K&C REIT plc

ANNUAL REPORT
2016

CONTENTS

COMPANY INFORMATION

DIRECTORS	M D M Davies	Chairman
	T M James	Property director
	J A Cane	Finance director
	P Farley	Non-executive
	C D James	Operations director
	T J K Oakley	Construction director
	O J Vaughan	Executive director
SECRETARY	R J Roberts	
REGISTERED OFFICE	82 St. John Street London EC1M 4JN	
BUSINESS ADDRESS	44/48 Old Brompton Road London SW7 3DY	
REGISTERED NUMBER	09080097 (England and Wales)	
INDEPENDENT AUDITOR	Moore Stephens LLP 150 Aldersgate Street London EC1A 4AB	
SOLICITORS	Fladgate LLP 16 Great Queen Street London WC2B 5DG	
NOMINATED ADVISER AND BROKER	Stockdale Securities Limited Beaufort House 15 St Botolph Street London EC3A 7BB	
BANKERS	Metro Bank plc One Southampton Street London WC1A 5HA	
	Barclays Bank plc Level 25, 1 Churchill Place Canary Wharf London E14 5HP	
FINANCIAL PUBLIC RELATIONS	Yellow Jersey PR Limited 7th floor, 22 Upper Ground London SE1 9PD	
REGISTRARS	Share Registrars Limited The Courtyard 17 West Street Farnham Surrey GU9 7DR	
WEBSITE	www.kandc-reit.co.uk	

CHAIRMAN'S STATEMENT

for the year ended 30 June 2016

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

Market and strategy

The Group operates in the residential letting market, with an emphasis on Central London. The Group seeks to acquire property assets held within UK-incorporated companies, where there is an opportunity to capitalise on the advantages afforded to REITs to provide an efficient exit route for vendors.

AIM admission

The Company's shares were admitted to trading on AIM on 3 July 2015. Shortly following admission, at which the Company issued 43,035,622 ordinary shares at 10 pence per share, including 35,663,400 shares issued pursuant to a fundraising that generated gross cash proceeds of £3,566,340, the Group acquired the entire share capital of Silcott Properties Limited ('Silcott') for a consideration of £3,630,000, of which £300,000 was satisfied by the issuance of 3,000,000 ordinary shares in K&C REIT plc, and 4,372,222 ordinary shares in K&C were issued to satisfy liabilities of the Company. Silcott, which has since been renamed K&C (Coleherne) Limited ('Coleherne'), is a special purpose vehicle that owns a freehold property in Central London with ten apartments for rent.

Board changes

Nigel Payne and George Rolls both left the board and I was appointed chairman at the Annual General Meeting on 30 December 2015.

Operations

The Group has made two significant acquisitions during the year: Coleherne, as mentioned above, and, on 27 May 2016, The Osprey Management Company Limited, which was subsequently renamed K&C (Osprey) Limited ('Osprey'). Both companies have traded well since acquisition, and Osprey has exceeded our expectations in the five weeks to the year-end and the subsequent five months. The transition to our ownership was, in each case, very smooth, and I would like to thank all those involved in the management and operations of both companies.

Financial

The Group reports a consolidated loss from operating activities for the year of £99,442. The total comprehensive expense for the year was £64,371. The financial results in the Annual Report cover the twelve months since the Group's admission to AIM, including the results of Coleherne and Osprey from the dates of acquisition, which is referred to in more detail in note 14. The investment properties were revalued on acquisition in line with current market conditions. The costs attributable to the acquisitions of both Coleherne and Osprey were significant, and have been identified separately, because both transactions were complex. However, we believe that the long-term prospects for growth in each company make these valuable investments.

Future prospects

As my predecessor said last year, the Group needs to build a strong business with high quality assets that will be able to support an increasing income yield. We have taken the first steps towards achieving this through our acquisition strategy.

We have also sought to raise equity and loan capital to enable this strategy. On the debt side, we raised £1.1 million in May to complete the acquisition of Osprey, and believe that our debt is at a manageable level, given our asset base and the opportunities that the Group has for income generation.

CHAIRMAN'S STATEMENT (continued)
for the year ended 30 June 2016

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

M D M Davies
Chairman

21 December 2016

GROUP STRATEGIC REPORT

for the year ended 30 June 2016

The directors present the strategic report of K&C REIT plc ('K&C' or the 'Company') and its subsidiaries (together, the 'Group') for the year ended 30 June 2016. The Company was incorporated in England and Wales on 10 June 2014.

Principal activity

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

1. **K&C (Newbury) Limited** (formerly Kensington & Chelsea REIT Limited), a company registered in England & Wales with company number 08654998. This company owns no property and is now effectively dormant.

2. **K&C (Coleherne) Limited** (formerly Silcott Properties Limited), owns a freehold residential property in Chelsea, London. The company changed its name on 26 June 2016.

3. **K&C (Osprey) Limited** (formerly The Osprey Management Company), owns the freehold of several retirement properties let on long leases to residents. The company also provides management services in respect of these properties and to third party landlords. The company changed its name on 8 June 2016.

Group strategy

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

Results

The Group reports a loss from operating activities of £99,442 for the year to 30 June 2016. This is after charging the acquisition costs of Osprey and Coleherne, as set out in the notes to these financial statements.

Future development of the Group

The acquisitions of Coleherne and Osprey, referred to above, are examples of the type of transaction envisaged for the future development of the group. It is anticipated that future acquisitions will be financed by a combination of debt, equity and the Group's own resources, and the Group expects to return to the capital markets again in the near future.

Significant events

On 3 July 2015, the Company's shares were admitted to trading on AIM when the Group became a REIT. On admission, the Group issued 43,035,622 ordinary shares at 10p, including 35,663,400 shares issued pursuant to a fundraising, generating gross cash proceeds of £3,566,340.

Shortly after admission, the Company acquired the entire share capital of Silcott for a consideration of £3,630,000, of which £300,000 was satisfied by the issuance of 3,000,000 ordinary shares in K&C to the vendor.

On 27 May 2016, K&C acquired The Osprey Management Company Limited for £1.6 million, of which £300,000 was satisfied by the issuance of 3,000,000 ordinary shares in K&C to the vendor.

Review of business and financial performance

The Board has reviewed whether the Annual Report, taken as a whole, presents a fair, balanced and comprehensive 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.

GROUP STRATEGIC REPORT (continued)

for the year ended 30 June 2016

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

Financial key performance indicators

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

A. At property level

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

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

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

iv. Gross and net yield compared with target levels

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

vi. Outstanding rents as a percentage of rental income

vii. Implementation of property plans compared with target.

B. At Group level

i. Assets under management compared with target

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

No analysis of performance compared to these KPIs has been provided due to the infancy of the Group and the diverse nature of the assets owned by the companies that it has acquired.

Risks and uncertainties

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

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

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

- Financial instruments
  Details of risks associated with the Group's financial instruments are given in note 13 to the financial statements.

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

Internal controls and risk management

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

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

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

Bribery risk

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

Forward-looking statements

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

Outlook

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

On behalf of the Board:

James Cane
Director

21 December 2016

REPORT OF THE DIRECTORS
for the year ended 30 June 2016

The directors present their report with the financial statements of the Company and the Group for the year ended 30 June 2016.

A review of the business and risks and uncertainties is included in the Chairman's Statement, the Strategic Report and in note 22 to the financial statements.

Dividends

The directors do not recommend payment of a dividend for the year (2015 – £nil).

Political donations

The Group made no political donations during the year (2015 – £nil).

Corporate governance statement

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

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

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

Audit committee

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

Directors

The following directors served during the year to 30 June 2016 and up to the date of approval of this Annual Report:

Name	Date of appointment	Date of resignation
Oliver Vaughan	10 June 2014	–
Timothy James	10 June 2014	–
Timothy Oakley	10 June 2014	–
Christopher James	10 June 2014	–
James Cane	22 September 2014	–
Patricia Farley	19 January 2015	–
George Rolls	31 March 2015	30 December 2015
Nigel Payne	9 April 2015	30 December 2015
Michael Davies	12 November 2015	–

The beneficial interests of the directors holding office at 30 June 2016 in the issued share capital of the Company were as follows:

Name	Ordinary shares No.	Warrants No.	Options No.
Christopher James	2,250,001	100,000	600,000
Timothy James	2,175,000	175,000	810,000
Michael Davies	1,240,000	–	–
Oliver Vaughan	675,000	175,000	810,000
Timothy Oakley	350,000	50,000	300,000
Patricia Farley	220,000	20,000	144,493
James Cane	10,000	10,000	180,000

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

Since the year-end, the holdings of certain directors have changed and the table as at the date of approval of this Annual Report is set out below:

Name	Ordinary shares No.	Warrants No.	Options No.
Christopher James	3,350,001	100,000	600,000
Timothy James	3,275,000	175,000	810,000
Michael Davies	1,240,000	–	–
Oliver Vaughan	675,000	175,000	810,000
Timothy Oakley	350,000	50,000	300,000
Patricia Farley	220,000	20,000	144,493
James Cane	10,000	10,000	180,000

Substantial shareholdings

As at 2 December 2016, the directors had been notified that the following shareholders own a disclosable interest of 3% or more in the ordinary shares of the Company:

Name	Interest %
Venaglass Limited	21.37%
Christopher James	7.16%
Timothy James	7.00%
Susan Hards	6.41%
Xiao Min	4.75%
Michael Wellesley Wesley	4.49%
Simon Wharmby	4.32%
Kimono Investment Holdings Ltd	3.21%

REPORT OF THE DIRECTORS (continued)

for the year ended 30 June 2016

Directors' remuneration

The following directors received remuneration during the year:

Name	Remuneration £	Benefits in Kind £
Nigel Payne	4,000	–
James Cane	6,500	–
Patricia Farley	12,500	–

In addition, during the year, the Group paid (i) Perry, Cane, a consultancy business owned by James Cane, fees of £85,000 plus VAT, (ii) Merlin, a consultancy business owned by Nigel Payne, fees of £2,000, and (iii) CD James (Property Consultants) Limited, a company owned by Christopher James, fees of £1,500.

Directors' indemnities and insurance

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

Going concern

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

Statement of directors' responsibilities

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

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

– select suitable accounting policies and then apply them consistently;

– make judgements and accounting estimates that are reasonable and prudent;

– state that the financial statements comply with IFRS;

– prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

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

Statement as to disclosure of information to the auditor

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

Auditors

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

On behalf of the Board:

James Cane
Director

21 December 2016

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

for the year ended 30 June 2016

Independent Auditor's Report to the Members of K&C REIT plc

We have audited the financial statements of K&C REIT plc for the year ended 30 June 2016 which are set out on pages 14 to 46. 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.

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

Respective responsibilities of directors and auditor

As explained more fully in the statement of directors' responsibilities set out on pages 10 and 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's web-site at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 30 June 2016 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.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, the information given in the strategic report and the directors' report for the financial year for which the group financial statements are prepared is consistent with the group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where 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.

Paul Fenner (Senior Statutory Auditor)
for and on behalf of **Moore Stephens LLP**, Statutory Auditor
150 Aldersgate Street
London
EC1A 4AB

21 December 2016

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2016

	Notes	2016 £	2015 £
Continuing operations			
Revenue	3	**151,417**	34,380
Cost of sales		**(60,240)**	(4,839)
Gross profit		**91,177**	29,541
Administrative expenses		**(513,367)**	(174,043)
Revaluation on investment properties	13	**250,000**	–
Operating loss before exceptional items		**(172,190)**	(144,502)
Exceptional items			
Gain on bargain purchase	14	**1,541,829**	–
Share-based payments	21	**(212,655)**	–
AIM admission costs	5	**(786,578)**	–
Costs of acquisition of subsidiaries	5	**(469,848)**	–
Operating loss		**(99,442)**	(144,502)
Finance costs	6	**(73,009)**	(98,116)
Finance income	6	**3,138**	–
Loss before taxation	7	**(169,313)**	(242,618)
Taxation	8	**104,942**	–
Loss for the year		**(64,371)**	(242,618)
Loss attributable to owners of the parent		**(64,371)**	(242,618)
Loss per share expressed			
in pence per share	10		
Basic		**(0.15)**	(32.35)
Diluted		**(0.15)**	(32.35)

The notes form part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AND OTHER COMPREHENSIVE INCOME

for the year ended 30 June 2016

	2016	2015
	£	£
Loss for the year	**(64,371)**	(242,618)
Other comprehensive income	**–**	–
Other comprehensive income for the year, net of income tax	**–**	–
Total comprehensive expense for the year	**(64,371)**	(242,648)
Total comprehensive expense attributable to:		
Owners of the parent	**(64,371)**	(242,648)

The notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2016

	Notes	2016 £	2015 £
Assets			
Non-current assets			
Property, plant and equipment	12	**2,730**	–
Investment properties	13	**7,126,000**	691,556
		7,128,730	691,556
Current assets			
Trade and other receivables	15	**24,262**	245,970
Cash and cash equivalents	16	**250,650**	1,732
		274,912	247,702
Total assets		**7,403,642**	939,258
Equity			
Shareholders' equity			
Share capital	17	**467,856**	7,500
Share premium		**4,120,984**	–
Capital redemption reserve		**67,500**	67,500
Retained earnings		**(250,927)**	(399,211)
Total equity		**4,405,413**	(324,211)
Liabilities			
Non-current liabilities			
Financial liabilities – borrowings			
Interest-bearing loans and borrowings	19	**2,690,108**	–
Current liabilities			
Trade and other payables	18	**277,960**	389,469
Financial liabilities – borrowings			
Interest-bearing loans and borrowings	19	**30,161**	874,000
		308,121	1,263,469
Total liabilities		**2,998,229**	1,263,469
Total equity and liabilities		**7,403,642**	939,258
Net asset value per share (pence)		**9.42**	(43.23)

The financial statements were approved and authorised for issue by the Board of Directors on 21 December 2016 and were signed on its behalf by:

James Cane
Director

The notes form part of these financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION

30 June 2016

	Note	2016 £	2015 £
Assets			
Non-current assets			
Property, plant and equipment	12	**2,430**	–
Investment properties	13	**–**	218,358
Investments	14	**5,305,000**	75,000
		5,307,430	293,358
Current assets			
Trade and other receivables	15	**2,756**	231,296
Cash and cash equivalents	16	**233,494**	28
		236,250	231,324
Total assets		**5,543,680**	524,682
Equity			
Shareholders' equity			
Share capital	17	**467,856**	7,500
Share premium		**4,120,984**	–
Capital redemption reserve		**67,500**	67,500
Retained earnings		**(2,093,849)**	(328,002)
Total equity		**2,562,491**	(253,002)
Liabilities			
Non-current liabilities			
Financial liabilities – borrowings			
Interest-bearing loans and borrowings	19	**2,690,108**	–
Current liabilities			
Trade and other payables	18	**260,920**	362,684
Financial liabilities – borrowings			
Interest-bearing loans and borrowings	19	**30,161**	415,000
		291,081	777,684
Total liabilities		**2,981,189**	777,684
Total equity and liabilities		**5,543,680**	524,682

The financial statements were approved and authorised for issue by the Board of Directors on 21 December 2016 and were signed on its behalf by:

James Cane
Director

The notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2016

	Share capital £	Share premium £	Capital redemption reserve £
Balance at 1 July 2014	75,000	–	–
Changes in equity			
Buyback of deferred shares	(67,500)	–	67,500
Total comprehensive expense	–	–	–
Balance at 30 June 2015	7,500	–	67,500
Changes in equity			
Issue of share capital	460,356	4,120,984	–
Share-based payments	–	–	–
Total comprehensive expense	–	–	–
Balance at 30 June 2016	**467,856**	**4,120,984**	**67,500**

	Retained earnings £	Total equity £
Balance at 1 July 2014	(156,593)	(81,593)
Changes in equity		
Buyback of deferred shares	–	–
Total comprehensive expense	(242,618)	(242,618)
Balance at 30 June 2015	(399,211)	(324,211)
Changes in equity		
Issue of share capital	–	4,581,340
Share-based payments	212,655	212,655
Total comprehensive expense	(64,371)	(64,371)
Balance at 30 June 2016	**(250,927)**	**4,405,413**

The notes form part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2016

	Share capital £	Share premium £	Capital redemption reserve £	Retained earnings £	Total equity £
Balance at 1 July 2014	75,000	–	–	–	75,000
Changes in equity					
Buyback of deferred shares	(67,500)	–	67,500	–	–
Total comprehensive expense	–	–	–	(328,002)	(328,002)
Balance at 30 June 2015	7,500	–	67,500	(328,002)	(253,002)
Changes in equity					
Issue of share capital	460,356	4,120,984	–	–	4,581,340
Total comprehensive expense	–	–	–	(1,765,847)	(1,765,847)
Balance at 30 June 2016	**467,856**	**4,120,984**	**67,500**	**(2,093,849)**	**2,562,491**

The notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June 2016

	Notes	2016 £	2015 £
Cash flows from operating activities			
Cash generated from operations	1	**(1,590,658)**	(108,243)
Interest paid		**(73,009)**	(98,116)
Net cash used in operating activities		**(1,663,667)**	(206,359)
Cash flows from investing activities			
Purchase of tangible fixed assets		**(3,416)**	–
Sale of investment properties		**715,254**	–
Acquisition of subsidiaries		**(4,630,000)**	–
Interest received		**3,138**	–
Net cash used in investing activities		**(3,915,024)**	–
Cash flows from financing activities			
Loan notes issued		**–**	200,000
Loan repayments in year		**(874,000)**	–
New loans in year		**2,720,269**	–
Shares issued		**3,981,340**	–
Net cash generated from financing activities		**5,827,609**	200,000
Increase/(decrease) in cash and cash equivalents		**248,918**	(6,359)
Cash and cash equivalents at beginning of year		**1,732**	8,091
Cash and cash equivalents at end of year		**250,650**	1,732

The notes form part of these financial statements.

COMPANY STATEMENT OF CASH FLOWS

for the year ended 30 June 2016

	Notes	2016 £	2015 £
Cash flows from operating activities			
Cash generated from operations	1	**(1,594,173)**	(196,614)
Interest paid		**(65,271)**	–
Net cash used in operating activities		**(1,659,444)**	(196,614)
Cash flows from investing activities			
Purchase of tangible fixed assets		**(3,017)**	–
Purchase of fixed asset investments		**(4,630,000)**	–
Purchase of investment properties		**–**	(218,358)
Sale of investment properties		**236,232**	–
Interest received		**3,086**	–
Net cash used in investing activities		**(4,393,699)**	(218,358)
Cash flows from financing activities			
New loans issued		**2,720,269**	415,000
Loan repayments		**(415,000)**	–
Shares issued		**3,981,340**	–
Net cash generated from financing activities		**6,286,609**	415,000
Increase in cash and cash equivalents		**233,466**	28
Cash and cash equivalents at beginning of year		**28**	–
Cash and cash equivalents at end of year		**233,494**	28

The notes form part of these financial statements.

NOTES TO THE STATEMENTS OF CASH FLOWS

for the year ended 30 June 2016

1. Reconciliation of loss before taxation to cash generated from operations

Group	Notes	2016 £	2015 £
Loss before taxation		**(169,313)**	(242,618)
Depreciation charges		**686**	–
Profit on disposal of investment properties		**(23,698)**	–
Gain on bargain purchase		**(1,541,829)**	–
Revaluation of investment properties		**(250,000)**	–
Share-based payment charge		**212,655**	–
Finance costs		**73,009**	98,116
Finance income		**(3,138)**	–
		(1,701,628)	(144,502)
Decrease/(increase) in trade and other receivables		**221,708**	(239,508)
(Decrease)/increase in trade and other payables		**(110,738)**	275,767
Cash generated from operations		**(1,590,658)**	(108,243)

Company	2016 £	2015 £
Loss before taxation	**(1,978,502)**	(328,002)
Depreciation charges	**587**	–
Profit on disposal of investment properties	**(17,874)**	–
Share-based payment charge	**212,655**	–
Finance costs	**65,271**	–
Finance income	**(3,086)**	–
	(1,720,949)	(328,002)
Decrease/(increase) in trade and other receivables	**228,540**	(231,296)
(Decrease)/increase in trade and other payables	**(101,764)**	362,684
Cash generated from operations	**(1,594,173)**	(196,614)

The notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

1. Presentation of financial statements

Statement of compliance

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

Functional and presentation currency

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

New standards and interpretations not yet adopted

As at 30 June 2016, the following standards and interpretations were in issue but not yet adopted by the EU.

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

IFRS 9 Financial Instruments

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

The standard is effective for periods beginning on or after 1 January 2018 but is yet to be endorsed by the EU.

IFRS 15 – Revenue from contracts with customers

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

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

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

IFRS 16 Leases

The standard is effective for periods beginning on or after 1 January 2019 but is yet to be endorsed by the EU.

The directors have yet to assess the impact of this standard on the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2016

2. Accounting policies

Basis of preparation

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

Going concern

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

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

Basis of consolidation

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

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

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

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

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

Investments

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

Revenue recognition

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

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

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

2. Accounting policies (continued)

Finance costs

Finance costs comprise interest expense on borrowings.

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

Property, plant and equipment

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

Computer equipment – 25% on cost

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

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 the statement of comprehensive income.

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

Impairment

(i) Financial assets

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

(ii) Financial assets measured at amortised cost

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2016

2. Accounting policies (continued)

(ii) Financial assets measured at amortised cost (continued)

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

(iii) Non-financial assets

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

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

Impairment losses are recognised in profit or loss.

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

Financial instruments

(i) Non-derivative financial assets

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

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

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

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

2. Accounting policies (continued)

(ii) Loans and receivables

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

Loans and receivables comprise cash and cash equivalents, and trade and other receivables.

(iii) Cash and cash equivalents

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

(iv) Non-derivative financial liabilities

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

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

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

Other financial liabilities comprise trade and other payables.

(v) Share capital

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

Taxation

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

Deferred tax would be recognised in respect 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 (continued)

for the year ended 30 June 2016

2. Accounting policies (continued)

Taxation (continued)

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

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

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

Provisions

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

Share-based payments

The Group allows certain individuals to acquire shares in the parent company. The grant date fair value of share-based payment awards granted is recognised as an employee expense with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The fair value will be charged as an expense in the income statement over the vesting period and the charge is adjusted each year to reflect the expected and actual level of vesting.

Critical accounting estimates and judgements

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

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

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

2. Accounting policies (continued)

Investment Properties

The directors revalue the investment properties annually; advice is taken from experts periodically. The directors have considered the future movements on property portfolio and have estimated the probable recoverable deferred tax.

Investment properties are revalued on acquisition by independent external valuers and then by the directors or independent valuers annually thereafter.

The Group's investment properties are valued, on the basis of market value, on acquisition by independent external valuers and then by the directors or independent valuers annually thereafter. The Group's investment properties are valued at £7,126,000.

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

Share-based payments

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

Determination of fair values

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

(i) Investment properties

The fair value of investment properties is based on market prices for similar items.

3. Revenue

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2016

4. Employees and directors

	2016 £	2015 £
Wages and salaries	**264,971**	–
Social security costs	**2,332**	–
	267,303	–

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

	2016	2015
Directors and management	**8**	7
Administration	**1**	1
	9	8

	2016 £	2015 £
Directors' remuneration (as per Report of the Directors)	**23,000**	–

In addition, during the year, the Group paid (i) Perry, Cane, a consultancy business owned by James Cane, fees of £85,000 plus VAT, (ii) Merlin, a consultancy business owned by Nigel Payne, fees of £2,000, and (iii) CD James (Property Consultants) Limited, a company owned by Christopher James, fees of £1,500.

The directors are considered to be key management personnel.

Certain directors have also received share options in the Company, further details of which are contained in note 21 of the financial statements.

5. Exceptional items

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

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

Further information on the gain on bargain purchase and the share based payments which are shown on the face of the Consolidated Statement of Comprehensive Income can be found in note 14 and note 21 respectively.

6. Finance income and costs

	2016 £	2015 £
Finance income:		
Deposit account interest	**3,138**	–
Finance costs:		
Loan interest	**73,009**	98,116

7. Loss before taxation

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

	2016 £	2015 £
Hire of plant and machinery	**1,487**	–
Other operating leases	**2,493**	–
Depreciation – owned assets	**686**	–
Profit on disposal of investment properties	**(23,698)**	–
Auditors' remuneration for the Group – audit services	**27,500**	30,000
Auditors' remuneration for the Group – taxation advisory services	**5,000**	6,500
Auditors' remuneration for the Group – other non-audit services	**80,000**	–

8. Taxation

Analysis of tax

	2016 £	2015 £
Current tax:		
UK corporation tax	**2,788**	–
Deferred tax	**(107,730)**	–
Total tax	**(104,942)**	–

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2016

8. Taxation (continued)

Factors affecting the tax expense

The tax assessed for the year is lower (2015 – higher) than the standard rate of corporation tax in the UK. The difference is explained below:

	2016 £	2015 £
Loss on ordinary activities before taxation	(419,313)	(242,618)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 20% (2015 – 20.750%)	(83,863)	(50,343)
Effects of:		
– Expenses not deductible for tax purposes	–	16,895
– Other short-term timing differences	–	(18,345)
– Losses not subject to taxation due to REIT status	86,651	51,793
– Reversal of deferred tax on revaluation of properties in subsidiary	(107,730)	–
Tax credit	(104,942)	–

9. Loss of parent company

As permitted by Section 408 of the Companies Act 2006, the income statement of the Company is not presented as part of these financial statements. The Company's loss for the financial year was £(1,978,502) (2015 – £(328,002)).

10. Loss per share

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

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

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

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

K&C REIT

10. Loss per share (continued)

	Loss £	2015 Weighted average number of shares	Per-share amount pence
Loss attributable to ordinary shareholders	(242,618)	750,001	(32.35)
Effect of dilutive securities	–	–	–

11. 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 2016 £	30 June 2015 £
Within one year	**33,769**	13,599
Between one and five years	**125,558**	121,567
At 30 June	**159,327**	135,166

Properties that are owned by K&C (Coleherne) Limited were let on short-term tenancy agreements as at 30 June 2016.

12. Property, plant and equipment

Group

	Computer equipment £
Cost	
Additions	**3,416**
At 30 June 2016	**3,416**
Depreciation	
Charge for year	**686**
At 30 June 2016	**686**
Net book value	
At 30 June 2016	**2,730**

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2016

12. Property, plant and equipment (continued)

Company

	Computer equipment £
Cost	
Additions	**3,017**
At 30 June 2016	**3,017**
Depreciation	
Charge for year	**587**
At 30 June 2016	**587**
Net book value	
At 30 June 2016	**2,430**

13. Investment properties

Group

	Notes	Total £
Cost or valuation		
At 1 July 2015		**691,556**
Additions	14	**6,876,000**
Disposals		**(691,556)**
Revaluations		**250,000**
At 30 June 2016		**7,126,000**
Net book value		
At 30 June 2016		**7,126,000**
At 30 June 2015		691,556

The investment properties purchased in the year were procured upon acquisition of subsidiaries.

The properties were valued by professionally qualified independent external valuers at the date of acquisition and are recorded at the values that were attributed to the properties at acquisition date. The Group acquired properties valued at £4,000,000 on 3 July 2015 upon the acquisition of K&C (Coleherne) Limited and properties valued at £2,876,000 on 27 May 2016 upon the acquisition of K&C (Osprey) Limited.

The directors consider that the carrying value of the investment properties at 30 June 2016 is not materially different from their market value.

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.

13. Investment properties (continued)

The total rental income in relation to investment properties for the Group equated to £133,114 (2015: £78,539). The total rental expenses in relation to investment properties for the Group equated to £52,673 (2015: £29,424).

Company

	Total £
Cost or valuation	
At 1 July 2015	**218,358**
Disposals	**(218,358)**
At 30 June 2016	**–**
Net book value	
At 30 June 2016	**–**
At 30 June 2015	218,358

14. Investments

Company

	Shares in Group undertakings £
Cost	
At 1 July 2015	**75,000**
Additions	**5,230,000**
At 30 June 2016	**5,305,000**
Net book value	
At 30 June 2016	**5,305,000**
At 30 June 2015	75,000

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2016

14. Investments (continued)

The Company's investments comprise the following:

Subsidiaries

K&C (Newbury) Limited

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

Class of shares:	% holding
Ordinary	100.00

K&C (Coleherne) Limited

Nature of business: Property letting

Class of shares:	% holding
Ordinary	100.00

K&C (Osprey) Limited

Nature of business: Property letting and property management

Class of shares:	% holding
Ordinary	100.00

Newton Horner Property Limited *(subsidiary of K&C (Osprey) Limited)*

Nature of business: Dormant

Class of shares:	% holding
Ordinary	100.00

14. Investments (continued)

Acquisition of K&C (Coleherne) Limited

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

Net assets acquired were as follows:

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

K&C (Coleherne) Limited contributed £133,113 of revenue and £57,857 of profit before taxation for the period between the date of acquisition and the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2016

14. Investments (continued)

Acquisition of K&C (Osprey) Limited

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

Net assets acquired were as follows:

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

K&C (Osprey) Limited contributed £8,759 of revenue and a loss of £916 before taxation for the period between the date of acquisition and the balance sheet date.

Reasons for gains on bargain purchase

K&C is on occasions able to acquire assets at a favourable price because it can take advantage of the tax advantages available to a REIT and to the vendor of a special purpose vehicle that is sold to a REIT, especially when the transaction involves K&C equity being issued to the vendor. This was the case with the acquisitions of both K&C (Coleherne) Limited and K&C (Osprey) Limited. The vendor of K&C (Osprey) Limited not only retained an interest in K&C post-sale but also understood that the K&C team had the necessary skills and experience to create a stronger business in the future.

15. Trade and other receivables

	Group		Company	
	2016	2015	**2016**	2015
	£	£	**£**	£
Other debtors	**16,976**	–	**–**	–
Prepayments	**7,286**	245,970	**2,756**	231,296
	24,262	245,970	**2,756**	231,296

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.

16. Cash and cash equivalents

	Group		Company	
	2016	2015	**2016**	2015
	£	£	**£**	£
Cash in hand	**300**	–	**–**	–
Bank accounts	**250,350**	1,732	**233,494**	28
	250,650	1,732	**233,494**	28

17. Share capital

Allotted, issued and fully paid:

Number:	Class:	Nominal value:	**2016** **£**	2015 £
46,785,623	Ordinary	£0.01	**467,856**	7,500

At 1 July 2015, the Company had 750,001 Ordinary shares of £0.01 in issue.

On 3 July 2015, the Company issued 43,035,622 Ordinary shares of £0.01 each. 40,813,400 of the shares were issued at a premium of £0.09 per share and 2,222,222 were issued at a premium of £0.08 per share.

On 27 May 2016, the Company issued 3,000,000 Ordinary shares of £0.01 each. The shares were issued at a premium of £0.09 per share.

The Company has one class of ordinary share, which carry no rights to fixed income.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2016

18. Trade and other payables

	Group		Company	
	2016	2015	**2016**	2015
	£	£	**£**	£
Trade creditors	**185,287**	240,518	**184,593**	239,511
Amounts owed to group undertakings	**–**	–	**–**	54,548
Other taxes and social security	**9,040**	–	**3,432**	–
Other creditors	**16,205**	–	**30,156**	37,625
Accruals and deferred income	**67,428**	148,951	**42,739**	31,000
	277,960	389,469	**260,920**	362,684

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.

19. Financial liabilities – borrowings

	Group		Company	
	2016	2015	**2016**	2015
	£	£	**£**	£
Current:				
Bank loans	**30,161**	–	**30,161**	–
Other loans (see note 23)	**–**	874,000	**–**	415,000
	30,161	874,000	**30,161**	415,000
Non-current:				
Bank loans	**1,590,108**	–	**1,590,108**	–
Other loans	**1,100,000**	–	**1,100,000**	–
	2,690,108	–	**2,690,108**	–

19. Financial liabilities – borrowings (continued)

Terms and debt repayment schedule

Group

	1 year or less	1-2 years	2-5 years	More than 5 years	Totals
	£	£	£	£	£
Bank loans	30,161	31,308	101,092	1,457,708	1,620,269
Other loans	–	1,100,000	–	–	1,100,000
	30,161	1,131,308	101,092	1,457,708	2,720,269

Company

	1 year or less	1-2 years	2-5 years	More than 5 years	Totals
	£	£	£	£	£
Bank loans	30,161	31,308	101,092	1,457,708	1,620,269
Other loans	–	1,100,000	–	–	1,100,000
	30,161	1,131,308	101,092	1,457,708	2,720,269

The Group has two principal loans:

1) A 25-year bank loan of £1,625,000 (2015 – £nil) repayable by 300 monthly instalments of £7,527 and a final instalment of £418,811. All repayments include both capital repayments and interest at 3.25% above Base Rate. The loan is secured by a first debenture over all assets and undertakings of the Company, a cross-guarantee from K&C (Coleherne) Limited over the freehold property known as 25 Coleherne Road and a debenture over the assets and undertakings of K&C (Coleherne) Limited. It is also secured by a pledge of shares of K&C (Coleherne) Limited.

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

20. Events after the reporting period

On 11 July 2016, the company issued share options to George Rolls, a former director of the Company. The options issued were to purchase 460,000 ordinary shares in the company at an exercise price of 10p per share within the period ending five years from the date of grant.

On 22 December 2016, Gravity Investment Group Limited has subscribed for 5,000,000 ordinary shares in the company at 10p per share, to be allotted in two tranches: 2,500,000 ordinary shares on 23 December 2016 and 2,500,000 ordinary shares no later than 6 January 2017. The company will receive total cash proceeds of £500,000.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2016

21. Share-based payment transactions

During the year ended 30 June 2016, the Company had five share-based payment arrangements in place, which are described below:

	Executive share options	Non-executive share options	Founder warrants	Allenby warrants	Warrants
Outstanding at 30 June 2015	–	–	750,000	–	–
Granted during the year	3,000,000	582,349	–	437,856	1,500,000
Forfeited during the year	–	(437,856)	–	–	–
Outstanding at 30 June 2016	**3,000,000**	**144,493**	**750,000**	**437,856**	**1,500,000**

Executive share options:

Executive share options have been granted to directors and other staff members on admission to trading on AIM at £0.01 per share. The share options vest if and when the Group's gross assets under management reach £25 million and the Group's net asset value per share reaches £0.105 and the participant remains employed on such date. The share options will not vest if the performance targets are not met and expire on the date immediately preceding the date of the fifth anniversary of the date of vesting. The contractual term of each share option is estimated to be five years. There are no cash settlement alternatives.

Non-executive share options:

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

Founder warrants

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

Allenby warrants

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

Warrants

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

21. Share-based payment transactions (continued)

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

	Executive share options	Non-executive share options	Founder warrants	Allenby warrants	Warrants
Fair value of share option/warrant (£)	0.0907	0.0340	0.0318	0.0340	0.013

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

	Executive share options	Non-executive share options	Founder warrants	Allenby warrants	Warrants
Share price at grant date (£)	0.10	0.10	0.10	0.10	0.07
Exercise price (£)	0.01	0.10	0.10	0.10	0.10
Dividend yield (%)	0.00	0.00	0.00	0.00	0.00
Expected volatility (%)	50.00	50.00	50.00	50.00	43.21
Risk-free interest rate (%)	0.950	0.535	0.535	0.535	0.27
Expected life of share options/warrants (years)	5.00	3.00	2.60	3.00	3.00

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

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

	30 June 2016 £	30 June 2015 £
Expense arising from share options	**155,065**	–
Expense arising from warrants	**57,590**	–
Total expense from share-based payments	**212,655**	–

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2016

21. Share-based payment transactions (continued)

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

	Granted on 3 July 2015 No.	**Exercised or forfeited No.**	**Balance at 30 June 2016 No.**
James Cane	180,000	–	**180,000**
Christopher James	600,000	–	**600,000**
Timothy James	810,000	–	**810,000**
Timothy Oakley	300,000	–	**300,000**
Oliver Vaughan	810,000	–	**810,000**

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

300,000 Executive share options were in issue to other staff members at the year-end.

The directors' interests in Non-Executive share options are as follows:

	Granted on 3 July 2015 No.	**Exercised or forfeited No.**	**Balance at 30 June 2016 No.**
Michael Davies	–	–	**–**
Patricia Farley	144,493	–	**144,493**
Nigel Payne	–	–	**–**
George Rolls	437,856	(437,856)	**–**

George Rolls resigned as a non-executive director on 30 December 2015, at which time his shares were forfeited. Mr Rolls was subsequently granted 460,000 Non-executive share options on 11 July 2016.

There have been no changes to the directors' interests in Non-executive share options since the year-end.

The interest of directors in Founder Warrants at 30 June 2016 were as follows:

	#
James Cane	**10,000**
Michael Davies	**–**
Patricia Farley	**20,000**
Christopher James	**100,000**
Timothy James	**175,000**
Timothy Oakley	**50,000**
Oliver Vaughan	**175,000**

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

22. Financial risk management

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

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

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

- credit risk
- liquidity risk
- market risk

Capital risk management

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

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

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

Credit risk

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

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

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

Liquidity risk

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2016

22. Financial risk management (continued)

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

23. Related parties

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

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

Perivan Financial Print 243544