



# UNAUDITED CONSOLIDATED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

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# CONTENTS

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Company Information	2
Chairman's Letter	3
Chief Executive's Report	4
Consolidated Statement of Comprehensive Income	6
Consolidated Statement of Financial Position	7
Consolidated Statement of Changes in Equity	8
Consolidated Statement of Cash Flows	9
Notes to the Consolidated Financial Statements	10

## COMPANY INFORMATION

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<b>DIRECTORS</b>	M D M Davies D A White J A Cane T M James O J Vaughan	Non-executive chairman Chief executive Finance director Property director Non-executive director
<b>SECRETARY</b>	R J Roberts	
<b>REGISTERED OFFICE</b>	82 St. John Street London EC1M 4JN	
<b>BUSINESS ADDRESS</b>	44/48 Old Brompton Road South Kensington London SW7 3DY	
<b>REGISTERED NUMBER</b>	09080097	
<b>WEBSITE</b>	www.kcrreit.com	
<b>NOMINATED ADVISER AND BROKER</b>	Arden Partners plc 125 Old Broad Street London EC2N 1AR	
<b>BANKS</b>	Metro Bank plc One Southampton Row Holborn London WC1A 5HA	Barclays Bank plc Level 25, 1 Churchill Place Canary Wharf London E14 5HP
<b>REGISTRAR</b>	Share Registrars Limited The Courtyard, 17 West Street Farmham Surrey GU9 7DR	
<b>INDEPENDENT AUDITOR</b>	Moore Stephens LLP 150 Aldersgate Street London EC1A 4AB	
<b>LEGAL ADVISERS</b>	Blake Morgan LLP 6 New Street Square London EC4A 3DJ	Fladgate LLP 16 Great Queen Street London WC2B 5DG
<b>PROPERTY CONSULTANTS</b>	Lambert Smith Hampton Limited United Kingdom House 180 Oxford Street London W1D 1NN	
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# CHAIRMAN'S LETTER

for the six months ended 31 December 2017

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Dear Shareholder

KCR Residential REIT plc ("KCR" or the "Company") and its subsidiaries (together the "Group") operate in the UK private rented residential investment market. We acquire whole blocks of studio, one and two-bed apartments that are rented to private tenants.

KCR is both an income and capital growth opportunity for its shareholders. It seeks to deliver income return from the collection of rents from tenants and generates capital returns through investment in under-valued property assets that are generally marked to market at acquisition. The Group is currently scaling-up its activities such that it can generate a profit and pay a dividend to shareholders.

The team adds value through asset-management activities (including property improvements, rental increases, physical extensions and repositioning, small-scale development) that increase net asset value. In particular, the directors search out residential blocks of apartments held within UK incorporated companies. These provide an opportunity for KCR to capitalise on the tax advantages afforded to UK REITs and, in many cases, can generate an immediate boost to net asset value per share on acquisition.

Across the UK as a whole, house prices and rental values continue to rise, especially in the types of properties that KCR targets. Our target market is a very resilient segment of the residential rental market. While higher price-band homes, particularly in Central London, have declined in value, it is important to note that these types of property do not fall within KCR's investment strategy.

The positive economic fundamentals in the residential sector – strong demand and shortage of supply – in particular in studio, one and two-bed flats will, in our view, deliver attractive rental and capital value performance across the UK over the medium term.

**Michael Davies**

16 March 2018

# CHIEF EXECUTIVE'S REPORT

## for the six months ended 31 December 2017

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We have pleasure in reporting to you on the progress of the Group in the six-month period since the year-end on 30 June 2017.

### Property portfolio

KCR's short-term objective is to increase revenue and reduce costs to achieve profitability and pay dividends. A minimum portfolio size of approximately £40 million should deliver the revenue required to achieve this goal. Significant activity is underway to build such a portfolio.

In the six months to 31 December 2017, the Group accepted the surrender by leaseholders of five 67-year residential leasehold interests at its freehold Heathside property in Hampstead. KCR continues to implement its value-adding asset-management plan at this property of creating 'marriage value' through the surrender of leasehold units.

The block of Coleherne Road apartments has continued to perform well. The size of the units (one- and two-bed flats) continue to be exactly what the rental market is looking for. This has meant that occupancy has been maintained at 100 per cent throughout the period. Where there have been renewals, rents have increased at least in line with inflation.

The portfolio at 31 December 2017 was valued at £9.45 million, an increase of £2.2 million compared to 30 June 2017. The Group has grown the portfolio by £1.75 million through investment and crystallised value of more than £0.45 million through asset management during the six-month period.

### Financial

Revenue declined to £142,114 (£233,179 to 31 December 2016) as lease sales and commission income, which follow no seasonal pattern, declined considerably.

The Group reports a consolidated operating loss before separately disclosed items of £661,666 (£249,927 to December 2016), which includes a non-cash share-based payment charge due to KCR's preference share scheme of £679,625 and a revaluation credit of £559,864.

In addition, KCR incurred costs of over £0.5 million associated with its deferred capital-raising programme, which I refer to in more detail below.

On 12 December 2017, KCR issued a further tranche of 6% Loan Notes in the sum of £0.5 million, taking the total outstanding to £1.85 million, which are convertible into ordinary shares at £1.20. The loan notes are redeemable on 30 June 2020.

In January 2018, the Company renewed the 12% syndicated loan note for a further 12 months until December 2018 and increased its size by £0.8 million to £1.9 million.

The additional capital raised through the convertible and syndicated loans has been used primarily to acquire and refurbish the five Heathside units referred to above.

KCR's net asset value per share at 31 December 2017 was 77.1p (83.7p – 30 June 2017).

### **Capital structure and name change**

During the six months, the Company issued no ordinary shares. In March 2018, £0.1 million of restricted preference shares were issued, subject to the vesting criteria that are laid out in the Circular dated 27 January 2017.

To align KCR's shares with its REIT peer group, the Company's 52,751,820 ordinary shares of 1p each were consolidated 10:1 on 24 November 2017 and the consolidated shares started trading on AIM on 27 November. Following a share issue in February 2018, when various existing share options and warrants were exchanged for ordinary shares at an independently confirmed value, the Company now has 5,350,071 ordinary shares of 10p each in issue.

The Company changed its name to KCR Residential REIT plc in November 2017.

### **Institutional capital raise**

As reported in KCR's announcement of 23 November 2017, we held marketing meetings with over 80 institutional investors and wealth managers in early November and received very positive feedback regarding its residential acquisition and rental strategy, and its management team. Although several material offers of investment were received, the majority view from potential investors was for KCR to complete one or more acquisitions from its strong pipeline alongside the closing of the proposed placing.

As a result, the board took the decision to defer the proposed placing until further progress had been made relating to the acquisitions. KCR intends to return to the equity markets in the near future following the development of several specific investment opportunities.

I look forward to providing you with further updates as we execute our business strategy.

**Dominic White**

16 March 2018

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 31 December 2017 (unaudited)

	Notes	Six months ended 31 December 2017 £	Six months ended 31 December 2016 £	Year ended 30 June 2017 (audited) £
Revenue		142,114	233,179	514,746
Cost of sales		(44,292)	(59,586)	(110,544)
<b>Gross profit</b>		<b>97,822</b>	<b>173,593</b>	<b>404,202</b>
Administrative expenses		(639,727)	(348,876)	(1,157,098)
Share-based payment charge	7	(679,625)	(74,644)	(392,319)
Revaluation of investment properties	5	559,864	–	116,000
<b>Operating loss before exceptional items</b>		<b>(661,666)</b>	<b>(249,927)</b>	<b>(1,029,215)</b>
Costs of acquisition of subsidiaries		–	(8,463)	–
Costs associated with third-party fundraising		(509,839)	(61,110)	–
<b>Operating loss</b>		<b>(1,171,505)</b>	<b>(319,500)</b>	<b>(1,029,215)</b>
Finance costs		(130,398)	(96,347)	(195,361)
Finance income		181	6	5
<b>Loss before taxation</b>		<b>(1,301,722)</b>	<b>(415,841)</b>	<b>(1,224,571)</b>
Taxation		–	–	–
<b>Loss for the period/year</b>		<b>(1,301,722)</b>	<b>(415,841)</b>	<b>(1,224,571)</b>
<b>Total comprehensive expense for the period/year</b>		<b>(1,301,722)</b>	<b>(415,841)</b>	<b>(1,224,571)</b>
Basic and diluted loss per ordinary share (pence) – post-consolidation of ordinary shares	4	(24.7)	(8.9)	(24.8)

The notes form part of these financial statements

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2017 (unaudited)

	Notes	31 December 2017 £	31 December 2016 £	30 June 2017 (audited) £
<b>Non-current assets</b>				
Property, plant and equipment		2,753	2,287	1,843
Investment properties	5	9,452,000	7,126,000	7,242,000
		9,454,753	7,128,287	7,243,843
<b>Current assets</b>				
Trade and other receivables		71,375	49,115	90,777
Cash and cash equivalents		334,169	50,231	1,023,752
		405,544	99,346	1,114,529
<b>Total assets</b>		<b>9,860,297</b>	<b>7,227,633</b>	<b>8,358,372</b>
<b>Equity</b>				
<b>Shareholders' equity</b>				
Share capital		877,518	492,856	877,518
Share premium		4,660,322	4,345,984	4,660,322
Capital redemption reserve		67,500	67,500	67,500
Other reserves	8	168,493	–	–
Retained deficit		(1,705,276)	(592,124)	(1,083,179)
<b>Total equity</b>		<b>4,068,557</b>	<b>4,314,216</b>	<b>4,522,161</b>
<b>Non-current liabilities</b>				
Financial liabilities – borrowings				
Interest-bearing loans and borrowings	8	3,225,624	2,674,368	1,560,756
<b>Current liabilities</b>				
Trade and other payables		1,108,182	208,318	194,147
Current portion of borrowings		32,934	30,731	31,308
Other loans		1,425,000	–	2,050,000
		2,566,116	239,049	2,275,455
<b>Total liabilities</b>		<b>5,791,740</b>	<b>2,913,417</b>	<b>3,836,211</b>
<b>Total equity and liabilities</b>		<b>9,860,297</b>	<b>7,227,633</b>	<b>8,358,372</b>
Net asset value per share (pence) – post-consolidation of ordinary shares		77.1	87.5	85.7

The notes form part of these financial statements



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 31 December 2017 (unaudited)

	Share capital £	Share premium £	Capital redemption reserve £	Retained deficit £	Other reserves £	Total £
<b>Balance at 1 July 2016</b>	467,856	4,120,984	67,500	(250,927)	–	4,405,413
<b>Changes in equity</b>						
Issue of share capital	25,000	225,000	–	–	–	250,000
Total comprehensive expense	–	–	–	(415,841)	–	(415,841)
Share-based payment charge	–	–	–	74,644	–	74,644
<b>Balance at 31 December 2016</b>	492,856	4,345,984	67,500	(592,124)	–	4,314,216
<b>Changes in equity</b>						
Issue of share capital	384,662	314,338	–	–	–	699,000
Total comprehensive expense	–	–	–	(808,730)	–	(808,730)
Share-based payment charge	–	–	–	317,675	–	317,675
<b>Balance at 30 June 2017</b>	877,518	4,660,322	67,500	(1,083,179)	–	4,522,161
<b>Changes in equity</b>						
Issue of share capital	–	–	–	–	–	–
Total comprehensive expense	–	–	–	(1,301,722)	–	(1,301,722)
Share-based payment charge	–	–	–	679,625	–	679,625
Equity component of convertible loan notes	–	–	–	–	168,493	168,493
<b>Balance at 31 December 2017</b>	877,518	4,660,322	67,500	(1,705,276)	168,493	4,068,557

The notes form part of these financial statements

# CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ended 31 December 2017 (unaudited)

	Six months ended 31 December 2017 £	Six months ended 31 December 2016 £	Year ended 30 June 2017 (audited) £
<b>Cash flows from operating activities</b>			
Loss for the period/year	(1,301,722)	(415,841)	(1,224,571)
<b>Adjustments for</b>			
Depreciation charges	601	443	887
Share-based payment charge	679,625	74,644	392,319
Revaluation of investment properties	(559,864)	–	(116,000)
Finance costs	130,398	96,347	195,361
Finance income	(181)	(6)	(5)
(Increase)/decrease in trade and other receivables	19,402	(24,853)	(66,516)
Increase/(decrease) in trade and other payables	914,038	(69,642)	(83,813)
Cash used in operations	(117,703)	(338,908)	(902,338)
Interest paid	(130,398)	(96,347)	(195,361)
Net cash used in operating activities	(248,101)	(435,255)	(1,097,699)
<b>Cash flows from investing activities</b>			
Purchase of tangible fixed assets	(1,513)	–	–
Purchase of investment properties	(1,650,136)	–	–
Interest received	181	6	5
Net cash from/(used in) investing activities	(1,651,468)	6	5
<b>Cash flows from financing activities</b>			
Loan repayments in period/year	(15,014)	(15,170)	(28,204)
Increase in borrowings	1,225,000	–	950,000
Share issues	–	250,000	949,000
Net cash from financing activities	1,209,986	234,830	1,870,796
(Decrease)/increase in cash and cash equivalents	(689,583)	(200,419)	773,102
Cash and cash equivalents at beginning of period/year	1,023,752	250,650	250,650
Cash and cash equivalents at end of period/year	334,169	50,231	1,023,752

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## for the six months ended 31 December 2017 (unaudited)

### 1. Basis of preparation

The Company is domiciled in England and Wales. The consolidated interim financial statements for the six months ended 31 December 2017 comprise those of the Company and subsidiaries. The Group is primarily involved in UK property ownership and letting.

#### *Statement of compliance*

This consolidated interim financial report has been prepared in accordance with IAS 34 Interim Financial Reporting. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial performance and position of the Group since the last annual consolidated financial statements for the year ended 30 June 2017. This consolidated interim financial report does not include all the information required for full annual financial statements prepared in accordance with International Financial Reporting Standards. The financial statements are unaudited and do not constitute statutory accounts as defined in section 434(3) of the Companies Act 2006.

A copy of the audited annual report for the year ended 30 June 2017 has been delivered to the Registrar of Companies. The auditor's report on these accounts was unqualified and did not contain statements under s498(2) or s498(3) of the Companies Act 2006.

This consolidated interim financial report was approved by the Board of Directors on 16 March 2018.

#### *Significant accounting policies*

The accounting policies applied by the Group in this consolidated interim financial report are the same as those applied by the Group in its consolidated financial statements for the year ended 30 June 2017.

### 2. Operating segments

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

### 3. Operating loss

The loss before taxation is stated after charging:

	Six months ended 31 December 2017 £	Six months ended 31 December 2016 £	Year ended 30 June 2017 £
Costs associated with acquisition of subsidiaries	–	8,463	–
Costs associated with third-party fundraising	509,839	61,110	–
Directors' remuneration	92,500	25,750	132,375

### 3. Operating loss (continued)

During the period, the Company paid (i) Perry Cane, a consultancy business owned by James Cane, fees of £nil (2016 – £10,000 plus VAT) for services provided to the Company and (ii) DGS Capital Partners LLP, a business partly owned by Michael Davies, fees of £18,000 plus VAT for his services as chairman (2016 - £20,000).

During the period, the Company paid CD James (Property Consultants) Limited, a company owned by Christopher James, fees of £31,000 (2016 - £10,000). Christopher James resigned as a director on 31 March 2017.

The directors are considered to be key management personnel.

### 4. Basic and diluted loss per share

#### Basic

The calculation of loss per share for the six months to 31 December 2017 is based on the loss for the period attributable to ordinary shareholders of £1,301,722 divided by a weighted average number of ordinary shares in issue. On 24 November 2017, there was a consolidation of the Ordinary shares; pre-consolidation, there were 52,751,820 Ordinary shares at a nominal value of £0.01 each in issue. After the consolidation of the Ordinary shares, there were 5,275,182 Ordinary shares at a nominal value of £0.10 each in issue. Therefore, the comparatives have been restated to present the basic loss per ordinary share as if the shares had been consolidated in prior reporting periods.

The weighted average number of shares used for the six months ended 31 December 2017 was 5,275,182 (June 2017 – 4,945,524) (December 2016 – 4,690,791).

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

All existing share options and warrants were cancelled in February 2018 and 74,889 Ordinary shares were issued to holders.

### 5. Investment properties

	Six months ended 31 December 2017 £	Six months ended 31 December 2016 £	Year ended 30 June 2017 £
At start of period/year	7,242,000	7,126,000	7,126,000
Additions	1,650,136	–	–
Revaluations	559,864	–	116,000
Disposals	–	–	–
At end of period/year	9,452,000	7,126,000	7,242,000

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 31 December 2017 (unaudited)

## 5. Investment properties (continued)

Investment properties were valued by professionally qualified independent external valuers at the date of acquisition and were recorded at the values that were attributed to the properties at acquisition date. In September 2017, certain properties were valued again by professionally qualified independent external valuers in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Standards 2014 as amended, resulting in a revaluation to £6,612,000. The remaining properties were valued by the directors at £2,840,000 as at 31 December 2017.

The fair values used are considered to be level 3 inputs under IFRS13.

## 6. Share capital

Allotted, issued and fully paid

Number	Class	Nominal value	31 December 2017 £	31 December 2016 £	30 June 2017 £
5,275,182 (after consolidation on 24-Nov-2017)	Ordinary	£0.10	527,518	492,856	527,518
3,500,000 (after consolidation on 24-Nov-2017)	Restricted Preference	£0.10	350,000	—	350,000
			<b>877,518</b>	<b>492,856</b>	<b>877,518</b>

At 31 December 2016, the Company had 49,285,623 Ordinary shares of £0.01 each in issue.

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

Between 22 February and 1 March 2017, the Company issued 716,197 Ordinary Shares of £0.01 each, 240,000 of which were issued as payment for professional services by Peterhouse Corporate Finance. 476,190 of the shares were issued at a premium of £0.095 per share and 240,000 of the shares were issued at a premium of £0.09 per share.

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

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

On 24 November 2017, there was a consolidation of the Ordinary shares in issue. Before the consolidation, there were 52,751,820 Ordinary shares in issue with a nominal value of £0.01 each. Following the consolidation, there were 5,275,182 Ordinary shares in issue with a nominal value of £0.10 each.

On 24 November 2017, there was also a consolidation of the Restricted Preference shares in issue. Before the consolidation, there were 35,000,000 Restricted Preference shares in issue with a nominal value of £0.01 each. Following the consolidation, there were 3,500,000 Restricted Preference shares in issue with a nominal value of £0.10 each at 31 December 2017.

## 6. Share capital (continued)

The Ordinary shares carry no rights to fixed income.

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.

## 7. Share-based payments

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

	31 December 2017 £	31 December 2016 £	30 June 2017 £
Expense arising from share options	287,711	74,644	198,482
Expense arising from warrants	391,914	—	193,837
Total expense	679,625	74,644	392,319

### Restricted Preference shares

Restricted Preference shares were granted to certain directors and other senior managers on 2 February 2017 and 24 April 2017. Upon the achievement by the Group of certain milestones, the Restricted Preference shares may be converted into Ordinary shares at £0.10 each.

The directors' interests in Restricted Preference shares were as follows:

	Balance at 31 December 2016	Granted	Balance at 1 July 2017	Consolidation of shares	Balance at 31 December 2017
James Cane	—	300,000	300,000	(270,000)	30,000
Timothy James	—	9,600,000	9,600,000	(8,640,000)	960,000
Oliver Vaughan	—	8,100,000	8,100,000	(7,290,000)	810,000
Dominic White	—	5,000,000	5,000,000	(4,500,000)	500,000

### White Amba share options

Share options have been granted to White Amba Limited ("White Amba"), a company owned by a director of the Company, to acquire 1,000,000 Restricted Preference shares at £0.10 per share (10,000,000 Restricted Preference shares at £0.01 per share pre-consolidation of shares, which took place on 24 November 2017). The share options do not have any performance criteria attached to them and may be exercised at any time from the date of grant to 30 June 2018.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 31 December 2017 (unaudited)

## 7. Share-based payments (continued)

### *Executive share option plan*

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

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

	Balance at 31 December 2016	Granted	Balance at 1 July 2017	Consolidation of shares	Balance at 31 December 2017
James Cane	180,000	(180,000)	–	–	–
Timothy James	810,000	(810,000)	–	–	–
Oliver Vaughan	810,000	(810,000)	–	–	–

### *Non-executive share option plan*

Non-executive share options were granted to certain non-executive directors and others on the initial admission of the Company's shares 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.

The Non-executive share options are in issue to a past non-executive director. The non-executive directors' interests in share options were as follows:

	Balance at 31 December 2016	Exercised or forfeited	Balance at 1 July 2017	Consolidation of shares	Balance at 31 December 2017
Patricia Farley	144,493	(144,493)	–	–	–
George Rolls	460,000	–	460,000	(414,000)	46,000

On 22 February 2017, the Non-executive share options were cancelled in consideration of the issue of Ordinary shares at the rate of one Ordinary share for 2.76 Non-executive share options, being the independent value attributed to the non-executive share options at 31 December 2017.

## 7. Share-based payments (continued)

### *Founder warrants*

75,000 warrants were issued to shareholders to subscribe for 75,000 Ordinary shares at £1 per share at any time before 31 December 2018 (750,000 Ordinary shares at £0.10 each pre-consolidation of shares, which took place on 24 November 2017).

The directors' interests in Founder warrants were as follows:

	Balance at 31 December 2016	Exercised or forfeited	Balance at 1 July 2017	Consolidation of shares	Balance at 31 December 2017
James Cane	10,000	–	10,000	(9,000)	1,000
Timothy James	175,000	–	175,000	(157,500)	17,500
Oliver Vaughan	175,000	–	175,000	(157,500)	17,500

On 22 February 2017, the Founder warrants were cancelled in consideration of the issue of Ordinary shares at the rate of one Ordinary share for 3.14 Founder warrants, being the independent value attributed to the Founder warrants at 31 December 2017.

### *Allenby warrants*

On admission to trading on AIM, the Company granted to Allenby Capital Limited (the former nominated adviser of the Company) warrants to acquire 43,785 Ordinary shares at £1 per share (437,856 Ordinary shares at £0.10 each pre-consolidation of shares, which took place on 24 November 2017), within five years of admission, namely by 3 July 2020.

On 22 February 2017, the Allenby warrants were cancelled in consideration of the issue of Ordinary shares at the rate of one Ordinary share for 2.94 Allenby warrants, being the independent value attributed to the Allenby warrants at 31 December 2017.

### *Warrants*

On 24 May 2016, 150,000 warrants were issued to a number of potential lenders to the Company to subscribe for 150,000 Ordinary shares at £1 per share (1,500,000 Ordinary shares at £0.10 each pre-consolidation of shares, which took place on 24 November 2017) at any time before 24 May 2021.

On 22 February 2017, the Warrants were cancelled in consideration of the issue of Ordinary shares at the rate of one Ordinary share for 7.69 Warrants, being the independent value attributed to the Warrants at 31 December 2017.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 31 December 2017 (unaudited)

## 7. Share-based payments (continued)

### *Movements during the period*

During the period to 31 December 2017, the Company had several share-based payment arrangements in place, which are described below:

	Restricted preference shares	White Amba share options	Executive share options	Non- executive share options	Founder warrants	Allenby warrants	Warrants
<b>Outstanding at 31 December 2016</b>	–	–	3,000,000	604,493	750,000	437,856	1,500,000
Granted in the period	35,000,000	10,000,000	–	–	–	–	–
Forfeited in the period	–	–	(3,000,000)	(144,493)	–	–	–
<b>Outstanding at 30 June 2017</b>	35,000,000	10,000,000	–	460,000	750,000	437,856	1,500,000
Granted in the period	–	–	–	–	–	–	–
Forfeited in the period	–	–	–	–	–	–	–
Consolidation of shares	(31,500,000)	(9,000,000)	–	(414,000)	(675,000)	(394,070)	(1,350,000)
<b>Outstanding at 31 December 2017</b>	3,500,000	1,000,000	–	46,000	75,000	43,786	150,000

The inputs and assumptions used in the calculation of the share-based payment charge are unchanged from those detailed in the consolidated financial statements for the year ended 30 June 2017.

## 8. Convertible loan notes

On 7 July 2017, monies disclosed as other loans of £950,000 at 30 June 2017 were reclassified to convertible loan notes when the Company issued £1,350,000 6% convertible loan notes. The Company issued a further £500,000 6% convertible loan notes on 4 December 2017.

The debt component of the convertible loan notes is included within interest-bearing loans and borrowings and the equity component is included within other reserves.

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## 9. Post-balance sheet events

### *Cancellation of options and warrants*

As described in note 7 above, options and warrants were cancelled on 22 February 2018 in consideration of the issue of a total of 74,889 Ordinary shares.

### *Further issue of Restricted Preference shares*

As described in note 7, Dominic White, chief executive of KCR, subscribed £50,000 for Restricted Preference shares through White Amba, a company controlled by him. In addition, White Amba was granted an option on 26 January 2017 to subscribe for up to a further £100,000 of Restricted Preference shares.

In February 2018, the Company agreed that Dominic White could transfer the Restricted Preference shares previously subscribed for, and the option to acquire up to a further £100,000 of Restricted Preference shares, from White Amba either into his name or into his pension scheme. Dominic White decided that White Amba's existing holding be registered in his name and the final allocation of £100,000 of Restricted Preference shares, which were then acquired, would be registered in the name of his pension scheme.

A further £150,000 of Restricted Preference shares are available for allotment at the discretion of the Company.

