KCR RESIDENTIAL REIT PLC

UNAUDITED CONSOLIDATED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2024

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KCR RESIDENTIAL REIT PLC

COMPANY INFORMATION

DIRECTORS	James F Thornton	Non-Executive Chairman
	Russell J Naylor	Executive Director
	Richard J Boon	Non-Executive Director
	Gordon D Robinson	Non-Executive Director
SECRETARY	Azets (CHBS) Limited	
REGISTERED OFFICE	Gladstone House, 77-79 High Street Egham, Surrey TW20 9HY	
BUSINESS ADDRESS	c/o Gladstone House, 77-79 High Street Egham, Surrey TW20 9HY	
REGISTERED NUMBER	09080097 (England and Wales)	
INDEPENDENT AUDITOR	Grant Thornton Limited St James Place St James Street St Peter Port Guernsey GY1 2NZ	
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CHAIRMAN'S STATEMENT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2024

KCR Residential REIT Plc ("KCR" or the "Company") and its subsidiaries (together the "Group") operate in the private rented residential investment market. The Company acquires properties that are rented to private tenants and also owns and operates a freehold portfolio of retirement living accommodation where most of the properties have been sold on long leases.

The half year to 31 December 2024 has seen continued growth in core rental income offset by a reduction in transactional income within the retirement business. Overall the operating environment has remained challenging with sustained higher interest rates and continuing cost of living pressure. Ongoing inflationary pressure has continued to make cost reductions within the business difficult to achieve, however costs continue to be tightly controlled.

The increase in cost of sales relates primarily to the operation of the Deanery Court property with cost increases mainly flowing from increases related to energy (electricity and gas) and cleaning costs. As current energy contracts expire, we expect reductions in energy costs to be achievable.

Fundamentals for UK residential property remain sound notwithstanding the prevailing higher interest rate environment. The Group continues to look for acquisitions on a disciplined basis however tightness in debt markets, more restrictive terms and conditions and higher debt costs have made it challenging to support both the investment and capital raising that would be required to support a substantive transaction.

An additional flat within Heathside was acquired during the half year. Refurbishment works have now been completed and the flat is in the process of being let.

The Group's primary short-term focus is to optimise the performance from the existing assets whilst controlling costs to achieve a cash neutral position.

Progress continues to be made to transition the business. The strategy, as outlined in last year's Annual Report, remains unchanged, to:

- improve the rental revenue from the existing properties;
- progressively upgrade the overall portfolio quality;
- explore the development opportunity within the portfolio; and
- focus on controlling and reducing costs where possible.

Lease expiries and tenant churn continue to be actively managed to optimise rentals achieved. We expect to continue to achieve incremental revenue growth over the balance of the financial year.

Inflationary pressure continues to result in ongoing cost pressure, and we remain actively focussed on managing the cost base to limit the impact of cost increases on the business. Where possible we will continue to explore avenues to achieve cost savings by streamlining processes within the day-to-day operation of the business.

The increase in Administration expenses during the half year was driven by repairs and maintenance at the Ladbroke Grove properties and general inflationary price increases from most suppliers to the Group.

The Hodge Bank facilities fixed rates have now expired and these facilities are in the process of being refinanced. Current fixed rates in the market are substantially above the legacy 3.50% that was previously in place. Finance costs are expected to be around £200k per annum higher as a result of the impact of the higher interest rates.

The impact of ongoing cost pressure and increased finance costs will continue to keep the business cash constrained and make achieving a cash neutral position more challenging.

DIRECTOR'S REPORT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2024

We are pleased to report on the progress of the Group in the six-month period to 31 December 2024.

Growth in core rental revenue for the half year slowed as a result of a softer December quarter at the Deanery Court property and with some vacancies within the Ladbroke Grove portfolio whilst repairs and maintenance works were completed. The Ladbroke Grove flats have since all been re-let and this property is now 100% occupied again.

A reduction in transactional income within the retirement portfolio offset the growth in core rental revenue resulting in a flat overall outcome for the half year. Active management of lease expiries to optimise core rental increases is ongoing.

Of the existing Group assets, the Deanery Court property is considered to offer the most upside for further performance improvement.

The focus here is on improving overall average occupancy and achieving cost reductions in the operation of the Cristal Apartments model to deliver improvement in the net contribution from this property.

Ongoing active management and focus on achieving rent increases at all other properties is expected to also deliver incremental revenue gains, however these will have a less material impact on overall performance outcomes than improvements at Deanery Court.

Operational highlights

- revenue for the half year increased 0.5% to £950k (2023: £946k), with revenue growth in core rental revenues largely offset by a reduction in transactional income within the retirement portfolio;

- portfolio level occupancy has remained strong over the half year with rental increases continuing to be achieved at renewals / re-letting. Under the Cristal Apartments operating model there is now more volatility in occupancy levels within the properties operated on this basis, however higher overall rental revenue and gross profit is being generated notwithstanding this; and

- positive operating cashflow from operations was generated for the first time with net cash from operations of £32k (2023: deficiency £119k) Whilst the business remains cash negative, focus continues to be on reducing the cash burn within the business. After allowing for financing charges, net cash used in operating activities reduced by 37% to £261k (2024: £412k).

The ongoing focus on improving operational performance and controlling costs continues to minimise Group cash burn. Further improvements in operational performance over the next 12 months are expected to be offset by the increased finance costs that will be incurred during the second half of the 2025 financial year.

Property Portfolio

Property transactions during the half year

An additional flat was acquired within Heathside during the half year. Full refurbishment of this flat completed during February 2025 and it is in the process of being let on an AST basis. The ongoing strategy of acquiring, refurbishing and re-letting flats within Heathside has proven astute.

One of the legacy un-refurbished flats at Heathside is also in the process of a full refurbishment which is expected to be completed by the end of March 2025. Post refurbishment this flat will be let on an assured shorthold tenancy ("AST") basis.

Eleven flats are now owned within Heathside which is assisting in delivering rental growth for the portfolio. We continue to look for additional opportunities to make follow on acquisitions of flats within Heathside.

As outlined above, tightness in debt markets, tighter terms and conditions and higher debt costs make it challenging to support both the investment and capital raising that would be required to support any substantive acquisitions.

Existing Portfolio

KCR continues to focus on improving performance from its existing portfolio. The investment over recent years in improving the quality of the portfolio has continued to deliver revenue growth and we reasonably expect to continue to drive further growth from the existing assets over the course of the current financial year.

In conjunction with incremental revenue growth, we are actively looking for avenues to reduce the costs associated with the properties and the operation of the Cristal Apartments model. Deanery Court and Coleherne Road both offer opportunities for cost savings to be achieved to enhance the net contribution from both properties.

As outlined above, Deanery Court is considered to offer the most material incremental revenue upside and this is a key focus over the balance of calendar year 2025.

We are continuing to progress our preferred planning outcome for the Ladbroke Grove properties and are considering testing the market with the completion of more substantive refurbishment works, as flats become vacant to test market acceptance of a repositioned product.

As we have outlined previously, the tired condition of this property is resulting in increasing repairs and maintenance expenditure which is expected to continue, pending a more holistic refurbishment works programme. Repositioning of the rental product on offer by materially enhancing the quality and presentation of the flats is considered to have potential to drive a material uplift in achievable rentals and capital values.

KCR has two operating lines, clearly identifiable by brand, property quality and letting strategy.

1. Cristal Apartments. Residential apartments, finished to a high modern specification, fully furnished and let on a Walk in Walk Out (WIWO) basis (utilities subject to fair usage caps, internet, furniture and TV licence included) for a frictionless and flexible letting experience. Rental contracts offer flexible terms; and
2. Osprey Retirement Living. 4* retirement living property rented on flexible letting packages customised to suit tenant needs. All rentals are on assured shorthold tenancies for a minimum period of six months.

1. Cristal Apartments (WIWO letting strategy)

The Coleherne Road and Deanery Court properties are both branded and operated under the Cristal Apartments brand. Both have delivered substantially improved performance following the repositioning of the rental product offered and conversion to the Cristal Apartments operating model.

Coleherne Road – this property comprises ten studio and one-bedroom flats. The property has been repositioned to a materially higher standard and a full refurbishment programme has been completed.

Ladbroke Grove – this portfolio comprises 16 studio, one and two bedroom flats in three buildings which are 100% occupied. The flats are being lightly refurbished as tenants vacate and then re-let in the private rental market. The overall tired condition of the property is reflected in ongoing repairs and maintenance expenditure. Planning works continue to be progressed and options for the property evaluated. Once planning outcomes are known we will finalise the approach with this property (progressive holistic refurbishment on a flat-by-flat basis or more substantive works if planning approvals are achieved).

Deanery Court (Southampton) – this property comprises 27 two-bedroom residential apartments and has been converted to the Cristal Apartments operating model. A light refurbishment programme was completed as part of the conversion process.

2. Osprey retirement living (4* retirement apartments)

The Osprey portfolio consists of 153 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 key asset in the portfolio is the freehold block at Heathside, Golders Green comprising 37 one and two bedroom apartments with 11 (ten as at 31 December 2023) of the apartments owned by the Group and 26 held on a long leasehold basis. The strategy to selectively acquire long leasehold apartments within the block, refurbish them to a high standard and let them on an assured tenancy basis has been successful and has delivered strong rental returns for the Group.

Financial Performance

The half year to 31 December 2024 reflects incremental revenue growth in core rentals with a flat overall outcome following weakness in transactional income within the retirement portfolio.

The increased cost of sales during the first half of the financial year primarily related to the Deanery Court property with cost increases relating mainly to energy and cleaning costs. Administrative expenses also increased against the prior half year driven by repairs and maintenance at the Ladbroke Grove properties and general inflationary price increases from most suppliers to the Group.

- Revenue for the half year increased 0.5% to £950k (2023: £946k)
- Gross profit as a percentage of revenue reduced to 76.10% (2023: 80.44%) reflecting the impact of higher energy and cleaning costs associated with the Cristal Apartments operating model. In absolute terms overall gross profit decreased by 5.01% to £723k (2023: £761k).
- An Operating profit before separately disclosed items of £798k (2023: £97k).
- Operating profit £714k (2023: £3k loss) after refurbishment costs of £84k (2023: £99k).
- Profit for the period was £433k (2023: £291k loss) and profit per share was £1.04 (2023: 0.70p loss per share).

The value of KCR's property portfolio was up on the comparative period at £26.2m (2023: £25.8m), reflecting the impact of revaluation movements at the last balance sheet date and at the interim reporting date. The Group's current assets increased to £0.9m (2023: £0.7m) with an increase in trade and other receivables largely offsetting a reduction in cash used to fund the acquisition of an additional flat, operating losses and support ongoing refurbishment work programmes. Secured bank borrowings increased to £13.9m against the prior half (2023: £13.3m) reflecting the increased funding taken out during the June 2024 half year.

Total assets increased to £27.14m (2023: £26.93m) with the reduction in current assets and a positive movement in the property portfolio. Net assets per share decreased to 30.61p (2023: 31.72p).

The Group continues to be cashflow negative, however it is continuing to work towards achieving a cash neutral position by improving operating performance from the existing portfolio. Costs continue to be actively managed as we work towards building a stable platform that can be scaled up. At 31 December 2024, the Group had cash balances totalling £0.47m (2023: £0.53m).

Through the period the Company remained a REIT and has complied with REIT rules.

KCR RESIDENTIAL REIT PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 31 DECEMBER 2024 (unaudited)

	Notes	**Six months ended 31 December 2024 £**	Six months ended 31 December 2023 £	Year ended 30 June 2024 (audited) £
Revenue	2	**950,103**	946,004	1,796,106
Cost of sales		**(227,253)**	(185,001)	(346,194)
Gross profit		**722,850**	761,003	1,449,912
Administrative expenses		**(710,331)**	(668,350)	(1,325,589)
Other operating income		**-**	3,880	-
Fair value through profit and loss – revaluation of investment properties		**785,000**	-	(679,000)
Operating profit/(loss) before separately disclosed items		**797,519**	96,533	(554,677)
Costs associated with refurbishment of investment properties	3	**(83,990)**	(99,371)	(67,867)
Operating profit/(loss)		**713,529**	(2,838)	(622,544)
Finance costs		**(293,182)**	(293,119)	(584,840)
Finance income		**12,249**	4,869	21,309
Profit/(loss) before taxation		**432,596**	(291,088)	(1,186,075)
Taxation		**-**	-	-
Profit/(loss) for the period/year		**432,596**	(291,088)	(1,186,075)
Total comprehensive income/(expense) for the period/year		**432,596**	(291,088)	(1,186,075)
Profit/(loss) per share expressed in pence per share	4			
Basic		**1.04**	(0.70)	(2.85)
Diluted		**1.04**	(0.70)	(2.85)

KCR RESIDENTIAL REIT PLC (REGISTERED NUMBER: 09080097)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2024 (unaudited)

	Notes	**31 December 2024 £**	31 December 2023 £	30 June 2024 (audited) £
Non-current assets				
Property, plant and equipment		**129,490**	205,864	167,676
Investment properties	5	**26,151,300**	25,835,300	25,156,300
Other long-term financial assets		**-**	155,000	-
		26,280,790	26,196,164	25,323,976
Current assets				
Trade and other receivables		**383,282**	199,374	455,545
Cash and cash equivalents		**472,652**	532,332	931,595
		855,934	731,706	1,387,140
Total assets		**27,136,724**	26,927,870	26,711,116
Equity				
Shareholders' equity				
Share capital	6	**4,166,963**	4,166,963	4,166,963
Share premium		**14,941,898**	14,941,898	14,941,898
Capital redemption reserve		**344,424**	344,424	344,424
Retained earnings		**(6,697,563)**	(6,235,172)	(7,130,159)
Total equity		**12,755,722**	13,218,113	12,323,126
Non-current liabilities				
Interest bearing loans and borrowings		**13,904,324**	13,274,574	13,904,324
Current liabilities				
Trade and other payables		**476,678**	435,183	483,666
		476,678	435,183	483,666
Total liabilities		**14,381,002**	13,709,757	14,387,990
Total equity and liabilities		**27,136,724**	26,927,870	26,711,116
Net asset value per share (pence)		**30.61**	31.72	29.57

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 31 DECEMBER 2024 (unaudited)

	Share capital	Share premium	Capital redemption reserve	Retained earnings	Total equity
	£	£	£	£	£
Balance at 1 July 2023	4,166,963	14,941,898	344,424	(5,944,084)	**13,509,201**
Changes in equity					
Total comprehensive expense	-	-	-	(291,088)	**(291,088)**
Balance at 31 December 2023	4,166,963	14,941,898	344,424	(6,235,172)	**13,218,113**
Changes in equity					
Total comprehensive expense	-	-	-	(894,987)	**(894,987)**
Balance at 30 June 2024	4,166,963	14,941,898	344,424	(7,130,159)	**12,323,126**
Changes in equity					
Total comprehensive income	-	-	-	432,596	**432,596**
Balance at 31 December 2024	4,166,963	14,941,898	344,424	(6,697,563)	**12,755,722**

KCR RESIDENTIAL REIT PLC

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2024 (unaudited)

	Six months ended 31 December 2024 £	Six months ended 31 December 2023 £	Year ended 30 June 2024 (audited) £
Cash flows from operating activities			
Profit/(loss) for the period/year from continuing operations	**432,596**	(291,088)	(1,186,075)
Adjustments for			
Depreciation charges	**38,187**	38,247	76,435
Revaluation of investment properties	**(785,000)**	-	679,000
Finance costs	**293,182**	293,119	584,840
Finance income	**(12,249)**	(4,869)	(21,309)
Decrease/(increase) in trade and other receivables	**72,263**	(133,804)	(234,975)
(Decrease)/increase in trade and other payables	**(6,989)**	(20,979)	27,504
Cash from / (used in) operations	**31,990**	(119,374)	(74,580)
Interest paid	**(293,182)**	(293,119)	(584,840)
Net cash used in operating activities	**(261,192)**	(412,493)	(659,420)
Cash flows from investing activities			
Purchase of property, plant & equipment	**-**	(40,892)	(40,892)
Purchase of investment properties (including capital expenditure on current properties)	**(210,000)**	-	-
Interest received	**12,249**	4,869	21,309
Net cash used in investing activities	**(197,751)**	(36,023)	(19,583)
Cash flows from financing activities			
Loan repayments in period/year	**-**	-	(2,375,000)
Proceeds from new loans in year	**-**	-	3,004,750
Net cash generated from financing activities	**-**	-	629,750
Decrease in cash and cash equivalents	**(458,943)**	(448,516)	(49,253)
Cash and cash equivalents at beginning of period/year	**931,595**	980,848	980,848
Cash and cash equivalents at end of period/year	**472,652**	532,332	931,595

1. Basis of preparation

The Company is registered in England and Wales. The consolidated interim financial statements for the six months ended 31 December 2024 comprise those of the Company and subsidiaries. The Group is primarily involved in UK property ownership and letting.

Statement of compliance

This consolidated interim financial report has been prepared in accordance with the recognition and measurement principles of UK adopted International Accounting Standards. AIM-quoted companies are not required to comply with IAS 34 Interim Financial Reporting and the Group has taken advantage of this exemption. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial performance and position of the Group since the last annual consolidated financial statements for the year ended 30 June 2024. 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 2024 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 31 March 2025.

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 2024.

Basis of consolidation

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

Going Concern

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

The Directors have concluded that it remains appropriate to prepare these interim financial statements on a going concern basis.

2. Operating segments

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

Revenue analysed by class of business:

	Six months ended 31 December 2024	Six months ended 31 December 2023	Year ended 30 June 2024 (audited)
	£	£	£
Rental income	**835,764**	816,009	1,568,175
Management fees	**57,517**	56,550	113,792
Resale commission	**32,100**	32,100	42,740
Ground rents	**10,175**	10,345	12,895
Leasehold extension income	**9,462**	31,000	51,935
Other income	**5,085**	-	6,569
	950,103	946,004	1,796,106

3. Operating loss

The operating loss is stated after charging:

	Six months ended 31 December 2024	Six months ended 31 December 2023	Year ended 30 June 2024 (audited)
	£	£	£
Costs of refurbishment of investment properties	**83,990**	99,371	67,867
Depreciation of property, plant and equipment	**38,187**	38,247	76,435
Directors' remuneration	**66,500**	66,500	193,000

During the six months ended 31 December 2024, the Group incurred costs of £83,990 (£99,371 – December 2023) (£67,867 – June 2024) relating to major refurbishment of properties at Coleherne Road, London, Ladbroke Grove, London and Heathside, London.

During the six month period, the Company paid Naylor Partners, a business owned by Russell Naylor, fees of £24,000 (December 2023 - £24,000).

The directors are considered to be key management personnel.

4. Basic and diluted profit per share

Basic

The calculation of profit per share for the six months to 31 December 2024 is based on the profit for the period attributable to ordinary shareholders of £432,596 divided by a weighted average number of ordinary shares in issue.

The weighted average number of shares used for the six months ended 31 December 2024 was 41,669,631 (June 2024 – 41,669,631) (December 2023 – 41,669,631).

Diluted

The calculation of profit per share for the six months to 31 December 2024 is based on the profit for the period attributable to ordinary shareholders of £432,596 divided by a weighted average number of ordinary shares in issue, adjusted for dilutive share options. As no share options existed in the 6 months ended 31 December 2024, there is no dilution to the profit per share.

The weighted average number of shares used for the six months ended 31 December 2024 was 41,669,631 (June 2024 – 41,669,631) (December 2023 – 41,669,631).

5. Investment properties

	Six months ended 31 December 2024	Six months ended 31 December 2023	Year ended 30 June 2024 (audited)
	£	£	£
At start of period/year	**25,156,300**	25,835,300	25,835,300
Additions	**210,000**	-	-
Revaluations	**785,000**	-	(679,000)
At end of period/year	**26,151,300**	25,835,300	25,156,300

Investment properties were valued by professionally qualified independent external valuers at the date of acquisition and were recorded at the values that were attributed to the properties at acquisition date. The investment properties were independently valued in May 2024, July 2024 and March 2025. All material properties were subject to full valuations. The properties were valued by the Directors as at 31 December 2024 with reference to independent valuations completed in May 2024, July 2024 and March 2025. A number of low value properties (less than 8% of the total investment property value) within the Osprey portfolio were valued by the Directors with reference to independent valuations completed in August 2023 and the market commentary contained within the independent external valuations performed in May 2024.

5. Investment properties – continued

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 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 Adopted rate per square foot	4.00% - 7.60% £265-£1,464

6. Share capital

Allotted, issued and fully paid:			**31 December 2024**	31 December 2023	30 June 2024 (audited)
Number:	Class:	Nominal value:	**£**	£	£
41,669,631	Ordinary	£0.10	**4,166,963**	4,166,963	4,166,963
			4,166,963	4,166,963	4,166,963

At 1 July 2024, the Company had 41,669,631 Ordinary shares of £0.10 each in issue. The Ordinary shares carry no rights to fixed income.

7. Related Party Transactions

Details of remuneration and fees paid to directors are disclosed at note 3 of these interim financial statements.

8. Post Balance Sheet Events

There are no post balance sheet events to disclose.