417
Cost of sales		**(110,544)**	(60,240)
Gross profit		**404,202**	91,177
Administrative expenses		**(1,157,098)**	(513,367)
Revaluation on investment properties	13	**116,000**	250,000
Operating loss before separately disclosed items		**(636,896)**	(172,190)
Separately disclosed administrative items			
Gain on bargain purchase	14	**–**	1,541,829
Share-based payments	20	**(392,319)**	(212,655)
AIM admission costs	5	**–**	(786,578)
Costs of acquisition of subsidiaries	5	**–**	(469,848)
Operating loss		**(1,029,215)**	(99,442)
Finance costs	6	**(195,361)**	(73,009)
Finance income	6	**5**	3,138
Loss before taxation	7	**(1,224,571)**	(169,313)
Taxation	8	**–**	104,942
Loss for the year		**(1,224,571)**	(64,371)
Total comprehensive expense for the year		**(1,224,571)**	(64,371)
Loss attributable to owners of the parent		**(1,224,571)**	(64,371)
Loss per share expressed in pence per share	9		
Basic		**(2.48)**	(0.15)
Diluted		**(2.48)**	(0.15)

The notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2017

	Notes	**30 June 2017 £**	30 June 2016 £
Assets			
Non-current assets			
Property, plant and equipment	12	**1,843**	2,730
Investment properties	13	**7,242,000**	7,126,000
		7,243,843	7,128,730
Current assets			
Trade and other receivables	15	**90,777**	24,262
Cash and cash equivalents	16	**1,023,752**	250,650
		1,114,529	274,912
Total assets		**8,358,372**	7,403,642
Equity			
Shareholders' equity			
Share capital	17	**877,518**	467,856
Share premium		**4,660,322**	4,120,984
Capital redemption reserve		**67,500**	67,500
Retained earnings		**(1,083,179)**	(250,927)
Total equity		**4,522,161**	4,405,413
Liabilities			
Non-current liabilities			
Financial liabilities – borrowings			
Interest-bearing loans and borrowings	19	**1,560,756**	2,690,108
Current liabilities			
Trade and other payables	18	**194,147**	277,960
Financial liabilities – borrowings			
Interest-bearing loans and borrowings	19	**31,308**	30,161
Other loans	19	**2,050,000**	–
		2,275,455	308,121
Total liabilities		**3,836,211**	2,998,229
Total equity and liabilities		**8,358,372**	7,403,642
Net asset value per share (pence)		**8.57**	9.42

The financial statements were approved and authorised for issue by the Board of Directors on 16 October 2017 and were signed on its behalf by:

James Cane
Director

The notes form part of these financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION

30 June 2017

	Notes	30 June 2017 £	30 June 2016 £
Assets			
Non-current assets			
Property, plant and equipment	12	**1,676**	2,430
Investments	14	**5,305,000**	5,305,000
		5,306,676	5,307,430
Current assets			
Trade and other receivables	15	**27,496**	2,756
Cash and cash equivalents	16	**989,583**	233,494
		1,017,079	236,250
Total assets		**6,323,755**	5,543,680
Equity			
Shareholders' equity			
Share capital	17	**877,518**	467,856
Share premium		**4,660,322**	4,120,984
Capital redemption reserve		**67,500**	67,500
Retained earnings		**(3,292,562)**	(2,093,849)
Total equity		**2,312,778**	2,562,491
Liabilities			
Non-current liabilities			
Financial liabilities – borrowings			
Interest-bearing loans and borrowings	19	**1,560,756**	2,690,108
Current liabilities			
Trade and other payables	18	**368,913**	260,920
Financial liabilities – borrowings			
Interest-bearing loans and borrowings	19	**31,308**	30,161
Other loans	19	**2,050,000**	–
		2,450,221	291,081
Total liabilities		**4,010,977**	2,981,189
Total equity and liabilities		**6,323,755**	5,543,680

As permitted by Section 408 of the Companies Act 2006, the income statement of the Company is not presented as part of these financial statements. The Company's loss for the financial year was £(1,591,032) (2016 – £(1,978,502)).

The financial statements were approved and authorised for issue by the Board of Directors on 16 October 2017 and were signed on its behalf by:

James Cane
Director

The notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2017

	Share capital £	Share premium £	Capital redemption reserve £	Retained earnings £	Total equity £
Balance at 1 July 2015	7,500	–	67,500	(399,211)	(324,211)
Changes in equity					
Issue of share capital	460,356	4,120,984	–	–	4,581,340
Share-based payments	–	–	–	212,655	212,655
Total comprehensive expense	–	–	–	(64,371)	(64,371)
Balance at 30 June 2016	467,856	4,120,984	67,500	(250,927)	4,405,413
Changes in equity					
Issue of share capital	409,662	539,338	–	–	949,000
Share-based payments	–	–	–	392,319	392,319
Total comprehensive expense	–	–	–	(1,224,571)	(1,224,571)
Balance at 30 June 2017	**877,518**	**4,660,322**	**67,500**	**(1,083,179)**	**4,522,161**

The notes form part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2017

	Share capital £	Share premium £	Capital redemption reserve £	Retained earnings £	Total equity £
Balance at 1 July 2015	7,500	–	67,500	(328,002)	(253,002)
Changes in equity					
Issue of share capital	460,356	4,120,984	–	–	4,581,340
Share-based payments	–	–	–	212,655	212,655
Total comprehensive expense	–	–	–	(1,978,502)	(1,978,502)
Balance at 30 June 2016	467,856	4,120,984	67,500	(2,093,849)	2,562,491
Changes in equity					
Issue of share capital	409,662	539,338	–	–	949,000
Share-based payments	–	–	–	392,319	392,319
Total comprehensive expense	–	–	–	(1,591,032)	(1,591,032)
Balance at 30 June 2017	**877,518**	**4,660,322**	**67,500**	**(3,292,562)**	**2,312,778**

The notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June 2017

	2017 £	2016 £
Cash flows from operating activities		
Cash used in operations	**(902,338)**	(1,590,658)
Interest paid	**(195,361)**	(73,009)
Net cash used in operating activities	**(1,097,699)**	(1,663,667)
Cash flows from investing activities		
Purchase of tangible fixed assets	**–**	(3,416)
Sale of investment properties	**–**	715,254
Acquisition of subsidiaries	**–**	(4,630,000)
Interest received	**5**	3,138
Net cash generated from/(used in) investing activities	**5**	(3,915,024)
Cash flows from financing activities		
Loan repayments in year	**(28,204)**	(874,000)
New loans in year	**950,000**	2,720,269
Shares issued	**949,000**	3,981,340
Net cash generated from financing activities	**1,870,796**	5,827,609
Increase in cash and cash equivalents	**773,102**	248,918
Cash and cash equivalents at beginning of year	**250,650**	1,732
Cash and cash equivalents at end of year	**1,023,752**	250,650

The notes form part of these financial statements.

COMPANY STATEMENT OF CASH FLOWS

for the year ended 30 June 2017

	2017 £	2016 £
Cash flows from operating activities		
Cash used in operations	**(920,558)**	(1,594,173)
Interest paid	**(194,149)**	(65,271)
Net cash used in operating activities	**(1,114,707)**	(1,659,444)
Cash flows from investing activities		
Purchase of tangible fixed assets	–	(3,017)
Purchase of fixed asset investments	–	(4,630,000)
Sale of investment properties	–	236,232
Interest received	–	3,086
Net cash generated from/(used in) investing activities	–	(4,393,699)
Cash flows from financing activities		
Loan repayments in year	**(28,204)**	(415,000)
New loans in year	**950,000**	2,720,269
Shares issued	**949,000**	3,981,340
Net cash generated from financing activities	**1,870,796**	6,286,609
Increase in cash and cash equivalents	**756,089**	233,466
Cash and cash equivalents at beginning of year	**233,494**	28
Cash and cash equivalents at end of year	**989,583**	233,494

The notes form part of these financial statements.

NOTES TO THE STATEMENTS OF CASH FLOWS

for the year ended 30 June 2017

Reconciliation of loss before taxation to cash used in operations

Group	2017 £	2016 £
Loss before taxation	**(1,224,571)**	(169,313)
Depreciation charges	**887**	686
Profit on disposal of investment properties	**–**	(23,698)
Gain on bargain purchase	**–**	(1,541,829)
Revaluation of investment properties	**(116,000)**	(250,000)
Share-based payment charge	**392,319**	212,655
Finance costs	**195,361**	73,009
Finance income	**(5)**	(3,138)
	(752,009)	(1,701,628)
(Increase)/decrease in trade and other receivables	**(66,516)**	221,708
Decrease in trade and other payables	**(83,813)**	(110,738)
Cash used in operations	**(902,338)**	(1,590,658)

Company	2017 £	2016 £
Loss before taxation	**(1,591,032)**	(1,978,502)
Depreciation charges	**754**	587
Profit on disposal of investment properties	**–**	(17,874)
Share-based payment charge	**392,319**	212,655
Finance costs	**194,149**	65,271
Finance income	**–**	(3,086)
	(1,003,810)	(1,720,949)
(Increase)/decrease in trade and other receivables	**(24,741)**	228,540
Increase/(decrease) in trade and other payables	**107,993**	(101,764)
Cash used in operations	**(920,558)**	(1,594,173)

The notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2017

1. Presentation of financial statements

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and as adopted by the European Union.

Functional and presentation currency

These consolidated financial statements are presented in Pounds Sterling ('£'), which is considered by the directors to be the functional currency of the Group.

New standards and interpretations not yet adopted

As at 30 June 2017, certain standards and interpretations were in issue but not yet adopted by the EU.

The directors do not anticipate that the adoption of these revised standards and interpretations will have a significant impact on the figures included in the financial statements in the period of initial application other than the following:

IFRS 9 – Financial Instruments

The standard makes substantial changes to the measurement of financial assets and financial liabilities. There will only be three categories of financial assets whereby financial assets are recognised at either fair value through profit and loss, fair value through other comprehensive income or measured at amortised cost. On adoption of the standard, the Group will have to re-determine the classification of its financial assets based on the business model for each category of financial asset. This is not considered likely to give rise to any significant adjustments other than reclassifications.

The standard is effective for periods beginning on or after 1 January 2018.

IFRS 15 – Revenue from contracts with customers

The standard has been developed to provide a comprehensive set of principles in presenting the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is based around five steps in recognising revenue:

1. Identify the contract with the customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price; and
5. Recognise revenue when a performance obligation is satisfied.

On application of the standard, the disclosures are likely to increase. The standard includes principles on disclosing the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, by providing qualitative and quantitative information.

IFRS 16 – Leases

The standard has been developed to provide information to the users of the financial statements on the lease transactions undertaken by the entity, in order for them to assess the amount, timing and uncertainty of cash flows arising from leases.

The standard is effective for periods beginning on or after 1 January 2019.

On application of the standard, the company will be required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2017

2. Accounting policies

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis with the exception of investment properties that are held at fair value.

Going concern

After preparing detailed forecasts including the raising of new funds, the directors have formed a judgment that, as at the date of approving the financial statements, there is reasonable expectation that the Group has adequate resources to continue in operational existence in the foreseeable future.

For this reason, the directors have adopted the going concern basis in preparing the financial statements. The directors believe that the Company and the Group will be able to meet its liabilities as they fall due.

Basis of consolidation

The financial statements include the financial statements of the Company and its subsidiary undertakings. The subsidiaries included in the consolidated financial statements, from the effective date of acquisition, are K&C (Newbury) Limited, K&C (Coleherne) Limited and K&C (Osprey) Limited.

Both K&C (Coleherne) Limited and K&C (Osprey) Limited were acquired in the previous year. Further details are shown in Note 14.

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing consolidated financial statements.

Investments

Investments in subsidiaries are valued at cost less provision for impairment.

Revenue recognition

Rental income from operating leases is recognised on an accruals basis. Rental income received in advance is recognised in deferred income.

Revenue of the Group for the year was derived mainly from its principal activity, being the letting to third parties of, and management of, property assets owned by the Group. This income includes rental income, management fees and sales commissions.

Also included within income is management fee income derived from the management of property assets owned by third parties.

2. Accounting policies (continued)

Separately disclosed administrative items

Separately disclosed administrative items are those that are deemed to be exceptional by size or nature in relation to the activities of the Group. In the case of share-based payment charges, these are included because they represent a significant non-cash item.

Finance costs

Finance costs comprise interest expense on borrowings.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation.

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life.

Computer equipment – 25% on cost

Investment properties

Investment properties comprise properties owned by the Group which are held for capital appreciation, rental income or both. Investment properties are initially measured at cost, including expenditure that is directly attributable to the acquisition of the asset. Investment properties are revalued on acquisition by independent external valuers and then by the directors or independent valuers annually thereafter. Acquisitions and disposals are recognised on exchange of contracts. Any gain or loss arising from a change in fair value is recognised in profit or loss.

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

Impairment

i. Financial assets

A financial asset not classified as at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that event had an impact on the estimated future cash flows of that asset that can be estimated reliably.

ii. Financial assets measured at amortised cost

The Group considers evidence of impairment for financial assets measured at amortised cost (loans and receivables) at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2017

2. Accounting policies (continued)

In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance against loans and receivables. Interest on the impaired asset continues to be recognised. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

iii. Non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. Goodwill and indefinite-lived intangible assets are tested annually for impairment or when there is an indication of impairment. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, the assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets.

Impairment losses are recognised in profit or loss.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised.

Financial instruments

i. Non-derivative financial assets

The Group initially recognises loans and receivables on the date that they are originated. All other financial assets are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position only when the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group's non-derivative financial assets comprise loans and receivables.

2. Accounting policies (continued)

ii. Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables.

iii. Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits, and other short-term (three months or less) highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in their fair value. These are recorded at fair value.

iv. Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise trade and other payables.

v. Share capital

Ordinary shares are classified as equity. Costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

Taxation

Tax expense comprises current and deferred tax. Current and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income. As a REIT, the Group is generally not liable to corporation tax.

Deferred tax would be recognised in respect a temporary difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is recognised for:

– temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither the accounting nor taxable profit or loss;

– temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and

– taxable temporary differences arising on the initial recognition of goodwill.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2017

2. Accounting policies (continued)

Taxation (continued)

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Share-based payments

The Group allows certain individuals to acquire shares in the parent company. The grant date fair value of share-based payment awards granted is recognised as an employee expense with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The fair value of the options granted is measured using an option-pricing model, taking into account the terms and conditions upon which the options were granted. The fair value will be charged as an expense in the income statement over the vesting period and the charge is adjusted each year to reflect the expected and actual level of vesting. No adjustment is made to the charge after the vesting date.

Critical accounting estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future years affected.

2. Accounting policies (continued)

Information about critical estimates and assumptions that have the most significant effect on the amounts recognised in the consolidated financial statements and/or have a significant risk of resulting in a material adjustment within the next financial year is as follows:

Investment properties

The Group's investment properties are valued, on the basis of market value, on acquisition by independent external valuers and then by the directors or independent valuers annually thereafter. The Group's investment properties are valued at £7,242,000.

The directors are of the opinion that the estimates and assumptions that they have used in the valuation of investment properties are appropriate.

Share-based payments

The total amount to be expensed is determined by reference to the fair value of the options granted. In arriving at the charge for the period, assumptions are made on the number of option likely to be exercised, the current market value of the shares and the volatility of the market value of the shares.

Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Investment properties

The fair value of investment properties is based either on independent professional valuations in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Standards 2014 as amended or by the directors, based on market prices for similar items.

3. Revenue

The Group is involved in UK property ownership, management and letting and is considered to operate in a single geographical and business segment.

The total revenue of the Group for the year was derived from its principal activities, being the letting to third parties of, and management of, property assets owned by the Group, and, in certain cases, the management of property assets owned by third parties.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2017

4. Employees and directors

	2017 £	2016 £
Wages and salaries	**276,538**	264,971
Social security costs	**17,431**	2,332
Pension costs	**599**	–
	294,568	267,303

The average monthly number of employees during the year was as follows:

	2017	2016
Directors and management	**7**	8
Administration	**2**	1
	9	9

	2017 £	2016 £
Directors' remuneration (as per Report of the Directors)	**132,375**	23,000

The directors are considered to be key management personnel.

Certain directors and others have also received share options in the Company, further details of which are contained in note 20 of the financial statements

5. Separately disclosed items

On 3 July 2015, the Group was admitted to AIM. The costs involved totalled £786,578. It is considered that the size and nature of these costs are such that they should be disclosed on the face of the Consolidated Statement of Comprehensive Income.

On 3 July 2015, the Group acquired K&C (Coleherne) Limited and on 27 May 2016, the Group acquired K&C (Osprey) Limited. The costs to the Group of acquiring these entities totalled £469,848. It is considered that the size and nature of these costs are such that they should be disclosed on the face of the Consolidated Statement of Comprehensive Income.

Further information on the gain on bargain purchase and the share-based payments, which are shown on the face of the Consolidated Statement of Comprehensive Income, can be found in note 14 and note 20 respectively.

6. Finance income and costs

	2017 £	2016 £
Finance income:		
Deposit account interest	**5**	3,138
Finance costs:		
Loan interest	**195,361**	73,009

7. Loss before taxation

The loss before taxation is stated after charging/(crediting):

		2017 £	2016 £
Hire of plant and machinery		**2,018**	1,487
Other operating leases		**12,840**	2,493
Depreciation – owned assets		**887**	686
Profit on disposal of investment properties		–	(23,698)
Auditors' remuneration for the Group	– audit services for parent company	**20,000**	15,000
	– audit services for subsidiaries	**15,000**	12,500
	– taxation advisory services	**12,000**	5,000
	– other non-audit services	**–**	80,000

8. Taxation

Analysis of tax

	2017 £	2016 £
Current tax:		
UK corporation tax	**–**	2,788
Deferred tax	**–**	(107,730)
Total tax	**–**	(104,942)

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2017

8. Taxation (continued)

Factors affecting the tax expense

The tax assessed for the year is higher (2016 – higher) than the standard rate of corporation tax in the UK. The difference is explained below:

	2017	2016
	£	£
Loss on ordinary activities before taxation	**(1,224,571)**	(169,313)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19.75% (2016 – 20%, 2015 – 20.75%))	**(241,853)**	(33,863)
Effects of:		
– Losses not subject to taxation due to REIT status	**241,853**	36,651
– Reversal of deferred tax on revaluation of properties in subsidiary	**–**	(107,730)
Tax credit	**–**	(104,942)

9. Loss per share

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

Fully diluted earnings per share is calculated using the weighted average number of shares adjusted to assume the conversion of all dilutive potential ordinary shares.

In the opinion of the directors, all of the outstanding share options and warrants are anti-dilutive and, hence, basic and fully diluted loss per share are the same.

	Loss £	**2017 Weighted average number of shares**	**Per-share amount pence**
Loss attributable to ordinary shareholders	**(1,224,571)**	**49,455,237**	**(2.48)**
Effect of dilutive securities	**–**	**–**	**–**

9. Loss per share (continued)

	Loss £	2016 Weighted average number of shares	Per-share amount pence
Loss attributable to ordinary shareholders	(64,371)	43,711,358	(0.15)
Effect of dilutive securities	–	–	–

10. Future minimum lease payments receivable

The Group leases residential units within certain of its investment properties under operating leases. The future minimum lease payments receivable under non-cancellable leases are as follows:

	30 June 2017 £	30 June 2016 £
Within one year	**13,367**	33,769
Between one and five years	**84,125**	125,558
Total	**97,492**	159,327

Lease revenue is generated from properties owned by K&C (Coleherne) Limited that are let on short-term tenancy agreements.

11. Leasing agreements

Minimum lease payments, under non-cancellable operating leases, fall due as follows:

	30 June 2017 £	30 June 2016 £
Within one year	**10,740**	12,840

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2017

12. Property, plant and equipment

Group

	Computer equipment £
Cost	
At 1 July 2016	**3,416**
At 30 June 2017	**3,416**
Depreciation	
At 1 July 2016	**686**
Charge for year	**887**
At 30 June 2017	**1,573**
Net book value	
At 30 June 2017	**1,843**
At 30 June 2016	**2,730**

Company

	Computer equipment £
Cost	
At 1 July 2016	**3,017**
At 30 June 2017	**3,017**
Depreciation	
At 1 July 2016	**587**
Charge for year	**754**
At 30 June 2017	**1,341**
Net book value	
At 30 June 2017	**1,676**
At 30 June 2016	**2,430**

13. Investment properties

Group

	Notes	Total
		£
Cost		
At 1 July 2016		**7,126,000**
Revaluations		**116,000**
At 30 June 2017		**7,242,000**
Net book value		
At 30 June 2017		**7,242,000**
At 30 June 2016		7,126,000

The investment properties were procured upon acquisition of subsidiaries.

The properties were valued by professionally qualified independent external valuers at the date of acquisition and were recorded at the values that were attributed to the properties at acquisition date. In September 2017, certain properties were valued again by professionally qualified independent external valuers in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Standards 2014 as amended, resulting in a revaluation to £6,612,000. The remaining properties were valued at £630,000 by the directors as at 30 June 2017. The fair values used are considered to be level 3 inputs under IFRS13.

The revenue earned by the Group from its investment properties and all direct operating expenses incurred on its investment properties are recorded in the Consolidated Statement of Comprehensive Income.

The total rental income in relation to investment properties for the Group equated to £154,903 (2016 – £133,113). The total rental expenses in relation to investment properties for the Group equated to £53,101 (2016 – £52,673).

14. Investments

Company

	Shares in Group undertakings
	£
Cost	
At 1 July 2016	**5,305,000**
At 30 June 2017	**5,305,000**
Net book value	
At 30 June 2017	**5,305,000**
At 30 June 2016	5,305,000

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2017

14. Investments (continued)

The Company's investments comprise the following:

Subsidiaries

K&C (Coleherne) Limited

Registered office: UK

Nature of business: Property letting

Class of shares:	% holding
Ordinary	100.00

K&C (Osprey) Limited

Registered office: UK

Nature of business: Property letting and property management

Class of shares:	% holding
Ordinary	100.00

K&C (Newbury) Limited

Registered office: UK

Nature of business: Property letting (the company currently owns no property assets), dormant

Class of shares:	% holding
Ordinary	100.00

KCR Residential REIT Limited *previously known as Newton Horner Property Limited (subsidiary of K&C (Osprey) Limited)*

Nature of business: Dormant

Class of shares:	% holding
Ordinary	100.00

14. Investments (continued)

Acquisition of K&C (Coleherne) Limited

On 3 July 2015, the Company acquired the entire issued share capital of K&C (Coleherne) Limited (formerly Silcott Properties Limited) for £3,630,000, satisfied by cash of £3,330,000 and the issuance of ordinary shares to the value of £300,000. In the director's opinion, the net assets of K&C (Coleherne) Limited, consisting solely of an investment property in London that was independently valued on 22 July 2015 at £4 million, were worth in excess of the amount paid and hence gave rise to negative goodwill.

Net assets acquired were as follows:

	£
Investment property	4,000,000
Trade and other receivables	366,118
Cash and cash equivalents	8,339
Trade and other payables	(10,767)
Financial liabilities – borrowings	(489,200)
Taxation payable	(9,944)
Net assets	**3,864,546**
Gain on bargain purchase – taken to Statement of Comprehensive Income	(364,784)
Total Consideration (includes deduction of £130,238 loan repayment)	**3,499,762**
Satisfied by cash	3,199,762
Net cash outflow arising on acquisition:	
Cash consideration	(3,199,762)
Bank and cash balances acquired	8,339
	(3,191,423)

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2017

14. Investments (continued)

Acquisition of K&C (Osprey) Limited

On 27 May 2016, the Company acquired the entire issued share capital of K&C (Osprey) Limited (formerly The Osprey Management Company Limited) satisfied by cash of £1,300,000 and the issuance of ordinary shares to the value of £300,000. In the director's opinion, the net assets of K&C (Osprey) Limited, consisting of various developments in England that have been valued (independently or by the directors) at £2,876,000, were worth in excess of the amount paid and hence gave rise to negative goodwill.

Net assets acquired were as follows:

	£
Investment property	2,876,000
Non-current assets – Equipment	311
Investment in subsidiary	1
Trade and other receivables	25,615
Cash and cash equivalents	19,526
Trade and other payables	(36,678)
Provisions	(80)
Net assets	**2,884,695**
Fair value adjustment to deferred taxation	(107,650)
Gain on bargain purchase – taken to Statement of Comprehensive Income	(1,177,045)
Total consideration	**1,600,000**
Satisfied by cash	1,300,000
Net cash outflow arising on acquisition:	
Cash consideration	(1,300,000)
Bank and cash balances acquired	19,526
	(1,280,474)

15. Trade and other receivables

	Group		Company	
	2017	2016	**2017**	2016
	£	£	**£**	£
Trade debtors	**960**	–	**–**	–
Other debtors	**63,334**	16,976	**5,918**	–
VAT	**427**	–	**–**	–
Prepayments	**26,056**	7,286	**21,578**	2,756
	90,777	24,262	**27,496**	2,756

The Group and Company's exposure to credit risk is disclosed in Note 21.

There is no material difference between the fair value of trade and other receivables and their book value.

16. Cash and cash equivalents

	Group		Company	
	2017	2016	**2017**	2016
	£	£	**£**	£
Cash in hand	**40**	300	**–**	–
Bank accounts	**1,023,712**	250,350	**989,583**	233,494
	1,023,752	250,650	**989,583**	233,494

17. Share capital

Allotted, issued and fully paid:

Number:	Class:	Nominal value:	**30 June 2017 £**	30 June 2016 £
52,751,813	Ordinary	£0.01	**527,518**	467,856
35,000,000	Restricted preference	£0.01	**350,000**	–
			877,518	467,856

At 1 July 2016, the Company had 46,785,623 Ordinary shares of £0.01 in issue.

On 23 December 2016, the Company issued 2,500,000 Ordinary shares of £0.01 each. The shares were issued at a premium of £0.09 per share.

Between 6 January and 30 January 2017, the Company issued 2,750,000 Ordinary shares of £0.01 each. The shares were issued at a premium of £0.09 per share.

Between 22 February and 1 March 2017, the Company issued 716,190 Ordinary shares of £0.01 each, 240,000 of which were issued as payment for professional services by Peterhouse Corporate Finance. 476,190 of the shares were issued at a premium of £0.095 per share and 240,000 of the shares were issued at a premium of £0.09 per share.

Between 22 February and 1 March 2017, the Company issued 16,400,000 Restricted Preference shares of £0.01 each at par.

On 26 April 2017, the Company issued 18,600,000 Restricted Preference shares of £0.01 each at par.

The restricted preference shares carry no voting or dividend rights.

On a winding up or a return of capital, the holders of the preference shares shall rank *pari passu* with the holders of the Ordinary shares save that, on a distribution of assets, the amount to be paid to the holder shall be limited to the nominal capital paid up or credited as paid up.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2017

18. Trade and other payables

	Group		Company	
	2017	2016	**2017**	2016
	£	£	**£**	£
Trade creditors	**76,006**	185,287	**74,770**	184,593
Amounts owed to group undertakings	**–**	–	**224,640**	–
Other taxes and social security	**10,138**	9,040	**9,898**	3,432
Other creditors	**16,756**	16,205	**–**	30,156
Accruals and deferred income	**91,247**	67,428	**59,605**	42,739
	194,147	277,960	**368,913**	260,920

The Group's and Company's exposure to liquidity risk related to trade and other payables is disclosed in Note 21.

There is no material difference between the fair value of trade and other payables and their book value.

Amounts owed to group undertakings are repayable on demand.

19. Financial liabilities – borrowings

	Group		Company	
	2017	2016	**2017**	2016
	£	£	**£**	£
Current:				
Bank loans	**31,308**	30,161	**31,308**	30,161
Other loans	**2,050,000**	–	**2,050,000**	–
	2,081,308	30,161	**2,081,308**	30,161
Non-current:				
Bank loans	**1,560,756**	1,590,108	**1,560,756**	1,590,108
Other loans	**–**	1,100,000	**–**	1,100,000
	1,560,756	2,690,108	**1,560,756**	2,690,108

19. Financial liabilities – borrowings (continued)

Terms and debt repayment schedule

Group

	1 year or less £	1-2 years £	2-5 years £	More than 5 years £	Totals £
Bank loans	90,336	90,336	271,008	2,052,387	2,504,067
Other loans	2,050,000	–	–	–	2,050,000
	2,140,336	90,336	271,008	2,052,387	4,554,067

Company

	1 year or less £	1-2 years £	2-5 years £	More than 5 years £	Totals £
Bank loans	90,336	90,336	271,008	2,052,387	2,504,067
Other loans	2,050,000	–	–	–	2,050,000
	2,140,336	90,336	271,008	2,052,387	4,554,067

Details of the principal loans are as follows:

1) A 25-year bank loan of £1,592,064 (2016 – £1,620,269) repayable by 300 monthly instalments of £7,528 and a final instalment of £418,811. All the payments itemised above include both capital repayments and interest at 3.25% above Base Rate. The loan is secured by a first debenture over all assets and undertakings of the Company, a cross guarantee from K&C (Coleherne) Limited over the freehold property known as 25 Coleherne Road and a debenture over the assets and undertakings of K&C (Coleherne) Limited. The loan is also secured by a pledge of shares of K&C (Coleherne) Limited.

2) A loan of £1,100,000, commencing on 27 May 2016, which is repayable in full no later than 27 May 2018 and is secured on the assets of the Company and the assets of K&C (Osprey) Limited. Interest is charged at 12% per annum and is payable quarterly in arrears.

3) A loan of £950,000 was received on 29 June 2017, with no payment terms or interest. Following the year-end, these loans were reclassified as convertible loan notes. These loan notes attract interest at a rate of 6% per annum, payable quarterly, and will be redeemed on 30 June 2020.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2017

20. Share-based payment transactions

During the year ended 30 June 2017, the Company had several share-based payment arrangements in place, which are described below:

	Executive share options	Non-executive share options	Restricted preference shares	White Amba share options	Founder warrants	Allenby warrants	Warrants
Outstanding at 30 June 2016	3,000,000	144,493	–	–	750,000	437,856	1,500,000
Granted during the year	–	460,000	35,000,000	10,000,000	–	–	–
Forfeited during the year	(3,000,000)	(144,493)	–	–	–	–	–
Outstanding at 30 June 2017	**–**	**460,000**	**35,000,000**	**10,000,000**	**750,000**	**437,856**	**1,500,000**

Executive share options:

Following the passing of the resolution to issue restricted preference shares at the General Meeting on 20 February 2017 and the subscription by the existing executives for preference shares in February and April 2017, the Executive Option Arrangements were cancelled.

Non-executive share options:

Non-executive share options were granted to certain non-executive directors and others on admission to trading on AIM, or subsequently, at £0.10 per share. There are no vesting conditions. The non-executive share options do not have any performance criteria attached to them and may be exercised at any time during the period commencing one year from the date of admission to trading on AIM and ending on the date immediately preceding the date of the tenth anniversary of the date of admission to trading on AIM.

Restricted preference shares:

Restricted preference shares have been granted to certain directors and other senior managers on 2 February 2017 and 24 April 2017. Upon the achievement by the Group of certain milestones, the restricted preference shares may be converted into ordinary shares at £0.01 each.

White Amba share options:

Share options have been granted to a company owned by a director of K&C REIT plc, to acquire 10,000,000 restricted preference shares at £0.01 per share. The share options do not have any performance criteria attached to them and may be exercised at any time from the date of grant to 30 June 2018.

Founder warrants

On 8 September 2014, 750,000 warrants were issued to shareholders to subscribe for one ordinary share at £0.10 per share at any time before 31 December 2018.

Allenby warrants

On admission to trading on AIM, the Company granted to Allenby Capital Limited a warrant to acquire 437,856 ordinary shares at £0.10 per share, within five years of admission, namely by 3 July 2020.

20. Share-based payment transactions (continued)

Warrants

On 24 May 2016, 1,500,000 warrants were issued to several potential lenders to the Company to subscribe for one ordinary share at £0.10 per share at any time before 24 May 2021.

The estimated fair value of each share option granted is as follows:

	Executive share options	Non-executive share options	Restricted preference shares	White Amba share options	Founder warrants	Allenby warrants	Warrants
Fair value of share option/warrant (£)	0.0907	0.0340 – 0.0385	0.0691 – 0.0787	0.0767	0.0318	0.0340	0.013

The fair values were estimated using the Black-Scholes valuation model. The following table lists the inputs to the model used:

	Executive share options	Non-executive share options	Restricted preference shares	White Amba share options	Founder warrants	Allenby warrants	Warrants
Share price at grant date (£)	0.10	0.10	0.08-0.09	0.09	0.10	0.10	0.07
Exercise price (£)	0.01	0.10	0.01	0.01	0.10	0.10	0.10
Dividend yield (%)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Expected volatility (%)	50.00	50.00 – 51.69	63.79	61.75	50.00	50.00	43.21
Risk-free interest rate (%)	0.950	0.535	0.88	0.88	0.535	0.535	0.27
Expected life of share options/warrants (years)	5.00	2.00 – 3.00	5.3	1.33	2.60	3.00	3.00

The expected lives of the share options and warrants are based on historical data and current expectations and are not indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility of comparator companies over the period similar to the life of the share options is indicative of future trends, which may not necessarily be the actual outcome.

The expense recognised during the year is shown in the following table:

	30 June 2017 £	30 June 2016 £
Expense arising from share options	**198,482**	155,065
Expenses arising from restricted preference shares	**193,837**	–
Expense arising from warrants	**–**	57,590
Total expense from share-based payments	**392,319**	212,655

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2017

20. Share-based payment transactions (continued)

The directors' interests in Executive share options were as follows:

	Balance at 30 June 2016 No.	Exercised or forfeited No.	**Balance at 30 June 2017 No.**
James Cane	180,000	(180,000)	**–**
Timothy James	810,000	(810,000)	**–**
Oliver Vaughan	810,000	(810,000)	**–**

1,200,000 Executive share options were in issue to other staff members at the beginning of the year and were cancelled during the year.

The interests of directors and past directors in Non-Executive share options are as follows:

	Balance at 30 June 2016 No.	Granted on 11 July 2016 No.	Forfeited in the year No.	**Balance at 30 June 2017 No.**
Michael Davies	–	–	–	**–**
Patricia Farley	144,493	–	(144,493)	**–**
George Rolls	–	460,000	–	**460,000**

There have been no changes to the director's interest in Non-executive share options since the year-end.

The directors' interests in Restricted Preference shares at the year-end can be seen in Note 22 to the financial statements.

The interest of directors in Founder Warrants at 30 June 2017 were as follows:

	No.
Michael Davies	**–**
Dominic White	**–**
Timothy James	**175,000**
James Cane	**10,000**
Oliver Vaughan	**175,000**

There have been no changes to the directors' interests in Founder Warrants since the year-end.

21. Financial risk management

The Company's directors have overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect the changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group has exposure to the following risks arising from financial instruments:

- credit risk
- liquidity risk
- market risk

Capital risk management

The Group and Company's objective when managing capital is to safeguard its accumulated capital in order to provide an adequate return to shareholders by maintaining a sufficient level of funds, in order to support continued operations.

The Group considers its capital to comprise equity capital less accumulated losses.

The share premium reserve includes premiums received on the issue of share capital during the year.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk is as reported in the statement of financial position.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The contractual maturities of financial liabilities are disclosed in Note 19.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2017

21. Financial risk management (continued)

Market risk

Market risk is the risk that changes in market prices, such as interest rates and equity prices, will affect the Group and the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimising the return.

Sensitivity

Interest rate sensitivity:

At 30 June 2017, if interest rates had been 0.5 percentage points higher and all other variables were held constant, it is estimated that the Group's loss before tax would increase to £1,238,246 (2016 – £570,735). This is attributable to the Group's exposure on its borrowings and is based on the change taking place at the beginning of the financial year and held constant throughout the reporting period.

22. Related parties

During the previous year, the Group repaid a loan totalling £215,000 which was received from Christopher James, a director, in the previous period. The loan was subject to an interest charge for the period from receipt to redemption of 17.5% of the principal amount, payable in full at the earlier of admission to AIM or 31 July 2016. The loan was repaid by converting the loan into ordinary shares of the Company at par. Following admission to AIM on 3 July 2015, gross interest of £37,625 was paid to Mr James.

During the previous year, the Group repaid a loan totalling £125,000 which was received from Oliver Vaughan, a director, in the previous period. The loan was subject to an interest charge for the period from receipt to redemption of 17.5% of the principal amount, payable in full at the earlier of admission to AIM or 31 July 2016. The loan was repaid in full during the year. Gross interest of £23,523 was paid to Mr Vaughan.

During the year, fees of £50,000 plus VAT were paid to White Amba Limited, a company controlled by the director, Dominic White.

At the balance sheet date, current liabilities included £100,000 received from a director, Timothy James, and his wife. These monies were reclassified into convertible loan notes after the balance sheet date.

During the year, the Group paid (i) Perry, Cane, a consultancy business owned by James Cane, fees of £25,000 excluding VAT, (ii) CD James (Property Consultants) Limited, a company owned by Christopher James, fees of £26,000 and (iii) DGS Capital Partners LLP, an LLP in which Michael Davies is a member, fees of £38,000 excluding VAT.

22. Related parties (continued)

At the balance sheet date, the following directors held restricted preference shares:

Name	Restricted Preference Shares No.
Dominic White	**5,000,000**
Timothy James	**9,600,000**
James Cane	**300,000**
Oliver Vaughan	**8,100,000**

Included in the total of Mr Vaughan's holdings above are 665,000 shares and 165,000 warrants held in the name of Grosmont Investments Limited, a company that he controls.

Included in the total of Mr White's holdings above are 5,000,000 restricted preference shares held in the name of White Amba Limited, a company that he controls.

Since the year-end, the holdings of directors have remained unchanged.

23. Post balance sheet events

On 7 July 2017, monies disclosed as Other loans of £950,000 at the balance sheet date were reclassified to convertible loan notes when the Company issued £1,350,000 6% convertible loan notes.

Post year-end, the Group purchased three properties for £935,000, excluding costs, within its freehold development at Heathside, London, using part of the proceeds from the issuance of the convertible loan notes.

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