# Royale Topco Limited

## Annual report and consolidated financial statements

Year ended 31 December 2019

Registered number 10950960

# Contents

# Strategic Report

The directors present their strategic report on the Group for the year ended 31 December 2019 and comparatives for the 16 month period from 7 September 2017 to 31 December 2018.

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

**Review of the business**
The Group continued its rapid expansion in the UK and performed well in the year, growing revenue 10% to £101,029,000 (2018: 91,768,000). During the year, the Group opened 15 new restaurants and acquired two franchisees, Banquets (B.K) Limited and KFG Quickserve Limited, on 27 November 2019 and 30 December 2019 respectively, both of which operate a number of Burger King franchises around England. Following the two acquisitions, the Directors estimate that the proforma revenue for 2019 would have been £142,819,000.

The operating loss for the Group for the year is £13,685,000 (2018: £11,101,000 loss) and is largely due to the upfront investment in scalability incurred as the Group positions itself for growth. At the year end, the Group has net liabilities of £1,212,000 (2018: net assets of 17,086,000) due to increasing compounding shareholder loan notes and increases in property-related provisions. During the year, the Group recognised a non-operating income of £592,000 from the Advertising Fund (2018: £1,795,000 expense) as a result of diligent expenditure management to work towards rebalancing the fund to a net neutral position.

**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 profit before tax, interest, depreciation, amortisation, and any one off or non-recurring items, of the group, was £5,539,000 (2018: £4,830,000). This includes the investment in scalability incurred during the year to fulfil the long-term growth plan set by the directors. 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 reconciliation between the operating loss and Adjusted EBITDA is detailed below:

| | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| Operating loss | (13,685) | (11,101) |
| add: depreciation and impairment of tangible fixed assets | 4,690 | 2,925 |
| add: amortisation and impairment of intangible fixed assets | 6,817 | 6,526 |
| add: investment in scalability | 7,149 | 7,184 |
| add: new site pre-opening costs | 1,782 | 745 |
| add: movement of property-related provisions | (1,214) | (1,449) |
| Adjusted EBITDA | 5,539 | 4,830 |

*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 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 2019 increased 7.3% to 82,898,000 compared to sales from the preceding 12 month period (2018: 77,274,000), partly driven by increasing demand in the delivery channel.

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.

# Strategic Report (continued)

**Risks**

The main risks to our business 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.
- Liquidity risk

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

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

The risk posed by COVID-19 is unprecedented, however the Group has 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 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.

# 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. We 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.

***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
18 December 2020

# Directors' report

The directors present their annual report and the audited consolidated financial statements of Royale Topco Limited ("the Company"), and its subsidiary undertakings (together, the "Group") for the year ended 31 December 2019.

**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 (2018: nil).

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

VML Gwilliam
TJ Doubleday
AM Robinson
AD Murdoch

**Directors' indemnity**
Royale Midco Limited, a subsidiary company, maintains liability insurance for directors and officers of the Royale Topco 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 period. 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 is fixed at 11 per cent per annum and is therefore not exposed to movements in interest rates. The directors will revisit the appropriateness of this policy should the Group's operations change in size or nature.

The Group has trade creditors on normal terms and finances working capital requirements from its trading performance and a revolving credit facility. 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. The directors have approved the forecast for 2021 for the Group and the Company in light of COVID-19. In 2020, a new bank facility of £25 million was secured at a rate of LIBOR +4.5%. This was used to continue the expansion of the UK estate.

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 Group was generating a profit at the end of end of February 2020, before the emergence of COVID-19. A limited number of sites were operated in April, ahead of a wider re-opening in May. The Group generated a positive EBITDA from May 2020 and has continued to produce strong performance in the period since re-opening despite a second national lockdown in November 2020.

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 Group is in a net current liability position due to the working capital profile of restaurants, especially those in the expansion phase.

The directors have prepared detailed cash flow projections for the period to 31 December 2021, including sensitivity analysis on key assumptions which the directors consider to be severe but plausible in the current uncertain economic environment. The Group had cash resources of £11,273,000 at 31 December 2019. The directors have considered the assumptions made and consider the forecasts reasonable and realistic considering market and economic uncertainty. Based on these projections and current trading, and despite the ongoing risk posed by COVID-19 and its potential impact of the future profitability 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 (2018: nil).

**Post balance sheet events**
The COVID-19 pandemic has developed rapidly in 2020. Measures taken by the government to contain the virus have affected economic activity and the Group's business in various ways:

- Temporary closures of all restaurants following the first lockdown in March 2020
- Restricted ability to trade after re-opening, including a limit on customers' ability to dine inside restaurants
- Delayed the new site roll-out initially planned during 2020

However, since re-opening in April, the Group has achieved strong results driven by operational efficiencies and a resilient drive through estate, whilst benefitting from various government support schemes including reduction in VAT rates, business rates relief and the job retention scheme.

At the date of approval of these financial statements, the business has recovered significantly and the overall impact to date has not been significant, and the directors expect this to remain the case. We will continue to follow the various government policies and advice and, in parallel, we will do our utmost to continue our operations in the best and safest way possible without jeopardising the health of our people.

As of the balance sheet date it was not known how severe the economic impact of COVID-19 would be as the vast majority of cases were then in Asia, where the Group currently has no operations. Based on this, in accordance with FRS 102 paragraph 32, the Directors concluded the pandemic is a non-adjusting post balance sheet event. As a result of this, no adjustments to amounts recognised in the financial statements have been made for the impact of COVID-19. However, the Directors expect that property provisions and impairment assessments may be impacted in the future.

# 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
18 December 2020

# 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 who hold. 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

# 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 2019, the Group paid £20.6m of various taxes including, without limitation, PAYE, VAT and business rates.

# *Independent auditors' report to the members of Royale Topco Limited*

## Report on the audit of the financial statements

### Opinion

In our opinion, Royale Topco 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 2019 and of the group's loss and 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 2019; 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

### 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 the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require 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 2019 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 director's responsibilities set out on page 5, 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.

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

We have no exceptions to report arising from this responsibility.

Simon Bailey

Simon Bailey (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Gatwick
18 December 2020

# Consolidated profit and loss account

**as at 31 December 2019**

| | Note | For the year ended 31 December 2019 £'000 | From 7 September 2017 to 31 December 2018 £'000 |
|---|---|---|---|
| Turnover | 5 | 101,029 | 91,768 |
| Cost of sales | | (96,094) | (84,619) |
| **Gross profit** | | 4,935 | 7,149 |
| Administrative expenses | | (18,620) | (18,250) |
| **Operating loss** | 6 | (13,685) | (11,101) |
| Non-operating income/(expenses) | 7 | 592 | (1,795) |
| Interest receivable and similar income | 10 | 49 | 9 |
| Interest payable and similar expenses | 10 | (6,567) | (6,688) |
| **Loss before taxation** | | (19,611) | (19,575) |
| Tax on loss | 11 | (450) | 96 |
| **Loss for the financial year** | | (20,061) | (19,479) |
| Loss attributable to: | | | |
| Owners of the parent | | (17,206) | (17,085) |
| Non-controlling interests | | (2,855) | (2,394) |
| **Loss for the financial year** | | (20,061) | (19,479) |

All results arise from continuing activities.

# Consolidated statement of other comprehensive income

**for the year ended 31 December 2019**

| | Note | For the year ended 31 December 2019 £'000 | From 7 September 2017 to 31 December 2018 £'000 |
|---|---|---|---|
| Loss for the financial year | | (20,061) | (19,479) |
| Remeasurement of the net defined benefit pension scheme liability | 20 | 343 | 601 |
| Income tax on other comprehensive income | 11 | (58) | (75) |
| **Total comprehensive expense for the year** | | (19,776) | (18,953) |
| Total comprehensive expense attributable to: | | | |
| Owners of the parent | | (16,921) | (16,559) |
| Non-controlling interests | 32 | (2,855) | (2,394) |
| **Total comprehensive expense for the year** | | (19,776) | (18,953) |

The notes on pages 18 to 40 form part of the financial statements.

# Consolidated balance sheet

as at 31 December 2019

| | Note | 31 December 2019 £'000 | 31 December 2018 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible assets | 12 | 71,496 | 53,184 |
| Tangible assets | 13 | 36,723 | 17,999 |
| | | 108,219 | 71,183 |
| **Current assets** | | | |
| Inventories | 15 | 1,193 | 721 |
| Debtors (including £762,000 due after one year (2018: 904,000)) | 16 | 10,993 | 9,733 |
| Cash and cash equivalents | 17 | 11,273 | 31,332 |
| | | 23,459 | 41,786 |
| Creditors: amounts falling due within one year | 18 | (37,702) | (25,509) |
| **Net current (liabilities)/assets** | | (14,243) | 16,277 |
| **Total assets less current liabilities** | | 93,976 | 87,460 |
| Creditors: amounts falling due after more than one year | 19 | (78,722) | (59,116) |
| **Provisions for liabilities** | | | |
| Post-employment benefits | 20 | (5,695) | (5,744) |
| Provision for other liabilities | 21 | (10,771) | (5,514) |
| **Net (liabilities)/assets** | | (1,212) | 17,086 |
| **Capital and reserves** | | | |
| Called-up share capital | 25 | 1 | 1 |
| Share premium account | 25 | 37,516 | 37,514 |
| Accumulated losses | | (38,960) | (16,559) |
| **Equity attributable to owners of the parent** | | (1,443) | 20,956 |
| Non-controlling interests | 32 | 231 | (3,870) |
| **Total equity** | | (1,212) | 17,086 |

The notes on pages 18 to 40 form part of the financial statements.

The financial statements were approved by the board of directors on 18 December 2020 and were signed on its behalf by:

TJ Doubleday
Director
18 December 2020

Royale Topco Limited
Registered no. 10950960

# Company balance sheet
as at 31 December 2019

| | Note | 31 December 2019 £'000 | 31 December 2018 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments | 14 | 37,500 | 37,500 |
| | | 37,500 | 37,500 |
| **Current assets** | | | |
| Debtors | 16 | - | 15 |
| | | - | 15 |
| Creditors: amounts falling due within one year | 18 | (17) | (16) |
| **Net current liabilities** | | (17) | (1) |
| **Total assets less current liabilities** | | 37,483 | 37,499 |
| **Net assets** | | 37,483 | 37,499 |
| **Capital and reserves** | | | |
| Called-up share capital | 25 | 1 | 1 |
| Share premium account | 25 | 37,516 | 37,514 |
| Accumulated losses | | (34) | (16) |
| **Total equity** | | 37,483 | 37,499 |

The notes on pages 18 to 40 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 2019, the Company generated a loss of £19,000 (2018: 16,000).

The financial statements were approved by the board of directors on 18 December 2020 and were signed on its behalf by:

TJ Doubleday
Director
18 December 2020

Royale Topco Limited
Registered no. 10950960

# Consolidated statement of changes in equity

**for the year ended 31 December 2019**

| | Called-up share *capital* £'000 | Share *premium* £'000 | Accumulated *losses* £'000 | Equity attributable to the owners of *the parent* £'000 | Non-controlling *interests* £'000 | Total *equity* £'000 |
|---|---|---|---|---|---|---|
| At 7 September 2017 | - | - | - | - | - | - |
| *Total comprehensive expense for the period:* | | | | | | |
| Loss for the financial period | - | - | (17,085) | (17,085) | (2,394) | (19,479) |
| Other comprehensive income for the period | - | - | 526 | 526 | - | 526 |
| **Total comprehensive expense for the period** | - | - | **(16,559)** | **(16,559)** | **(2,394)** | **(18,953)** |
| *Transactions with owners recorded directly in equity:* | | | | | | |
| Non-controlling interest arising on business acquisition | - | - | - | - | (1,476) | (1,476) |
| Share issue | 1 | 37,514 | - | 37,515 | - | 37,515 |
| **At 31 December 2018** | **1** | **37,514** | **(16,559)** | **20,956** | **(3,870)** | **17,086** |
| At 1 January 2019 | 1 | 37,514 | (16,559) | 20,956 | (3,870) | 17,086 |
| *Total comprehensive expense for the year:* | | | | | | |
| Loss for the financial year | - | - | (17,206) | (17,206) | (2,855) | (20,061) |
| Other comprehensive income for the year | - | - | 285 | 285 | - | 285 |
| **Total comprehensive expense for the year** | - | - | **(16,921)** | **(16,921)** | **(2,855)** | **(19,776)** |
| *Transactions with owners recorded directly in equity:* | | | | | | |
| Adjustment to non-controlling interest arising on business acquisition* | - | - | (5,480) | (5,480) | 6,956 | 1,476 |
| Share issue | - | 2 | - | 2 | - | 2 |
| **At 31 December 2019** | **1** | **37,516** | **(38,960)** | **(1,443)** | **231** | **(1,212)** |

* See note 12 for further detail.

The notes on pages 18 to 40 form part of the financial statements.

# Company statement of changes in equity

**for the year ended 31 December 2019**

| | Called-up share capital £'000 | Share premium £'000 | Accumulated losses £'000 | Total equity £'000 |
|---|---|---|---|---|
| At 7 September 2017 | - | - | - | - |
| Loss for the financial period | - | - | (16) | (16) |
| **Total comprehensive expense for the period** | - | - | (16) | (16) |
| Share issue | 1 | 37,514 | - | 37,515 |
| **At 31 December 2018** | 1 | 37,514 | (16) | 37,499 |
| At 1 January 2019 | 1 | 37,514 | (16) | 37,499 |
| Loss for the financial year | - | - | (18) | (18) |
| **Total comprehensive expense for the year** | - | - | (18) | (18) |
| Share issue | - | 2 | - | 2 |
| **At 31 December 2019** | 1 | 37,516 | (34) | 37,483 |

The notes on pages 18 to 40 form part of the financial statements.

# Consolidated statement of cash flows

**for the year ended 31 December 2019**

| | Notes | For the year ended 31 December 2019 £'000 | From 7 September 2017 to 31 December 2018 £'000 |
|---|---|---|---|
| Net cash generated from/ (used in) operating activities | 26 | 1,002 | (666) |
| Taxation paid | | - | - |
| **Net cash generated from/(used in) operating activities** | | 1,002 | (666) |
| | | | |
| **Cash flow from investing activities** | | | |
| Purchase of subsidiary (net of cash acquired) | 31 | (12,669) | (41,395) |
| Purchase of intangible assets | | (1,171) | (5,840) |
| Purchase of tangible assets | | (21,459) | (10,927) |
| Interest received | | 45 | 9 |
| **Net cash used in investing activities** | | (35,254) | (58,153) |
| | | | |
| Proceeds from loan notes | | 15,000 | 53,412 |
| Proceeds from issue of ordinary share capital | | 2 | 37,515 |
| Interest paid | | (809) | (776) |
| **Net cash generated from financing activities** | | 14,193 | 90,151 |
| | | | |
| Net (decrease)/increase in cash and cash equivalents | | (20,059) | 31,332 |
| Cash and cash equivalents at the beginning of the year | | 31,332 | - |
| **Cash and cash equivalents at the end of the year** | | 11,273 | 31,332 |
| | | | |
| **Reconciliation to cash at bank and in hand** | | | |
| Cash at bank and in hand | 17 | 9,572 | 30,822 |
| Cash in transit | 17 | 1,701 | 510 |
| **Cash and cash equivalents** | | 11,273 | 31,332 |

The notes on pages 18 to 40 form part of the financial statements.

# Notes to the financial statements

**Year ended 31 December 2019**

## 1 General information

Royale Topco 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 10950960 and the registered address is 5 New Street Square, London, EC4A 3TW.

## 2 Statement of compliance

These group and individual financial statements have 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 2019.

### 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's 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.

The consolidated and separate financial statements have been prepared for the year ended 31 December 2019 and comparatives for the period from the incorporation of the Company on 7 September 2017 to 31 December 2018.

### 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. The directors have approved the forecast for 2021 for the Group and the Company in light of COVID-19. In 2020, a new bank facility of £25 million was secured at a rate of LIBOR +4.5%. This was used to continue the expansion of the UK estate.

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 Group was generating a profit at the end of end of February 2020, before the emergence of COVID-19. A limited number of sites were operated in April, ahead of a wider re-opening in May. The Group generated a positive EBITDA from May 2020 and has continued to produce strong performance in the period since re-opening despite a second national lockdown in November 2020.

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 Group is in a net current liability position due to the working capital profile of restaurants, especially those in the expansion phase.

The directors have prepared detailed cash flow projections for the period to 31 December 2021, including sensitivity analysis on key assumptions which the directors consider to be severe but plausible in the current uncertain economic environment. The Group had cash resources of £11,273,000 at 31 December 2019. The directors have considered the assumptions made and consider the forecasts reasonable and realistic considering market and economic uncertainty. Based on these projections and current trading, and despite the ongoing risk posed by COVID-19 and its potential impact of the future profitability 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 2019, 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 2019**

## 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 period 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 period-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 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 2019**

## 3 Summary of significant accounting policies (continued)

### *3.7 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.

### *3.8 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 2019**

## 3 Summary of significant accounting policies (continued)

### 3.9 *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.

### 3.10 *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.

### 3.11 *Borrowing costs*

The costs associated with setting up the shareholder loans have been capitalised and will be amortised over the term of the loan. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### 3.12 *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.

### 3.13 *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.

### 3.14 *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.

### 3.15 *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 2019**

## 3 Summary of significant accounting policies (continued)

### *3.16 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.

### *3.17 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 a significant risk of causing 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 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. 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. Further details are available in note 20.

ii. Provision for dilapidations

Provisions for dilapidations are made in respect of leases for land and buildings where it is anticipated that a cost could arise under the leases to make good the properties. The amount provided is based on the historical costs of similar sites and where there is an intent to exit in the foreseeable future.

iii. 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% (2018: 10%) has been used to calculate the provision. An increase in WACC of 1% would decrease the provision by £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.

# Notes to the financial statements

**Year ended 31 December 2019**

## 4 Key accounting estimates and assumptions (continued)

iv. 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.

v. Fair values on acquisition of Banquets (B.K) Limited and KFG Quickserve Limited (note 31)

The fair value of assets acquired and liabilities assumed on the acquisition of Banquets (B.K) Limited and KFG Quickserve Limited involved the use of valuation techniques and estimations in regards to property-related provisions and the review of the lease portfolio.

vi. 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.

## 5 Turnover

An analysis of turnover by class of business is as follows:

| | Group 31 December 2019 £'000 | Group 31 December 2018 £'000 |
|---|---|---|
| Sale of goods | 99,939 | 90,824 |
| Franchise and related service income | 1,090 | 944 |
| | 101,029 | 91,768 |

## 6 Operating loss

Operating loss is stated after charging the following:

| | Group 31 December 2019 £'000 | Group 31 December 2018 £'000 |
|---|---|---|
| Depreciation and impairment of tangible fixed assets | 4,690 | 2,925 |
| Amortisation and impairment of intangible fixed assets | 6,817 | 6,526 |
| Movement in onerous lease and dilapidations provisions | 5,222 | 1,844 |
| Operating lease charges | 15,997 | 14,918 |
| | | |
| Fees payable to the Company's auditors: | | |
| - Audit of these financial statements | 19 | 16 |
| - Audit of the Company's subsidiaries | 197 | 197 |
| - Audit-related assurance services | 10 | 12 |
| - Other assurance services | 327 | 122 |
| - Tax advisory services | 44 | 30 |
| - Tax compliance services | 61 | 60 |
| | 658 | 437 |

# Notes to the financial statements

**Year ended 31 December 2019**

## 7 Non-operating income/(expenses)

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

| | Group 31 December 2019 £'000 | Group 31 December 2018 £'000 |
|---|---|---|
| Advertising Fund surplus/(deficit) | 592 | (1,795) |

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.

## 8 Employees

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

| | Group 31 December 2019 Number | Group 31 December 2018 Number |
|---|---|---|
| Store operations | 2,945 | 2,141 |
| Head office administration (including directors) | 92 | 55 |
| | 3,037 | 2,196 |

The aggregate payroll costs of these persons are as follows:

| | £'000 | £'000 |
|---|---|---|
| Wages and salaries | 31,465 | 28,847 |
| Social security costs | 2,460 | 2,308 |
| **Total staff costs** | 33,925 | 31,155 |

**Company**
The company had no employees during the year ended 31 December 2019 (2018: nil).

## 9 Directors' remuneration

The directors' emoluments were as follows:

| | 31 December 2019 £'000 | 31 December 2018 £'000 |
|---|---|---|
| Directors' emoluments | 1,164 | 1,303 |
| Other pension costs | 44 | 35 |

No amounts were paid to third parties for directors' services, and no retirement benefits are accruing for any of the directors.

The aggregate emoluments of the highest paid director was £531,000 (2018: £523,000).

The emoluments paid to the directors are all paid by a subsidiary undertaking and relate to services provided both to this Company and subsidiary undertakings.

# Notes to the financial statements

**Year ended 31 December 2019**

## 10 Net interest expense

| | 31 December 2019 £'000 | 31 December 2018 £'000 |
|---|---|---|
| **a. Interest receivable and similar income** | | |
| Interest on short term deposits | 49 | 9 |
| | 49 | 9 |
| **b. Interest payable and similar expenses** | | |
| Interest expense on bank loans and revolving facility | (123) | (38) |
| Interest payable on shareholder loan notes | (5,538) | (5,611) |
| Net interest expense on the defined benefit liabilities | (168) | (208) |
| Interest payable on vendor loan notes | (738) | (831) |
| | (6,567) | (6,688) |
| **c. Net interest expense** | | |
| Interest receivable and similar income | 49 | 9 |
| Interest payable and similar expenses | (6,567) | (6,688) |
| | (6,518) | (6,679) |

## 11 Tax on loss

| | 31 December 2019 £'000 | 31 December 2018 £'000 |
|---|---|---|
| **Total tax expense recognised in the profit and loss account and other comprehensive income** | | |
| *Current tax:* | | |
| Current tax on loss for the year | 3 | - |
| Total current tax | 3 | - |
| Deferred tax: | | |
| Origination and reversal of timing differences | (43) | (108) |
| Movement in unprovided deferred tax | 485 | - |
| Effect of changes in tax rates | 5 | 12 |
| Deferred tax on pension scheme liability | 58 | 75 |
| Total deferred tax | 505 | (21) |
| Tax charge/(credit) on loss and other comprehensive income | 508 | (21) |

| | 31 December 2019 | | | 31 December 2018 | | |
|---|---|---|---|---|---|---|
| | Current tax £'000 | Deferred tax £'000 | Total £'000 | Current tax £'000 | Deferred tax £'000 | Total £'000 |
| Recognised in Profit and loss account | 3 | 447 | 450 | - | (96) | (96) |
| Recognised in other comprehensive income | - | 58 | 58 | - | 75 | 75 |
| Total tax | 3 | 505 | 508 | - | (21) | (21) |

# Notes to the financial statements

**Year ended 31 December 2019**

## 11 Tax on loss (continued)

### Reconciliation of effective tax rate

The tax assessed for the period can be reconciled to the loss per the statement of comprehensive income as follow:

| | 31 December 2019 £'000 | 31 December 2018 £'000 |
|---|---|---|
| Loss before taxation | (19,611) | (19,575) |
| Tax using the UK corporation tax rate of 19% (2018: 19%) | (3,726) | (3,719) |
| Expenses not deductible for tax purposes | 2,619 | 2,725 |
| Movement in unprovided deferred tax | 1,612 | 886 |
| Income not taxable | (48) | - |
| Tax rate changes | (7) | 12 |
| Total tax charge/(credit) included in profit or loss | 450 | (96) |

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 2019 is £2,498,000 (2018: 886,000).

### 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.

## 12 Intangible assets

### Group

| | Goodwill £'000 | Franchise fees £'000 | Master Franchise and Development Agreement £'000 | Software* £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2019 | 55,118 | 2,015 | 2,198 | 1,855 | 61,186 |
| Arising on acquisition | 21,778 | 704 | - | - | 22,482 |
| Additions | - | 463 | - | 708 | 1,171 |
| **At 31 December 2019** | **76,896** | **3,182** | **2,198** | **2,563** | **84,839** |
| **Accumulated amortisation** | | | | | |
| At 1 January 2019 | (6,036) | (158) | (123) | (209) | (6,526) |
| Charge for the year | (5,779) | (111) | (108) | (705) | (6,703) |
| Impairment | (23) | (91) | - | - | (114) |
| **At 31 December 2019** | **(11,838)** | **(360)** | **(231)** | **(914)** | **(13,343)** |
| **Net book value** | | | | | |
| **At 31 December 2019** | **65,058** | **2,822** | **1,967** | **1,649** | **71,496** |
| At 1 January 2019 | 49,082 | 1,857 | 2,075 | 1,646 | 54,660 |

* Software assets include £147,000 (2018: £335,000) of assets under construction, which will come into use and start to amortise during 2020.

# Notes to the financial statements

**Year ended 31 December 2019**

## 12 Intangible assets (continued)

The amount related to the Caspian acquisition in the prior year has been updated to reflect an increase of £6,956,000 to non-controlling interest and an increase of £1,476,000 to goodwill in the current year in respect to the prior year. The difference was recorded in equity attributable to owners of the parent. The adjustment reflects 100% of the goodwill recognised at inception of the acquisition and a revaluation of the non-controlling interest. In the Group's view, the impact of this adjustment is not material.

**Company**
The Company had no intangible assets at 31 December 2019 (2018: nil).

## 13 Tangible assets

**Group**

| | Short leasehold land and buildings £'000 | Plant and machinery £'000 | Tangible assets under construction £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2019 | 2,915 | 18,009 | - | 20,924 |
| Arising on acquisition | - | 1,991 | - | 1,991 |
| Additions | 939 | 18,714 | 1,806 | 21,459 |
| Disposals | - | (173) | - | (173) |
| **At 31 December 2019** | **3,854** | **38,541** | **1,806** | **44,201** |
| **Accumulated amortisation** | | | | |
| At 1 January 2019 | (177) | (2,748) | - | (2,925) |
| Charge for the year | (128) | (3,080) | - | (3,208) |
| Impairment | (112) | (1,370) | - | (1,482) |
| Disposals | - | 137 | - | 137 |
| **At 31 December 2019** | **(417)** | **(7,061)** | - | **(7,478)** |
| **Net book value** | | | | |
| **At 31 December 2019** | **3,437** | **31,480** | **1,806** | **36,723** |
| At 1 January 2019 | 2,738 | 15,261 | - | 17,999 |

All assets are stated at cost.

**Company**
The Company had no tangible assets at 31 December 2019 (2018: nil).

## 14 Investments

**Company**

| | Shares in group undertakings £'000 |
|---|---|
| **Cost and net book value** | |
| At 31 December 2018 | 37,500 |
| Additions | - |
| **At 31 December 2019** | **37,500** |

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 33.

# Notes to the financial statements

**Year ended 31 December 2019**

## 15 Inventories

### Group

| | 31 December 2019 £'000 | 31 December 2018 £'000 |
|---|---|---|
| Raw materials and consumables | 1,193 | 721 |

Raw materials and consumables recognised as cost of sales in the Group in the year amounted to £27,947,000 (2018: £25,725,404).

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

### Company

The Company had no inventory at 31 December 2019 (2018: nil).

## 16 Debtors

| | Group 31 December 2019 £'000 | Company 31 December 2019 £'000 | Group 31 December 2018 £'000 | Company 31 December 2018 £'000 |
|---|---|---|---|---|
| Trade debtors | 2,319 | - | 2,765 | - |
| Amounts owed by group undertakings | - | - | - | 15 |
| Other debtors | 4,196 | - | 2,110 | - |
| Corporation tax | - | - | 7 | - |
| Deferred tax assets (see note 22) | 762 | - | 904 | - |
| Prepayments and accrued income | 3,716 | - | 3,947 | - |
| | 10,993 | - | 9,733 | 15 |

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.

## 17 Cash and cash equivalents

### Group

| | 31 December 2019 £'000 | 31 December 2018 £'000 |
|---|---|---|
| Cash at bank and in hand | 9,572 | 30,822 |
| Cash in transit | 1,701 | 510 |
| | 11,273 | 31,332 |

### Company

The Company had no cash and cash equivalents at 31 December 2019 (2018: nil).

# Notes to the financial statements

**Year ended 31 December 2019**

## 18 Creditors: amounts falling due within one year

| | Group 31 December 2019 £'000 | Company 31 December 2019 £'000 | Group 31 December 2018 £'000 | Company 31 December 2018 £'000 |
|---|---|---|---|---|
| Trade creditors | 11,068 | - | 11,513 | - |
| Amounts owed to group undertakings | - | 17 | - | 16 |
| Corporation tax liability | 39 | - | - | - |
| Other taxation and social security | 4,035 | - | 1,019 | - |
| Other creditors | 538 | - | 59 | - |
| Accruals and deferred income | 22,022 | - | 12,918 | - |
| | 37,702 | 17 | 25,509 | 16 |

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.

## 19 Creditors: amounts falling due after more than one year

**Group**

| | 31 December 2019 £'000 | 31 December 2018 £'000 |
|---|---|---|
| *Amounts falling due between one and five years* | | |
| Vendor loan notes payable | 9,321 | 9,321 |
| Revolving credit facility | 14,004 | - |
| | 23,325 | 9,321 |
| *Amounts falling due after more than five years* | | |
| Shareholder loan notes payable | 55,397 | 49,795 |
| | 55,397 | 49,795 |
| Total creditors falling due after more than one year | 78,722 | 59,116 |

**Shareholder loan notes**

On 16 November 2017, the Group entered into a £100,000,000 11% unsecured redeemable series A loan note agreement with its shareholder, Bridgepoint Funds. The amount drawn as at the balance sheet date is £44,750,000 (2018: £44,750,000). 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 2019 was £11,149,000 (2018: £5,611,000).

The initial issue costs of the shareholder loan notes totalled £638,000, which is being amortised over the period from drawdown of the loan to the expected maturity date. At 31 December 2019, the unamortised cost was £502,000 (2018: £566,000).

On 28 September 2018, the £44,750,000 11% unsecured redeemable series A loan note was listed on The International Stock Exchange.

**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 2019 is £93,000 (2018: £93,000). The loan is fully repayable on 16 November 2024.

# Notes to the financial statements

**Year ended 31 December 2019**

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

**Revolving credit facility**

The Group holds a £20,000,000 revolving credit facility with Natwest PLC which was secured at a rate of LIBOR +4.5%. The Group made drawdowns of £10,000,000 and £5,000,000 on 3 December 2019 and 23 December 2019 respectively. As at 31 December 2019, £15,000,000 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 2019 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 2019, the unamortised cost was £996,000.

**Company**

The Company had no creditor amounts due after more than one year at 31 December 2019 (2018: nil).

## 20 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 £276,000 (2018: £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 2019. The estimate is based on the data and results of the valuation as at 31 December 2018 and updated to 31 December 2019 by a qualified independent actuary.

| | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| **Amounts recognised in the consolidated balance sheet*:** | | |
| Defined benefit obligation | (18,279) | (16,641) |
| Fair value of scheme assets | 12,584 | 10,897 |
| Net defined benefit liability | (5,695) | (5,744) |

*Note: before deferred tax considerations

| | | |
|---|---|---|
| **Changes in the present value of scheme liabilities are as follows:** | | |
| Opening defined benefit obligation | (16,641) | (18,290) |
| Interest cost | (475) | (513) |
| Actuarial (losses)/gains | (1,666) | 1,188 |
| Benefits paid | 503 | 974 |
| Closing defined benefit obligation | (18,279) | (16,641) |

| | | |
|---|---|---|
| **Changes in the fair value of scheme assets are as follows:** | | |
| Opening fair value of scheme assets | 10,897 | 12,100 |
| Interest income on scheme assets | 307 | 305 |
| Return on scheme assets excluding interest income/(expense) | 2,009 | (587) |
| Contributions by employer | 276 | 299 |
| Benefits paid | (503) | (974) |
| Scheme administration expenses | (402) | (246) |
| Closing fair value of scheme assets | 12,584 | 10,897 |

| | | |
|---|---|---|
| **Amounts recognised in the consolidated profit and loss account:** | | |
| Scheme administration expenses | (402) | (246) |
| Net interest on the defined benefit liability | (168) | (208) |
| Total expense recognised in the profit and loss account | (570) | (454) |

# Notes to the financial statements
**Year ended 31 December 2019**

## 20 Post-employment benefits (continued)

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| **Amounts recognised in the consolidated statement of comprehensive income:** | | |
| Actuarial (losses)/gains | (1,666) | 1,188 |
| Return on scheme assets excluding interest income/(expense) | 2,009 | (587) |
| Total gains recognised in other comprehensive income | 343 | 601 |

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| **Breakdown of value of assets at end of the year:** | | |
| Global Equities | - | 6,420 |
| Fixed Interest Gilts | - | 2,838 |
| Corporate Bonds | - | 1,422 |
| Index Linked Gilts | - | 39 |
| UK equity-linked bonds | 239 | - |
| Overseas equity-linked bonds | 3,371 | - |
| Diversified growth funds | 4,233 | - |
| Absolute return bonds | 1,379 | - |
| Diversified alternatives | 1,238 | - |
| LDI | 2,067 | - |
| Cash and cash equivalents | 57 | 178 |
| Total value of assets at end of the year | 12,584 | 10,897 |

The Scheme completed the implementation of a new investment strategy in February 2019. As such, the allocation of funds into asset classes is not consistent to the prior year-end.

| | 2019 £'000 | 2018 £'000 |
|---|---|---|
| **Sensitivity of the scheme liabilities to change in the principal actuarial assumptions:** | | |
| Scheme liabilities as at 31 December | 18,279 | 16,641 |
| 0.25% increase in discount rate | 17,439 | 15,953 |
| 0.25% decrease in discount rate | 19,176 | 17,373 |
| 0.25% increase in price inflation (and associated assumptions) | 18,887 | 17,073 |
| 0.25% decrease in price inflation (and associated assumptions) | 17,808 | 16,228 |
| 1 year increase in life expectancy | 18,880 | 17,075 |

# Notes to the financial statements

**Year ended 31 December 2019**

## 20 Post-employment benefits (continued)

**Principal actuarial assumptions at the balance sheet date:**

| | 2019 | 2018 |
|---|---|---|
| | % | % |
| Discount rate | 2.10 | 2.90 |
| Future salary growth | n/a | n/a |
| RPI inflation | 2.90 | 3.10 |
| Pension increases in payment: | | |
| - RPI max 5% | 2.85 | 3.00 |
| - RPI max 2.5% | 2.10 | 2.05 |
| Mortality | 90% S2PXA base tables, CMI 2018 improvements, long-term trend rate of 1.25% and smoothing parameter of 7.0 and initial addition parameter of 0.0 | 90% S2PXA base tables, CMI 2017 improvements, long-term trend rate of 1.25% and smoothing parameter of 7.5 |

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

| | 2019 | 2018 |
|---|---|---|
| *Retiring today:* | | |
| Males | 22.3 years | 22.7 years |
| Females | 24.2 years | 24.1 years |
| *Retiring in 20 years:* | | |
| Males | 23.6 years | 24.6 years |
| Females | 25.7 years | 26.2 years |
| Cash commutation | 90% of members assumed to exchange pension for maximum cash using current cash commutation factors | 90% of members assumed to exchange pension for maximum cash using current cash 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 2019 and liabilities are calculated using the projected unit method. The actuary estimates the Scheme deficit at 31 December 2019 to be approximately £5,695,000 (2018: £5,744,000), 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 £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 2019 (2018: nil).

# Notes to the financial statements

**Year ended 31 December 2019**

## 21 Provision for other liabilities

**Group**

The Group had the following provisions during the year:

| | Onerous leases £'000 | Dilapidations £'000 | Total £'000 |
|---|---|---|---|
| At 31 December 2018 | 4,812 | 702 | 5,514 |
| Arising on acquisition (Note 31) | 5,946 | 525 | 6,471 |
| Additions via profit and loss | 1,329 | 454 | 1,783 |
| Amounts utilised | (1,790) | (12) | (1,802) |
| Unused amounts reversed to the profit and loss account | (1,135) | (60) | (1,195) |
| **At 31 December 2019** | **9,162** | **1,609** | **10,771** |

*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 2019 (2018: nil).

## 22 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

| | Group 31 December 2019 £'000 | Company 31 December 2019 £'000 | Group 31 December 2018 £'000 | Company 31 December 2018 £'000 |
|---|---|---|---|---|
| Fixed asset timing differences | (279) | - | (77) | - |
| Other timing differences | 1,041 | - | 981 | - |
| **Net deferred tax assets** | 762 | - | 904 | - |

# Notes to the financial statements
**Year ended 31 December 2019**

## 23 Financial instruments

The carrying amounts of the financial assets and liabilities include:

| | Group 31 December 2019 £'000 | Company 31 December 2019 £'000 | Group 31 December 2018 £'000 | Company 31 December 2018 £'000 |
|---|---|---|---|---|
| *Financial assets measured at amortised cost* | | | | |
| Cash and cash equivalents | 11,273 | - | 31,332 | - |
| Amounts owed by group undertakings | - | - | - | 15 |
| Trade debtors | 2,319 | - | 2,765 | - |
| Other debtors | 4,196 | - | 2,110 | - |
| Total financial assets | 17,788 | - | 36,207 | 15 |
| *Financial liabilities measured at amortised cost* | | | | |
| Trade creditors | (11,068) | - | (11,513) | - |
| Other creditors | (538) | - | (59) | - |
| Accruals | (20,830) | - | (11,858) | - |
| Amounts owed to group undertakings | - | (17) | - | (16) |
| Shareholder loan notes | (55,397) | - | (49,795) | - |
| Vendor loan notes | (9,321) | - | (9,321) | - |
| Revolving credit facility | (15,000) | - | - | - |
| Total financial liabilities | (112,154) | (17) | (82,546) | (16) |
| **Net financial (liabilities)/assets** | (94,366) | (17) | (46,339) | (1) |

## 24 Operating leases

### Group
The Group's future minimum lease payments under non-cancellable operating leases are as follows:

| | 31 December 2019 £'000 | 31 December 2018 £'000 |
|---|---|---|
| Less than one year | 14,578 | 9,031 |
| Between one and five years | 45,247 | 28,629 |
| More than five years | 74,944 | 45,118 |
| | 134,769 | 82,778 |

During the year, £15,997,000 was recognised as an expense in the Group profit and loss account in respect of operating leases (2018: £14,918,000).

### Company
The Company had no operating leases as at 31 December 2019 (2018: nil).

# Notes to the financial statements

**Year ended 31 December 2019**

## 25 Share capital and other reserves

| | Number 31 December 2019 | £ 31 December 2019 | Number 31 December 2018 | £ 31 December 2018 |
|---|---|---|---|---|
| **Allotted, called up and fully paid:** | | | | |
| Ordinary A1 shares of £0.01 each | 82,808 | 829 | 82,808 | 829 |
| Ordinary B1 shares of £0.04 each | 6,000 | 240 | 6,000 | 240 |
| Ordinary B2 shares of £0.001 each | 11,054 | 11 | 9,472 | 9 |
| Priority shares of £0.000001 each | 37,417,192 | 37 | 37,417,192 | 37 |
| | 37,517,054 | 1,117 | 37,515,472 | 1,115 |

On 6 December 2019, the Company issued 1,582 B2 Ordinary shares for a subscription price of £0.001 per share.

There are four classes of shares:

- A1 Ordinary shares have attached to them full voting and dividend rights, full capital distribution (including on winding up) rights after any payments have been made to the holders of the priority shares, and do not confer any rights of redemption.
- B1 Ordinary shares have attached to them full dividend rights, full capital distribution (including on winding up) rights after any payments have been made to the holders of the priority shares, and do not confer any rights of redemption. The holders of the shares have four votes for each share held by them.
- B2 Ordinary shares have attached to them full dividend rights, full capital distribution (including on winding up) rights after any payments have been made to the holders of the priority shares, and do not confer any voting rights or rights of redemption.
- Priority shares have attached to them full capital distribution (including on winding up) rights after any payments have been made to the holders of other classes of other shares, do not have the right to participate in distributions made to other classes of shares and no automatic right to any other dividend or distribution in preference to any other class of share. However, the Board, with investor consent, may determine to distribute any available profits amongst the holders of the priority shares up to an amount equal to the aggregate of the priority amounts attributable to all priority shares as at the date of the distribution. They do not confer any voting rights or rights of redemption.

### Share premium account

| | Group 31 December 2019 £'000 | Company 31 December 2019 £'000 |
|---|---|---|
| Opening share premium account | 37,514 | 37,514 |
| Additions | 2 | 2 |
| **Closing share premium account** | 37,516 | 37,516 |

### Dividends

No dividends were paid for the year ended 31 December 2019 (2018: nil).

# Notes to the financial statements

**Year ended 31 December 2019**

## 26 Notes to the consolidated cash flow statement

| | 31 December 2019 £'000 | 31 December 2018 £'000 |
|---|---|---|
| Loss for the financial year | (20,061) | (19,479) |
| *Adjustments for:* | | |
| Tax on loss | 450 | (96) |
| Net interest expense | 6,518 | 6,679 |
| Depreciation, amortisation and impairment | 11,507 | 9,451 |
| Decrease/(increase) in trade and other debtors | 21,754 | (4,779) |
| (Increase) in inventories | (91) | (75) |
| (Decrease)/increase in trade and other creditors | (14,847) | 9,527 |
| (Decrease) in provisions and employee benefits | (4,228) | (1,894) |
| **Cash flow generated from / (used in) operating activities** | 1,002 | (666) |

## 27 Contingent liabilities

There were no contingent liabilities at year-end (2018: nil).

## 28 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.

***Bridgepoint Loan Notes***

On 16 November, the Group entered into a £100,000,000 11% unsecured redeemable series A loan note with Bridgepoint Funds. The amount drawn as at the balance sheet date is £44,750,000 (2018: £44,750,000). In addition, interest has been capitalised into the principal of the loan notes at 31 December 2019 of £11,149,000 (2018: £5,611,000).

***Transactions with Bridgepoint***

Monitoring fees of £150,000 (2018: 150,000) due to Bridgepoint Advisers Limited were incurred during the financial year and £19,000 (2018: £19,000) remains outstanding at the balance sheet date.

***Transactions with Bridgepoint portfolio companies***

Pepco Services LLP completed cost reduction projects on behalf of the Group for £380,000 (2018: 50,000) and £150,000 (2018: nil) remains outstanding at the balance sheet date.

***Transactions with Burger King Europe***

Royalty and franchise opening fees of £5,162,000 (2018: 4,001,000) due to Burger King Europe were incurred during the financial year and £80,000 (2018: 88,000) remains outstanding at the balance sheet date.

***Transactions with key management personnel***

During the year, the Group incurred £29,000 (2018: £4,000) of consultancy fees from The London Larder Company Limited, a company partly owned by AD Murdoch, a director of the Company. This amount was settled during the financial year and no amounts are outstanding as at the balance sheet date.

See note 8 for disclosure of the directors' remuneration and key management compensation.

# Notes to the financial statements

**Year ended 31 December 2019**

## 29 Controlling party

**Group and Company**

Royale Topco Limited is a limited company incorporated in England and Wales and the largest group for which consolidated financial statements are prepared.

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 2019, the directors consider the Company's ultimate controlling party to be Bridgepoint Group Limited.

## 30 Events after the reporting period

**Group and Company**

The COVID-19 pandemic has developed rapidly in 2020. Measures taken by the government to contain the virus have affected economic activity and the Group's business in various ways:

- Temporary closures of all restaurants following the first lockdown in March 2020
- Restricted ability to trade after re-opening, including a limit on customers' ability to dine inside restaurants
- Delayed the new site roll-out initially planned during 2020

However, since re-opening in April, the Group has achieved strong results driven by operational efficiencies and a resilient drive through estate, whilst benefitting from various government support schemes including reduction in VAT rates, business rates relief and the job retention scheme.

At the date of approval of these financial statements, the business has recovered significantly and the overall impact to date has not been significant, and the directors expect this to remain the case. We will continue to follow the various government policies and advice and, in parallel, we will do our utmost to continue our operations in the best and safest way possible without jeopardising the health of our people.

As of the balance sheet date it was not known how severe the economic impact of COVID-19 would be as the vast majority of cases were then in Asia, where the Group currently has no operations. Based on this, in accordance with FRS 102 paragraph 32, the Directors concluded the pandemic is a non-adjusting post balance sheet event. As a result of this, no adjustments to amounts recognised in the financial statements have been made for the impact of COVID-19. However, the Directors expect that property provisions and impairment assessments may be impacted in the future.

On 4 May 2020, Natwest PLC created a fixed and floating charge against the Group in respect of the revolving credit facility held by BKUK Group Limited, which requires the Group to comply with financial covenants.

# Notes to the financial statements

**Year ended 31 December 2019**

## 31 Business combinations

**Group**

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

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

The goodwill of £7,129,000 arising from the acquisition is attributable to the acquired customer base and economies of scale expected from combining the operations in the Group and its expansion plans.

Management have estimated the useful life of the goodwill to be 10 years.

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

| **Consideration at 27 November 2019** | **£'000** |
|---|---|
| Cash | 8,518 |
| Directly attributable costs | 445 |
| Total consideration | 8,963 |

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

| | **£'000** |
|---|---|
| Consideration | 8,963 |
| Less: cash and cash equivalents acquired | (999) |
| Net cash outflow | 7,964 |

| **Recognised amounts of identifiable assets acquired and liabilities assumed** | Note | **£'000** Book value | **£'000** Adjustments | **£'000** Fair value |
|---|---|---|---|---|
| Tangible assets | (a) | 802 | (705) | 97 |
| Intangible assets | (b) | 101 | 87 | 188 |
| Cash | | 999 | - | 999 |
| Inventories | | 80 | - | 80 |
| Trade and other receivables | | 2,886 | - | 2,886 |
| Trade and other payables | (c) | (1,374) | (536) | (1,910) |
| Provisions | (d) | - | (430) | (430) |
| Deferred tax liabilities | (e) | (62) | (14) | (76) |
| Total identifiable net assets | | 3,432 | (1,598) | 1,834 |
| Goodwill | | | | 7,129 |
| **Total consideration** | | | | 8,963 |

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

a. An impairment charge in respect of leasehold and plant across the acquired estate.
b. An assessment of the market value of the existing franchise fee agreements for acquired sites. The adjustments include an impairment analysis of the acquired franchise fees and an assessment of the market value of the existing franchise fee agreements for acquired sites.
c. An assessment of the market value of the acquired leases.
d. A provision for onerous leases and dilapidations relating to the acquired portfolio.
e. Deferred tax adjustment arising as a result of the acquisition adjustments.

# Notes to the financial statements

**Year ended 31 December 2019**

## 31 Business combinations (continued)

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

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

The goodwill of £14,649,000 arising from the acquisition is attributable to the acquired customer base and economies of scale expected from combining the operations in the Group and its expansion plans.

Management have estimated the useful life of the goodwill to be 10 years.

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

| **Consideration at 30 December 2019** | **£'000** |
|---|---|
| Cash | 5,783 |
| Directly attributable costs | 427 |
| Total consideration | 6,210 |

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

| | **£'000** |
|---|---|
| Consideration | 6,210 |
| Less: cash and cash equivalents acquired | (1,505) |
| Net cash outflow | 4,705 |

| **Recognised amounts of identifiable assets acquired and liabilities assumed** | Note | **£'000** Book value | **£'000** Adjustments | **£'000** Fair value |
|---|---|---|---|---|
| Tangible assets | (a) | 3,753 | (1,859) | 1,894 |
| Intangible assets | (b) | 370 | 146 | 516 |
| Cash | | 1,505 | - | 1,505 |
| Inventories | | 302 | - | 302 |
| Trade and other receivables | | 1,503 | - | 1,503 |
| Trade and other payables | (c) | (4,292) | (4,266) | (8,558) |
| Provisions | (d) | (35) | (6,006) | (6,041) |
| Deferred tax liabilities | (e) | 485 | (45) | 440 |
| Total identifiable net liabilities | | 3,591 | (12,030) | (8,439) |
| Goodwill | | | | 14,649 |
| **Total consideration** | | | | **6,210** |

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

a. An impairment charge in respect of leasehold and plant across the acquired estate.
b. An assessment of the market value of the existing franchise fee agreements for acquired sites. The adjustments include an impairment analysis of the acquired goodwill and franchise fees, and an assessment of the market value of the existing franchise fee agreements for acquired sites.
c. An assessment of the market value of the acquired leases.
d. A provision for onerous leases and dilapidations relating to the acquired portfolio.
e. Deferred tax adjustment arising as a result of the acquisition adjustments.

# Notes to the financial statements

**Year ended 31 December 2019**

## 32 Non-controlling interests

The movement in non-controlling interests was as follows:

| | £'000 |
|---|---|
| At 31 December 2018 | (3,870) |
| Adjustment to non-controlling interest arising on business acquisition* | 6,956 |
| Total comprehensive income attributable to non-controlling interests | (2,855) |
| **At 31 December 2019** | **231** |

* The amount related to the Caspian acquisition in the prior year has been updated to reflect an increase of £6,956,000 to non-controlling interest and an increase of £1,476,000 to goodwill in the current year in respect to the prior year. The difference was recorded in equity attributable to owners of the parent. The adjustment reflects 100% of the goodwill recognised at inception of the acquisition and a revaluation of the non-controlling interest. In the Group's view, the impact of this adjustment is not material.

## 33 Subsidiaries and related undertakings

The list of subsidiaries is as follows:

| Name | Address of the registered office | Nature of business | Interest |
|---|---|---|---|
| Royale Midco Limited* | 5 New Street Square, London, EC4A 3TW | Holding company | 100% ordinary shares |
| Royale JVC Limited | 5 New Street Square, London, EC4A 3TW | Holding company | 87.25% ordinary shares |
| Royale Interco Limited | 5 New Street Square, London, EC4A 3TW | Holding company | 87.25% ordinary shares |
| BKUK Group Limited | 5 New Street Square, London, EC4A 3TW | Holding company | 87.25% ordinary shares |
| BKUK Devco Limited | 5 New Street Square, London, EC4A 3TW | Retailer | 87.25% ordinary shares |
| Royale Bidco Limited | 5 New Street Square, London, EC4A 3TW | Holding company | 87.25% ordinary shares |
| Caspian Food Retailers Limited | 5 New Street Square, London, EC4A 3TW | Retailer | 87.25% ordinary shares |
| Caspian Food Services Limited | 5 New Street Square, London, EC4A 3TW | Retailer | 87.25% ordinary shares |
| Westside Express Limited** | 5 New Street Square, London, EC4A 3TW | Retailer | 87.25% ordinary shares |
| Gowrings Pension Trustee Company Limited | 5 New Street Square, London, EC4A 3TW | Dormant company | 87.25% ordinary shares |
| BKUK Bristol Limited | 5 New Street Square, London, EC4A 3TW | Retailer | 87.25% ordinary shares |
| BKUK Flame Limited | 5 New Street Square, London, EC4A 3TW | Retailer | 87.25% ordinary shares |

* This entity is owned directly by Royale Topco Limited.

** This entity has been dormant since 1 January 2020.