



# K&C REIT plc

UNAUDITED CONSOLIDATED INTERIM FINANCIAL REPORT  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

# CONTENTS

Section	Page
Company information	2
Chairman's statement	3
Consolidated statement of comprehensive income	5
Consolidated statement of financial position	6
Consolidated statement of changes in equity	7
Consolidated statement of cash flows	8
Notes to the financial statements	9

## COMPANY INFORMATION

<b>DIRECTORS</b>	<p>M D M Davies  D A White  J A Cane  P Farley  T M James  C D James  T J K Oakley  O J Vaughan</p>	<p>Non-executive chairman  Chief executive  Finance director  Non-executive director  Property director  Operations director  Construction director  Executive director</p>
<b>SECRETARY</b>	R J Roberts	
<b>REGISTERED OFFICE</b>	82 St. John Street London EC1M 4JN	
<b>BUSINESS ADDRESS</b>	44/48 Old Brompton Road South Kensington London SW7 3DY	
<b>REGISTERED NUMBER</b>	09080097	
<b>INDEPENDENT AUDITOR</b>	Moore Stephens LLP 150 Aldersgate Street London EC1A 4AB	
<b>SOLICITORS</b>	Fladgate LLP 16 Great Queen Street London WC2B 5DG	
<b>NOMINATED ADVISER AND JOINT BROKER</b>	Stockdale Securities Limited Beaufort House 15 St Botolph Street London EC3A 7BB	
<b>JOINT BROKER</b>	Peterhouse Corporate Finance New Liverpool House 15 Eldon Street London EC2M 7LD	
<b>BANKERS</b>	<p>Metro Bank plc One Southampton Street London WC1A 5HA</p> <p>Barclays Bank plc Level 25, 1 Churchill Place Canary Wharf London E14 5HP</p>	
<b>FINANCIAL PUBLIC RELATIONS</b>	Yellow Jersey PR Limited 7th floor, 22 Upper Ground London SE1 9PD	
<b>WEBSITE</b>	<a href="http://www.kandc-reit.co.uk">www.kandc-reit.co.uk</a>	

# CHAIRMAN'S STATEMENT

for the six months ended 31 December 2016

Dear shareholder

I have pleasure in reporting to you on the progress of the Group in the period since the year-end.

## Market and strategy

K&C REIT plc ("K&C") and its subsidiaries (together the "Group") operates in the UK residential investment market. Since admission to AIM in July 2015, K&C has acquired assets in the Private Rented Sector. K&C is now broadening its activities in the residential sector to include retirement residential, which includes assisted living and residential care. The directors consider that investments in real estate associated with these sub-sectors are increasingly in demand from operators and users, given the fundamental demographic change towards an ageing population in the UK. On average, these sub-sectors deliver higher net income yields than pure residential, which should assist K&C in achieving its target of providing a sustainable, and growing, dividend yield.

As well as aiming to provide income to investors, K&C seeks to acquire residential property assets to which it can add value through asset management activities (quality improvements, rental increases, physical extensions and repositioning, small-scale development) that will increase net asset value per share. In particular, the directors search out residential blocks of apartments held within UK-incorporated companies. These provide an opportunity for K&C, by capitalising on the advantages afforded to REITs, to provide an efficient exit route for vendors that is also accretive to net asset value.

## Corporate activity

On 22 December 2016 and 6 January 2017, Gravity Investment Group Limited subscribed for a total of 5.25 million ordinary shares at 10.0p per share. On 1 March 2017, Ms Qing Xiao subscribed for 476,190 ordinary shares at 10.5p per share. We consider both these to be strategic investments and we welcome these important new shareholders.

On 1 January 2017, Dominic White was appointed chief executive. Dominic comes from a real estate investment and private equity environment, having operated in both private and public real estate markets for the last 24 years. We have already benefited from his expertise in both capital and real estate markets.

K&C has decided to reduce the membership of its board from eight to six directors. With effect from 31 March 2017, Tim Oakley and Christopher James will resign as directors of K&C and Patricia Farley will step down as a non-executive director. Tim and Christopher will continue to provide their expertise and skill as members of the executive board of subsidiary companies in the Group. K&C looks forward to working with Patricia in a consultancy capacity over the coming years. We are immensely grateful to all three of them for the dedication that they have given to the board of K&C since the formation of the Group. I am pleased to announce that, with effect from 1 April 2017, Chris Bateman, who owns and controls Gravity Investment Group, will join the board as a non-executive director.

## Operations

The Group has not made any acquisitions since 30 June 2016. During the period, our active subsidiaries have traded well:

K&C (Coleherne) Limited has increased rents and occupancy rates as a result of asset management initiatives.

K&C (Osprey) Limited continues to exceed our expectations, with revenue significantly improved compared to the same period last year under its previous ownership, as the company has improved its marketing activities and redesigned and relaunched its website.

# CHAIRMAN'S STATEMENT (continued)

for the six months ended 31 December 2016

## Financial

The financial results for the six months to 31 December 2016 show a consolidated loss of £415,841. Income for the period was £233,179 compared to £75,227 in the comparable six months to 31 December 2015.

Net asset value per share declined to 8.75 pence, combining the accretive impact of new capital raised at 10p per share and the negative effect of the loss for the period.

## Future prospects

The Group's objective is to build a portfolio of high-quality assets in the residential sector that combine growing rental income and improving property valuation. This combination would support a sustainable dividend and a growth in net asset value per share. K&C's investments last year were the start of building such a portfolio. The widened strategy that now includes owning assets (but not operating businesses) in the retirement residential sub-sector – assisted living and residential care – ought to assist further progress towards that objective. K&C is reviewing several interesting opportunities in the residential sector that fit its rigorous acquisition criteria. I hope to report further developments to you in the near future.

Michael Davies

**Chairman**

29 March 2017

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 31 December 2016 (unaudited)

	Notes	Six months ended 31 December 2016 £	Six months ended 31 December 2015 £	Year ended 30 June 2016 (audited) £
<b>Revenue</b>		<b>233,179</b>	75,227	151,417
Cost of sales		<b>(59,586)</b>	(28,866)	(60,240)
<b>Gross profit</b>		<b>173,593</b>	46,361	91,177
Profit on disposal of investment properties		–	17,736	–
Total profit before expenses		<b>173,593</b>	64,097	91,177
Administrative expenses		<b>(348,876)</b>	(323,043)	(513,367)
Share-based payment charge		<b>(74,644)</b>	(126,561)	(212,655)
Revaluation of investment properties		–	–	250,000
<b>Operating loss before exceptional items</b>		<b>(249,927)</b>	(385,507)	(384,845)
Gain on bargain purchase		–	364,783	1,541,829
AIM admission costs		–	(780,728)	(786,578)
Costs of acquisition of subsidiaries		<b>(8,463)</b>	(100,202)	(469,848)
Costs associated with third party fundraising		<b>(61,110)</b>	–	–
<b>Operating loss</b>	3	<b>(319,500)</b>	(901,654)	(99,442)
Finance costs		<b>(96,347)</b>	(36,975)	(73,009)
Finance income		<b>6</b>	–	3,138
<b>Loss before taxation</b>		<b>(415,841)</b>	(938,629)	(169,313)
Taxation		–	–	104,942
<b>Loss for the period/year</b>		<b>(415,841)</b>	(938,629)	(64,371)
<b>Total comprehensive expense for the period/year</b>		<b>(415,841)</b>	(938,629)	(64,371)
Basic and diluted loss per share (pence)	4	<b>(0.89)</b>	(2.2)	(0.15)

The notes form part of these financial statements

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2016 (unaudited)

	Notes	31 December 2016 £	31 December 2015 £	30 June 2016 (audited) £
<b>Non-current assets</b>				
Property, plant and equipment		2,287	1,453	2,730
Investment properties	5	7,126,000	4,473,198	7,126,000
		<b>7,128,287</b>	<b>4,474,651</b>	<b>7,128,730</b>
<b>Current assets</b>				
Trade and other receivables		49,115	13,676	24,262
Cash and cash equivalents		50,231	486,054	250,650
		<b>99,346</b>	<b>499,730</b>	<b>274,912</b>
<b>Total assets</b>		<b>7,227,633</b>	<b>4,974,381</b>	<b>7,403,642</b>
<b>Equity</b>				
<b>Shareholders' equity</b>				
Share capital	6	492,856	437,856	467,856
Share premium		4,345,984	3,850,984	4,120,984
Capital redemption reserve		67,500	67,500	67,500
Retained deficit		(592,124)	(1,211,279)	(250,927)
<b>Total Equity</b>		<b>4,314,216</b>	<b>3,145,061</b>	<b>4,405,413</b>
<b>Non-current liabilities</b>				
Financial liabilities – borrowings				
Interest bearing loans and borrowings		2,674,368	1,429,522	2,690,108
<b>Current liabilities</b>				
Trade and other payables		208,318	107,832	277,960
Current portion of borrowings		30,731	60,228	30,161
Taxation payable		–	3,738	–
Loan notes		–	228,000	–
		<b>239,049</b>	<b>399,798</b>	<b>308,121</b>
<b>Total liabilities</b>		<b>2,913,417</b>	<b>1,829,319</b>	<b>2,998,229</b>
<b>Total equity and liabilities</b>		<b>7,227,633</b>	<b>4,974,381</b>	<b>7,403,642</b>
<b>Net asset value per share (pence)</b>		<b>8.75</b>	<b>7.20</b>	<b>9.42</b>

The notes form part of these financial statements

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 31 December 2016 (unaudited)

	Share capital £	Share premium £	Capital redemption reserve £	Retained deficit £	Total £
<b>Balance at 1 July 2015</b>	7,500	–	67,500	(399,211)	<b>(324,211)</b>
<b>Changes in equity</b>					
Issue of share capital	430,356	3,850,984	–	–	<b>4,281,340</b>
Total comprehensive expense	–	–	–	(938,629)	<b>(938,629)</b>
Share-based payment charge	–	–	–	126,561	<b>126,561</b>
<b>Balance at 31 December 2015</b>	437,856	3,850,984	67,500	(1,211,279)	<b>3,145,061</b>
<b>Changes in equity</b>					
Issue of share capital	30,000	270,000	–	–	<b>300,000</b>
Total comprehensive income	–	–	–	874,258	<b>874,258</b>
Share-based payment charge	–	–	–	86,094	<b>86,094</b>
<b>Balance at 30 June 2016</b>	467,856	4,120,984	67,500	(250,927)	<b>4,405,413</b>
<b>Changes in equity</b>					
Issue of share capital	25,000	225,000	–	–	<b>250,000</b>
Total comprehensive expense	–	–	–	(415,841)	<b>(415,841)</b>
Share-based payment charge	–	–	–	74,644	<b>74,644</b>
<b>Balance at 31 December 2016</b>	492,856	4,345,984	67,500	(592,124)	<b>4,314,216</b>

The notes form part of these financial statements



# CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ended 31 December 2016 (unaudited)

	Six months ended 31 December 2016 £	Six months ended 31 December 2015 £	Year ended 30 June 2016 (audited) £
<b><i>Cash flows from operating activities</i></b>			
Loss for the period	(415,841)	(938,629)	(169,313)
<b>Adjustments for</b>			
Depreciation charges	443	–	686
Profit on disposal of investment properties	–	(17,736)	(23,698)
Increase in taxation payable	–	3,738	–
Share-based payment charge	74,644	126,561	212,655
Gain on bargain purchase	–	(364,783)	–
Finance income	(6)	–	(1,544,967)
(Increase)/decrease in trade and other receivables	(24,853)	232,294	221,708
Decrease in trade and other payables	(69,642)	(286,654)	(110,738)
Net cash used in operating activities	(435,255)	(1,245,409)	(1,663,667)
<b><i>Cash flows from investing activities</i></b>			
Purchase of tangible fixed assets	–	(1,453)	(3,416)
Sale of investment property	–	236,094	715,254
Acquisition of subsidiaries	–	(3,330,000)	(4,630,000)
Interest received	6	–	3,138
Net cash from/(used in) investing activities	6	(3,095,359)	(3,915,024)
<b><i>Cash flows from financing activities</i></b>			
Loan repayments in year	(15,170)	(231,000)	(874,000)
Increase in borrowings	–	1,489,750	2,720,269
Share issues	250,000	3,566,340	3,981,340
Net cash from financing activities	234,830	4,825,090	5,827,609
(Decrease)/increase in cash and cash equivalents	(200,419)	484,322	248,918
Cash and cash equivalents at beginning of period	250,650	1,732	1,732
Cash and cash equivalents at end of period	50,231	486,054	250,650

# NOTES TO THE FINANCIAL STATEMENTS

for the six months ended 31 December 2016 (unaudited)

## 1. Basis of preparation

The Company is domiciled in England and Wales. The consolidated interim financial statements for the six months ended 31 December 2016 comprise those of the Company and its subsidiaries. The Group is primarily involved in UK property ownership and letting.

### *Statement of compliance*

This consolidated interim financial report has been prepared in accordance with IAS 34 Interim Financial Reporting. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the financial performance and position of the Group since the last annual consolidated financial statements for the year ended 30 June 2016. This consolidated interim financial report does not include all the information required for full annual financial statements prepared in accordance with International Financial Reporting Standards. The financial statements are unaudited and do not constitute statutory accounts as defined in section 434(3) of the Companies Act 2006.

A copy of the audited annual report for the year ended 30 June 2016 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 29 March 2017.

### *Significant accounting policies*

The accounting policies applied by the Group in this consolidated interim financial report are the same as those applied by the Group in its consolidated financial statements for the year ended 30 June 2016.

## 2. Operating segments

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

## 3. Operating loss

The operating loss is stated after charging

	Six months ended 31 December 2016 £	Six months ended 31 December 2015 £	Year ended 30 June 2016
Costs associated with admission to AIM	–	780,728	786,578
Costs associated with the acquisition of subsidiaries	8,463	100,202	469,848
Costs associated with third-party fundraising	61,110	–	–
Directors' remuneration	25,750	13,780	23,000

# NOTES TO THE FINANCIAL STATEMENTS (continued)

for the six months ended 31 December 2016 (unaudited)

### 3. Operating loss (continued)

During the period, the Company paid (i) Perry Cane, a consultancy business owned by James Cane, fees of £10,000 plus VAT (2015 – £61,000) for services provided to the Company, (ii) CD James (Property Consultants) Limited, a company owned by Christopher James, fees of £10,000 (2015 – £nil) and (iii) DGS Capital Partners LLP, a business partly owned by Michael Davies, fees of £20,000 for his services as chairman (2015 – £nil).

The directors are considered to be the key management personnel.

### 4. Basic and diluted loss per share

#### Basic

The calculation of loss per share for the six months to 31 December 2016 is based on the loss for the period attributable to ordinary shareholders of £415,841 divided by the weighted average number of ordinary shares in issue of 46,907,906 (June 2016 – £64,371/43,711,358).

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.

### 5. Investment properties

	Six months ended 31 December 2016 £	Six months ended 31 December 2015 £	Year ended 30 June 2016
At start of period	7,126,000	691,556	7,126,000
Additions	–	4,000,000	–
Disposals	–	(218,358)	–
At end of period	7,126,000	4,473,198	7,126,000

One investment property was valued by an independent valuer who is a Member of the Royal Institution of Chartered Surveyors (MRICS) on an open market value basis as at 30 June 2016. The directors consider that the valuation of the property, on an open market value, at 31 December 2016 was £4,250,000 (June 2016 – £4,250,000; December 2015 – £4,000,000).

The remaining investment properties were valued at £2,876,000 by professionally qualified independent external valuers on 27 May 2016. The directors consider that the valuation of the property, on an open market value, at 31 December 2016 was £2,876,000 (June 2016 – £2,876,000).

## 6. Share capital

Allotted, issued and fully paid

Number	Class	Nominal value	31 December	31 December	30 June
			2016	2015	2016
			£	£	£
49,285,623	Ordinary	£0.01	492,856	437,856	467,856

On 23 December 2016, the Company issued 2,500,000 ordinary shares of £0.01 each. The shares were issued at a premium of £0.09 per share.

The Company has one class of ordinary share which carries no rights to fixed income.

## 7. Share-based payments

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

	31 December	31 December	30 June
	2016	2015	2016
	£	£	£
Expense arising from share options	74,644	87,815	155,065
Expense arising from warrants	–	38,746	57,950
<b>Total expense</b>	<b>74,644</b>	<b>126,561</b>	<b>212,655</b>

### *Executive share option arrangements*

Under the Group's executive share option arrangements, share options were granted to certain 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, provided the participant remains employed at such time. 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.

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

Director	Balance	Exercised or forfeited	Balance
	at 1 July 2016		at 31 December 2016
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

300,000 executive share options were in issue to other staff members at the end of 31 December 2016.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

for the six months ended 31 December 2016 (unaudited)

## 7. Share-based payments (continued)

### *Non-executive share option plan*

Under the Group's non-executive share option plan, share options were granted to certain non-executive directors on admission to trading on AIM at £0.10 per share and to a past non-executive director in July 2016 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	Balance at 1 July 2016	Exercised or forfeited	Balance at 31 December 2016
Michael Davies	–	–	–
Patricia Farley	144,493	–	144,493

On 11 July 2016, 460,000 non-executive share options were issued to a past non-executive director.

### *Founder warrants*

On 8 September 2014, 750,000 warrants to subscribe for one ordinary share at £0.10 per share at any time before 31 December 2018 were issued to shareholders. The interests of the directors in warrants at 31 December 2016 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 in the directors' interests in founder warrants since the period-end.

### *Allenby warrant*

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

### *Warrants*

On 24 May 2016, 1,500,000 warrants were issued to a number of potential lenders to the Company to subscribe for one ordinary shares at £0.10 per share at any time before 24 May 2021.

## 7. Share-based payments (continued)

### *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	Warrants
Outstanding at 31 December 2015	3,000,000	144,493	750,000	437,856	–
Granted during the period	–	–	–	–	1,500,000
Outstanding at 30 June 2016	3,000,000	144,493	750,000	437,856	1,500,000
Granted during the period	–	460,000	–	–	–
Outstanding at 31 December 2016	3,000,000	604,493	750,000	437,856	1,500,000

The following table lists the inputs to the models used:

	Executive share options	Non-executive share options	Founder warrants	Allenby warrant	Warrants
Share price at grant date (£)	0.10	0.10	0.10	0.10	0.07
Exercise price (£)	0.01	0.10	0.10	0.10	0.10
Dividend yield (%)	0.00	0.00	0.00	0.00	0.00
Expected volatility (%)	50.0	50.00	50.0	50.0	43.21
Risk-free interest rate (%)	0.950	0.535	0.535	0.535	0.27
Expected life of share options/warrants (years)	5.00	3.00	2.60	3.00	3.00
Fair value of share option/warrant (£)	0.0907	0.0340	0.0318	0.0340	0.013

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.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

for the six months ended 31 December 2016 (unaudited)

## 8. Post-balance sheet events

### Share issues

Since 31 December 2016, the Company has issued ordinary shares as follows:

- (a) On 6 January 2017, the Company issued 2,750,000 ordinary shares at 10p per share to Gravity Investment Group Limited for a total consideration of £275,000
- (b) On 24 February 2017, the Company issued 240,000 ordinary shares at 10p per share in settlement of fees
- (c) On 1 March 2017, the Company issued 476,190 ordinary shares at 10.5p per share to Ms Qing Xiao.

### Cancellation of executive option arrangements

On 26 January 2017 the Company entered into deeds with each of Timothy James, James Cane, Christopher James, Oliver Vaughan, Timothy Oakley and Benjamin James by which each individual agreed that the executive share options granted on admission of the Company to trading on AIM would be cancelled if they were allotted an agreed number of restricted preference shares of one penny each ("**Restricted Preference Shares**") at one penny per Restricted Preference Share.

### New articles of association

On 20 February 2017, the Company in general meeting adopted new articles of association, which can be found on the Company's website ([www.kandc-reit.co.uk](http://www.kandc-reit.co.uk)). The principal change to the articles of association was to set out the rights attaching to Restricted Preference Shares.

### Issue of Restricted Preference Shares

On 22 February 2017, the Board approved the allotment of Restricted Preference Shares, at one penny per Restricted Preference Share, to the following directors and entities (which correspond to the amounts set out in the circular posted to shareholders on 27 January 2017 (the "**Circular**") for those directors and entities:

Name	Restricted Preference Shares No. allotted	Amount subscribed £
White Amba Limited, a company controlled by Dominic White	5,000,000	50,000
James Cane	300,000	3,000
Timothy Oakley	3,000,000	30,000
Oliver Vaughan	8,100,000	81,000
<b>Total</b>	<b>16,400,000</b>	<b>£164,000</b>

Further allotments to other executives, also in the amounts set out in the Circular, are expected to be made after the announcement of the interim results of the Group in March 2017.

### Appointment of joint-broker

On 16 February 2017, the Company appointed Peterhouse Corporate Finance Limited ("**Peterhouse**") as its joint broker. Peterhouse will focus on non-institutional investors.

### Payment to a former director

Further to the Company's announcement dated 11 July 2016 concerning the payment to a former director, Mr George Rolls, of a fee of £25,000 conditional on a further fundraising, this fee was paid to Mr Rolls during March 2017.

