



RNS

Final Results



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KCR RESIDENTIAL REIT PLC

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KCR Residential REIT plc

("KCR" or the "Company")

Annual Results for the year ended 30 June 2019

KCR Residential REIT plc (AIM: KCR), the residential real estate investment company, is pleased to announce its annual results for the year ended 30 June 2019.

The Annual Report will shortly be available from the Company's website, www.kcrreit.com, and will be posted to shareholders in the coming days.

With publication of the Annual Report, in accordance with the AIM Rules for Companies, the temporary suspension of the Company's ordinary shares under AIM Rule 40, which took effect at 7.30am on 2 January 2020, can now be lifted. Trading in the Company's ordinary shares is expected to recommence today.

On 31 January 2020 the Company's largest shareholder, Torchlight Fund LP ("Torchlight"), confirmed that, if necessary, it would exercise its Option (the Option Agreement announced in the RNS of 12 July 2019) sufficient to ensure that the Company's liabilities would be satisfied as they fall due. Torchlight's broader intent remains, as announced in July 2019, to grow significantly its investment in residential property through its partnership with KCR.

Market Abuse Regulation (MAR) Disclosure

The information contained within this announcement is deemed by the Company to constitute inside information for the purposes of the Market Abuse Regulation (EU) No. 596/2014. Upon the publication of this announcement via a Regulatory Information Service, this inside information is now considered to be in the public domain.

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Notes to editors:

KCR's objective is to build a substantial residential property portfolio that generates secure income flow for shareholders through the acquisition of SPVs (Special Purpose Vehicles) with inherent historical capital gains. The Directors intend that the group will acquire, develop and manage residential property assets in residential areas in the UK.

CHAIRMAN'S LETTER

Dear shareholder

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

During the financial year under review, we carried out ongoing property operations that generated an improvement in revenue, and, in particular in the second half of the year, focused on delivering the corporate

transaction with the Torchlight Fund LP ("Torchlight" and the "Transaction") that was announced in July (RNS 12 July 2019 - *Subscription and Strategic Agreement*) and closed on 6 August 2019.

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

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

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

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

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

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

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

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

Michael Davies
Chairman

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 2019.

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

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

Property portfolio

Property transactions during the year

KCR did not make any property acquisitions during the year.

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

Existing portfolio

The existing portfolio continues to perform in line with expectations.

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

previous year. The portfolio has held its value and is expected to provide a medium-term value-adding opportunity as the terms of the long-leasehold flats shorten. The Company is also investigating the potential to enhance value through redevelopment and roof extensions at three of the seven sites.

Financial

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

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

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

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

Post balance sheet events

Torchlight transaction

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

- Torchlight subscribed for 9,000,000 Ordinary Shares at 45 pence per share. The £4.05 million of capital raised was mainly used to reduce leverage from 65 per cent of property assets to 41 per cent, reduce portfolio interest cost and for working capital.
- The company granted Torchlight an Option to subscribe for up to an additional 50,000,000 Shares at a price per share of:
 - for any notice of exercise served on the Company on any date up to and including 31 December 2019, the Issue Price; and
 - for any notice of exercise served on the Company from 1 January 2020 until the end of the Option Period, the higher of (i) the price per Option Share which is equivalent to 95 per cent. of the 30-Day VWAP for the Ordinary Shares and (ii) the par value of each Ordinary Share.
- The Option is only exercisable by Torchlight during the Option Period and if the Option is not exercised prior to the expiry of the Option Period, it will lapse. Any exercise of the Option by Torchlight shall be for not less than 2,000,000 Option Shares.
- Exercise of the option in full by Torchlight will deliver a further £22.5 million of equity to the Company.
- To simplify the Company's share structure, the Company unwound its preference share scheme through the cancellation of all Restricted Preference shares in exchange for the issue of a significantly smaller number of Ordinary shares to Restricted Preference shareholders.
- All convertible loan notes held by management and related parties were converted into equity.

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

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

Prospects

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

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

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

Dominic White

Chief executive

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 2019.

PRINCIPAL ACTIVITY

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

1. **K&C (Coleherne) Limited** owns a freehold residential property in Chelsea, London containing ten studio flats
2. **K&C (Osprey) Limited** owns the freehold of several retirement properties let on long leases to residents and provides management services in respect of these properties and to third-party landlords
3. **KCR (Kite) Limited** owns three freehold residential properties in Ladbroke Grove, London (16 flats) and a flat on Harrow Road
4. **KCR (Southampton) Limited** owns a long leasehold block of 27 two-bedroom apartments at Chapel Riverside, Southampton
5. **K&C REIT Limited** (dormant, dissolved 9 July 2019)
6. **K&C (Newbury) Limited** owns no property and is now effectively dormant. The valuation of the company has been written down to nil via an impairment provision set out in note 13.

GROUP STRATEGY

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

RESULTS

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

REVIEW OF BUSINESS AND FINANCIAL PERFORMANCE

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

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

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

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

KEY PERFORMANCE INDICATORS

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

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

1. At property level

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

Target occupancy of at least 90 per cent achieved

1.2. *Outstanding rents as a percentage of rental income*

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

2. At Group level

2.1. *Gross assets under management*

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

Near term focus is on reducing costs, enhancing revenue and growing the business to achieve a cash break even position to provide a stable base to grow from.

RISKS AND UNCERTAINTIES

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

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

• *Financing and liquidity risk*

The Company has an ongoing requirement to fund its activities through the equity markets and in future to obtain finance for property acquisition and development. Although there is no certainty that such funds will be available when needed, the Company has plans in place with KCR's new Capital Partner regarding ongoing funding, and, the directors continue to focus on developing the Group's capital structure.

• *Financial instruments*

Details of risks associated with the Group's financial instruments are given in note 22 to the financial statements. The directors seek to mitigate these risks in manners appropriate to the risk.

• *Valuations*

The valuation of the investment property portfolio is inherently subjective as it is made on the basis of assumptions 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 is expected to improve following the election outcome. The board believes that the Company operates in a sector of the market, and with the advantage of REIT status, such that it will be able to build market share, income and net asset per share value over the coming years.

FORWARD-LOOKING STATEMENTS

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

OUTLOOK

The Group has continued to investigate the purchase of residential property assets that will be able to support an increasing income yield. As last year, the Group is currently investigating several potential acquisitions. To achieve these, the Group may be required to raise more capital and it is working closely with funding sources, both equity and debt providers, to achieve this objective.

ON BEHALF OF THE BOARD:

Dominic White
Director

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 2019.

A review of the business, risks and uncertainties and future developments is included in the Chairman's Letter, the Chief Executive's Letter, the Group Strategic Report, and in note 22 to the financial statements.

DIVIDENDS

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

Political donations

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

Corporate governance statement

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

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

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

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

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

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

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

The Company as a REIT is required to distribute 90 per cent of its rental profits.

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

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

Seek to understand and meet shareholder needs and expectations

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

The Company remains committed to engaging with its shareholders to ensure its strategy and performance are clearly understood. Feedback from investors is obtained through direct interaction between the 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 shareholders?*

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 being 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).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

During 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, one Board meeting has been held, attended by all current directors.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The chairman, Michael Davies:

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

The chief executive, Dominic White:

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

The executive director, Russell Naylor:

- works with the 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 comprises Michael Davies and Richard Boon, Non-Independent Non-Executive Director, which meets on an ad hoc basis when necessary.

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

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

Matters reserved for the Board include:

- Vision and strategy
- Review of budgets, asset plans and trading results
- Approving financial statements
- Financing strategy, including debt strategy
- Business planning relating to acquisitions, divestments and major refurbishments not already agreed in the strategy and asset plans

- Capital expenditure in excess of agreed budgets
- Corporate governance and compliance
- Risk management and internal controls
- Appointments and succession plans at senior management level
- Directors' remuneration.

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

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

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

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

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

DIRECTORS

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

Name

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

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

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

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

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

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

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

Further information regarding the post year end movements on restricted preference shares is contained within note 24 of the financial statements.

SUBSTANTIAL SHAREHOLDINGS

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

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

DIRECTORS' REMUNERATION

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

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

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

During the year, a number of directors converted restricted preference shares into ordinary shares. The total gain made by the directors was £484,000 (2018 - £nil).

INTERNAL CONTROLS AND RISK MANAGEMENT

The directors are responsible for the Group's system of internal control. Although no system of internal control can provide absolute assurance against material misstatement or loss, the Group's system is designed to provide reasonable assurance that problems are identified on a timely basis and dealt with appropriately. In carrying out their responsibilities, the directors have put in place a framework of controls to ensure as far as possible that (i) ongoing financial performance is monitored in a timely manner, (ii) where required, corrective action is taken and (iii) risk is identified as early as practically possible. The directors have reviewed the effectiveness of internal controls.

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

Details of financial risk management are included within the Risks and Uncertainties section of the Group strategic report on page 8.

BRIBERY RISK

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

OTHER MATTERS

i. Environmental

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

ii. Group employees

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

iii. Social matters

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

iv. Respect for human rights

The Group always respects the human rights of its stakeholders.

v. Contributions to pension schemes

No pension scheme benefits are being accrued by the directors.

DIRECTORS' INDEMNITIES AND INSURANCE

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

GOING CONCERN

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

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

POST BALANCE SHEET EVENTS

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

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

STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE AUDITOR

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

AUDITOR

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

ON BEHALF OF THE BOARD

Dominic White

Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	30 June 2019	30 June 2018 (as restated *)
	£	£
CONTINUING OPERATIONS		
Revenue	777,827	265,936
Cost of sales	<u>(212,743)</u>	<u>(191,420)</u>
GROSS PROFIT	565,084	74,516
Administrative expenses	(1,446,565)	(1,317,971)
Fair value through profit and loss - Revaluation of investment properties	3,268	3,118,721
OPERATING (LOSS)/PROFIT BEFORE SEPARATELY DISCLOSED ITEMS	(878,213)	1,875,266
<i>Separately disclosed administrative items</i>		
Share-based payment charge	(1,387,441)	(950,188)
Costs associated with third-party fundraising and issue of shares	(407,616)	(47,173)
Costs associated with aborted fundraising	-	(626,826)
Loss on disposal of property SPV	(340,753)	-
OPERATING (LOSS) / PROFIT	(3,014,023)	251,079
Finance costs	(732,984)	(325,688)
Finance income	9,635	7,035
LOSS BEFORE TAXATION	(3,737,372)	(67,574)
Taxation	-	-
LOSS FOR THE YEAR	(3,737,372)	(67,574)
TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR	(3,737,372)	(67,574)
Loss attributable to owners of the parent	(3,737,372)	(67,574)

Loss per share expressed in pence per share

Basic	(24.66)	(1.02)
Diluted	(24.66)	(1.02)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

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

Dominic White
Director

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	2019	2018
	£	£
		(as restated*)
Cash flows from operating activities		
Cash used in operations	(4,960,666)	(1,776,564)
Interest paid	(732,984)	(325,688)
Net cash used in operating activities	<u>(5,693,650)</u>	<u>(2,102,252)</u>
Cash flows from investing activities		
Purchase of property, plant & equipment	(40,451)	(43,515)
Purchase of investment properties	(24,732)	(2,046,594)
Acquisition of property assets	-	(5,596,459)
Disposal of property SPV	1,140,000	-
Interest received	9,635	7,035
Net cash generated from/(used in) investing activities	<u>1,084,452</u>	<u>(7,679,533)</u>

Cash flows from financing activities

Loan repayments in year	(796,079)	(1,131,525)
New loans in year	3,434,250	7,739,858
Shares issued	1,993,900	2,156,125
Net cash generated from financing activities	<u>4,632,071</u>	<u>8,764,458</u>
Increase/(decrease) in cash and cash equivalents	22,873	(1,017,327)
Cash and cash equivalents at beginning of year	6,425	1,023,752
Cash and cash equivalents at end of year	<u>29,298</u>	<u>6,425</u>

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

RECONCILIATION OF LOSS BEFORE TAXATION TO CASH USED IN OPERATIONS

Group	2019	2018
	£	£ (as restated)
Loss before taxation	(3,737,372)	(67,574)
Depreciation charges	18,074	6,365
Revaluation of investment properties	(3,268)	(3,118,721)
Loss on disposal of property SPV	340,753	-
Share-based payment charge	1,387,441	950,188
Finance costs	732,984	325,688
Finance income	(9,635)	(7,035)
	<u>(1,271,023)</u>	<u>(1,911,089)</u>
Decrease/(increase) in trade and other receivables	626,349	(590,502)
(Decrease)/increase in trade and other payables	(4,315,992)	725,027
Cash used in operations	<u>(4,960,666)</u>	<u>(1,776,564)</u>
Company	2019	2018
	£	£
Loss before taxation	(3,548,447)	(3,089,541)
Depreciation charges	1,636	1,211
Impairment of investments	-	75,000
Loss on disposal of property SPV	241,585	-
Share-based payment charge	1,387,441	950,188
Finance costs	428,185	316,544
Finance income	(9,619)	(7,019)
	<u>(1,499,219)</u>	<u>(1,753,617)</u>
Increase in trade and other receivables	(894,340)	(891,568)
Increase in trade and other payables	227,561	740,862
Cash used in operations	<u>(2,165,998)</u>	<u>(1,904,323)</u>

1) **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.

2) **EMPLOYEES AND DIRECTORS**

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

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

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

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

The Group directors are considered to be key management personnel.

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

Company

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

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

Directors and management	5	5
Administration	1	1
	<u>6</u>	<u>6</u>

3) **FINANCE INCOME AND COSTS**

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

4) **LOSS BEFORE TAXATION**

The loss before taxation is stated after charging:

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

Separately disclosed items

During the year, the Group incurred significant costs relating to third-party fundraising and issue of shares. The costs to the Group totalled £407,616. In 2018 the company incurred costs relating to third-party fundraising and issue of shares of £47,173 and incurred costs of £626,826 relating to an aborted fundraising transaction. It is considered that the size and nature of these costs are such that they should be disclosed on the face of the Consolidated Statement of Comprehensive Income.

Further information on the share-based payments, which are shown on the face of the Consolidated Statement of Comprehensive Income, can be found in note 20.

5) **LOSS PER SHARE AND NET ASSET VALUE**

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

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

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

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

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

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

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

6) **INVESTMENT PROPERTIES**

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

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

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

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

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

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

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

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

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

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

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

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

7) **INVESTMENTS**

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

At 30 June 2018

12,086,858

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

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

Acquisition of KCR (Kite) Limited

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

Net assets acquired were as follows:

	£
Investment property	5,535,879
Trade and other receivables	22,148
Trade and other payables	(33,686)
Taxation payable	(48,360)
Net assets	5,475,981
Total Consideration	5,475,981
Satisfied by cash	5,475,981

Net cash outflow arising on acquisition:

Cash consideration	(5,475,981)
Bank and cash balances acquired	-
	<u>(5,475,981)</u>

Acquisition of KCR (Cygnets) Limited

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

Net assets acquired were as follows:

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

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

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

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

KCR (Southampton) Limited

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

Disposal of KCR (Cygnet) Limited

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

	£
Investment property	2,800,000
Debtors	43,427
Bank loan	(1,293,286)
Other creditors	(69,388)
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

8) **TRADE AND OTHER RECEIVABLES**

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

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

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

Amounts owed by group undertakings are repayable on demand and are considered fully recoverable based on property assets that could be realised.

9) **CASH AND CASH EQUIVALENTS**

	Group		Company	
	2019	2018	2019	2018
	£	£	£	£
Cash in hand	40	40	-	-
Bank accounts	29,258	6,385	3,334	77
	29,298	6,425	3,334	77

10) **SHARE CAPITAL**

Allotted, issued and fully paid

Number	Class	Nominal value	30 June	30 June
			2019	2018
			£	£
15,791,777	Ordinary	£0.10	1,579,178	985,721
4,500,000	Restricted Preference	£0.10	450,000	450,000
			2,029,178	1,435,721

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

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

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

The Restricted Preference shares carry no voting or dividend rights. On a winding-up or a return of capital, the holders of the Restricted Preference shares shall rank *pari passu* with the holders of the Ordinary shares save that, on a distribution of assets, the amount to be paid to the holder shall be limited to the nominal capital paid up or credited as paid up.

11) **UNISSUED SHARE CAPITAL**

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

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

12) **TRADE AND OTHER PAYABLES**

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

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

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

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

Amounts owed to group undertakings are repayable on demand.

13) **FINANCIAL LIABILITIES - BORROWINGS**

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

Terms and debt repayment schedule

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

Details of the principal loans are as follows:

- On 28 June 2018, the Company took out a new loan of £4,930,000, with Metro Bank plc, repayable by 300 instalments of £22,145 and a final instalment of £1,239,328. The loan was secured by a first debenture over all assets and undertakings of the Company, a first legal charge over the freehold properties known as 272 Ladbroke Grove, 282 Ladbroke Grove and 284 Ladbroke Grove and the leasehold premises known as Flat 9 Lomond Court, and a cross-guarantee over the aforementioned properties. It was also secured by a cross-guarantee from K&C (Coleherne) Limited over the freehold property known as 25 Coleherne Road and a debenture over the assets and undertakings of K&C (Coleherne) Limited. The loan was also secured by a pledge of shares of K&C (Coleherne) Limited and KCR (Kite) Limited. The balance outstanding as at 30 June 2019 was £4,839,180.
- A three-year loan of £1,995,000 was entered into during the previous year. The loan is repayable by 36 monthly instalments of £9,144 and a final instalment of £1,940,138. The monthly instalments are interest payments and do not include any capital repayments. Interest is charged at 5.50 per cent per annum. The loan is secured by a fixed and floating charge over all the property and assets of K&C (Osprey) Limited, including the property known as Heathside, 562 Finchley Road. The balance outstanding at 30 June 2019 was £1,940,138.
- On 24 June 2018, the Company entered into a new loan agreement arranged by DGS Capital Partners LLP, a limited liability partnership in which Michael Davies is a member, with certain investors. The loan was for £1,475,000 and was subject to an interest rate of 12 per cent per annum. The loan was to be repaid within 300 days of the initial drawdown date of 29 June 2018. During the financial year, the lenders agreed to extend the loan by a further 300 days. The loan was

repaid on 22 August 2019. Fees of £17,250 were charged by the lender to the Company for the extension and are included in accruals at the year end. At the date of extension, the interest rate was increased to 14 per cent per annum. The balance outstanding at 30 June 2019 was £1,475,000.

- d) At the year-end, the Company had issued several convertible loan notes, totalling £200,000, the debt element of which totalled £185,070. The convertible loan notes have a redemption date of 30 June 2020. The debt balance outstanding at 30 June 2019 was £185,070. £100,000 of the convertible loan notes was converted to Ordinary shares at £0.10 per share on 6 August 2019.
- e) During the year, Oliver Vaughan, a director of the Company, loaned the Company £150,000. The loan was unsecured and was due for repayment on 15 May 2019. The loan was extended in June 2019. Upon extension of the loan, the lender charged the Company a fee of £10,000, which is included in accruals at the year end. The total liability at 30 June 2019 totalled £160,000. The loan was interest free. £110,000 of the loan was repaid via the issue of Ordinary shares in the Company on 6 August 2019. The remaining £50,000 was repaid on 8 August 2019.
- f) On 4 December 2018, KCR (Southampton) Limited took out a new loan of £3,184,250, with Lendco Limited. The term of the loan was 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 2019 was £3,184,250.

Reconciliation of net movement in cash

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

14) SHARE-BASED PAYMENT TRANSACTIONS

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

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

Restricted Preference shares:

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

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

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

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

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

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

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

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

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

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

15) FINANCIAL INSTRUMENTS

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

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

16) 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.

Credit risk

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

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

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

Liquidity risk

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

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

Market risk

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

Sensitivity

Interest rate sensitivity:

At 30 June 2019, if interest rates had been 0.5 percentage point higher and all other variables were held constant, it is estimated that the Group's loss before tax would increase to £3,803,492 (2018 - £157,775). This is attributable to the Group's exposure on its borrowings and is based on the change taking place at the beginning of the financial year and held constant throughout the reporting period.

17) RELATED PARTIES

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

was outstanding and included in accruals at the year end. The loan and outstanding interest were repaid on 22 August 2019. The repayment consisted of £1,425,000 cash and £95,826 of Ordinary shares.

During the year, the Group paid DGS Capital Partners LLP, a limited liability partnership in which Michael Davies is a member, fees of £36,000 plus VAT of £7,200 (2018 - £36,000 and VAT of £7,200). At the year end, £14,400 was outstanding and included in accruals.

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

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

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

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

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

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

18) **POST-BALANCE SHEET EVENTS**

The following events have taken place since 1 July 2019:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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