

KIN GROUP PLC (“the Company”)

NOMINEE’S REPORT IN RESPECT OF A CVA PROPOSAL

IN THE MATTER OF A PROPOSAL FOR A COMPANY VOLUNTARY ARRANGEMENT PURSUANT TO PART I OF THE INSOLVENCY ACT 1986

REPORT OF THE NOMINEE PURSUANT TO SECTION 2 OF THE INSOLVENCY ACT 1986 (“the Act”)

5 OCTOBER 2017

NOMINEE’S REPORT & COMMENTS

A. NOMINEE’S REPORT

I, Simon Harris, licensed Insolvency Practitioner of ReSolve Partners Limited (“ReSolve”), 22 York Buildings, John Adam Street, London WC2N 6JU, **HEREBY REPORT** to the court as follows:-

1. Ben Woodthorpe and I are the Joint Nominees of the Company in respect of a proposal for a Company Voluntary Arrangement (“CVA”) with creditors in respect of the Company’s debts. When carrying out all professional work relating to an insolvency appointment, Insolvency Practitioners are bound by the Insolvency Code of Ethics.
2. Ben Woodthorpe and I have given our written consent to the Company to act as Joint Nominees pursuant to the relevant provisions of the Insolvency (England and Wales) Rules 2016 (“the Rules”).
3. I have considered the Company’s proposal, and I am of the opinion:
 - a. that the Company’s financial position is not materially different from that which it is represented to the creditors to be in the proposal;
 - b. that there is no manifest unfairness (subject to anything in the Nominee’s comments below); and
 - c. that the proposal is achievable and a fair balance is struck between the interests of the Company and the creditors.
4. I am not aware of any key creditor’s specific reasons which would lead to this proposal being rejected.
5. I am of the opinion that the Company’s proposal has a reasonable prospect of being approved and implemented and that the creditors should be invited to consider the proposal.

B. NOMINEE’S COMMENTS

1 MEMBER’S MEETING AND CREDITORS’ DECISION PROCEDURE

I have considered the Company’s proposal and I am of the opinion that a meeting of the members and a creditors’ decision procedure should be convened to consider and, if thought fit, approve the proposal.

I propose the creditors’ decision procedure is to be convened for 23:59 on 23 October 2017, followed by the member’s meeting held at the offices of Peterhouse Corporate Finance Limited at New Liverpool House, 15 Eldon Street, London EC2M 7LD at 10.00am on 24 October 2017.

Attached to the directors' proposal is the following:

- Notice of a decision procedure and form pursuant to Rule 17.4 of the Rules for creditors to consider approval of the directors' proposal, and
- Notice of the member's meeting.

2 ESTIMATED OUTCOME OF THE ARRANGEMENT

The Company has included a comparison of the outcome to creditors under liquidation and if the CVA is accepted as it has been proposed. I have no reason to believe that it is not a valid estimate. Unsecured creditors will receive 1 new Ordinary Share of 0.0001 pence credited as fully paid for every 0.01 pence of debt in comparison to a nil dividend in the event the Company enters liquidation, whether voluntary or compulsory liquidation.

In a CVA the Company is proposing to make a one-time debt for equity swap. If placed into liquidation, however, there is no possibility that a debt for equity swap will take place and creditors will receive no dividend or other value in respect of their claims.

Furthermore, in a CVA employee claims are mitigated due to the continuation of employment of staff.

3 MEASURES TAKEN TO AVOID RECURRENCE

As outlined in the proposal, one of the key factors which led to the Company's cash flow pressures was the level of historic expenditure incurred by previous management in pursuit of a direct consumer retail strategy that failed to deliver the commercial results anticipated and the costs of pursuing litigation against Fitbit Inc. in California and the United Kingdom. Although the litigation was settled, further working capital was raised and the Company's balance sheet restructured in July 2017 in order to implement a turnaround strategy to reposition the Group from being a supplier of cost-effective fitness trackers to a provider of digital technologies to help people improve their general health and wellbeing, the length of time required to convert potential customers into sales proved too long for the working capital resources available to the Group.

On 15 May 2017 the Company agreed to issue convertible unsecured loan notes to raise up to £1.125 million (before expenses) ("Notes"), to Belastock Capital L.P. ("Belastock"), an overseas based institutional investor. The Notes were to have an aggregate nominal value of up to £1.25 million and would be issued at a 10 per cent discount to nominal value in up to four tranches. On conversion of the notes into new ordinary shares in the Company, the Company was also to issue Belastock with one warrant for each Conversion Share. The first tranche of £350,000 in nominal value of Notes to raise £315,000 (before expenses) was issued on 15 May 2016, the net proceeds of which were £297,500.

The issue of each of the subsequent tranches of Notes was conditional upon, among other things, the closing bid price of the Company's ordinary shares (as reported by Bloomberg) not being below £0.001 (0.1 pence) for any five consecutive trading days on or prior to the relevant issue date.

This condition was not met at the close of business on 12 June 2017. Following discussions with Belastock, the Company announced on 13 June 2017 that Belastock had confirmed its ongoing support for the Company and that it was the then current intention of Belastock to subscribe for the remaining tranches of the Notes as outlined on 15 May 2017. The second tranche of the Notes, which would have raised approximately £255,000 (net of expenses), was due to be issued in mid-July.

On 18 July 2017 the Company announced that Belastock had informed the Group that, due to the continued recent falls in the Company's share price, particularly since 13 June 2017, Belastock was not

going to proceed with the three further tranches of the Convertible Loan Note announced on 15 May 2017 which would have raised £765,000 (net) for the Company over the following four months.

The Notes were a key part of the Company's plans for short term development capital and the withdrawal of this support has meant the Company suffered a significant and unexpected shortfall in its available working capital.

Since then, and after exploring various avenues to secure replacement funding to continue the business, the Company has been unable to attract a solution which would enable the Group to continue with its business and, on the appointment of Administrators to Kin Wellness Limited, the Company's principal trading subsidiary, the Company has become a Rule 15 Cash Shell under the AIM Rules for Companies.

Following the approval of the CVA the Company is expected to receive up to £1 million in new investment from a placement of 100,000,000,000 new ordinary shares at 0.001 pence per share organised by Peterhouse Corporate Finance Limited. These new shares will represent approximately 80 per cent of the enlarged issued share capital of the Company. The Company will then look to undertake a transaction which amounts to a reverse takeover in accordance with the AIM Rules for Companies.

4 INVESTIGATIONS UNDERTAKEN

I have discussed the Company's proposal with the directors, and consider that the proposal gives a fair view of the Company's assets and liabilities.

I have generally relied on the information provided to me by the Company and I have undertaken proportionate investigations into, and verification of, the Company's income and expenditure and assets and liabilities.

The Company has provided the following information, forming part of my investigations:

- Statutory and management financial accounts
- Bank statements
- Forecasts
- Fundraising circulars and RNS announcements
- Copies of returns filed
- HMRC correspondence
- Payroll information, and
- Various ad hoc communications.

I have not undertaken an extensive investigation into the information provided to me by the Company. However I have spoken to key creditors, including the secured creditor NW1 Investments Limited ("NW1"), where I considered it appropriate. This assisted me in verifying the accuracy of the information detailed in the Proposal and to identify potential voidable transactions that may be recoverable by a Liquidator.

I am not aware of any transactions that may be recoverable by a Liquidator. This includes, but is not limited to, Sections 238 (Undervalue transactions), 239 (Preferences), 244 (extortionate credit transactions) and 245 (invalid floating charges) of the Act.

5 ASSETS

A summary of the Company's assets are detailed in **Appendix II** of the proposal. I consider the proposal gives a true and fair view of the Company's assets. My specific comments on each category are detailed under the subheading below:

5.1 Book debts

The Company's outstanding debtor ledger of £866 relates to a historic debtor and is unlikely to be collected.

5.2 Investment in Fitbug Inc.

The Company invested in Fitbug Inc., which is a 100 per cent owned subsidiary of Kin Wellness Limited – in Administration. It has been assumed this has no value and this entity will be dealt with in due course.

5.3 Kin Wellness Limited – in Administration (formerly Fitbug Limited) investment & intercompany

The Company's has invested significant sums into its 100 per cent owned subsidiary Kin Wellness Limited ("KWL"). KWL entered into Administration on 30 August 2017 and Ben Woodthorpe and I of ReSolve were appointed Joint Administrators. It is unlikely that there will be any material realisations from KWL's Administration and therefore it has been written down to nil.

5.4 Cash at bank

The Company has a current account with Royal Bank of Scotland plc ("RBS"). Cash at bank as at the date of the directors' proposal is £1.11.

5.5 Pre-payments

The management accounts of the Company suggest the Company has pre-payments of £14,223. The majority of these relate to software licences and insurance. Although we have not reviewed the individual agreements, it is unlikely there would be any material realisations from this source of asset.

5.6 Fixed assets

The Company has a small amount of office equipment. However this has been fully depreciated and has minimal value.

6 LIABILITIES

A breakdown of the Company's creditors is detailed in *Appendix II*. The creditor figures are estimates for the purpose of preparing the proposal only and may differ upon receipt of formal claims from the creditors. However, the estimates given appear reliable, on present information.

I consider the proposal gives a true and fair view of the Company's liabilities based on the information provided in the proposal. I understand the information is based on the Company's books and records, directors' best estimates and their more recent correspondence with creditors.

6.1 Secured creditors

As discussed above, I have liaised with the secured creditor NW1 regarding the directors' proposal. Ordinarily a secured creditor would remain outside the CVA, leaving the risk the secured creditor may take precipitative action at a later stage. However, NW1 has agreed to wholly surrender its security on its total debt of £1,947,553, therefore being able to participate in the CVA and hopefully achieving a successful restructuring.

6.2 Major unsecured creditors

As explained in the director's proposal, the directors previously engaged ReSolve to liaise with key creditors of the Company's on its behalf to negotiate repayment terms of their respective debts. Those creditors are:

- NW1 Investments Limited, and
- Belastock Capital LP.

According to the Company's records, NW1 Investments Limited is now an unsecured creditor with circa 86 per cent of the unsecured vote. It therefore has sufficient voting power to pass the resolution to approve the CVA on its own account, should it decide to vote.

In addition, whilst NW1 Investments Limited is a member of the Company it is not considered to be connected in accordance with section 249 of the Insolvency Act 1986 (as amended).

I am not aware of any key creditor's specific reasons which would lead to this proposal being rejected.

6.3 Interested parties

I am not aware of any specific effect of the CVA on a third party where their view may have an effect on the viability of the CVA.

7 OFFICE HOLDERS

Nominee and Supervisor

My fee for acting as Joint Nominee and Joint Supervisor has been fixed at £15,000 plus disbursements plus VAT (where applicable). This fee is for assisting the directors and the Company prepare its proposal to creditors and for me commenting and reporting on the merits of same to creditors.

The fee has been guaranteed by a third party prospective investor and will be payable even if the CVA is rejected.

The Proposal provides details of the proposed Joint Supervisors of the CVA, being Ben Woodthorpe and Simon Harris of ReSolve. Each Supervisor is licensed to act as an Insolvency Practitioner by the Institute of Chartered Accountants of England and Wales and is qualified to act in this case pursuant to the Act.

The Supervisors' remuneration, together with their category one disbursements, is expected to be met out of the proceeds of the Placing. The Supervisors' fees and expenses shall rank ahead of the claims of creditors.

The Supervisors' functions, powers and duties are outlined in the proposal. A Creditors Guide to Insolvency Practitioners' Fees is detailed in **Appendix V** of the proposal and an extract of the schedule of ReSolve's current charge out rates is detailed below:

Staff grade	Rate per hour (£)
Principal/Partner/Office Holder	510
Director	415
Senior Manager	395
Manager	340
Assistant Manager	305
Senior Administrator	255
Administrator	195
Junior Administrator	145

8 EFFECT OF REJECTION

In the event that the proposal is not approved by creditors it is likely that the Company will be subject to liquidation or administration proceedings. The estimated return to unsecured creditors is nil in liquidation in comparison to 1 new Ordinary Share of 0.0001 pence credited as fully paid for every 0.01 pence of debt.

9 OTHER MATTERS


The Company and its director have co-operated with me fully to date in respect of all my enquiries.

Except insofar as specific functions are to be performed by the Supervisor under the terms of the CVA, the affairs, business and property of the Company shall continue to be managed by the directors of the Company. The Company's and its officers' obligations during the CVA period are detailed the proposal.

I confirm ReSolve has previously been engaged by the Company as outlined in the directors' proposal to assist in negotiating repayment terms with key creditors, prior to consenting to act as Nominee in respect of the proposal to its creditors. The directors approached ReSolve to assist it with the above proposal and provide them advice regarding the Company's options. There was no referral fee in respect of this engagement.

Should you have any queries regarding this matter, please contact Matt Donohoe of this office.

Yours faithfully



Ben Woodthorpe
Joint Nominee

For enquiries regarding this correspondence please contact:

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Partners and staff acting as administrators, administrative receivers, nominees or supervisors act as agents of the Company over which they are appointed at all times, and without personal liability
Cameron Gunn, Mark Supperstone, Simon Harris and Ben Woodthorpe are licensed to act as Insolvency Practitioners in the United Kingdom by the Institute of Chartered Accountants in England and Wales