

KCR RESIDENTIAL REIT plc

# Annual Report

for the year ended 30 June 2019

# CONTENTS

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Company Information	2
Chairman's Letter	3
Chief Executive's Letter	5
Group Strategic Report	8
Report of the Directors	11
Report of the Independent Auditor	23
Consolidated Statement of Comprehensive Income	29
Consolidated Statement of Financial Position	30
Company Statement of Financial Position	31
Consolidated Statement of Changes in Equity	32
Company Statement of Changes in Equity	33
Consolidated Statement of Cash Flows	34
Company Statement of Cash Flows	35
Note to the Statements of Cash Flows	36
Notes to the Financial Statements	37-68

## COMPANY INFORMATION

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<b>DIRECTORS</b>	Michael D M Davies Dominic A White Russell Naylor (appointed 6 August 2019) James F Thornton (appointed 6 August 2019) Richard J Boon (appointed 6 August 2019)	Non-executive chairman Chief executive Executive director (responsible for finance) Non-executive director Non-executive director
<b>SECRETARY</b>	R J Roberts	
<b>REGISTERED OFFICE</b>	82 St. John Street London EC 1M 4JN	
<b>BUSINESS ADDRESS</b>	44/48 Old Brompton Road South Kensington London SW7 3DY	
<b>REGISTERED NUMBER</b>	09080097 (England and Wales)	
<b>INDEPENDENT AUDITOR</b>	BDO LLP 55 Baker Street London W1U 7EU	
<b>SOLICITORS</b>	Fladgate LLP 16 Great Queen Street London WC2B 5DG	Blake Morgan LLP 6 New Street Square London EC4A 3DJ
<b>NOMINATED ADVISER AND BROKER</b>	Arden Partners Plc 125 Old Broad Street London EC2N 1AR	
<b>BANKERS</b>	Metro Bank plc One Southampton Row London WC1A 5HA	Barclays Bank plc Level 25, 1 Churchill Place Canary Wharf London E14 5HP
<b>REGISTRARS</b>	Share Registrars Limited The Courtyard 17 West Street, Farnham Surrey GU9 7DR	
<b>WEBSITE</b>	<a href="http://www.kcrreit.com">www.kcrreit.com</a>	

## CHAIRMAN'S LETTER

for the year ended 30 June 2019

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Dear shareholder

I am pleased to introduce the 2019 Annual Report for KCR Residential REIT plc ("KCR" or the "Company").

During the financial year under review, we carried out ongoing property operations that generated an improvement in revenue, and, in particular in the second half of the year, focused on delivering the corporate transaction with the Torchlight Fund LP ("Torchlight" and the "Transaction") that was announced in July (RNS 12 July 2019 - *Subscription and Strategic Agreement*) and closed on 6 August 2019.

KCR maintained high levels of occupancy at all its sites and achieved further rental growth across the portfolio, including achieving full occupancy at its new-build property at Deanery Court, Southampton. There was one material property transaction: in December, KCR sold the Cygnet special purpose vehicle that owned two supermarkets. The supermarkets were acquired from Inland Homes at the same time as the Southampton property and were considered non-core. Following an inability to raise additional equity capital to assist with completing this transaction, the supermarkets were sold back to Inland Homes.

As I mention above, the second half of the year focused on delivering the Transaction, which we completed shortly after the year-end. The introduction of a significant new shareholder, Torchlight, able to advance the Company is a major step forward for KCR and for its ability to create shareholder value. It has delivered both immediate access to equity capital and new relationships with significant global investors. The Transaction has enabled repayment of certain outstanding loans and assisted in the ability to pursue refinancing of the portfolio debt on more favourable terms. The investor and the business relationships that Torchlight brings to the partnership will, the directors believe, enable the Company to grow more rapidly in the short to medium term. The ability to access additional equity capital via the Torchlight Option will also support the ability to make ongoing acquisitions.

KCR has historically employed a "Buy-to-Rent" model, acquiring existing residential properties at below market value while implementing asset-management strategies to improve rental and capital value. Looking forward, to reduce acquisition cost and to control quality, KCR intends to include in its strategy a "Build-to-Rent" approach to portfolio construction where it will directly and indirectly develop residential units to rent out.

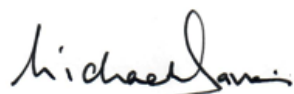
Direct development is where KCR itself acquires and develops appropriately permitted 'raw land' into completed residential units. This approach lowers the acquisition cost per unit and allows KCR to achieve a higher yield on those assets that it develops. KCR intends to grow its investment in build-to-rent assets through strategic partnerships with homebuilders. KCR may also increase and strengthen its role in development by taking direct equity positions in residential homebuilders. This would be expected to provide value by sharing in the development margin and security of the pipeline through part-ownership of key producers of completed properties.

While the focus is currently on rearranging and then building the UK residential portfolio, over time the strategy is expected to extend to international markets.

The Transaction saw a reshaping of the board of directors, and I was delighted to welcome Russell Naylor, James Thornton and Richard Boon to the board. The board comprises investment professionals with a long experience of investing into and managing several billion pounds of real estate internationally. They have a strong background in real estate, finance and money management in global institutions such as Morgan Stanley, Henderson Global Investors, UBS and Merrill Lynch Investment Management, and have successfully executed multiple M&A and corporate finance activities in real estate, in both private and public equity markets.

I would like to place on record my sincere thanks to retiring directors Tim James, Oliver Vaughan and James Cane, who have been directors since 2014 and were key to the IPO in 2015.

We look forward to updating you as we reinforce the financial position of the Company and reposition it for growth.



**Michael Davies**

**Chairman**

31 January 2020

# CHIEF EXECUTIVE'S LETTER

for the year ended 30 June 2019

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Dear shareholder

I have pleasure in reporting to you on the progress of the Group for the year to 30 June 2019.

In my previous annual statement, I noted that KCR's objective was to grow the size of its rented portfolio to deliver an increase in revenue that resulted over time in both profitability and an ability to pay dividends. At the same time, we would focus on growing net asset value per share.

Although it has been a difficult year in the UK with strong headwinds, the recently completed transaction with Torchlight has proved to be a significant positive step forward for KCR and its ability to deliver on these objectives.

## Property portfolio

### *Property transactions during the year*

KCR did not make any property acquisitions during the year.

As reported in the interims, two supermarkets that formed part of two newly built residential buildings in Leighton Buzzard and West Drayton (held in KCR (Cygnet) Limited) were sold to Inland Homes on 12 December 2018. The sale proceeds were used to reduce the Company's indebtedness. Although the Cygnet transaction was below acquisition value, the combined transaction with Inland Homes, which also included the acquisition of Deanery Court, Southampton by KCR (Southampton) Limited, was positive in terms of generating significant levels of new rental income and adding to KCR's net asset value.

### *Existing portfolio*

The existing portfolio continues to perform in line with expectations.

- The Ladbroke Grove portfolio (owned by KCR (Kite) Limited) that consists of 16 one- and two-bedroom flats in three buildings, and one stand-alone flat in Harrow Road, has increased its annual rental income from £256,780 at acquisition in June 2018 to £283,790 at 30 June 2019, an increase of 10.5 per cent. Units have been refurbished when tenants leave and are then let at higher levels in the private market.
- A block of 27 units at Deanery Court, Chapel Riverside (owned by KCR (Southampton) Limited) was acquired for £5.8 million in June 2018. At 30 June 2019, the block was valued at £6.4 million, an increase of 10.3 per cent. The property was vacant at acquisition and now delivers £345,000 of annual rental income.
- The block at Coleherne Road, held within K&C (Coleherne) Limited, which comprises ten studio and one-bedroom flats, continues to be in strong demand for letting. Occupancy has been maintained at close to 100 per cent; where there have been renewals, rents have continued to increase at least in line with inflation.
- The Osprey portfolio (K&C (Osprey) Limited) consists of 159 flats and 13 houses let on long leases in six locations, together with an estate consisting of 30 freehold cottages in Marlborough where Osprey delivers estate management and sales services. The portfolio generated higher income from sales commissions from leaseholders' sales, management fees and lease-renewal premium income than in the previous year. The portfolio has held its value and is expected to provide a medium-term value-adding opportunity as the terms of the long-leasehold flats shorten. The Company is also investigating the potential to enhance value through redevelopment and roof extensions at three of the seven sites.

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## Financial

Revenue in this financial year increased to £777,827 (2018 – £265,936) as Deanery Court completed its let-up phase. Further increases at Southampton will be delivered in the next financial year as the full impact of the property achieving 100 per cent occupancy in April 2019 flows into the income statement. Run-rate revenue is now considerably higher across the Company's portfolio.

The Group reports an operating loss before non-cash and separately disclosed items of £878,213 (2018 – £1,875,266 profit as restated). The operating loss was £3,014,023 (2018 – £251,079 operating profit). The loss before taxation was £3,737,372 (2018 – £67,574). A large part of the operating loss (£1,387,441) is attributable to a non-cash accounting item relating to KCR's preference-share structure (share-based payment charge); the restricted preference share scheme was cancelled post year-end as part of the Transaction.

The focus in the second half of the year was on maximising revenue from the existing portfolio and the successful execution of the corporate transaction with Torchlight, both which have been achieved.

Total assets at 30 June 2019 decreased to £24.1 million (2018 – £27.4 million) following the disposal of the Cygnet SPV. Net assets decreased to £9.58 million (2018 – £9.95 million as restated), predominantly due to several creditors converting their debt into equity, and new shares being issued to settle an asset acquisition made in the previous financial year. Net asset value per share decreased to 60.67p (2018 – 100.95p as restated).

## Post-balance sheet events

### *Torchlight transaction*

On 12 July 2019, KCR announced the subscription from, and strategic agreement with, Torchlight. The key ingredients of the Transaction, which were subsequently implemented, are in summary as follows (detail is included in the Notes to these Accounts and in the announcement dated 12 July 2019):

- Torchlight subscribed for 9,000,000 Ordinary Shares at 45 pence per share. The £4.05 million of capital raised was mainly used to reduce leverage from 65 per cent of property assets to 41 per cent, reduce portfolio interest cost and for working capital.
- The Company granted Torchlight an Option to subscribe for up to an additional 50,000,000 Shares at a price per share of:
  - for any notice of exercise served on the Company on any date up to and including 31 December 2019, the Issue Price; and
  - for any notice of exercise served on the Company from 1 January 2020 until the end of the Option Period (6 August 2022), the higher of (i) the price per Option Share which is equivalent to 95 per cent. of the 30-Day VWAP for the Ordinary Shares and (ii) the par value of each Ordinary Share.
- The Option is only exercisable by Torchlight during the Option Period and if the Option is not exercised prior to the expiry of the Option Period, it will lapse. Any exercise of the Option by Torchlight shall be for not less than 2,000,000 Option Shares.
- Exercise of the option in full by Torchlight before 31 December 2019 would have delivered a further £22.5 million of equity to the Company.

- To simplify the Company's share structure, the Company unwound its preference share scheme through the cancellation of all Restricted Preference shares in exchange for the issue of a significantly smaller number of Ordinary shares to Restricted Preference shareholders.
- All convertible loan notes held by management and related parties were converted into equity.

On 2 January 2020, trading of the shares of KCR Residential REIT plc was temporarily suspended pending publication of the 2019 annual audited accounts.

Further details on post-balance sheet events are contained within note 24 of the financial statements.

### Prospects

The Transaction with Torchlight that completed in August 2019 is, we believe, the most significant event for KCR since the IPO. It enabled the restructuring of the balance sheet, provides a solid base for refinancing the portfolio, and opens up numerous channels to further equity for portfolio expansion.

We expect to update shareholders further in the coming months as the restructuring and positive refinancing processes complete post-year end.

We are excited about the potential for the Company to grow as it works with Torchlight and its representative directors to capitalise on its new opportunities.



**Dominic White**  
Chief executive  
31 January 2020



# GROUP STRATEGIC REPORT

for the year ended 30 June 2019

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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 2019.

## PRINCIPAL ACTIVITY

The Group carries on the business of acquiring, developing and managing residential property predominantly 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 its wholly owned subsidiaries.

1. **K&C (Coleherne) Limited** owns a freehold residential property in Chelsea, London containing ten studio flats
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. **KCR (Kite) Limited** owns three freehold residential properties in Ladbroke Grove, London (16 flats) and a flat on Harrow Road
4. **KCR (Southampton) Limited** owns a long leasehold block of 27 two-bedroom apartments at Chapel Riverside, Southampton
5. **K&C REIT Limited** (dormant, dissolved 9 July 2019)
6. **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 set out in note 13.

## GROUP STRATEGY

The directors intend to build a significant presence in the residential letting market, primarily through the acquisition of land with planning permission that will be developed into residential property and the acquisition of existing residential property. Assets are predominantly acquired with the purpose of letting to third parties.

## RESULTS

The Group reports a consolidated operating loss of £3,014,023 for the year to 30 June 2019 (2018 – profit £251,079).

## 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, revenue in this financial year increased to £777,827 (2018 – £265,936) as the Deanery Court property completed its let-up phase. Further increases at Southampton will be delivered in the next financial year as the full impact of the property achieving 100 per cent occupancy in April 2019 flows into the income statement. Run-rate revenue is now considerably higher across the Company's portfolio.

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Total assets at 30 June 2019 decreased to £24.1 million (2018 – £27.4 million) following the disposal of the Cygnet SPV. Net assets decreased to £9.58 million (2018 – £9.95 million as restated), predominantly due to several creditors converting their debt into equity, and new shares being issued to settle an asset acquisition made in the previous financial year. Net asset value per share decreased to 60.67p as shown on the face of balance sheet (2018 – 100.95p as restated).

## 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*

The target of £40 million of gross assets by 30 June 2019 was not achieved. However, the restructuring of the business following an investment by Torchlight Fund LP, which started in August 2019, has significantly improved the prospects of profitable growth for the Company over the next 12 months. Near-term focus is on reducing costs, enhancing revenue and growing the business to achieve a cash break-even position to provide a stable base to grow from.

## 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 development. Although there is no certainty that such funds will be available when needed, the Company has plans in place with KCR's new capital partner regarding ongoing funding, and, the directors continue to focus on developing the Group's capital structure.

- **Financial instruments**

Details of risks associated with the Group's financial instruments are given in note 22 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 used 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 to review values of the assets in the portfolio.

- **Brexit**

The negative impact arising from the uncertainty about Brexit which has been impacting the UK property market is expected to improve following the election outcome. The board believes that the Company operates in a sector of the market, and with the advantage of REIT status, such that it will be able to build market share, income and net asset per share value over the coming years.

## **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 investigate the purchase of residential property 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 may 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:**



**Dominic White**

**Director**

31 January 2020

# REPORT OF THE DIRECTORS

for the year ended 30 June 2019

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The directors present their report with the financial statements of the Company and the Group for the year ended 30 June 2019.

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 22 to the financial statements.

## DIVIDENDS

The directors do not recommend payment of a dividend for the year (2018 – £nil).

## Political donations

The Group made no political donations during the year (2018 – £nil).

## Corporate governance statement

During the year to 30 June 2019, KCR Residential REIT plc, while an AIM listed company, was a family office operating with five directors and three employees. In September 2018, it adopted the QCA code but with such a tightly controlled operational and risk environment was not able to, in all areas, fully comply with the principles. During the current year the directors will continue to update the website to comply as far as possible with the following QCA code principles, noting areas where the small scope of operations limit their ability to fully comply.

### *Establish a strategy and business model which promote long-term value for shareholders*

The Company's objective is to build a substantial property portfolio predominantly in the residential sector that generates both secure income flow from rents and increasing net asset value for shareholders. The Company acquires or develops blocks of studio, one- and two-bed apartments that are close to transport links, shopping and leisure, mostly in London, its surrounds and the South East. These blocks are focused on attracting tenants seeking affordable rental accommodation.

The Company brings its property corporate finance expertise to the identification and execution of these acquisitions.

The Company looks to acquire properties at below market value to improve yield on cost and enhance net asset value. It aims to achieve this through acquisition strategies including:

- using the REIT's inherent tax advantages; acquiring properties in corporate structures with embedded capital appreciation and deferred tax liabilities which are reduced to zero as the corporate becomes part of the REIT group, and
- acquiring permitted land, funding the development process and retaining the developer's profit.

Over the medium to long term, the Company expects rental and property values to increase in line with inflation. These increases coupled with new acquisitions are designed to enable the Company, once it has reached scale, to pay dividends from cash flow generated by rents and deliver net asset value increases through positive property revaluations. Active asset management of the properties may also deliver value increases. The Company as a REIT is required to distribute 90 per cent of its rental profits.

It is the Company's paramount intention to conduct its activities in a professional and responsible manner for the benefit of its shareholders, its employees and the communities where it operates.

Further detail on the key challenges that the Board addresses are set out under Risks and Uncertainties in the Strategic Report.

*Seek to understand and meet shareholder needs and expectations*

On 31 July 2019, a major equity re-capitalisation brought in £4.05m of capital and a substantial new shareholder, Torchlight Fund LP. This transaction was designed to stabilise and re-position the Company so that it can move forward in a way that all existing and new shareholders may benefit from future uplifts to profitability and increases in net asset value.

The Company remains committed to engaging with its shareholders to ensure its strategy and performance are clearly understood. Feedback from investors is obtained through direct interaction between the chief executive and Executive Director and shareholders following the Company's full and half-year results and certain other ad hoc meetings between executive management and shareholders that take place during the year.

The Company seeks to communicate with its shareholders on a timely and transparent basis at all times. Announcements through RNS are as comprehensive as possible. Digital communications platforms such as Vox Markets are used from time to time to communicate via video and podcast. Use of these platforms is limited to senior executives such as the chief executive and only once appropriate media training has been completed. As part of the Company's repositioning, the intention is to improve the speed of reporting of the interim and full-year results to shareholders.

The chief executive, Dominic White, attends and presents at investor forums from time to time, as well as holding discussions with analysts, shareholders and investment managers.

It is apparent from such interaction that shareholders have several concerns, including:

- *How do the directors propose to expand operations without dilution to existing shareholdings?*

Since property companies are capital-intensive, the Company will raise equity over time to fund the acquisition of new properties. Torchlight Fund LP exercising its option rights as approved by shareholders will be dilutive to existing shareholders, with this dilution having already been accepted and approved by shareholders. The board will aim to maximise the issuance price of any additional equity offerings such that issuances are accretive or, if that is not possible, offer all shareholders the opportunity to participate in the offering on an equal access.

- *When will the Company become profitable?*

Based on current overheads and interest forecasts, the Company may become profitable and cash flow positive once it has approximately £50m of investments generating satisfactory rental income. Executive management is focused on achieving this objective as soon as possible. This is naturally dependent on the availability of suitable transactions and the ability to complete the acquisitions either via raising additional equity capital or debt.

Shareholder liaison is managed by Dominic White ([info@kcrreit.com](mailto:info@kcrreit.com)).

*Take into account wider stakeholder and social responsibilities and their implications for long-term success*

The company currently operates in the UK. It identifies the main stakeholders in the UK as being investors, tenants, and suppliers of services (accountant, nomad, broker, lawyers), employees, directors, third-party property managers, banks and other debt providers and property agents introducing investment opportunities).

The Company has an important social responsibility in its role as a landlord of residential housing. We commit to delivering great service to our tenants, which includes providing safe and high-quality residential units, at market prices, managed in a professional way.

Treating all our stakeholders well, and in particular our key customers - our tenants, is key to growing a sustainable business that will have long-term success.

*Embed effective risk management, considering both opportunities and threats, throughout the organisation*

The board is responsible for setting the risk framework within which the Company operates and ensuring that suitable risk-management controls and reporting structures are in place throughout the Group.

The board seeks to minimise risk in the management of its operations. The Company uses third-party advisors to address specific issues that arise during operations where they bring complementary expertise and experience.

*Maintain the board as a well-functioning, balanced team led by the chair*

The board comprises a balance of independent and non-independent directors with collective, specific and complementary skills that enable the Company to manage and direct its affairs in a professional manner, with embedded corporate governance procedures that are fit for purpose.

Full Board meetings are held on a quarterly basis and all necessary documentation is provided to the board in advance, so that they can understand the issues under review and make well-considered decisions. During the year, between full Board meetings, the Board convenes whenever necessary to consider and if appropriate approve the execution and completion by executive management of key matters that fall within the Board's defined remit as set out below.

The board has audit and remuneration sub-committees that are chaired by non-executive directors.

All of the directors devote such time to the Company's affairs as the Board considers appropriate.

During the 2019 financial year, the sole non-executive director was Michael Davies who was regarded as Independent by the Board and shareholders.

During the 2020 financial year, following the Torchlight Transaction completed on 6 August 2019, two Torchlight directors Russell Naylor (executive director in charge of finance) and Richard Boon joined the Board. Richard Boon is regarded as a non-independent non-executive director. James Thornton also joined the Board at that time as an independent non-executive director.

During the 2019 financial year, each of Michael Davies, Dominic White, James Cane, Timothy James, Oliver Vaughan attended all six Board meetings in person or by conference call, as permitted by the company's articles.

During the 2020 financial year, one Board meeting has been held, attended by all current directors.

The involvement of non-executive directors varies month by month but is estimated at 3-10 days a month.

*Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities*

The Board maintains up-to-date skills, knowledge and experience to enable it to direct and manage the Company's operations, finances and its interface with investors, the public markets and its other stakeholders.

It takes great care to appoint managers and staff with the appropriate skills and experience, and is aware of the importance of encouraging diversity among its workforce.

The Board works as a team and regularly reviews its procedures and composition.

During 2019, the directors consisted of highly experienced property professionals working tightly together in a family office. For 2020, the relevant experience and skills of the current directors is set out in detail in the Circular relating to the Torchlight Transaction. Each director is involved in other organisations which keep their professional skills sharpened and up to date. In due course, the details as they pertain to the directors will be added to the website but are included in the Circular of 12 July 2019.

*Evaluate Board performance based on clear and relevant objectives, seeking continual improvement*

Following the transaction approved by the directors of KCR as at 31 July 2019, the Board of KCR now comprises:

Name	Role	Appointed	Status
Michael Davies	Non-executive chairman	12 November 2015	Independent
Dominic White	Chief executive	1 January 2017	Non-independent
Russell James Naylor	Executive director	6 August 2019	Non-independent
Richard James Boon	Non-Executive director	6 August 2019	Non-independent
James Thornton	Non-Executive director	6 August 2019	Independent

In accordance with its obligations under the QCA code, the Board will review internally its collective performance and the performance of its committees and Board members. At this stage of its evolution and in view of the size of the Board, the Directors do not believe that it is practical to undertake an external or a wide-ranging evaluation of the performance of Board members.

The primary tasks of the chief executive, Dominic White, have been and will continue to be to grow the Company's asset base and revenue through the delivery of additional assets to the portfolio. This has included developing capital and asset partnerships and finding ways to raise appropriately priced and structured debt finance to support transactions and equity capital in an uncertain equity market. He is a key point of contact for the capital markets.

In these tasks he will be supported by Russell Naylor, Executive Director, who is additionally responsible for internal financial controls, financial management, capital planning and overseeing the preparation of financial reports to shareholders.

The primary task of the Chairman, Michael Davies, has been to ensure that the Board has performed its role correctly, that governance is adhered to, and that the Company works towards delivering value to shareholders in accordance with the Company's strategy. He is also a point of contact with many of the Company's shareholders and professional advisers.

Succession planning remains an important issue for the Board, and in particular the chairman.

*Promote a corporate culture that is based on ethical values and behaviours*

The Board strives to promote a corporate culture based on sound ethical values and behaviours.

The Company has adopted a code for directors' and employees' dealings in securities, which is appropriate for a company whose securities are traded on AIM. The code is in accordance with the requirements of the Market Abuse Regulation that came into effect in 2016.

The Board is also aware that the tone and culture it sets will greatly impact all aspects of the Company and the way that employees behave, as well as the achievement of corporate objectives. A significant part of the Company's activities is centred upon an open dialogue with shareholders, employees and other stakeholders. Therefore, the importance of sound ethical values and behaviours is crucial to the ability of the Company to successfully achieve its corporate objectives.

*Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board*

The board is committed to high standards of corporate governance. No system of internal control can completely eliminate the risk of process or individual failures. To an extent, the corporate governance structures which the Company is able to operate are limited by the size of the executive management team and the small number of executive directors, which is itself dictated by the current size of the Company's operations. Within this limitation, necessitated by the current small size of the business, the Board is dedicated to having strong internal control systems in place to enable it to maintain the highest possible standards of governance and probity.

The chairman, Michael Davies:

- leads the Board and is primarily responsible for the effective working of the Board;
- in consultation with the Board, ensures good corporate governance and sets clear expectations with regards to Company culture, values and behaviour;
- sets the Board's agenda and ensures that all Directors are encouraged to participate fully in the activities and decision-making process of the Board;
- takes responsibility for relationships with the Company's professional advisers and major shareholders.

The chief executive, Dominic White:

- is primarily responsible for developing the Company's strategy in consultation with the Executive Director and the Board, for its implementation and for the operational management of the business;
- is primarily responsible for new projects and expansion;
- runs the Company on a day-to-day basis;
- implements the decisions of the Board;
- monitors, reviews and manages key risks;
- is the Company's primary spokesperson, communicating with external audiences, such as investors, analysts and the media.



The executive director, Russell Naylor:

- works with the chief executive to develop and execute the Company's strategy;
- is primarily responsible for the systems of financial controls in operation for the Company and each of its subsidiaries;
- is primarily responsible for all financial management and financial planning matters;
- monitors, reviews and manages key risks as they relate to financial impact;
- implements the financial and internal control decisions of the Board.

On 28 October 2019, the Group established a Remuneration Committee chaired by Michael Davies, chairman that comprises Michael Davies and Richard Boon, non-independent non-executive director, which meets on an ad hoc basis when necessary.

During the year to 30 June 2019, the audit committee comprised Michael Davies, the chairman. From 28 October 2019, the audit and risk committee is chaired by James Thornton, independent non-executive director and comprises James Thornton and Michael Davies. Russell Naylor is invited to attend as appropriate. The audit and risk committee is comprised of independent non-executive directors. It normally meets twice each financial year to consider the interim and final results. In the latter case, the auditors are present and the meeting considers and takes action on any matters raised by the auditors arising from their audit.

The chair of each of the Committee may invite executive management and Board members to attend any meeting.

Matters reserved for the Board include:

- Vision and strategy
- Review of budgets, asset plans and trading results
- Approving financial statements
- Financing strategy, including debt strategy
- Business planning relating to acquisitions, divestments and major refurbishments not already agreed in the strategy and asset plans
- Capital expenditure in excess of agreed budgets
- Corporate governance and compliance
- Risk management and internal controls
- Appointments and succession plans at senior management level
- Directors' remuneration.

*Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders*

The company website sets out the principal approach of the Company to governance. It contains all relevant documents and information for shareholders, including all RNS announcements, Financial Reports, Shareholder Circulars, and the Company's articles.

Shareholders are additionally encouraged to participate at the AGM, to ensure that there is a high level of accountability and identification with the Group's strategy and goals.

During 2019, the Audit Committee reviewed and recommended to the Board the sign-off of the 30 June 2018 and interim 31 December 2018 financial statements. During 2020, the new Audit Committee met to review and recommend to the Board the sign-off of the 30 June 2019 financial statements.

During 2019, the Remuneration Committee met to review salaries and restricted preference share grants.

## DIRECTORS

The following directors served during the year to 30 June 2019 and up to the date of approval of this Annual Report:

### Name

Michael Davies

Dominic White

James Cane resigned 6 August 2019

Timothy James resigned 6 August 2019

Oliver Vaughan resigned 6 August 2019

Russell Naylor appointed 6 August 2019

Richard Boon appointed 6 August 2019

James Thornton appointed 6 August 2019

The beneficial interests of the directors holding office at 30 June 2019 in the issued share capital of the Company were as follows:

Name	Ordinary Shares			At 30 June 2019 No.
	At 30 June 2018 No.	Issued in the year No.	Restricted Preference Shares converted in year	
Michael Davies	195,428	–	–	195,428
Dominic White	–	57,143	500,000	557,143
Timothy James	475,921	28,571	320,000	824,492
Oliver Vaughan	73,065	–	270,000	343,065
James Cane	1,318	–	10,000	11,318

**Restricted Preference Shares**

Name	At 30 June 2018 No.	Shares issued in year No.	Converted to ordinary	At 30 June 2019 No.
			shares in the year No.	
Michael Davies	–	–	–	–
Dominic White	1,500,000	265,357	(500,000)	1,265,357
Timothy James	960,000	265,357	(320,000)	905,357
Oliver Vaughan	810,000	265,357	(270,000)	805,357
James Cane	30,000	10,000	(10,000)	30,000

The beneficial interests of the directors holding office at 31 January 2020 in the issued share capital of the Company were as follows:

**Ordinary Shares**

Name	At 30 June 2019 No.	Issued in the period No.	Restricted Preference Shares	At 31 January 2020 No.
			converted in period	
Michael Davies	195,428	–	–	195,428
Dominic White	557,143	96,558	486,675	1,140,376
Russell Naylor	–	–	–	–
James Thornton	–	22,222	–	22,222
Richard Boon	–	–	–	–

**Restricted Preference Shares**

Name	At 30 June 2019 No.	Converted to	Gifted to Company No.	At 31 January 2020 No.
		ordinary shares No.		
Michael Davies	–	–	–	–
Dominic White	1,265,357	(486,675)	(778,682)	–

Further information regarding the post-year-end movements on Restricted Preference shares is contained within note 24 of the financial statements.

## SUBSTANTIAL SHAREHOLDINGS

As at 31 January 2020, the directors had been notified that the following shareholders owned a disclosable interest of three per cent or more in the Ordinary shares of the Company:

Name	Interest %
Torchlight Fund LP	32.64%
Energiser Investments Limited	8.83%
Moore House Holdings Limited	8.56%
Poole Investments Limited	6.53%
Venaglass Limited	5.74%
Timothy James	4.36%
Dominic White & White Amba Pension Scheme	4.34%
Oliver Vaughan	3.35%

## DIRECTORS' REMUNERATION

The directors have received the following remuneration for their services during the year:

Name	2019		2018	
	Remuneration £	Benefits-in-kind £	Remuneration £	Benefits-in-kind £
Michael Davies	–	–	–	–
Dominic White	278,200	–	151,000	–
James Cane	87,700	–	60,000	–
Timothy James	90,200	–	80,000	–
Oliver Vaughan	30,200	–	30,000	–
	<b>486,300</b>	<b>–</b>	<b>321,000</b>	<b>–</b>

In addition, during the year, the Group paid DGS Capital Partners LLP, a limited liability partnership of which Michael Davies is a member, fees of £43,200 (2018 – £43,200) (including irrecoverable VAT).

During the year, a number of directors converted Restricted Preference shares into Ordinary shares. The total gain made by the directors was £484,000 (2018 – £nil).

## 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.

Details of financial risk management are included within the Risks and Uncertainties section of the Group strategic report on page 64.

## **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**

No pension scheme benefits are being accrued by the directors.

## **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.

Since the balance sheet date, Torchlight Fund LP has entered into a legally binding agreement with KCR Residential REIT plc, to the extent that it may become necessary, to exercise their option sufficiently to ensure that the company's liabilities will be satisfied as they fall due during the next 12 months.

See note 2 to the financial statements.

### **POST-BALANCE SHEET EVENTS**

Post-balance sheet events are detailed further in the Chief Executive's letter and note 24 of the financial statements.

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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

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

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

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

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

### **STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE AUDITOR**

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

**AUDITOR**

On 1 February 2019, Moore Stephens LLP merged its business with BDO LLP. As a result, Moore Stephens LLP resigned as auditor and the directors appointed BDO LLP as auditor in their place.

**ON BEHALF OF THE BOARD**



**Dominic White**  
Director  
31 January 2020

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

for the year ended 30 June 2019

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## 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 2019 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 Statements of Cash Flows and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

## In our opinion:

- 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 2019 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements 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 and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to going concern

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

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group 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.

### **Key audit matter**

#### *Valuation of investment properties*

The Group holds investment properties (Accounting policies Note 2 and Note 12) which comprise properties held for rental income. Investment properties, held at fair value, are valued by independent external valuers whose details are disclosed in Note 12 with input from the Directors.

The valuation of investment properties requires significant judgement as each valuation requires consideration of the individual nature of the property, its location, its cash flows and comparable market transactions.

Additionally, the valuation of the Group's investment properties requires significant judgements to be made by the external valuers in relation to the appropriate market capitalisation yields and estimated rental values and appropriate input information provided by management in relation to the passing rents and lease particulars.

Any input inaccuracies or unreasonable valuation judgements could result in a material misstatement of the statement of comprehensive income and statement of financial position.

#### *Going concern*

The group has a loss after tax of £3,737,372 and net current liabilities of £4,522,928 and will need fund raising either through equity injection from Torchlight or through bank refinancing during the year to 30 June 2020. Given these uncertainties, we treated going concern as a key audit matter.

We draw attention to Note 2 in the financial statements which indicates that the Group may need support from Torchlight in the coming 12 months to be able to continue as a going concern.

### **How we addressed the key audit matter in the audit**

#### *In this area our audit procedures included:*

- All inputs to the valuation model were checked against market indices and other inputs such as rents and lease terms and any significant variances investigated and agreed back to tenancy agreements.
- We held a discussion with the external valuers to challenge the key assumptions based on our analysis of market indices and value of similar properties, gain a better understanding of their independence and quality control procedures and their approach to valuation.
- We assessed the competency, qualifications, independence and objectivity of the external valuers engaged by the Group and reviewed the terms of their engagement for completeness and to check that there was no evidence of management bias.

#### *Key observation*

Based on the procedures performed, we identified no material misstatements in the valuation of investment properties.

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*In this area our audit procedures included:*

- Critically assessed management's financial forecast models. In doing so we considered key assumptions including the Group's unavoidable cost base and agreed back to supporting documentation.
- Undertook sensitivity analysis in respect of the key assumptions underpinning the forecasts including the level of non-discretionary expenditure.
- Reviewed management's assumptions in relation to anticipated fund raising activities, corroborating commentary in relation to success of previous fund raises to the fund raises themselves.
- Review of the adequacy of the Directors' disclosures in the Directors' Report and notes the financial statements.
- Assessment of the legally binding deed from Torchlight.

*Key observation*

Based on the procedures performed, we identified no material misstatements in the Directors' going concern assessment.

### **Our application of materiality**

We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

We determined the materiality for the Group financial statements as a whole to be £301,000 (2018: £396,700), calculated with reference to a benchmark of Group total assets, of which it represents 1.25%. Total assets is considered an appropriate benchmark as the Groups' primary activity is that of investment value appreciation. In addition, we set a specific materiality level of £187,000 (2018: £168,000) for items within pre-tax loss calculated at 5% of loss before tax adjusted for fair value movement on capital items. The Parent Company's materiality was calculated at £154,000 (2018: £203,000) based on the same as group basis.

Whilst materiality for the financial statements of a whole was £301,000 (2018: £396,700), each component of the Group was audited to a lower level of materiality. Significant component materiality ranged from £93,000 to £54,000.

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. The Group's and parent performance materiality was determined as 68-45 % of materiality for the financial statement as a whole based on our assessment of risk.

We reported to the Audit Committee all potential adjustments in excess of £15,000 (2018: £19,800). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

### **An overview of the scope of our audit**

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of the valuation of unlisted investments which have a high level of estimation uncertainty involved.

We considered the risk of the financial statements being misstated or not prepared in accordance with the underlying legislation or standards. We then directed our work toward areas of the financial statements which we assessed as having the highest risk of containing material misstatements, including those set out above.

There are five significant components in the Group, which are all registered and operate in the UK. The whole group is subject to a full scope audit by BDO LLP. There were insignificant components identified and these were tested through analytical procedures. There were no significant changes to this approach during the year.

We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with Companies Act 2006, the AIM rules, the principles of the QCA Corporate Governance Code and IFRS as adopted by the European Union.

### **Other information**

The Directors are responsible for the other information. The other information comprises the information included in the annual report and financial statements, 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 our 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 this other information, we are required to report that fact. We have nothing to report in this regard.

### **Opinions 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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report 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 Group and 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 Directors' Report.

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 by the Parent Company, 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, 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 and the Parent Company'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 Group or the Parent 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 the 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](http://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 Parent 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 Parent 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 Parent Company and the Parent 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 BDO LLP, Statutory Auditor  
London, UK  
31 January 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## for the year ended 30 June 2019

	Notes	30 June 2019 £	30 June 2018 (as restated*) £
<b>CONTINUING OPERATIONS</b>			
Revenue	3	777,827	265,936
Cost of sales		(212,743)	(191,420)
<b>GROSS PROFIT</b>			
Administrative expenses		(1,446,565)	(1,317,971)
Fair value through profit and loss - Revaluation of investment properties	12	3,268	3,118,721
<b>OPERATING (LOSS)/PROFIT BEFORE SEPARATELY DISCLOSED ITEMS</b>			
<b>Separately disclosed administrative items</b>			
Share-based payment charge	20	(1,387,441)	(950,188)
Costs associated with third-party fundraising and issue of shares	6	(407,616)	(47,173)
Costs associated with aborted fundraising	6	–	(626,826)
Loss on disposal of property SPV	13	(340,753)	–
<b>OPERATING (LOSS) / PROFIT</b>			
Finance costs	5	(732,984)	(325,688)
Finance income	5	9,635	7,035
<b>LOSS BEFORE TAXATION</b>			
Taxation	7	–	–
<b>LOSS FOR THE YEAR</b>			
<b>TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR</b>			
Loss attributable to owners of the parent			
Loss per share expressed in pence per share			
Basic	8	(24.66)	(1.02)
Diluted		(24.66)	(1.02)

\*The acquisitions of KCR (Kite) Limited and KCR (Cygnets) Limited in the prior period were previously accounted for as business combinations resulting in a gain on bargain purchase and costs of acquisition being recognised separately within operating profit. These acquisitions have been restated as asset acquisitions. The gain on bargain purchase and the costs of acquisition previously recognised have consequently been reclassified to Revaluation of investment properties. Further details can be found in note 13. Costs relating to aborted fundraising in 2018 were previously classified as Costs associated with third-party fundraising. The costs have now been presented separately to more accurately describe their nature.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2019

	Notes	30 June 2019 £	30 June 2018 (as restated*) £
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	11	61,370	38,993
Investment properties	12	23,923,000	26,695,000
		<b>23,984,370</b>	<b>26,733,993</b>
<b>CURRENT ASSETS</b>			
Trade and other receivables	14	77,078	703,427
Cash and cash equivalents	15	29,298	6,425
		<b>106,376</b>	<b>709,852</b>
<b>TOTAL ASSETS</b>		<b>24,090,746</b>	<b>27,443,845</b>
<b>EQUITY</b>			
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	16	2,029,178	1,435,721
Share premium		10,018,986	7,358,244
Unissued share capital	17	–	1,260,299
Capital redemption reserve		67,500	67,500
Other reserves		14,930	29,862
Retained earnings		(2,550,496)	(200,565)
<b>TOTAL EQUITY</b>		<b>9,580,098</b>	<b>9,951,061</b>
<b>LIABILITIES</b>			
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing loans and borrowings	19	9,881,344	8,749,702
<b>CURRENT LIABILITIES</b>			
Trade and other payables	18	2,737,010	7,072,249
Interest-bearing loans and borrowings	19	1,892,294	1,670,833
		<b>4,629,304</b>	<b>8,743,082</b>
<b>TOTAL LIABILITIES</b>		<b>14,510,648</b>	<b>17,492,784</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>24,090,746</b>	<b>27,443,845</b>
Net asset value per share (pence)	8	<b>60.67</b>	100.95

The financial statements were approved and authorised for issue by the Board of Directors on 31 January 2020 and were signed on its behalf by:



**Dominic White**  
Director

\*In the prior period, unissued share capital was presented within current liabilities. This has been restated in the current period to re-classify the balance to equity. Further details can be found in note 17.


## COMPANY STATEMENT OF FINANCIAL POSITION

30 June 2019

	Notes	30 June 2019 £	30 June 2018 (as restated*) £
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	11	2,348	3,984
Investments	13	10,706,081	12,086,858
		<b>10,708,429</b>	<b>12,090,842</b>
<b>CURRENT ASSETS</b>			
Trade and other receivables	14	1,813,404	919,064
Cash and cash equivalents	15	3,334	77
		<b>1,816,738</b>	<b>919,141</b>
<b>TOTAL ASSETS</b>		<b>12,525,167</b>	<b>13,009,983</b>
<b>EQUITY</b>			
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	16	2,029,178	1,435,721
Share premium		10,018,986	7,358,244
Unissued share capital	17	–	1,260,299
Capital redemption reserve		67,500	67,500
Other reserves		14,930	29,862
Retained earnings		(7,592,921)	(5,431,915)
<b>TOTAL EQUITY</b>		<b>4,537,673</b>	<b>4,719,711</b>
<b>LIABILITIES</b>			
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing loans and borrowings	19	4,756,956	5,558,770
<b>CURRENT LIABILITIES</b>			
Trade and other payables	18	1,338,244	1,109,875
Interest-bearing loans and borrowings	19	1,892,294	1,621,627
		<b>3,230,538</b>	<b>2,731,502</b>
<b>TOTAL LIABILITIES</b>		<b>7,987,494</b>	<b>8,290,272</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>12,525,167</b>	<b>13,009,983</b>

As permitted by Section 408 of the Companies Act 2006, the income statement of the Company is not presented as part of these financial statements. The Company's loss for the financial year was £(3,548,447) (2018 – £(3,089,541) as restated).

The financial statements were approved and authorised for issue by the Board of Directors on 31 January 2020 and were signed on its behalf by:



**Dominic White**  
Director

\*In the prior period, unissued share capital was presented within current liabilities. This has been restated in the current period to re-classify the balance to equity. Further details can be found in note 17.

The notes form part of these financial statements



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2019

	Share capital £	Share premium £	Unissued share capital (as restated*) £	Capital redemption reserve £	Other reserve £	Retained earnings £	Total equity (as restated*) £
<b>Balance at 1 July 2017</b>	877,518	4,660,322	–	67,500	–	(1,083,179)	4,522,161
<b>Changes in equity</b>							
<b>Transactions with owners:</b>							
Issue of share capital	558,203	2,697,922	–	–	–	–	3,256,125
Unissued share capital	–	–	1,260,299	–	–	–	1,260,299
Share-based payments	–	–	–	–	–	950,188	950,188
<b>Total transactions with owners</b>	558,203	2,697,922	1,260,299	–	–	950,188	5,466,612
Equity element of loan finance	–	–	–	–	29,862	–	29,862
Total comprehensive expense	–	–	–	–	–	(67,574)	(67,574)
<b>Balance at 30 June 2018</b>	1,435,721	7,358,244	1,260,299	67,500	29,862	(200,565)	9,951,061
<b>Changes in equity</b>							
<b>Transactions with owners:</b>							
Issue of share capital	593,457	2,660,742	(1,260,299)	–	–	–	1,993,900
Share-based payments	–	–	–	–	–	1,387,441	1,387,441
<b>Total transactions with owners</b>	593,457	2,660,742	(1,260,299)	–	–	1,387,441	3,381,341
Equity element of loan finance	–	–	–	–	(14,932)	–	(14,932)
Total comprehensive expense	–	–	–	–	–	(3,737,372)	(3,737,372)
<b>Balance at 30 June 2019</b>	2,029,178	10,018,986	–	67,500	14,930	(2,550,496)	9,580,098

\* In the prior period, unissued share capital was presented within current liabilities. This has been restated in the current period to re-classify the balance to equity. Further details can be found in note 17.

## COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2019

	Share capital £	Share premium £	Unissued share capital (as restated*) £	Capital redemption reserve £	Other reserve £	Retained earnings (as restated*) £	Total equity (as restated*) £
<b>Balance at 1 July 2017</b>	877,518	4,660,322	–	67,500	–	(3,292,562)	2,312,778
<b>Changes in equity</b>							
<b>Transactions with owners:</b>							
Issue of share capital	558,203	2,697,922	–	–	–	–	3,256,125
Unissued share capital	–	–	1,260,299	–	–	–	1,260,299
Share-based payments	–	–	–	–	–	950,188	950,188
<b>Total transactions with owners</b>	<b>558,203</b>	<b>2,697,922</b>	<b>1,260,299</b>	<b>–</b>	<b>–</b>	<b>950,188</b>	<b>5,466,612</b>
Equity element of loan finance	–	–	–	–	29,862	–	29,862
Total comprehensive expense	–	–	–	–	–	(3,089,541)	(3,089,541)
<b>Balance at 30 June 2018</b>	<b>1,435,721</b>	<b>7,358,244</b>	<b>1,260,299</b>	<b>67,500</b>	<b>29,862</b>	<b>(5,431,915)</b>	<b>4,719,711</b>
<b>Changes in equity</b>							
<b>Transactions with owners:</b>							
Issue of share capital	593,457	2,660,742	(1,260,299)	–	–	–	1,993,900
Share-based payments	–	–	–	–	–	1,387,441	1,387,441
<b>Total transactions with owners</b>	<b>593,457</b>	<b>2,660,742</b>	<b>(1,260,299)</b>	<b>–</b>	<b>–</b>	<b>1,387,441</b>	<b>3,381,341</b>
Equity element of loan finance	–	–	–	–	(14,932)	–	(14,932)
Total comprehensive expense	–	–	–	–	–	(3,548,447)	(3,548,447)
<b>Balance at 30 June 2019</b>	<b>2,029,178</b>	<b>10,018,986</b>	<b>–</b>	<b>67,500</b>	<b>14,930</b>	<b>(7,592,921)</b>	<b>4,537,673</b>

\* In the prior period, unissued share capital was presented within current liabilities. This has been restated in the current period to re-classify the balance to equity. Further details can be found in note 17.

## CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June 2019

	Note	2019 £	2018 (as restated*) £
<b>Cash flows from operating activities</b>			
Cash used in operations	A	(4,960,666)	(1,776,564)
Interest paid		(732,984)	(325,688)
Net cash used in operating activities		(5,693,650)	(2,102,252)
<b>Cash flows from investing activities</b>			
Purchase of property, plant & equipment		(40,451)	(43,515)
Purchase of investment properties		(24,732)	(2,046,594)
Acquisition of property assets		–	(5,596,459)
Disposal of property SPV		1,140,000	–
Interest received		9,635	7,035
Net cash generated from/(used in) investing activities		1,084,452	(7,679,533)
<b>Cash flows from financing activities</b>			
Loan repayments in year		(796,079)	(1,131,525)
New loans in year		3,434,250	7,739,858
Shares issued		1,993,900	2,156,125
Net cash generated from financing activities		4,632,071	8,764,458
Increase/(decrease) in cash and cash equivalents		22,873	(1,017,327)
Cash and cash equivalents at beginning of year		6,425	1,023,752
Cash and cash equivalents at end of year		29,298	6,425

\*The prior-period cash used in operations and cash flows from acquisition of subsidiaries have been restated due to a reclassification of costs upon acquisition of subsidiaries. Further details can be found in note 13.

## COMPANY STATEMENT OF CASH FLOWS

for the year ended 30 June 2019

	Note	2019 £	2018 £
<b>Cash flows from operating activities</b>			
Cash used in operations	A	(2,165,998)	(1,904,323)
Interest paid		(428,185)	(316,544)
Net cash used in operating activities		(2,594,183)	(2,220,867)
<b>Cash flows from investing activities</b>			
Purchase of property, plant & equipment		–	(3,519)
Purchase of property assets		–	(5,596,459)
Disposal of property SPV		1,140,000	–
Interest received		9,619	7,019
Net cash generated from/(used in) investing activities		1,149,619	(5,592,959)
<b>Cash flows from financing activities</b>			
Loan repayments in year		(546,079)	(1,131,525)
New loans in year		–	5,799,720
Shares issued		1,993,900	2,156,125
Net cash generated from financing activities		1,447,821	6,824,320
<b>Increase/(decrease) in cash and cash equivalents</b>		<b>3,257</b>	<b>(989,506)</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>77</b>	<b>989,583</b>
<b>Cash and cash equivalents at end of year</b>		<b>3,334</b>	<b>77</b>

\* The prior-period cash used in operations and cash flows from purchase of subsidiary undertakings have been restated due to a reclassification of costs upon acquisition of subsidiaries. Further details can be found in note 13.

## NOTE TO THE STATEMENTS OF CASH FLOWS

for the year ended 30 June 2019

### A) RECONCILIATION OF LOSS BEFORE TAXATION TO CASH USED IN OPERATIONS

Group	2019 £	2018 (as restated) £
Loss before taxation	(3,737,372)	(67,574)
Depreciation charges	18,074	6,365
Revaluation of investment properties	(3,268)	(3,118,721)
Loss on disposal of property SPV	340,753	–
Share-based payment charge	1,387,441	950,188
Finance costs	732,984	325,688
Finance income	(9,635)	(7,035)
	(1,271,023)	(1,911,089)
Decrease/(increase) in trade and other receivables	626,349	(590,502)
(Decrease)/increase in trade and other payables	(4,315,992)	725,027
<b>Cash used in operations</b>	<b>(4,960,666)</b>	<b>(1,776,564)</b>

Company	2019 £	2018 £
Loss before taxation	(3,548,447)	(3,089,541)
Depreciation charges	1,636	1,211
Impairment of investments	–	75,000
Loss on disposal of property SPV	241,585	–
Share-based payment charge	1,387,441	950,188
Finance costs	428,185	316,544
Finance income	(9,619)	(7,019)
	(1,499,219)	(1,753,617)
Increase in trade and other receivables	(894,340)	(891,568)
Increase in trade and other payables	227,561	740,862
<b>Cash used in operations</b>	<b>(2,165,998)</b>	<b>(1,904,323)</b>

The notes form part of these financial statements

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019

## I. 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.

### *Changes in accounting policies*

#### *Adoption of new and revised standards*

The Group has applied the following accounting standards that are mandatorily effective for accounting periods commencing on or after 1 January 2018:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
Clarifications to IFRS 15 (Apr 2016)	Clarifications to IFRS 15 Revenue from Contracts with Customers

The application of these standards has not had a material impact on the amounts reported in these financial statements.

### *New standards in issue but not yet effective*

As at 30 June 2019, the Group has not applied the following new and revised standards that have been issued but are not yet effective:

IFRS 16	Leases
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The directors do not anticipate that the adoption of IFRS 16 will have a significant impact on the financial statements of the Group in future periods.

Changes in accounting policies for standards implemented in the year are as follows:

#### *IFRS 15 Revenue from Contracts with Customers (as amended in April 2016)*

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

IFRS 15 introduces a five-step approach to 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.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019

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## I. Presentation of financial statements (continued)

The Group has applied IFRS 15 in accordance with the fully retrospective transitional approach.

The Group accounting policies in relation to revenue are detailed in the accounting policies below. Apart from providing more extensive disclosures, the application of IFRS 15 has not had an impact on the financial position and/or financial performance of the Group.

### *IFRS 9 Financial Instruments*

The standard is effective for periods beginning on or after 1 January 2018. The Group has applied the standard in the year.

#### **Classification and measurement**

The standard makes substantial changes to the classification of financial assets. 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.

Classification of financial assets is based on whether the business model is to collect the contractual cash flows, sell the financial assets, or both, and whether the contractual cash flows are solely payments of principal and interest.

There is no change in the accounting for any financial liabilities.

#### **Impairment**

The impairment model under IFRS 9 reflects expected credit losses, as opposed to only incurred credit losses under IAS 39. As such, where there are expected to be credit losses, they are recognised in the profit and loss.

The Group's assessment of this new standard is that it does not give rise to any significant adjustments in the Group financial statements or in the parent company financial statements in respect of group balances.

### *IFRS 16 Leases*

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The Group expects to adopt IFRS 16 for the year ended 30 June 2020.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and are replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees except for short-term leases and leases of low value assets.

In contrast to lessee accounting, however, IFRS 16 substantially carries forward existing lessor accounting from IAS 17. As lessor, the Group has no finance leases.

## 1. Presentation of financial statements (continued)

The Group has a small number of operating leases concerning office premises and plant and equipment. As set out in note 10, the minimum lease payments falling due within five years total £56,951. IFRS 16 provides an exemption for short-term operating leases and leases of low value. The Company will take advantage of the exemption rather than establishing a right-to-use asset.

## 2. Accounting Policies

### Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis other than as set out in the following policies.

### 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.

Since the balance sheet date, Torchlight Fund LP has entered into an agreement with KCR Residential REIT plc, to the extent that it may become necessary, to exercise their Option sufficient to ensure that the Company's liabilities will be satisfied as they fall due during the next 12 months.

For these reasons, the directors have adopted the going-concern basis in preparing the financial statements.

### Basis of consolidation

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

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 of a capital nature and those associated with the issue of debt or equity securities that the Group incurs in connection with a business combination, are expensed as incurred.

Both KCR (Kite) Limited and KCR (Cygnet) Limited were acquired in the previous financial year. Further details are shown in note 13. KCR (Southampton) Limited was incorporated on 26 June 2018. The acquisition of KCR (Kite) Limited and KCR (Cygnet) Limited have been accounted for as asset purchases rather than business combinations. This has resulted in a prior period adjustment, details of which are contained in note 13.

KCR (Cygnet) Limited was disposed of by the Group in December 2018. Further details can be found in note 13.



# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019

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## 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 held at cost less provision for impairment.

### Revenue recognition

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

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services net of discounts, VAT and other sales-related taxes. The Group concludes that it is the principal in its revenue arrangements, because it typically controls the goods or services before transferring them to the customer. Contracts with customers do not contain a financing component or any element of variable consideration. The Group does not offer an option to purchase a warranty.

Rental income from operating leases is recognised periodically in line with the time for which the property is rented. Rental income received in advance is recognised in deferred income.

Management fees derived from the management of property assets owned by third parties is recognised as the services are provided.

Revenue from sales commissions is recognised at the point in time when control of the asset is transferred to the customer.

### Separately disclosed administrative items

Separately disclosed 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.

## 2. Accounting policies (continued)

### 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 and fittings	–	5% and 25% on cost
Computer equipment	–	25% on cost

### Investment properties

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

Further details of the investment property valuation methodology are contained in note 12.

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.

### Cash and cash equivalents

Cash and cash equivalents comprise cash balances and balances held with banking institutions.

### Financial assets

#### *Recognition and derecognition*

Financial assets are recognised initially on 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.

#### *Classification and initial recognition of financial assets*

Except for trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value plus adjusted for any directly attributable transaction costs.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019

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## 2. Accounting policies (continued)

Financial assets are classified into the following categories:

- Amortised cost
- Fair value through profit or loss (FVTPL)
- Fair value through other comprehensive income (FVOCI)

The classification is determined by both:

- The entity's business model for managing the asset
- The contractual cash flow characteristics of the financial asset

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within administrative expenses.

### *Subsequent measurement of financial assets*

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- They are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- The contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where its effect is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category.

Financial assets which are designated as FVTPL are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined with reference to active market transactions or using a valuation technique where no active market exists. The Group's investment properties are designated as FVTPL assets.

### *Impairment of financial assets*

IFRS 9's impairment requirements use forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) method'. Recognition of credit losses is no longer dependent on first identifying a credit loss event, but considers a broader range of information in assessing credit risk and credit losses including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

The Group makes use of a simplified approach in accounting for trade and other receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses.

## 2. Accounting policies (continued)

### Financial liabilities

Financial liabilities are recognised initially on 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 adjusted for 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 and other short-term monetary liabilities.

Bank and other borrowings are initially recognised at the fair value of the amount advanced net of any transaction costs directly attributable to the issue of the instrument. Such interest-bearing liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense in this context includes initial transaction costs and premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

### Share capital

Ordinary shares are classified as equity. Costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity. Unissued share capital relates to partial consideration on the acquisition of a property SPV and is disclosed in more detail in note 17.

### Taxation

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

Deferred tax would be recognised in respect 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.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019

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## 2. Accounting policies (continued)

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

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

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

### Provisions

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

### Share-based payments

The Group allowed certain directors and other individuals to acquire shares in the parent company until the scheme was disbanded on 6 August 2019. 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 was charged as an expense in the income statement over the vesting period and the charge adjusted each year to reflect the expected and actual level of vesting. No adjustment is made to the charge after the vesting date.

### Critical accounting estimates and judgments

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

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

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## 2. Accounting policies (continued)

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

- *Investment properties*

The Group's investment properties are valued, on the basis of market value, on acquisition by independent external valuers and then by the directors or independent valuers annually thereafter. The Group's investment properties were all valued independently at 30 June 2019 at £23,923,000.

The directors are of the opinion that the estimates and assumptions that they have used in the valuation of investment properties are appropriate. Further details of the valuation methodology are contained in note 12.

- *Share-based payments*

The total amount to be expensed is determined by reference to the fair value of the options granted. The fair values were estimated using the Black-Scholes valuation model. In arriving at the charge for the period, assumptions are made on the number of options likely to be exercised, the current market value of the shares and the volatility of the market value of the shares. Further details regarding share-based payments are contained in note 20.

- *Determination of fair values*

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

- *Investment properties*

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

## 3. Revenue

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

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

The Group's investment property consists of residential housing for the private rented sector and therefore has multiple tenants and as a result does not have any significant customers.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019

### 4. Employees and directors

#### Group

	2019 £	2018 £
Wages and salaries	657,793	455,118
Social security costs	86,735	45,681
Pension costs	(506)	106,157
	<b>744,022</b>	<b>606,956</b>

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

Directors and management	5	7
Administration	3	2
	<b>8</b>	<b>9</b>

	2019 £	2018 £
Directors' remuneration (as per Report of the Directors)	486,300	321,000
Share-based payment charge relating to directors	974,199	686,953
Remuneration of the highest-paid director	278,200	151,000
Amounts paid into a pension scheme of the highest-paid director	–	100,000

The Group directors are considered to be key management personnel.

Certain directors and others have received Restricted Preference shares in the Company, further details of which are contained in note 20 and note 23 of the financial statements.

#### Company

	2019 £	2018 £
Wages and salaries	597,700	395,000
Social security costs	78,320	43,492
Pension costs	(2,630)	104,880
	<b>673,390</b>	<b>543,372</b>

#### 4. Employees and directors (continued)

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

	2019	2018
Directors and management	5	5
Administration	1	1
	6	6

#### 5. Finance income and costs

	2019 £	2018 £
<i>Finance costs</i>		
Loan interest	732,984	325,688
<i>Finance income</i>		
Bank interest	9,635	7,035

#### 6. Loss before taxation

The loss before taxation is stated after charging:

	2019 £	2018 £
Hire of plant and machinery	8,230	2,034
Other operating leases	23,052	13,140
Depreciation – owned assets	18,074	6,365
Auditors' remuneration for the Group – audit services for parent company	38,000	44,100
– audit services for subsidiaries	10,000	15,000
– taxation advisory services	29,675	13,560
– abortive corporate finance services	–	150,106

##### *Separately disclosed items*

During the year, the Group incurred significant costs relating to third-party fundraising and issue of shares. The costs to the Group totalled £407,616. In 2018, the Company incurred costs relating to third-party fundraising and issue of shares of £47,173 and incurred costs of £626,826 relating to an aborted fundraising transaction. 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 share-based payments, which are shown on the face of the Consolidated Statement of Comprehensive Income, can be found in note 20.



## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019

### 7. Taxation

#### Analysis of tax

	2019 £	2018 £
<b>Current tax</b>		
UK corporation tax	–	–
Deferred tax	–	–
<b>Total tax</b>	–	–

#### 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:

	2019 £	2018 £
Loss on ordinary activities before taxation	(3,737,372)	(67,574)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19% (2018 – 19%)	(710,101)	(12,839)
<i>Effects of</i>		
Expenses not deductible	444,191	445,885
Income not taxable	(64,455)	(633,530)
Capital losses	23,238	–
Losses not recognised in deferred tax	307,127	200,484
Tax credit	–	–

### 8. Loss per share and net asset value

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

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

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

**8. Loss per share and net asset value (continued)**

	2019		
	Loss	Weighted average number of shares	Per share amount
	£	No.	Pence
Loss attributable to ordinary shareholders	(3,737,372)	15,156,059	(24.66)
Effect of dilutive securities	–	–	–

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

The net asset value is calculated by dividing the equity attributable to ordinary shareholders by the number of Ordinary shares in issue at the balance sheet date.

	2019		
	Equity	Number of shares	Per share amount
	£	No.	Pence
Net asset value	9,580,098	15,791,777	60.67

	2018		
	Equity	Number of shares	Per share amount
	£	No.	Pence
Net asset value	9,951,061	9,857,207	100.95

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019

### 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 2019 £	30 June 2018 £
Within one year	508,096	253,551
Between one and five years	469,846	572,386
More than five years	53,969	1,193,517
<b>Total</b>	<b>1,031,911</b>	<b>2,019,454</b>

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

### 10. Leasing agreements

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

	30 June 2019 £	30 June 2018 £
Within one year	29,784	21,758
Between one and five years	27,167	–
<b>Total</b>	<b>56,951</b>	<b>21,758</b>

## 11. Property, plant and equipment

<b>Group</b>	<b>Fixtures, fittings &amp; computer equipment £</b>
<b>COST</b>	
At 1 July 2017	5,596
Additions	43,515
At 30 June 2018 and 1 July 2018	49,111
Additions	40,451
<b>At 30 June 2019</b>	<b>89,562</b>
<b>DEPRECIATION</b>	
At 1 July 2017	3,753
Charge for year	6,365
At 30 June 2018 and 1 July 2018	10,118
Charge for year	18,074
<b>At 30 June 2019</b>	<b>28,192</b>
<b>NET BOOK VALUE</b>	
<b>At 30 June 2019</b>	<b>61,370</b>
At 30 June 2018	38,993

<b>Company</b>	<b>Fixtures, fittings &amp; computer equipment £</b>
<b>COST</b>	
At 1 July 2017	3,017
Additions	3,519
At 30 June 2018 and 1 July 2018	6,536
<b>At 30 June 2019</b>	<b>6,536</b>

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019

### 11. Property, plant and equipment (continued)

<b>Company</b>	<b>Fixtures, fittings &amp; computer equipment £</b>
<b>DEPRECIATION</b>	
At 1 July 2017	1,341
Charge for year	1,211
At 30 June 2018 and 1 July 2018	2,552
Charge for year	1,636
<b>At 30 June 2019</b>	<b>4,188</b>
<b>NET BOOK VALUE</b>	
<b>At 30 June 2019</b>	<b>2,348</b>
At 30 June 2018	3,984

### 12. Investment properties

<b>Group</b>	<b>Total £ (as restated)</b>
<b>COST</b>	
At 1 July 2017	7,242,000
Additions	16,334,279
Revaluations	3,118,721
At 30 June 2018 and 1 July 2018	26,695,000
Additions	24,732
Disposals	(2,800,000)
Revaluations	3,268
<b>At 30 June 2019</b>	<b>23,923,000</b>
<b>NET BOOK VALUE</b>	
<b>At 30 June 2019</b>	<b>23,923,000</b>
At 30 June 2018	26,695,000

The investment properties disposed of in the year arose from the sale of a property SPV (KCR Cygnet).

## 12. Investment properties (continued)

In August 2019, and updated in November 2019, all material properties were valued by professionally qualified independent external valuers in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Standards 2014 as amended. The Group has included a valuation of £23,923,000 in the financial statements.

Fair value is based on current prices in an active market for similar properties in the same location and condition. The current price is the estimated amount for which a property could be exchanged between a willing buyer and willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Valuations are based on a market approach which provides an indicative value by comparing the property with other similar properties for which price information is available. Comparisons have been adjusted to reflect differences in age, size, condition, location and any other relevant factors.

The fair value for investment properties has been categorised as a Level 3 inputs under IFRS 13. The valuer visited all material properties and his valuations were based on both internal and external site visits.

The valuation technique used in measuring the fair value, as well as the significant inputs and significant unobservable inputs, are summarised in the following table –

Fair Value Hierarchy	Valuation Technique	Significant Inputs Used	Significant Unobservable Inputs
Level 3	Income capitalisation and/or capital value on a per square foot basis	Adopted gross yield Adopted rate per square foot	3.29% – 5.39% £332 – £825

The fair value would increase if market rents were higher and/or the rates per square foot were higher and/or capitalisation rates were lower.

The fair values would decrease if market rents were lower and/or the rates per square foot were lower and/or capitalisation rates were higher.

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 £619,906 (2018 – £133,001). The total rental expenses in relation to investment properties for the Group equated to £183,977 (2018 – £50,122).

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019

### 13. Investments

<b>Company</b>	<b>Shares in group undertakings £ (as restated*)</b>
<b>COST</b>	
At 1 July 2017	5,305,000
Additions	6,856,858
Impairments	(75,000)
At 30 June 2018 and 1 July 2018	12,086,858
Disposals	(1,380,777)
<b>At 30 June 2019</b>	<b>10,706,081</b>
<b>NET BOOK VALUE</b>	
<b>At 30 June 2019</b>	<b>10,706,081</b>
At 30 June 2018	12,086,858

As at 31 January 2020, the Company's investments comprise the following:

<b>Subsidiaries</b>	<b>Holding %</b>
<b>K&amp;C (Coleherne) Limited</b>	100.00
<i>Nature of business</i>	<i>Registered office: UK</i>
Property letting	<i>Class of shares</i>
	Ordinary
<b>K&amp;C (Osprey) Limited</b>	100.00
<i>Nature of business</i>	<i>Registered office: UK</i>
Property letting and property management	<i>Class of shares</i>
	Ordinary
<b>KCR (Kite) Limited</b>	100.00
<i>Nature of business</i>	<i>Registered office: UK</i>
Property letting	<i>Class of shares</i>
	Ordinary
<b>KCR (Southampton) Limited</b>	100.00
<i>Nature of business</i>	<i>Registered office: UK</i>
Property letting	<i>Class of shares</i>
	Ordinary
<b>K&amp;C (Newbury) Limited</b>	100.00
<i>Nature of business</i>	<i>Registered office: UK</i>
Dormant	<i>Class of shares</i>
	Ordinary

### 13. Investments (continued)

#### *Acquisition of KCR (Kite) Limited*

On 28 June 2018, the Company acquired the entire issued share capital of a property SPV, KCR (Kite) Limited, for £5,475,981, satisfied by cash.

Net assets acquired were as follows:	£
Investment property	5,535,879
Trade and other receivables	22,148
Trade and other payables	(33,686)
Taxation payable	(48,360)
<b>Net assets</b>	<b>5,475,981</b>
<b>Total Consideration</b>	<b>5,475,981</b>
Satisfied by cash	5,475,981
<b>Net cash outflow arising on acquisition:</b>	
Cash consideration	(5,475,981)
Bank and cash balances acquired	–
	<b>(5,475,981)</b>

#### *Acquisition of KCR (Cygnets) Limited*

On 28 June 2018, the Company acquired the entire issued share capital of a property SPV, KCR (Cygnets) Limited, for total consideration of £1,380,777 satisfied by cash of £120,478 and the issuance of Ordinary shares to the value of £1,260,299.

Net assets acquired were as follows:	£
Investment property	2,680,777
Bank loans	(1,300,000)
<b>Net assets</b>	<b>1,380,777</b>
<b>Total consideration</b>	<b>1,380,777</b>
Satisfied by cash	1,380,777
<b>Net cash outflow arising on acquisition:</b>	
Cash consideration	(120,478)
	<b>(120,478)</b>

The acquisition of KCR (Kite) Limited and KCR (Cygnets) Limited were accounted for as business combinations in the 2018 financial statements. In 2019, the Directors' reconsidered the nature of the acquisitions and concluded the limited processes within the acquired entities meant they should have been accounted for as asset acquisitions.



## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019

### 13. Investments (continued)

This has led to a restatement of a number of comparative figures. As the values of the investment properties acquired, upon acquisition of the subsidiaries, exceeded the cost to the Group, under the original accounting treatment, the Group recognised a gain on bargain purchase of £2,201,639 in the Statement of Comprehensive Income. The group also recognised costs relating to the acquisition of £318,295 as an expense in the Statement of Comprehensive Income.

Under the restated accounting treatment, the properties have been included as additions to investment property at cost including directly attributable costs, with an increase in fair value of £1,883,344 being included within Revaluation of Investment Properties in the Statement of Comprehensive Income.

#### *KCR (Southampton) Limited*

KCR (Southampton) Limited was incorporated on 26 June 2018 and, in the 2018 financial year, entered into an agreement to acquire a 999 year-long leasehold interest in Block B, Chapel Riverside, a new-build block of flats in Southampton. The total consideration for the transaction was £5.8 million, which was owed to the vendor and included in other creditors at 30 June 2018. During 2019, the Company settled £4.2 million of the amount owed to the vendor. At 30 June 2019, £1.6 million was outstanding and this was settled post-year-end.

#### *Disposal of KCR (Cygnet) Limited*

On 20 December 2018, the Company sold the entire issued share capital of KCR (Cygnet) Limited for total consideration of £1,140,000, satisfied by cash of £1,140,000. The assets and liabilities of the subsidiary at the date of disposal were:

	£
Investment property	2,800,000
Debtors	43,427
Bank loan	(1,293,286)
Other creditors	(69,388)
<b>Net assets disposed of</b>	<b>1,480,753</b>
Loss on disposal of property	(340,753)
<b>Total consideration</b>	<b>1,140,000</b>
Satisfied by cash	1,140,000

#### 14. Trade and other receivables

	Group		Company	
	2019 £	2018 £	2019 £	2018 £
Trade debtors	3,000	70	–	–
Amounts owed by group undertakings	–	–	1,787,239	263,980
Other debtors	34,773	634,045	7,500	594,293
VAT	12,271	1,336	–	–
Prepayments	27,034	67,976	18,665	60,791
	<b>77,078</b>	<b>703,427</b>	<b>1,813,404</b>	<b>919,064</b>

The Group and Company's exposure to credit risk is disclosed in note 22.

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 and are considered fully recoverable based on property assets that could be realised.

#### 15. Cash and cash equivalents

	Group		Company	
	2019 £	2018 £	2019 £	2018 £
Cash in hand	40	40	–	–
Bank accounts	29,258	6,385	3,334	77
	<b>29,298</b>	<b>6,425</b>	<b>3,334</b>	<b>77</b>

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019

### 16. Share capital

Allotted, issued and fully paid			30 June 2019	30 June 2018
Number	Class	Nominal value	£	£
15,791,777	Ordinary	£0.10	1,579,178	985,721
4,500,000	Restricted Preference	£0.10	450,000	450,000
			<b>2,029,178</b>	<b>1,435,721</b>

At 1 July 2018, the Company had 9,857,207 Ordinary shares of £0.10 each in issue.

On 31 July 2018, the Company issued 4,434,570 Ordinary shares of £0.10 each. The shares were issued at premium of £0.60 per share.

On 5 September 2018, the Company issued 1,500,000 Restricted Preference shares of £0.10 each. The shares were issued at par. During the year, 1,500,000 Restricted Preference shares of £0.10 each were converted to Ordinary shares.

The Restricted Preference shares carry no voting or dividend rights. 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. Unissued share capital

Unissued share capital related to shares which were to be issued as partial consideration for the purchase of KCR (Cygnet) Limited. The purchase of KCR (Cygnet) Limited took place in the 2018 financial year and the aforementioned shares were issued on 31 July 2018.

In the prior year, the unissued share capital (£1,260,299) was presented within current liabilities. This has been corrected retrospectively in the current year to present the balance within equity. There is no impact on the Statement of Comprehensive Income.

## 18. Trade and other payables

	Group		Company	
	2019 £	2018 (as restated) £	2019 £	2018 (as restated) £
Trade creditors	358,567	618,321	351,060	618,321
Amounts owed to group undertakings	–	–	423,840	197,330
Corporation tax	–	48,360	–	–
Other taxes and social security	45,253	47,901	33,291	45,231
Other creditors	1,779,710	6,126,929	8,063	52,588
Accruals and deferred income	553,480	230,738	521,990	196,405
	<b>2,737,010</b>	<b>7,072,249</b>	<b>1,338,244</b>	<b>1,109,875</b>

Other creditors include £1,738,076 (2018 – £6,038,317) owed on the purchase of the investment property within KCR (Southampton) Limited.

The Group's and Company's exposure to liquidity risk related to trade and other payables is disclosed in note 22.

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.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019

### 19. Financial liabilities – Borrowings

	Group		Company	
	2019 £	2018 £	2019 £	2018 £
<b>Current</b>				
Bank overdraft	–	55,259	–	55,259
Bank loans	82,224	140,574	82,224	91,368
Other loans	1,810,070	1,475,000	1,810,070	1,475,000
	1,892,294	1,670,833	1,892,294	1,621,627
<b>Non-current</b>				
Bank loans	4,756,956	6,089,426	4,756,956	4,838,632
Other loans	5,124,388	2,660,276	–	720,138
	9,881,344	8,749,702	4,756,956	5,558,770

#### Terms and debt repayment schedule

Group	1 year or less	1-2 years	2-5 years	More than 5 years	Totals
	£	£	£	£	£
Bank loans	82,224	97,642	314,689	4,344,625	4,839,180
Other loans	1,810,070	–	1,940,138	3,184,250	6,934,458
	1,892,294	97,642	2,254,827	7,528,875	11,773,638
<b>Company</b>					
Bank loans	82,224	97,642	314,689	4,344,625	4,839,180
Other loans	1,810,070	–	–	–	1,810,070
	1,892,294	97,642	314,689	4,344,625	6,649,250

Details of the principal loans are as follows:

- a) On 28 June 2018, the Company took out a new loan of £4,930,000, with Metro Bank plc, repayable by 300 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. It 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 balance outstanding as at 30 June 2019 was £4,839,180.

## 19. Financial liabilities – Borrowings (continued)

- b) A three-year loan of £1,995,000 was entered into during the previous year. 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 per annum. 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. The balance outstanding at 30 June 2019 was £1,940,138.
- c) On 24 June 2018, the Company entered into a new loan agreement arranged by DGS Capital Partners LLP, a limited liability partnership in which Michael Davies is a member, with certain investors. The loan was for £1,475,000 and was subject to an interest rate of 12 per cent per annum. The loan was to be repaid within 300 days of the initial drawdown date of 29 June 2018. During the financial year, the lenders agreed to extend the loan by a further 300 days. The loan was repaid on 22 August 2019. Fees of £17,250 were charged by the lender to the Company for the extension and are included in accruals at the year end. At the date of extension, the interest rate was increased to 14 per cent per annum. The balance outstanding at 30 June 2019 was £1,475,000.
- d) At the year-end, the Company had issued several convertible loan notes, totalling £200,000, the debt element of which totalled £185,070. The convertible loan notes have a redemption date of 30 June 2020. The debt balance outstanding at 30 June 2019 was £185,070. £100,000 of the convertible loan notes was converted to Ordinary shares at £0.10 per share on 6 August 2019.
- e) During the year, Oliver Vaughan, a director of the Company, loaned the Company £150,000. The loan was unsecured and was due for repayment on 15 May 2019. The loan was extended in June 2019. Upon extension of the loan, the lender charged the Company a fee of £10,000, which is included in accruals at the year end. The total liability at 30 June 2019 totalled £160,000. The loan was interest free. £110,000 of the loan was repaid via the issue of Ordinary shares in the Company on 6 August 2019. The remaining £50,000 was repaid on 8 August 2019.
- f) On 4 December 2018, KCR (Southampton) Limited took out a new loan of £3,184,250 with Lendco Limited. The term of the loan was ten years. The monthly instalments are interest payments and do not include any capital repayments. Interest is charged at 3.19 per cent for the first 24 months. Interest for the remainder of the term will be charged at 4.79 per cent above LIBOR. The loan was secured by a first legal mortgage and a first fixed charge over the land at Block B, Chapel Riverside, Endle Street, Southampton. The balance outstanding as at 30 June 2019 was £3,184,250.

### Reconciliation of net movement in cash

	Net cash at 1 July 2018 £	Cash flow £	Loans received in year £	Repayments in year £	Other non cash movements £	Net cash at 30 June 2019 £
Cash at bank and in hand	22,873	6,425	–	–	–	29,298
Borrowings	(10,420,535)	–	(3,434,250)	796,079	1,285,068	(11,773,638)
<b>Total financial liabilities</b>	<b>(10,397,662)</b>	<b>6,425</b>	<b>(3,434,250)</b>	<b>796,079</b>	<b>1,285,068</b>	<b>(11,744,340)</b>

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019

### 20. Share-based payment transactions

During the year ended 30 June 2019, the Company had one share-based payment arrangement in place, which is described below:

	Restricted Preference shares
Outstanding at 1 July 2018	4,500,000
Exercised during the year	(1,500,000)
Granted during the year	1,500,000
<b>Outstanding at 30 June 2019</b>	<b>4,500,000</b>

#### *Restricted Preference shares:*

Restricted Preference shares have been acquired by certain directors and other senior managers. Details of the Restricted Preference shares held by the directors, along with movements in the year, can be found further in this note and also in the Report of the Directors. Upon the achievement by the Group of certain defined milestones, the Restricted Preference shares were able to be converted into Ordinary shares at £0.10 each. The following table shows the shares held at the year end, along with movements in the year:

Name	Restricted Preference Shares			At 30 June 2019 No.
	At 30 June 2018 No.	Shares issued in year No	Converted to ordinary shares in the year No.	
Dominic White	1,500,000	265,357	(500,000)	1,265,357
Timothy James	960,000	265,357	(320,000)	905,357
Oliver Vaughan	810,000	265,357	(270,000)	805,357
James Cane	30,000	10,000	(10,000)	30,000
Timothy Oakley	300,000	265,357	(100,000)	465,357
Christopher James	600,000	214,286	(200,000)	614,286
Employees	300,000	214,286	(100,000)	414,286
<b>Total</b>	<b>4,500,000</b>	<b>1,500,000</b>	<b>(1,500,000)</b>	<b>4,500,000</b>

## 20. Share-based payment transactions (continued)

The estimated fair value of each Restricted Preference share acquired is as follows:

	Restricted Preference shares
Fair value of share option/warrant (£)	0.688-0.787

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

	Restricted Preference shares
Share price at grant date (£)	0.8-0.9
Exercise price (£)	0.1
Dividend yield (%)	0.00
Expected volatility (%)	51.86-63.79
Risk-free interest rate (%)	0.88-1.57
Expected life of share options/warrants (years)	1.3-8.8

The expected lives of the Restricted Preference shares were based on historical data and then-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 Restricted Preference shares is indicative of future trends, which may not necessarily be the actual outcome.

On 6 August 2019, 1,730,765 of the Restricted Preference shares were converted into Ordinary shares. The remaining 2,769,235 Restricted Preference shares were gifted back to the Company for no consideration. Further details can be found in note 24.

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

	30 June 2019 £	30 June 2018 £
Expense arising from share options	–	10,325
Expenses arising from Restricted Preference shares	1,387,441	903,756
Expense arising from warrants	–	36,107
Total expense from share-based payments	1,387,441	950,188



## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019

### 21. Financial instruments

The Group's financial assets, as defined under IFRS 9, and their estimated carrying amount, are as follows:

	Group		Company	
	2019 £	2018 £	2019 £	2018 £
<b>Carrying amount of financial assets at amortised cost</b>				
Trade and other receivables	77,078	703,427	1,813,404	919,064
Cash at bank and in hand	29,298	6,425	3,334	77

### 22. Financial risk management

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

The Company's and Group's risk-management policies are established to identify and analyse the risks faced by the Company and 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 Company and Group, through its training and management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company and Group have exposure to the following risks arising from financial instruments:

- credit risk
- liquidity risk
- market risk.

#### *Capital risk management*

The Company and Group'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 Company and Group consider its capital to comprise equity capital less accumulated losses.

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

## 22. Financial risk management (continued)

### *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 Company and Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's and 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 Company's and Group's reputation.

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

### *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 2019, if interest rates had been 0.5 percentage point higher and all other variables were held constant, it is estimated that the Group's loss before tax would increase to £3,803,492 (2018 – £157,775). This is attributable to the Group's exposure on its borrowings and is based on the change taking place at the beginning of the financial year and held constant throughout the reporting period.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019

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### 23. Related parties

On 24 June 2018, the Company entered into a loan agreement arranged by DGS Capital Partners LLP, a limited liability partnership in which Michael Davies is a member, with certain investors. The loan was for £1,475,000 and was subject to an interest rate of 12 per cent per annum. The loan was to be repaid within 300 days of the initial drawdown date of 29 June 2018. The loan was extended during the financial year and from 10 April 2019, the interest rate was increased to 14 per cent per annum. The balance outstanding at 30 June 2019 was £1,475,000. Interest of £179,506 was charged to the Company in the year, of which £45,826 was outstanding and included in accruals at the year end. The loan and outstanding interest were repaid on 22 August 2019. The repayment consisted of £1,425,000 cash and £95,826 of Ordinary shares.

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 plus VAT of £7,200 (2018 – £36,000 and VAT of £7,200). At the year end, £14,400 was outstanding and included in accruals.

During the year, Oliver Vaughan, a director of the Company, loaned the Company £150,000. The loan was unsecured and was due for repayment on 15 May 2019. The loan was extended in June 2019. Upon extension of the loan, the lender charged the Company a fee of £10,000. The total liability at 30 June 2019 totalled £160,000. The loan was interest free. £110,000 of the loan was repaid via the issue of Ordinary shares in the Company on 6 August 2019. The remaining £50,000 was repaid on 8 August 2019.

During the year, the Company issued £50,000 of convertible loan notes to Kimono Investments Limited, an entity in which Oliver Vaughan's children have a financial interest. The Company was charged £2,616 interest in the year. At the year end, the total loan notes and interest outstanding totalled £52,616. The principal loan was repaid on 22 August 2019. The repayment consisted of £50,000 of Ordinary shares.

During the year, the Company issued convertible loan notes to the White Amba Pension Scheme of £25,000. The Company was charged £1,050 interest in the year. At the year end, the total loan notes and interest outstanding totalled £26,050. The principal loan was repaid on 22 August 2019. The repayment consisted of £25,000 of Ordinary shares.

During the year, the Company issued convertible loan notes to Katie James, relative of Timothy James, of £25,000. The Company was charged £1,050 interest in the year. At the year end, the total loan notes and interest outstanding totalled £26,050. The principal loan was repaid on 22 August 2019. The repayment consisted of £25,000 of Ordinary shares.

During the year, Timothy Oakley, a director of a number of subsidiary companies, received remuneration of £30,200 (2018 – £30,000). £15,000 of this remuneration was included in accruals at the year end. During the year, Timothy Oakley also loaned the Company £50,000 as part of the loan arranged by DGS Capital Partners LLP, as detailed above. Interest of £6,247 was charged to the Company in the year. The loan was repaid on 22 August 2019. The repayment consisted of £50,000 of Ordinary shares.

During the year, Christopher James, a director of a number of subsidiary companies, received remuneration of £51,200 (2018 – £14,000). £44,000 of this remuneration was included in accruals at the year end.

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## 24. Post-balance sheet events

The following events have taken place since 1 July 2019:

- A flat at Heathside was sold for £538,000 in line with its carrying value and £353,950 was applied for part-repayment of the £1,940,138 loan referred to in note 19(b).
- Loans of £1,475,000 from DGS Capital LLP were repaid on 22 August 2019. The repayment consisted of £1,425,000 cash repayment and £50,000 Ordinary shares in the Company. The £50,000 Ordinary shares were issued to Timothy Oakley. Further details are contained further in this note.

On 6 August 2019, the Transaction was completed to enable the Torchlight Fund LP to become a significant shareholder in the Company pursuant to Rule 9 of the Takeover Code following a poll of shareholders on 29 July 2019. The following describes the principal elements of the Transaction (announced on 12 July 2019 and detailed on the Company's website) which are also included where appropriate in these financial statements:

Torchlight Fund LP subscribed in cash of £4.05 million for 9,000,000 ordinary shares of 10p each at the issue price per share of 45p ("the Issue Price").

The Company granted Torchlight an Option to subscribe for up to an additional 50,000,000 Shares at a price per share of :

- for any notice of exercise served on the Company on any date up to and including 31 December 2019, the Issue Price; and
- for any notice of exercise served on the Company from 1 January 2020 until the end of the Option Period (6 August 2022), the higher of (i) the price per Option Share which is equivalent to 95 per cent. of the 30-Day VWAP for the Ordinary Shares and (ii) the par value of each Ordinary Share.

The Option is only exercisable by Torchlight during the Option Period and if the Option is not exercised prior to the expiry of the Option Period, it will lapse. Any exercise of the Option by Torchlight shall be for not less than 2,000,000 Option Shares.

Restricted Preference shares of 10p each held by the directors, other management and related parties totalling 4,500,000 shares outstanding were redesignated as Ordinary shares in part and the balance gifted back to the Company for nil consideration. This resulted in the conversion in aggregate of 1,730,765 Restricted Preference shares into 1,730,765 Ordinary shares.

Outstanding loans and fees of £160,000 to Oliver Vaughan were satisfied by issuing 244,444 Ordinary shares at the Issue Price and a cash repayment of £50,000.

Outstanding convertible loan notes of £100,000 loan principal to Kimono Investment Holdings, Katie James and White Amba were converted into 222,222 Ordinary shares at the Issue Price.

Outstanding remuneration due in respect of salary and bonuses to directors and employees of the Company were settled by the issue of 243,342 Ordinary shares at the Issue Price.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019

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### 24. Post-balance sheet events (continued)

Settlement amount payable in respect of the resignation on 12 July 2019 of Timothy Oakley in an amount due of £22,500 in part in cash and in part by the issue of 27,500 Ordinary shares of 10p at the Issue Price.

In respect of a loan from an investment group of which Timothy Oakley was a member, £50,000 was repaid at par by the issue of 111,111 Ordinary shares. The shares were issued to Timothy Oakley. The remaining lenders were allotted 176,247 Ordinary shares of 10p in respect of the loan outstanding due to them plus unpaid interest outstanding.

The issue of 22,222 Ordinary shares of 10p at the Issue Price for cash to James Thornton, an independent non-executive director.

Following the Transaction, the Allotted, Issued and Fully Paid Ordinary Share Capital of the Company was 27,569,931 shares of 10p.

On 2 January 2020, trading of the shares of KCR Residential REIT plc was temporarily suspended pending publication of the 2019 annual audited accounts.

