RESIDENTIAL REIT PLC




KCR RESIDENTIAL REIT plc

(Previously known as K&C REIT plc)

Annual Report

for the year ended 30 June 2018

Registered Number: 09080097 (England and Wales)

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KCR RESIDENTIAL REIT PLC

COMPANY INFORMATION

DIRECTORS	M D M Davies D A White T M James J A Cane O J Vaughan	Chairman Chief executive Property director Finance director 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)	
WEBSITE	www.kcrreit.com	

INDEPENDENT AUDITOR	Moore Stephens LLP 150 Aldersgate Street London EC1A 4AB	
SOLICITORS	Fladgate LLP 16 Great Queen Street London WC2B 5DG	Blake Morgan LLP 6 New Street Square London EC4A 3DJ
NOMINATED ADVISER AND BROKER	Arden Partners plc 125 Old Broad Street London EC2N 1AR	
BANKS	Metro Bank plc One Southampton Row Holborn London WC1A 5HA	Barclays Bank plc Level 25, 1 Churchill Place Canary Wharf London E14 5HP
FINANCIAL PUBLIC RELATIONS	Yellow Jersey PR Limited 7th floor, 22 Upper Ground London SE1 9PD	

CHAIRMAN'S LETTER
for the year ended 30 June 2018

Dear shareholder

I am delighted to introduce the fourth Annual Report that KCR Residential REIT plc ("KCR" or the "Company") has presented since its admission to AIM in July 2015.

We have made good strides in building the business, especially with the three transactions completed right at the end of the year. We have further transactions planned that should give us the size necessary to start generating profits from our rental activity. Dominic White has written about our achievements and plans in more detail in his letter.

What we do

As I mentioned last year, and it is worth repeating, KCR and its subsidiaries (together the "Group") operate primarily in the UK private rented residential investment market. We acquire whole blocks of studio, one-and two-bed apartments in major UK cities, close to transport links, that are rented to private tenants.

KCR is both an income and capital growth opportunity for its shareholders. It delivers income return from the collection of rents from tenants and capital return through investment in under-valued property assets that are marked to market value at acquisition.

The team grows income and asset value through building quality improvements, rental increases, physical extensions and repositioning, and, where appropriate, small-scale refurbishments. In particular, the directors search out residential blocks of apartments held within UK incorporated companies since these provide an opportunity for KCR to capitalise on the tax advantages afforded to UK REITs; in many cases, they generate immediate boosts to net asset value per share on acquisition.

The market in which we operate

The impact on the UK economy of Brexit, and the potential impact for the housing market, is a topic of much debate. Despite uncertainty around Brexit compounding the overall market slowdown, analysis of household income available to buy property indicates that there is further scope for value growth in the most affordable cities. Research from *Hometrack* reports that, despite the uncertainty, annual UK city house price inflation to the end of August 2018 is running at 3.9 per cent. Combining this with an average UK rental yield of 4.0 per cent reported by *PropertyData* implies a current average annual total return of 7.9 per cent for rented residential property.

KCR targets a specific segment of residential property. We buy low to mid-price blocks of flats aimed at new entrants and early-stage professionals. This continues to be a very resilient segment of the residential rental market. In general, house prices and rental values continue to rise in that segment. Higher price-band homes, particularly in Central London, which attract much of the press comment, have declined in value – these properties do not fall within KCR's investment strategy.

There continue to be positive economic fundamentals in the residential sector – strong demand and shortage of supply, in particular in the targeted low- to mid-price bands. This type of housing will, in our view, deliver attractive rental and capital value performance across the UK over the medium term.

Financial result

We have had several successes this year, including a series of accretive acquisitions, improvements in portfolio valuations and maintaining high levels of occupancy across the portfolio. To an extent, we have been held back by our planned November 2017 equity raise and move to the Main Market of the London Stock Exchange. Our pitch to investors, to take advantage of the huge residential market opportunity across the major conurbations in the UK, remains the right strategy for the future. Although we attracted interest from several key institutional investors, we, along with other investment vehicles sponsored by managers such as Aviva and Aberdeen Management, did not achieve our goals. This had a material but one-off effect on our finances.

KCR relies on raising capital (both equity and debt) to invest in the residential housing market. While equity markets remain volatile, we have chosen to raise smaller amounts of capital around specific property acquisitions. We have succeeded in this strategy, having raised capital from well-resourced and enthusiastic providers in March 2018 and July 2018. We continue to present an attractive equity opportunity to potential investors. We have a strong pipeline, an experienced and energetic management team, access to transformational deals and a network of enthusiastic supporters.

I look forward to updating you further as we continue to scale up our activities such that KCR generates a profit and can then deliver on its goal of paying regular dividends to shareholders.

Michael Davies

M D M Davies
Chairman
9 November 2018

CHIEF EXECUTIVE'S LETTER

for the year ended 30 June 2018

Dear shareholder

I have pleasure in reporting to you on the progress of the Group for the year to 30 June 2018.

KCR's short-term objective is to grow the size of its rented portfolio to deliver an increase in revenue that, together with value increases over time, result in profitability and an ability to pay dividends. At the same time, we focus on growing net asset value per share, another key indicator of a successful property company.

In the period under review, the value of the assets managed has increased by 228 per cent to £27.4 million, the Group reported an operating profit of £251,079, and net asset value per share increased by three per cent to 88.17p.

Property portfolio

Acquisitions during the year

KCR completed three acquisitions (two company purchases and one investment property), with a total value of £16 million, during the period, all on 29 June 2018. Two of the acquisitions, sites at Southampton and Leighton Buzzard/West Drayton, were the first transactions closed after forming a strategic relationship with Inland Homes Plc, which we announced on 31 May 2018. The acquisitions were:

- The purchase of the Ladbroke Grove portfolio (KCR (Kite) Limited) with a fair value of investment property at acquisition of £7.3 million. The portfolio consists of 16 one- and two-bedroom apartments in three buildings, and one stand-alone flat in Harrow Road. Since its acquisition, units have been refurbished as tenants leave and then rented back to the private market. There have been average increases of 10.1 per cent for both renewals and new tenancies. Four newly refurbished units have achieved an average increase in rent of 16.2 per cent.

- The purchase of Deanery Court, Chapel Riverside (Southampton) with a fair value of investment property at acquisition of £5.8 million. The block consists of 27 new-build two-bedroom apartments, each with a view over the River Itchen and a parking space, situated a short walk from the centre of the city. The property has been well received by the rental market. Within two weeks of handover of the building from the developer, nearly two-thirds of the building had been let at rents above our internal forecasts. We expect the remainder of the property to be let in the coming months and for the property value to improve in the short term as the surrounding area continues to be developed.

- Two supermarkets that form part of significant newly built residential buildings in Leighton Buzzard and West Drayton at a fair value of investment property at acquisition of £2.8m (KCR (Cygnet) Limited). The properties are let on 15-year leases, index-linked to inflation, to Sainsbury's and the Co-op respectively, and will deliver a 4.9 per cent net annual income to KCR.

Existing portfolio

In addition, KCR acquired six flats in its freehold Heathside property in North London. KCR now owns seven flats in the block and intends to let these out on assured short-hold tenancies (ASTs) during the year. We benefit from the marriage value in such transactions and the property itself provides high-quality living accommodation for those over the age of 60 who need comfort and convenience but not care. We intend to continue to improve the building and our offer to tenants and leaseholders.

The existing portfolio continues to perform well.

- The block at Coleherne Road (K&C (Coleherne) Limited) has small-sized units (studio and one-bed flats), which continue to be exactly what the rental market is looking for. Occupancy has been maintained at 100 per cent and where there have been renewals, rents have increased at least in line with inflation.

- The Osprey portfolio (K&C (Osprey) Limited) consists of 159 flats and 13 houses / long-leasehold units in seven locations. The portfolio generated lower income from leaseholders' sales, management fees and lease-renewal premium income than in the previous year; however, these income streams are largely outside our control. However, the portfolio continues to grow in value and be a significant medium-term value-adding opportunity as the terms of the long-leasehold apartments shorten. More than one-third of the long leases have durations of 67 years or less.

Development opportunities

Following a Government consultation on delivering more homes by increasing densities on brownfield land, the current administration has expressed an intention to take forward a policy of permitted development for extensions, both upward (adding new floors) and outward (development onto under-utilised areas of existing sites). The Housing White Paper proposes a package of measures in support of this policy. If enacted, this policy change would give KCR the potential to add numerous residential units to its existing buildings and create significant value across its portfolio, particularly on the buildings located in Ladbroke Grove and on the Osprey portfolio.

Financial

Since most of the acquisition activity completed on the last business day of the financial year, it had no impact on revenue in this year's results. Since the year-end, the revenue benefit of these acquisitions is already beginning to be seen.

Revenue in this financial period continued to be driven by the Coleherne and Osprey portfolio assets. Revenue decreased to £265,936 (2017 – £514,746) due to lower income from the Osprey portfolio, as explained above. Run-rate revenue is now significantly greater and will increase further once Southampton has been fully let and our next pipeline acquisition completes.

The Group reports an improved consolidated operating profit of £251,079 (2017 – loss £1,029,215) and a significantly smaller loss before taxation of £67,574 (2017 – loss £1,224,571). As the chairman has reported in his letter, the financial impact of the unsuccessful fundraising damaged our ability to grow in the way that we had anticipated and hoped, but we nevertheless made valuable acquisitions during the year and are planning more during the current financial year.

Total assets at 30 June 2018 increased by 228 per cent to £27.4 million (2017 – £8.4 million). Net assets increased by 92 per cent to £8.69 million (2017 – £4.52 million) and net asset value per share increased by three per cent from to 88.17p (2017 – 85.7p (as adjusted for the 10:1 share consolidation announced in October 2017 – see note 16).

Subsequent events

On 13 July 2018, KCR announced that it had raised £3.1 million through a placing of £901,500 in cash, conversion of £650,000 of convertible loan notes into equity, conversion of a creditor into equity and the payment in shares for a property acquisition from Inland Homes plc (£1.26 million). KCR issued 4,434,570 shares at 70p. Full details of the transaction are reported in the Investors section of the Company's website www.kcrreit.com in the announcement dated 13 July 2018.

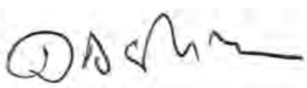
On 15 October 2018, the block at Southampton was handed over to KCR. As reported above, we have made rapid strides in letting these most attractive apartments, with 63 per cent either let or reserved as at the date of this report.

Future prospects

During the year, the Group increased the size of its portfolio significantly and continued to add both rental and capital value to its properties. The acquisition of £16 million of property on the last day of the financial year will lead to considerable growth in revenue during the year to 30 June 2019.

The team continues to source investment opportunities that would add significantly to revenue and net asset value per share. KCR is currently in advanced negotiations on one such investment that could increase the portfolio size by more than 55 per cent.

We hope to be able to report further positive developments to you in the coming months.



Dominic A White
Chief executive
9 November 2018

GROUP STRATEGIC REPORT

for the year ended 30 June 2018

The directors present the strategic report of KCR Residential REIT plc ('KCR' or the 'Company') and its subsidiaries (together, the 'Group') for the year ended 30 June 2018.

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, which is a public company limited by shares, and seven subsidiaries.

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

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. The valuation of the company has been written down to nil via an impairment provision in note 13

4. **KCR (Kite) Limited** owns three freehold residential properties in Ladbroke Grove, London and a flat on Harrow Road

5. **KCR (Southampton) Limited** owns a freehold block of 27 one- and two-bedroom apartments In Ocean Village, Southampton

6. **KCR (Cygnet) Limited** owns long leaseholds on two supermarket sites rented out to the Co-op and Sainsbury's

7. **K&C REIT Limited** (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 a consolidated operating profit of £251,079 for the year to 30 June 2018 (2017 – loss £1,029,215).

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.

As reported in the Chief Executive's letter, most of the acquisition activity was completed on the last business day of the financial year and had no impact on revenue in this year's results. Since the year-end, run-rate revenue has significantly increased and will grow further once Southampton has been fully let and our next pipeline acquisition completes.

Revenue in this financial period continued to be driven by the Coleherne and Osprey portfolio assets. Revenue decreased to £265,936 (2017 – £514,746) due to lower income from the Osprey portfolio.

The Group reports an improved consolidated operating profit of £251,079 (2017 – loss £1,029,215) and a significantly smaller loss before taxation of £67,574 (2017 – loss £1,224,571). The financial impact of the unsuccessful fundraising damaged our ability to grow but we nevertheless made valuable acquisitions during the year and are planning more during the current financial year.

Total assets at 30 June 2018 increased by 228 per cent to £27.4 million. Net assets increased by 92 per cent to £8.69 million and net asset value per share increased by three per cent from to 88.17p.

KEY PERFORMANCE INDICATORS

The directors and management team monitor key performance indicators relevant to each of the subsidiaries to improve Group performance. Management reports to the board if data show significant variances against expected outcomes and proposes mitigation action as necessary.

Examples of the KPIs used to monitor aspects of performance include:

1. **At property level**
   1.1. *Vacancy rate in terms of number of units available and potential rental income*
   Target occupancy of at least 90 per cent achieved
   1.2. *Outstanding rents as a percentage of rental income*
   Target debtor balance of less than 10 per cent of rental revenue achieved.
2. **At Group level**
   2.1. *Gross assets under management*
   Target of £20 million of gross assets by 30 June 2018 achieved.

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. Although there is no certainty that such funds will be available when needed, the directors regularly focus on developing the Group's capital structure.
- **Financial instruments**
  Details of risks associated with the Group's financial instruments are given in note 20 to the financial statements. The directors seek to mitigate these risks in manners appropriate to the risk.

- **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. The directors, who have long experience of property, seek to mitigate this risk by employing independent valuation experts such as Lambert Smith Hampton and Harding Green to review values of the material assets in the portfolio.

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 (i) ongoing financial performance is monitored in a timely manner, (ii) where required, corrective action is taken and (iii) risk is identified as early as practically possible. The directors have reviewed the effectiveness of internal controls.

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 had knowledge of the commission of such offences.

OTHER MATTERS

i. **Environmental**
   The Group understands the importance of operating its business in a manner that minimises any risks to the environment. Its policies seek to ensure that it achieves this goal.

ii. **Group employees**
   The Group considers its employees to be its most valuable assets and ensures that it deals with them fairly and constructively at all times.

iii. **Social matters**
   The Group is aware that it has a responsibility to the communities where it operates and seeks to respect them at all times.

iv. **Respect for human rights**
   The Group always respects the human rights of its stakeholders.

v. **Contributions to pension schemes**
   During the year, the Group made contributions totalling £100,000 to the personal pension scheme of Dominic White. No pension scheme benefits are being accrued by the directors.

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 has continued to purchase high-quality assets that will be able to support an increasing income yield. As last year, the Group is currently investigating several potential acquisitions. To achieve these, 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
9 November 2018

REPORT OF THE DIRECTORS

for the year ended 30 June 2018

The directors present their report with the financial statements of the Company and the Group for the year ended 30 June 2018.

A review of the business, risks and uncertainties and future developments is included in the Chairman's Letter, the Chief Executive's Letter, the Group Strategic Report and in note 20 to the financial statements.

DIVIDENDS

The directors do not recommend payment of a dividend for the year (2017 – £nil).

Political donations

The Group made no political donations during the year (2017 – £nil).

Corporate governance statement

The Board is committed to maintaining high standards of corporate governance.

To the extent applicable, and to the extent able (given the current size and structure of KCR and the board of directors), the Company has adopted the Quoted Companies Alliance Corporate Governance Code. Details of how KCR complies with the Code, the reasons for any non-compliance, and the principles contained in the Code, are set out in the table included on the Company's website, www.kcrreit.com/content/investors/governance.asp.

Audit committee

The audit committee currently comprises Michael Davies, the chairman and James Cane. 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 2018 and up to the date of approval of this Annual Report:

Name
Michael Davies
Dominic White
James Cane
Timothy James
Oliver Vaughan

The beneficial interests of the directors holding office at 30 June 2018 in the issued share capital of the Company were as follows:

Name	Ordinary Shares No.	Restricted Preference Shares No.
Michael Davies	195,428	–
Dominic White	–	1,500,000
James Cane	1,318	30,000
Timothy James	475,921	960,000
Oliver Vaughan	73,065	810,000

Included in the total of Oliver Vaughan's Ordinary shares above are 66,500 shares held in the name of Grosmont Investments Limited, a company that he controls.

Included in the total of Dominic White's holdings above are 1,000,000 Restricted Preference shares held in the name of his pension fund, White Amba Pension Scheme.

The beneficial interests of the directors holding office at 9 November 2018 in the issued share capital of the Company were as follows:

Name	Ordinary Shares No.	Restricted Preference Shares No.
Michael Davies	195,428	–
Dominic White	57,143	1,765,357
James Cane	1,318	40,000
Timothy James	504,492	1,225,357
Oliver Vaughan	73,065	1,075,357

SUBSTANTIAL SHAREHOLDINGS

As at 9 November 2018, 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
Energiser Investments plc	17.04%
Consumer Refund Service Limited	14.01%
Poole Investments Limited	12.59%
Venaglass Limited	11.08%
Timothy James	3.53%

DIRECTORS' REMUNERATION

The directors received the following remuneration during the year:

	2018		2017	
	Remuneration	**Benefits-in-kind**	Remuneration	Benefits-in-kind
Name	**£**	**£**	£	£
Michael Davies	–	–	–	–
Dominic White	151,000	–	12,500	–
James Cane	60,000	–	44,500	–
Timothy James	80,000	–	15,000	–
Oliver Vaughan	30,000	–	15,000	–
Timothy Oakley (1)	–	–	32,500	–
Christopher James (1)	–	–	9,375	–
Patricia Farley (1)	–	–	3,500	–
	321,000	**–**	132,375	–

(1) Timothy Oakley, Christopher James and Patricia Farley resigned from the board of directors on 31 March 2017.

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

During the year, the Group paid DGS Capital Partners LLP, a limited liability partnership of which Michael Davies is a member, fees of £36,000 (net of irrecoverable VAT) (2017 – £36,000).

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 note 2 to the financial statements.

KCR RESIDENTIAL REIT PLC

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 transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable the directors 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, Moore Stephens LLP, will be proposed for re-appointment at the forthcoming Annual General Meeting.

ON BEHALF OF THE BOARD

Dominic White
Director
9 November 2018

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KCR RESIDENTIAL REIT plc

for the year ended 30 June 2018

Our opinion

We have audited the financial statements of KCR Residential REIT plc (the "Parent Company") and its subsidiaries (the "Group") for the year ended 30 June 2018, 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 Group and Parent Company financial statements is applicable law and International Financial Reporting Standards (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 Parent Company's affairs as at 30 June 2018 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.

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. 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 public interest 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 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 or the Parent 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.

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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 owns investment properties which comprise properties held for capital appreciation, rental income or both. Investment properties are valued on acquisition by independent external valuers and then revalued by the directors or independent valuers annually thereafter. The Group's investment property portfolio is valued at £26.7m 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 £20.4 million of the total investment property value within four months of the year end. For these valuations, an assessment of the valuers' qualifications, expertise and independence was performed to assess that these were appropriate for the work carried out.

- For the directors' valuations of £6.3 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. We have also reviewed these in relation to the most recent independent external valuations.

- Where appropriate, investment property values have been compared with those in similar areas, to an external source.

Completeness of revenue

Revenue of the Group was derived mainly from its principal activity, being the letting to third parties, 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.

- Management fee income has been reconciled to expected charges.

- Sales commission income has been verified to commission rates charged on the sale of properties.

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 £395,717, approximately 1.5 per cent of gross assets. Our materiality for each subsidiary was also based on 1.5 per cent 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 £19,786, being five per cent of the materiality for the financial statements as a whole.

An overview of the scope of our audit

The Group operated 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, two trading subsidiary undertakings that were purchased at the end of June 2018 and one that was incorporated at the end of June 2018. 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 Parent Company and carrying out certain procedures on the other companies to a component or Group materiality.

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 has been addressed within the key audit matters section.

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 statement of directors' responsibilities, set out on page 15, 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.

This description forms part of our auditor's report.

Use of our report

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.

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

9 November 2018

KCR
RESIDENTIAL REIT PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2018

	Notes	30 June 2018 £	30 June 2017 £
CONTINUING OPERATIONS			
Revenue	3	265,936	514,746
Cost of sales		(191,420)	(110,544)
GROSS PROFIT		74,516	404,202
Administrative expenses		(1,317,971)	(1,157,098)
Revaluation of investment properties	12	1,235,377	116,000
OPERATING LOSS BEFORE SEPARATELY DISCLOSED ITEMS		(8,078)	(636,896)
Separately disclosed administrative items			
Gain on bargain purchase	13	2,201,639	–
Share-based payment charge	19	(950,188)	(392,319)
Costs of acquisition of subsidiaries	6	(318,295)	–
Costs associated with third-party fundraising	6	(673,999)	–
OPERATING PROFIT/(LOSS)		251,079	(1,029,215)
Finance costs	5	(325,688)	(195,361)
Finance income	5	7,035	5
LOSS BEFORE TAXATION	6	(67,574)	(1,224,571)
Taxation	7	–	–
LOSS FOR THE YEAR		(67,574)	(1,224,571)
TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR		(67,574)	(1,224,571)
Loss attributable to owners of the Parent Company		(67,574)	(1,224,571)
Loss per share expressed in pence per share	8		
Basic		(1.02)	(24.76)
Diluted		(1.02)	(24.76)

The notes form part of these financial statements

KCR
RESIDENTIAL REIT PLC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 30 June 2018

	Notes	30 June 2018 £	30 June 2017 £
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	11	38,993	1,843
Investment properties	12	26,695,000	7,242,000
		26,733,993	7,243,843
CURRENT ASSETS			
Trade and other receivables	14	703,427	90,777
Cash and cash equivalents	15	6,425	1,023,752
		709,852	1,114,529
TOTAL ASSETS		27,443,845	8,358,372
EQUITY			
SHAREHOLDERS' EQUITY			
Share capital	16	1,435,721	877,518
Share premium		7,358,244	4,660,322
Capital redemption reserve		67,500	67,500
Other reserves		29,862	–
Retained earnings		(200,565)	(1,083,179)
TOTAL EQUITY		8,690,762	4,522,161
LIABILITIES			
NON-CURRENT LIABILITIES			
Financial liabilities – borrowings			
Interest-bearing loans and borrowings	18	8,749,702	1,560,756
CURRENT LIABILITIES			
Trade and other payables	17	8,332,548	194,147
Financial liabilities – borrowings			
Interest-bearing loans and borrowings	18	1,670,833	31,308
Other loans	18	–	2,050,000
		10,003,381	2,275,455
TOTAL LIABILITIES		18,753,083	3,836,211
TOTAL EQUITY AND LIABILITIES		27,443,845	8,358,372
Net asset value per share (pence)		88.17	85.73

The financial statements were approved and authorised for issue by the Board of Directors on 9 November 2018 and were signed on its behalf by:

James Cane
Director

The notes form part of these financial statements

COMPANY STATEMENT OF FINANCIAL POSITION

at 30 June 2018

	Notes	30 June 2018 £	30 June 2017 £
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	11	3,984	1,676
Investments	13	11,768,563	5,305,000
		11,772,547	5,306,676
CURRENT ASSETS			
Trade and other receivables	14	919,064	27,496
Cash and cash equivalents	15	77	989,583
		919,141	1,017,079
TOTAL ASSETS		12, 691,688	6,323,755
EQUITY			
SHAREHOLDERS' EQUITY			
Share capital	16	1,435,721	877,518
Share premium		7,358,244	4,660,322
Capital redemption reserve		67,500	67,500
Other reserves		29,862	–
Retained earnings		(5,750,210)	(3,292,562)
TOTAL EQUITY		3,141,117	2,312,778
LIABILITIES			
NON-CURRENT LIABILITIES			
Financial liabilities – borrowings			
Interest-bearing loans and borrowings	18	5,558,770	1,560,756
CURRENT LIABILITIES			
Trade and other payables	17	2,370,174	368,913
Financial liabilities – borrowings			
Interest-bearing loans and borrowings	18	1,621,627	31,308
Other loans	18	–	2,050,000
		3,991801	2,450,221
TOTAL LIABILITIES		9,550,571	4,010,977
TOTAL EQUITY AND LIABILITIES		12,691,688	6,323,755

As permitted by Section 408 of the Companies Act 2006, the statement of comprehensive income of the Company is not presented as part of these financial statements. The Company's loss for the financial year was £(3,407,836) (2017 – £(1,591,032)).

The financial statements were approved and authorised for issue by the Board of Directors on 9 November 2018 and were signed on its behalf by:

James Cane

Director

The notes form part of these financial statements

KCR
RESIDENTIAL REIT PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2018

	Share capital £	Share premium £	Capital redemption reserve £	Other reserve £	Retained earnings £	Total equity £
Balance at 1 July 2016	467,856	4,120,984	67,500	–	(250,927)	**4,405,413**
Changes in equity						
Total comprehensive expense	–	–	–	–	(1,224,571)	**(1,224,571)**
	–	–	–	–	(1,224,571)	**(1,224,571)**
Transactions with owners in their capacity as owners						
Issue of share capital	409,662	539,338	–	–	–	**949,000**
Share-based payments	–	–	–	–	392,319	**392,319**
	409,662	539,338	–	–	392,319	**1,341,319**
Balance at 30 June 2017	877,518	4,660,322	67,500	–	(1,083,179)	**4,522,161**
Changes in equity						
Total comprehensive expense	–	–	–	–	(67,574)	**(67,574)**
	–	–	–	–	(67,574)	**(67,574)**
Transactions with owners in their capacity as owners						
Issue of share capital	558,203	2,697,922	–	–	–	**3,256,125**
Share-based payments	–	–	–	–	950,188	**950,188**
Equity element of loan finance	–	–	–	29,862	–	**29,862**
	558,203	2,697,922	–	29,862	950,188	**4,236,175**
Balance at 30 June 2018	**1,435,721**	**7,358,244**	**67,500**	**29,862**	**(200,565)**	**8,690,762**

The notes form part of these financial statements

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2018

	Share capital £	Share premium £	Capital redemption reserve £	Other reserve £	Retained earnings £	Total equity £
Balance at 1 July 2016	467,856	4,120,984	67,500	–	(2,093,849)	**2,562,491**
Changes in equity						
Total comprehensive expense	–	–	–	–	(1,591,032)	**(1,591,032)**
	–	–	–	–	(1,591,032)	**(1,591,032)**
Transactions with owners in their capacity as owners						
Issue of share capital	409,662	539,338	–	–	–	**949,000**
Share-based payments	–	–	–	–	392,319	**392,319**
	409,662	539,338	–	–	392,319	**1,341,319**
Balance at 30 June 2017	877,518	4,660,322	67,500	–	(3,292,562)	**2,312,778**
Changes in equity						
Total comprehensive expense	–	–	–	–	(3,407,836)	**(3,407,836)**
	–	–	–	–	(3,407,836)	**(3,407,836)**
Transactions with owners in their capacity as owners						
Issue of share capital	558,203	2,697,922	–	–	–	**3,256,125**
Share-based payments	–	–	–	–	950,188	**950,188**
Equity element of loan finance	–	–	–	29,862	–	**29,862**
	558,203	2,697,922	–	29,862	950,188	**4,236,175**
Balance at 30 June 2018	**1,435,721**	**7,358,244**	**67,500**	**29,862**	**(5,750,210)**	**3,141,117**

The notes form part of these financial statements

KCR
RESIDENTIAL REIT PLC

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June 2018

	2018 £	2017 £
Cash flows from operating activities		
Cash generated used in operations	(2,094,859)	(902,338)
Interest paid	(325,688)	(195,361)
Net cash used in operating activities	(2,420,547)	(1,097,699)
Cash flows from investing activities		
Acquisition of subsidiaries	(5,278,164)	–
Purchase of tangible fixed assets	(43,515)	–
Purchase of investment properties	(2,046,594)	–
Interest received	7,035	5
Net cash (used in) / generated from investing activities	(7,361,238)	5
Cash flows from financing activities		
Loan repayments in year	(1,131,525)	(28,204)
New loans in year	7,739,858	950,000
Shares issued	2,156,125	949,000
Net cash generated from financing activities	8,764,458	1,870,796
(Decrease)/increase in cash and cash equivalents	(1,017,327)	773,102
Cash and cash equivalents at beginning of year	1,023,752	250,650
Cash and cash equivalents at end of year	6,425	1,023,752

The notes form part of these financial statements

COMPANY STATEMENT OF CASH FLOWS
for the year ended 30 June 2018

	2018 £	2017 £
Cash flows from operating activities		
Cash used in operations	(2,222,618)	(920,558)
Interest paid	(316,544)	(194,149)
Net cash used in operating activities	(2,539,162)	(1,114,707)
Cash flows from investing activities		
Purchase of tangible fixed assets	(3,519)	–
Purchase of subsidiary undertakings	(5,278,164)	–
Interest received	7,019	–
Net cash used in investing activities	(5,274,664)	–
Cash flows from financing activities		
Loan repayments in year	(1,131,525)	(28,204)
New loans in year	5,799,720	950,000
Shares issued	2,156,125	949,000
Net cash generated from financing activities	6,824,320	1,870,796
(Decrease)/increase in cash and cash equivalents	(989,506)	756,089
Cash and cash equivalents at beginning of year	989,583	233,494
Cash and cash equivalents at end of year	77	989,583

The notes form part of these financial statements

NOTES TO THE STATEMENTS OF CASH FLOWS

for the year ended 30 June 2018

RECONCILIATION OF LOSS BEFORE TAXATION TO CASH USED IN OPERATIONS

Group	2018 £	2017 £
Loss before taxation	(67,574)	(1,224,571)
Depreciation charges	6,365	887
Revaluation of investment properties	(1,235,377)	(116,000)
Gain on bargain purchase	(2,201,639)	–
Share-based payment charge	950,188	392,319
Finance costs	325,688	195,361
Finance income	(7,035)	(5)
	(2,229,384)	(752,009)
Increase in trade and other receivables	(590,502)	(66,516)
Increase/(decrease) in trade and other payables	725,027	(83,813)
Cash generated used in operations	(2,094,859)	(902,338)

Company	2018 £	2017 £
Loss before taxation	(3,407,836)	(1,591,032)
Depreciation charges	1,211	754
Impairment of investments	75,000	–
Share-based payment charge	950,188	392,319
Finance costs	316,544	194,149
Finance income	(7,019)	–
	(2,071,912)	(1,003,810)
Increase in trade and other receivables	(891,568)	(24,741)
Increase in trade and other payables	740,862	107,993
Cash used in operations	(2,222,618)	(920,558)

The notes form part of these financial statements

RECONCILIATION OF MOVEMENT IN BORROWINGS WITHIN FINANCING ACTIVITIES

Group	Long-term borrowing £	Short-term borrowing £	Total £
Balance at 1 July 2016	2,690,108	30,160	2,720,268
Cash flow movements			
New borrowing	–	950,000	950,000
Loan repayments	–	(28,204)	(28,204)
Non-cash changes			
Reclassification	(1,129,352)	1,129,352	–
Balance at 30 June 2017	1,560,756	2,081,308	3,642,064
Cash flow movements			
New borrowing	6,118,014	1,621,844	7,739,858
Loan repayments	–	(1,131,525)	(1,131,525)
Non-cash changes			
Acquisitions	1,250,794	49,206	1,300,000
Convertible loan notes converted	(179,862)	(950,000)	(1,129,862)
Balance at 30 June 2018	**8,749,702**	**1,670,833**	**10,420,535**

Company	Long-term borrowing £	Short-term borrowing £	Total £
Balance at 1 July 2016	2,690,108	30,160	2,720,268
Cash flow movements			
New borrowing	–	950,000	950,000
Loan repayments	–	(28,204)	(28,204)
Non-cash changes			
Reclassification	(1,129,352)	1,129,352	–
Balance at 30 June 2017	1,560,756	2,081,308	3,642,064
Cash flow movements			
New borrowing	4,177,876	1,621,844	5,799,720
Loan repayments	–	(1,131,525)	(1,131,525)
Non-cash changes			
Convertible loan notes converted	(179,862)	(950,000)	(1,129,862)
Balance at 30 June 2018	**5,558,770**	**1,621,627**	**7,180,397**

The notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

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 ('GBP'), 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 2018, certain standards and interpretations were in issue by the EU but not yet effective.

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.

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

1. Presentation of financial statements (continued)

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 Group 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. At present, the directors consider that there will only be limited further disclosure required.

2. Accounting policies

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for 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 dates of acquisition, are K&C (Newbury) Limited, K&C (Coleherne) Limited, K&C (Osprey) Limited, KCR (Kite) Limited, KCR (Cygnet) Limited and KCR (Southampton) Limited.

Both KCR (Kite) Limited and KCR (Cygnet) Limited were acquired in the current financial year. Further details are shown in note 13. KCR (Southampton) Limited was incorporated on 26 June 2018 and its first accounting reference date will be 30 June 2019.

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

2. Accounting policies (continued)

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, and management, of property assets owned by the Group. This income includes rental income (recognised as explained above), management fees (also recognised on an accruals basis) and sales commissions (recognised on completion of the transaction).

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

Separately disclosed administrative items

Separately disclosed exceptional 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 as a separately disclosed administrative item as 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.

Fixtures, fittings and IT equipment – 5% and 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 when the risks and rewards of ownership are transferred. Any gain or loss arising from a change in fair value is recognised in profit or loss.

2. Accounting policies (continued)

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.

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 that 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.

NOTES TO THE FINANCIAL STATEMENTS

2. Accounting policies (continued)

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.

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 at bank and cash balances.

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.

2. Accounting policies (continued)

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 real estate investment trust (“REIT"), the Group is generally not liable to corporation tax.

Deferred tax would be recognised in respect of 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.

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.

2. Accounting policies (continued)

Share-based payments

The Group allows certain individuals to acquire shares in the parent company via share-based payment schemes. 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.

Employee benefit costs

The Group operates a defined-contribution pension plan for certain employees. A defined-contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions payable to the defined-contribution pension plan are recognised as an employee benefit expense in the statement of comprehensive income in the periods during which services are rendered by employees.

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.

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 and the determination of their value*

  The Group's investment properties are valued at £26,695,000.

  Several 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.

  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. The Group's investment properties are valued on acquisition by independent external valuers and then by the directors or independent valuers annually thereafter.

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2. Accounting policies (continued)

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.

3. Revenue

The Group is involved in UK property ownership, management and letting. The directors consider that the Group operates 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, and management, of property assets owned by the Group, and, in certain cases, the management of property assets owned by third parties.

4. Employees and directors

The loss before taxation is stated after charging:

	2018 £	2017 £
Wages and salaries	**455,118**	276,538
Social security costs	**45,681**	17,431
Pension costs	**106,157**	599
	606,956	294,568

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

Directors and management	**7**	7
Administration	**2**	2
	9	9

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for the year ended 30 June 2018

4. Employees and directors (continued)

	£	£
Directors' remuneration	**321,000**	132,375
Remuneration of the highest-paid director	**151,000**	44,500
Amount paid into a pension scheme of the highest-paid director	**100,000**	–
Number of directors accruing benefits under money-purchase schemes	**–**	–

The directors are considered to be key management personnel.

Certain directors and others have also subscribed for Restricted Preference shares in the Company, further details of which are contained in note 19 of the financial statements.

5. Finance income and costs

	2018 £	2017 £
Finance costs		
Loan interest	**325,688**	195,361
Finance income		
Bank interest	**7,035**	5

6. Loss before taxation

The loss before taxation is stated after charging:

		2018 £	2017 £
Hire of plant and machinery		**2,034**	2,018
Other operating leases		**13,140**	12,840
Depreciation – owned assets		**6,365**	887
Auditors' remuneration for the Group	– audit services for Parent Company	**44,100**	24,000
(inclusive of irrecoverable VAT)	– audit services for subsidiaries	**15,000**	18,000
	– taxation advisory services	**13,560**	14,200
	– abortive corporate finance services	**150,106**	–

Separately disclosed items

During the year, the Group incurred significant costs relating to third-party fundraising, which totalled £673,999. 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.

6. Loss before taxation (continued)

On 29 June 2018, the Group acquired KCR (Kite) Limited and KCR (Cygnet) Limited. The costs to the Group of acquiring these entities totalled £318,295. 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 13 and note 19 respectively.

7. Taxation

Analysis of tax

Current tax	**2018 £**	2017 £
UK corporation tax	**–**	–
Deferred tax	**–**	–
Total tax	**–**	–

Factors affecting the tax expense

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

	2018 £	2017 £
Loss on ordinary activities before taxation	**(67,574)**	(1,224,571)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19% (2017 – 19.75%)	**(12,839)**	(241,853)
Effects of		
Losses not subject to taxation due to REIT status	**12,839**	241,853
Tax credit	**–**	–

8. 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 the outstanding share options are anti-dilutive and, hence, basic and fully diluted loss per share are the same.

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NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

8. Loss per share (continued)

	2018		
	Loss	**Weighted average number of shares**	**Per share amount**
	£	**No**	**Pence**
Loss attributable to ordinary shareholders	**(67,574)**	**6,598,018**	**(1.02)**

	2017		
	Loss	Weighted average number of shares	Per share amount
	£	No	Pence
Loss attributable to ordinary shareholders	(1,224,571)	49,455,237	(2.48)

During the year, the Ordinary Shares each of nominal value 1p were consolidated into Ordinary Shares each of nominal value 10p. If the share consolidation had taken place at 30 June 2017, the loss per share would have been £0.25.

	2017 (as if the share consolidation had taken place at 30 June 2017)		
	Loss	Weighted average number of shares	Per share amount
	£	No	Pence
Loss attributable to ordinary shareholders	(1,224,571)	4,945,523	(24.76)

The net asset value per share of 88.17 pence (2017 – 85.73 pence) is calculated based on the number of Ordinary shares in issue at the year-end. At the year-end, there were 9,857,207 Ordinary shares in issue (2017 – 5,275,181 (52,751,813 pre-consolidation)).

9. 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 2018 £	30 June 2017 £
Within one year	**253,551**	13,367
Between one and five years	**572,386**	84,125
More than five years	**1,193,517**	–
Total	**2,019,454**	97,492

Lease revenue is generated from properties owned by K&C (Coleherne) Limited and KCR (Kite) Limited that are let on short-term tenancy agreements and KCR (Cygnet) Limited, which owns properties let on longer-terms leases.

10. Leasing agreements

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

	30 June 2018 £	30 June 2017 £
Within one year	**21,758**	10,740

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2018

11. Property, plant and equipment

Group	Fixtures, fittings & computer equipment £
COST	
At 1 July 2017	5,596
Additions	43,515
At 30 June 2018	**49,111**
DEPRECIATION	
At 1 July 2017	3,753
Charge for year	6,365
At 30 June 2018	**10,118**
NET BOOK VALUE	
At 30 June 2018	38,993
At 30 June 2017	1,843

Company	Fixtures, fittings & computer equipment £
COST	
At 1 July 2017	3,017
Additions	3,519
At 30 June 2018	**6,536**
DEPRECIATION	
At 1 July 2017	1,341
Charge for year	1,211
At 30 June 2018	**2,552**
NET BOOK VALUE	
At 30 June 2018	**3,984**
At 30 June 2017	1,676

12. Investment properties

Group	Total £
COST	
At 1 July 2017	7,242,000
Additions	18,217,623
Revaluations	1,235,377
At 30 June 2018	**26,695,000**
NET BOOK VALUE	
At 30 June 2018	**26,695,000**
At 30 June 2017	7,242,000

The investment properties acquired in the year that are owned by KCR (Kite) Limited and KCR (Cygnet) Limited were procured upon acquisition of subsidiaries. These properties were valued by professionally qualified independent external valuers (Lambert Smith Hampton) at the date of acquisition and were recorded at the values that were attributed to the properties at acquisition date. These properties are included in the financial statements at amounts based upon these valuations.

In July 2018, certain properties were valued again by professionally qualified independent external valuers (Lambert Smith Hampton and Harding Green) in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Standards 2014 as amended.

In total, 77 per cent by value of the investment properties were independently valued at, or within, three months of the year-end. The remaining properties were valued by the directors at the same valuations as at 30 June 2017. The total valuation of the Group's portfolio was £26,695,000. 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 £133,001 (2017 – £154,903). The total rental expenses in relation to investment properties for the Group equated to £50,122 (2017 – £53,101).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

13. Investments

Company	Shares in group undertakings £
COST	
At 1 July 2017	5,305,000
Additions	6,538,563
Impairment	(75,000)
At 30 June 2018	**11,768,563**
NET BOOK VALUE	
At 30 June 2018	**11, 768,563**
At 30 June 2017	5,305,000

13. Investments (continued)

The Company's investments comprise the following:

Subsidiaries		Holding %
K&C (Coleherne) Limited	Registered office: UK	100.00
Nature of business	*Class of shares*	
Property letting	Ordinary	
K&C (Osprey) Limited	Registered office: UK	100.00
Nature of business	*Class of shares*	
Property letting and property management	Ordinary	
K&C (Newbury) Limited	Registered office: UK	100.00
Nature of business	*Class of shares*	
Property letting (the company currently owns no property assets), dormant (the valuation of the company was reduced to nil during the year)	Ordinary	
K&C REIT Limited, previously known as Newton Horner Property Limited and then KCR Residential REIT Limited (subsidiary of K&C (Osprey) Limited)	Registered office: UK	100.00
Nature of business	*Class of shares*	
Dormant	Ordinary	
KCR (Kite) Limited	Registered office: UK	100.00
Nature of business	*Class of shares*	
Property letting	Ordinary	
KCR (Cygnet) Limited	Registered office: UK	100.00
Nature of business	*Class of shares*	
Property letting	Ordinary	
KCR (Southampton) Limited	Registered office: UK	100.00
Nature of business	*Class of shares*	
Property letting	Ordinary	

13. Investments (continued)

Acquisition of KCR (Kite) Limited

On 29 June 2018, the Company acquired the entire issued share capital of KCR (Kite) Limited for £5,276,964, satisfied by cash. In the director's opinion, reinforced by an independent valuation of the properties acquired by Lambert Smith Hampton, the net assets of KCR (Kite) Limited were worth in excess of the amount paid and hence gave rise to gain on bargain purchase.

As the company was acquired on the last business day of the financial year, the Group earned no revenue from it during the financial year to 30 June 2018.

Net assets acquired were as follows:	£
Investment property	7,300,000
Trade and other receivables	22,148
Trade and other payables	(33,686)
Taxation payable	(48,360)
Net assets	7,240,102
Gain on bargain purchase – taken to Statement of Comprehensive Income	(1,963,138)
Total Consideration	5,276,964
Satisfied by cash	5,276,964
Net cash outflow arising on acquisition:	
Cash consideration	(5,276,964)
	(5,276,964)

Acquisition of KCR (Cygnet) Limited

On 29 June 2018, the Company acquired the entire issued share capital of KCR (Cygnet) Limited for total consideration of £1,261,499, satisfied by cash of £1,200 and the issuance of ordinary shares to the value of £1,260,299 on 30 July 2018. In the director's opinion, reinforced by an independent valuation of the properties acquired by Lambert Smith Hampton, the net assets of KCR (Cygnet) Limited were worth in excess of the amount paid and hence gave rise to gain on bargain purchase.

Net assets acquired were as follows:	£
Investment property	2,800,000
Bank loans	(1,300,000)
Net assets	1,500,000
Gain on bargain purchase – taken to Statement of Comprehensive Income	(238,501)
Total consideration	1,261,499
Satisfied by cash	1,200
Net cash outflow arising on acquisition:	
Cash consideration	(1,200)
	(1,200)

13. Investments (continued)

As the company was acquired on the last business day of the financial year, the Group earned no revenue from it during the financial year to 30 June 2018.

Full-year impact of acquisitions

If these two companies had been acquired by the Group on 1 July 2017 (as opposed to 29 June 2018), the directors estimate, using several assumptions, that the revenue of the Group would have increased to £596,201 (actual – £265,936) and the operating profit to £398,350 (actual – £181,353).

14. Trade and other receivables

	Group		Company	
	2018	2017	**2018**	2017
	£	£	**£**	£
Trade receivables	**70**	960	**–**	–
Amounts owed by group undertakings	**–**	–	**263,980**	–
Other receivables	**634,045**	63,334	**594,293**	5,918
VAT	**1,336**	427	**–**	–
Prepayments	**67,976**	26,056	**60,791**	21,578
	703,427	90,777	**919,064**	27,496

The Group and Company's exposure to credit risk is disclosed in note 20.

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

Amounts owed by group undertakings are repayable on demand.

Other receivables include a loan to a third party of £494,100 carrying interest at 7.5 per cent, which was repaid on 12 September 2018.

15. Cash and cash equivalents

	Group		Company	
	2018	2017	**2018**	2017
	£	£	**£**	£
Cash in hand	**40**	40	**–**	–
Bank accounts	**6,385**	1,023,712	**77**	989,583
	6,425	1,023,752	**77**	989,583

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

16. Share capital

Allotted, issued and fully paid			30 June 2018	30 June 2017
Number	Class	Nominal value	£	£
9,857,207	Ordinary	£0.10	**985,721**	
52,751,813	Ordinary	£0.01		527,518
4,500,000	Restricted Preference	£0.10	**450,000**	
35,000,000	Restricted Preference	£0.01		350,000
			1,435,721	877,518

At 1 July 2017, the Company had 52,751,813 Ordinary shares of £0.01 in issue and 35,000,000 Restricted preference shares of £0.01 in issue. On 24 October 2017, the Company consolidated the shares into 5,275,182 Ordinary shares of £0.10 each and 3,500,000 Restricted Preference shares of £0.10 each.

On 23 February 2018, the Company issued 74,889 Ordinary shares of £0.10 each. The shares were issued at par.

On 18 March 2018, the Company issued

1) 4,507,136 Ordinary shares of £0.10 each. The shares were issued at a premium of £0.60 per share.

2) 1,000,000 Restricted Preference shares of £0.10 each. The shares were issued at par.

The Restricted Preference shares carry no voting or dividend rights (see note 19).

1,571,427 of the Ordinary shares issued on 18 March 2018 were issued upon the conversion of convertible loan notes. The effect of the conversion was to increase share capital by £157,143 and increase share premium by £942,856. No loan notes were converted in the prior year.

On a winding up or a return of capital, the holders of the Restricted 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.

17. Trade and other payables

	Group		Company	
	2018 £	2017 £	2018 £	2017 £
Trade creditors	618,321	76,006	618,321	74,770
Amounts owed to group undertakings	–	–	197,330	224,640
Corporation tax	48,360	–	–	–
Other taxes and social security	47,901	10,138	45,231	9,898
Other creditors	6,126,929	16,756	52,588	–
Unissued share capital	1,260,299	–	1,260,299	–
Accruals and deferred income	230,738	91,247	196,405	59,605
	8,332,548	194,147	2,370,174	368,913

The Group's and Company's exposure to liquidity risk related to trade and other payables is disclosed in note 20.

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.

Other creditors include £6,038,317 owed on the purchase of the investment property within KCR (Southampton) Limited.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

18. Financial liabilities – Borrowings

	Group		Company	
	2018	2017	**2018**	2017
	£	£	**£**	£
Current				
Bank overdraft	**55,259**	–	**55,259**	–
Bank loans	**140,574**	31,308	**91,368**	31,308
Other loans	**1,475,000**	2,050,000	**1,475,000**	2,050,000
	1,670,833	2,081,308	**1,621,627**	2,081,308
Non-current				
Bank loans	**6,089,426**	1,560,756	**4,838,632**	1,560,756
Other loans	**2,660,276**	–	**720,138**	–
	8,749,702	1,560,756	**5,558,770**	1,560,756

Terms and debt repayment schedule

30 June 2018	**1 year or less**	**1-2 years**	**2-5 years**	**More than 5 years**	**Totals**
Group	**£**	**£**	**£**	**£**	**£**
Bank overdraft	55,259	–	–	–	55,259
Bank loans	140,574	145,469	1,505,150	4,438,807	6,230,000
Other loans	1,475,000	720,138	1,940,138	–	4,135,276
	1,670,833	865,607	3,445,288	4,438,807	10,420,535
Company					
Bank overdraft	55,259	–	–	–	55,259
Bank loans	91,368	94,681	305,144	4,438,807	4,930,000
Other loans	1,475,000	720,138	–	–	2,195,138
	1,621,627	814,819	305,144	4,438,807	7,180,397

18. Financial liabilities – Borrowings (continued)

30 June 2017	1 year or less	1-2 years	2-5 years	More than 5 years	Totals
Group	£	£	£	£	£
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					
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) At the start of the year, the Company had a 25-year bank loan of £1,592,064 repayable by 300 monthly instalments of £7,528 and a final instalment of £418,811. The loan was 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 was also secured by a pledge of shares of K&C (Coleherne) Limited. On 29 June 2018, the Company carried out a refinancing and this loan was repaid.

2) On 29 June 2018, the Company took out a new 25-year bank loan of £4,930,000, repayable by 300 monthly instalments of £22,145 and a final instalment of £1,239,328. The loan was secured by a first debenture over all assets and undertakings of the Company, a first legal charge over the freehold properties known as 272 Ladbroke Grove, 282 Ladbroke Grove and 284 Ladbroke Grove and the leasehold premises known as Flat 9 Lomond Court, and a cross-guarantee over the aforementioned properties. The loan was also secured by 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 was also secured by a pledge of shares of K&C (Coleherne) Limited and KCR (Kite) Limited. The rate of interest applicable to the loan is three percentage points above the bank's base rate.

3) A three-year loan of £1,995,000 was entered into during the year. £54,862 of the loan was retained by the lender. The loan is repayable by 36 monthly instalments of £9,144 and a final instalment of £1,940,138. The monthly instalments are interest payments and do not include any capital repayments. Interest is charged at 5.50 per cent. The loan is secured by a fixed and floating charge over all the property and assets of K&C (Osprey) Limited, including the property known as Heathside, 562 Finchley Road.

18. Financial liabilities – Borrowings (continued)

4) On 29 June 2018, the Group acquired KCR (Cygnet) Limited. On acquisition, the Group took over various assets and liabilities of the subsidiary, which included a loan of £1,300,000 from Metro Bank plc. The loan is repayable in 59 monthly instalments of £7,591 and a final instalment of £1,095,126. The loan is subject to an interest rate of 2.9 per cent above the base lending rate of Metro Bank plc. The loan is secured by a first debenture over the assets and undertakings of KCR (Cygnet) Limited and a first legal charge over the properties known as 400 Stanbridge Road, Leighton Buzzard and Sainsbury's, Drayton Garden Village.

5) On 24 June 2018, the Company entered into a new loan agreement with DGS Capital Partners LLP and others. The loan was for £1,475,000 and is subject to an interest rate of 12 per cent per annum. The loan is to be repaid within 300 days of the initial drawdown date of 29 June 2018, namely on or before 24 April 2019.

6) At the year-end, the Company had issued several six per cent convertible loan notes, the debt element of which totalled £720,138. The convertible loan notes have a redemption date of 30 June 2020. As reported in note 22, £650,000 (at nominal value) of the convertible loan notes were converted to Ordinary Shares at £0.70 per share on 30 July 2018.

19. Share-based payment transactions

During the year ended 30 June 2018, the Company had several share-based payment arrangements in place, which are described below:

	Non- executive share options	Restricted Preference shares	White Amba share options	Founder warrants	Allenby warrants	Warrants
Outstanding at 1 July 2017	460,000	35,000,000	10,000,000	750,000	437,856	1,500,000
Effect of consolidation of shares	(414,000)	(31,500,000)	(9,000,000)	(675,000)	(394,070)	(1,350,000)
(Exercised) and granted during the year	–	1,000,000	(1,000,000)	–	–	–
Cancelled during the year	(46,000)	–	–	(75,000)	(43,786)	(150,000)
Outstanding at 30 June 2018	**–**	**4,500,000**	**–**	**–**	**–**	**–**

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. During the year, the Company made the decision to simplify its share-incentive structure. On 22 February 2018, the Company cancelled the Non-executive share options. The holders of the options were compensated via the issue of 16,652 Ordinary shares.

19. Share-based payment transactions (continued)

Restricted Preference shares:

Restricted Preference shares have been granted to certain directors and other senior managers. Upon the achievement by the Group of certain milestones, the Restricted Preference shares may be converted into Ordinary shares at £0.10 each. The milestones and certain terms were amended after the year subsequent to the passing of a resolution at a general meeting held on 30 July 2018. The changes, which are described in full in the circular dated 13 July 2018 on the Company's website, include:

i. An extension of the expiry date from 30 June 2022 to 30 June 2027;

ii. Restricted Preference shares unvested at 30 June 2027 will automatically vest and convert on 1 July 2027 into Ordinary shares;

iii. The 'NAV per share' milestone became an 'NAV per share plus distributions paid' milestone

iv. The achievement of any milestone will result in one-sixth of the total number of Restricted Preference shares held by the individual, and

v. The NAV per share element of each of the six milestones will be rebased to £0.77, £0.85, £0.93, £1.01, £1.09 and £1.17 respectively.

White Amba share options:

Share options had been granted to a company owned by a director of KCR, to acquire 10,000,000 Restricted Preference shares at £0.01 per share (post-share consolidation, 1,000,000 Restricted Preference shares at £0.10 per share). The share options did not have any performance criteria attached to them and were available to be exercised at any time from the date of grant to 30 June 2018. The options were exercised during the year.

Founder warrants

On 8 September 2014, warrants were issued to shareholders to subscribe for one Ordinary share at £0.10 per share at any time before 31 December 2018. During the year, the Company made the decision to simplify its share incentive structure. On 22 February 2018, the Company cancelled the Founder warrants. The holders of the warrants were compensated via the issue of 23,850 Ordinary shares.

Allenby warrants

On admission to trading on AIM, the Company granted to Allenby Capital Limited a warrant to acquire Ordinary shares at £0.10 per share, within five years of admission, namely by 3 July 2020. During the year, the Company made the decision to simplify its share incentive structure. On 22 February 2018, the Company cancelled the Allenby warrants. The holders of the warrants were compensated via the issue of 14,887 Ordinary shares.

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19. Share-based payment transactions (continued)

Warrants

On 24 May 2016, 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. During the year, the Company made the decision to simplify its share incentive structure. On 22 February 2018, the Company cancelled the warrants. The holders of the warrants were compensated via the issue of 19,500 Ordinary shares.

The estimated fair value of each share option in issue at 1 July 2017 is as follows:

	Non-executive share options	Restricted Preference shares	White Amba share options	Founder warrants	Allenby warrant	Warrants
Fair value of share option/ warrant(£)	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 Non-executive share options, Founder warrants, Allenby warrant and Warrants were cancelled in the year. During the year, the White Amba share options were exercised and the holder received 1,000,000 Restricted Preference shares.

The following table lists the inputs to the Black-Scholes model that was used to value the Restricted Preference shares, both those in issue at 1 July 2017 and those issued in the year:

	Restricted Preference shares
Share price at grant date (£)	0.08-0.09
Exercise price (£)	0.01
Dividend yield (%)	0.00
Expected volatility (%)	61.75 - 63.79
Risk-free interest rate (%)	0.88
Expected life of share options/warrants (years)	1.33 - 5.30

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.

19. Share-based payment transactions (continued)

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

	30 June 2018 £	30 June 2017 £
Expense arising from share options	10,325	198,482
Expenses arising from restricted preference shares	903,756	193,837
Expense arising from warrants	36,107	–
Total expense from share-based payments	950,188	392,319

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

	Balance at 30 June 2017 No.	Consolidation of shares No.	Cancelled in the year No.	Balance at 30 June 2018 No.
George Rolls	460,000	(414,000)	(46,000)	–

The directors' interests in Restricted Preference shares at the year-end can be seen in note 21 to the financial statements.

20. 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.

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20. Financial risk management

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 18.

Market risk

Market risk is the risk that changes in market prices, such as interest rate 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 2018, 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 £157,775 (2017 - £1,238,246). This is attributable to the Groups 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.

21. Related parties

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

At 30 June 2017, current liabilities included £100,000 received from a director, Timothy James, and his wife. These monies were reclassified into convertible loan notes and then into Ordinary shares during the year.

During the year, the Group paid DGS Capital Partners LLP, a limited liability partnership in which Michael Davies is a member, fees of £36,000 excluding irrecoverable VAT (2017 - £36,000).

At the date of the statement of financial position, the following directors held Restricted Preference shares:

Name	Restricted Preference shares No.
Dominic White	1,500,000
Timothy James	960,000
James Cane	30,000
Oliver Vaughan	810,000

Included in the total of Mr White's holdings above are 1,000,000 Restricted Preference shares held in the name of his pension fund, White Amba Pension Scheme.

At 9 November 2018, the following directors held Restricted Preference shares:

Name	Restricted Preference shares No.
Dominic White	1,765,357
Timothy James	1,225,357
James Cane	40,000
Oliver Vaughan	1,075,357

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22. Subsequent events

On 30 July 2018, the Group raised £3.1 million through a placing of £901,500 in cash, conversion of £650,000 of convertible loan notes into equity, conversion of a creditor into equity and the payment in shares for a property acquisition from Inland Homes plc (£1.26 million). KCR issued 4,434,570 shares at 70p. Full details of the transaction are reported in the 'Investors' section of the Company's website www.kcrreit.com in the announcement dated 13 July 2018.

On 15 October 2018, the block at Southampton was handed over to KCR. As reported above, the Company has made rapid strides in letting these most attractive apartments, with 63 per cent either let or reserved as at the date of this report.

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