



# K&C REIT plc

UNAUDITED CONSOLIDATED INTERIM FINANCIAL REPORT  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2015

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## COMPANY INFORMATION

<b>DIRECTORS</b>	<p>Michael Davies          Timothy James          James Cane          Christopher James          Timothy Oakley          Oliver Vaughan          Patricia Farley</p>	<p>Non-executive chairman          Managing director          Finance director          Operations director          Construction director          Executive director          Non-executive director</p>
<b>COMPANY ADDRESS</b>	<p>44/48 Old Brompton Road          South Kensington          London SW7 3DY</p>	
<b>COMPANY SECRETARY</b>	<p>R J Roberts</p>	
<b>NOMINATED ADVISER AND BROKER</b>	<p>Allenby Capital Limited          3 St Helen's Place          Bishopsgate          London EC3A 6AB</p>	
<b>SOLICITORS</b>	<p>Fladgate LLP          16 Great Queen Street          London WC2B 5DG</p>	
<b>REPORTING ACCOUNTANTS AND INDEPENDENT AUDITOR</b>	<p>Moore Stephens LLP          150 Aldersgate Street          London EC1A 4AB</p>	
<b>BANKERS</b>	<p>Metro Bank plc          One Southampton Street          London WC1A 5HA</p>	
<b>FINANCIAL PUBLIC RELATIONS</b>	<p>Yellow Jersey PR Limited          South Building, Upper Farm          Wootton St Lawrence, Basingstoke          Hampshire RG232 8PE</p>	
<b>REGISTERED OFFICE</b>	<p>82 St John Street          London EC1M 4JN</p>	
<b>COMPANY NUMBER</b>	<p>09080097</p>	
<b>WEBSITE</b>	<p><a href="http://www.kandc-reit.co.uk">www.kandc-reit.co.uk</a></p>	

# CHAIRMAN'S STATEMENT

## for the six months ended 31 December 2015

This is K&C REIT plc's first interim report since it was admitted to trading on AIM on 3 July 2015.

### Market and strategy

K&C REIT plc ("the Company") and its subsidiaries (together "the Group" or "K&C") operate in the residential letting market, with a particular emphasis on Central London. K&C will seek to acquire property assets held within UK-incorporated companies, where there is an opportunity to capitalise on the advantages afforded to REITs to provide an exit route for vendors.

### AIM admission

As reported in December, the Company was admitted to trading on AIM on 3 July 2015 and became an HM Revenue and Customs-approved REIT on admission. Shortly following admission, at which the Company issued 43,035,622 ordinary shares at £0.10 per share, including 35,663,400 shares issued pursuant to a fundraising, generating gross cash proceeds of £3,566,340, the Company acquired the entire share capital of Silcott Properties Limited ("Silcott") for a consideration of £3,630,000, of which £300,000 was satisfied by the issuance of 3,000,000 ordinary shares. Silcott is a special purpose vehicle that owns a freehold property in Central London comprising ten leased apartments. A further 4,372,222 ordinary shares were issued to satisfy liabilities of the Company.

### Operations

K&C has traded in line with management's expectations during the period and since the period-end. Silcott has achieved strong rental growth when reletting its units and the Company has improved the property, with further refurbishment planned for this spring.

One of the three Newbury properties owned by Kensington & Chelsea REIT Limited was sold during the period and a second property has been sold since the period-end, both at a profit. The final property is currently on the market.

### Financial

During the period, K&C reports a consolidated loss and total comprehensive expense of £938,629. The costs of admission to AIM (£780,728) and of acquiring Silcott (£100,202) have obviously added considerably to the expenses incurred during the period.

### Board changes

During the period, Nigel Payne and George Rolls stepped down as directors of the Company in order to pursue other business interests.

### Future prospects

As stated in the annual report, K&C is seeking to build a strong business with high quality assets that will be able to support an increasing income yield. To this end, we will need to raise more capital in order to make further acquisitions. The directors are working closely with funding sources, both equity and debt providers, to achieve this objective.

We announced in our annual report in December that we had exclusivity on a particular project. We are continuing to progress work on that acquisition and hope to be able to report further on developments in the near future. In addition, the Board is reviewing a number of other acquisition opportunities.

Michael Davies

**Chairman**

30 March 2016

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 31 December 2015 (unaudited)

	Notes	Six months ended 31 December 2015 £	Six months ended 31 December 2014 £	Period ended 30 June 2015 (audited) £
<b>Continuing operations</b>				
Revenue		75,227	15,625	34,380
Cost of sales		(28,866)	(2,052)	(4,839)
<i>Gross profit</i>		43,361	13,573	29,541
Profit on disposal of investment properties		17,736	–	–
Total profit before expenses		64,097	13,573	29,541
Administrative expenses		(1,203,973)	(390,336)	174,043
Share-based payment charge		(126,561)	–	–
<i>Loss from operating activities</i>		(1,266,437)	(376,763)	(144,502)
Gain on bargain purchase	11	364,783	–	–
Finance costs		(36,975)	–	(98,116)
<i>Loss before taxation</i>		(938,629)	(376,763)	(242,618)
Taxation		–	–	–
<i>Loss for the period</i>		(938,629)	(376,763)	(242,618)
<b>Total comprehensive expense for the period</b>		<b>(938,629)</b>	<b>(376,763)</b>	<b>(242,618)</b>
Basic and diluted loss per ordinary share (pence)	6	(2.2)	(50.2)	(32.3)

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2015 (unaudited)

	Notes	31 December 2015 £	31 December 2014 £	30 June 2015 (audited) £
<b>Non-current assets</b>				
Investment properties	7	4,473,198	691,556	691,556
Property, plant and equipment		1,453	–	–
<b>Total non-current assets</b>		<b>4,474,651</b>	691,556	691,556
<b>Current assets</b>				
Trade and other receivables		13,676	14,861	245,970
Cash and cash equivalents		486,054	50,933	1,732
<b>Total current assets</b>		<b>499,730</b>	65,614	247,702
<b>Current liabilities</b>				
Trade and other payables		107,831	341,526	389,469
Current portion of borrowings		60,228	–	–
Taxation payable		3,738	–	–
Loan notes		228,000	874,000	874,000
<b>Total current liabilities</b>		<b>399,797</b>	1,215,526	1,263,469
<b>Net current assets/(liabilities)</b>		<b>99,932</b>	(1,149,912)	(1,015,766)
<b>Non-current liabilities</b>				
Long-term borrowings		(1,429,522)	–	–
<b>Net assets/(liabilities)</b>		<b>3,145,061</b>	(438,356)	(324,211)
<b>Equity</b>				
Share capital	8	437,856	75,000	7,500
Share premium		3,850,984	–	–
Capital redemption reserve		67,500	–	67,500
Retained deficit		(1,211,279)	(533,356)	(399,211)
		<b>3,145,061</b>	(438,356)	(324,211)
<b>Net asset value per share (pence)</b>		<b>7.20</b>		

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 31 December 2015 (unaudited)

	Share capital £	Share premium £	Capital redemption reserve £	Retained deficit £	Total £
<b>Balance at 1 July 2014</b>	75,000	–	–	(156,593)	<b>(81,593)</b>
Total comprehensive expense for the period	–	–	–	(376,763)	<b>(376,763)</b>
<b>Balance at 31 December 2014</b>	75,000	–	–	(533,356)	<b>(458,356)</b>
Total comprehensive income for the period	–	–	–	134,145	<b>134,145</b>
Buyback of deferred shares	(67,500)	–	67,500	–	–
<b>Balance at 30 June 2015</b>	7,500	–	67,500	(399,211)	<b>(324,211)</b>
Equity issued during the period (net of costs)	430,356	3,850,984	–	–	<b>4,281,340</b>
Total comprehensive expense for the period	–	–	–	(938,629)	<b>(938,629)</b>
Share-based payment charge	–	–	–	126,561	<b>126,561</b>
<b>Balance at 31 December 2015</b>	<b>437,856</b>	<b>3,850,984</b>	<b>67,500</b>	<b>(1,211,279)</b>	<b>3,145,061</b>

# CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ended 31 December 2015 (unaudited)

	Six months ended 31 December 2015 £	Six months ended 31 December 2014 £	Period ended 30 June 2015 (audited) £
<b><i>Cash flows from operating activities</i></b>			
Loss for the period	(938,629)	(376,763)	(242,618)
<b>Adjustments for</b>			
Profit on disposal of investment properties	(17,736)	–	–
Increase in trade and other receivables	232,294	(8,219)	(239,508)
Increase in taxation payable	3,738	–	–
Increase in trade and other payables	(286,854)	227,824	275,767
Share-based payment charge	126,561	–	–
Gain on bargain purchase	(364,783)	–	–
Net cash flows used in operating activities	(1,245,409)	(157,158)	(206,359)
<b><i>Cash flows from investing activities</i></b>			
Disposal of investment properties	236,094	–	–
Acquisition of plant, property and equipment	(1,453)	–	–
Acquisition of subsidiary	(3,330,000)	–	–
Net cash flows used in operating activities	(3,095,359)	–	–
<b><i>Cash flows from financing activities</i></b>			
Increase in borrowings	1,489,750	–	–
(Repayment)/proceeds from loan notes	(231,000)	200,000	200,000
Proceeds from shares issued	3,566,340	–	–
Net cash flows from financing activities	4,825,090	200,000	200,000
Net increase/(decrease) in cash and cash equivalents	484,322	42,842	(6,359)
Cash and cash equivalents at beginning of period	1,732	8,091	8,091
<b>Cash and cash equivalents at end of period</b>	<b>486,054</b>	<b>50,933</b>	<b>1,732</b>



# NOTES TO THE FINANCIAL STATEMENTS

for the six months ended 31 December 2015 (unaudited)

## 1. Reporting entity

The Company is domiciled in England and Wales. The consolidated interim financial statements for the six months ended 31 December 2015 comprise the results of the Company and its subsidiaries. The Group is primarily involved in UK property ownership and letting.

## 2. Basis of preparation

### *Statement of compliance*

This consolidated interim financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting*. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial performance and position of the Group since the last annual consolidated financial statements for the period ended 30 June 2015. This consolidated interim financial report does not include all the information required for full annual financial statements prepared in accordance with International Financial Reporting Standards. The financial statements are unaudited and do not constitute statutory accounts as defined in section 434(3) of the Companies Act 2006.

A copy of the audited annual report for the period ended 30 June 2015 has been delivered to the Registrar of Companies. The auditor's report on these accounts was unqualified and did not contain statements under s498(2) or s498(3) of the Companies Act 2006.

This consolidated interim financial report was approved by the Board of Directors on 30 March 2016.

## 3. Significant accounting policies

The accounting policies applied by the Group in this consolidated interim financial report are the same as those applied by the Group in its consolidated financial statements for the period ended 30 June 2015.

### *Share-based payments*

Estimating the fair value of share-based payments requires determination of the most appropriate valuation model, which depends on the terms and conditions of the instruments issued. This estimate also requires determination of the most appropriate inputs to the valuation model, including the expected life of the instruments, volatility and dividend yield. For the measurement of the fair value, the Group uses the Black-Scholes pricing model.

## 4. Operating segments

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

## 5. Loss from operating activities

Loss from operating activities is stated after charging:

	Six months ended 31 December 2015 £	Six months ended 31 December 2014 £	Period ended 30 June 2015
Costs associated with admission to AIM	780,728	–	–
Costs associated with the acquisition of Silcott	100,202	–	–
Directors' remuneration	13,780	–	–

During the period the Company paid Perry, Cane, a consultancy business owned by James Cane, fees of £61,000 plus VAT for services provided to the Company for the period from its incorporation on 10 June 2014 to 31 December 2015.

## 6. Basic and fully diluted loss per share

### Basic

The calculation of loss per share for the six months to 31 December 2015 is based on the loss for the period attributable to ordinary shareholders of £938,629 divided by a weighted average number of ordinary shares in issue of 43,080,118 (2014 – £376,763/750,000).

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

## 7. Investment properties

	31 December 2015 £	31 December 2014 £	30 June 2015
At start of period	691,556	691,556	691,556
Additions	4,000,000	–	–
Disposals	(218,358)	–	–
<b>At end of period</b>	<b>4,473,198</b>	691,556	691,556

On 22 June 2015, the investment property at 25 Coleherne Road was valued by an independent valuer who is a Member of the Royal Institution of Chartered Surveyors (MRICS) on an open market value basis, and this valuation was incorporated into the financial statements in accordance with IFRS. For this reason, the directors consider that the carrying value of the investment properties at 31 December 2015 is not materially different from their market value.

On 6 November 2015, the Company sold one of its investment properties in Newbury for net proceeds of £236,277. The property was acquired for £218,358 in March 2014 by a subsidiary and transferred at cost to the Company in June 2015, at which time the Company acquired a loan note of £215,000 secured on the property, which was converted into ordinary shares in the Company at par on admission to trading on AIM. Most of the proceeds of sale were used to part-repay the remaining loan notes.

Since the period-end, on 22 January 2016, the Company has sold a second investment property in Newbury for net proceeds of £280,629.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

for the six months ended 31 December 2015 (unaudited)

## 8. Share capital

	31 December 2015 £	31 December 2014 £	30 June 2015
<b>Issued</b>			
15,000,000 ordinary shares of £0.005 each	–	75,000	–
750,000 ordinary shares of £0.01 each	–	–	7,500
43,785,622 ordinary shares of £0.01 each	<b>437,856</b>	–	–

During the period, the Company issued ordinary shares, each of nominal value of £0.01, as follows:

Description of shares	#	Notes
Placing shares	34,528,400	Placed at £0.10 on admission to AIM
Subscription shares	1,135,000	Subscribed for at £0.10 on admission to AIM
Conversion shares	2,150,000	Loans converted into shares at £0.10 on admission to AIM
Conversion shares	2,222,222	Loans converted into shares at £0.09 on admission to AIM
Consideration shares	3,000,000	Issued at £0.10 in part-consideration for the acquisition of Silcott on 9 July 2015
<b>Total</b>	<b>43,035,622</b>	

## 9. Share-based payments

### Share-based payment charge

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

	Six months ended 31 December 2015 £	Six months ended 31 December 2014 £	Period ended 30 June 2015 £
Expense arising from share options	<b>87,815</b>	–	–
Expense arising from warrants	<b>38,746</b>	–	–
<b>Total expense from share-based payments</b>	<b>126,561</b>	–	–

### Executive share option plan

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

## 9. Share-based payments (continued)

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

Director	Granted on 3 July 2015 #	Exercised or forfeited #	Balance at 31 December 2015 #
James Cane	180,000	–	180,000
Christopher James	600,000	–	600,000
Timothy James	810,000	–	810,000
Timothy Oakley	300,000	–	300,000
Oliver Vaughan	810,000	–	810,000

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

### *Non-executive share option plan*

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

The non-executive directors' interests in share options are as follows:

Director	Granted on 3 July 2015 #	Exercised or forfeited #	Balance at 31 December 2015 #
Michael Davies	–	–	–
Patricia Farley	144,493	–	144,493
Nigel Payne	–	–	–
George Rolls	437,856	(437,856)	–

George Rolls resigned as a non-executive director on 30 December 2015, at which time his share options were forfeited. There have been no changes to the directors' interests in non-executive share options since the period-end.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the six months ended 31 December 2015 (unaudited)

### 9. Share-based payments (continued)

#### *Founder warrants*

On 8 September 2014, 750,000 warrants were issued to shareholders to subscribe for one ordinary share at £0.10 per share at any time before 31 December 2018. The interests of the directors in warrants at 31 December 2015 were as follows:

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

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

#### *Allenby warrant*

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

#### *Movements during the period*

The following table illustrates the number of, and movements in, share options and warrants during the period:

	Executive share options	Non-executive share options	Founder warrants	Allenby warrant
Outstanding at 31 December 2014 and 30 June 2015	–	–	750,000	–
Granted during the period	3,000,000	582,349	–	437,856
Forfeited during the period	–	(437,856)	–	–
Outstanding at 31 December 2015	3,000,000	144,493	750,000	437,856

## 9. Share-based payments (continued)

The following table lists the inputs to the models used:

31 December 2015	Executive share options	Non-executive share options	Founder warrants	Allenby warrant
Share price at grant date (£)	0.10	0.10	0.10	0.10
Exercise price (£)	0.01	0.10	0.10	0.10
Dividend yield (%)	0.00	0.00	0.00	0.00
Expected volatility (%)	50.0	50.0	50.0	50.0
Risk-free interest rate (%)	0.950	0.535	0.535	0.535
Expected life of share options/warrants (years)	5.00	3.00	2.60	3.00
Fair value of share option/warrant (£)	0.0907	0.0340	0.0318	0.0340
Expiry date	see note above	2 July 2025	31 December 2018	3 July 2020

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

## 10. Related parties

### *Loans from directors*

During the period to 30 June 2015, the Group was in receipt of loans totalling £340,000 from two directors of the Company, Christopher James (£215,000) and Oliver Vaughan (£125,000). The loans were subject to an interest charge for the period from receipt to redemption of 17.5 per cent of the principal amount, payable in full at the earlier of admission to trading on AIM or 31 July 2016. On admission to trading on AIM, Christopher James's loan was converted into ordinary shares in the Company at £0.10. On 3 July 2015, gross interest of £37,625 was paid to Christopher James and £21,875 to Oliver Vaughan. On 6 November 2015, a part-repayment totalling £68,000 was made to Mr Vaughan.

### *Subsequent event*

On 22 January 2016, K&C sold 24 Martingale Close for a total cash consideration of £285,000. The net proceeds of the sale of the property would ordinarily have been used to repay the £228,000 outstanding under the 7 March Loan Notes and 14 March Loan Notes issued by the Company (and as defined and described in its AIM Admission Document dated 30 June 2015) (the "Loan Notes") in accordance with the terms of the Loan Notes and as agreed with the Loan Note holders on 25 June 2015. The amount outstanding to Oliver Vaughan is £62,000. However, the Company has agreed a new repayment date with the Loan Note holders of the earlier of i) 28 April 2016; ii) the sale of the Company's property at 49 Cheap Street, Newbury; or iii) completion of a fundraising of at least £3.5 million. In return, the Company will pay interest of 10 per cent per annum calculated daily from 22 January 2016, payable on repayment of the Loan Notes.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

for the six months ended 31 December 2015 (unaudited)

## 11. Acquisition of Silcott

On 9 July 2015, the Company acquired the entire issued share capital of Silcott for £3,630,000, satisfied by cash and the issuance of ordinary shares at £0.10 to the value of £300,000.

Details of the acquisition are set out below:

Fair value of consideration	£
Cash	3,330,000
3,000,000 ordinary shares of £0.01	300,000
Bank loan repayment	(130,238)
Net fair value of consideration	3,499,762
Fair value of assets acquired	3,864,545
<b>Gain on bargain purchase</b>	<b>(364,783)</b>

