

BKUK Group Limited

Annual report and consolidated financial statements

Year ended 31 December 2021

Registered number 10980808



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BKUK Group Limited

Strategic Report

The directors present their strategic report on the Group for the year ended 31 December 2021 and comparatives for the year ended 31 December 2020 and 31 December 2019. Any references to 'the Group' throughout these financial statements, unless otherwise stated, refer to BKUK Group Limited and its subsidiaries as listed within subsidiaries and related undertakings note.

Principal activities

The Group's principal activities are the franchise and operation of Burger King restaurants.

Review of the business

The Group continued its rapid expansion in the UK, executing its strategy well and delivering profitable growth in the year. During 2021 the Group opened 19 new restaurants and acquired one franchisee, Zing Leisure Limited, on 14 May 2021, which operates 17 Burger King franchises around England. In December 2021 the Group acquired a further three restaurants as an asset purchase and exchanged contracts subject to landlord consent on lease transfers for an additional eleven restaurants. At 30 March 2022 consent had been received for 3 restaurants. In addition, during the year the Group has continued to expand its home delivery offering, launched several new vegan products and increased the number of the users of the Burger King app by 0.5 million.

During the year the Group signed an amendment to the Master Franchise and Development Agreement ("MFDA") held between BKUK Group Limited and Burger King Europe GmbH, which in the opinion of the Directors is beneficial to the Group and the operation of the Burger King brand in the United Kingdom.

Despite the COVID-19 pandemic having a continued significant detrimental impact on the hospitality sector and impacting the sector's ability to trade normally, the Group have experienced growth and posted strong financial results. In response to the pandemic, the Group has taken decisive action to successfully navigate the various challenges presented to the business. This includes:

1. Securing additional equity funding
2. Entering constructive negotiations with key stakeholders, including shareholders, banks and landlords
3. Adapting operating methods to ensure safe working environments and therefore minimising closure periods

The operating profit for the Group for the year is £33.5m (2020: loss of £7.3m, 2019: loss of £9.0m) and is largely due to the improved restaurant performance and increased sales, as well as acquisitions and continued expansion of the business through new site openings with a particular focus on Drive Thru. The Group has seen particularly strong performance from Drive Thru restaurants and delivery sales, which have been resilient throughout 2021. However, the Group has continued to be impacted by COVID-19. The support provided by the Government, including the reduced VAT rate and business rates relief, has assisted the business during the year, however whilst it has supported the viability of a number of the Group's restaurants, it has not fully compensated for the loss in trading due to the pandemic. The Coronavirus Job Retention Scheme (CJRS) has enabled the Group to support its employees and therefore re-open restaurants at the earliest, safest opportunity. The Group passed the benefits of the CJRS to its employees, many of whom are part time workers on flexible contracts, and therefore it achieved its objective of protecting jobs but has had little net impact on the Group's profitability. The Group claimed £1.6m through the Furlough scheme in 2021 (2020: £9.0m, 2019: nil), with the year-on-year reduction achieved through a successful reopening programme.

The Group's strong performance and expansion of delivery services in 2020 and 2021, alongside a drawdown of £25,000,000 of 11% unsecured redeemable series A loan notes on 13 May 2021 from its shareholder Royale Interco Limited to support the Group's expansion, allowed the Group to strengthen its cash position to £36.2m (2020: £12.9m, 2019: £11.3m) as at year end. Furthermore, the Group has secured £25m of additional loan facilities post year end and the Group repaid the £9.2m guaranteed vendor loan note payable to the previous owner of the Caspian Retailers Limited entity with all accrued interest thereon on 21st January 2022. Therefore the Group has adequate liquidity to meet future liabilities for a period of at least 12 months from the date of approval of these financial statements

At the year end, the Group has net liabilities of £65.0m (2020: £77.9m, 2019: £54.3m) due to compounding shareholder loan notes, that have funded its acquisition and new restaurant opening programme.

Current trading and outlook

Despite partial COVID-19 measures, the Group is experiencing growth and believes it is well-positioned to continue its expansion as the benefits of recent restaurant openings and acquisitions are realised and with good visibility on the pipeline of future restaurant openings.

Since the end of the year, events in Ukraine and the related economic sanctions put in place by the UK and other countries has created volatility in global markets. As a UK based business, the Group is not directly impacted by the events, but is closely monitoring the potential impact of economic factors such as inflation in commodity prices. In order to support the humanitarian effort in Ukraine, the Group will be making a £1m donation to the Ukrainian Humanitarian Relief Disasters Emergency Committee to deliver vital humanitarian aid directly to those in need, which was paid on 25 March 2022.

Key performance indicators

The key performance indicators used by the directors in monitoring the performance of the Group are Adjusted EBITDA, Underlying EBITDA and like-for-like sales growth.

Adjusted EBITDA

Adjusted EBITDA is EBITDA adjusted to exclude the impact of impairment of PP&E, right-of-use ("ROU") and intangible assets and adjusting items. Adjusted EBITDA is a profit metric used by management to evaluate operating performance of the Group by eliminating factors (i.e. adjusting items) which distort year-on-year comparisons. This metric is used to explain year-on-year changes when the effects of certain items

BKUK Group Limited

Strategic Report (continued)

Key performance indicators (continued)

are significant to the understanding of the Group's financial statements, including acquisition of subsidiary costs, refinancing costs and costs in relation to modifications of the MFDA. Adjusted EBITDA was £49,645,000 (2020: £17,403,000, 2019: £5,812,000). The directors continuously investigate ways to further improve the profitability of the business, including in areas such as procurement of goods and also through the opening or remodelling of new and existing restaurants. The 2021 financial year includes the acquisition of Zing Leisure Limited which completed in May 2021, and contributed to £2.4m of the growth in Adjusted EBITDA.

The reconciliation between the profit/(loss) before tax and Adjusted EBITDA is detailed below:

	2021	2020	2019
	£000	£000	£000
Profit/(loss) before tax	11,696	(23,538)	(22,582)
add: Finance cost	21,831	17,415	14,233
add: Finance income	(48)	(3)	(49)
add: Depreciation and amortisation of PP&E, ROU assets and intangible assets	17,927	15,288	8,950
add: (Reversal of impairment) / Impairment of PP&E, ROU assets and intangible assets	(7,155)	6,973	5,079
add: Adjusting items	5,395	1,268	181
Adjusted EBITDA	49,646	17,403	5,812

Underlying EBITDA

Underlying EBITDA is Adjusted EBITDA less the depreciation and interest expense on the Group's ROU assets and lease liabilities to reflect the fact that lease related costs are key underlying business operating expenses.

The reconciliation between the profit/loss before tax and Underlying EBITDA is detailed below:

	2021	2020	2019
	£000	£000	£000
Profit/(loss) before tax	11,696	(23,538)	(22,582)
add: Finance cost	21,831	17,415	14,233
add: Finance income	(48)	(3)	(49)
add: Depreciation and amortisation of PP&E, ROU assets and intangible assets	17,927	15,288	8,950
add: (Reversal of impairment) / Impairment of PP&E, ROU assets and intangible assets	(7,155)	6,973	5,079
add: Adjusting items	5,395	1,268	181
Adjusted EBITDA	49,646	17,403	5,812
Depreciation of ROU assets	(11,642)	(9,691)	(5,047)
Interest expense on lease liabilities	(4,863)	(4,599)	(3,371)
Underlying EBITDA	33,141	3,113	(2,606)

In 2021 the Group has transitioned from FRS102 to IFRS, this reconciliation has been included to show the underlying performance of the Group as measured by management on a monthly basis.

	2021	2020	2019
	£000	£000	£000
Profit/(loss) before tax	11,696	(23,538)	(22,582)
add: Finance cost	21,831	17,415	14,233
add: Finance income	(48)	(3)	(49)
add: Depreciation and amortisation of PP&E, ROU assets and intangible assets	17,927	15,288	8,950
add: (Reversal of impairment) / Impairment of PP&E, ROU assets and intangible assets	(7,155)	6,973	5,079
add: Adjusting items	5,395	1,268	181
Adjusted EBITDA	49,646	17,403	5,812
Rent expense (unaudited)	(13,210)	(14,888)	(9,589)
Underlying EBITDA adjusted for rent expense	36,436	2,515	(3,777)

Strategic Report (continued)

Key performance indicators (continued)

Like for like sales growth

The Group measures the year-on-year underlying performance of the existing estate. Group like-for-like sales growth is defined as comparing the performance of all mature sites (i.e. those that have traded for a full financial year) in the current period with the same sites in the comparable period in the previous year.

During the year, like-for-like sales grew 46% to £158.6m compared to £108.5m sales from the preceding 12 month period (2020: 20% decrease, 2019: 8% increase), driven by the re-opening of sites following closure periods during 2020.

Future developments

See the Directors' report for further information.

Risks

The main risks to our business are:

- Prevailing economic conditions including COVID 19 and foreign exchange
- The Group's business depends in part on the continued success and reputation of the Burger King brand, and consumer sentiment and willingness to spend in the Group's restaurants
- The recruitment and retention of employees
- The Group's exclusive rights (subject to certain limited exceptions) to build, operate and sub-franchise Burger King restaurants in the UK are dependent upon its continuing compliance with the MFDA with Burger King Europe GmbH
- The ability to provide quality food ingredients to its restaurants and in particular its sole distribution arrangement with Best Food Logistics
- Increases in food, energy and commodity costs or shortages or interruptions in the supply or delivery of food or packaging materials
- The Group may not be able to successfully identify suitable locations and open new restaurants pursuant to its growth strategy
- The growth and popularity of third-party online food delivery platforms and aggregators and the Group's partnerships with such aggregators
- Liquidity risk

Many of these risks are mitigated by the strength of the Burger King brand in the UK and its strong product range, ongoing product development and reputation with landlords and other key partners.

The Board receives reporting each month including forward forecasts that incorporate the impact on the Group of these main risks. In addition, the Risk Committee reports regularly to the Audit Committee of the Board updating on the status of the main risks, the actions to mitigate them and an impact assessment.

The ongoing risk posed by COVID-19 has also been mitigated by the Group's ability to trade effectively through various iterations of lockdowns imposed by the government. The significant portion of the estate that can operate as a Drive Thru as well as the increased demand for home delivery sales has ensured that this risk has been mitigated.

Liquidity risk exists as a result of a loan made to the Group by another entity within the ultimate controlling party's Group. The Group manages this risk by maintaining significant cash reserves and entering into long term loan note agreements, including in May 2021 certain new agreements with Bridgepoint Funds, which will not be settled until the agreed repayment dates in 2024 and 2027.

In November 2021 the Group successfully entered into additional banking facilities. As a result, the Group repaid the £9.2m guaranteed vendor loan note payable to the previous owner of the Caspian Retailers Limited entity with all accrued interest thereon on 21st January 2022.

The Group continues to consider the sources of investment available to fund its ongoing growth through new restaurant openings and selected acquisitions. The successful implementation of these strategies attracted additional investment from Bridgepoint Funds during the year and options for further funding are being considered including additional banking facilities, further equity funding and the potential for an Initial Public Offering.

Strategic Report (continued)

Responsible business

The Group knows that business can make a positive contribution to addressing social, environmental and ethical concerns by working in a responsible and sustainable way. This not only protects the planet and increases prosperity, but also makes good business sense; minimising risk, building customer loyalty and trust and driving employee retention. In 2015, the United Nations adopted a framework of Sustainable Development Goals (SDGs) to promote business growth as well as tackle climate change and environmental protection and address a range of societal needs including social protection, education, health and job creation. The Board believes that companies should play their part in driving towards these goals, and it is for this reason that sustainability is a fundamental part of the Group's business strategy.

The Group's 'Burger King for Good' responsible business strategy is based on a review of where the business is today, how the Group will support the UN Sustainable Development Goals on the issues most material to its business and how the Group will measure and report its progress. It is founded on the core principles of the Group and the Burger King brand; the belief that as well as being tasty, affordable and accessible, Burger King food should be good for the planet, for those involved in producing and making it, those who serve it and for guests and communities as a whole. Though work on this area has been underway for several years, the Board chose to launch the strategy publicly in February 2021 as it believes that sharing this approach will drive sustainable business growth and promote sustainable business practices across the sector. The Group is committed to reporting on progress.

Good for Guests

The Group's approach is to enable its customers to enjoy high quality, tasty food that is part of a balanced diet and make informed choices through clear and straightforward nutrition and allergen labelling. The Group is focused on reducing levels of salt, sugar and saturated fat to deliver a real impact to the overall nutritional balance of its menus. This year, the Group has reduced sugar in its soft-serve ice cream and milkshakes by 20% and 12% respectively. The Group has already achieved good progress in food labelling and has provided full nutrition and allergen labelling both instore and on its website, and displayed calorie labelling on menu boards since 2017, well ahead of the proposed Government legislation. Burger King has also long adopted a 'real food' policy where no artificial colours, flavours and preservatives are used in its food.

Good for our People

The Group is a Group for everyone, and it values the contribution that people can make with their diversity, skills and expertise to all parts of its business including its supply chains. The Group will continue to champion diversity and inclusion across the business as this brings fresh ideas and perspectives to the constant challenges it faces. The Group has committed to the British Retail Consortium's Six Diversity Pledges, focused on CEO accountability, regular reporting, eliminating recruitment bias and creating a respectful and inclusive work environment. The Group is proud of the open and honest relationships it has with its suppliers and will continue to work closely with them to deliver great quality products for its customers while ensuring standards of integrity and quality are maintained.

Good for Communities

The Group remains committed to supporting local communities. It is focused on boosting local economies through job creation and skills development, whilst also reducing litter, food waste and packaging waste. It believes that it is not just about offering great quality food and providing good customer service, but it is also about being a good neighbour and making a positive social, economic and environmental difference to the communities it serves.

Animal Welfare

Whilst not involved in the farming of animals, as a major purchaser of meat products, the Group has a responsibility to ensure that good animal welfare practices are adopted throughout its supply chains. The Group has clear species-specific animal welfare policies, including requirements on responsible antibiotic management, that have been developed with its suppliers and animal welfare experts. These are regularly reviewed for compliance and updated to reflect any future legislation and changes in industry guidance. All the Group's beef is British and Irish and is reared and produced to the British Quality Beef standard and Irish Beef Standard. The Group has signed up to the Better Chicken Commitment and is working with its suppliers and Compassion in World Farming to progress this journey.

Good for the Planet

Climate change, over-use of natural resources and unsustainable farming practices have the potential to impact the long-term sustainability of the Group's products. The Group aims to protect the social and economic resilience of its supply chains by ensuring these products are produced in the most sustainable way, from managing key commodities such as palm oil, soy and timber to minimising the use of natural resources. The Group aims to achieve 100% independently certified sustainable sourcing across all key commodities by 2030. The Group also recognises that tackling climate change involves managing direct and indirect environmental impacts starting with its own operational footprint, and developing and progressing its strategy to minimise carbon emissions across its products, supply chain operations and Franchised restaurants.

Strategic Report (continued)

Responsible business (continued)

Carbon Reduction

The Group has a science-based target to reduce absolute Scope 1 and 2 greenhouse gas emissions (GHGs) by 100% by 2030, and to reduce Scope 3 GHG emissions by 41% per restaurant by 2030, both from a 2019 baseline.

The Scope 1 and 2 target focuses on emissions from direct operations (including electricity and gas consumption at Group restaurants and head office). The reduction focus will be on improving energy efficiency and switching to renewable energy sources. This target is consistent with reductions required to keep global warming to 1.5°C, which is what climate science tells us is needed to prevent the most damaging effects of climate change.

The Scope 3 target relates to indirect emissions from purchased goods and services, capital goods, upstream transportation and distribution, waste and franchises. These areas cover over 95% of the Group's overall Scope 3 emissions. The Scope 3 target meets the Science Based Targets Initiative's ("SBTi") criteria for ambitious value chain goals, meaning it is in line with current best practice.

2021 Annual Energy & Carbon Report

This statement has been prepared in accordance with the Group's regulatory obligation to report greenhouse gas (GHG) emissions pursuant to the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 which implement the government's policy on Streamlined Energy and Carbon Reporting.

During the reporting period January to December 2021, the Group's measured Scope 1 and 2 emissions (market-based) totalled 7,656 tCO_{2e}. This comprised:

	2021 tCO _{2e}	2020 tCO _{2e}	2019 tCO _{2e}
Scope 1 emissions:			
Natural gas	4,035	3,456	3,811
Company vehicles	12	4	-
Fugitive emissions	235	194	228
Total Scope 1	4,282	3,654	4,039
 Scope 2 – Location-based	 5,213	 4,541	 5,993
Total Scope 1 & 2 (Location-based)	9,495	8,195	10,032
 Scope 2 – Market-based	 3,374	 4,540	 4,846
Total Scope 1 & 2 (Market-based)	7,656	8,194	8,885
 Scope 1 & 2 intensity per £000 – market-based*	 0.04	 0.07	 0.09
 Scope 3	 467,761	 281,817	 488,865
Business travel – where fuel is directly purchased by reporting organisation	549	202	324

* Compares Scope 1 & 2 emissions against Group revenue

Overall, despite the growth in sales of the Group, the Scope 1 and 2 (market-based) emissions have decreased by 7% in the year. This is primarily because in August 2021 the Group transitioned all sites to 100% renewable energy tariffs.

The Group also reports on Scope 3 emissions, as the nature of its business means that Scope 3 represents the greatest proportion of its carbon impact. Measured Scope 3 emissions in 2021 totalled 467,761 tCO_{2e}, a 66% increase compare to 2020. This was due to impact of the COVID-19 pandemic on trading in 2020. Scope 3 emissions decreased 4% compared to 2019.

BKUK Group Limited

Strategic Report (continued)

2021 Annual Energy & Carbon Report (continued)

During the year, BKUK's total fuel and electricity consumption totalled 46,631 MWh. The split between fuel and electricity consumption is displayed below.

Energy consumption (MWh)	2021	2020	2019
Electricity	24,552	19,477	23,446
Fuels*	22,079	18,813	21,530
Total	46,631	38,290	44,976
MWh per £000	0.23	0.32	0.44
MWh per Site	324	297	505

* Natural gas and transportation fuels (petrol and diesel)

Methodology

The Group quantifies and reports organisational GHG emissions in alignment with the World Resources Institute's Greenhouse Gas Protocol Corporate Accounting and Reporting Standard and in alignment with the Scope 2 Guidance. The Group consolidates its organisational boundary according to the operational control approach, which includes all its franchises. The Group has adopted a materiality threshold of 5% for GHG reporting purposes. The GHG sources that constituted its operational boundary for the year are:

Scope 1:

- Natural Gas
- Refrigerants
- Company Cars

Scope 2:

- Electricity (location-based)
- Electricity (market-based)

Scope 3:

- Purchased Goods and Services
- Capital Goods
- Fuel-and-energy-related activity
- Upstream transportation and distribution
- Waste generated in operations
- Business travel
- Employee commuting
- Downstream transportation and distribution
- Processing of Sold Products
- End of life treatment of sold products
- Franchises

In some cases, where data is missing, values have been estimated using either extrapolation of available data or data from the previous year as a proxy.

The Scope 2 Guidance requires that the Group quantifies and reports Scope 2 emissions according to two different methodologies ("dual reporting"):

- (i) The location-based method, using average emissions factors for the country in which the reported operations take place; and
- (ii) The market-based method, which uses the actual emissions factors of the energy procured.

Strategic Report (continued)

Section 172 statement

This statement sets out how the directors have approached and met their responsibilities under section 172 of the Companies Act 2006. The Group's values are consistent with the requirements under section 172 of the Companies Act. The directors will consider all relevant factors when taking any decision. The examples below illustrate some of the key items under section 172 that were considered by the directors during the year.

Likely consequence of any decision in the long term

There have been no major changes in the Group in the financial year. However, the long-term impacts of any decision are discussed in detail by the directors, especially when considering the Group's strategy.

Interest of the Company's employees

The directors engage with their employees frequently. Although not able to do so in 2021 due to COVID-19, we usually conduct an annual conference where managers from each restaurant come together for a workshop to share their thoughts, feedback and feelings about working for Burger King. This is attended by members of the executive team. There are also individual quarterly reviews with all Regional Operations Directors and District Managers to talk through their restaurants and their people – this is facilitated and attended by members of the executive team. Furthermore, the leadership team regularly visit the restaurants across the estate to engage with all the teams.

The People function of the business is accountable for optimising everything we do for our employees and all members of the Group, managing policies and procedures, all with a view of promoting and maintaining fairness and consistency across the whole business. This is enhanced by having two People Business Partners who are affiliated to regions of restaurants, and the appointment of a People Director to ensure this receives the appropriate importance on the executive committee.

During the year the Group also commenced a review of its diversity and inclusion policies with the results to be implemented in 2022.

Foster business relationships with suppliers, customers and others

The Group has always been steadfast about the quality of the food we use in our restaurants. To make this possible we have developed strong supplier partnerships to ensure we can maintain these high standards and deliver a unique product experience. These partnerships help us better understand our product, as well as the challenges our suppliers face. Working collaboratively gives us stability both in terms of product consistency and our input costs.

Impact of the Group's operations on the community and environment

The Group launched its 'BK for Good' strategy during the year and is committed to reducing the environmental impact of our operations.

For example, we ensure that all of our used oil is collected, recycled and used as Biofuel and we have also focused on reducing single use plastics and intend to focus further on waste management in the next financial year. Refer to the Responsible Business statement above.

The desirability of the Group maintaining a reputation for high standards of business conduct

As with fostering relationships with suppliers, customers and other stakeholders, the maintenance of high standards of ethical conduct are very important in order to run a sustainable business.

The need to act fairly between members of the Group

Communications with shareholders are given high priority. Advisory board meetings take place every month. These are attended by members of the executive team and the Bridgepoint representative. The monthly and year to date performance of the Group are presented and discussed, as well as the Group's strategy and long-term impact of any decision.

On behalf of the board



AD Murdoch

Director

30 March 2022

BKUK Group Limited

Directors' report

The directors present their annual report and the audited consolidated financial statements of BKUK Group Limited ("the Company"), and its subsidiary undertakings (together, the "Group") for the year ended 31 December 2021.

Future developments

The Group are continuing to look for opportunities for expansion through opening new restaurants, selective acquisition of Burger King franchisees and improving the performance of our existing business.

Dividend

No dividends were declared or paid during the year (2020: nil, 2019: nil).

Directors

The directors who held office during the year, and up to the date of signing the financial statements, unless otherwise stated, were as follows:

TJ Doubleday

AD Murdoch

Directors' indemnity

Royale Midco Limited, a parent company, maintains liability insurance for directors and officers of the BKUK Group Limited Group and associated companies, which includes the Company. This is a qualifying third-party indemnity provision for the purpose of the Companies Act 2006 and was in place during the financial year and as at the date of approval of the financial statements.

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual report and consolidated financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law, 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 group and company and of the profit or loss of the group for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as issued by the International Accounting Standards Board (IASB) have been followed for the group financial statements and United Kingdom Accounting Standards, comprising FRS 101 have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the company's financial statements published on the ultimate parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

BKUK Group Limited

Directors' report (continued)

Directors' confirmations

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the group's and company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the group's and company's auditors are aware of that information.

Employees

It is Group policy that there shall be no discrimination in respect of sex, colour, race, religion or nationality and that equal opportunity shall be given to all employees.

The policy of giving full and fair consideration to applications for employment from disabled persons and where practical to continue the employment of anyone who may become disabled during their employment has continued. Where existing employees become disabled, it is the Group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees (wherever appropriate).

Management has a policy of providing employees with information about the Group. Regular meetings are held between management and employees to allow a free flow of information and ideas. In particular, the Group recognises the crucial roles that its managers and supervisors play in ensuring that employees are made aware of developments within the Group.

Financial instruments

The directors consider that the Group's key financial instruments are shareholder loan notes and amounts due to and from Group companies. Interest on shareholder loans is fixed at 11 per cent per annum and is therefore not exposed to movements in interest rates. The directors will revisit the appropriateness of this policy should the Group's operations change in size or nature.

The Group has trade creditors on normal terms and finances working capital requirements from its trading performance and a revolving credit facility. The Group does not use any other financial instruments as part of its risk management.

The Group's exposure to the price risk of financial instruments is therefore minimal. The directors do not consider any other risks in regard to the use of financial instruments to be material to an assessment of its financial position or trading results.

Going concern

The financial statements include details of the financial position of the Group, its cash flows, liquidity position and borrowing facilities. In addition, the notes of the financial statements include the Group's objectives, policies, and processes for managing its capital; its financial risk management objectives; and its exposures to credit risk and liquidity risk.

At 31 December 2021, in determining whether the Group's financial statements can be prepared on a going concern basis, the directors have considered all the factors likely to affect its future development, performance and financial position for a period of at least 12 months from the date of approval of the financial statements.

The banking covenants are tested quarterly and monitored on a regular basis. The Group remained compliant with its banking facility covenants throughout the year and up to the date of approval of the financial statements.

The Group and Company is in a net current liability position due to the working capital profile of restaurants, especially those in the expansion phase. The Group had cash resources of £36.2m at 31 December 2021 (2020: £12.9m, 2019: £11.3m).

The directors have prepared detailed cash flow projections for the period to 30 June 2023, including sensitivity analysis on key assumptions which the directors consider to be severe but plausible in the current economic environment. The brand operates with a consistent, high quality product with excellent customer service. The estate has successfully continued to trade throughout the lockdowns in 2020 and 2021 (respecting all safety measures, social distancing rules and providing personal protective equipment) and demonstrated resilience, particularly given the significant representation of Drive Thru restaurants within the estate which are not adversely impacted by restrictions. The directors have considered the assumptions made and consider the forecasts reasonable and realistic considering market and economic uncertainty, including a severe but plausible downside scenario that takes into account the current uncertainty caused by the COVID-19 pandemic, and the inflationary pressures that the Group may be subject to in the period to June 2023, including ingredient and labour costs.

The Directors have also assessed the Group's forecast covenant compliance and liquidity from December 2021 until June 2023 and note that even in their severe but plausible downside scenario there is sufficient headroom across all of the covenants in each test period, and sufficient liquidity through the period to June 2023 to enable the Group to meet all of its liabilities as they fall due.

Based on its review, the Board has a reasonable expectation that the Group has adequate resources to continue operating for the foreseeable future and hence the Board considers that the application of the going concern basis for the preparation of the financial statements to be appropriate.

BKUK Group Limited

Directors' report (continued)

Risk Management

The Group is conscious of the importance of providing a safe working environment for both its employees and its customers, of ensuring compliance with all statutory and mandatory requirements and of minimising the environmental impact of its operations whenever possible. Careful attention is given to the promotion of risk management procedures.

Donations

The Group did not make any political donations or incur any political expenditure during the year (2020: nil, 2019: nil).

Guarantees under section 479 of the Companies Act 2006

The following subsidiaries will take advantage of the exemption from audit of their individual financial statements, under section 479A of the Companies Act 2006:

- Royale Bidco Limited
- Caspian Food Retailers Limited
- Caspian Food Services Limited
- BKUK Bristol Limited
- BKUK Flame Limited
- Westside Express Limited
- Zing Leisure Limited

As a condition of the above exemption, the Group has guaranteed the year end liabilities of the relevant subsidiaries until they are settled in full.

Post balance sheet events

The Group repaid the £9.2m guaranteed vendor loan note payable to the previous owner of the Caspian Retailers Limited entity with all accrued interest thereon on 21st January 2022.

Since the end of the year, events in Ukraine and the related economic sanctions put in place by the UK and other countries has created volatility in global markets. As a UK based business, the Group is not directly impacted by the events, but is closely monitoring the potential impact of economic factors such as inflation in commodity prices. On 9th March 2022 the Group announced that it would be making a £1m donation to the Ukrainian Humanitarian Relief Disasters Emergency Committee to deliver vital humanitarian aid directly to those in need, which was paid on 25 March 2022.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have been appointed by the directors. PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Audit Committee meeting following the signing of these financial statements.

On behalf of the board



AD Murdoch
Director
30 March 2022

Corporate Governance Report

The Group is committed to high standards of corporate governance appropriate for a large, private company and the Board is accountable to all of the Group's shareholders, including minority shareholdings held by management and employees, for good corporate governance.

The Board

The Board considers that it is of an appropriate size for the requirements of the business, and that it has the appropriate balance of skills, knowledge and experience.

The Board at BKUK Group Limited level comprises two Executive Directors, who are responsible for the day-to-day running of the Company and Group. However the board of Royale JVC Limited, a parent company, comprises a chairman, three Non-Executive Directors who represent the shareholders' interests and two Executive Directors, who are responsible for the day-to-day running of the Company and Group. BKUK Group Limited utilises the wider group's board composition.

The Board's role is to provide leadership to, and to set the strategic direction of, the Group. The Board monitors operational performance and is also responsible for establishing Group policies and internal controls to assess and manage risk.

The Board meets regularly throughout the year. There is a schedule of matters reserved for the Board and certain matters are delegated to the Board's committees and the Executive Directors. The schedule of reserved matters includes approval of annual budgets, strategic plans, senior management appointments, dividend policy and capital structure, major contracts and major capital expenditure. Items delegated to the Executive Directors include the approval of capital or other expenditure below the limits required for Board sign off, disposal of low value assets and approval of minor contracts or less senior appointments.

The Board met ten times during 2021.

The executive responsibility for overseeing the day-to-day management of the Group is delegated to AD Murdoch, the Chief Executive, together with his executive team.

There is a clear division of responsibility between the Non-Executive Chairman and the Executive Directors. The Chairman is responsible for:

- The leadership of the Board, ensuring its effectiveness and setting its agenda; and
- Facilitation of the effective contribution of Non-Executive Directors, and ensuring constructive relations between them and the Executive Directors.

The Executive Directors are responsible for:

- Setting the strategic direction of the Group;
- Preparing annual budgets and medium-term projections for the Group and monitoring performance against plans and budgets;
- Overseeing the day-to-day management of the Group;
- Managing the Group's relationship and agreements with Burger King Europe GmbH;
- Effective communication with shareholders; and
- Preparing the annual financial statements.

The Company Secretary acts as secretary to the Board and its committees. He is responsible for ensuring that the Directors receive appropriate information prior to meetings, and for ensuring that governance requirements are considered and implemented.

Relations with Shareholders

The Group is committed to maintaining effective communication with all of its shareholders in order to maintain a clear understanding of its objectives and its performance against those objectives.

The largest shareholder of the Group is Bridgepoint Funds. The remaining shareholders of the Group include senior management and employees of the Group as well as Burger King Europe GmbH. Employees receive regular communication about the performance of the Group.

Audit Committee

This committee is chaired by AM Robinson. Relevant senior management are invited to attend Audit Committee meetings as required.

The Audit Committee is responsible for all matters relating to the regulatory and accounting requirements that may affect the Group, together with the financial reporting and internal control procedures adopted by the Group. In addition, the Committee is responsible for ensuring that an objective and professional relationship is maintained with the external auditors.

Key areas for which the Committee is responsible include:

- Reviewing the Group's financial statements prior to approval on behalf of the Board and reviewing the external auditors' reports thereon;
- Establishing procedures to ensure that the Group monitors and evaluates risks appropriately;
- Reviewing internal controls and establishing an internal audit plan to monitor the effectiveness of those controls;
- Considering the consistency of accounting policies across the Group and the accounting for any significant or unusual transactions where different approaches are possible; and
- Assessing the effectiveness, independence and objectivity of the external auditors.

Corporate Governance Report (continued)

Taxation Policy

In line with its overall approach to corporate governance, the Group is committed to suitably strong governance in relation to all of its tax affairs. The Group has published its tax strategy on the BKUK website. It seeks to:

- Structure its affairs in a tax efficient way, as would be expected in order to ensure commercial effectiveness, but using a straightforward and transparent approach without use of any aggressive tax planning strategies;
- Ensure that it pays all taxes which are due (and to do so promptly);
- Maintain adequate systems, processes and adequately experienced staff in order to achieve the above; and
- Maintain a transparent and constructive relationship with HMRC.

The Group's tax affairs are relatively straightforward, given that it is UK domiciled and that it operates in a sector which does not have inherent complexity – i.e. consumer-facing, with limited long-term or complicated sales streams and relatively predictable cost structures.

In managing its affairs, the Group's aim is to limit tax related uncertainty. Our approach is to discuss significant transactions openly with the tax authorities in 'real time', as far as is commercially practicable. Where there is uncertainty in relation to a material tax issue, we will seek to obtain tax authority agreement or clearance in advance where practicable.

During the year ended 31 December 2021, the Group paid £17.1m (2020: £15.2m, 2019: £19.4m) of various taxes including, without limitation, PAYE, VAT and business rates.

Independent auditors' report to the members of BKUK Group Limited

Report on the audit of the financial statements

Opinion

In our opinion:

- BKUK Group Limited's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2021 and of the group's profit and the group's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and consolidated financial statements (the "Annual Report"), which comprise: Consolidated Statement of Financial Position and Company Statement of Financial Position as at 31 December 2021; Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity and Consolidated Statement of Cash Flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to other entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 9, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- assessing management's sensitivity analysis on the cash forecasts and whether this reflects a severe, but plausible downside scenario for both the company and the group for a period of at least 12 months from the date of approval of the financial statements;
- assessing the forecast liquidity and other financial resources, such as undrawn debt facilities, that are available to the company and the group to ensure they are able to meet their liabilities as they fall due for a period of not less than 12 months from the date of approval of the financial statements;
- evaluating, and where appropriate, challenging the key assumptions within management's cash flow forecasts to ensure that sufficient liquidity headroom exists in managements forecasts, and that there is no impact of such sensitivities on the groups forecast covenant compliance or liquidity headroom;
- evaluating the appropriateness of the disclosures made by the directors in the annual report and consolidated financial statements in respect of going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to tax regulation, employment laws, health and safety legislation, food safety and hygiene legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journals to increase revenue or reduce expenditure, and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Enquiry with management and those charged with governance regarding any litigation or claims arising from non-compliance with laws and regulations and whether there was any alleged or suspected fraud.
- Review of minutes of management and board meetings during the year and up to the date of approval of the annual report and consolidated financial statements.
- Review of the disclosures in the Annual report and consolidated financial statements against specific legal requirements and assessing the compliance of disclosures against relevant legislation.
- Auditing the risk of management override of controls, through testing journal entries and other adjustments for appropriateness and challenging the assumptions used in management's accounting estimates.
- Review of corporate tax calculations and VAT and PAYE filings for compliance with applicable laws and regulations.
- Identifying and testing unusual journal entries that might indicate a higher risk of fraud.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Simon Bailey (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
30 March 2022

Consolidated Income Statement

for the year ended 31 December 2021

		2021	2020	2019
	Note	£000	£000	£000
Revenue	6	211,712	125,974	118,785
Cost of sales		(159,721)	(129,910)	(114,929)
Gross profit/(loss)		51,991	(3,936)	3,856
Other operating income	8	1,555	8,962	-
Administration expenses		(20,067)	(12,355)	(12,846)
Operating profit/(loss)	9	33,479	(7,329)	(8,990)
Non-operating income	10	-	1,203	592
Finance income	13	48	3	49
Finance costs	13	(21,831)	(17,415)	(14,233)
Profit/(loss) before tax		11,696	(23,538)	(22,582)
Taxation (charge)/credit	14	(59)	118	(450)
Profit/(loss) for the year		11,637	(23,420)	(23,032)

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2021

		2021	2020	2019
	Note	£000	£000	£000
Profit/(loss) for the year		11,637	(23,420)	(23,032)
Other comprehensive income/(expense):				
Items that will not be reclassified subsequently to income statement				
Remeasurements of defined benefit pension schemes	25	1,660	(232)	343
Income tax on other comprehensive income/expense	14	(402)	44	(58)
Total other comprehensive income/(expense) for the year		1,258	(188)	285
Total comprehensive income/(loss) for the year		12,895	(23,608)	(22,747)

Consolidated Statement of Financial Position

as at 31 December 2021

	Note	31 December 2021 £000	31 December 2020 £000	31 December 2019 £000	1 January 2019 £000
ASSETS					
Non-current assets					
Intangible assets	16	87,195	70,878	72,081	52,108
Property, plant and equipment	17	49,700	34,867	34,328	17,399
Right-of-use assets	18	96,612	69,108	68,495	45,089
Deferred tax assets	14	315	1,034	762	904
Total non-current assets		233,822	175,887	175,666	115,500
Current assets					
Inventories	21	1,417	1,093	1,193	720
Trade and other receivables	22	14,482	6,967	8,631	8,122
Cash and cash equivalents	15	36,158	12,882	11,273	31,264
Total current assets		52,057	20,942	21,097	40,106
Total assets		285,879	196,829	196,763	155,606
LIABILITIES					
Non-current liabilities					
Post-employment benefits	25	(1,895)	(5,917)	(5,695)	(5,744)
Lease liabilities	18	(114,350)	(92,655)	(83,110)	(52,385)
Loans and borrowings	24	(178,402)	(139,354)	(122,589)	(98,752)
Provisions	26	(2,017)	(2,545)	(2,235)	(944)
Total non-current liabilities		(296,664)	(240,471)	(213,629)	(157,825)
Current liabilities					
Trade and other payables	23	(44,717)	(26,216)	(28,552)	(24,014)
Corporation tax liability	14	(109)	-	(39)	-
Lease liabilities	18	(9,344)	(8,024)	(8,817)	(5,294)
Total current liabilities		(54,170)	(34,240)	(37,408)	(29,308)
Total liabilities		(350,834)	(274,711)	(251,037)	(187,133)
Net liabilities		(64,955)	(77,882)	(54,274)	(31,527)
EQUITY					
Equity					
Share capital	28	-	-	-	-
Share based payments	27	32	-	-	-
Accumulated losses	28	(64,987)	(77,882)	(54,274)	(31,527)
Total equity		(64,955)	(77,882)	(54,274)	(31,527)

The notes on pages 24 to 74 form part of the financial statements.

The financial statements on pages 17 to 74 were approved by the board of directors on 30 March 2022 and were signed on its behalf by:

TJ Doubleday

Director

30 March 2022

BKUK Group Limited

Registered no. 10980808



BKUK Group Limited

Company Statement of Financial Position

as at 31 December 2021

	Note	31 December 2021 £000	31 December 2020 £000	31 December 2019 £000	1 January 2019 £000
ASSETS					
Non-current assets					
Intangible assets	16	2,157	2,833	3,616	3,721
Property, plant and equipment	17	726	478	440	459
Right-of-use assets	18	1,778	2,241	2,568	2,895
Investments	20	63,280	33,051	33,051	18,750
Deferred tax assets	14	31	31	15	1
Trade and other receivables	22	52,071	70,334	63,361	57,084
Total non-current assets		120,043	108,968	103,051	82,910
Current assets					
Trade and other receivables	22	117,249	22,697	29,076	39,648
Cash and cash equivalents	15	22,805	11,660	1,214	6,486
Total current assets		140,054	34,357	30,290	46,134
Total assets		260,097	143,325	133,341	129,044
LIABILITIES					
Non-current liabilities					
Lease liabilities	18	(1,935)	(2,642)	(2,512)	(2,754)
Loans and borrowings	24	(169,084)	(130,036)	(113,269)	(89,431)
Total non-current liabilities		(171,019)	(132,678)	(115,781)	(92,185)
Current liabilities					
Trade and other payables	23	(122,239)	(26,719)	(28,529)	(41,909)
Lease liabilities	18	(318)	(329)	(311)	(331)
Total current liabilities		(122,557)	(27,048)	(28,840)	(42,240)
Total liabilities		(293,576)	(159,726)	(144,621)	(134,425)
Net liabilities		(33,479)	(16,401)	(11,280)	(5,381)
EQUITY					
Equity					
Share capital	28	-	-	-	-
Share based payments	27	32	-	-	-
Accumulated losses	28	(33,511)	(16,401)	(11,280)	(5,381)
Total equity		(33,479)	(16,401)	(11,280)	(5,381)

The notes on pages 24 to 74 form part of the financial statements.

As permitted by Section 408 of the Companies Act 2006, a profit and loss account for BKUK Group Limited has not been presented in these financial statements. For the year ended 31 December 2021, the Company generated a loss of £17,428,000 (2020: £5,121,000, 2019: £5,899,000).

The financial statements were approved by the board of directors on 30 March 2022 and were signed on its behalf by:

TJ Doubleday

Director

30 March 2022



BKUK Group Limited

Registered no. 10980808

Consolidated Statement of Changes in Equity

for the year ended 31 December 2021

	Note	Share capital	Share based payments	Accumulated losses	Total Equity
		£000	£000	£000	£000
Balance at 1 January 2019 as previously reported under FRS102		-	-	(21,200)	(21,200)
IFRS transition impact on opening balance	36	-	-	(10,327)	(10,327)
Balance at 1 January 2019		-	-	(31,527)	(31,527)
Comprehensive loss					
Loss for the year		-	-	(23,032)	(23,032)
Other comprehensive income for the year		-	-	285	285
Total comprehensive loss for the year		-	-	(22,747)	(22,747)
Balance at 31 December 2019		-	-	(54,274)	(54,274)
Balance at 1 January 2020		-	-	(54,274)	(54,274)
Comprehensive loss					
Loss for the year		-	-	(23,420)	(23,420)
Other comprehensive loss for the year		-	-	(188)	(188)
Total comprehensive loss for the year		-	-	(23,608)	(23,608)
Balance at 31 December 2020		-	-	(77,882)	(77,882)
Balance at 1 January 2021		-	-	(77,882)	(77,882)
Comprehensive income					
Profit for the year		-	-	11,637	11,637
Other comprehensive income for the year		-	-	1,258	1,258
Total comprehensive income for the year		-	-	12,895	12,895
Share based payments	27	-	32	-	32
Balance at 31 December 2021		-	32	(64,987)	(64,955)

Company Statement of Changes in Equity

for the year ended 31 December 2021

	Note	Share capital £000	Share Based Payments £000	Accumulated losses £000	Total equity £000
Balance at 1 January 2019 as previously reported under FRS102		-	-	(5,382)	(5,382)
IFRS transition impact on opening balance	36	-	-	1	1
Balance at 1 January 2019		-	-	(5,381)	(5,381)
Loss for the financial year		-	-	(5,899)	(5,899)
Total comprehensive expense for the year		-	-	(5,899)	(5,899)
At 31 December 2019		-	-	(11,280)	(11,280)
At 1 January 2020		-	-	(11,280)	(11,280)
Loss for the financial year		-	-	(5,121)	(5,121)
Total comprehensive expense for the year		-	-	(5,121)	(5,121)
At 31 December 2020		-	-	(16,401)	(16,401)
At 1 January 2021		-	-	(16,401)	(16,401)
Loss for the financial year		-	-	(17,110)	(17,110)
Total comprehensive expense for the year		-	-	(17,110)	(17,110)
Share based payments	27	-	32	-	32
At 31 December 2021		-	32	(33,511)	(33,479)

The notes on pages 24 to 74 form part of the financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2021

		2021	2020	2019
	Notes	£000	£000	£000
Cash flows from operating activities:				
Profit/(loss) before tax		11,696	(23,538)	(22,582)
Adjusted for:				
Tax on profit/(loss)	14	59	(118)	450
Net interest expense	13	21,783	17,412	14,184
Depreciation, amortisation, and impairment	16, 17, 18	11,033	22,261	14,258
Share-based payment expense	27	32	-	-
(Increase)/decrease in trade and other receivables	22	(5,790)	(3,756)	21,972
(Increase)/decrease in inventories	21	(324)	100	(91)
Increase/(decrease) in trade and other payables	23	8,439	2,633	(18,136)
Decrease in provisions and employee benefits	25	(4,022)	(253)	(2,964)
Cash generated from operations		42,906	14,741	7,091
Income taxes paid		-	-	-
Net cash generated from operating activities		42,906	14,741	7,091
Cash flows from investing activities:				
Purchase of subsidiaries, net of cash received	30	(3,842)	-	(11,798)
Purchase of intangible assets	16	(1,564)	(524)	(1,172)
Purchase of tangible assets	17	(21,060)	(10,404)	(21,423)
Interest received	13	48	3	45
Net cash used in investing activities		(26,418)	(10,925)	(34,348)
Cash flows from financing activities:				
Drawdown of revolving credit facility	24	-	6,000	15,000
Drawdown of shareholder loan notes	24	25,000	-	-
Proceeds from issue of ordinary share capital	28	-	-	2
Interest paid	13	(1,920)	(1,537)	(809)
Interest paid on lease liabilities	13	(4,863)	(4,696)	(3,371)
Repayment of lease liabilities	18	(11,429)	(1,974)	(3,556)
Net cash generated from/(used in) financing activities		6,788	(2,207)	7,266
Net increase/(decrease) in cash, cash equivalents, and restricted cash		23,276	1,609	(19,991)
Cash, cash equivalents, and restricted cash at beginning of the period		12,882	11,273	31,264
Cash, cash equivalents, and restricted cash at end of the period		36,158	12,882	11,273

The notes on pages 24 to 74 form part of the financial statements.

BKUK Group Limited

Notes to the financial statements

1. General information

BKUK Group Limited (the "Company") and its subsidiaries (together the "Group") operate a number of Burger King franchises in England, Scotland and Wales.

The Company is a private company limited by shares and incorporated and domiciled in the UK. The company registered number is 10980808 and the registered address is 5 New Street Square, London, EC4A 3TW.

2. Statement of compliance

These Group financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS'). The Company financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). On 31 December 2020, IFRS as adopted by the European Union at that date were brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. BKUK Group Limited transitioned to UK-adopted International Accounting Standards in its company and consolidated financial statements on 1 January 2021. This change constitutes a change in accounting framework. However, there is no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework. The financial statements of BKUK Group Limited have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

As permitted by section 408 of the Companies Act 2006, the income statement and the statement of comprehensive income of the parent company have not been separately presented in these financial statements.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated and separate financial statements are set out below. These have been, unless otherwise stated, applied consistently to all periods presented in the financial statements for the year ended 31 December 2021.

3.1. Basis of preparation

The financial statements are presented in Pounds Sterling which is the Group's functional currency. All amounts are rounded to the nearest thousand.

The financial statements have been prepared on the historical cost basis except where IFRS requires an alternative treatment. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique in accordance with IFRS 13 *Fair Value Measurement* ("IFRS 13"). In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* ("IAS 2") or value in use in IAS 36 *Impairment of Assets* ("IAS 36").

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

3.2. Exemptions for qualifying entities under FRS 101

The Company financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework. FRS 101 allows a qualifying entity certain disclosure exemptions, subject to certain conditions. The Company has taken advantage of the following exemptions in its financial statements:

- (a) IAS 7 - 'Statement of cash flows'
- (b) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- (c) Paragraphs 134(d) to 134(f) and 135(c) to 135(e) of IAS 36, 'Impairment of assets' (assumptions involved in estimating recoverable amounts of cash generating units containing goodwill or intangible assets with indefinite useful lives and management's approach to determining these amounts)
- (d) The requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64U) to B64(m), B64(n)(ii), B64 (o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations
- (e) the requirements of IFRS 7 Financial Instruments: Disclosures
- (f) the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement

3. Summary of significant accounting policies (continued)

3.2 Exemptions for qualifying entities under FRS 101(continued)

- (g) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- (h) The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers
- (i) The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d) (statement of cash flows),
 - 10(f) (a Statement of Financial Position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements,
 - 16 (statement of compliance with all IFRS),
 - 38A (requirement for minimum of two primary statements, including cash flow statements),
 - 38B-D (additional comparative information),
 - 40A-D (requirements for a third Statement of Financial Position),
 - 111 (cash flow statement information) and
 - 134-136 (capital management disclosures).

The information is included in the consolidated financial statements of Royale Topco Limited as at 31 December 2021 and these financial statements may be obtained from UK Companies House.

3.3. Basis of consolidation

The financial statements consolidate the separate financial information of the Group for the three years ending 31 December 2021.

A subsidiary is an entity controlled by the Group. The Group controls an investee if all of the following three elements are present: power over the investee, exposure or rights to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. The results of subsidiaries acquired or disposed of during the year are included in the financial statements from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the individual financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

De-facto control exists when the size of the Group's own voting rights relative to the size and dispersion of other vote holders, give the Group the practical ability unilaterally to direct the relevant activities of the acquired business.

Inter-company transactions and balances held between members of the Group are eliminated in full.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling shareholder's share of changes in equity since the date of the combination.

3.4. Business combinations

The financial statements incorporate the results of business combinations using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in the consolidated income statement as incurred.

At the acquisition date, the identifiable assets acquired, and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- Deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* ("IAS 12") and IAS 19 *Employee Benefits* ("IAS 19") respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based payments* ("IFRS 2") at the acquisition date (see below); and
- Assets (or disposal Groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* ("IFRS 5") are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

3. Summary of significant accounting policies (continued)

3.4 Business combinations (continued)

When a business combination is achieved in stages, the Group's previously held interests (including joint operations) in the acquired entity are remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

3.5. Going concern

The financial statements include details of the financial position of the Group, its cash flows, liquidity position and borrowing facilities. In addition, the notes of the financial statements include the Group's objectives, policies, and processes for managing its capital; its financial risk management objectives; and its exposures to credit risk and liquidity risk.

At 31 December 2021, in determining whether the Group's financial statements can be prepared on a going concern basis, the directors have considered all the factors likely to affect its future development, performance and financial position for a period of at least 12 months from the date of approval of the financial statements.

The banking covenants are tested quarterly and monitored on a regular basis. The Group remained compliant with its banking facility covenants throughout the year and up to the date of approval of the financial statements.

The Group and Company is in a net current liability position due to the working capital profile of restaurants, especially those in the expansion phase. The Group had cash resources of £36.2m at 31 December 2021 (2020: £12.9m, 2019: £11.3m).

The directors have prepared detailed cash flow projections for the period to 30 June 2023, including sensitivity analysis on key assumptions such as sales growth and inflationary cost increases, which the directors consider to be severe but plausible in the current economic environment. The brand operates with a consistent, high quality product with excellent customer service. The estate has successfully continued to trade throughout the lockdowns in 2020 and 2021 (respecting all safety measures, social distancing rules and providing personal protective equipment), and demonstrated resilience, particularly given the significant representation of Drive Thru restaurants within the estate which are not adversely impacted by restrictions. The directors have considered the assumptions made and consider the forecasts reasonable and realistic considering market and economic uncertainty, including a severe but plausible downside scenario that takes into account the current uncertainty caused by the COVID-19 pandemic.

The Directors have also assessed the Group's forecast covenant compliance and liquidity from December 2021 until June 2023 and note that even in their severe but plausible downside scenario there is sufficient liquidity and headroom across all of the covenants in each test period.

Based on its review, the Board has a reasonable expectation that the Group has adequate resources to continue operating for the foreseeable future and hence the Board considers that the application of the going concern basis for the preparation of the financial statements to be appropriate.

3.6. Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components.

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker ("CODM"), the Group's Chief Executive Officer ("CEO"). The chief operating decision maker is responsible for allocating resources and assessing performance of the operating segments.

3.7. Revenue recognition

Retail sales

Revenue from the sale of goods is recognised as income on receipt of cash or card payment. Revenue from delivery services is included in the sale of goods revenue and is recognised on delivery. Revenue is measured net of discounts, promotions and value-added taxation.

Franchise fees and royalties

Franchise fees comprise revenue for services associated with the consent by the Group to the opening of a new site or renewal of a franchise agreement and grant the franchisee permission to operate a site for a set period of time. These balances are deferred and recognised over the duration of the Franchise Agreement and released to the income statement.

Additional franchise royalty fee income, calculated as a percentage of gross sales income (net of VAT), is recognised on an accruals basis in accordance with the relevant agreement.

The Group provides franchise services to UK based franchises, who still hold their franchise relationship with Burger King Europe GmbH. Revenue from these franchise services (referred to as service fee income) is recognised on an accrual basis in accordance with the relevant agreement.

3. Summary of significant accounting policies (continued)

3.7 Revenue recognition (continued)

National Advertising Fund

In addition to royalties and franchise fees, franchisees contribute a percentage of their sales to the National Advertising Fund ("AdFund") managed by the Group. The purpose of these Funds is to build restaurant sales through increased public recognition of the Burger King brand. In assessing the nature of these contributions received by the Group, the performance obligations stated under franchise agreements with franchisees have been considered. For the AdFund contributions received, the Group is obliged to provide national advertising and marketing services. These performance obligations are considered to constitute a revenue stream, and the contributions received by the Group are therefore recognised as revenue. Revenue recognition is measured on an input basis as the costs of providing the obliged services are incurred.

The Group acts as a principal in the relationship and is obliged to provide the services on a break-even basis, such that the Funds do not retain a long-term surplus or deficit. As such, the level of revenue and costs recognised in respect of fulfilling AdFund performance obligations are equal. As the Group is required to spend the funds on advertising and marketing activities, any timing differences between contributions received and costs incurred are held as an asset or liability on the balance sheet. The Group is liable for making good any shortfall in the obligations of the AdFund.

3.8. Other operating income

Other operating income comprises of income from government grants as a result of the COVID-19 pandemic. Government grants are recognised where there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed.

3.9. Interest Income

Interest income is recognised using the effective interest method and is included in finance income in the Consolidated Income Statement.

3.10. Taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Consolidated Income Statement, except that a charge attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the United Kingdom, where the Group operates and generates taxable income.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, except for differences arising on:

- The initial recognition of goodwill;
- The initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- Investments in subsidiaries where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax is also recognised on unused tax losses or tax credits in the Group. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the temporary differences can be utilised.

The Group adopted IFRIC 23 *Uncertainty over Income Tax Treatments* ("IFRIC 23") with a transition date of 1 January 2019.

When there is uncertainty concerning the Group's filing position regarding the tax bases of assets or liabilities, the taxability of certain transactions or other tax-related assumptions then the Group:

- Considers whether uncertain tax treatments should be considered separately, or together as a Group, based on which approach provides better predictions of the resolution;
- Determines, if it is probable that the tax authorities will accept the uncertain tax treatment; and
- If it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty. This measurement is required to be based on the assumption that each of the tax authorities will examine amounts they have a right to examine and have full knowledge of all related information when making those examinations.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- The same taxable Group company, or
- Different Group entities which intend either to settle the current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

3. Summary of significant accounting policies (continued)

3.11. Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. See note 3.3 of the financial statements for further details. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if all of the following conditions have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Intangible assets with finite lives are amortised over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the Consolidated Income Statement in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

An intangible asset is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Consolidated Income Statement.

Amortisation is calculated, using the straight-line method, to allocate the depreciable amount of the assets to their residual values over their estimated useful lives, as follows. Amortisation has been included within depreciation, amortisation and impairment of non-financial assets. Note that estimated lives may be less if Franchise Agreement is issued for a shorter period.

- | | |
|--|-------------|
| • Franchise fees | 20 years |
| • Master Franchise and Development Agreement | 20 years |
| • Software | 3 - 5 years |

3.12. Goodwill

Goodwill is initially recognised and measured as set out in 3.3 above. Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination.

Cash-generating units (being each individual restaurant) to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period. See note 16 of the financial statements for further details.

Impairment charges are included in profit or loss.

3.13. Property, plant, and equipment

Tangible assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. In the case of right-of-use assets, expected useful lives are determined by reference to comparable owned assets or the lease term, if shorter. Material residual value estimates and estimates of useful life are updated as required, but at least annually. Land is not depreciated.

3. Summary of significant accounting policies (continued)

3.13 Property, plant, and equipment (continued)

The estimated useful lives are as follows:

- | | |
|--------------------------------------|--|
| • Right-of-use asset | Shorter of comparable owned assets or the lease term |
| • Short leasehold land and buildings | Shorter of the lease term or 20 years |
| • Plant and equipment | 3 – 10 years |

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

Assets in the course of construction are stated at cost. These assets are not depreciated until they are available for use.

3.14. Impairment of property, plant and equipment, intangible assets, and right-of-use assets, excluding goodwill

At each reporting date, the Group reviews the carrying amounts of its property, plant and equipment, intangible assets, and right-of-use assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where impairments are reversed, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss to the extent that it eliminates the impairment loss which has been recognised for the asset in prior years.

3.15. Leases

The Group assesses whether a contract is or contains a lease based on whether the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

Under IFRS 16, the Group recognises right-of-use assets and lease liabilities at the lease commencement date. The lease liabilities are initially measured at the present value of the lease payments that are not yet paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses the incremental borrowing rate as the discount rate and this rate is determined on a lease-by-lease basis, and is adjusted for credit risk of each lessee, lease value, and lease term.

Lease liabilities are subsequently measured at amortised cost and are increased by the interest charge and decreased by the lease payments made. Lease liabilities are remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a renewal or purchase option is reasonably certain to be exercised or a break clause is reasonably certain not to be exercised.

Right-of-use assets are initially measured at cost, which is an amount equal to the corresponding lease liabilities (present value of future lease payments) adjusted for any lease payments made at or before the commencement date, plus any direct costs incurred in obtaining the lease, less any lease incentives received.

At inception of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices.

The Group has elected to apply the exemption for recognising right-of-use assets and lease liabilities on the balance sheet for leases where the underlying asset is of low value. Lease expenses relating to low value assets will be recognised in the income statement on a straight-line basis.

In relation to vehicle leases, the Group has also elected to apply the exemption for short-term leases and therefore will not recognise right-of-use assets and lease liabilities on the balance sheet for vehicle leases of less than 12 months in duration.

3.16. Inventories

Raw materials and consumables are valued at the lower of cost and net realisable value. Cost is based on the purchase cost on a first-in, first-out (FIFO) basis.

Inventories are assessed for impairment at each reporting date. The carrying amount of each item of inventory, or Group of similar items, is compared with its selling price less costs to complete and sell. If an item is found to be impaired, its carrying amount is reduced to selling price less costs to complete and sell, and an impairment loss recognised immediately in profit or loss.

3.17. Cash and cash equivalents

Cash and cash equivalents comprise cash balances and cash in transit. For the purposes of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, and deposits held at call with financial institutions.

3. Summary of significant accounting policies (continued)

3.18. Employee benefits

The Group provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and a defined benefit pension plan.

i. Short term benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, defined pension contributions, as well as annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service. Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

ii. Defined benefit pension plan

The Group operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Group. Pension scheme assets are measured using market values. For quoted securities the current bid price is taken as market value. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the consolidated statement of comprehensive income, actuarial gains and losses. The pension scheme was closed to new entrants from 14 August 2002.

iii. Annual bonus plan

The Group operates several annual bonus plans for employees. An expense is recognised in the profit and loss account over the period the related service is rendered based on the amounts expected to be paid out.

3.19. Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market-based vesting conditions.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of equity instruments that will eventually vest. At each reporting date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to reserves.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

3.20. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

The Group provides for property dilapidations, where appropriate, based on the future expected repair costs required to restore the Group's leased buildings to their fair condition at the end of their respective lease terms, where it is considered a reliable estimate can be made. The amount provided is added to the right-of-use asset for the relevant lease and depreciated over the remaining lease term.

3.21. Financial instruments

Financial instruments held by the Group are classified in accordance with the provisions of IFRS 9 *Financial Instruments* ("IFRS 9"). All financial instruments are initially recognised at fair value and subsequently classified as either amortised cost, fair value through profit and loss or fair value through other comprehensive income. The Group currently classifies all financial assets and liabilities as amortised cost.

Financial assets

These assets arise principally from the provision of goods and services to customers (e.g. trade and other receivables), but also incorporate other types of financial assets where the objective is to hold these assets in order to collect the contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or (where appropriate) a shorter period, to the amortised cost of a financial instrument.

Impairment provisions for current trade receivables are recognised based on the simplified approach within IFRS 9 using a provision matrix in the determination of the lifetime expected credit losses ("ECL"). Current trade receivables are Grouped by those that share similar credit risk characteristics. During this process the probability of the non-payment of the trade receivables is assessed based on the number of days that

3. Summary of significant accounting policies (continued)

3.21 Financial instruments (continued)

they have been past due and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For trade receivables, which are reported net, such provisions are recorded in a separate provision account, with the loss being recognised within administrative expenses in the Consolidated Income Statement. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

For all other financial assets, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default that was expected to occur at the reporting date as estimated at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received. On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group's financial assets measured at amortised cost comprise trade and other receivables and cash and cash equivalents in the Consolidated Statement of Financial Position.

Financial liabilities

Financial liabilities includes loans and borrowings which are initially recognised at fair value net of any transaction cost directly attributable to the issue of the instrument. Such liabilities are subsequently measured at amortised cost using the effective interest method, which ensures that any interest expense over the period of repayment is at a constant rate on the balance of the liability carried in the Statement of Financial Position.

Trade payables and other short-term monetary liabilities are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss. When the Group exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

3.22 Capital Management

The Group's objectives when managing capital, which is deemed to be total equity plus loans and borrowings, are to safeguard the Group's ability to continue as a going concern to support its business and further growth in order to provide returns for shareholders and benefits for other stakeholders, and to maintain a strong credit rating and headroom on financial covenants.

To meet these objectives the Group reviews the budgets and forecasts on a regular basis to ensure there is sufficient capital to meet the needs of the Group through to profitability and positive cashflow. The capital structure of the Group consists of shareholders' equity as set out in the consolidated statement of changes in equity. All working capital requirements are financed from existing cash resources and borrowings, including shareholder loan notes, vendor loan notes and revolving credit facility, as set out in note 31 Financial Instruments.

No changes were made in the objectives, policies or processes relating to capital management during the periods ended 31 December 2021, 2020 and 2019. The banking covenants are tested quarterly and monitored on a regular basis. The Group remained compliant with its banking facility covenants throughout the year and up to the date of approval of the financial statements.

The Group and Company is in a net current liability position due to the working capital profile of restaurants, especially those in the expansion phase. The Group had cash resources of £36.2m at 31 December 2021 (2020: £12.9m, 2019: £11.3m).

4. Changes in accounting policy

Standards and interpretations adopted in the current period

On first-time adoption of IFRS all standards, interpretations, and amendments effective on the reporting date were applied to all periods prepared under IFRS. The Company financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework. FRS 101 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, as detailed in note 3.2.

The following amendments are effective for reporting periods beginning on or after 1 January 2021:

Impact of the initial application of COVID-19-Related Rent Concessions beyond 30 June 2021—Amendment to IFRS 16

In March 2021, the IASB issued COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16) that extends the practical expedient to apply to reductions in lease payments originally due on or before 30 June 2022. The Group did not adopt the expedient.

Interest Rate Benchmark Reform – IBOR ‘phase 2’ (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

In the current year, the Group adopted the Phase 2 amendments Interest Rate Benchmark Reform—Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. Adopting these amendments enables the Group to reflect the effects of transitioning from interbank offered rates (IBOR) to alternative benchmark interest rates (also referred to as ‘risk free rates’ or RFRs) without giving rise to accounting impacts that would not provide useful information to users of financial statements. The Group has not restated the prior period. Instead, the amendments have been applied retrospectively with any adjustments recognised in the appropriate components of equity as at 1 January 2021.

As a result of the Phase 2 amendments when the contractual terms of the Group’s revolving credit facility are amended as a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the basis immediately preceding the change, the Group changes the basis for determining the contractual cash flows prospectively by revising the effective interest rate. If additional changes are made, which are not directly related to the reform, the applicable requirements of IFRS 9 are applied to the other changes.

The adoption of the above standard for the 2021 period has not had a significant impact on the Group’s financial results of position. As part of the refinancing in 2022, the interest rate was transitioned from LIBOR to a SONIA interest rate.

New standards, interpretation and amendments not yet effective

There are a number of standards, amendments to standards and interpretations which have been issued by the International Accounting Standards Board (“IASB”) that are effective in future accounting periods that the Group has decided not to adopt early.

The Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

IFRS 10 and IAS 28 (amendments)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current</i>
Amendments to IAS 1 and IFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i>
Amendments to IAS 8	<i>Definition of accounting estimates</i>
Amendments to IAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to IFRS 3	<i>Reference to the Conceptual Framework</i>
Amendments to IAS 16	<i>Property, Plant and Equipment—Proceeds before Intended Use</i>
Amendments to IAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>
Annual Improvements to IFRS Standards 2018–2020 Cycle	<i>Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture</i>

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods.

5. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group’s accounting policies, the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Group’s accounting policies

The primary critical judgements that the directors have made in the process of applying the Group’s accounting policies are:

i. Impairment

Judgement is required in the assessment of whether or not a CGU is impaired. This has been disclosed in more detail under key sources of estimation uncertainty below given the reliance of this judgement on key assumptions and estimates.

5. Critical accounting judgements and key sources of estimation uncertainty (continued)

ii. Deferred Tax Asset recognition

The Group holds significant unrecognised Deferred Tax Assets. The total amount of unprovided deferred tax asset as at the year ended 31 December 2021 is £9,003,000 (2020: £5,168,000, 2019: £2,498,000), as detailed in note 14.

The Group have prepared taxable profits projections for the periods to 31 December 2025. Based on the current financing structure, the Group is not expected to have significant taxable profits for the years 2022 or 2023. While the projected taxable profits for the years 2024 and 2025 increase, the uncertainty over the forecasts further into the future also increases. The Group does not currently recognise the deferred tax asset arising on losses due to the uncertainty associated with the availability of future taxable profits to utilise against these losses, as supported by the historical tax loss position.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the Statement of Financial Position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

i. Retirement benefit obligations

Certain assumptions, including discount rates, RPI inflation and pension increases in payment, have been adopted for factors that determine the valuation of the Group's liability for pension obligations at period end and future returns on pension scheme assets and charges to the profit and loss account. The factors have been determined in consultation with the Company's actuary taking into account market and economic conditions. Changes in assumptions can vary from year to year as a result of changing conditions and other determinants which may cause increases or decreases in the valuation of the Company's liability for pension obligations. The objective of setting pension scheme assumptions for future years is to reflect the expected actual outcomes. Further details, including sensitivities in respect of key assumptions are available in note 25.

ii. Impairment of Tangible, Intangible and Right of Use assets

Property, plant and equipment, intangible assets, including goodwill, and right-of-use assets are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. For example, restaurant fittings and right-of-use assets may be impaired if sales in that restaurant fall. When the cash generating unit is considered impaired, impairment is allocated to goodwill in the first instance, before allocation of impairment to other assets. When a review for impairment is conducted the recoverable amount is estimated based on either value-in-use calculations or fair value less costs of disposal. Both value-in-use and fair value less costs of disposal calculations require management to estimate future cash flows generated by the assets and an appropriate discount rate. Consideration is also given to whether the impairment assessments made in prior years remain appropriate based on the latest expectations in respect of recoverable amount. Where it is concluded that the impairment has reduced, a reversal of the impairment is recorded.

Earnings before interest, tax, depreciation, and amortisation ("EBITDA") adjusted for overheads allocation is used as a proxy for net cash flow in determining the future cash flows generated by the assets. Turn-around sites, planned remodels and site-specific items are also taken into account in the net cash flow and is a key source of estimation uncertainty in the impairment assessment. Growth in the forecasted EBITDA is considered to be a key sensitivity.

Key estimates and sensitivities for impairment of goodwill and indefinite life intangible assets are disclosed in detail in note 19.

iii. Determining the rate used to discount lease payments

At the commencement date of property leases the lease liability is calculated by discounting the future lease payments. The discount rate used should be the interest rate implicit in the lease. However, if that rate cannot be readily determined, which is generally the case for property leases, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. As the Group had no suitable external borrowings from which to determine that rate, estimation is required to determine the incremental borrowing rate to be used. At the commencement of a new lease a risk-free rate is obtained, linked to the length of the lease and an adjustment is then made to reflect credit risk. For the lease liabilities at 31 December 2021 a 0.5% per cent (2020: 0.5%, 2019: 0.5%) increase in the discount rate used would have decreased the total liabilities by £3,314,000. (2020: £2,489,000, 2019: £2,480,000) and a 0.5% per cent (2020: 0.5%, 2019: 0.5%) decrease in the discount rate used would have increased the total liabilities by £3,493,000. (2020: £2,623,000, 2019: £2,539,000).

iv. Fair values on acquisition of Banquets (B.K) Limited, KFG Quickserve Limited and Zing Leisure Limited (note 30)

As part of acquisition accounting an adjustment was made to account for the fair value of assets acquired and liabilities assumed on the acquisition of Banquets (B.K) Limited, KFG Quickserve Limited and Zing Leisure Limited. Fair value of the assets is a key source of estimation uncertainty. Further detail is included in note 30.

v. Recoverability of intercompany debtors

The directors have considered the financial position and three year forecast for the BKUK Group, Limited which include the cashflows of its trading subsidiaries BKUK Devco Limited, Caspian Food Retailers Limited, Caspian Food Services Limited, BKUK Bristol Limited, BKUK Flame Limited and Zing Leisure Limited. Based upon these forecasts, the directors are satisfied that the intercompany debtors are recoverable.

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6. Revenue

The Group has disaggregated revenue into various categories in the following table which is intended to depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic date. Further information on the types of revenue is included in the accounting policy note 3.7.

	2021	2020	2019
	£000	£000	£000
Food and drink sales – recognised at a point in time	193,829	116,447	99,939
Franchise and related service income – recognised over time	4,862	1,482	1,666
AdFund Contributions- measured on an input basis	13,021	8,045	17,180
	<u>211,712</u>	<u>125,974</u>	<u>118,785</u>

The Group sells a consistent range of food and drink goods in its restaurants and through franchise partners. All revenue was generated in the UK and no single customers contributed 10 per cent or more to the Group's revenue in either 2021, 2020 or 2019.

7. Segmental Information

The Group's Chief Executive is the Chief Operating Decision Maker (CODM) of the Group in the context of IFRS 8. In addition to its retail activities, the Group generates revenues from franchises and related service income. Information reported to the CODM for the purposes of resource allocation and assessment of segment performance is provided at the retail business level as one segment.

Accordingly, no segmental analysis is presented for the 31 December 2021, 31 December 2020, and 31 December 2019 results.

8. Other operating income

Income from government grants because of the COVID-19 pandemic, which consists of furlough income, has been recognised in Other operating income.

	2021	2020	2019
	£000	£000	£000
Government grant	1,555	8,962	-

9. Operating profit/(loss)

	2021	2020	2019
	£000	£000	£000
Operating profit/(loss) has been arrived at after charging/(crediting):			
Depreciation and amortisation of tangible and intangible assets	6,284	5,597	3,903
Depreciation of Right of Use assets	11,642	9,691	5,047
Impairment of tangible and intangible assets	1,712	5,996	3,426
(Reversal of impairment)/impairment of Right of Use assets	(8,867)	977	1,653
Loss on disposal of tangible assets	262	10	36
Loss on disposal of Right of Use assets	166	-	-
Foreign exchange losses/(gains)	19	(1,064)	11
Share-based payment expense	32	-	-

Fees payable to the Company's auditors:

Audit of the financial statements	19	19	19
Audit of the Company's subsidiaries	250	218	164
Total audit fees	<u>269</u>	<u>237</u>	<u>183</u>
Audit-related assurance services	10	10	10
Other assurance services	675	-	327
Tax advisory services	-	-	26
Tax compliance services	-	-	61
Total audit and non-audit fees	<u>954</u>	<u>247</u>	<u>607</u>

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10. Non-operating income

The following non-operating items are included in the Consolidated Income Statement:

	2021	2020	2019
	£000	£000	£000
Advertising Fund surplus	-	1,203	592

The Advertising Fund (AdFund) is controlled by BKUK Group Limited and provides marketing activities, which are deemed to be separate from the Group's principal activity of operating Burger King franchises. As described in the accounting policies section, the Group acts as a principal in the relationship and is obliged to provide the services on a break-even basis. Therefore any timing differences between contributions received and costs incurred are held as an asset or liability on the balance sheet.

On entering into a Master Franchise and Development Agreement with Burger King Europe GMBH in 2017, the Group became The Master Franchisee for England, Scotland and Wales and the AdFund was transferred into the Group. At the time of transfer, the AdFund was in a deficit. As a result of careful management, the deficit has been eliminated and the reduction of the deficit in 2019 and 2020 recognised as an income in the Consolidated Income Statement. From the end of 2020, the AdFund is in surplus, therefore no further non-operating income in respect of reduction of the deficit is expected. From 2021 onwards, the impact of Advertising Fund on the income statement will be gross-up of revenue and cost of sales. As the level of revenue and costs recognised in respect of fulfilling AdFund performance obligations are equal, the net operating profit impact will be nil.

11. Staff Costs

The monthly average number of persons employed by the Group and the Company (including directors) during the year, analysed by category, was as follows:

	Group			Company		
	2021	2020	2019	2021	2020	2019
Store operations	3,276	3,328	2,945	3,059	2,674	2,189
Head office administration (including directors)	102	85	86	102	85	77
	3,378	3,413	3,031	3,161	2,759	2,266
	2021	2020	2019	2021	2020	2019
	£000	£000	£000	£000	£000	£000
The aggregate payroll costs of these persons are as follows:						
Wages and salaries	44,987	31,242	30,636	7,330	4,783	5,054
Social security costs	3,020	2,437	1,879	752	580	501
Other pensions costs	746	672	418	283	163	143
Total staff costs	48,753	34,351	32,933	8,365	5,526	5,698
Amounts capitalised	(970)	(469)	(763)	(970)	(469)	(763)
Staff costs charged to Consolidated Income Statement	47,783	33,882	32,170	7,395	5,057	4,935

12. Directors' remuneration

The directors' remuneration is borne by Royale Midco Limited and details are disclosed in the financial statements of that company. In the opinion of the Directors it is not possible to accurately apportion the time spent by each Director on Royale JVC Limited business and therefore no recharge has been made. No amounts were paid to third parties for directors' services, and no retirement benefits are accruing for any of the directors.

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13. Finance income and finance costs

	2021 £000	2020 £000	2019 £000
Finance income			
Interest on short term deposits	48	3	49
Total finance income	<u>48</u>	<u>3</u>	<u>49</u>
Finance expense			
Interest on lease liabilities	(4,863)	(4,599)	(3,371)
Interest expense on bank loans and revolving facility	(2,260)	(1,036)	(122)
Interest payable on shareholder loan notes	(13,895)	(10,923)	(9,834)
Net interest expense on the defined benefit liabilities	(75)	(119)	(168)
Interest payable on vendor loan notes	(738)	(738)	(738)
Total finance expense	<u>(21,831)</u>	<u>(17,415)</u>	<u>(14,233)</u>

Interest expense on bank loans and revolving facility in 2021 includes accelerated amortisation of capitalised debt issue costs of £1,022,000 (2020: nil, 2019: nil) in relation to the RCF facility, which was replaced by a new facility commencing on 4th January 2022.

14. Taxation

	2021 £000	2020 £000	2019 £000
Current Tax			
Current tax on loss for the year	-	6	3
Total current tax	<u>-</u>	<u>6</u>	<u>3</u>
Deferred tax			
Origination and reversal of temporary differences	317	(39)	(43)
Effect of changes in tax rates	(258)	(100)	5
Movement in unprovided deferred tax	-	15	485
Deferred tax on pension scheme liability	402	(45)	58
Total deferred tax	<u>461</u>	<u>(169)</u>	<u>505</u>
Tax expense/(credit) recognised total comprehensive income/(expense)	<u>461</u>	<u>(163)</u>	<u>508</u>

The tax assessed for the year can be reconciled to the profit/ (loss) per the statement of comprehensive income as follow:

	2021 £000	2020 £000	2019 £000
Profit/(loss) before taxation	11,696	(23,538)	(22,582)
Profit/(loss) before taxation multiplied by the UK corporation tax rate of 19% (2020: 19%, 2019: 19%)	2,222	(4,472)	(4,291)
Adjustments in respect of prior years	40	-	-
Expenses not deductible for tax purposes	1,920	405	1,360
Movement in unprovided deferred tax	(2,974)	2,638	1,580
Income not taxable	(2,983)	(308)	(48)
Effects of Group relief	2,092	1,822	1,856
Tax rate changes	(258)	(203)	(7)
Total tax charge/(credit) included in profit or loss	<u>59</u>	<u>(118)</u>	<u>450</u>

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14. Taxation (continued)

In addition to the amount charged to profit or loss, the following amounts relating to tax have been recognised in other comprehensive income/ (expense):

Deferred Tax	2021 £000	2020 £000	2019 £000
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of net defined benefit liability	402	(45)	58
Total tax charge/(credit) recognised in other comprehensive income/ (expense)	402	(45)	58

The following amounts are included in the Consolidated Statement of Financial Position relating to current and deferred tax:

	31 December 2021 £000	31 December 2020 £000	31 December 2019 £000	1 January 2019 £000
Non-current assets				
Deferred tax assets	315	1,034	762	904
Current liabilities				
Corporation tax liability	(109)	-	(39)	-

The total amount of unprovided deferred tax asset as at the year ended 31 December 2021 is £9,003,000 (2020: £5,168,000, 2019: £2,498,000).

The Group does not recognise the deferred tax asset arising on losses due to uncertainty associated with the availability of future taxable profits to utilise against these losses.

Factors affecting future tax changes

As announced in the Spring Budget 2021, legislation introduced in the Finance Bill 2021 to change the Corporation Tax main rate to 25% for the financial year beginning 1 April 2023 and became substantively enacted on 24 May 2021 and therefore its effects are included in these financial statements.

Company

The Company had a deferred tax asset of £31,000 at 31 December 2021 (31 December 2020: £31,000, 31 December 2019: 15,000, 1 January 2019: £1,000). The corporation tax liability at 31 December 2021 was nil (31 December 2020: £nil, 31 December 2019: nil, 1 January 2019: nil).

15. Cash and cash equivalents

	31 December 2021 £000	31 December 2020 £000	31 December 2019 £000	1 January 2019 £000
Cash at bank and in hand	35,046	12,366	9,572	30,754
Cash in transit	1,112	516	1,701	510
	36,158	12,882	11,273	31,264

The cash balance includes £7,227,000 (2020: £2,208,000, 2019: £366,000) to be spent on marketing activity on behalf of the franchisees, as well as a cash in transit balance which relates to credit card clearing accounts. There are no significant amounts of cash and cash equivalents that are held by the Group that are not available for use by the Group.

Company

The Company had no cash equivalents at 31 December 2021 (2020: nil, 2019: nil).

	31 December 2021 £000	31 December 2020 £000	31 December 2019 £000	1 January 2019 £000
Cash at bank and in hand	22,805	11,660	1,214	6,486
	22,805	11,660	1,214	6,486

The cash balance includes £7,227,000 (2020: £2,208,000, 2019: £366,000) to be spent on marketing activity on behalf of the franchisees, as well as a cash in transit balance which relates to credit card clearing accounts. There are no significant amounts of cash and cash equivalents that are held by the Group that are not available for use by the Group.

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16. Intangible Assets:

	Goodwill	Franchise fees	Master Franchise and Development Agreement	Software	Total
	£000	£000	£000	£000	£000
Cost					
At 1 January 2019	53,205	2,015	2,198	1,855	59,273
Arising on acquisition	19,134	704	-	-	19,838
Additions	-	463	-	708	1,171
Disposals	-	(20)	-	-	(20)
At 31 December 2019	72,339	3,162	2,198	2,563	80,262
Additions	-	336	-	189	525
Disposals	(43)	(50)	-	-	(93)
At 31 December 2020	72,296	3,448	2,198	2,752	80,694
Arising on acquisition	16,121	501	-	-	16,622
Additions	171	531	-	184	886
Disposals	(553)	(453)	-	-	(1,006)
At 31 December 2021	88,035	4,027	2,198	2,936	97,196
Accumulated amortisation and impairment					
At 1 January 2019	6,519	314	123	209	7,165
Charge for the year	-	100	108	705	913
Impairment (arising on acquisition)	-	31	-	-	31
Impairment	-	92	-	-	92
Disposals	-	(20)	-	-	(20)
At 31 December 2019	6,519	517	231	914	8,181
Charge for the year	-	195	114	858	1,167
Impairment	386	175	-	-	561
Disposals	(43)	(50)	-	-	(93)
At 31 December 2020	6,862	837	345	1,772	9,816
Charge for the year	-	214	34	826	1,074
Impairment (arising on acquisition)	-	50	-	-	50
Impairment	-	66	-	-	66
Disposals	(553)	(452)	-	-	(1,005)
At 31 December 2021	6,309	715	379	2,598	10,001
Net book value					
At 1 January 2019	46,686	1,701	2,075	1,646	52,108
At 31 December 2019	65,820	2,645	1,967	1,649	72,081
At 31 December 2020	65,434	2,611	1,853	980	70,878
At 31 December 2021	81,726	3,312	1,819	338	87,195

16. Intangible Assets (continued)

Company

	Master Franchise and Development Agreement	Software	Total
	£000	£000	£000
Cost			
At 1 January 2019	2,198	1,855	4,053
Additions	-	708	708
At 31 December 2019	2,198	2,563	4,761
Additions	-	189	189
At 31 December 2020	2,198	2,752	4,950
Additions	-	184	184
At 31 December 2021	2,198	2,936	5,134
Accumulated amortisation			
At 1 January 2019	123	209	332
Charge for the year	108	705	813
At 31 December 2019	231	914	1,145
Charge for the year	114	858	972
At 31 December 2020	345	1,772	2,117
Charge for the year	34	826	860
At 31 December 2021	379	2,598	2,977
Net book value			
At 1 January 2019	2,075	1,646	3,721
At 31 December 2019	1,967	1,649	3,616
At 31 December 2020	1,853	980	2,833
At 31 December 2021	1,819	338	2,157

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17. Property, plant, and equipment

	Short leasehold land and buildings	Plant and Equipment	Tangible assets under construction	Total
	£000	£000	£000	£000
Cost:				
At 1 January 2019	2,915	18,009	-	20,924
Arising on acquisition	-	1,991	-	1,991
Additions	939	18,714	1,806	21,459
Disposals	-	(1,469)	-	(1,469)
At 31 December 2019	3,854	37,245	1,806	42,905
Transfers	-	1,806	(1,806)	-
Additions	710	6,491	3,213	10,414
Disposals	(17)	(1,257)	-	(1,274)
At 31 December 2020	4,547	44,285	3,213	52,045
Arising on acquisition	367	574	-	941
Transfers	-	2,833	(2,833)	-
Additions	3,365	15,571	2,124	21,060
Disposals	(635)	(5,656)	-	(6,291)
At 31 December 2021	7,644	57,607	2,504	67,755
Accumulated depreciation and impairment:				
At 1 January 2019	209	3,316	-	3,525
Depreciation charge for the year	128	2,862	-	2,990
Impairment (arising on acquisition)	-	161	-	161
Impairment	135	3,199	-	3,334
Disposals	-	(1,433)	-	(1,433)
At 31 December 2019	472	8,105	-	8,577
Depreciation charge for the year	253	4,177	-	4,430
Impairment (arising on acquisition)	-	-	-	-
Impairment	656	4,779	-	5,435
Disposals	(17)	(1,247)	-	(1,264)
At 31 December 2020	1,364	15,814	-	17,178
Depreciation charge for the year	439	4,772	-	5,211
Impairment (arising on acquisition)	6	42	-	48
Impairment	207	1,440	-	1,647
Disposals	(628)	(5,401)	-	(6,029)
At 31 December 2021	1,388	16,667	-	18,055
Net book value				
At 1 January 2019	2,706	14,693	-	17,399
At 31 December 2019	3,382	29,140	1,806	34,328
At 31 December 2020	3,183	28,471	3,213	34,867
At 31 December 2021	6,256	40,940	2,504	49,700

Tangible assets under construction are the assets in relation to restaurants currently under construction before the restaurant opening date. No depreciation is applied to assets under construction. Upon opening, the assets are transferred into Plant and Equipment and start being depreciated according to the useful life of the assets.

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17. Property, plant, and equipment (continued)

Company

	Short leasehold land and buildings	Plant and Equipment	Total
	£000	£000	£000
Cost:			
At 1 January 2019	161	351	512
Additions	-	114	114
At 31 December 2019	161	465	626
Additions	-	208	208
At 31 December 2020	161	673	834
Additions	-	434	434
At 31 December 2021	161	1,107	1,268
Accumulated depreciation			
At 1 January 2019	(3)	(50)	(53)
Depreciation charge for the year	(8)	(125)	(133)
At 31 December 2019	(11)	(175)	(186)
Depreciation charge for the year	(8)	(162)	(170)
At 31 December 2020	(19)	(337)	(356)
Depreciation charge for the year	(8)	(178)	(186)
At 31 December 2021	(27)	(515)	(542)
Net book value			
At 1 January 2019	158	301	459
At 31 December 2019	150	290	440
At 31 December 2020	142	336	478
At 31 December 2021	134	592	726

BKUK Group Limited

18. Leases

Lease liabilities

	Land and buildings leasehold £000
At 1 January 2019	(57,679)
Additions	(36,223)
Remeasurement	(1,531)
Interest expense	(3,371)
Lease payments	6,877
At 31 December 2019	(91,927)
Additions	(8,942)
Remeasurement	(2,597)
Interest expense	(4,599)
Lease payments	6,670
Revised discount rate	716
At 31 December 2020	(100,679)
Additions	(27,918)
Remeasurement	(6,526)
Interest expense	(4,863)
Lease payments	16,292
At 31 December 2021	(123,694)

Amounts not included in the measurement of lease liabilities are as follows:

	31 December 2021 £000	31 December 2020 £000	31 December 2019 £000
Short-term property lease expense	-	78	244
Short term car-hire	51	15	30
Aggregate undiscounted commitments for short-term leases	51	93	274

The Group sometimes negotiates break clauses in its property leases. On a case-by-case basis, the Group will consider whether the absence of a break clause would expose the Group to excessive risk.

Typically factors considered in deciding to negotiate a break clause include:

- the length of the lease term;
- the economic stability of the environment in which the property is located; and
- whether the location represents a new area of operations for the Group.

At 31 December 2021, 31 December 2020, 31 December 2019 and 1 January 2019, the carrying amounts of lease liabilities are not reduced by the amount of payments that would be avoided from exercising break clauses because on all dates it was considered reasonably certain that the Group would not exercise its right to exercise any right to break the lease.

BKUK Group Limited

18. Leases (continued)

The maturity of lease liabilities are as follows:

	Within 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Over 5 years £000	Total £000
At 31 December 2019	(8,817)	(7,965)	(20,079)	(55,066)	(91,927)
At 31 December 2020	(8,024)	(7,826)	(19,363)	(65,466)	(100,679)
At 31 December 2021	(9,344)	(9,151)	(26,071)	(79,128)	(123,694)

The total undiscounted commitments for leases are as follows:

	Within 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Over 5 years £000	Total £000
At 31 December 2019	(13,007)	(12,037)	(29,794)	(70,190)	(125,028)
At 31 December 2020	(12,729)	(12,098)	(29,950)	(75,357)	(130,134)
At 31 December 2021	(14,926)	(14,264)	(38,811)	(96,787)	(164,788)

Sensitivity analysis

Assuming the lease liabilities held as at each reporting date were outstanding for the whole year, a 0.5 percentage point (increase)/decrease in the IBRs used across the lease portfolio would (increase)/decrease the lease liabilities by the following amounts:

	31 December 2021 £000	31 December 2020 £000	31 December 2019 £000
Increasing IBR by 0.5%	(3,314)	(2,489)	(2,480)
Decreasing IBR by 0.5%	3,493	2,623	2,539

BKUK Group Limited

18. Leases (continued)

Right-of-use assets

	Land and buildings leasehold
Cost	£000
At 1 January 2019	45,089
Arising on acquisition	22,062
Additions	17,186
At 31 December 2019	84,337
Additions	11,281
Disposals	(1,880)
At 31 December 2020	93,738
Arising on acquisition	16,234
Additions	25,460
Disposals	(11,565)
At 31 December 2021	123,867
Accumulated depreciation and impairment:	
At 1 January 2019	-
Depreciation charge for the year	5,047
Impairment	1,653
Impairment arising on acquisition	9,142
At 31 December 2019	15,842
Depreciation charge for the year	9,691
Impairment	977
Disposals	(1,880)
At 31 December 2020	24,630
Depreciation charge for the year	11,642
Impairment reversal	(8,867)
Impairment arising on acquisition	11,249
Disposals	(11,399)
At 31 December 2021	27,255
Net book value	
At 1 January 2019	45,089
At 31 December 2019	68,495
At 31 December 2020	69,108
At 31 December 2021	96,612

BKUK Group Limited

18. Leases (continued)

Company

Lease liabilities

	Land and buildings leasehold £000
At 1 January 2019	(3,085)
Interest expense	(163)
Lease payments	425
At 31 December 2019	(2,823)
Interest expense	(148)
At 31 December 2020	(2,971)
Remeasurement	142
Interest expense	(132)
Lease payments	708
At 31 December 2021	(2,253)

Within lease liabilities £318,000 relates to amounts due within 12 months (2020: £329,000, 2019: £311,000).

The company does not have any short term or low value leases.

Right-of-use assets

	Land and buildings leasehold £000
Cost	
At 1 January 2019	2,895
At 31 December 2019	2,895
At 31 December 2020	2,895
Remeasurement	(142)
At 31 December 2021	2,753
Accumulated depreciation and impairment:	
At 1 January 2019	-
Depreciation charge for the year	327
At 31 December 2019	327
Depreciation charge for the year	327
At 31 December 2020	654
Depreciation charge for the year	321
At 31 December 2021	975
Net book value	
At 1 January 2019	2,895
At 31 December 2019	2,568
At 31 December 2020	2,241
At 31 December 2021	1,778

19. Impairment

Impairment Reviews

The Group is required to test each CGU to which goodwill has been allocated on an annual basis or more frequently if there are indications that a CGU might be impaired. When testing goodwill for impairment, the goodwill is allocated to the CGU or Group of CGUs that were expected to benefit from the synergies of the business combination from which it first arose.

The Group's other intangible assets and property, plant and equipment each belong to one of the Group's CGUs. In performing these impairment tests, management is required to compare the carrying value of the assets of a CGU, including goodwill with their estimated recoverable amount.

For the years ended 31 December 2021, 31 December 2020 and 31 December 2019 and on transition to IFRS at 1 January 2019, the recoverable value of the CGUs was determined by assessing the value in use. The key estimate in determining the value in use requires the estimation of future cash flows, long-term growth rates and determination of discount rates in order to calculate the present value of the cash flows.

Restaurants

An impairment review has been performed over the goodwill and intangible assets, and property, plant, right-of-use assets and equipment attributable to each of the Group's restaurants. The impairment review has been based on the value in use of each of the Group's restaurants, which are each a cash generating unit.

The impairment review was carried out using the following assumptions:

- EBITDA after allocation of overheads is used as a proxy for net cash flow. Turn-around sites, planned remodels and site-specific items are also taken into account in the net cash flow and are key judgements to the impairment assessment.
- The pre-tax discount rate is based on the Group's weighted average cost of capital ("WACC") with an update for risk in the current environment and at 31 December 2021 was 10% (2020: 10%, 2019: 10%).
- All assets related to the impaired restaurants are written off, except those that can be transferred to another site.

In 2021 a total of 15 restaurants (2020: 6 restaurants, 2019: 16 restaurants) were impaired due to the impairment assessment performed. Where right of use asset impairments related to leases acquired in a business combination, these impairments were offset against the associated goodwill balance. A further impairment on acquisition of £11.2m was recognised in 2021 (2020: nil, 2019: £9.1m). A reversal of impairment of right-of-use assets of £8.9m was recognised in 2021 (an additional impairment of right-of-use assets of 31 December 2020: £1.0m; 31 December 2019: £1.7m).

In addition, a provision of £2,017,000 was made for dilapidations (2020: £2,545,000, 2019: £2,235,000) which is expected to be utilised over the remaining term of these restaurant leases. The assumptions regarding the lease term in respect of these restaurants were reviewed and where required the lease liability was remeasured before assessing the restaurant for impairment.

The sensitivities of these assumptions on the impairment calculation have been tested. The gross impact would be such that:

- A 1 per cent per annum increase in the WACC assumption would result in an increase in the impairment charge of £224k and a decrease in the impairment reversal of £59k. A 1 per cent decrease in the WACC assumption would result in a decrease in the impairment charge £72k and an increase in impairment reversal of £62k; and
- A 1 per cent increase in the growth rate would result in a decrease of impairment charge of £6k and a decrease in impairment reversal of £45k. A 1 per cent decrease in the growth rate would result in an increase of impairment charge of £6k and an increase in impairment reversal of £44k.

Company

No impairment is recognised within the Company financial statements.

20. Investments

Company

	Shares in group undertakings £'000
Cost and net book value	
At 1 January 2019	18,750
Additions	14,301
At 31 December 2019	33,051
At 31 December 2020	33,051
Additions	30,229
At 31 December 2021	63,280

Additions in 2019 relate to acquisition of BKUK Bristol Limited and BKUK Flame Limited (see note 30). Additions in 2021 include acquisition of Zing Leisure Limited (see note 30) as well as additional investment of £24,349,000 in BKUK Devco Limited. The directors are satisfied that the carrying value of the investments is supported by the underlying trading of its subsidiary companies. A list of the subsidiary companies is provided in note 35.

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21. Inventories

	31 December 2021 £000	31 December 2020 £000	31 December 2019 £000	1 January 2019 £000
Raw materials and consumables	1,417	1,093	1,193	720

Raw materials and consumables recognised as cost of sales in the Group in the year amounted to £43,760,000 (2020: £27,185,000, 2019: £27,947,000). As a result of restaurant closures during the first lockdown in 2020, there was £499,000 inventory write off recognised in the statement of comprehensive income. No write offs or write-backs occurred in 2021 or 2019.

There is no material difference between the replacement cost and book value of inventory.

Company

The Company had no inventories at 31 December 2021 (2020: nil, 2019: nil).

22. Trade and other receivables

	31 December 2021 £000	31 December 2020 £000	31 December 2019 £000	1 January 2019 £000
Current assets				
Trade receivables at amortised cost	6,056	3,507	2,319	2,765
Less: ECL provision	-	-	-	-
Trade receivables at amortised cost - net	6,056	3,507	2,319	2,765
Amounts owed by Group undertakings	3,559	409	365	1,039
Other receivables	2,760	1,221	4,197	2,119
Prepayments and accrued income	2,107	1,830	1,750	2,199
Total trade and other receivables	14,482	6,967	8,631	8,122

Exposure to credit risk

The approach to calculating ECLs is detailed in the accounting policies section starting on page 24. The Group believes that all amounts that are past due by more than 30 days that have an immaterial allowance for ECLs are still collectable in full based on historic payment behaviour and extensive analysis of customer credit risk. Based on the Group's monitoring of customer credit risk, the Group believes that no significant allowance for ECLs is necessary to be recognised in respect of trade receivables not past due.

The amounts owed by Group undertakings relate to trading balances with Group undertakings. These amounts are unsecured, interest-free and repayable on demand.

Company

	31 December 2021 £000	31 December 2020 £000	31 December 2019 £000	1 January 2019 £000
Current assets				
Trade receivables	3,864	2,350	1,806	2,333
Amounts owed by Group undertakings (current)	108,812	18,617	20,928	31,706
Other receivables	739	867	5,515	3,873
Prepayments and accrued income	1,609	863	827	1,736
Other taxation and social security	2,225	-	-	-
Total trade and other receivables (current)	117,249	22,697	29,076	39,648
Amounts owed by Group undertakings (non-current)	52,071	70,334	63,361	57,084
Total trade and other receivables (non-current)	52,071	70,334	63,361	57,084

Other taxation and social security receivable balance represents VAT receivable.

On 16 November 2017, the Company entered into a £24,604,000 unsecured redeemable series A loan note and a £9,227,000 unsecured redeemable series B loan note with Royale Bidco Limited. On 16 November 2018, the Company entered into a £18,750,000 unsecured redeemable series A loan note with BKUK Devco Limited. On 13 May 2021 the unsecured redeemable series A loan note with BKUK Devco Limited have been settled and no further loan with BKUK Devco Limited is outstanding. The maturity date of the loan notes is 30 September 2027. The loan notes accrue interest at a compound rate of 11% per annum. Cumulative interest capitalised into the principal of the loan notes at 31 December 2021 was £18,239,000 (2020: £17,751,000, 2019: £10,779,000).

The remaining balance of relates to trading balances with group undertakings. These amounts are unsecured, interest-free and repayable on demand. With the exception of the deferred tax assets, all other debtors are due within one year.

BKUK Group Limited

23. Trade and other payables

Trade and other payables of the Group are principally comprised of amounts outstanding for trade and other purchases incurred in the normal course of business.

	31 December 2021	31 December 2020	31 December 2019	1 January 2019
	£000	£000	£000	£000
Current liabilities				
Trade payables	9,381	4,877	11,068	11,513
Amounts owed to Group undertakings	4,044	1,437	370	1,369
Other taxation and social security	3,585	3,358	3,923	871
Other payables	9,145	3,595	539	59
Accruals and contract liabilities	18,562	12,949	12,652	10,202
Total current trade and other payables	44,717	26,216	28,552	24,014

The carrying value of trade and other payables classified as financial liabilities measured at amortised cost approximates fair value.

All trade and other payables are repayable within one year.

Company

Trade and other payables of the Company are comprised of amounts owed to Group undertakings incurred in the normal course of business.

	31 December 2021	31 December 2020	31 December 2019	1 January 2019
	£000	£000	£000	£000
Current				
Trade creditors	9,381	4,877	9,659	11,272
Amounts owed to group undertakings	94,196	10,147	11,948	24,800
Other taxation and social security	-	3,155	608	-
Other creditors	8,784	2,975	19	47
Accruals and deferred income	9,878	5,565	6,295	5,790
Total current trade and other payables	122,239	26,719	28,529	41,909

The carrying value of trade and other payables classified as financial liabilities measured at amortised cost approximates fair value.

All trade and other payables are repayable within one year.

BKUK Group Limited

24. Loans and borrowings

	31 December 2021	31 December 2020	31 December 2019	1 January 2019
	£000	£000	£000	£000
Vendor loan notes payable	9,318	9,318	9,320	9,321
Revolving credit facility	20,000	19,848	14,003	-
Shareholder loan notes payable	149,084	110,188	99,266	89,431
Total non-current loans and borrowings	178,402	139,354	122,589	98,752

Vendor loan note

On 16 November 2017, the Group entered into a £9,227,000 guaranteed vendor loan note payable to the previous owner of the acquired Caspian Retailers Limited entity. Interest is charged at 8% and is repayable each year on the anniversary of the initial loan agreement. The amount of accrued interest as at 31 December 2021 is £93,000 (2020: £93,000, 2019: £93,000). The loan was repayable on 16 November 2024, however has been fully repaid post year end on 21st January 2022.

Revolving credit facility

The Group holds a £25,000,000 revolving credit facility with Natwest PLC which was secured at a rate of LIBOR +4.5%. As at 31 December 2021, £20,000,000 has been drawn (2020: £21,000,000, 2019: £15,000,000). Natwest PLC has a fixed and floating charge against the Group's real and intellectual property to support this and requires the Group to comply with financial covenants.

Subsequent to the year end the facility has been re-financed and the £20m facility drawdown repaid, with a new £30m drawdown made. The Group has complied with the financial covenants for the year ended 31 December 2021 and forecasts continuing to do so for a period of at least 12 months from the date of approval of these financial statements.

The initial issue costs of the revolving credit facility totalled £1,290,000, which were being amortised over the period from drawdown of the loan to the expected maturity date. Due to the re-financing in January 2022, the accelerated amortisation of £1.1m has been recognised during 2021. At 31 December 2021, the unamortised cost was nil (2020: £1,152,000, 2019: £996,000).

As part of the refinancing, the interest rate was transitioned from LIBOR to a SONIA interest rate. No additional risks have resulted as a result of the transition that would impact the Group's risk management strategy.

Shareholder loan notes

On 16 November 2017, the Company entered into a £43,825,000 unsecured redeemable series A loan note agreement and a £18,750,000 unsecured redeemable series B loan note agreement with its shareholder, Royale Interco Limited. On 16 November 2018, the Company entered into a £18,750,000 unsecured redeemable series A loan note with Royale Interco Limited. On 13 May 2021 the Company entered into a £25,000,000 unsecured redeemable series A loan note with Royale Interco Limited. The maturity date of the loan notes is 30 September 2027, on which date they will be repaid in full. The loan notes accrue interest at a compound rate of 11% per annum. Cumulative interest capitalised into the principal of the loan notes at 31 December 2021 was £42,759,000 (2020: £28,863,000, 2019: £17,941,000).

Company

	31 December 2021	31 December 2020	31 December 2019	1 January 2019
	£000	£000	£000	£000
Revolving credit facility	20,000	19,848	14,003	-
Shareholder loan notes payable	149,084	110,188	99,266	89,431
Total non-current loans and borrowings	169,084	130,036	113,269	89,431

BKUK Group Limited

25. Post-employment benefits

The Group operates a pension scheme (Gowrings 1975 Pension Scheme) which provides benefits based on final pensionable pay. The Scheme was closed to new entrants with effect from 14 August 2002 and was closed to the future accrual of benefits from 31 October 2010. The employer's contributions to the Scheme during the year amounted to £982,000 (2020: £456,000, 2019: £276,000). The Parent Company did not participate in the pension scheme.

The Scheme is Trust-based, operating on a funded basis within the UK legislative and regulatory framework with assets held in external funds overseen by a Trustee. Benefits are provided to members upon retirement or death as determined by UK legislation and the Scheme's Trust Deed & Rules.

The Trustee is required to act on behalf of the Scheme's membership and invest the Scheme's assets with an aim of ensuring that all members' current and future benefits can be paid. The Trustee conducts regular reviews of the funding level of the Scheme in accordance with UK legislation and monitors the long-term investment and funding strategies of the Scheme. The appointment of the Trustee is determined by the Scheme's Trust Deed & Rules and UK legislation. Currently, the Trustee is an independent, professional Trustee appointed by the Group.

The estimate is based on the data and results of the full actuarial valuation as at 31 December 2018 and updated to 31 December 2021 by a qualified independent actuary.

Amounts recognised in the Consolidated statement of financial position*:	31 December 2021 £000	31 December 2020 £000	31 December 2019 £000
Defined benefit obligation	(17,108)	(19,652)	(18,279)
Fair value of scheme assets	15,213	13,735	12,584
Net defined benefit liability	(1,895)	(5,917)	(5,695)

*Note: before deferred tax considerations

Changes in the present value of scheme liabilities are as follows:	2021 £000	2020 £000	2019 £000
Opening defined benefit obligation	(19,652)	(18,279)	(16,641)
Past service credit	1,692	-	-
Interest cost	(262)	(379)	(475)
Actuarial (loss)/gain arising from changes in demographic assumptions	(339)	1,123	98
Actuarial gain/(loss) arising from changes in financial assumptions	703	(2,679)	(2,238)
Actuarial gain arising from experience adjustments	292	64	474
Benefits paid	458	498	503
Closing defined benefit obligation	(17,108)	(19,652)	(18,279)

Changes in the fair value of scheme assets are as follows:	2021 £000	2020 £000	2019 £000
Opening fair value of scheme assets	13,735	12,584	10,897
Interest income on scheme assets	187	260	307
Return on scheme assets excluding interest income	1,004	1,260	2,009
Contributions by employer	982	457	276
Benefits paid	(458)	(498)	(503)
Scheme administration expenses	(237)	(328)	(402)
Closing fair value of scheme assets	15,213	13,735	12,584

Amounts recognised in the Consolidated income statement:	2021 £000	2020 £000	2019 £000
Past service credit	1,692	-	-
Scheme administration expenses	(237)	(328)	(402)
Net interest on the defined benefit liability	(75)	(119)	(168)
Total credit/(expense) recognised in the Consolidated income statement	1,380	(447)	(570)

Following investigations carried out by the Scheme Actuary during the year in respect of a 'Value for Money' underpin, the Trustee became aware of different pension benefits payable to a small subset of deferred members. The investigations identified 27 deferred members affected by this issue. The Trustee has agreed to honour these different pension benefits, resulting in a change to the actuarial calculations used to value them. As a result, a past service credit has been recognised at the 2021 year-end to reflect the expected reduction in liabilities in respect of these 27 deferred members of £1,692k (2020: nil, 2019: nil). Investigations are ongoing into a further 42 members who may potentially be affected but there is currently insufficient evidence to determine which of these members, if any, are affected by the issue. This may result in a further past service credit recognised at the next reporting date.

25. Post-employment benefits (continued)

Amounts recognised in the Consolidated statement of comprehensive income:	2021 £000	2020 £000	2019 £000
Actuarial (loss)/gain arising from changes in demographic assumptions	(339)	1,123	98
Actuarial gain/(loss) arising from changes in financial assumptions	703	(2,679)	(2,238)
Actuarial gain arising from experience adjustments	292	64	474
Total Actuarial gains/(losses)	656	(1,492)	(1,666)
Return on scheme assets excluding interest income	1,004	1,260	2,009
Total gains/(losses) recognised in other comprehensive income/(expense)	1,660	(232)	343

A summary of the main risks that the Scheme exposes the Group to can be found below, including current mitigation put in place by both the Trustee and Group:

Risk	Description	Mitigation
Investment	<p>The Scheme's IAS 19 liabilities are calculated using a discount rate set with reference to corporate bond yields. If the return on the Scheme's assets underperforms this rate, the accounting deficit will increase.</p> <p>In addition, there is the risk of volatility of the future IAS 19 and funding positions due to the proportion of Scheme assets invested in return generating assets, whereas the IAS 19 and funding liabilities are assessed by reference to yields on corporate bonds and gilts, respectively. Any increase to the funding level as a result could increase the future cash requirements of the Group.</p>	<p>The Trustee takes a holistic approach to considering and managing risks when formulating the Scheme's investment strategy.</p> <p>The Trustee and Group conduct regular monitoring of the funding position of the Scheme and have implemented a well-diversified investment strategy that utilises liability driven investment ('LDI') to hedge material risks such as movements in interest rates and inflation.</p> <p>The assets of the Scheme consist predominantly of investments which are traded on regulated markets.</p> <p>The Trustee invests in a number of different funds with different investment managers to ensure there is limited concentration risk with regards to the Scheme's assets. Additionally, the Trustee has a policy in place to ensure that no more than 5% of the Scheme's assets are exposed to Group-related investments.</p>
Interest rate	<p>The Scheme's funding liabilities are linked to gilt yields. As such, a decrease in interest rates (and subsequently gilt yields) will increase the Scheme's funding liabilities which may require additional cash contributions to be made by the Group in future.</p>	<p>The Trustee and Group aim to mitigate the risk of low interest rates through the LDI strategy and other bond assets.</p> <p>The LDI strategy invests in assets which increase in value as interest rates decrease to mitigate the impact of any future adverse movements in interest rates.</p> <p>As the aim of the LDI strategy is used to mitigate the risk to the funding position, there can be divergence in the effectiveness to hedge the IAS 19 liabilities due to spreads between corporate bond and gilt yields.</p> <p>Approximately 80% of the Scheme's liabilities are hedged by the LDI strategy for changes in interest rates.</p>
Inflation	<p>A significant proportion of the Scheme's liabilities are linked to inflation. If inflation is higher than expected, then this will lead to higher IAS 19 and funding liabilities in future. Any increase to the funding level as a result could increase the future cash requirements of the Group.</p>	<p>The Trustee and Group aim to mitigate the risk of higher-than-expected inflation through the LDI strategy and other real assets.</p> <p>The LDI strategy invests in assets which increase in value as inflation increases to mitigate the impact of any future adverse movements in inflation expectations.</p> <p>Approximately 80% of the Scheme's inflation-linked liabilities are hedged by the LDI strategy for changes in inflation rates.</p>
Life expectancy	<p>The Scheme provides benefits to members for the remainder of their (and their spouse's) lives. As such, any increase to life expectancies will lead to higher liabilities for the Scheme.</p>	<p>The Trustee and Group regularly monitor the impact of longevity on the Scheme and conducted a medically underwritten mortality study of the Scheme population as part of the 31 December 2018 actuarial valuation to determine life expectancies that are as accurate as possible.</p>

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25. Post-employment benefits (continued)

	31 December 2021	31 December 2020	31 December 2019
	£000	£000	£000
	Quoted market price in active market		
Breakdown of value of assets at end of the year:			
UK equity-linked bonds	-	-	239
Overseas equity-linked bonds	-	-	3,371
Diversified growth funds	1,867	3,954	4,233
Absolute return bonds	-	1,330	1,379
Diversified alternatives	1,417	1,317	1,238
Equity linked LDI	2,997	4,476	-
LDI	2,817	2,427	2,067
Cash	1,955	231	57
ESG focused physical equity	2,781	-	-
Semi-liquid credit	1,379	-	-
Total value of assets at end of the year	15,213	13,735	12,584

The Trustee of the Scheme has implemented an LDI (Liability Driven Investment) strategy, which aims to hedge approximately 80% of the interest rate and inflation exposure of the Scheme's liabilities. The Scheme will invest in assets such as gilts and swaps (often using leverage) and will create a liability benchmark which aims to "mimic" the sensitivity of the liabilities to movements in interest rate and inflation expectations, thereby reducing the volatility of the Scheme's funding position.

Principal actuarial assumptions at the balance sheet date:

	2021	2020	2019
	%	%	%
Discount rate	1.85	1.35	2.10
Future salary growth	n/a	n/a	n/a
RPI inflation	3.25	2.85	2.90
Pension increases in payment:			
- RPI max 5%	3.15	2.80	2.85
- RPI max 2.5%	2.25	2.10	2.10
Mortality	Base table: 124% S3PxA Future improvements: CMI 2020 projections with a long-term improvement rate of 1.25% p.a., smoothing factor of 7.0, initial addition parameter of 0.0 and w2020 parameter of 10%	Base table: 124% S3PxA Future improvements: CMI 2019 projections and a long-term improvement rate of 1.25% p.a. with smoothing factor of 7.0 and initial addition parameter of 0.0	Base table: 90% S2PxX Future improvements: CMI 2018 projections and a long-term improvement rate of 1.25% p.a. with smoothing factor of 7.0 and initial addition parameter of 0.0

The mortality assumptions are based on standard mortality tables which allow for the following future mortality improvements:

	2021	2020	2019
Male (current age 45)	21.4 years	21.6 years	23.6 years
Male (current age 65)	20.1 years	20.3 years	22.3 years
Female (current age 45)	24.0 years	24.1 years	25.7 years
Female (current age 65)	22.6 years	22.7 years	24.2 years
Cash commutation	90% of members take maximum tax-free cash using current commutation factors	90% of members take maximum tax-free cash using current commutation factors	90% of members take maximum tax-free cash using current commutation factors

25. Post-employment benefits (continued)

The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

	Change in assumption	Impact on scheme liabilities Increase in DBO (£000)
As at 31 December 2021:		
Discount rate	+0.25%	(774)
Inflation rate	+0.25%	450
Life expectancy	+1 year	635
As at 31 December 2020:		
Discount rate	+0.25%	(920)
Inflation rate	+0.25%	585
Life expectancy	+1 year	719
As at 31 December 2019:		
Discount rate	+0.25%	(840)
Inflation rate	+0.25%	608
Life expectancy	+1 year	601

The return on gilts and bonds is the current market yield on long term gilts and bonds.

The sensitivity analysis to changes in key assumptions has been derived by re-running the balance sheet liability calculation with an isolated change to the assumption being analysed. For the RPI inflation sensitivity, all other inflation related assumptions have been updated. For example, in order to demonstrate the sensitivity of the results to changes in the discount rate, the actuary has recalculated the DBO of the Scheme using a discount rate that is 0.25% higher than that used for calculating the disclosed DBO. A similar approach has been taken to demonstrate the sensitivity of the results to other key assumptions.

The method used in preparing the sensitivity analysis is unchanged compared to the previous year-end. Please note the sensitivity analysis provided may not be representative of the actual change but has been determined as a reasonable approximation.

Assets are marked to market at 31 December 2021 and liabilities are calculated using the projected unit method. The actuary estimates the Scheme deficit at 31 December 2021 to be approximately £1,895,000 (2020: £5,917,000, 2019: £5,695,000), which is the deficit for the multi-short-term scheme as a whole, as discussed above, and does not arise in respect of the Company alone.

Relationship between the Group and the trustees of the Scheme

The pension assets are held in a separate trustee administered fund to meet the long-term pension liabilities to past and present employees. The trustees of the Scheme are required to act in the best interest of the Scheme's beneficiaries. The appointment of trustees to the Scheme is determined by the Scheme's trust documentation.

Estimated contributions

The employer's best estimate of contributions to be paid to the Scheme by the Group next year is £771,000 (2020: £1,000,000, 2019: £750,000). The Scheme was closed to future accruals for existing members in 2010; as a result, there will be no further contributions to be paid to the Scheme by employees. The Scheme's adopted and agreed funding target is 100% of its liabilities on the current funding basis. This was agreed between the Trustee and Group as part of the 2018 triennial valuation. As the Scheme was in a deficit at the last triennial valuation in 2018, a Recovery Plan was agreed between the Group and Trustee to eliminate the funding shortfall disclosed. Under this plan, the Group has agreed to pay deficit reduction contributions ('DRCs') to the Scheme of £608,000 p.a. until 30 June 2030, payable monthly. During 2020, following the emergence of the COVID-19 pandemic and subsequent reduction in Group trading, the Group and Trustee of the Scheme agreed to a temporary suspension of DRCs between April and August 2020. The Group and Trustee agreed to increase the DRC payments due over 2021 to rectify the shortfall emerging from the 5 months of the unpaid DRCs following the suspension, with the additional DRC payments spread evenly throughout the year. The estimated duration of the Scheme's benefit obligations is an indicator of the weighted average term of benefit payments after discounting. For this Scheme, the estimate duration is around 19 years.

Effect on Cash flows

Group cashflow in respect of the Scheme comprises of contributions paid to the Scheme to rectify any funding shortfall identified at the most recently completed triennial valuation as well as contributions to meet the ongoing running costs of the Scheme. The contributions payable to the Scheme are agreed between the Group and the Trustee and are set out in an agreed Schedule of Contributions as required under UK legislation. An updated Schedule of Contributions will be required between the Group and the Trustee by 30 March 2023 following the completion of the next triennial valuation of the Scheme as at 31 December 2021.

The contributions payable to the Scheme to rectify any funding shortfall in future will depend on a number of factors, including market conditions at the time of the next triennial valuation, the regulatory framework in place at the time and the funding assumptions agreed between the Group and Trustee.

Company

The Company had no post-employment benefits at 31 December 2021 (2020: nil, 2019: nil).

BKUK Group Limited

26. Provisions

The Group had the following provisions during the year:

	Dilapidations £000	Total £000
At 1 January 2019	944	944
Additions via Right of Use Assets	1,291	1,291
At 31 December 2019	2,235	2,235
Additions via Right of Use Assets	310	310
At 31 December 2020	2,545	2,545
Amounts utilised	(528)	(528)
At 31 December 2021	2,017	2,017

Dilapidations

The dilapidations provision represents the directors' estimated cost of returning leased sites to their original condition on exit of that site. Dilapidation provisions are recognised against sites that are expected to be exited within 5 years due to uncertainty around the timing of exit of the lease involved in periods longer than 5 years. Dilapidations costs have been capitalised against ROU assets.

Company

The Company had no provisions at 31 December 2021 (2020: nil, 2019: nil).

27. Share based payments

The Group/ the Company maintains the following, equity-settled share-based payment schemes for employees:

- Management Incentive Plans (2019 and 2021)

Each of these plans is considered substantially similar, and as such, disclosures below are aggregated. Employees participating in the schemes purchase B2 ordinary shares at a price determined at the grant date. Shares held under the schemes will vest if certain conditions are met, including an IPO or other exit event, and participants must be employed until the end of the vesting period. Shares are forfeited if the employee leaves the Group before the vesting conditions are met.

The purchased B2 ordinary shares are held in the BKUK Employee Benefit Trust, which is controlled by the Group/ the Company.

The fair value of the B2 shares purchased in 2019 was deemed to be £1 per share.

The fair value of the B2 shares purchased in 2021 was deemed to be £181 per share.

Details of the shares held under the scheme are as follows:

	31 December 2021 Number of shares	31 December 2020 Number of shares	31 December 2019 Number of shares
Outstanding at beginning of year	1,585	1,585	-
Granted during the year	135	-	1,585
Outstanding at the end of the year	1,720	1,585	1,585

The Group / the Company recognised total expenses of £32,000 (2020: nil, 2019: nil) related to equity-settled share-based payment transactions.

BKUK Group Limited

28. Share capital and other reserves

	Number 31 December 2021	£ 31 December 2021	Number 31 December 2020	£ 31 December 2020	Number 31 December 2019	£ 31 December 2019	Number 1 January 2019	£ 1 January 2019
Allotted, called up and fully paid:								
Ordinary shares of £1.00 each	2	2	2	2	2	2	2	2
	2	2	2	2	2	2	2	2

Ordinary shares have attached to them full voting and dividend rights, full capital distribution (including on winding up) rights and do not confer any rights of redemption.

Dividends

No dividends were declared or paid for the year ended 31 December 2021 (2020: nil, 2019: nil).

Accumulated Losses

The accumulated losses represent cumulative profits or losses, net of dividends paid.

29. Contingent liabilities

As disclosed in Note 35, some of the Company's subsidiaries have taken advantage of the exemption available under Section 479A of the Companies Act 2006 in respect of the requirement for audit. As a condition of the exemption, the Company has guaranteed the year-end liabilities of the relevant subsidiaries until they are settled in full. The liabilities of the subsidiaries at the year-end were £145,644,000 at 31 December 2021 (31 December 2020: £122,543,000, 31 December 2019: £116,989,000, 1 January 2019: £75,386,000), of which £121,441,000 related to lease liabilities at 31 December 2021 (31 December 2020: £97,708,000, 31 December 2019: £89,104,000, 1 January 2019: £54,594,000).

BKUK Group Limited

30. Business combinations

1. Acquisition of Banquets (B.K) Limited (BKUK Bristol Limited)

On 27 November 2019, the Group acquired control of Banquets (B.K) Limited through the purchase of 100% of the share capital for total consideration of £8,963,000. Banquets (B.K) Limited operates a number of Burger King franchises across England.

The goodwill of £6,694,000 arising from the acquisition is attributable to the acquired customer base and economies of scale expected from combining the operations in the Group and its expansion plans. Synergies result in increased sales, lower costs of sales and higher expected growth rates.

In the year of acquisition Banquets (B.K) Limited contributed £1,002,000 to the Group's revenue and £37k loss to the Group's loss for the year in 2019. Due to the consolidated nature of IFRS transitional adjustments it is impracticable to disclose the revenue and profit or loss of the combined entity as though the acquisition date for all combinations that occurred during the period had been as of the beginning of the annual reporting period.

The following table summarises the consideration paid by the Group, and the fair value of assets acquired and liabilities assumed.

Directly attributable costs are legal costs incurred in the process of acquisition, which are expensed to the income statement.

Consideration at 27 November 2019	£000
Cash	8,518
Directly attributable costs	445
Total	8,963

For cash flow purposes, the amounts are disclosed as follows:

	£000
Consideration	8,518
Less: cash and cash equivalents acquired	(999)
Net cash outflow	7,519

Recognised amounts of identifiable assets acquired and liabilities assumed	Note	Book value £000	Adjustments £000	Fair value £000
Tangible assets	(a)	802	(705)	97
Intangible assets	(b)	101	87	188
Right of Use assets	(c)	-	3,540	3,540
Cash		999	-	999
Inventories		80	-	80
Trade and other receivables	(c)	2,886	(67)	2,819
Trade and other payables	(c)	(1,374)	25	(1,349)
Lease liabilities	(c)	-	(4,474)	(4,474)
Deferred tax liabilities	(d)	(62)	(14)	(76)
Total identifiable net assets		3,432	(1,608)	1,824
Goodwill				6,694
Total consideration				8,518

The adjustments arising on acquisition were in respect of the following:

- An impairment charge in respect of leasehold and plant across the acquired estate.
- An assessment of the market value of the existing franchise fee agreements for acquired sites. The adjustments include an impairment analysis of the acquired franchise fees and an assessment of the market value of the existing franchise fee agreements for acquired sites.
- Recognition of Right of Use assets and liabilities onto the Balance sheet and a corresponding impairment charge in respect of Right of Use assets across the acquired estate. This entails derecognition of rent accruals and rent prepayments at acquisition date.
- Deferred tax adjustment arising as a result of the acquisition adjustments.

BKUK Group Limited

30. Business combinations (continued)

2. Acquisition of KFG Quickserve Limited (BKUK Flame Limited)

On 30 December 2019, the Group acquired control of KFG Quickserve Limited through the purchase of 100% of the share capital for total consideration of £6,210,000. KFG Quickserve Limited operates a number of Burger King franchises across England.

The goodwill of £12,274,000 arising from the acquisition is attributable to the acquired customer base and economies of scale expected from combining the operations in the Group and its expansion plans. Synergies result in increased sales, lower costs of sales and higher expected growth rates.

In the year of acquisition KFG Quickserve Limited contributed £108,000 to the Group's revenue and £532k loss to the Group's loss for the year in 2019. Due to the consolidated nature of IFRS transitional adjustments it is impracticable to disclose the revenue and profit or loss of the combined entity as though the acquisition date for all combinations that occurred during the period had been as of the beginning of the annual reporting period.

The following table summarises the consideration paid by the Group, and the fair value of assets acquired and liabilities assumed.

Directly attributable costs are legal costs incurred in the process of acquisition, which are expensed to the income statement.

Consideration at 30 December 2019	£000
Cash	5,783
Directly attributable costs	427
Total	6,210

For cash flow purposes, the amounts are disclosed as follows:

	£000
Consideration	5,783
Less: cash and cash equivalents acquired	(1,505)
Net cash outflow	4,278

Recognised amounts of identifiable assets acquired and liabilities assumed	Note	Book value £000	Adjustments £000	Fair value £000
Tangible assets	(a)	3,753	(2,020)	1,733
Intangible assets	(b)	370	114	484
Right of Use assets	(c)	-	9,380	9,380
Cash		1,505	-	1,505
Inventories		302	-	302
Trade and other receivables	(c)	1,503	(453)	1,050
Trade and other payables	(c)	(4,292)	123	(4,169)
Lease liabilities	(c)	-	(17,216)	(17,216)
Deferred tax liabilities	(d)	485	(45)	440
Total identifiable net liabilities		3,626	(10,117)	(6,491)
Goodwill				12,274
Total consideration				5,783

The adjustments arising on acquisition were in respect of the following:

- An impairment charge in respect of leasehold and plant across the acquired estate.
- An assessment of the market value of the existing franchise fee agreements for acquired sites. The adjustments include an impairment analysis of the acquired goodwill and franchise fees, and an assessment of the market value of the existing franchise fee agreements for acquired sites.
- Recognition of Right of Use assets and liabilities onto the Balance sheet and a corresponding impairment charge in respect of Right of Use assets across the acquired estate. This entails derecognition of rent accruals and rent prepayments at acquisition date.
- Deferred tax adjustment arising as a result of the acquisition adjustments.

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30. Business combinations (continued)

3. Acquisition of Zing Leisure Limited

On 14 May 2021, the Group acquired control of Zing Leisure Limited through the purchase of 100% of the share capital for total consideration of £6,558,000. Zing Leisure Limited operates a number of Burger King franchises across England.

The goodwill of £16,120,000 arising from the acquisition is attributable to the acquired customer base and economies of scale expected from combining the operations in the Group and its expansion plans. Synergies result in increased sales, lower costs of sales and higher expected growth rates.

In the year of acquisition Zing Leisure Limited contributed £13,192,000 to the Group's revenue and £5,806,000 to the Group's profit. Due to the consolidated nature of IFRS transitional adjustments it is impracticable to disclose the revenue and profit or loss of the combined entity as though the acquisition date for all combinations that occurred during the period had been as of the beginning of the annual reporting period.

The following table summarises the consideration paid by the Group, and the fair value of assets acquired and liabilities assumed.

Directly attributable costs are legal costs incurred in the process of acquisition, which are expensed to the income statement.

Consideration at 14 May 2021	£000
Cash	5,880
Directly attributable costs	678
Total	6,558

For cash flow purposes, the amounts are disclosed as follows:

	£000
Consideration	5,880
Less: cash and cash equivalents acquired	(2,038)
Net cash outflow	3,842

Recognised amounts of identifiable assets acquired and liabilities assumed	Note	Book value £000	Adjustments £000	Fair value £000
Tangible assets	(a)	1,858	(965)	893
Intangible assets	(b)	300	151	451
Right of Use assets	(c)	-	4,985	4,985
Cash		2,038	-	2,038
Inventories		99	-	99
Trade and other receivables	(c)	2,014	(374)	1,640
Trade and other payables	(c)	(4,227)	1,014	(3,213)
Lease liabilities	(c)	-	(16,874)	(16,874)
Deferred tax liabilities		(259)	-	(259)
Total identifiable net liabilities		1,823	(12,063)	(10,240)

Goodwill	16,120
Total consideration	5,880

The adjustments arising on acquisition were in respect of the following:

- An impairment charge in respect of leasehold and plant across the acquired estate.
- An assessment of the market value of the existing franchise fee agreements for acquired sites. The adjustments include an impairment analysis of the acquired goodwill and franchise fees, and an assessment of the market value of the existing franchise fee agreements for acquired sites.
- Recognition of Right of Use assets and liabilities onto the Balance sheet and a corresponding impairment charge in respect of Right of Use assets across the acquired estate. This entails derecognition of rent accruals and rent prepayments at acquisition date.

BKUK Group Limited

31. Financial Instruments

Capital risk management

The Group's objectives when managing capital, which is deemed to be total equity plus loans and borrowings, are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain a strong credit rating and headroom on financial covenants. The Group manages its capital structure and makes appropriate decisions in light of the current economic conditions and strategic objectives of the Group.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the Group.

Categories of financial instruments

Carrying amount

	31 December 2021	31 December 2020	31 December 2019	1 January 2019
	£000	£000	£000	£000
Financial assets - amortised cost				
Cash and cash equivalents	36,158	12,882	11,273	31,264
Trade receivables	6,056	3,507	2,319	2,765
Other receivables	2,760	1,221	4,197	2,119
Amounts owed by Group undertakings	3,559	409	365	1,039
Total financial assets held at amortised cost	48,533	18,019	18,154	37,187
Financial liabilities - amortised cost				
Trade payables	(9,381)	(4,877)	(11,068)	(11,513)
Other payables	(9,145)	(3,595)	(539)	(59)
Accruals	(18,562)	(12,949)	(12,652)	(10,202)
Lease liabilities	(123,694)	(100,679)	(91,927)	(57,679)
Shareholder loan notes	(149,084)	(110,188)	(99,266)	(89,431)
Vendor loan notes	(9,318)	(9,318)	(9,320)	(9,321)
Revolving credit facility	(20,000)	(19,848)	(14,003)	-
Amounts owed to Group undertakings	(4,044)	(1,437)	(370)	(1,369)
Total financial liabilities held at amortised cost	(343,228)	(262,891)	(239,145)	(179,574)

Fair values of financial instruments

At 31 December 2021, 2020 and 2019 and 1 January 2019 the carrying amounts of cash at bank, receivables, payables, accrued expenses, lease liabilities as well as vendor loan notes and revolving credit facility reflected in the financial statements are reasonable estimates of fair value in view of the nature of these instruments or the relatively short period of time between the origination of the instruments and their expected realisation.

The following table provides the fair value disclosures of the Group's remaining long-term borrowings for which the carrying amount does not approximate fair value:

	31 December	31 December	31 December	1 January
	2021	2020	2019	2019
	£000	£000	£000	£000
Shareholder loan notes	(149,830)	(119,918)	(102,621)	(86,543)

BKUK Group Limited

31. Financial Instruments (continued)

The tables below summarise the maturity profile of the Group's financial liabilities at 31 December 2021, 31 December 2020, 31 December 2019 and 1 January 2019 based on their contractual undiscounted payments. The maturity profile of lease liabilities is disclosed in note 18.

	Less than 3 months	3-12 months	1-5 years	Over 5 years	Total	Carrying amount
At 31 December 2021	£000	£000	£000	£000	£000	£000
Floating rate borrowings						
Revolving credit facility	238	713	21,900	-	22,851	20,000
Fixed rate borrowings						
Shareholder loan notes	-	-	-	271,389	271,389	149,084
Vendor loan notes	-	738	10,703	-	11,441	9,318
Non-interest bearing						
Trade and other payables	18,526	-	-	-	18,526	18,526
Accruals	18,562	-	-	-	18,562	18,562
Amounts owed to Group undertakings	4,044	-	-	-	4,044	4,044
	Less than 3 months	3-12 months	1-5 years	Over 5 years	Total	Carrying amount
At 31 December 2020	£000	£000	£000	£000	£000	£000
Floating rate borrowings						
Revolving credit facility	249	748	23,993	-	24,990	19,848
Fixed rate borrowings						
Shareholder loan notes	-	-	-	222,649	222,649	110,188
Vendor loan notes	-	738	11,441	-	12,179	9,318
Non-interest bearing						
Trade and other payables	8,472	-	-	-	8,472	8,472
Accruals	12,949	-	-	-	12,949	12,949
Amounts owed to Group undertakings	1,437	-	-	-	1,437	1,437
	Less than 3 months	3-12 months	1-5 years	Over 5 years	Total	Carrying amount
At 31 December 2019	£000	£000	£000	£000	£000	£000
Floating rate borrowings						
Revolving credit facility	178	534	17,850	-	18,562	14,003
Fixed rate borrowings						
Shareholder loan notes	-	-	-	222,649	222,649	99,266
Vendor loan notes	-	738	12,180	-	12,918	9,320
Non-interest bearing						
Trade and other payables	11,607	-	-	-	11,607	11,607
Accruals	12,652	-	-	-	12,652	12,652
Amounts owed to Group undertakings	370	-	-	-	370	370
	Less than 3 months	3-12 months	1-5 years	Over 5 years	Total	Carrying amount
At 1 January 2019	£000	£000	£000	£000	£000	£000
Floating rate borrowings						
Revolving credit facility	-	-	-	-	-	-
Fixed rate borrowings						
Shareholder loan notes	-	-	-	222,649	222,649	89,431
Vendor loan notes	-	738	2,953	9,965	13,656	9,321
Non-interest bearing						
Trade and other payables	11,572	-	-	-	11,572	11,572
Accruals	10,202	-	-	-	10,202	10,202
Amounts owed to Group undertakings	1,369	-	-	-	1,369	1,369

31. Financial Instruments (continued)

Financial risk management

Overview

The Group is exposed to the following risks from its use of financial instruments:

- Credit risk;
- Market risk (interest rate risk and currency risk) and;
- Liquidity risk.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, ensuring mitigation is in place to address them while monitoring adherence to appropriate limits and controls set by the Board. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout the financial statements.

Risk management in respect of financial risks is carried out by the Finance function under policies approved by the Board of Directors. The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board provides written principles through its Finance Policy for overall risk management.

There has been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and process for managing those risks or the methods used to measure them from previous periods.

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 is exposed to credit risk on loans receivable, trade and other receivables and cash and cash equivalents.

The Group ensures that the banks used for financing hold an acceptable risk rating by independent parties. Trade receivables and other receivables consist of a large number of customers. The Group does not have any significant credit risk exposure to any single counterparty.

Under the general approach there is to be assessment of whether there has been a significant increase in the credit risk since initial recognition. If there has been a significant increase in credit risk, then the loss allowance is calculated based on lifetime expected credit losses. If not, then the loss allowance is based on 12 month expected credit losses. This determination is made at the end of each financial period.

Thus the basis of the loss allowance for a specific financial asset could change year on year. For trade receivables which do not contain a significant financing component, the loss allowance is determined as the lifetime expected credit losses of the instruments. For financial assets other than trade receivables the general approach under IFRS 9 is followed.

When assessing credit risk, the Group consider past due information and external credit rating as issued by external credit rating agencies when these are available. This also includes consideration of existing changes in business, financial and economic conditions of counterparty associated with the financial asset.

The Group's maximum exposure to credit risk, being the carrying amount of financial assets, is summarised as follows:

	31 December 2021	31 December 2020	31 December 2019	1 January 2019
	£000	£000	£000	£000
Cash and cash equivalents	36,158	12,882	11,273	31,264
Trade receivables	6,056	3,507	2,319	2,765
Other receivables	2,760	1,221	4,197	2,119

Market risk

Market risk arises from the Group's use of interest bearing and foreign currency financial instruments. It is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk).

(i) Interest rate risk

Interest rate risk is the risk that movement in the interbank offered rates increase causing finance costs to increase. A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of GBP LIBOR with alternative risk-free rates, and the Financial Conduct Authority (FCA) has confirmed that all GBP LIBOR settings will cease after 31 December 2021. The Group has exposure to Sterling LIBOR on its revolving credit facility secured at a rate of LIBOR +4.5%.

To transition existing contracts and agreements that reference GBP LIBOR, adjustments for term differences and credit differences might need to be applied. The greatest change will be amendments to the contractual terms of the GBP LIBOR-referenced revolving credit facility. However, the changed reference rate will also affect other systems, processes, risk and valuation models, as well as having tax and accounting implications.

31. Financial Instruments (continued)

Financial risk management (continued)

(i) Interest rate risk (continued)

The Group is planning to transition the majority of its LIBOR-linked contracts to risk-free rates through introduction of, or amendments to, fallback clauses into the contracts which will change the basis for determining the interest cash flows from LIBOR to RFR at an agreed point in time.

The Group's interest rate risk arises predominately from its revolving credit facility secured at a rate of LIBOR +4.5%. The sensitivity analyses below have been determined based on the exposure to interest rates at the balance sheet date.

For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. The Group undertakes sensitivity analysis prepared on a basis of constant net debt.

If interest rates had been 0.5% higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2021 would increase/decrease by £0.1m (2020: £0.1m, 2019: £0.1m). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings. There would be no impact on other comprehensive income

The Group's other key financial instruments are shareholder loan notes. Interest on shareholder loans is fixed at 11% per annum and is therefore not exposed to movements in interest rates.

(ii) Currency Risk

The Group has no regular material transactions in foreign currency although there are some insignificant purchases, denominated in Euros. Although the Group is not directly impacted by foreign currency fluctuations, it is indirectly impacted as a result in increase and decrease in prices of inventory purchases from suppliers that would pass on the foreign exchange fluctuation to their customers. The Group historically acquired futures to mitigate this risk however these were released to P&L in financial year 2020 and no futures are currently held by the Group. All other transactions are denominated in Pounds Sterling.

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group operates with net current liabilities and is therefore reliant on the continued strong performance of the retail portfolio to meet its short-term liabilities. Short and medium-term cash forecasting is used to manage liquidity risk. These forecasts are used to ensure the Group has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions.

In 2020, a new bank facility of £25 million was secured at a rate of LIBOR +4.5% and in 2021, the Group received £25m funding from its ultimate parent company. These will be used to continue the expansion of the UK estate, and in the unlikely event it is required to do so, support the working capital requirements of the Group. The Group remained compliant with its banking facility covenants throughout the year and up to the date of approval of these financial statements. In light of the impact of COVID-19, the lending bank agreed to make certain amendments to, and waivers in relation to, the original facilities agreement. Covenants were waived until September 2021 as part of the amended agreement. The Directors have also assessed the Group's forecast covenant compliance from December 2021 until June 2022, once the covenant waiver has expired, and note that even in their severe but plausible downside scenario there is sufficient headroom across all of the covenants in each test period. In January 2022 the Group has repaid its £20m drawdown on the bank facility and made a drawdown from a revised facility of £30m. Subsequently a £9.3m shareholder loan was repaid at the end of January 2022.

32. Related party transactions

No separate disclosure has been made of transactions and balances between companies in the Group that have been eliminated in the preparation of these financial statements. All other transactions and balances with related parties of the Group have been detailed below.

Royale Interco Limited Loan Notes

On 16 November 2017, the Company entered into a £43,825,000 unsecured redeemable series A loan note agreement and a £18,750,000 unsecured redeemable series B loan note agreement with its shareholder, Royale Interco Limited. On 16 November 2018, the Company entered into a £18,750,000 unsecured redeemable series A loan note with Royale Interco Limited. On 13 May 2021 the Company entered into a £25,000,000 unsecured redeemable series A loan note with Royale Interco Limited. The maturity date of the loan notes is 30 September 2027, on which date they will be repaid in full. The loan notes accrue interest at a compound rate of 11% per annum. Cumulative interest capitalised into the principal of the loan notes at 31 December 2021 was £42,759,000 (2020: £28,863,000, 2019: £17,941,000).

Transactions with shareholders

During the year, the Group was charged management fees of £2,180,000 (2020: £2,225,000, 2019: £1,872,000) by Royale Midco Limited. £1,237,000 remains outstanding at the balance sheet date 31 December 2021 (2020: nil, 2019: nil).

Transactions with key management personnel

See note 12 for disclosure of the directors' remuneration and key management compensation.

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32. Related party transactions (continued)

Transactions with Bridgepoint

Monitoring fees of £150,000 (2020: £150,000, 2019: £150,000) due to Bridgepoint Advisers Limited were incurred during the financial year and nil (2020: £169,000, 2019: £19,000) remains outstanding at the balance sheet date.

Transactions with Bridgepoint portfolio companies

Pepco Services LLP completed cost reduction projects on behalf of the Group for £151,000 (2020: £559,000, 2019: £380,000). This amount was settled during 2021 and no amounts are outstanding as at the balance sheet date (2020: nil, 2019: £150,000).

Transactions with Burger King Europe GmbH

Royalty and franchise opening fees of £13,689,000 (2020: £4,602,000, 2019: £5,162,000) due to Burger King Europe GmbH were incurred during the financial year and £1,048,000 (2020: £816,000, 2019: £80,000) remains outstanding at the balance sheet date.

Transactions with Parkdean Resorts UK Limited

One of the parent company Non-Executive Directors is also a director of Richmond UK Holdco Limited, a parent company to Parkdean Resorts UK Limited, one of the Group's franchisees. Royalty, franchise opening fees and AdFund contributions of £67,000 (2020: nil, 2019: nil) were received during the financial year and £12,000 (2020: nil, 2019: nil) remains outstanding at the balance sheet date. These transactions occurred during the normal course of the business.

33. Controlling party

The immediate parent company of BKUK Group Limited is Royale Interco Limited. BKUK Group Limited is a limited company incorporated in England and Wales and the smallest Group for which consolidated financial statements are prepared. The largest Group for which consolidated financial statements are prepared is Royale Topco Limited. The financial statements of Royale Topco Limited are available from the Company Secretary, 5 New Street Square, London, United Kingdom, EC4A 3TW.

Shares in Royale Topco Limited are held in the name of a nominee company, BEV Nominees II Limited, which holds the shares as nominee for the 12 limited partnerships that comprise the Bridgepoint Europe V Fund being Bridgepoint Europe V 'A1' LP, Bridgepoint Europe V 'A2' LP, Bridgepoint Europe V 'A3' LP, Bridgepoint Europe V 'B1' LP, Bridgepoint Europe V 'B2' LP, Bridgepoint Europe V 'B3' LP, Bridgepoint Europe V 'B4' LP, Bridgepoint Europe V 'B5' LP, Bridgepoint Europe V 'C' LP, Bridgepoint Europe V 'D' LP, Bridgepoint Europe V 'E' LP and Wigmore Street Co-Investment No.1 LP (the "Partnerships"). The Partnerships each act by their FCA authorised fund manager, Bridgepoint Advisers Limited.

BEV Nominees II Limited's and Bridgepoint Advisers Limited's ultimate parent company is Bridgepoint Group Plc. Accordingly, at 31 December 2021, the directors consider the Company's ultimate controlling party to be Bridgepoint Group Plc.

34. Events after the reporting period

On 4 January 2022 the £20m Revolving credit facility drawdown was repaid and £30m drawdown has been made.

On 21 January 2022 £9.2m Vendor loan notes principal and £0.1m interest have been repaid.

Since the end of the year, events in Ukraine and the related economic sanctions put in place by the UK and other countries has created volatility in global markets. As a UK based business, the Group is not directly impacted by the events, but is closely monitoring the potential impact of economic factors such as inflation in commodity prices. On 9th March 2022 the Group announced that it would be making a £1m donation to the Ukrainian Humanitarian Relief Disasters Emergency Committee to deliver vital humanitarian aid directly to those in need, which was paid on 25 March 2022.

35. Subsidiaries and related undertakings

The list of subsidiaries is as follows:

Name	Address of the registered office	Nature of business	Interest
BKUK Devco Limited*	5 New Street Square, London, EC4A 3TW	Retailer	100% ordinary shares
Royale Bidco Limited*	5 New Street Square, London, EC4A 3TW	Holding company	100% ordinary shares
Caspian Food Retailers Limited	5 New Street Square, London, EC4A 3TW	Retailer	100% ordinary shares
Caspian Food Services Limited	5 New Street Square, London, EC4A 3TW	Retailer	100% ordinary shares
BKUK Bristol Limited*	5 New Street Square, London, EC4A 3TW	Retailer	100% ordinary shares
BKUK Flame Limited*	5 New Street Square, London, EC4A 3TW	Retailer	100% ordinary shares
Westside Express Limited	5 New Street Square, London, EC4A 3TW	Dormant company	100% ordinary shares
Zing Leisure Limited*	5 New Street Square, London, EC4A 3TW	Retailer	100% ordinary shares

* This entity is owned directly by BKUK Group Limited.

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35. Subsidiaries and related undertakings (continued)

The Company has guaranteed the liabilities of the following subsidiaries in order that they qualify for the exemption from audit under Section 479A of the Companies Act 2006 in respect of the year ended 31 December 2021:

- Royale Bidco Limited
- Caspian Food Retailers Limited
- Caspian Food Services Limited
- BKUK Bristol Limited
- BKUK Flame Limited
- Westside Express Limited
- Zing Leisure Limited

36. Explanation of transition to IFRS – 1 January 2019

Basis of preparation of IFRS financial information

The financial statements, for the two years ended 31 December 2020, 2019 and the financial statements for the year ended 31 December 2021 comply with IFRS. The financial statements have been prepared in accordance with the significant accounting policies described in note 3. The Group has applied IFRS 1 *First-time Adoption of International Financial Reporting Standards* ("IFRS 1") in preparing these statements.

Exemptions applied

IFRS 1 sets out the procedures that the Group must follow when it adopts IFRS for the first time as the basis for preparing its financial statements. The Group is required to establish its IFRS accounting policies as at 31 December 2020, and in general, apply these retrospectively to determine the IFRS opening Statement of Financial Position at its date of transition, 1 January 2019. IFRS 1 allows certain exemptions from this general principle.

These are set out below, together with a description in each case of the exemption adopted by the Group.

The Group has applied the following exemptions:

- IFRS 3 *Business Combinations* has not been applied to either acquisitions of subsidiaries that are considered businesses under IFRS, or acquisitions of interests in associates and joint ventures that occurred before 1 January 2019. Use of this exemption means that the UK GAAP carrying amounts of assets and liabilities, that are required to be recognised under IFRS, are their deemed cost at the date of the acquisition. After the date of the acquisition, measurement is in accordance with IFRS. Assets and liabilities that do not qualify for recognition under IFRS are excluded from the opening IFRS statement of financial position.
- IFRS 1 also requires that the UK GAAP carrying amount of goodwill must be used in the opening IFRS statement of financial position (apart from adjustments for goodwill impairment and recognition or derecognition of intangible assets). In accordance with IFRS 1, the Group has tested goodwill for impairment at the date of transition to IFRS.
- The exemption from reassessing contracts which have been completed before the date of transition to IFRSs (IFRS 1:D35).

The Group has applied the following approach to all of its leases (subject to the practical expedients described below):

- Measure the lease liability at the date of transition to IFRSs at the present value of the remaining lease payments discounted using the Group's incremental borrowing rate at the date of transition to IFRSs.
- Measure the right-of-use asset at the date of transition to IFRSs at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the Statement of Financial Position immediately before the date of transition to IFRSs, and apply IAS 36 to right-of-use assets at the date of transition to IFRS Standards.

The Group has chosen to utilise the following practical expedients available on transition under IFRS 1:

- Apply a single discount rate to a portfolio of leases with reasonably similar characteristics (for example, a similar remaining lease term for a similar class of underlying asset in a similar economic environment).
- Elect not to apply the principles of IFRS 16 to leases for which the lease term ends within 12 months of the date of transition to IFRSs. Instead, the Group financial statements for these leases as if they were short-term leases i.e. expensed on a straight-line basis over the life of the lease.
- Elect not to apply the principles of IFRS 16 to leases for which the underlying asset is of low value. Instead, the Group financial statements for these leases in the same way as short-term leases described above i.e. expensed on a straight-line basis over the life of the lease.
- Exclude initial direct costs from the measurement of the right-of-use asset at the date of transition to IFRS.
- Use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

Impact of transition to IFRS

The following is a summary of the effects of the differences between IFRS and UK GAAP on the Group's total equity shareholders' funds/deficit and profit/loss for the relevant financial years:

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36. Explanation of transition to IFRS – 1 January 2019 (continued)

Group reconciliation of Consolidated Statement of Financial Position as at 1 January 2019

		FRS102 1 January 2019	Restatements 1 January 2019	IFRS 1 January 2019
	Note(s)	£000	£000	£000
ASSETS				
Non-current assets				
Intangible assets	a, b, d, e, f, g	54,493	(2,385)	52,108
Property, plant and equipment	d	17,999	(600)	17,399
Right-of-use assets	d	-	45,089	45,089
Deferred tax assets		904	-	904
Total non-current assets		73,396	42,104	115,500
Current assets				
Inventories		721	(1)	720
Trade and other receivables	d	9,868	(1,746)	8,122
Cash and cash equivalents	i	31,264	-	31,264
Total current assets		41,853	(1,747)	40,106
Total assets		115,249	40,357	155,606
LIABILITIES				
Non-current liabilities				
Post-employment benefits		(5,744)	-	(5,744)
Lease liabilities	d	-	(52,385)	(52,385)
Loans and borrowings		(98,752)	-	(98,752)
Provisions	e, g	(5,514)	4,570	(944)
Total non-current liabilities		(110,010)	(47,815)	(157,825)
Current liabilities				
Trade and other payables	d, f,	(26,439)	2,425	(24,014)
Lease liabilities	d	-	(5,294)	(5,294)
Total current liabilities		(26,439)	(2,869)	(29,308)
Total liabilities		(136,449)	(50,684)	(187,133)
Net liabilities		(21,200)	(10,327)	(31,527)
Equity				
Share capital		-	-	-
Accumulated losses		(21,200)	(10,327)	(31,527)
Total equity		(21,200)	(10,327)	(31,527)

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36. Explanation of transition to IFRS – 1 January 2019 (continued)

Group reconciliation of Consolidated Statement of Financial Position as at 31 December 2019

		FRS102	Restatements	IFRS
		31 December 2019	31 December 2019	31 December 2019
	Note(s)	£000	£000	£000
ASSETS				
Non-current assets				
Intangible assets	a, b, d, e, f, g	71,496	585	72,081
Property, plant and equipment	d	36,723	(2,395)	34,328
Right-of-use assets	d	-	68,495	68,495
Deferred tax assets		762	-	762
Total non-current assets		108,981	66,685	175,666
Current assets				
Inventories		1,193	-	1,193
Trade and other receivables	d	10,596	(1,965)	8,631
Cash and cash equivalents	i	11,273	-	11,273
Total current assets		23,062	(1,965)	21,097
Total assets		132,043	64,720	196,763
LIABILITIES				
Non-current liabilities				
Post-employment benefits		(5,695)	-	(5,695)
Lease liabilities	d	-	(83,110)	(83,110)
Loans and borrowings		(122,589)	-	(122,589)
Provisions	e, g	(10,771)	8,536	(2,235)
Total non-current liabilities		(139,055)	(74,574)	(213,629)
Current liabilities				
Trade and other payables	d, f,	(37,903)	9,351	(28,552)
Corporation tax liability		(39)	-	(39)
Lease liabilities	d	-	(8,817)	(8,817)
Total current liabilities		(37,942)	534	(37,408)
Total liabilities		(176,997)	(74,040)	(251,037)
Net liabilities		(44,954)	(9,320)	(54,274)
Equity				
Share capital		-	-	-
Accumulated losses		(44,954)	(9,320)	(54,274)
Total equity		(44,954)	(9,320)	(54,274)

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36. Explanation of transition to IFRS – 1 January 2019 (continued)

Group reconciliation of Consolidated Statement of Financial Position as at 31 December 2020

		FRS102	Restatements	IFRS
		31 December 2020	31 December 2020	31 December 2020
	Note(s)	£000	£000	£000
ASSETS				
Non-current assets				
Intangible assets	a, b, d, e, f, g	62,635	8,243	70,878
Property, plant and equipment	d	38,760	(3,893)	34,867
Right-of-use assets	d	-	69,108	69,108
Deferred tax assets		1,034	-	1,034
Total non-current assets		102,429	73,458	175,887
Current assets				
Inventories		1,093	-	1,093
Trade and other receivables		6,967	-	6,967
Cash and cash equivalents		12,882	-	12,882
Total current assets		20,942	-	20,942
Total assets		123,371	73,458	196,829
LIABILITIES				
Non-current liabilities				
Post-employment benefits		(5,917)	-	(5,917)
Lease liabilities	d	-	(92,655)	(92,655)
Loans and borrowings		(139,354)	-	(139,354)
Provisions	e, g	(10,652)	8,107	(2,545)
Total non-current liabilities		(155,923)	(84,548)	(240,471)
Current liabilities				
Trade and other payables	d, f,	(40,445)	14,229	(26,216)
Lease liabilities	d	-	(8,024)	(8,024)
Total current liabilities		(40,445)	6,205	(34,240)
Total liabilities		(196,368)	(78,343)	(274,711)
Net liabilities		(72,997)	(4,885)	(77,882)
Equity				
Share capital		-	-	-
Accumulated losses		(72,997)	(4,885)	(77,882)
Total equity		(72,997)	(4,885)	(77,882)

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36. Explanation of transition to IFRS – 1 January 2019 (continued)

Company reconciliation of Statement of Financial Position as at 1 January 2019

		FRS102	Restatements	IFRS
		1 January 2019	1 January 2019	1 January 2019
	Note(s)	£000	£000	£000
ASSETS				
Non-current assets				
Intangible assets	a, b, d, e, f, g	3,721	-	3,721
Property, plant and equipment	d	459	-	459
Right-of-use assets	d	-	2,895	2,895
Investments	j	18,750	-	18,750
Deferred tax assets		1	-	1
Trade and other receivables (non-current)		57,084	-	57,084
Total non-current assets		80,015	2,895	82,910
Current assets				
Trade and other receivables	d	39,648	-	39,648
Cash and cash equivalents	i	6,486	-	6,486
Total current assets		46,134	-	46,134
Total assets		126,149	2,895	129,044
LIABILITIES				
Non-current liabilities				
Lease liabilities	d	-	(2,754)	(2,754)
Loans and borrowings		(89,431)	-	(89,431)
Total non-current liabilities		(89,431)	(2,754)	(92,185)
Current liabilities				
Trade and other payables	d, f,	(42,100)	191	(41,909)
Lease liabilities	d	-	(331)	(331)
Total current liabilities		(42,100)	(140)	(42,240)
Total liabilities		(131,531)	(2,894)	(134,425)
Net liabilities		(5,382)	1	(5,381)
Equity				
Share capital		-	-	-
Accumulated losses		(5,382)	1	(5,381)
Total equity		(5,382)	1	(5,381)

36. Explanation of transition to IFRS – 1 January 2019 (continued)

Company reconciliation of Statement of Financial Position as at 31 December 2019

		FRS102	Restatements	IFRS
		31 December 2019	31 December 2019	31 December 2019
	Note(s)	£000	£000	£000
ASSETS				
Non-current assets				
Intangible assets	a, b, d, e, f, g	3,616	-	3,616
Property, plant and equipment	d	440	-	440
Right-of-use assets	d	-	2,568	2,568
Investments	j	33,924	(873)	33,051
Deferred tax assets		15	-	15
Trade and other receivables (non-current)		63,361	-	63,361
Total non-current assets		101,356	1,695	103,051
Current assets				
Trade and other receivables	d	29,076	-	29,076
Cash and cash equivalents	i	1,214	-	1,214
Total current assets		30,290	-	30,290
Total assets		131,646	1,695	133,341
LIABILITIES				
Non-current liabilities				
Lease liabilities	d	-	(2,512)	(2,512)
Loans and borrowings		(113,269)	-	(113,269)
Total non-current liabilities		(113,269)	(2,512)	(115,781)
Current liabilities				
Trade and other payables	d, f,	(28,688)	159	(28,529)
Lease liabilities	d	-	(311)	(311)
Total current liabilities		(28,688)	(152)	(28,840)
Total liabilities		(141,957)	(2,664)	(144,621)
Net liabilities		(10,311)	(969)	(11,280)
Equity				
Share capital		-	-	-
Accumulated losses		(10,311)	(969)	(11,280)
Total equity		(10,311)	(969)	(11,280)

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36. Explanation of transition to IFRS – 1 January 2019 (continued)

Company reconciliation of Statement of Financial Position as at 31 December 2020

		FRS102	Restatements	IFRS
		31 December 2020	31 December 2020	31 December 2020
	Note(s)	£000	£000	£000
ASSETS				
Non-current assets				
Intangible assets	a, b, d, e, f, g	2,833	-	2,833
Property, plant and equipment	d	478	-	478
Right-of-use assets	d	-	2,241	2,241
Investments	j	33,924	(873)	33,051
Deferred tax assets		31	-	31
Trade and other receivables (non-current)		70,334	-	70,334
Total non-current assets		107,600	1,368	108,968
Current assets				
Trade and other receivables		22,697	-	22,697
Cash and cash equivalents		11,660	-	11,660
Total current assets		34,357	-	34,357
Total assets		141,957	1,368	143,325
LIABILITIES				
Non-current liabilities				
Lease liabilities	d	-	(2,642)	(2,642)
Loans and borrowings		(130,036)	-	(130,036)
Total non-current liabilities		(130,036)	(2,642)	(132,678)
Current liabilities				
Trade and other payables	d, f,	(27,272)	553	(26,719)
Lease liabilities	d	-	(329)	(329)
Total current liabilities		(27,272)	224	(27,048)
Total liabilities		(157,308)	(2,418)	(159,726)
Net liabilities		(15,351)	(1,050)	(16,401)
Equity				
Share capital		-	-	-
Accumulated losses		(15,351)	(1,050)	(16,401)
Total equity		(15,351)	(1,050)	(16,401)

36. Explanation of transition to IFRS – 1 January 2019 (continued)

Group reconciliation of Consolidated Income Statement for the year ended 31 December 2019

		FRS102	Restatements	IFRS
		2019	2019	2019
	Note(s)	£000	£000	£000
Turnover	c	101,029	17,756	118,785
Cost of sales	b, c, d, e, f	(96,095)	(18,834)	(114,929)
Gross profit		4,934	(1,078)	3,856
Other operating income		-	-	-
Administrative expenses	a, b, d, e, g	(18,302)	5,456	(12,846)
Operating loss		(13,368)	4,378	(8,990)
Non-operating income		592	-	592
Interest receivable and similar income		49	-	49
Interest payable and similar expenses	d	(10,863)	(3,370)	(14,233)
Loss before taxation		(23,590)	1,008	(22,582)
Tax on loss	h	(450)	-	(450)
Loss for the financial year		(24,040)	1,008	(23,032)

Group reconciliation of Statement of Total comprehensive income for the year ended 31 December 2019

	FRS102	Restatements	IFRS
	2019	2019	2019
	£000	£000	£000
Loss for the year	(24,040)	1,008	(23,032)
Other comprehensive income/(expense):			
Items that will not be reclassified subsequently to income statement			
Remeasurements of defined benefit pension schemes	343	-	343
Income tax on other comprehensive income/(expense)	(58)	-	(58)
Total comprehensive loss for the year	(23,755)	1,008	(22,747)

BKUK Group Limited

36. Explanation of transition to IFRS – 1 January 2019 (continued)

Group reconciliation of Consolidated Income Statement for the year ended 31 December 2020

		FRS102	Restatements	IFRS
		2020	2020	2020
	Note(s)	£000	£000	£000
Turnover	c	117,140	8,834	125,974
Cost of sales	b, c, d, e, f	(117,368)	(12,542)	(129,910)
Gross loss		(228)	(3,708)	(3,936)
Other operating income		8,962	-	8,962
Administrative expenses	a, b, d, e, g	(25,097)	12,742	(12,355)
Operating loss		(16,363)	9,034	(7,329)
Non-operating income		1,203	-	1,203
Interest receivable and similar income		3	-	3
Interest payable and similar expenses	d	(12,816)	(4,599)	(17,415)
Loss before taxation		(27,973)	4,435	(23,538)
Tax on loss	h	118	-	118
Loss for the financial year		(27,855)	4,435	(23,420)

Group reconciliation of Statement of Total comprehensive income for the year ended 31 December 2020

	FRS102	Restatements	IFRS
	2020	2020	2020
	£000	£000	£000
Loss for the year	(27,853)	4,433	(23,420)
Other comprehensive (expense)/income:			
Items that will not be reclassified subsequently to income statement			
Remeasurements of defined benefit pension schemes	(232)	-	(232)
Income tax on other comprehensive income/(expense)	44	-	44
Total comprehensive loss for the year	(28,041)	4,433	(23,608)

36. Explanation of transition to IFRS – 1 January 2019 (continued)

Notes to the reconciliation of equity as at 31 December 2020, 2019 and 1 January 2019 and total comprehensive income for the year ended 31 December 2020 and 2019:

a) Treatment of acquisition costs on business combination

Under FRS 102, acquisition costs are required to be capitalised as part of a business combination. IFRS requires all acquisition costs to be expensed in the statement of comprehensive income. The capitalised costs have been removed from goodwill and expensed on transition.

b) Goodwill and other intangibles

Under FRS 102, Goodwill is deemed to have a definite useful life, which contrasts with IAS 38, where Goodwill is considered to have an indefinite useful life. Amortisation that was previously recognised under FRS 102 has been reversed on transition to IFRS.

c) Revenue

IFRS 15 'Revenue from Contracts with Customers' (applicable for the period beginning 1 January 2019)

('IFRS 15') establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces IAS 18 'Revenue and related interpretations'. The Group adopted IFRS 15 from 1 January 2019 using a retrospective approach.

The Group's revenues that are applicable for IFRS 15 are royalties, franchisee fees and restaurant sales. The Group has performed the five-step model on each of these elements, identifying the contracts, the performance obligations, transaction price and then allocating this to determine the timing of revenue recognition.

For royalties received from new franchises entered into post 1 January 2019 (transition date), the Group determined that under IFRS 15 it was acting as principal in these arrangements. An adjustment was made to gross up the royalty revenue, reflecting the associated costs in cost of sales.

There is no impact on the timing of transfer of control and therefore no impact on the timing of recognition of revenue in respect of franchise fees or restaurant sales. There are no impacts in relation to performance obligations identified or changes in measurement.

The Group considered the accounting policy for the National Advertising Fund ('Ad Fund') and on adoption of IFRS 15. The Group operates the funds on behalf of the franchisees on break-even basis. The Group determined that revenue recognition is measured on an input basis as the costs of providing the obliged services are incurred. The level of revenue and costs recognised in respect of fulfilling AdFund performance obligations are equal. An adjustment was made to gross up the AdFund contributions revenue, reflecting the associated costs in cost of sales.

The Group's profit before tax remains unchanged and no adjustments to any line items have been made to the opening balances within equity.

d) Leases

Under FRS 102, a lease is classified as a finance lease or an operating lease. Operating lease payments are recognised as an operating expense in the Consolidated Income Statement on a straight-line basis over the lease term. Under IFRS, as explained in note 18 a lessee applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets and recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

At the date of transition to IFRS, the Group applied the transitional provision and measured lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of transition to IFRS. Right-of-use assets were measured at the amount equal to the lease liabilities adjusted by the amount of any prepaid or accrued lease payments.

As a result, at the date of transition the Group recognised an increase of £57.7m of lease liabilities included under interest-bearing loans and borrowings and £45.1m of right-of-use assets. The difference between lease liabilities and right-of-use assets has been recognised in retained earnings.

An assessment of the right of use assets under IAS 36, was made on transition to IFRS 16 and an impairment of £15.6m was recognised at the transition date. A reversal of impairment of right-of-use assets of £8.9m was recognised in 2021 (an additional impairment of right-of-use assets of 31 December 2020: £1.0m; 31 December 2019: £1.7m). Where right of use asset impairments related to leases acquired in a business combination, these impairments were offset against the associated goodwill balance. A further impairment on acquisition of £11.2m was recognised in 2021 (2020: nil, 2019: £9.1m).

36. Explanation of transition to IFRS – 1 January 2019 (continued)

d) leases (continued)

On transition to IFRS 16, the Group has elected to apply the following practical expedients permitted by the standard:

- Grandfathering the assessment of which contracts contain leases;
- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Excluding initial direct costs from measuring the right-of-use assets at the transition date; and
- Using hindsight when determining the lease term where the contract contains options to break or renew.

e) Onerous lease contracts

Under FRS 102, if an entity has an onerous contract, the present obligation under the contract shall be recognised and measured as a provision. Under IFRS, the assessment of onerous lease contracts is replaced by assessing the associated right of use assets for impairment. On transition to IFRS, the existing onerous lease provisions of £5.4m (31 December 2020: £8.6m; 31 December 2019: £9.2m, 1 January 2019: £4.8m) were reversed from the statement of financial position into the income statement. Where onerous lease provisions related to leases acquired in a business combination, these reversals were offset against the associated goodwill balance. Onerous lease provisions totalling nil (31 December 2020: nil; 31 December 2019: £5.9m) were reversed against goodwill. Subsequent to this, impairments were recognised under IAS 36 as above.

f) Leases acquired on unfavourable terms

When leases are acquired that have unfavourable terms compared to market, under FRS102 a liability is recognised as part of the business combination accounting. Under IFRS 3, the recognition of these liabilities is not permitted and the balance has been removed from the business combination accounting. Where unfavourable terms lease adjustments related to leases acquired in a business combination, these reversals were offset against the associated goodwill balance. Unfavourable term lease adjustments reversals of nil (31 December 2020: nil; 31 December 2019: £4.8m) were reversed against goodwill.

g) Dilapidation provisions

On transition to IFRS, the existing dilapidation provisions were offset against the right of use assets recognised on transition to IFRS 16. The effect was to remove £0.6m of credit (31 December 2020: £0.5m charge; 31 December 2019: £0.3m charge) from the statement of comprehensive income. On 1 January 2019, £0.7m was removed from retained earnings. Where dilapidations provisions related to leases acquired in a business combination, these reversals were offset against the associated goodwill balance. Dilapidations provisions totalling nil (31 December 2020: nil; 31 December 2019: £0.9m) were reversed against goodwill.

h) Deferred tax

The various transitional adjustments resulted in temporary differences. Due to the Group historically being in a tax loss position and already having significant unrecognised deferred tax assets, the additional deferred tax assets arising on those transitional adjustments have not been recognised. As a result, there was no change to the tax charge in the income statement or corporation tax liability and deferred tax assets in the statement of financial position.

i) Cash flow

Under UK GAAP, a lease is classified as a finance lease or an operating lease. Cash flows arising from operating lease payments are classified as operating activities. Under IFRS, a lessee generally applies a single recognition and measurement approach for all leases and recognises lease liabilities. Cash flows arising from payments of principal portion of lease liabilities, as well as the interest payments in respect of those lease liabilities are classified as financing activities. Therefore, cash outflows from operating activities increased by 2020: £6.9m, 2019: £6.0m and cash outflows from financing activities decreased by 2020: £6.7m, 2019: £6.9m.

j) Investments

Under FRS 102, acquisition costs are required to be capitalised as part of a business combination. IFRS requires all acquisition costs to be expensed in the statement of comprehensive income. The capitalised costs have been removed from investments and expensed on transition.