



KCR RESIDENTIAL REIT plc

Unaudited Consolidated Interim Financial Report

for the six months ended 31 December 2018

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COMPANY INFORMATION

DIRECTORS	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
SECRETARY	R J Roberts	
REGISTERED OFFICE	82 St. John Street London EC1M 4JN	
BUSINESS ADDRESS	44/48 Old Brompton Road South Kensington London SW7 3DY	
REGISTERED NUMBER	09080097	
INDEPENDENT AUDITOR	BDO LLP 150 Aldersgate Street London EC1A 4AB	
SOLICITORS	Fladgate LLP 16 Great Queen Street London WC2B 5DG	Blake Morgan LLP 6 New Street Square London EC4A 3DJ
NOMINATED ADVISER AND BROKER	Arden Partners Plc 125 Old Broad Street London EC2N 1AR	
BANKERS	Metro Bank plc One Southampton Row London WC1A 5HA	Barclays Bank plc Level 25, 1 Churchill Place Canary Wharf London E14 5HP
WEBSITE	www.kcrreit.com	

CHAIRMAN'S STATEMENT

for the six months ended 31 December 2018

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

There continue to be positive economic fundamentals for housing in the UK – strong demand and shortage of supply, particularly in KCR's target rental segments in the low to mid-price bands. This type of housing will, in our view, deliver attractive rental and capital value performance over the medium term.

KCR is both an income and capital growth opportunity for its shareholders. It delivers income return from the collection of rents from tenants and capital return through investment in under-valued and under-managed property assets that are often marked-to-market at or shortly after acquisition when opportunities to add value have been taken.

As the UK's planned exit from the EU looms, London's housing market has plateaued overall and has, in some areas, fallen (in particular for larger properties located in the so-called Prime Central London areas). The market in other parts of the UK is also slowing; however, the overall market-price trend remains upwards. Year-on-year house price growth across the UK in January 2019 was 0.1 per cent, according to the Nationwide index, improving slightly in February with a 0.4 per cent year-on-year rise. The Royal Institution of Chartered Surveyors (RICS) puts the sluggish results down to "ongoing uncertainty about the path to Brexit dominating the news agenda".



Beyond Brexit effects, the housing market cycle has moved into a later stage in which the Midlands and north of England outperform London and the south (Savills, February 2019). House price growth is being limited by tighter regulation on mortgage lending and the possibility of rising interest rates. London in particular has been affected by regulatory and tax changes for private landlords, with Brexit also removing buyers from the market. Given the house prices rises over recent years, however, there is significant equity in the market to absorb price falls.

Against this backdrop of uncertain politics, we note that KCR targets a very specific segment of residential property that is less affected by the current challenges. We buy low to mid-price blocks of flats for rent, aimed at new entrants and early-stage professionals. This continues to be a resilient segment of the rental market and we have experienced positive rental growth at every rented asset in our portfolio. The higher price-band homes, particularly in Central London, that have declined in value do not fall within KCR's investment strategy.

Michael D M Davies
28 March 2019

CHIEF EXECUTIVE'S REPORT

for the six months ended 31 December 2018

We have pleasure in reporting on the progress of the Group in the six-month period since the year-end on 30 June 2018.

Property portfolio

KCR achieved its short-term objective of increasing rental revenue across the portfolio, in particular at the investments the Company made in Southampton and Ladbroke Grove shortly before the financial year-end.

In mid-October 2018, the Company took delivery of the new development at Deanery Court, Southampton. By 31 December, 13 of the 27 two-bed apartments had been let. At the time of writing, 26 apartments have been let and we expect the property to be fully let by the end of April 2019, delivering additional rent at the rate of £345,000 a year to the portfolio, approximately 20 per cent higher than our forecasts at the time of purchase.

The Ladbroke Grove portfolio consists of 16 apartments in three blocks. It is currently fully let. In the period ended 31 December 2018, four apartments have been refurbished and let prior to the works being completed, delivering rent increases in the range 11 per cent to 19 per cent. Rents have been increased on a further seven apartments either as a result of new lettings (two apartments with no vacancy between lettings) or tenancy renewals (five apartments), delivering rent increases in the range four per cent to 15 per cent. As at 31 December 2018, the portfolio delivered rent at the rate of £259,000 a year, an increase of 6.8 per cent since acquisition.

The block of ten studio and one-bed apartments at Coleherne Road has performed well in rental terms and continue to be exactly what the rental market is looking for. Occupancy has been maintained at close to 100 per cent, with one short vacancy whilst an apartment was being refurbished, delivering a rent increase of 12 per cent on re-letting. As at 31 December 2018, the property delivered rent at the rate of £143,600 per annum, an increase of 2.6 per cent during the period under review.

On 12 December 2018, KCR sold its wholly owned subsidiary, KCR (Cygnets) Limited, for a cash consideration of £1.14 million. This investment consisted of two index-linked long leases on supermarket sites in southeast England and the sale included the associated debt facility. The proceeds of the sale were used to reduce the Company's indebtedness.

Financial

KCR's revenue increased to £269,113 (£142,114 to 31 December 2017), an increase of 89 per cent.

The Company's portfolio at 31 December 2018 was valued at £24.6 million, an increase in portfolio size of £15.1 million compared to 31 December 2017 (£9.5 million).

The Group reports a consolidated operating profit before separately disclosed administrative items of £24,736 (profit of £17,959 to 31 December 2017).

The net asset value per share at 31 December 2018 is 70.97p (77.16p – 31 December 2017).



Corporate activity

On 30 July 2018, KCR announced that it had successfully placed 4,434,570 ordinary shares at £0.70 with a value of £3.10 million. This included 1,287,857 shares as capital raising, 1,800,427 shares to satisfy consideration payable on the acquisition of Inland Commercial Ltd (subsequently renamed KCR (Cygnet) Limited) from Inland Homes Plc, the conversion of £650,000 of convertible loan notes into 946,286 shares and the allotment to Arden, the Company's nomad, of 400,000 shares in settlement of fees.

Outlook

The Board remains positive regarding KCR's strategy of investing in low- to mid-price blocks of flats for rental. The market supply and demand fundamentals are strong. Short-term political uncertainty and the reluctance of equity investors to fund the majority of companies through the stock market is challenging for the growth of KCR, which relies on raising equity and debt capital to grow its portfolio and rental income.

The Board is looking at a number of ways to increase the size of its portfolio, including through corporate activity with other companies or property funds, with the aim of delivering a larger portfolio with higher revenues and proportionately lower Company operating costs. The Board looks forward to updating shareholders on this activity in due course.



A handwritten signature in black ink, appearing to read 'D White'.

Dominic White
Chief executive
28 March 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 31 December 2018 (unaudited)

	Notes	Six months ended 31 December 2018 £	Six months ended 31 December 2017 £	Year ended 30 June 2018 (audited) £
Revenue		269,113	142,114	265,936
Cost of sales		(148,794)	(44,292)	(191,420)
Gross profit		120,319	97,822	74,516
Administrative expenses		(800,583)	(639,727)	(1,317,971)
Revaluation of investment properties	5	705,000	559,864	1,235,377
Operating profit/(loss) before separately disclosed items		24,736	17,959	(8,078)
Gain on bargain purchase		–	–	2,201,639
Costs of acquisition of subsidiaries		–	–	(318,295)
Share-based payment charge	7	(1,180,918)	(679,625)	(950,188)
Costs associated with third-party fundraising		(167,817)	(509,839)	(673,999)
Operating (loss)/profit		(1,323,999)	(1,171,505)	251,079
Finance costs		(263,853)	(130,398)	(325,688)
Finance income		9,590	181	7,035
Loss before taxation		(1,578,262)	(1,301,722)	(67,574)
Taxation		–	–	–
Loss for the period/year from continuing operations		(1,578,262)	(1,301,722)	(67,574)
Loss for the period/year from discontinued operations	9	(325,002)	–	–
Total comprehensive expense for the period/year		(1,903,264)	(1,301,722)	(67,574)
Basic and diluted loss per ordinary share (pence)				
From continuing operations	4	(11.55)	(24.68)	(1.02)
From discontinued operations		(2.38)	–	–

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2018 (unaudited)

	Notes	31 December 2018 £	31 December 2017 £	30 June 2018 (audited) £
Non-current assets				
Property, plant and equipment		33,165	2,753	38,993
Investment properties	5	24,600,000	9,452,000	26,695,000
		24,633,165	9,454,753	26,733,993
Current assets				
Trade and other receivables		1,221,412	71,375	703,427
Cash and cash equivalents		63,521	334,169	6,425
		1,284,933	405,544	709,852
Total assets		25,918,098	9,860,297	27,443,845
Equity				
Shareholders' equity				
Share capital	6	2,029,178	877,518	1,435,721
Share premium		10,018,986	4,660,322	7,358,244
Capital redemption reserve		67,500	67,500	67,500
Other reserves		14,931	168,493	29,862
Retained deficit		(922,911)	(1,705,276)	(200,565)
Total equity		11,207,684	4,068,557	8,690,762
Non-current liabilities				
<i>Financial liabilities – borrowings</i>				
Interest-bearing loans and borrowings		6,806,290	3,225,624	8,749,702
Current liabilities				
Trade and other payables		6,327,573	1,108,182	8,332,548
Current portion of borrowings		101,551	32,934	195,833
Other loans		1,475,000	1,425,000	1,475,000
		7,904,124	2,566,116	10,003,381
Total liabilities		14,710,414	5,791,740	18,753,083
Total equity and liabilities		25,918,098	9,860,297	27,443,845
Net asset value per share (pence)		70.97	77.16	88.17

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 31 December 2018 (unaudited)

	Share capital £	Share premium £	Capital redemption reserve £	Retained deficit £	Other reserves £	Total £
Balance at 1 July 2017	877,518	4,660,322	67,500	(1,083,179)	–	4,522,161
Changes in equity						
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
Balance at 31 December 2017	877,518	4,660,322	67,500	(1,705,276)	168,493	4,068,557
Changes in equity						
Issue of share capital	558,203	2,697,922	–	–	–	3,256,125
Total comprehensive income	–	–	–	1,234,148	–	1,234,148
Share-based payment charge	–	–	–	270,563	–	270,563
Conversion of convertible loan notes	–	–	–	–	(138,631)	(138,631)
Balance at 30 June 2018*	1,435,721	7,358,244	67,500	(200,565)	29,862	8,690,762
Changes in equity						
Issue of share capital	593,457	2,660,742	–	–	–	3,254,199
Total comprehensive expense	–	–	–	(1,903,264)	–	(1,903,264)
Share-based payment charge	–	–	–	1,180,918	–	1,180,918
Conversion of convertible loan notes	–	–	–	–	(14,931)	(14,931)
Balance at 31 December 2018	2,029,178	10,018,986	67,500	(922,911)	14,931	11,207,684

*audited

CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ended 31 December 2018 (unaudited)

	Six months ended 31 December 2018 £	Six months ended 31 December 2017 £	Year ended 30 June 2018 (audited) £
Cash flows from operating activities			
Loss for the period/year from continuing operations	(1,578,262)	(1,301,722)	(67,574)
Loss for the period/year from discontinued operations	(325,002)	–	–
Adjustments for			
Depreciation charges	5,828	601	6,365
Share-based payment charge	1,180,918	679,625	950,188
Gain on bargain purchase	–	–	(2,201,639)
Loss on disposal of subsidiary	360,081	–	–
Revaluation of investment properties	(705,000)	(559,864)	(1,235,377)
Finance costs	263,853	130,398	325,688
Finance income	(9,590)	(181)	(7,035)
(Increase)/decrease in trade and other receivables	(517,985)	19,402	(590,502)
(Decrease)/increase in trade and other payables	(1,977,431)	914,038	725,027
Cash used in operations	(3,302,590)	(117,703)	(2,094,859)
Interest paid	(263,853)	(130,398)	(325,688)
Net cash used in operating activities	(3,566,443)	(248,101)	(2,420,547)
Cash flows from investing activities			
Acquisition of subsidiaries	–	–	(5,278,164)
Proceeds from sale of discontinued operations	1,140,000	–	–
Purchase of tangible fixed assets	–	(1,513)	(43,515)
Purchase of investment properties	–	(1,650,136)	(2,046,594)
Interest received	9,590	181	7,035
Net cash from/(used in) investing activities	1,149,590	(1,651,468)	(7,361,238)
Cash flows from financing activities			
Loan repayments in period/year	(130,250)	(15,014)	(1,131,525)
Increase in borrowings	–	1,225,000	7,739,858
Share issues	2,604,199	–	2,156,125
Net cash from financing activities	2,473,949	1,209,986	8,764,458
Increase/(decrease) in cash and cash equivalents	57,096	(689,583)	(1,017,327)
Cash and cash equivalents at beginning of period/year	6,425	1,023,752	1,023,752
Cash and cash equivalents at end of period/year	63,521	334,169	6,425

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 31 December 2018 (unaudited)

I. Basis of preparation

The Company is registered in England and Wales. The consolidated interim financial statements for the six months ended 31 December 2018 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 the measurement principles of International Financial Reporting Standards (IFRS) adopted in the EU. AIM-listed companies are not required to comply with IAS 34 Interim Financial Reporting and the Group has taken advantage of this exemption. 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 2018. This consolidated interim financial report does not include all the information required for full annual financial statements prepared in accordance with IFRS. The financial statements are unaudited and do not constitute statutory accounts as defined in section 434(3) of the Companies Act 2006.

This is the first set of the Group's financial statements where IFRS 15 and IFRS 9 have been adopted. Changes in significant accounting policies are set out below.

A copy of the audited annual report for the year ended 30 June 2018 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 28 March 2019.

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 2018, with the following exceptions:

New standards and interpretations adopted

These interim financial statements are the first under which the Group is adopting IFRS 15 'Revenue from Contracts with Customers', which is effective for periods commencing after 1 January 2018.

This has meant considering the requirement to re-state comparative results for the year ended 30 June 2018. In assessing this requirement, the Group did not identify any contracts that would have resulted in material misstatement of the Group's comparative results.

The Group is also adopting IFRS 9 'Financial Instruments'. Whilst the classification of certain financial assets and liabilities may be different compared to the previous standard, no differences have arisen in the prior period relating to the measurement or impairment of financial assets or liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 31 December 2018 (unaudited)

1. Basis of preparation (continued)

Basis of consolidation

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

KCR (Cygnet) Limited was sold on 12 December 2018. The results of the company, for the period from 1 July 2018 to 12 December 2018, are included within these interim financial statements. Further details are contained in Note 9 of the interim financial statements.

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 2018 £	Six months ended 31 December 2017 £	Year ended 30 June 2018 (audited) £
Costs associated with acquisition of subsidiaries	–	–	318,295
Costs associated with third-party fundraising	167,817	509,839	673,999
Directors' remuneration	304,000	92,500	321,000

During the period, the Company paid DGS Capital Partners LLP, a business partly owned by Michael Davies, fees of £21,600 (2017 – £21,600), inclusive of VAT.

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 2018 is based on the loss for the period attributable to ordinary shareholders of £1,903,264 divided by a weighted average number of ordinary shares in issue.

The weighted average number of shares used for the six months ended 31 December 2018 was 13,658,423 (June 2018 – 6,598,018) (December 2017 – 5,275,182).

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.

5. Investment properties

	Six months ended 31 December 2018 £	Six months ended 31 December 2017 £	Year ended 30 June 2018 (audited) £
At start of period/year	26,695,000	7,242,000	7,242,000
Additions	–	1,650,136	18,217,623
Revaluations	705,000	559,864	1,235,377
Disposals	(2,800,000)	–	–
At end of period/year	24,600,000	9,452,000	26,695,000

The investment properties were procured upon acquisition of subsidiaries.

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 total, 77 per cent by value of the investment properties were independently valued at, or within three months of, the financial year ended 30 June 2018. The remaining properties were valued by the directors at the same valuations as at 30 June 2018. In December 2018, one property has been disposed, bringing the total valuation of the Group's portfolio to £24,600,000. The fair values used are considered to be level 3 inputs under IFRS 13.

6. Share capital

			31 December 2018 £	31 December 2017 £	30 June 2018 £
Allotted, issued and fully paid:					
Number:	Class:	Nominal value:			
15,791,777	Ordinary	£0.10	1,579,178	527,518	985,721
4,500,000	Restricted preference	£0.10	450,000	350,000	450,000
			2,029,178	877,518	1,435,721

At 1 July 2018, the Company had 9,857,207 Ordinary shares of £0.10 each and 4,500,000 Restricted Preference shares of £0.10 each in issue.

On 31 July 2018, the Company issued 4,434,570 Ordinary shares of £0.10 each at £0.70 per share.

On 5 September 2018, the Company issued 1,500,000 Restricted Preference shares of £0.10 each at £0.10 per share.

On 20 December 2018, 1,500,000 Restricted Preference shares were converted into Ordinary shares.

The Ordinary shares carry no rights to fixed income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 31 December 2018 (unaudited)

6. Share capital (continued)

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 2018 £	31 December 2017 £	30 June 2018 £
Expenses arising from share options	–	287,711	10,325
Expenses arising from restricted preference shares	1,180,918	–	903,756
Expenses arising from warrants	–	391,914	36,107
Total expense	1,180,918	679,625	950,188

Restricted Preference shares:

Restricted Preference shares have been granted to certain directors and other senior managers on 2 February 2017, 24 April 2017 and 5 September 2018. 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 2017	Granted	Balance at 1 July 2018	Granted	Converted	Balance at 31 December 2018
Dominic White	500,000	1,000,000	1,500,000	265,357	(500,000)	1,265,357
Timothy James	960,000	–	960,000	265,357	(320,000)	905,357
James Cane	30,000	–	30,000	10,000	(10,000)	30,000
Oliver Vaughan	810,000	–	810,000	265,357	(270,000)	805,357

7. Share-based payments (continued)

Movements during the period

During the year to 31 December 2018, the Company had several share-based payment arrangements in place, which are described below:

	Restricted Preference shares	White Amba share options	Non- executive share options	Founder warrants	Allenby warrants	Warrants
Outstanding at 31 December 2017	3,500,000	1,000,000	46,000	75,000	43,786	150,000
Granted/(exercised) in the period	1,000,000	(1,000,000)	–	–	–	–
Cancelled during the year	–	–	(46,000)	(75,000)	(43,786)	(150,000)
Outstanding at 30 June 2018	4,500,000	–	–	–	–	–
Granted in the period	1,500,000	–	–	–	–	–
Converted in the period	(1,500,000)	–	–	–	–	–
Outstanding at 31 December 2018	4,500,000	–	–	–	–	–

During the period, the Company met the milestones to allow conversion of a number of Restricted Preference shares into Ordinary shares. 1,500,000 Restricted Preference shares were converted in the period.

Also during the period, the Company issued a further 1,500,000 Restricted Preference shares.

The principal 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 2018.

8. Convertible Loan Notes

At 1 July 2018, the Company had £750,000 6% convertible loan notes in issue. On 31 July 2018, £650,000 of the loan notes were converted into 946,286 Ordinary shares at an issue price of £0.70 per share.

On 31 January 2019, monies included as 'Other creditors' of £100,000 at 31 December 2018 were reclassified to convertible loan notes when the Company issued £100,000 8% convertible loan notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 31 December 2018 (unaudited)

9. Disposal of subsidiary undertaking

On 12 December 2018, the Group disposed of its subsidiary undertaking KCR (Cygnet) Limited for £1,140,000 in cash.

The results of KCR (Cygnet) Limited for the period from 1 July 2018 to the date of disposal are included in the consolidated loss for the period. The profit of KCR (Cygnet) Limited in this period was £35,079 (June 2018 – £nil) (December 2017 – £nil).

Operating profit for the period from 1 July 2018 to the date of disposal and the loss from disposal are summarised below:

	£
Revenue	58,980
Administrative expenses	(450)
Finance costs	(23,451)
Profit for the period	35,079
Loss on disposal	(360,081)
Loss for the period from discontinued operations	(325,002)

All the assets and liabilities of KCR (Cygnet) Limited were disposed of in this transaction. The net assets of the company at the date of disposal were as follows:

	£
Investment properties	2,800,000
Current liabilities	(27,546)
Borrowings	(1,272,373)
Total	1,500,081
Cash consideration	1,140,000
Loss on disposal	360,081

