



RNS

Final Results



Final Results

KCR RESIDENTIAL REIT PLC

Released 12:15:06 18 September 2020

RNS Number : 4641Z
KCR Residential REIT PLC
18 September 2020

18 September 2020

KCR Residential REIT plc

("KCR" or the "Company")

Annual Results for the year ended 30 June 2020

KCR Residential REIT plc, the residential REIT group, announces its annual results for the year ended 30 June 2020.

Contacts:

KCR Residential REIT plc
Dominic White, Chief Executive

info@kcrreit.com
+44 20 3793 5236

Arden Partners plc
Richard Johnson
Benjamin Cryer

+44 20 7614 5900

Notes to Editors:

KCR's objective is to build a substantial residential property portfolio that generates secure income flow for shareholders. The Directors intend that the group will acquire, develop and manage residential property assets in a number of jurisdictions including the UK.

CHAIRMAN'S LETTER

Dear Shareholder

I am pleased to introduce the 2020 Annual Report for KCR Residential REIT plc ("KCR" or the "Company").

During the financial year under review we have been transitioning the business by reducing management and operating costs and modernising and lifting the standard of the property portfolio.

The year started with the completion, following overwhelming support from shareholders, of the corporate transaction with Torchlight Fund LP ("Torchlight") that was announced in July (RNS 12 July 2019 - *Subscription and Strategic Agreement*) and closed on 6 August 2019. The introduction of a significant new shareholder, Torchlight, was a major step forward for KCR and its ability to create shareholder value. It delivered immediate access to equity capital to restructure the balance sheet through the repayment of a number of expensive outstanding loans and assisted in the ability to pursue refinancing of the portfolio debt on more favourable terms.

The transaction has given strength and support to the balance sheet enabling the Company to focus attention on maximising the performance of the existing portfolio, while systems and processes are upgraded, to establish a strong operating base ready to support portfolio growth.

The Coronavirus has had a global negative impact on demand, supply chains, stock markets and consumer and business confidence. The economic impact is now being felt by companies and families. This has the potential to negatively impact the occupancy level and rentals that can be achieved in KCR's portfolio. However, at the accounts issue date, KCR has maintained a high occupancy and rental collection level of more than 95% and rents overall have continued to increase.

There is greater supply of studio, one- and two- bed flats in the letting market which has increased letting times from less than one week to up to three weeks in our London portfolio. However, there continues to be strong tenant demand in all the Company's locations. UK residential rented property remains fundamentally under-supplied and KCR continues to target studio, one and two- bed units, that are in high demand and relatively short supply.

While it was envisaged that the Torchlight transaction would result in a move into international residential property markets, given global economic conditions, this expansion has been postponed. The geographic strategy is to focus for the time being on the UK market and the opportunities that are certain to arise in the coming year.

KCR's objective continues to be to grow the size of its residential portfolio to deliver an increase in revenue that results over time in both profitability and an ability to pay dividends. At the same time, we focus on growing net asset value per share.

Michael Davies

Chairman

17 September 2020

CHIEF EXECUTIVE'S LETTER

Dear Shareholder

I have pleasure in reporting to you on the progress of the Group for the year to 30 June 2020.

This has been a difficult year in the UK with COVID-19 clearly being the major challenge in the second half to June 2020. Fortunately, we were well prepared for the challenge following the balance sheet restructuring delivered by the transaction with Torchlight, portfolio refinancing with Hodge Bank, and the major efforts made to reduce operating costs within the business. The business remains cash negative however focus is on achieving a break even position over the next 18 months from a combination of ongoing cost management and enhanced operational performance from the existing assets.

This has been the first year of transition for KCR whereby the team size and costs have been reduced to better align with the size of the portfolio. The balance sheet has been restructured and debt costs have been reduced. The focus now is on the existing portfolio to improve its overall quality, thereby increasing rental and capital values and reducing running costs. Overall, we are part way through the transition process to create a stable platform that can be successfully scaled-up.

A detailed review of existing assets has been completed and we have taken significant steps to "right size" the cost base. Solid progress has been made, with substantial further improvements expected during the current full year to June 2021. The majority of the restructuring costs have been incurred and expensed during the current financial year and first half of the current year will reflect the reductions made to date.

Property portfolio

Property transactions during the year

KCR acquired two one-bed apartments at its Heathside, Golders Green retirement property during the year. This is explained in more detail below (see 4* retirement living property).

Existing portfolio

A bottom-up review of the existing portfolio has been completed. KCR now has a performance enhancement focus whereby it is committing to more substantive capital expenditure (capex) to positively reposition its portfolio. Whilst this will result in a higher spend per flat in the near term than has been undertaken in the past, much of the historical capex has been deferred maintenance expenditure resulting from underinvestment by previous owners. These improvements will have a positive impact on rental and capital values. KCR is focused on modernising and lifting the property standard so that minimal maintenance spend is required over the next five years. Repositioned, better quality assets will move into a higher rental bracket with better quality tenant profiles, which we expect will enhance rental and capital returns.

KCR is in the process of creating two operating lines which will be clearly identified by a) operating brands and b) letting strategies.

1. Residential apartments, developed to a high modern specification, furnished and let on a Walk-In-Walk-Out (WIWO) basis (utilities, internet, furniture, council tax included in the rental payment) for a frictionless and flexible letting experience. Rental contracts may be from a week to multi-year.
2. 4* retirement living property rented on the same basis as above, with optionality on furniture. Rental contracts to be assured shorthold tenancies (six months and up).

1. Residential property (WIWO letting strategy).

- The property at Coleherne Road, held within K&C (Coleherne) Limited, which comprises ten studio and one-bedroom flats, continues to be in demand for letting given its prime location. As part of the investment into the current portfolio, KCR has started a whole-building refurbishment of the property including double-glazing, air conditioning, digital lock systems, modern interior designed apartments and furniture, to bring the property to a significantly higher standard. Works are expected to complete in Q1 2021 with the property being fully income producing by 30 June 2021. We expect a significant increase in gross rental income and significantly reduced operating and maintenance costs on an ongoing basis.
- The Ladbroke Grove portfolio (owned by KCR (Kite) Limited) that consists of 16 one- and two-bedroom flats in three buildings, and one stand-alone flat in Harrow Road, continues to be fully let. Units have been lightly refurbished as tenants leave and are relet in the private market. The Company's intention is to undertake a whole building refurbishment of the Ladbroke Grove assets once the Coleherne Road property works have completed and it is fully let.
- The Southampton block of 27 residential units at Deanery Court, Chapel Riverside (owned by KCR (Southampton) Limited) continues to be fully occupied. Rental demand has remained strong, particularly from potential occupiers requesting a WIWO strategy. Since the property was constructed in 2018 there is no capital investment required at the property. The letting strategy will be adjusted to implement the WIWO strategy.

2. 4 retirement living property.*

The Osprey portfolio (K&C (Osprey) Limited) consists of 159 flats and 13 houses let on long leases in six locations, together with an estate consisting of 30 freehold cottages in Marlborough where Osprey delivers estate management and sales services.

For a second year, the portfolio generated higher income from sales commissions from leaseholders' sales, management fees and lease-renewal premium income than in the previous year. The portfolio has held its value and is expected to provide a medium-term value boost opportunity as the terms of the long-leasehold flats shorten and positive asset management initiatives continue.

The key asset in the portfolio representing 68% of the Osprey portfolio value is the freehold block at Heathside, Golders Green, where 29 of the 37 residential units are held long leasehold. The strategy continues to be selectively acquire long-leasehold units in the block, subject to pricing, refurbish the units to a high level and let them in the open market subject to assured shorthold tenancies. This strategy is having good success; six of the eight acquired units are let, each at higher rental levels than the previous letting. The remaining two units are expected to be let by the end of September shortly after refurbishment works are complete.

The Company has been investigating the potential to enhance value through redevelopment and roof extensions at four of the seven sites. Following discussions with planning authorities, the proposals are likely to be positively received. KCR is proceeding with building structure and economic viability analysis before moving to the planning application stage. Until a planning approval has been received, any increase in value from these planning gains will not be included in the Company's accounts.

Financial

Following completion of the capital raise with Torchlight in August last year the balance sheet has been stabilised. The corporate operating costs have been significantly reduced with the executive and operations team having reduced from seven to three. Non-essential services have been cancelled. The post-Torchlight transaction restructuring costs have been expensed in the profit and loss statement to June 2020. The first half of the current financial year is expected to reflect the outcomes flowing from the significant cost savings made to date with further improvement targeted during the course of the current financial year.

This year's financial statements are impacted by a number of one-off costs relating to the Torchlight transaction, cancellation of the preference shares scheme, restructuring the balance sheet, portfolio debt refinancing, and personnel costs relating to restructure of the business. Following this investment of time and capital, the recurring corporate and property operating costs are now significantly lower than they have been at any time in KCR's history.

Further details regarding the financial performance of the Group can be found in the Strategic Report.

Refinancing

On 12 February 2020 KCR successfully completed a £7.9m refinancing of its Coleherne Road, Ladbroke Grove and Lomond Court portfolios, all assets in London. The refinancing, which has a 25-year term and a five year fixed rate, is interest only and is secured on the refinanced assets. The interest rate on loans relating to these properties moved from 3.75% p.a. to 3.5% p.a. This transaction delivered £2.9m of free capital to KCR post repayment of the existing bank facility.

This refinancing delivered liquidity to the Company that has enabled the first phase of the refurbishment investment programme to be initiated and the acquisition of more units at Heathside to be completed. It also provided working capital to the Group.

Prospects

Although the business continues to be cashflow negative, it is so at a significantly reduced rate and the gap to break-even is the smallest since KCR's admission to AIM.

The transaction with Torchlight that completed in August 2019 is, we believe, the most significant event for KCR since the IPO. It enabled the restructuring of the balance sheet, provided a solid base for refinancing the portfolio with Hodge Bank, and has helped to refocus the Group on optimising its existing portfolio and its systems and processes at a greatly reduced cost level. The Company will soon be ready to scale its portfolio.

We continue to be excited about the potential for the Company to grow from a solid operating base, and in particular are pleased by the significant progress made this year towards Group profitability.

Dominic White

Chief executive

17 September 2020

GROUP STRATEGIC REPORT

The directors present the strategic report of KCR Residential REIT plc ('KCR' or the 'Company') and its subsidiaries (together, the 'Group') for the year ended 30 June 2020.

PRINCIPAL ACTIVITY

The Group carries on the business of acquiring, developing and managing residential property predominantly for letting to third parties on long and short leases. At the year-end, the Group consisted of the Company, which is a public company limited by shares, and its wholly owned subsidiaries:

1. **K&C (Coleherne) Limited** owns a freehold residential property in Chelsea, London containing ten studio flats
2. **K&C (Osprey) Limited** owns eight freehold apartments and the freehold of several retirement properties let on long leases to residents and provides management services in respect of these properties and to third-party landlords
3. **KCR (Kite) Limited** owns three freehold residential properties in Ladbroke Grove, London (16 flats) and a flat on Harrow Road
4. **KCR (Southampton) Limited** owns a long leasehold block of 27 two-bedroom apartments at Chapel Riverside, Southampton. The lease is a 999 lease for which the company pays a peppercorn rent
5. **K&C (Newbury) Limited** owns no property and is now effectively dormant. The valuation of the company has been written down to nil.

GROUP STRATEGY

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

RESULTS

The Group reports a consolidated operating loss of £3,079,531 for the year to 30 June 2020 (2019 - £3,014,023).

REVIEW OF BUSINESS AND FINANCIAL PERFORMANCE

The Board has reviewed whether the Annual Report, taken as a whole, presents a fair, balanced and understandable summary of the Group's position and prospects, and believes that it provides the information necessary for shareholders to assess the Group's position, performance, and strategy.

In reporting financial information, KCR presents alternative performance measures, "APMs", which are not defined or specified under the requirements of IFRS. For example, portfolio occupancy and rent collection percentage. The Company believes that these APMs, which are not considered to be a substitute for or superior to IFRS measures, provide stakeholders with additional helpful information on the performance of the business. The Board reminds readers that these APMs are not GAAP measures, are not intended as a substitute for those measures, and that other companies may use different measures.

Revenue in this financial year increased to £1,035,816 (2019 - £777,827). Portfolio occupancy and rent collection remained above 95% for the whole period and in the majority of cases rental levels increased as units were re-let. Overall revenue was increased despite the Coleherne Road property being progressively vacated in the last quarter in preparation for refurbishment works.

A large part of the year's operating loss (£2,054,883) is attributable to transition and refinancing costs and non-cash items relating to share-based payment charges. The Group therefore reports the operating loss both before and after non-cash and separately disclosed items. The Group's operating loss before non-cash and separately disclosed items was £1,024,648 (2019 - £878,213 loss). The operating loss was £3,079,531 (2019 - £3,014,023 loss). The loss before taxation was £3,560,818 (2019 - £3,737,372 loss).

Total assets at 30 June 2020 increased to £25.2 million (2019 - £24.1 million). Investments valuations fell slightly overall (£331,000) mainly following a reduction in the Southampton property valuation from £6.40 million to £5.83 million due to a change in the building's holding strategy. The prior valuation methodology assumed an incremental sell-down of the building on a flat by flat and vacant possession basis. The current strategy is, as outlined above, to hold the property for the long term on a rental basis.

Net assets increased to £12.14 million (2019 - £9.58 million) and net asset value per share decreased to 44.03p (2019 - 60.67p), predominantly due to the capital raised and new shares issued in August 2019.

Upon completion of the Torchlight transaction, the Group entered into an option agreement to grant Torchlight an option to subscribe for a further 50,000,000 new Ordinary Shares during the Option Period (up to 6 August 2022). Torchlight could subscribe for the shares at a price per share of:

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

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

KEY PERFORMANCE INDICATORS

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

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

1. At property level

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

Target occupancy of at least 90 per cent achieved

1.2. Outstanding rents as a percentage of rental income

Target debtor balance of less than 10 per cent of rental revenue achieved.

2. At Group level

2.1. Gross assets under management

The target of £40 million of gross assets by 30 June 2020 was not achieved. However, the restructuring of the business following an investment by Torchlight Fund LP, which started in August 2019, has significantly improved the prospects of profitable growth for the Company over the next 12 months.

Near term focus is on reducing costs, enhancing revenue and growing the business to achieve a cash break even position to provide a stable base to grow from. Solid progress in this respect is being made.

RISKS AND UNCERTAINTIES

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

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

- **Financing and liquidity risk**
The Company has an ongoing requirement to fund its activities through the equity markets and in future to obtain finance for property acquisition and development. Although there is no certainty that such funds will be available when needed, the Company has plans in place with KCR's new Capital Partner regarding ongoing funding, and, the directors continue to focus on developing the Group's capital structure.
- **Financial instruments**
Details of risks associated with the Group's financial instruments are given in note 21 to the financial statements. The directors seek to mitigate these risks in manners appropriate to the risk.
- **Valuations**
The valuation of the investment property portfolio is inherently subjective as it is made on the basis of assumptions made by the valuer that may not prove to be accurate. The outcome of this judgment is significant to the Group in terms of its investment decisions and results. The directors, who have long experience of property, seek to mitigate this risk by employing independent valuation experts such as Lambert Smith Hampton to review values of the assets in the portfolio.
- **Brexit**
The negative impact arising from the uncertainty about Brexit which has been impacting the UK property market has improved following the election outcome. The board believes that the Company operates in a sector of the market, and with the advantage of REIT status, such that it will be able to build market share, income and net asset per share value over the coming years.
- **COVID-19**
In January 2020, an outbreak of a novel coronavirus, now classified as COVID-19, was detected in China's Hubei province. During the following months, COVID-19 has spread steadily throughout the World and on 11 March 2020, The World Health Organisation ("WHO") declared the outbreak a global pandemic. The impact of COVID-19 is widespread and continues to cause economic disruption. Governments in the UK and elsewhere around the world have taken drastic and unprecedented measures which include compulsory business closures and tight restrictions on movement of people and on their activities.

Whilst it is too early to assess the impact of the COVID-19 pandemic and the UK Government's lockdown and other measures on the Group, to date COVID-19 has not materially impacted Group operations, with minimal impact on rent collections during the lockdown period. Only a minimal number of tenants were in rent arrears at the balance sheet date and up to the date of this report.

The main risks that the Board have identified in relation to the pandemic are the potential income reduction and bad debts as tenants have difficulty in maintaining rent payments and potential voids within the portfolio arising from tenant failures.

The actions taken to mitigate the risks are summarised below:

- The Group undertakes credit checks on prospective new tenants to assess credit risk. The checks include verification of income levels and capacity to pay, as well as checks of rental references. Any arrears are actively managed.
- The Group has completed periodic monitoring of apartment usage for short let operators. Monitoring included car park usage (Southampton), power, water and gas readings as a proxy for occupancy. The purpose of this was to enable the directors to form a view as to the underlying occupancy profile of the short let operators as a proxy for their ability to continue to meet rent. Our sampling / testing has suggested an implied underlying occupancy rate of 80% or better which suggests adequate capacity for the short let operators to meet rent.

Recent re-lettings in both Ladbroke Grove and Southampton suggests there is also solid underlying demand in both catchments for rental properties so we would reasonably expect to be able to re-let in the event that a short let operator failed and defaulted on their rental obligations.

Due to the uncertainty and unprecedented nature of the challenges posed by COVID-19 the Directors continue to monitor this situation closely.

DIRECTORS' DUTY TO PROMOTE THE SUCCESS OF THE COMPANY UNDER SECTION 172 COMPANIES ACT 2006

Section 172 (1) of the Companies Act 2006 requires Directors to act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of shareholders as a whole, and in doing so having regard to a diverse group of stakeholders.

The Directors continue to have regard to the impact of decisions made on all stakeholders and are aware of their responsibilities to promote the success of the Company, in accordance with section 172 of the Companies Act 2006.

We aim to work responsibly with our stakeholders and outline below the key Board decisions made during the 2020 financial year:

Key Decision	Stakeholders	Action and Impact
Torchlight transaction	Shareholders Employees	<p>During the year the Company entered into a transaction with Torchlight to raise working capital and provide support for potential additional acquisitions by issuing 9,000,000 Ordinary shares and granting Torchlight an option to subscribe for a further 50,000,000 new Ordinary shares during the option period.</p> <p>The transaction was dilutive to existing shareholders however was strategically important to provide the Company with the financial support required.</p> <p>Shareholder consultation took place and the transaction was put to shareholders to ensure there was wide support for the transaction.</p> <p>As part of the transaction the Company also simplified its share structure by entering into the Redesignation and Gift Agreement with the Restricted Preference Shareholders.</p> <p>This resulted in acceleration of the share-based charge negatively impacting near term financial performance, however removing the ongoing negative impact for shareholders had the Restricted Preference Shares continued.</p> <p>The company consulted extensively with the Restricted Preference Shareholders as part of this process to agree mutually acceptable terms.</p> <p>The Company also consulted with shareholders and put this matter to shareholders to vote on as well.</p>
Restructure of funding arrangements	Creditors Shareholders	<p>Following completion of the Torchlight transaction and the strengthening of the balance sheet the Company entered into refinancing arrangements in respect of the existing funding arrangements.</p> <p>This refinancing, whilst increasing overall leverage, provided the additional working capital required to support implementation of the current asset performance enhancement programme.</p> <p>Improved working capital profile strengthens the position of the company overall.</p> <p>The Directors considered raising additional equity from shareholders and the potential costs and dilution for non-participating shareholders and formed the view that the interests of all stakeholders were best served by optimising financing arrangements.</p>

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

Whilst the near-term focus remains on reducing costs and improving the operations performance of the existing assets, the Group is continuing to investigate the purchase of residential property assets that will be able to support an increasing income yield. To achieve these, the Group may be required to raise more capital and it is working closely with funding sources, both equity and debt providers, to achieve this objective.

ON BEHALF OF THE BOARD:

CORPORATE GOVERNANCE STATEMENT

Introduction

During the year to 30 June 2020 KCR Residential REIT plc, while an AIM Listed company, was a Family Office operating with five directors and three employees. In September 2018 it adopted the QCA code but with such a tightly controlled operational and risk environment was not able to, in all areas, fully comply with the principles. During the current year the directors will continue to update the website to comply as far as possible with the following QCA code principles, noting areas where the small scope of operations limits their ability to fully comply:

Principle 1: Establish a strategy and business model which promote long-term value for shareholders

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

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

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

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

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

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

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

Principle 2: Seek to understand and meet shareholder needs and expectations

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

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

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

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

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

- *How do the directors propose to expand operations without dilution to existing shareholdings?*
Since property companies are capital-intensive, the Company will raise equity over time to fund the acquisition of new properties. Torchlight Fund LP exercising its option rights as approved by shareholders will be dilutive to existing shareholders with this dilution having already been accepted and approved by shareholders. The board will aim to maximise the issuance price of any additional equity offerings such that issuances are accretive or, if that is not possible, offer all shareholders the opportunity to participate in the offering on an equal access.
- *When will the Company become profitable?*
Based on current overheads and interest forecasts, the Company may become profitable and cash flow positive once it has approximately £50m of investments generating satisfactory rental income. Executive management is focused on achieving this objective as soon as possible. This is naturally dependent on the availability of suitable transactions and the ability to complete the acquisitions either via raising additional equity capital or debt.

Shareholder liaison is managed by Dominic White (info@kcrreit.com).

Principle 3: Take into account wider stakeholder and social responsibilities and their implications for long-term success

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

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

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

Principle 4: Embed effective risk management, considering both opportunities and threats, throughout the organisation

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

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

Principle 5: Maintain the board as a well-functioning, balanced team led by the chair

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

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

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

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

Throughout the 2019 year, the sole non-executive director was Michael Davies who was regarded as Independent by the Board and shareholders. Following the Torchlight Transaction, which completed on 6 August 2019, two Torchlight directors Russell Naylor

(executive director in charge of finance) and Richard Boon joined the Board. Richard Boon is regarded as a non-independent non-executive director. James Thornton also joined the Board at that time as an independent non-executive director. During 2019, each of Michael Davies, Dominic White, James Cane, Timothy James, Oliver Vaughan attended all 6 Board meetings in person or by conference call as permitted by the company's articles. During 2020, 7 Board meetings were held, attended by all current directors. The involvement of non-executive directors varies month by month but is estimated at 3-10 days a month.

Principle 6: Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities

The Board maintains up-to-date skills, knowledge and experience to enable it to direct and manage the Company's operations, finances and its interface with investors, the public markets and its other stakeholders. The Board takes great care to appoint managers and staff with the appropriate skills and experience, and is aware of the importance of encouraging diversity among its workforce. The Board works as a team and regularly reviews its procedures and composition. The relevant experience and skills of the current directors is set out in detail in the Circular relating to the Torchlight Transaction. Each director is involved in other organisations which keep their professional skills sharpened and up to date. In due course the details as they pertain to the directors will be added to the website but is included in the Circular of 12 July 2019.

Principle 7: Evaluate Board performance based on clear and relevant objectives, seeking continual improvement

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

Name	Role	Appointed	Status
Michael Davies	Non-Executive chairman	12 November 2015	Independent
Dominic White	CEO	1 January 2017	Non-independent
Russell Naylor	Executive director	06 August 2019	Non-independent
Richard Boon	Non-Executive director	06 August 2019	Non-independent
James Thornton	Non-Executive director	06 August 2019	Independent

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

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

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

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

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

Principle 8: Promote a corporate culture that is based on ethical values and behaviours

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

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

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

Principle 9: Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board

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

The chairman, Michael Davies:

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

The chief executive, Dominic White:

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

The executive director, Russell Naylor:

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

On 28 October 2019 the Group established a Remuneration Committee chaired by Michael Davies, Chairman and Independent Director, and comprises Michael Davies and Richard Boon, Non-Independent Non-Executive Director, which meets on an ad hoc basis when required.

Until 28 October 2019 the Audit committee comprised Michael Davies, the Chairman. From 28 October 2019 the Audit and Risk Committee is chaired by James Thornton, Independent Non-Executive Director and comprises James Thornton and Michael Davies. Russell Naylor is invited to attend as appropriate. The Audit and Risk committee is comprised of independent directors. It normally meets twice each financial year to consider the interim and final results. In the latter case, the auditors are present and the meeting considers and takes action on any matters raised by the auditors arising from their audit.

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

Matters reserved for the Board include:

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

- Appointments and succession plans at senior management level
- Directors' remuneration

Principle 10: Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

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

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

Audit Committee Report

The Executive Director Finance and the Chair of the Audit Committee met to plan the audit with the external auditor and to discuss the materiality to be used in the audit and the expected key issues to be covered. Progress of the audit was discussed with the external auditor before the year-end Audit Committee.

At the completion of the audit, the auditor presented its Planning document and the Audit Completion Report to the Audit Committee before the Financial Statements were presented for Board approval.

The discussions enabled the auditor to explain the proposed work and its outcome and the Non-Executive Directors to raise any issues. It is considered that the process worked well and the audit did not raise any material issues therefore the auditors were able to issue their audit report in the usual form.

Remuneration Committee Report

During 2020, the Remuneration Committee met to review salaries and restricted preference share grants.

It is the Company's policy that the remuneration of Directors should be commensurate with the services provided by them to the Company and should take account of published data on reasonable market comparables, where available. During the financial year, the Directors accepted reduced remuneration in line with the Company's strategy to control costs. Details of the Directors' remuneration are set out in the Directors' Report on page 20.

RPS were all cancelled in conjunction with the Torchlight transaction.

REPORT OF THE DIRECTORS

The directors present their report with the financial statements of the Company and the Group for the year ended 30 June 2020.

A review of the business, risks and uncertainties and future developments is included in the Chairman's Letter, the Chief Executive's Letter, the Group Strategic Report, and in note 21 to the financial statements.

DIVIDENDS

The directors do not recommend payment of a dividend for the year (2019 - £nil).

Political donations

The Group made no political donations during the year (2019 - £nil).

DIRECTORS

The following directors served during the year to 30 June 2020 and up to the date of approval of this Annual Report:

Name

Michael Davies	
Dominic White	
James Cane	resigned 6 August 2019
Timothy James	resigned 6 August 2019
Oliver Vaughan	resigned 6 August 2019
Russell Naylor	appointed 6 August 2019
Richard Boon	appointed 6 August 2019
James Thornton	appointed 6 August 2019

The beneficial interests of the directors holding office at 30 June 2020 in the issued share capital of the Company were as follows:

	Ordinary Shares			
	At 30 June 2019	Issued in the year	Restricted Preference Shares converted in year	At 30 June 2020
Name	No.	No.	No.	No.
Michael Davies	195,428	--	--	195,428
Dominic White	557,143	152,114	486,675	1,195,932
Russell Naylor	--	--	--	--
James Thornton	--	22,222	--	22,222
Richard Boon	--	--	--	--

	Restricted Preference Shares			
	At 30 June 2019	Gifted to Company	Converted to Ordinary Shares in the year	At 30 June 2020
Name	No.	No.	No.	No.
Michael Davies	--	--	--	--
Dominic White	1,265,357	(778,682)	(486,675)	--
Russell Naylor	--	--	--	--
James Thornton	--	--	--	--
Richard Boon	--	--	--	--

The beneficial interests of the directors holding office at 17 September 2020 in the issued share capital of the Company were as follows:

	At 30 June 2020	Issued in the period	At 17 September 2020
Name	No.	No.	No.
Michael Davies	195,428	-	195,428
Dominic White	1,195,932	-	1,195,932
Russell Naylor	-	-	-

James Thornton	22,222	-	22,222
Richard Boon	-	-	-

SUBSTANTIAL SHAREHOLDINGS

As at 17 September 2020, the directors had been notified that the following shareholders owned a disclosable interest of three per cent or more in the Ordinary shares of the Company:

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

DIRECTORS' REMUNERATION

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

Name	2020		2019	
	Remuneration £	Benefits-in-kind £	Remuneration £	Benefits-in-kind £
Michael Davies	--	--	-	-
Dominic White	145,853	--	278,200	-
Russell Naylor*	44,000	--	-	-
James Thornton	27,192	--	-	-
Richard Boon*	18,130	--	-	-
James Cane	7,603	--	87,700	-
Timothy James	5,068	--	90,200	-
Oliver Vaughan	10,541	--	30,200	-
	258,387	--	486,300	-

In addition, during the year, the Group were charged fees of £43,200 by DGS Capital Partners LLP, a limited liability partnership of which Michael Davies is a member (2019 - £43,200) (including irrecoverable VAT) for making available the services of Michael Davies to the Group.

* The remuneration paid to Russell Naylor consisted of fees of £44,000 charged by Naylor Partners, a business in which Russell Naylor is a Director (2019 - £nil) and the remuneration paid to Richard Boon consisted of fees of £18,130 (2019 - £nil) charged by Artefact Partners, a business in which Richard Boon is a Director.

During the year, the capital structure of the company was reviewed and the decision was taken to terminate the Restricted Preference shares. As a result, a number of Restricted Preference shares were converted to Ordinary shares and the remaining Restricted Preference shares were gifted to the Company and subsequently cancelled. A number of directors held Restricted Preference shares. The total gain made by the directors upon the conversion of Restricted Preference shares to Ordinary shares was £450,910 (2019 - £484,000). The gain has been calculated as the market value of the Ordinary shares at the date of conversion, less the nominal value of the Restricted Preference shares. However, the loss made by the directors as a result of gifting a number of Restricted Preference shares to the Company was £721,493 (2019 - £nil).

INTERNAL CONTROLS AND RISK MANAGEMENT

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

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

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

Details of financial risk management are included within the Risks and Uncertainties section of the Group Strategic Report.

BRIBERY RISK

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

OTHER MATTERS

i. Environmental

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

ii. Group employees

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

iii. Social matters

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

iv. Respect for human rights

The Group always respects the human rights of its stakeholders.

v. Contributions to pension schemes

No pension scheme benefits are being accrued by the directors.

DIRECTORS' INDEMNITIES AND INSURANCE

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

GOING CONCERN

The directors have adopted the going-concern basis in preparing the financial statements.

The directors consider, as at the date of approving the financial statements, that there is reasonable expectation that the Group has adequate financial resources to continue to operate, and to meet its liabilities as they fall due for payment, for at least twelve months following the approval of the financial statements.

Following the declaration by the World Health Organisation of Covid-19 as a global pandemic, governments in the UK and elsewhere have taken drastic and unprecedented lockdown and other measures which include compulsory business closures and tight restrictions on movement of people and on their activities. This event has the potential to impact the Group and its business and is considered further in the Strategic Report on pages 8 and 9.

The Company has undertaken procedures to ensure that the Company has sufficient cash resources and bank facilities and sufficient covenant margin to manage the potential financial impact of the Covid-19 pandemic on its business under going concern principles.

See note 2 to the financial statements for further details of the procedures undertaken.

POST BALANCE SHEET EVENTS

Post balance sheet events are detailed further in the Chief Executive's letter and note 23 of the financial statements.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

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

STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE AUDITOR

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

AUDITOR

In accordance with section 489 of the Companies Act 2006, a resolution to reappoint BDO LLP as auditor will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Dominic White
Director

17 September 2020

**REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF
KCR RESIDENTIAL REIT PLC**

Opinion

We have audited the financial statements of KCR Residential REIT Plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 30 June 2020 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Financial Position, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Statements of Cash Flows and notes to the financial statements, including a summary of significant accounting policies.

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

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 June 2020 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Key audit matter	How we addressed the key audit matter in the audit
<p><i>Valuation of investment properties</i></p> <p>The Group holds investment properties which comprise properties owned by the Group held for rental income. Investment properties are valued by independent external valuers and the valuation approach is disclosed in Note 12. The valuation of investment properties requires significant judgement in determining the appropriate inputs to be used in the model and there is therefore a risk that the properties are incorrectly valued. We have therefore determined the valuation of investment properties to be a key audit matter. The accounting policies relating to investment properties are disclosed in Note 2.</p>	<p>In this area our audit procedures included:</p> <ul style="list-style-type: none"> • We compared the key valuation assumptions, which we consider relate to the market yields appropriate to the sector and location of the properties, against our independently formed market expectations. Variances were evaluated through challenge of the valuers and accumulated to determine whether they supported the overall valuation. • We tested the accuracy of key observable valuation inputs, primarily passing rental income and lease terms, to the information provided to the valuers for use in their valuation for a sample of properties. • We met with the external valuer to discuss and challenge the valuation methodology and key assumptions, and to determine whether there were any indicators of undue management influence on the valuations. • We assessed the competency, qualifications, independence and objectivity of the external valuers engaged by the company and reviewed the instructions provided to the valuer for completeness, unusual arrangements and to check that there was no evidence of management bias. • We reviewed the property valuation reports and through discussions with the valuer we assessed the impact of Covid-19 on the valuation of the investment properties. <p>Key observations:</p> <p>We did not identify any indicators to suggest that the valuation of the Group's investment properties is inappropriate.</p>

Our application of materiality

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

We determined the materiality for the financial statements as a whole to be £306,000 (2019 - £301,000), calculated with reference to a benchmark of the Company's gross assets, which is a typical primary measure for users of the financial statements of investment property companies, of which it represents 1.2% (2019: 1.25%).

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. The Group's performance materiality was set at £214,000 (2019 - £210,000) which represents 70% of the above materiality levels.

We also determined that for items within pre-tax profit, a misstatement of less than materiality for the financial statements as a whole, specific materiality, could influence the economic decisions of users. As a result, we determined materiality for these items at £161,000 (2019 - £187,000) which represents 5% of loss before tax adjusted for fair value movements on capital items. The Parent Company's materiality was calculated at £192,000 (2019: £154,000) based on the same as group basis.

Whilst materiality for the financial statements of a whole was £306,000 (2019: £301,700), each component of the Group was audited to a lower level of materiality. Significant component materiality ranged from £74,000 to £192,000.

We reported to the Audit Committee all potential adjustments in excess of £15,000 (2019: £15,000). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

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

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

There are five significant components in the Group, which are all registered and operate in the UK. All significant components of the group, and the consolidation were subject to full scope audits by BDO LLP. There were no significant changes to this approach during the year compared to the previous year's audit.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Report of the Directors have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Report of the Directors.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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

Paul Fenner (Senior Statutory Auditor)
for and on behalf of BDO LLP
Statutory Auditor
Birmingham, UK

18 September 2020

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

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2020**

	Notes	30 June 2020 £	30 June 2019 £
CONTINUING OPERATIONS			
Revenue	3	1,035,816	777,827
Cost of sales		<u>(152,605)</u>	<u>(212,743)</u>
GROSS PROFIT		883,211	565,084
Administrative expenses		(1,610,547)	(1,446,565)
Other operating income		14,576	-
Fair value through profit and loss - Revaluation of investment properties	12	<u>(311,888)</u>	<u>3,268</u>
OPERATING LOSS BEFORE SEPARATELY DISCLOSED ITEMS		(1,024,648)	(878,213)
<i>Separately disclosed administrative items</i>			
Share-based payment charge	19	(1,599,681)	(1,387,441)
Costs associated with third-party fundraising and issue of shares	6	(317,875)	(407,616)
Costs associated with refinancing	6	(137,327)	-
Loss on disposal of property SPV	13	<u>-</u>	<u>(340,753)</u>
OPERATING LOSS		(3,079,531)	(3,014,023)
Finance costs	5	(483,932)	(732,984)
Finance income	5	<u>2,645</u>	<u>9,635</u>
LOSS BEFORE TAXATION	6	(3,560,818)	(3,737,372)
Taxation	7	<u>-</u>	<u>-</u>
LOSS FOR THE YEAR		<u>(3,560,818)</u>	<u>(3,737,372)</u>
TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR		<u>(3,560,818)</u>	<u>(3,737,372)</u>
Loss attributable to owners of the parent		<u>(3,560,818)</u>	<u>(3,737,372)</u>
Loss per share expressed in pence per share	8		
Basic		(13.48)	(24.66)
Diluted		<u>(4.98)</u>	<u>(24.66)</u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 JUNE 2020**

	Notes	30 June 2020 £	30 June 2019 £
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	11	46,410	61,370
Investment properties	12	<u>23,592,000</u>	<u>23,923,000</u>
		23,638,410	23,984,370
CURRENT ASSETS			
Trade and other receivables	14	63,889	77,078
Cash and cash equivalents	15	<u>1,535,946</u>	<u>29,298</u>
		1,599,835	106,376
TOTAL ASSETS		<u>25,238,245</u>	<u>24,090,746</u>
EQUITY			
SHAREHOLDERS' EQUITY			
Share capital	16	2,756,963	2,029,178
Share premium		13,535,468	10,018,986
Capital redemption reserve		344,424	67,500
Other reserves		14,930	14,930
Retained earnings		<u>(4,511,633)</u>	<u>(2,550,496)</u>

TOTAL EQUITY		12,140,152	9,580,098
LIABILITIES			
NON-CURRENT LIABILITIES			
Interest bearing loans and borrowings	18	11,052,419	9,881,344
CURRENT LIABILITIES			
Trade and other payables	17	374,416	2,737,010
Interest-bearing loans and borrowings	18	1,671,258	1,892,294
		2,045,674	4,629,304
TOTAL LIABILITIES		13,098,093	14,510,648
TOTAL EQUITY AND LIABILITIES		25,238,245	24,090,746
Net asset value per share (pence)	8	44.03	60.67

The financial statements were approved and authorised for issue by the Board of Directors on 17 September 2020 and were signed on its behalf by:

Dominic White
Director

COMPANY STATEMENT OF FINANCIAL POSITION
30 JUNE 2020

	Notes	30 June 2020 £	30 June 2019 £
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	11	2,099	2,348
Investments	13	10,706,081	10,706,081
		10,708,180	10,708,429
CURRENT ASSETS			
Trade and other receivables	14	3,828,071	1,813,404
Cash and cash equivalents	15	1,476,379	3,334
		5,304,450	1,816,738
TOTAL ASSETS		16,012,630	12,525,167
EQUITY			
SHAREHOLDERS' EQUITY			
Share capital	16	2,756,963	2,029,178
Share premium		13,535,468	10,018,986
Capital redemption reserve		344,424	67,500
Other reserves		14,930	14,930
Retained earnings		(9,147,860)	(7,592,921)
TOTAL EQUITY		7,503,925	4,537,673
LIABILITIES			
NON-CURRENT LIABILITIES			
Interest bearing loans and borrowings	18	-	4,756,956
		-	4,756,956
CURRENT LIABILITIES			
Trade and other payables	17	8,423,635	1,338,244
Interest-bearing loans and borrowings	18	85,070	1,892,294
		8,508,705	3,230,538
TOTAL LIABILITIES		8,508,705	7,987,494
TOTAL EQUITY AND LIABILITIES		16,012,630	12,525,167

As permitted by Section 408 of the Companies Act 2006, the income statement of the Company is not presented as part of these financial statements. The Company's loss for the financial year was £(3,154,620) (2019 - £(3,548,447)).

The financial statements were approved and authorised for issue by the Board of Directors on 17 September 2020 and were signed on its behalf by:

Dominic White
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2020

	Share capital £	Share premium £	Unissued share capital £	Capital redemption reserve £	Other reserve £	Retained earnings £	Total equity £
Balance at 1 July 2018	1,435,721	7,358,244	1,260,299	67,500	29,862	(200,565)	9,951,061
Changes in equity							
Transactions with owners:							
Issue of share capital	593,457	2,660,742	(1,260,299)	-	-	-	1,993,900
Share-based payments	-	-	-	-	-	1,387,441	1,387,441
Total transactions with owners	593,457	2,660,742	(1,260,299)	-	-	1,387,441	3,381,341
Equity element of loan finance	-	-	-	-	(14,932)	-	(14,932)
Total comprehensive expense	-	-	-	-	-	(3,737,372)	(3,737,372)

Balance at 30 June 2019	2,029,178	10,018,986	-	67,500	14,930	(2,550,496)	9,580,098
Changes in equity							
Transactions with owners:							
Issue of share capital	727,785	3,516,482	-	276,924	-	-	4,521,191
Share-based payments	-	-	-	-	-	1,599,681	1,599,681
Total transactions with owners	727,785	3,516,482	-	276,924	-	1,599,681	6,120,872
Total comprehensive expense	-	-	-	-	-	(3,560,818)	(3,560,818)
Balance at 30 June 2020	2,756,963	13,535,468	-	344,424	14,930	(4,511,633)	12,140,152

**COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2020**

	Share capital	Share premium	Unissued share capital	Capital redemption reserve	Other reserve	Retained earnings	Total equity
	£	£	£	£	£	£	£
Balance at 1 July 2018	1,435,721	7,358,244	1,260,299	67,500	29,862	(5,431,915)	4,719,711
Changes in equity							
Transactions with owners:							
Issue of share capital	593,457	2,660,742	(1,260,299)	-	-	-	1,993,900
Share-based payments	-	-	-	-	-	1,387,441	1,387,441
Total transactions with owners	593,457	2,660,742	(1,260,299)	-	-	1,387,441	3,381,341
Equity element of loan finance	-	-	-	-	(14,932)	-	(14,932)
Total comprehensive expense	-	-	-	-	-	(3,548,447)	(3,548,447)
Balance at 30 June 2019	2,029,178	10,018,986	-	67,500	14,930	(7,592,921)	4,537,673
Changes in equity							
Transactions with owners:							
Issue of share capital	727,785	3,516,482	-	276,924	-	-	4,521,191
Share-based payments	-	-	-	-	-	1,599,681	1,599,681
Total transactions with owners	727,785	3,516,482	-	276,924	-	1,599,681	6,120,872
Total comprehensive expense	-	-	-	-	-	(3,154,620)	(3,154,620)
Balance at 30 June 2020	2,756,963	13,535,468	-	344,424	14,930	(9,147,860)	7,503,925

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2020**

	Note	2020 £	2019 £
Cash flows from operating activities			
Cash used in operations	1	(1,554,962)	(4,960,666)
Interest paid		(483,932)	(732,984)
Net cash used in operating activities		(2,038,894)	(5,693,650)
Cash flows from investing activities			
Purchase of property, plant & equipment		(8,178)	(40,451)
Repayment of other borrowings		(1,738,076)	-
Purchase of investment properties		(518,888)	(24,732)
Disposal of investment properties		538,000	-
Disposal of property SPV		-	1,140,000
Interest received		2,645	9,635
Net cash generated from investing activities		(1,724,497)	1,084,452
Cash flows from financing activities			
Loan repayments in year		(6,658,130)	(796,079)
New loans in year		7,868,169	3,434,250
Shares issued		4,060,000	1,993,900
Net cash generated from financing activities		5,270,039	4,632,071
Increase in cash and cash equivalents		1,506,648	22,873
Cash and cash equivalents at beginning of year		29,298	6,425
Cash and cash equivalents at end of year		1,535,946	29,298

**COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2020**

	Note	2020 £	2019 £
Cash flows from operating activities			
Cash used in operations	1	(1,868,397)	(2,165,998)
Interest paid		(178,040)	(428,185)
Net cash generated from/(used in) operating activities		(2,046,437)	(2,594,183)
Cash flows from investing activities			
Purchase of property, plant & equipment		(980)	-
Disposal of property SPV		-	1,140,000
Interest received		2,569	9,619
Net cash generated from investing activities		1,589	1,149,619
Cash flows from financing activities			
Increase in loans from group companies		7,787,070	-
Increase in loans to group companies		(2,024,997)	-
Loan repayments in year		(6,304,180)	(546,079)
Shares issued		4,060,000	1,993,900
Net cash (used in)/generated from financing activities		3,517,893	1,447,821
Increase in cash and cash equivalents		1,473,045	3,257
Cash and cash equivalents at beginning of year		3,334	77
Cash and cash equivalents at end of year		1,476,379	3,334

**NOTES TO THE STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2020**

1) RECONCILIATION OF LOSS BEFORE TAXATION TO CASH USED IN OPERATIONS

Group	2020 £	2019 £
Loss before taxation	(3,560,818)	(3,737,372)
Depreciation charges	23,138	18,074
Revaluation of investment properties	311,888	(3,268)
Loss on disposal of property SPV	-	340,753
Share-based payment charge	1,599,681	1,387,441
Finance costs	483,932	732,984
Finance income	(2,645)	(9,635)
	(1,144,824)	(1,271,023)
Decrease in trade and other receivables	13,189	626,349
Decrease in trade and other payables	(423,327)	(4,315,992)
Cash used in operations	(1,554,962)	(4,960,666)
Company	2020 £	2019 £
Loss before taxation	(3,154,620)	(3,548,447)
Depreciation charges	1,229	1,636
Loss on disposal of property SPV	-	241,585
Share-based payment charge	1,599,681	1,387,441
Finance costs	178,040	428,185
Finance income	(2,569)	(9,619)
	(1,378,239)	(1,499,219)
Decrease/(increase) in trade and other receivables	10,330	(894,340)
(Decrease)/increase in trade and other payables	(500,488)	227,561
Cash used in operations	(1,868,397)	(2,165,998)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

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.

Changes in accounting policies

Adoption of new and revised standards

The Group has applied the following accounting standards that are mandatorily effective for accounting periods commencing on or after 1 January 2019:

IFRS 16 Leases

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

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

IFRS 16 Leases

IFRS 16 was adopted on 1 January 2019 without restatement of comparative figures. No transitional adjustments were required upon adoption.

The standard makes substantial changes to the recognition and measurement of leases by lessees. On adoption of the standard, lessees, with certain exceptions for short term or low value leases, are required to recognise all leased assets on their Statement of Financial Position as 'right-of-use assets' with a corresponding lease liability.

The requirements for lessors are substantially unchanged.

The Group has a small number of operating leases concerning office premises and plant and equipment. IFRS 16 provides an exemption for short term operating leases and leases of low value. The company has taken advantage of the exemptions rather than establishing a right to use asset.

New standards in issue but not yet effective

As at 30 June 2020, the Group has not applied the following new and revised standards that have been issued but are not yet effective:

- Amendments to References to the Conceptual Framework in IFRS Standards (effective 1 January 2020)
- Amendments to IFRS 3: Business Combinations - Definition of a business (effective 1 January 2020)
- Amendments to IAS 1 and IAS 8: Definition of Material (effective 1 January 2020)
- Amendments to IFRS 9, IAS 39 and IFRS 7: [Interest Rate Benchmark Reform](#) (effective 1 January 2020)
- Amendments to IAS 1: Classification of Liabilities as Current or Non-current (effective 1 January 2022).

The directors do not anticipate that the adoption of the above new and revised standards will have a significant impact on the financial statements of the Group in future periods.

2) ACCOUNTING POLICIES

Basis of preparation

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

Going concern

The financial statements have been prepared on a going concern basis. This requires the directors to consider, as at the date of approving the financial statements, that there is reasonable expectation that the Group has adequate financial resources to continue to operate, and to meet its liabilities as they fall due for payment, for at least twelve months following the approval of the financial statements. This includes considering the borrowings of £1,586,188 which fall due for repayment during that period. It is the intention of the company to refinance which would potentially also provide further capital which the Group could use for future property acquisitions.

The Company has undertaken procedures to ensure that the Company has sufficient cash resources and bank facilities and with sufficient covenant margin to manage the potential financial impact of the Covid-19 pandemic on its business under going concern principles. These procedures included the following:

- Reviewing and establishing that cash balances and bank facilities are sufficient to cover at least twelve months of operations;
- Review of financial covenant ratios and the Group's ability to meet the covenants for a period of at least twelve months of operation; and
- Reviewing cash flow forecast scenarios. Any decision on property acquisitions and developments in the next twelve months will be taken following review of revised cash flow forecasts.

In the light of the results of the procedures described above, the directors consider that the adoption of the going concern basis is reasonable and appropriate.

Basis of consolidation

Where the company has control over an investee, it is classified as a subsidiary. The company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

The consolidated financial statements incorporate the results of business combinations using the acquisition method. In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date on which control ceases.

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

The consolidated financial statements present the results of the company and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

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

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

Investments

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

Revenue recognition

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

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

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

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

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

Separately disclosed administrative items

Separately disclosed items are those that are deemed to be exceptional by size or nature in relation to the activities of the Group. In the case of share-based payment charges, these are included as a separately disclosed administrative item as a significant non-cash item.

Finance costs

Finance costs comprise interest expense on borrowings.

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

Property, plant and equipment

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

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

Fixtures and fittings	-	5% and 25% on cost
Computer equipment	-	25% on cost

Investment properties

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

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

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

Cash and cash equivalents

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

Financial assets

Recognition and derecognition

Financial assets are recognised initially on the date that the Group becomes a party to the contractual provisions of the instrument.

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

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

Classification and initial recognition of financial assets

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

Financial assets are classified into the following categories:

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

The classification is determined by both:

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

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

Subsequent measurement of financial assets

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

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

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

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

Impairment of financial assets

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

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

Financial liabilities

Financial liabilities are recognised initially on the date that the Group becomes a party to the contractual provisions of the instrument.

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

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

'Other financial liabilities' comprise trade and other payables and other short-term monetary liabilities.

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

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

Share capital

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

Leasing

The company applies IFRS 16 Leases. The costs of leases of low value items and those with a short term at inception are recognised as incurred.

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 differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither the accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

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

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

Provisions

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

Share-based payments

The Group allowed certain directors and other individuals to acquire shares in the parent company until the scheme was disbanded on 6 August 2019. The grant date fair value of share-based payment awards granted is recognised as an employee expense with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The fair value was charged as an expense in the income statement over the vesting period and the charge adjusted each year to reflect the expected and actual level of vesting. No adjustment is made to the charge after the vesting date.

Further details regarding the conversion and cancellation of the share-based payment awards are included in Note 19.

Critical accounting estimates and judgments

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

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

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

▪ Share-based payments

The total amount to be expensed is determined by reference to the fair value of the options granted. The fair values were estimated using the Black-Scholes valuation model. In arriving at the charge for the period, assumptions are made on the number of options likely to be exercised, the current market value of the shares and the volatility of the market value of the shares. Further details regarding share-based payments are contained in note 19 of the financial statements.

▪ Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods.

When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Investment properties

The Group's investment properties are valued, on the basis of market value. The fair value of investment properties is based either on independent professional valuations in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Standards 2014 as amended or by the directors, based on market prices for similar items. The Group's investment properties were all valued independently at 30 June 2020 at £23,592,000

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

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.

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

	2020	2019
	£	£
Revenue analysed by class of business		
Rental income	727,859	619,906
Management fees	74,218	74,887
Resale commission	39,043	62,490
Ground rents	13,655	16,649
Leasehold extension income	168,916	-
Other income	12,125	3,895
	1,035,816	777,827

4) **EMPLOYEES AND DIRECTORS**
Group

	2020	2019
	£	£
Wages and salaries	635,023	657,793
Social security costs	69,628	86,735
Pension costs	12,732	(506)
	<u>717,383</u>	<u>744,022</u>

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

	2020	2019
Directors and management	7	5
Administration	3	3
	<u>10</u>	<u>8</u>

	2020	2019
	£	£
Directors' remuneration (as per Report of the Directors)	258,387	486,300
Share-based payment charge relating to directors (see Note 19)	1,055,755	974,199
Remuneration of the highest-paid director	145,853	278,200
Amounts paid into a pension scheme of the highest-paid director	-	-
	<u>-</u>	<u>-</u>

The Group directors are considered to be key management personnel. Certain directors and others held Restricted Preference shares in the Company until 6 August 2019, further details of which are contained in note 19 of the financial statements.

Company

	2020	2019
	£	£
Wages and salaries	573,637	597,700
Social security costs	60,631	78,320
Pension costs	10,110	(2,630)
	<u>644,378</u>	<u>673,390</u>

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

	2020	2019
Directors and management	7	5
Administration	1	1
	<u>8</u>	<u>6</u>

5) **FINANCE COSTS AND INCOME**

	2020	2019
	£	£
Finance costs		
Loan interest	483,932	732,984
Finance income		
Bank interest	2,645	9,635

6) **LOSS BEFORE TAXATION**

The loss before taxation is stated after charging:

	2020	2019
	£	£
Hire of plant and machinery	10,437	8,230
Other operating leases	20,639	23,052
Depreciation - owned assets	23,138	18,074
Auditors' remuneration for the Group - audit services for parent company	40,000	38,000
- audit services for subsidiaries	20,000	10,000
- taxation advisory services	-	29,675

Separately disclosed items

At the start of the year the Group incurred significant costs relating to third-party fundraising and issue of shares. The costs to the Group totalled £317,875 (2019 - £407,616). The Group also incurred significant costs relating to refinancing during the second half of the year, these totalled £137,327 (2019 - £nil). It is considered that the size and nature of these costs are such that they should be disclosed on the face of the Consolidated Statement of Comprehensive Income.

Further information on the share-based payments, which are shown on the face of the Consolidated Statement of Comprehensive Income, can be found in note 19.

Also during the year, the Group has commenced substantial refurbishment work at investment properties owned by K&C (Coleherne) Limited and K&C (Osprey) Limited. The costs incurred in the 2020 financial year amounted to £41,602. The refurbishment costs will continue in the 2021 financial year.

7) **TAXATION**

Analysis of tax

2020	2019
------	------

Current tax	£	£
UK corporation tax	-	-
Deferred tax	-	-
Total tax	<u>-</u>	<u>-</u>

Factors affecting the tax expense

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

	2020	2019
	£	£
Loss on ordinary activities before taxation	<u>(3,560,818)</u>	<u>(3,737,372)</u>
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19% (2019 - 19%)	(676,555)	(710,101)
Effects of		
Expenses not deductible	481,229	444,191
Income not taxable	(66,141)	(64,455)
Capital losses	-	23,238
Losses not recognised in deferred tax	<u>261,467</u>	<u>307,127</u>
Tax credit	<u>-</u>	<u>-</u>

8) LOSS PER SHARE AND NET ASSET VALUE

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

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

Basic loss per share

	2020		
	Loss	Weighted average number of shares	Per share amount
	£	No	Pence
Loss attributable to ordinary shareholders	(3,560,818)	26,411,154	(13.48)
Effect of dilutive securities	-	-	-
	2019		
	Loss	Weighted average number of shares	Per share amount
	£	No	Pence
Loss attributable to ordinary shareholders	(3,737,372)	15,156,059	(24.66)
Effect of dilutive securities	-	-	-

Diluted loss per share

	2020		
	Loss	Weighted average number of shares	Per share amount
	£	No	Pence
Loss attributable to ordinary shareholders	(3,560,818)	71,493,121	(4.98)
Effect of dilutive securities	-	-	-
	2019		
	Loss	Weighted average number of shares	Per share amount
	£	No	Pence
Loss attributable to ordinary shareholders	(3,737,372)	15,156,059	(24.66)
Effect of dilutive securities	-	-	-

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

	2020		
	Equity	Number of shares	Per share amount
	£	No	Pence
Net asset value	<u>12,140,152</u>	<u>27,569,631</u>	<u>44.03</u>
	2019		
	Equity	Number of shares	Per share amount
	£	No	Pence
Net asset value	<u>9,580,098</u>	<u>15,791,777</u>	<u>60.67</u>

9) OPERATING LEASES 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 2020	30 June 2019
-----------------	-----------------

	£	£
Within one year	507,513	508,096
Between one and five years	239,355	469,846
More than 5 years	45,531	53,969
Total	792,399	1,031,911

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

10) LEASING AGREEMENTS

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

	30 June	30 June
	2020	2019
	£	£
Within one year	24,784	29,784
Between one and five years	18,809	27,167
Total	43,593	56,951

11) PROPERTY, PLANT AND EQUIPMENT

GROUP

	Fixtures, fittings & computer equipment
	£
COST	
At 1 July 2018	49,111
Additions	40,451
At 30 June 2019	89,562
Additions	8,178
At 30 June 2020	97,740
DEPRECIATION	
At 1 July 2018	10,118
Charge for year	18,074
At 30 June 2019	28,192
Charge for year	23,138
At 30 June 2020	51,330
NET BOOK VALUE	
At 30 June 2020	46,410
At 30 June 2019	61,370

COMPANY

	Fixtures, fittings & computer equipment
	£
COST	
At 1 July 2018 and 30 June 2019	6,536
Additions	980
At 30 June 2020	7,516
DEPRECIATION	
At 1 July 2018	2,552
Charge for year	1,636
At 30 June 2019	4,188
Charge for year	1,229
At 30 June 2020	5,417
NET BOOK VALUE	
At 30 June 2020	2,099
At 30 June 2019	2,348

12) INVESTMENT PROPERTIES

Group	Total
	£
COST	
At 1 July 2018	26,695,000
Additions	24,732
Disposals	(2,800,000)
Revaluations	3,268
At 30 June 2019	23,923,000
Additions	518,888
Disposals	(538,000)
Revaluations	(311,888)
At 30 June 2020	23,692,000

23,592,000

NET BOOK VALUE

At 30 June 2020

23,592,000

At 30 June 2019

23,923,000

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

In July 2020, all properties were valued by professionally qualified independent external valuers in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Standards 2014 as amended. The valuation of the investment properties was £23,592,000, which has been included in the financial statements.

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

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

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

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

Fair Value Hierarchy	Valuation Technique	Significant Inputs Used	Significant Unobservable Inputs
Level 3	Income capitalisation and or capital value on a per square foot basis	Adopted gross yield	3.00% - 5.60%
		Adopted rate per square foot	£303 - £1,018

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

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

The revenue earned by the Group from its investment properties and all direct operating expenses incurred on its investment properties are recorded in the Consolidated Statement of Comprehensive Income.

The total rental income in relation to investment properties for the Group equated to £727,859 (2019 - £619,906). The total rental expenses in relation to investment properties for the Group equated to £152,605 (2019 - £183,977).

13) INVESTMENTS

Company	Shares in group undertakings
COST	
At 1 July 2018	12,086,858
Disposals	(1,380,777)
At 30 June 2019 and 30 June 2020	10,706,081
NET BOOK VALUE	
At 30 June 2020	10,706,081
At 30 June 2019	10,706,081

As at 17 September 2020, the Company's investments comprise the following:

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

Disposal of KCR (Cygnet) Limited

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

£

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

14) TRADE AND OTHER RECEIVABLES

	Group		Company	
	2020	2019	2020	2019
	£	£	£	£
Trade debtors	23,460	3,000	-	-
Amounts owed by group undertakings	-	-	3,812,236	1,787,239
Other debtors	19,403	34,773	748	7,500
VAT	604	12,271	-	-
Prepayments	20,422	27,034	15,087	18,665
	<u>63,889</u>	<u>77,078</u>	<u>3,828,071</u>	<u>1,813,404</u>

The Group and Company's exposure to credit risk is disclosed in note 21.

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

All receivables are due within 12 months of 30 June 2020. None of those receivables has been subject to a significant increase in credit risk since initial recognition and, consequently, no expected credit losses have been recognised.

15) CASH AND CASH EQUIVALENTS

	Group		Company	
	2020	2019	2020	2019
	£	£	£	£
Cash in hand	40	40	-	-
Bank accounts	1,535,906	29,258	1,476,379	3,334
	<u>1,535,946</u>	<u>29,298</u>	<u>1,476,379</u>	<u>3,334</u>

16) SHARE CAPITAL

Allotted, issued and fully paid

Number	Class	Nominal value	30 June	30 June
			2020	2019
			£	£
27,569,631	Ordinary	£0.10	2,756,963	1,579,178
-	Restricted Preference	£0.10	-	450,000
			<u>2,756,963</u>	<u>2,029,178</u>

	2020	2020	2019	2019
	Number	£	Number	£
Ordinary shares of £0.10 each				
At 1 July	15,791,777	1,579,178	9,857,207	985,721
Conversion of Restricted Preference Shares	1,730,765	173,077	1,500,000	150,000
Shares issued as loan repayments	577,778	57,778	946,286	94,629
Shares issued as creditor payments	447,089	44,708	2,200,427	220,042
Shares issued for cash	9,022,222	902,222	1,287,857	128,786
At 30 June	<u>27,569,631</u>	<u>2,756,963</u>	<u>15,791,777</u>	<u>1,579,178</u>

The Ordinary shares issued during the year, with the exception of the 1,730,765 issued upon conversion of Restricted Preference shares, were issued at £0.45 per share. The Ordinary shares issued upon conversion of Restricted Preference shares were issued at £0.10 per share.

	2020	2020	2019	2019
	Number	£	Number	£
Restricted Preference shares of £0.10 each				
At 1 July	4,500,000	450,000	4,500,000	450,000
Shares issued for cash	-	-	1,500,000	150,000
Conversion to Ordinary shares	(1,730,765)	(173,077)	(1,500,000)	(150,000)
Gifted back to company (and subsequently cancelled)	(2,769,235)	(276,923)	-	-
At 30 June	<u>-</u>	<u>-</u>	<u>4,500,000</u>	<u>450,000</u>

17) TRADE AND OTHER PAYABLES

	Group		Company	
	2020	2019	2020	2019
<i>Current</i>	£	£	£	£
Trade creditors	112,690	358,567	80,870	351,060

Amounts owed to group undertakings	-	-	8,210,910	423,840
Other taxes and social security	36,043	45,253	24,819	33,291
Other creditors	28,436	1,779,710	6,131	8,063
Accruals and deferred income	197,247	553,480	100,905	521,990
	374,416	2,737,010	8,423,635	1,338,244

Other creditors include £nil (2019 - £1,738,076) owed to the vendor on the purchase of the investment property within KCR (Southampton) Limited.

The Group and Company exposure to liquidity risk related to trade and other payables is disclosed in note 21.

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

Amounts owed to group undertakings are repayable on demand.

18) FINANCIAL LIABILITIES - BORROWINGS

	Group		Company	
	2020	2019	2020	2019
	£	£	£	£
Current				
Bank loans	-	82,224	-	82,224
Other loans	1,671,258	1,810,070	85,070	1,810,070
	1,671,258	1,892,294	85,070	1,892,294
Non-current				
Bank loans	7,868,169	4,756,956	-	4,756,956
Other loans	3,184,250	5,124,388	-	-
	11,052,419	9,881,344	-	4,756,956

Terms and debt repayment schedule

Group	2020				Totals
	1 year or less	1-2 years	2-5 years	More than 5 years	
	£	£	£	£	£
Bank loans	275,386	275,386	825,195	15,375,714	16,751,681
Other loans	1,891,423	175,134	525,401	3,782,624	6,374,582
	2,166,809	450,520	1,350,596	19,158,338	23,126,263
Company					
Other loans	85,070	-	-	-	85,070
	85,070	-	-	-	85,070
Group	2019				Totals
	1 year or less	1-2 years	2-5 years	More than 5 years	
	£	£	£	£	£
Bank loans	265,740	265,740	797,220	6,288,388	7,617,088
Other loans	2,191,102	2,176,063	525,401	3,957,757	8,850,323
	2,456,842	2,441,803	1,322,621	10,246,145	16,467,411
Company					
Bank loans	265,740	265,740	797,220	6,288,388	7,617,088
Other loans	1,979,796	-	-	-	1,979,796
	2,245,536	265,740	797,220	6,288,388	9,596,884

Details of the principal loans are as follows:

- On 28 June 2018, the Company took out a new loan of £4,930,000, with Metro Bank plc, repayable by 300 instalments of £22,145 and a final instalment of £1,239,328. The loan was secured by a first debenture over all assets and undertakings of the Company, a first legal charge over the freehold properties known as 272 Ladbroke Grove, 282 Ladbroke Grove and 284 Ladbroke Grove and the leasehold premises known as Flat 9 Lomond Court, and a cross-guarantee over the aforementioned properties. It was also secured by a cross-guarantee from K&C (Coleherne) Limited over the freehold property known as 25 Coleherne Road and a debenture over the assets and undertakings of K&C (Coleherne) Limited. The loan was also secured by a pledge of shares of K&C (Coleherne) Limited and KCR (Kite) Limited. The loan was repaid in full during the 2020 financial year when the Group refinanced with Hodge Bank.
- A three-year loan of £1,995,000 was entered into during the 2018 financial year. The loan was repayable by 36 monthly instalments of £9,144 and a final instalment of £1,940,138. On 5 September 2019, the company repaid £353,950. The balance outstanding at 30 June 2020 was £1,586,188. The monthly repayments from that date reduced to £7,568. The monthly instalments are interest payments and do not include any capital repayments. Interest is charged at 5.50 per cent per annum. The loan is secured by a fixed and floating charge over all the property and assets of K&C (Osprey) Limited, including the property known as Heathside, 562 Finchley Road.
- On 24 June 2018, the Company entered into a loan agreement arranged by DGS Capital Partners LLP, a limited liability partnership in which Michael Davies is a member, with certain investors. The loan was for £1,475,000 and was subject to an interest rate of 12 per cent per annum. The loan was to be repaid within 300 days of the initial drawdown date of 29 June 2018. The loan was extended during the previous financial year and from 10 April 2019, the interest rate was increased to 14 per cent per annum. In the 2020 financial year, the company incurred interest of £30,196 on the loan. On 6 August 2019 the loan and all outstanding interest and fees were repaid. The repayment consisted of £1,425,000 cash and £129,311 of Ordinary shares.
- During the previous financial year, the Company issued several convertible loan notes, totalling £200,000, the debt element of which totalled £185,070. The convertible loan notes had a redemption date of 30 June 2020. £100,000 of the convertible loan notes was converted to Ordinary shares on 6 August 2019. At 30 June 2020 the debt element outstanding was £85,070. The loan was settled in full in July 2020.
- During the previous year, Oliver Vaughan, a director of the Company, loaned the Company £150,000. The loan was unsecured and was due for repayment on 15 May 2019. The loan was extended in June 2019. Upon extension of the loan, the lender charged the Company a fee of £10,000. The loan was interest free. £110,000 of the loan was repaid via the issue of Ordinary shares in the Company on 6 August 2019. The remaining £50,000 was repaid on 8 August 2019.

- f) On 4 December 2018, KCR (Southampton) Limited took out a new loan of £3,184,250, with Lendco Limited. The term of the loan was 10 years. The monthly instalments are interest payments and do not include any capital repayments. Interest is charged at 3.19 per cent for the first 24 months. Interest for the remainder of the term will be charged at 4.79 per cent above LIBOR. The loan was secured by a first legal mortgage and a first fixed charge over the land at Block B, Chapel Riverside, Endle Street, Southampton. The balance outstanding as at 30 June 2020 was £3,184,250.
- g) On 10 February 2020, K&C (Coleherne) Limited took out a new loan of £2,743,359 with Hodge Bank. The term of the loan is 25 years. The monthly instalments are interest payments and do not include any capital repayments. Interest is charged at 3.5 per cent for the first 60 months. After this period the interest rate charged will be a standard variable rate. The loan is secured by a freehold charge over 25 Coleherne Road. The balance outstanding at 30 June 2020 was £2,743,359.
- h) On 10 February 2020, KCR (Kite) Limited took out a new loan of £5,124,810 with Hodge Bank. The term of the loan is 25 years. The monthly instalments are interest payments and do not include any capital repayments. Interest is charged at 3.5 per cent for the first 60 months. After this period the interest rate charged will be a standard variable rate. The loan is secured by a freehold charge over 25 Coleherne Road. The balance outstanding at 30 June 2020 was £5,124,810.

Reconciliation of net movement in cash

Group

	Net cash at 1 July 2019	Cash flow	Loans received in year	Repayments in year	Other non-cash movements	Net cash at 30 June 2020
	£	£	£	£		£
Cash at bank and in hand	29,298	1,506,648	-	-	-	1,535,946
Borrowings	(11,773,638)	-	(7,868,169)	6,658,130	260,000	(12,723,677)
Total financial liabilities	(11,744,340)	1,506,648	(7,868,169)	6,658,130	260,000	(11,187,731)

	Net cash at 1 July 2018	Cash flow	Loans received in year	Repayments in year	Other non-cash movements	Net cash at 30 June 2019
	£	£	£	£		£
Cash at bank and in hand	6,425	22,873	-	-	-	29,298
Borrowings	(10,420,535)	-	(3,434,250)	796,079	1,285,068	(11,773,638)
Total financial liabilities	(10,414,110)	22,873	(3,434,250)	796,079	1,285,068	(11,744,340)

Company

	Net cash at 1 July 2019	Cash flow	Repayments in year	Other non-cash movements	Net cash at 30 June 2020
	£	£	£	£	£
Cash at bank and in hand	3,334	1,473,045	-	-	1,476,379
Borrowings	(6,649,250)	-	6,304,180	260,000	(85,070)
Total financial liabilities	(6,645,916)	1,473,045	6,304,180	260,000	1,391,309

	Net cash at 1 July 2018	Cash flow	Repayments in year	Other non-cash movements	Net cash at 30 June 2019
	£	£	£	£	£
Cash at bank and in hand	77	3,257	-	-	3,334
Borrowings	(7,180,397)	-	546,079	(14,932)	(6,649,250)
Total financial liabilities	(7,180,320)	3,257	546,079	(14,932)	(6,645,916)

19) SHARE-BASED PAYMENT TRANSACTIONS

During the year ended 30 June 2020, the Company had one share-based payment arrangement in place, which is described below:

	Restricted Preference shares
Outstanding at 1 July 2019	4,500,000
Exercised during the year	(1,730,765)
Gifted to the company during the year	(2,769,235)
Outstanding at 30 June 2020	-

Restricted Preference shares:

Restricted Preference shares had been acquired by certain directors and other senior managers. The Restricted Preference shares were purchased at nominal value. Details of the Restricted Preference shares held by the directors, along with movements in the year, can be found further in this note and also in the Report of the Directors. Upon the achievement by the Group of certain defined milestones, related to the NAV of the Group, the Restricted Preference shares of £0.10 were able to be converted into Ordinary shares of £0.10, for no further consideration. The following table shows the shares held at the year end, along with movements in the year:

	Restricted Preference Shares			
	At 30 June 2019	Converted to ordinary shares in the year	Gifted to company in year	At 30 June 2020
Name	No.	No.	No.	No.
Dominic White	1,265,357	(486,675)	(778,682)	-
Timothy James	905,357	(348,214)	(557,143)	-
Oliver Vaughan	805,357	(309,752)	(495,605)	-
James Cane	30,000	(11,538)	(18,462)	-

	Restricted Preference Shares			
Timothy Oakley	465,357	(178,983)	(286,374)	-
Christopher James	614,286	(236,263)	(378,023)	-
Employees	414,286	(159,340)	(254,946)	-
Total	4,500,000	(1,730,765)	(2,769,235)	-

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

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

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

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

The expected lives of the Restricted Preference shares were based on historical data and then-current expectations and were not indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility of comparator companies over the period similar to the life of the Restricted Preference shares is indicative of future trends, which may not necessarily be the actual outcome.

On 6 August 2019, 1,730,765 of the Restricted Preference shares were converted into Ordinary shares. The remaining 2,769,235 Restricted Preference shares were gifted back to the Company for no consideration as part of the Torchlight transaction. The restricted preference shares gifted back to the company were subsequently cancelled.

The conversion and cancellation of the restricted preference shares has been treated as an acceleration of vesting and therefore the amount that would have been recognised for services received over the remainder of the vesting period have been recognised immediately, in the 2020 financial year. The expense recognised during the year is shown in the following table:

	30 June 2020	30 June 2019
	£	£
Expenses arising from Restricted Preference shares	1,599,681	1,387,441
Total expense from share-based payments	<u>1,599,681</u>	<u>1,387,441</u>

20) FINANCIAL INSTRUMENTS

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

	Group		Company	
	2020	2019	2020	2019
	£	£	£	£
Carrying amount of financial assets at amortised cost				
Trade and other receivables	63,889	77,078	3,828,071	1,813,404
Cash at bank and in hand	<u>1,535,946</u>	<u>29,298</u>	<u>1,476,379</u>	<u>3,334</u>

21) FINANCIAL RISK MANAGEMENT

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

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

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

- credit risk
- liquidity risk
- market risk

Capital risk management

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

The Company and Group 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.

The Group refinanced their loan portfolio in the 2020 financial year. As a result, the Group entered into new loan agreements with Hodge Bank. The total loans with Hodge Bank at 30 June 2020 totalled £7,868,169. The loan agreements contain the following covenants:

- The maximum available loan amount relative to the value of the properties will not be, at any time, during the term of the loan, more than 75% of the market value of the properties (as determined from time to time in accordance with the lenders requirements by a valuer appointed by the lender); and
- The aggregate of all rental income from the properties shall not, in any twelve month period, be less than 125% of the aggregate of all scheduled interest instalments or other payments due under the loan in that period.

Credit risk

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

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

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

Liquidity risk

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

The contractual maturities of financial liabilities are disclosed in note 18.

Market risk

Market risk is the risk that changes in market prices, such as interest rate and equity prices will affect the Group and the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimising the return.

Sensitivity*Interest rate sensitivity:*

At 30 June 2020, if interest rates had been 0.5 percentage point higher and all other variables were held constant, it is estimated that the Group's loss before tax would increase to £3,604,930 (2019 - £3,803,492). 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.

22) RELATED PARTIES

On 24 June 2018, the Company entered into a loan agreement arranged by DGS Capital Partners LLP, a limited liability partnership in which Michael Davies is a member, with certain investors. The loan was for £1,475,000 and was subject to an interest rate of 12 per cent per annum. The loan was to be repaid within 300 days of the initial drawdown date of 29 June 2018. The loan was extended during the previous financial year and from 10 April 2019, the interest rate was increased to 14 per cent per annum. In the 2020 financial year, the company incurred interest of £30,196 on the loan. On 6 August 2019 the loan and all outstanding interest and fees were repaid. The repayment consisted of £1,425,000 cash and £129,311 of Ordinary shares.

During the year, the Group paid DGS Capital Partners LLP, a limited liability partnership in which Michael Davies is a member, fees of £36,000 plus VAT of £7,200 (2019 - £36,000 and VAT of £7,200). At the year end, £7,200 was outstanding and included in trade and other payables.

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

During the previous year, the Company issued £50,000 of convertible loan notes to Kimono Investments Limited, an entity in which Oliver Vaughan's children have a financial interest. The Company was charged £340 interest in the year. The principal loan was repaid on 22 August 2019. The repayment consisted of £50,000 of Ordinary shares.

During the previous year, the Company issued convertible loan notes to the White Amba Pension Scheme of £25,000. The Company was charged £170 interest in the year. The principal loan was repaid on 22 August 2019. The repayment consisted of £25,000 of Ordinary shares.

During the previous year, the Company issued convertible loan notes to Katie James, relative of Timothy James of £25,000. The Company was charged £170 interest in the year. The principal loan was repaid on 22 August 2019. The repayment consisted of £25,000 of Ordinary shares.

During the year, Timothy Oakley, a director of a number of subsidiary companies, received remuneration of £10,541 (2019 - £30,200). During the previous year Timothy Oakley also loaned the Company £50,000 as part of the loan arranged by DGS Capital Partners LLP, as detailed above. Interest of £595 was charged to the Company in the year. The loan was repaid on 22 August 2019. The repayment consisted of £50,000 of Ordinary shares.

During the year, Christopher James, a director of a number of subsidiary companies, received remuneration of £70,881 (2019 - £51,200).

23) POST-BALANCE SHEET EVENTS

In July 2020, the remaining convertible loan notes of £100,000 that were outstanding at 30 June 2020 were repaid in full.

On 13 July 2020, following an internal strategic and legal review, the Group determined that it was no longer necessary for it to maintain its AIFM status. The Group has now deregistered as an AIFM.

This information is provided by RNS, the news service of the London Stock Exchange. RNS is approved by the Financial Conduct Authority to act as a Primary Information Provider in the United Kingdom. Terms and conditions relating to the use and distribution of this information may apply. For further information, please contact ms@lseg.com or visit www.rns.com.

RNS may use your IP address to confirm compliance with the terms and conditions, to analyse how you engage with the information contained in this communication, and to share such analysis on an anonymised basis with others as part of our commercial services. For further information about how RNS and the London Stock Exchange use the personal data you provide us, please see our [Privacy Policy](#).

END

FR SFUFFAESSUSU

London Stock Exchange plc is not responsible for and does not check content on this Website. Website users are responsible for checking content. Any news item (including any prospectus) which is addressed solely to the persons and countries specified therein should not be relied upon other than by such persons and/or outside the specified countries. [Terms and conditions](#), including restrictions on use and distribution apply.