BKUK Group Limited

Annual report and consolidated financial statements

For the year ended 31 December 2020

Registered number 10980808

BKUK Group Limited

Contents

Strategic Report

The directors present their strategic report on the Group for the year ended 31 December 2020 and comparatives for the year ended 31 December 2019

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

Review of the business
The COVID-19 pandemic has had a significant detrimental impact on the hospitality sector and the Group's ability to trade normally, and as a consequence its 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 Group has strengthened its cash position to £12.8m (2019: £11.3m) as at year end and has adequate liquidity to meet future liabilities, however is still in discussion with a number of its landlords to finalise rental costs on properties heavily impacted by COVID-19 in 2020, and the equitable sharing of the financial burden caused.

The operating loss for the Group for the year is £16,363,000 (2019: £13,368,000) and is largely due to the impact of COVID-19 on the Group. 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 has enabled the Group to support its employees and therefore re-open restaurants at the earliest, safest opportunity. However, due to the temporary nature of the majority of the Group's employees, it has achieved its objective of protecting jobs but has had little net impact on the Group's profitability. The gross loss excludes the grant income from the CJRS, and therefore has decreased to £228,000 (2019: gross profit of £4,934,000) due to the impact from COVID-19.

At the year end, the Group has net liabilities of £72,997,000 (2019: £44,954,000) due to compounding shareholder loan notes, goodwill amortisation and increased in the Group's bank facilities to support the business during the pandemic.

The Group continued its expansion in the UK, opening 5 new restaurants during the year.

Current trading and outlook

Due to the restrictions announced by the UK Government, and the devolved Government in Scotland and Wales, the Group currently has a limited ability to trade for dine-in, and is operating drive-thru, delivery and click-and-collect services across the majority of its estate. Whilst the performance of delivery and drive-thru for those sites has been extremely encouraging, the Group has experienced significant disruption in sites located on high streets and shopping centres. Delivery sales continue to grow strongly but the commission rates reduce the profit contribution in comparison to other sales channels

The Board is encouraged by the news of the initial success of the vaccination programme and believes the Group is well-positioned to benefit from a sustained removal of restrictions over time given the encouraging trading performance the Group experienced following the first lockdown. However, in the near term, the Board anticipates that the outlook remains uncertain for the remainder of 2021 particularly for sites located on high streets and in shopping centres, with trade disrupted while Government restrictions for hospitality businesses are in place.

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

Adjusted EBITDA

Adjusted EBITDA, which is the loss before tax, interest, depreciation, amortisation, and any one off or non-recurring items, of the group, was £8,330,000 (2019: £8,117,000). This includes the investment in scalability incurred during the year to fulfil the long-term growth plan set by the directors, and is comprised of £3.3m of project costs as well as £2.9m of fixed G&A costs incurred despite a period of lower than expected sales due to the pandemic. The directors are working on initiatives to 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 2020 financial year includes the KFG and Banquets acquisitions completed at the end of 2019, which contributed to £1m of the growth in Adjusted EBITDA.

The reconciliation between the operating loss and Adjusted EBITDA is detailed below:

	2020 £'000	2019 £'000
Operating loss	(16,363)	(13,368)
add: depreciation and impairment of tangible fixed assets	8,367	4,690
add: amortisation and impairment of intangible fixed assets	9,386	6,650
add: investment in scalability	6,246	7,149
add: new site pre-opening costs	813	1,782
add: movement of property-related provisions	(119)	1,214
Adjusted EBITDA	8,330	8,117

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 on acquired sites for the 12 month period ended 31 December 2020 decreased 22 8% to £103,106,000 compared to sales from the preceding 12 month period (2019. £133,599,000), driven by closure periods resulting from the COVID-19 pandemic.

The Group continues to focus on maintaining tight financial control and the directors are satisfied with the performance of the Group

Future developments
See the Directors' report for further information

Risks
The main risks to our business at a Group level are:

- Prevailing economic conditions including COVID-19 and foreign exchange
- The availability of quality food ingredients in the UK
- The recruitment and retention of employees
- Competition from other food outlets
- Consumer sentiment and willingness to spend in the eating out and take away markets
- The impact of adverse weather conditions
- Credit and liquidity risk

Many of these risks are mitigated by Burger King's strong product range, and ongoing product development.

The risk posed by COVID-19 is unprecedented, however the Group and Company have taken steps to mitigate its impact in order to ensure the long term viability of the business including without limitation:

- Securing additional long-term debt and equity funding
- Entering constructive negotiations with key stakeholders, including shareholders, banks and landlords
- Adapting operating methods to ensure safe working environments and therefore minimising closure periods

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

Liquidity risks exist as a result of a loan made to the Group by its immediate parent company, Royale Interco Limited The Company manages this risk by maintaining significant cash reserves and entering into long term loan note agreements which will not be settled until the agreed repayment dates in 2024 and 2027

Credit risk arises as a result of the Company's intercompany debtor balances with Royale Bidco Limited and BKUK Devco Limited. Having reviewed budgets and forecasts for Royale Bidco Limited and BKUK Devco Limited, which are supported by the cashflows from its subsidiary undertakings, the directors are satisfied that the risk associated with this balance is appropriately managed.

Responsible business
The Group recognises that the business can make a positive contribution to addressing social, environmental and ethical concerns by working in a responsible and sustainable way This not only minimises risks and makes good business sense, but also builds customer loyalty and trust. 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 believe 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, for 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

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 improving its products through reducing levels of salt, sugar and saturated fat to deliver a real impact to the overall nutritional balance of its menus. 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 have also long adopted a 'real food' policy where no artificial colours, flavours and preservatives are used in its food.

Strategic Report (continued)

Responsible business (continued)

Good for our People
Burger King UK 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 inclusivity across the business as this brings fresh ideas and perspectives to the constant challenges it faces. 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 our customers while ensuring standards of integrity and quality are maintained.

Good for Communities
The Group remains committed to supporting local communities and has participated in various initiatives including providing monetary donations to Hospitality Action and a children's hunger charity, and a non-monetary donation of takeaway bags to Surrey County Council to support the distribution of food to vulnerable residents. 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 our 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 will work with its suppliers and Compassion in World Farming to progress this journey. The Group has made significant progress towards achieving 100% cage-free eggs, and will achieve this in Spring 2021, well ahead of the 2025 target.

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 also recognises that tackling climate change involves managing direct and indirect environmental impacts starting with its own operational footprint, and developing and progressing its understanding and minimising carbon emissions across its products, supply chain operations and restaurants.

Carbon Reduction
The Group has a science-based target to reduce absolute Scope 1 and 2 GHG 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 options 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 SBTi's criteria for ambitious value chain goals, meaning it is in line with current best practice.

Strategic Report (continued)

2020 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 (Director' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 which implement the Government's policy on Streamlined Energy and Carbon Reporting.

The Group's measured Scope 1 and 2 emissions (market-based) totalled 8,194 tCO_2e. This comprised:

	2020	2019
Scope 1 emissions:		
Natural gas	3,456	3,811
Company vehicles	3.9	0.2
Fugitive emissions	194	228
Total Scope 1	**3,654**	**4,039**
Scope 2 – Location-based	4,541	5,993
Total Scope 1 & 2 (Location-based)	**8,195**	**10,032**
Scope 2 – Market based	4,540	4,846
Total Scope 1 & 2 (Market-based)	**8,194**	**8,885**
Scope 1 & 2 intensity per £000 – market-based*	0.07	0.06
Scope 3	**281,817**	**488,865**
Business travel – where fuel is directly purchased by reporting organisation	577	797

* Compares Scope 1 & 2 emissions against Group sales

Overall, Scope and 2 emissions have decreased by 8% in the year. This was due to the impact of the COVID-19 pandemic on trading. The Group is currently assessing renewable energy options, with an ambition to transition to 100% renewable electricity by 2025.

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 2020 totalled 281,817 tCO_2e, a 42% decrease compared to 2019 levels. COVID-19 has had a significant impact on the Group's business with temporary restaurant closures causing a reduction in sales for the Group and its franchises, which had a resulting impact on the quantity of purchased goods and services. Protein (beef, chicken and fish) accounts for 62% of the Group's Scope 3 emissions and due to reduced purchasing because of COVID-19, emissions from this category have reduced by 43%.

During the year, the Group's total fuel and electricity consumption totalled 38,290 MWh. The split between fuel and electricity consumption is displayed below:

	2020	2019
Electricity	19,477	23,446
Fuels*	18,813	21,530

* Natural gas and transportation fuels (petrol and diesel)

Strategic Report (continued)

2020 Annual Energy & Carbon Report (continued)

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 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 2020 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 recent appointment of a People Director to ensure this receives the appropriate importance on the executive committee.

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 is committed to reducing the environmental impact of our operation. We are working closely with suppliers to minimise product movement. In restaurant we have expanded our recycling both front and back of house with further rollout planned in the next financial year.

We ensure that all of our used oil is collected, recycled and used as Biofuel. We have also focused on reducing single use plastics, with plans to replace items such as straws and children's toys with environmentally friendly alternatives. We continue to work on ensuring we keep up to speed with the latest developments on packaging and applying best practice 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, 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 investor. 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
26 May 2021

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 2020.

Future developments
The Group are continuing to look for opportunities for expansion through opening new restaurants and improving the performance of our existing business. The directors have considered the financial position of the Group and concluded that it is appropriate to prepare the financial statements on a going concern basis. See note 3.2 for further assessment.

Dividend
No dividends were paid during the year (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, the 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
The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the 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 and Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, 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 keeping adequate accounting records that are sufficient to show and explain the Group 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 also 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

Disclosure of information to auditors
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 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 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.

Directors' report (continued)

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 and loans receivable from other group companies is fixed at 11 per cent 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. All transactions are in sterling. 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
In determining whether the Group and the Company'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 these financial statements. 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 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 these financial statements. In light of the impact of COVID-19, the lending bank has agreed to make certain amendments to, and waivers in relation to, the original facilities agreement. Covenants have been 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.

The Group has generated a positive EBITDA from May 2020 and has continued to produce strong performance in the period since re-opening despite multiple lockdowns continuing into 2021. However, the Group's expected EBITDA for the year was significantly impacted by COVID-19 and supported by the various Government initiatives aimed at protecting the hospitality sector.

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 £12,882,000 at 31 December 2020.

The directors have prepared detailed cash flow projections for the period to 30 June 2022, including sensitivity analysis on key assumptions which the directors consider to be severe but plausible in the current uncertain economic environment. The brand operates with a consistent, high quality product with excellent customer service. The estate has successfully continued to trade throughout multiple lockdowns (respecting all safety measures, social distancing rules and providing personal protective equipment), and demonstrated resilience, particularly given the significant representation of drive through 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. Based on these projections and current trading, and despite the ongoing risk posed by COVID-19 and its potential impact on the future profitability, liquidity, and therefore the forecast covenant compliance of the Group, the directors consider the Group and Company will continue to operate within its resources for a period of at least 12 months from the date of approval of these financial statements and hence that the use of the going concern basis is appropriate.

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.

Post balance sheet events
On 13 May 2021, the Group made a drawdown of £25,000,000 of 11% unsecured redeemable series A loan notes from its parent, Royale Interco Limited. In addition, the Group signed an amendment to the Master Franchise and Development Agreement 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.

On 14 May 2021, the Group acquired a franchisee, Zing Leisure Limited, which operates 17 Burger King franchises around England, for an initial consideration of £5,000,000. An assessment of the acquiree's net assets has not been completed as at the date of signing these financial statements.

Directors' report (continued)

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
26 May 2021

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 comprises a chairman, a Non-Executive Director who represents the shareholders' interests and two Executive Directors, who are responsible for the day-to-day running of the Company and Group.

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 is scheduled to meet between eight and twelve times each financial year.

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
- 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 Non Executive Director is appointed by the largest shareholders of the Group, the Bridgepoint Funds. The remaining shareholders of the Group include Burger King Europe GmbH, senior management and employees of the Group. Employees receive regular communication about the performance of the Group

Audit Committee

This committee comprises the Chairman and two Non-Executive Directors and 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.

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 2020, the Group paid £16.7m (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 2020 and of the group's loss and the group's cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- 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: the consolidated and company balance sheets as at 31 December 2020; the consolidated profit and loss account and consolidated statement of other comprehensive income, the consolidated and company statements of changes in equity and the 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.

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;
- evaluating the appropriateness of the disclosures made by the directors in the annual report and 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.

Independent auditors' report

to the members of BKUK Group Limited

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 2020 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, 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 and employment laws, 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.
- Review of the disclosures in the Annual report and 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.
- Evaluating the business rationale of significant transactions outside the normal course of business.

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.

S Bailey

Simon Bailey (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Crawley
26 May 2021

Consolidated profit and loss account

for the year ended 31 December 2020

	Note	For the year ended 31 December 2020 £'000	For the year ended 31 December 2019 £'000
Turnover	5	117,140	101,029
Cost of sales		(117,368)	(96,095)
Gross (loss)/profit		(228)	4,934
Other income	6	8,962	-
Administrative expenses		(25,097)	(18,302)
Operating loss	7	(16,363)	(13,368)
Non-operating income	8	1,203	592
Interest receivable and similar income	11	3	49
Interest payable and similar expenses	11	(12,816)	(10,863)
Loss before taxation		(27,973)	(23,590)
Tax on loss	12	118	(449)
Loss for the financial year		(27,855)	(24,039)

All results arise from continuing activities

Consolidated statement of other comprehensive income

for the year ended 31 December 2020

	Note	31 December 2020 £'000	31 December 2019 £'000
Loss for the financial year		(27,855)	(24,039)
Remeasurement of the net defined benefit pension scheme liability	21	(232)	343
Income tax on other comprehensive expense	12	44	(58)
Total comprehensive expense for the year		(28,043)	(23,754)

The notes on pages 22 to 41 form part of the financial statements

BKUK Group Limited

Consolidated balance sheet

as at 31 December 2020

	Note	31 December 2020 £'000	31 December 2019 £'000
Fixed assets			
Intangible assets	13	62,635	71,496
Tangible assets	14	38,760	36,723
		101,395	108,219
Current assets			
Inventories	16	1,093	1,193
Debtors (including £1,034,000 due after more than one year (2019: £763,000))	17	8,001	11,358
Cash and cash equivalents	18	12,882	11,273
		21,976	23,824
Creditors: amounts falling due within one year	19	(40,445)	(37,942)
Net current liabilities		(18,469)	(14,118)
Total assets less current liabilities		82,926	94,101
Creditors: amounts falling due after more than one year	20	(139,354)	(122,589)
Provisions for liabilities			
Post-employment benefits	21	(5,917)	(5,695)
Provision for other liabilities	22	(10,652)	(10,771)
Net liabilities		(72,997)	(44,954)
Capital and reserves			
Called-up share capital	26	-	-
Accumulated losses		(72,997)	(44,954)
Total equity		(72,997)	(44,954)

The notes on pages 22 to 41 form part of the financial statements.

The financial statements on pages 16 to 41 were approved by the board of directors on 26 May 2021 and were signed on its behalf by:

TJ Doubleday
Director
26 May 2021

BKUK Group Limited
Registered no. 10980808

Company balance sheet

as at 31 December 2020

	Note	31 December 2020 £'000	31 December 2019 £'000
Fixed assets			
Intangible assets	13	2,834	3,617
Tangible assets	14	478	440
Investments	15	33,924	33,924
		37,236	37,981
Current assets			
Debtors (including £70,364,000 due after more than one year (2019: £63,360,000))	17	93,061	92,451
Cash and cash equivalents	18	11,660	1,214
		104,721	93,665
Creditors: amounts falling due within one year	19	(27,272)	(28,687)
Net current assets		77,449	64,978
Total assets less current liabilities		114,685	102,959
Creditors: amounts falling due after more than one year	20	(130,036)	(113,269)
Net liabilities		(15,351)	(10,310)
Capital and reserves			
Called-up share capital	26	-	-
Accumulated losses		(15,351)	(10,310)
Total equity		(15,351)	(10,310)

The notes on pages 22 to 41 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 2020, the Company generated a loss of £5,041,000 (2019: £4,928,000).

The financial statements were approved by the board of directors on 26 May 2021 and were signed on its behalf by:

TJ Doubleday
Director
26 May 2021

BKUK Group Limited
Registered no. 10980808

BKUK Group Limited

Consolidated statement of changes in equity
for the year ended 31 December 2020

	Called-up share capital £'000	Accumulated losses £'000	Total equity £'000
At 1 January 2019	-	(21,200)	(21,200)
Loss for the financial year	-	(24,039)	(24,039)
Other comprehensive income for the year	-	285	285
Total comprehensive expense for the year	-	**(23,754)**	**(23,754)**
At 31 December 2019	-	**(44,954)**	**(44,954)**
At 1 January 2020	-	(44,954)	(44,954)
Loss for the financial year		(27,855)	(27,855)
Other comprehensive expense for the year	-	(188)	(188)
Total comprehensive expense for the year	-	**(28,043)**	**(28,043)**
At 31 December 2020	-	**(72,997)**	**(72,997)**

The notes on pages 22 to 41 form part of the financial statements

Company statement of changes in equity
for the year ended 31 December 2020

	Called-up share capital £'000	Accumulated losses £'000	Total equity £'000
At 1 January 2019	-	(5,382)	(5,382)
Loss for the financial year	-	(4,928)	(4,928)
Total comprehensive expense for the year	**-**	**(4,928)**	**(4,928)**
At 31 December 2019	**-**	**(10,310)**	**(10,310)**
At 1 January 2020	-	(10,310)	(10,310)
Loss for the financial year	-	(5,041)	(5,041)
Total comprehensive expense for the year	**-**	**(5,041)**	**(5,041)**
At 31 December 2020	**-**	**(15,351)**	**(15,351)**

The notes on pages 22 to 41 form part of the financial statements

Consolidated statement of cash flows

for the year ended 31 December 2020

	Note	For the year ended 31 December 2020 £'000	For the year ended 31 December 2019 £'000
Net cash generated from operating activities	27	8,071	1,072
Taxation paid		-	-
Net cash generated from operating activities		8,071	1,072
Cash flow from investing activities			
Purchase of subsidiary (net of cash acquired)		-	(12,669)
Purchase of intangible assets		(524)	(1,171)
Purchase of tangible assets		(10,404)	(21,459)
Interest received		3	45
Net cash used in investing activities		(10,925)	(35,254)
Drawdown of revolving credit facility		6,000	15,000
Interest paid		(1,537)	(809)
Net cash generated from financing activities		4,463	14,191
Net increase/(decrease) in cash and cash equivalents		1,609	(19,991)
Cash and cash equivalents at the beginning of the year		11,273	31,264
Cash and cash equivalents at the end of the year		12,882	11,273
Reconciliation to cash at bank and in hand			
Cash at bank and in hand	18	12,366	9,572
Cash in transit	18	516	1,701
Cash and cash equivalents		12,882	11,273

The notes on pages 22 to 41 form part of the financial statements

Notes to the financial statements

Year ended 31 December 2020

1 General information

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

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 and individual financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland ("*FRS 102*")' and the Companies Act 2006.

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 applied consistently in the year ended 31 December 2020.

3.1 *Basis of preparation*

These consolidated and separate financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the recognition of certain financial assets and liabilities measured at fair value. The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group and Company accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account or statement of comprehensive income is presented in respect of the parent company.

3.2 *Going concern*

In determining whether the Group and the Company'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 these financial statements. 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 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 these financial statements. In light of the impact of COVID-19, the lending bank has agreed to make certain amendments to, and waivers in relation to, the original facilities agreement. Covenants have been 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.

The Group has generated a positive EBITDA from May 2020 and has continued to produce strong performance in the period since re-opening despite multiple lockdowns continuing into 2021. However, the Group's expected EBITDA for the year was significantly impacted by COVID-19 and supported by the various Government initiatives aimed at protecting the hospitality sector.

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 £12,882,000 at 31 December 2020.

The directors have prepared detailed cash flow projections for the period to 30 June 2022, including sensitivity analysis on key assumptions which the directors consider to be severe but plausible in the current uncertain economic environment. The brand operates with a consistent, high quality product with excellent customer service. The estate has successfully continued to trade throughout multiple lockdowns (respecting all safety measures, social distancing rules and providing personal protective equipment), and demonstrated resilience, particularly given the significant representation of drive through 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. Based on these projections and current trading, and despite the ongoing risk posed by COVID-19 and its potential impact on the future profitability, liquidity, and therefore the forecast covenant compliance of the Group, the directors consider the Group and Company will continue to operate within its resources for a period of at least 12 months from the date of approval of these financial statements and hence that the use of the going concern basis is appropriate.

3.3 *Basis of consolidation*

The Group consolidated financial statements include the financial statements of the Company and all its subsidiary undertakings up to 31 December 2020, which includes the elimination of all intra-Group transactions. Uniform accounting policies have been adopted across the Group.

Notes to the financial statements

Year ended 31 December 2020

3 Summary of significant accounting policies (continued)

3.4 Foreign currency

The Group financial statements are presented in pound sterling and rounded to thousands The Company's functional and presentation currency is the pound sterling.

Foreign currency translations are translated into the functional currency using the spot exchange rate at the dates of the transactions At each year end, foreign currency monetary items are translated using the closing rate. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

3.5 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and provision of services in the ordinary course of the Group's activities Revenue is shown net of VAT, refunds and discounts

Revenue from food and drink sales is recognised at the point at which the goods are provided

Revenue is mainly derived from the operation of 'Burger King' restaurants and is carried out wholly within the UK.

The Group has franchised its brand to third parties. Fees charged for the use of the rights granted by the agreement and related services are recognised as revenue once services have been supplied and the Group has fulfilled its obligations

3.6 Other income

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.

3.7 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

Short term benefits, including holiday pay and other similar non monetary benefits, are recognised as an expense in the period in which the service is received.

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 statement of total recognised gains and losses, actuarial gains and losses

The parent company is not a member of the pension scheme

iii Annual bonus plan

The Group operates several annual bonus plans for employees. An expense is recognised in the profit and loss account when the Group has a legal or constructive obligation to make payments under the plans as a result of past events and a reliable estimate of the obligation can be made.

Notes to the financial statements

Year ended 31 December 2020

3 Summary of significant accounting policies (continued)

3.8 Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

i. *Current tax*

Current tax is the amount of income tax payable in respect of the taxable profit for the period or prior periods. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end. Current or deferred taxation assets and liabilities are not discounted.

ii. *Deferred tax*

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted. Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

3.9 Business combinations and goodwill

Business combinations are accounted for by applying the purchase method.

The cost of a business combination is the fair value of the consideration given, liabilities incurred or assumed, and of equity instruments issued plus the costs directly attributable to the business combination.

On acquisition of a business, fair values are attributed to the identifiable assets, liabilities and contingent liabilities unless the fair value cannot be measured reliably, in which case the value is incorporated in goodwill.

Goodwill recognised represents the excess of the fair value and directly attributable costs of the purchase consideration over the fair values to the Group's interest in the identifiable net assets, liabilities and contingent liabilities acquired.

Goodwill is amortised over its expected useful life which is estimated to be ten years Goodwill is assessed for impairment when there are indicators of impairment and any impairment is charged to the income statement. No reversals of impairment are recognised

Notes to the financial statements

Year ended 31 December 2020

3 Summary of significant accounting policies (continued)

3.10 Intangible assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. 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:

• Goodwill	10 years
• Franchise fees	20 years
• Master Franchise and Development Agreement	20 years
• Software	3 - 5 years

Amortisation is included in administrative expenses in the profit and loss account.

Where factors indicate that residual value or useful life have changed, the residual value, useful life or amortisation rate are amended prospectively to reflect the new circumstances. The assets are reviewed for impairment if factors indicate that the carrying amount may be impaired.

Costs associated with maintaining computer software are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use;
- management intends to complete the software and use or sell it;
- there is an ability to use or sell the software;
- it can be demonstrated how the software will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software area available; and
- *the expenditure attributable to the software during its development can be reliable measured*

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

3.11 Tangible assets

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. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

• Short leasehold land and buildings	Over the unexpired lease of the term
• Plant and machinery	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.

3.12 Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

3.13 Operating leased assets

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payment under operating leases are charged to the profit and loss account on a straight line basis over the period of the lease.

3.14 Investments

Fixed asset investments are included at cost less provision for permanent impairment in value. Current asset investments are stated at the lower of cost and net realisable value. Investments in subsidiary undertakings are initially recorded at cost. The carrying value of investments in subsidiary undertakings is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

3.15 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 basis. Cost for small ware inventories is determined by reference to the standard quantity in issue to each restaurant.

3.16 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and cash in transit. *Revolving credit facilities form an integral part of the Group's cash* management and are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Notes to the financial statements

Year ended 31 December 2020

3 Summary of significant accounting policies (continued)

3.17 Provisions

A provision is recognised in the balance sheet when the entity has a present legal or constructive obligation as a result of a past event, that can be reliably measured, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

Provisions in respect of dilapidations are made where, in the opinion of the directors, it is almost certain that an obligation will result in a transfer of economic benefit and are based on estimates of the obligation arising from the extent of the wear and tear taking place each year.

Provisions are made in respect of leasehold properties for vacant, partly let and loss-making trading stores, for the shorter of the remaining period of the lease and the period until, in the directors' opinion, they will be able to exit the lease commitment. The amount provided is based on the future rental obligations together with other fixed outgoings, net of any sub-lease income and in the case of trading stores the expected future shortfall in contribution to cover the fixed outgoings. In determining the provision, cash flows are discounted on a pre-tax basis using a risk-free rate of return.

The Group considers whether individual fixed assets are impaired by considering the profitability of the individual restaurant the assets relate to

3.18 Financial instruments

The Group has chosen to adopt the Sections 11 and 12 of FRS 102 in respect of financial instruments.

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

4 Key accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have the potential to cause a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed 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. In 2020, the actuaries changed the mortality assumption as a result of the Medically Underwritten Mortality Study undertaken for the Scheme and these changes were adopted by the Directors in their preparation of the financial statements. The impact of the change in assumptions on the valuation of the net financial position for pension schemes is reflected in the statement of other comprehensive income. Using the same mortality rate assumption as the prior year would have had the impact of increasing the pension liability by £1.6m as at 31 December 2020. Further details are available in note 21.

ii. Onerous lease provisions

Provision are made in respect of leasehold properties for vacant, partly let and loss-making trading stores, for the shorter of the remaining period of the lease and the period until, in the directors' opinion, they will be able to exit the lease commitment. The amount provided is based on the future rental obligations together with other fixed outgoings, net of any sub-lease income and in the case of trading stores the expected future shortfall in contribution to cover the fixed outgoings. In determining the provision, cash flows are discounted on a pre-tax basis using a risk-adjusted rate of return. A weighted average cost of capital (WACC) of 9% (2019: 9%) has been used to calculate the provision. An increase in WACC of 1% would decrease the provision by £285,000 (2019: £290,000).

Significant assumptions are used in making these calculations and changes in assumptions and future events could cause the value of these provisions to change.

iii. Impairment of intangible and tangible fixed assets

The Group considers whether individual fixed assets are impaired by considering the profitability of the individual restaurant the assets relate to. This requires estimation about the future cash flows of that particular restaurant, being the designated cash generating unit.

Notes to the financial statements

Year ended 31 December 2020

4 Key accounting estimates and assumptions (continued)

iv Going concern assessment

The Group prepares cashflow forecasts which indicate whether it will be able to continue in operational existence for the foreseeable future. Significant assumptions are used in making these calculations and changes in assumptions and future events could cause the outcome of these forecasts to change.

v Recoverability of intercompany debtors

The directors have considered the financial position and three year forecast for Royale Interco Limited, which include the cashflows of its trading subsidiaries BKUK Devco Limited, Caspian Food Retailers Limited, Caspian Food Services Limited, BKUK Bristol Limited and BKUK Flame Limited. Based upon the forecast profitability and high cashflows generated, the directors are satisfied that the intercompany debtors are recoverable.

vi Rent accrual

Included within the accruals and other creditors is an amount totalling £5.7m in respect of unpaid rent on a number of sites where the Group remains in discussions with the landlord as at 31 December 2020. Due to restrictions placed upon the Group during the COVID-19 pandemic, a number of these sites have not been able to open, or have only been able to operate at a reduced capacity. The rent on these sites remains under negotiation with the landlords and the Directors expect these discussions to conclude during 2021. The amount included within the accruals and other creditors balance remains subject to significant uncertainty at the balance sheet date and the Group may end up paying materially less than the amounts accrued. However at the date of approval of these financial statements this position remains uncertain and a legal obligation exists that requires provisioning at 31 December 2020.

5 Turnover

An analysis of turnover by class of business is as follows

	Group 31 December 2020 £'000	Group 31 December 2019 £'000
Sale of goods	116,447	99,939
Franchise and related service income	693	1,090
	117,140	101,029

Revenue is mainly derived from the operation of 'Burger King' restaurants and is carried out wholly within the UK.

6 Other income

Income from government grants as a result of the COVID-19 pandemic have been recognised in Other income

Group 31 December 2020 £'000	Group 31 December 2019 £'000
8,962	-

Notes to the financial statements

Year ended 31 December 2020

7 Operating loss

Operating loss is stated after charging/(crediting) the following:

	Group 31 December 2020 £'000	Group 31 December 2019 £'000
Depreciation and impairment of tangible fixed assets	8,367	4,690
Amortisation and impairment of intangible fixed assets	9,386	6,650
Movements in onerous lease and dilapidations provision	(119)	5,222
Operating lease charges	17,794	15,997
Foreign exchange (gains)/losses	(1,064)	11
Fees payable to the Company's auditors:		
- Audit of these financial statements	196	11
- Audit of the Company's subsidiaries	15	146
Audit-related assurance services	10	10
Other assurance services	-	327
- Tax advisory services	-	26
Tax compliance services	-	61
	221	581

8 Non-operating income

The following non-operating items are included in the profit and loss account:

	Group 31 December 2020 £'000	Group 31 December 2019 £'000
Advertising Fund surplus	1,203	592

The Advertising Fund 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.

Notes to the financial statements

Year ended 31 December 2020

9 Employees

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

	Group		Company	
	31 December 2020 Number	31 December 2019 Number	31 December 2020 Number	31 December 2019 Number
Store operations	3,545	2,945	2,674	2,189
Head office administration	85	86	85	77
	3,630	3,031	2,759	2,266

The aggregate payroll costs of these persons are as follows:

	£'000	£'000	£'000	£'000
Wages and salaries	31,241	30,636	4,783	5,054
Social security costs	2,438	1,880	580	501
Other pensions costs	671	418	163	143
Total staff costs	34,350	32,934	5,526	5,698
Amounts capitalised	(469)	(763)	(469)	(763)
Staff costs charged to profit and loss	33,881	32,171	5,057	4,935

10 Directors' remuneration

The directors' remuneration is borne by Royale Midco Limited and details are disclosed in the financial statements of that company. The directors consider that it is not possible to accurately apportion these costs to the Group or the Company, and therefore no recharge has been incurred by the Group or the Company. No amounts were paid to third parties for directors' services, and no retirement benefits are accruing for any of the directors

11 *Net interest expense*

	31 December 2020 £'000	31 December 2019 £'000
a. Interest receivable and similar income		
Interest on short term deposits	3	49
	3	49
b. Interest payable and similar expenses		
Interest expense on bank loans and revolving facility	(1,036)	(123)
Interest payable on shareholder loan notes	(10,923)	(9,834)
Net interest expense on the defined benefit liabilities	(119)	(168)
Interest payable on vendor loan notes	(738)	(738)
	(12,816)	(10,863)
c. Net interest expense		
Interest receivable and similar income	3	49
Interest payable and similar expenses	(12,816)	(10,863)
	(12,813)	(10,814)

Notes to the financial statements

Year ended 31 December 2020

12 Tax on loss

	31 December 2020 £'000	31 December 2019 £'000
Total tax (income))/expense recognised in the profit and loss account and other comprehensive (expense)/income		
Corporation tax:		
Current tax on loss for the year	6	3
Total current tax	6	3
Deferred tax:		
Origination and reversal of timing differences	(39)	(44)
Movement in unprovided deferred tax	15	485
Effect of changes in tax rates	(100)	5
Deferred tax on pension scheme liability	(44)	58
Total deferred tax	(168)	504
Tax (credit)/charge on loss and other comprehensive income	(162)	507

	31 December 2020			31 December 2019		
	Current tax £'000	Deferred tax £'000	Total £'000	Current tax £'000	Deferred tax £'000	Total £'000
Recognised in Profit and loss account	6	(124)	(118)	3	446	449
Recognised in other comprehensive income	-	(44)	(44)	-	58	58
Total tax	6	(168)	(162)	3	504	507

Reconciliation of effective tax rate

The tax assessed for the year can be reconciled to the loss per the profit and loss account as follow:

	31 December 2020 £'000	31 December 2019 £'000
Loss before taxation	(27,973)	(23,590)
Tax using the UK corporation tax rate of 19% (2019: 19%)	(5,314)	(4,483)
Expenses not deductible for tax purposes	1,246	554
Income not taxable for tax purposes	(308)	(48)
Effects of group relief	1,822	1,857
Goodwill on consolidation	1,427	1,027
Movement in unprovided deferred tax	1,212	1,549
Tax rate changes	(203)	(7)
Total tax (credit)/charge included in profit or loss	(118)	449

The Group does not recognise the deferred tax asset arising on losses due to uncertainty associated with the recoverability of the balance The total amount of unprovided deferred tax asset as at the year ended 31 December 2020 is £3,624,000 (2019: £2,412,000).

Factors affecting future tax changes

In the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020 As the proposal to keep the rate at 19% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. Moreover, it is likely that the overall effect of the change, had it been substantively enacted by the balance sheet date, would have no significant impact on the deferred tax asset value.

Notes to the financial statements

Year ended 31 December 2020

13 Intangible assets

Group

	Goodwill £'000	Franchise fees £'000	Master Franchise and Development Agreement £'000	Software £'000	Total £'000
Cost					
At 1 January 2020	76,896	3,182	2,198	2,563	84,839
Additions	-	336	-	189	525
Disposals	-	(30)	-		(30)
At 31 December 2020	**76,896**	**3,488**	**2,198**	**2,752**	**85,334**
Accumulated amortisation					
At 1 January 2020	(11,838)	(360)	(231)	(914)	(13,343)
Charge for the year	(7,711)	(205)	(114)	(858)	(8,888)
Impairment	(386)	(112)	-	-	(498)
Disposals	-	30	-	-	30
At 31 December 2020	**(19,935)**	**(647)**	**(345)**	**(1,772)**	**(22,699)**
Net book value					
At 31 December 2020	**56,961**	**2,841**	**1,853**	**980**	**62,635**
At 1 January 2020	65,058	2,822	1,967	1,649	71,496

Company

	Software £'000	Master Franchise and Development Agreement £'000	Total £'000
Cost			
At 1 January 2020	2,563	2,198	4,761
Additions	189	-	189
At 31 December 2020	**2,752**	**2,198**	**4,950**
Accumulated amortisation			
At 1 January 2020	(913)	(231)	(1,144)
Charge for the year	(858)	(114)	(972)
At 31 December 2020	(1,771)	(345)	(2,116)
Net book value			
At 31 December 2020	**981**	**1,853**	**2,834**
At 1 January 2020	1,650	1,967	3,617

Notes to the financial statements
Year ended 31 December 2020

14 Tangible assets

Group

	Short leasehold land and buildings £'000	Plant and machinery £'000	Tangible assets under construction £'000	Total £'000
Cost				
At 1 January 2020	3,854	38,541	1,806	44,201
Transfers	-	1,806	(1,806)	-
Additions	710	6,491	3,213	10,414
Disposals	-	(750)	-	(750)
At 31 December 2020	**4,564**	**46,088**	**3,213**	**53,865**
Accumulated depreciation				
At 1 January 2020	(417)	(7,061)	-	(7,478)
Charge for the year	(253)	(4,743)	-	(4,996)
Impairment	(99)	(3,272)	-	(3,371)
Disposals	-	740	-	740
At 31 December 2020	**(769)**	**(14,336)**	**-**	**(15,105)**
Net book value				
At 31 December 2020	**3,795**	**31,752**	**3,213**	**38,760**
At 1 January 2020	3,437	31,480	1,806	36,723

All assets are stated at cost.

Company

	Short leasehold land and buildings £'000	Plant and machinery £'000	Total £'000
Cost			
At 1 January 2020	161	465	626
Additions	-	208	208
At 31 December 2020	**161**	**673**	**834**
Accumulated depreciation			
At 1 January 2020	(11)	(175)	(186)
Charge for the year	(8)	(162)	(170)
At 31 December 2020	**(19)**	**(337)**	**(356)**
Net book value			
At 31 December 2020	**142**	**336**	**478**
At 1 January 2020	150	290	440

All assets are stated at cost.

Notes to the financial statements

Year ended 31 December 2020

15 Investments

Company

	Shares in group undertakings £'000
Cost and net book value	
At 1 January 2020	33,924
Additions	-
At 31 December 2020	**33,924**

The directors are satisfied that the carrying value of the investment is supported by the underlying trading of its subsidiary companies. A list of the subsidiary companies is provided in note 32.

16 Inventories

Group

	31 December 2020 £'000	31 December 2019 £'000
Raw materials and consumables	**1,093**	1,193

Raw materials and consumables recognised as cost of sales in the Group in the year amounted to £27,185,000 (2019: £27,947,000).

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

Company

The Company had no inventory at 31 December 2020 (2019: nil)

17 Debtors

	Group		Company	
	31 December 2020 £'000	31 December 2019 £'000	31 December 2020 £'000	31 December 2019 £'000
Trade debtors	**3,597**	2,319	**2,350**	1,806
Amounts owed by group undertakings	**409**	365	**88,950**	84,288
Other debtors	**1,221**	4,197	**867**	5,515
Deferred tax assets (see note 22)	**1,034**	763	**31**	15
Prepayments and accrued income	**1,830**	3,714	**863**	827
	8,001	11,358	**93,061**	92,451

Group

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

Company

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. 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 2020 was £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.

Notes to the financial statements

Year ended 31 December 2020

18 Cash and cash equivalents

	Group		Company	
	31 December 2020 £'000	31 December 2019 £'000	31 December 2020 £'000	31 December 2019 £'000
Cash at bank and in hand	12,366	9,572	11,660	1,214
Cash in transit	516	1,701	-	-
	12,882	11,273	11,660	1,214

The Group and Company cash balance includes £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.

19 Creditors: amounts falling due within one year

	Group		Company	
	31 December 2020 £'000	31 December 2019 £'000	31 December 2020 £'000	31 December 2019 £'000
Trade creditors	4,877	11,068	4,877	9,659
Amounts owed to group undertakings	1,437	370	10,147	11,948
Corporation tax liability	-	39	-	-
Other taxation and social security	3,358	3,923	3,155	608
Other creditors	3,595	538	2,975	19
Accruals and deferred income	27,178	22,004	6,118	6,453
	40,445	37,942	27,272	28,687

Amounts owed to group undertakings relate to balances incurred in the course of normal trading activity. Balances are unsecured, interest-free and repayable on demand

20 Creditors: amounts falling due after more than one year

This note provides information about the contractual terms of the Group's and parent Company's interest-bearing loans and borrowings, which are measured at amortised cost.

	Group		Company	
	31 December 2020 £'000	31 December 2019 £'000	31 December 2020 £'000	31 December 2019 £'000
Amounts falling due between one and five years				
Vendor loan notes payable	9,318	9,320	-	-
Revolving credit facility	19,848	14,004	19,848	14,004
	29,166	23,324	19,848	14,004
Amounts falling due after more than five years				
Amounts owed to group undertakings	110,188	99,265	110,188	99,265
	110,188	99,265	110,188	99,265
Total creditors falling due after more than one year	139,354	122,589	130,036	113,269

Notes to the financial statements

Year ended 31 December 2020

20 Creditors: amounts falling due after more than one year (continued)

Amounts owed to group undertakings

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 into a £18,750,000 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 2020 was £28,863,000 (2019 £17,988,000)

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 2020 is £93,000 (2019 £93,000). The loan is fully repayable on 16 November 2024.

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 2020, £21,000,000 has been drawn. Natwest PLC has a fixed and floating charge against the Group's real property and intellectual property to support this and requires the Group to comply with financial covenants The Group has complied with the financial covenants for the year ended 31 December 2020 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 £1,013,000, which is being amortised over the period from drawdown of the loan to the expected maturity date At 31 December 2020, the unamortised cost was £1,152,000 (2019: £996,000)

21 Post-employment benefits

Group

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 The employer's contributions to the Scheme during the year amounted to £457,000 (2019 £276,000). The Parent Company did not participate in the pension scheme

The Scheme actuary has provided the following estimate of the Plan deficit following the guidance in FRS 102 28 as at 31 December 2020 The estimate is based on the data and results of the valuation as at 31 December 2018 and updated to 31 December 2020 by a qualified independent actuary.

	2020 £'000	2019 £'000
Amounts recognised in the consolidated balance sheet*:		
Defined benefit obligation	(19,652)	(18,279)
Fair value of scheme assets	13,735	12,584
Net defined benefit liability	(5,917)	(5,695)

*Note before deferred tax considerations

	2020	2019
Changes in the present value of scheme liabilities are as follows:		
Opening defined benefit obligation	(18,279)	(16,641)
Interest cost	(379)	(475)
Actuarial losses	(1,492)	(1,666)
Benefits paid	498	503
Closing defined benefit obligation	(19,652)	(18,279)

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

Notes to the financial statements

Year ended 31 December 2020

21 Post-employment benefits (continued)

	2020	2019
	£'000	£'000
Amounts recognised in the consolidated profit and loss account:		
Scheme administration expenses	(328)	(402)
Net interest on the defined benefit liability	(119)	(168)
Total expense recognised in the profit and loss account	(447)	(570)
Amounts recognised in the consolidated statement of comprehensive income:		
Actuarial losses	(1,492)	(1,666)
Return on scheme assets excluding interest income/(expenses)	1,260	2,009
Total (losses)/gains recognised in other comprehensive income	(232)	343
Breakdown of value of assets at end of the year:		
UK equity-linked bonds	-	239
Overseas equity-linked bonds	-	3,371
Diversified growth funds	3,954	4,233
Absolute return bonds	1,330	1,379
Diversified alternatives	1,317	1,238
Equity linked LDI	4,476	-
LDI	2,427	2,067
Cash and cash equivalents	231	57
Total value of assets at end of the year	13,735	12,584

Notes to the financial statements
Year ended 31 December 2020

21 Post-employment benefits (continued)

Principal actuarial assumptions at the balance sheet date:

	2020	2019
	%	%
Discount rate	1.35	2.10
Future salary growth	n/a	n/a
RPI inflation	2.85	2.90
Pension increases in payment.		
- RPI max 5%	2.80	2.85
RPI max 2.5%	2.10	2.10
Mortality	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% S2PXA 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:

	2020	2019
Male (current age 45)	21.6 years	22.3 years
Male (current age 65)	20.3 years	24.2 years
Female (current age 45)	24.1 years	23 6 years
Female (current age 65)	22.7 years	25.7 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

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

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

Relationship between the Company 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 company next year is £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

Company

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

Notes to the financial statements
Year ended 31 December 2020

22 Provision for other liabilities

Group
The Group had the following provisions during the year:

	Onerous leases £'000	Dilapidations £'000	Total £'000
At 1 January 2020	9,162	1,609	10,771
Additions via profit and loss	6,316	899	7,215
Amounts utilised	(5,111)	(97)	(5,208)
Unused amounts reversed to the profit and loss account	(1,803)	(323)	(2,126)
At 31 December 2020	**8,564**	**2,088**	**10,652**

Onerous lease
The onerous lease provision represents leases on vacant properties or where a restaurant is loss making for an extended period, until the end of the lease or until the directors estimate the properties can be sublet.

Dilapidation
The dilapidation provision represents the directors' estimated cost of returning leased sites to their original condition on exit of that site.

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

23 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following.

	Group		Company	
	31 December 2020 £'000	31 December 2019 £'000	31 December 2020 £'000	31 December 2019 £'000
Fixed asset timing differences	(293)	(219)	-	-
Other timing differences	1,327	982	31	15
Net deferred tax assets	1,034	763	31	15

Notes to the financial statements

Year ended 31 December 2020

24 Financial instruments

The carrying amounts of the financial assets and liabilities include:

	Group		Company	
	31 December 2020 £'000	31 December 2019 £'000	31 December 2020 £'000	31 December 2019 £'000
Financial assets measured at amortised cost				
Cash and cash equivalents	12,882	11,273	11,660	1,214
Amounts owed by group undertakings	409	365	88,950	84,288
Trade debtors	3,507	2,319	2,350	1,806
Other debtors	1,221	4,197	867	5,515
	18,019	18,154	103,827	92,823
Financial liabilities measured at amortised cost				
Trade creditors	(4,877)	(11,068)	(4,877)	(9,659)
Other creditors	(3,595)	(538)	(2,975)	(19)
Accruals	(26,007)	(20,812)	(4,948)	(5,280)
Amounts owed to group undertakings	(1,437)	(370)	(10,147)	(11,948)
Shareholder loan notes	(110,188)	(99,265)	(110,188)	(99,265)
Vendor loan notes	(9,318)	(9,320)	-	-
Revolving credit facility	(21,000)	(15,000)	(21,000)	(15,000)
	(176,422)	(156,373)	(154,135)	(141,171)
Net financial liabilities	(158,403)	(138,219)	(50,308)	(48,348)

25 Operating leases

	Group		Company	
	31 December 2020 £'000	31 December 2019 £'000	31 December 2020 £'000	31 December 2019 £'000
Less than one year	13,598	14,578	439	425
Between one and five years	42,741	45,247	1,701	1,700
More than five years	73,696	74,944	1,020	1,445
	130,035	134,769	3,160	3,570

During the year, £17,794,000 was recognised as an expense in the Group profit and loss account in respect of operating leases (2019: £15,997,000)

26 Called-up share capital

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

Dividends

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

Notes to the financial statements

Year ended 31 December 2020

27 Notes to the cash flow statement

	31 December 2020 £'000	31 December 2019 £'000
Loss for the financial year	(27,855)	(24,039)
Adjustments for:		
Tax on loss	(118)	449
Net interest expense	12,813	10,814
Depreciation, amortisation and impairment	17,753	11,341
Decrease in trade and other debtors	9,133	31,590
Decrease/(increase) in inventories	100	(91)
Decrease in trade and other creditors	(3,858)	(24,764)
Increase/(decrease) in provisions and employee benefits	103	(4,228)
Cash flow generated from operating activities	**8,071**	1,072

28 Contingent liabilities

As disclosed in Note 32, 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 was £36,082,000 (2019: £1,206,000).

29 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 into a £18,750,000 unsecured redeemable series A loan note with Royale Interco Limited. The maturity date of the loan notes is 30 September 2027. The loan notes accrue interest at a compound rate of 11% per annum. Interest capitalised into the principal of the loan notes at 31 December 2020 was £28,863,000 (2019: £17,988,000)

Transactions with Burger King Europe GmbH

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

Transactions with shareholders

During the year, the Group was charged management fees of £1,225,000 (2019: £1,872,000) by Royale Midco Limited. This balance was settled during the financial year and no amounts are outstanding as at the balance sheet date (2019: nil).

Transactions with key management personnel

See note 9 for disclosure of the directors' remuneration and key management compensation.

Notes to the financial statements

Year ended 31 December 2020

30 Controlling party

Group and Company

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-Investments 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 Limited Accordingly, at 31 December 2020, the directors consider the Company's ultimate controlling party to be Bridgepoint Group Limited.

31 Events after the reporting period

On 13 May 2021, the Group made a drawdown of £25,000,000 of 11% unsecured redeemable series A loan notes from its parent, Royale Interco Limited In addition, the Group signed an amendment to the Master Franchise and Development Agreement 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

On 14 May 2021, the Group acquired a franchisee, Zing Leisure Limited, which operates 17 Burger King franchises around England, for an initial consideration of £5,000,000 An assessment of the acquiree's net assets has not been completed as at the date of signing these financial statements

32 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

* This entity is owned directly by BKUK Group Limited

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 2020:

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