

Virgin Wines UK plc

("Virgin Wines", the "Company" or the "Group")

AUDITED ANNUAL RESULTS FOR THE YEAR ENDED 30 JUNE 2021

Strong growth across all sales channels

Virgin Wines UK plc (AIM: VINO), one of the UK's largest direct-to-consumer online wine retailers, today announces its audited Annual Results for the year ended 30 June 2021 ("FY21").

Financial highlights

- Group revenue increased 30% to £73.6m (FY20: £56.6m)
 - Second consecutive year of >30% revenue growth
 - Revenue increased 73% from FY19
 - Growth driven by strong levels of customer demand, increased investment in customer acquisition and strong customer loyalty
- Revenue growth consistent across all sales channels and business segments in FY21
 - Repeat direct-to-consumer (D2C) revenues up 31.5%
 - Commercial revenue up 72.8%
 - Gift revenue up 75%
- Sales retention rate⁽²⁾ of 113% (FY20: 112%), showing strong levels of customer loyalty
- Gross profit margin of 31.6% (FY20: 30.3%)
 - 1.3ppt increase driven by increased proportion of repeat D2C sales as a percentage of total revenue
- Adjusted EBITDA⁽¹⁾ of £7.0m (FY20: £4.8m)
 - Represents an adjusted EBITDA margin of 9.5%
- Profit before tax and exceptional items increased 86% £5.2m
- Robust balance sheet with net cash of £5.1m⁽³⁾ as at 30 June 2021
 - Continued high rates of cash conversion and a tightly managed balance sheet

(1) Earnings before interest, tax, depreciation and amortisation adjusted for non-recurring IPO listing fees

(2) year-on-year percentage change in revenue delivered by all customer cohorts prior to the current financial year

(3) excludes WineBank customer balances of £7.3m

| | FY21 audited £m | FY20 unaudited £m |
|--------------------------------|--------------------------------|----------------------------------|
| Revenue | 73.6 | 56.6 |
| Adjusted EBITDA ⁽¹⁾ | 7.0 | 4.8 |
| Operating profit | 2.6 | 4.1 |
| Profit before tax | 1.7 | 2.8 |
| Profit for the period | 0.7 | 2.6 |

Strategic highlights

- Active customer base increased 24%, with all core trading channels seeing substantial year-on-year growth
 - WineBank customer base increased 22%
 - Wine Plan customer base increased 16%
 - Pay As You Go customer base increased 51%
- A continued focus on innovative packaging and exciting new partnerships including a first of its kind partnership with Moonpig plc
- Significant headway in developing adjacent offerings in the craft beer and quality spirit markets, with revenue up 97.5% in FY21
- Continuing to deliver the highest levels of customer service – 'Excellent' rating on Trustpilot and NPS score of 49

Current trading and outlook

As we enter FY22, the Company continues to achieve positive year-on-year trends resulting in Q1 2022 sales up 13.3% and the number of new customers acquired up 10.7% year-on-year. This all comes despite the end of lockdowns and the return to full operational capability of on-trade hospitality, highlighting the continued support from customers acquired over the lockdown period as well as a continued appetite from new potential customers to venture into the online wine and subscription-based markets for the first time.

The Company is aware of the many supply chain issues that are providing businesses globally with operational challenges and cost inflation, and took the decision to stock up for the key Christmas trading period last year well in advance to mitigate any issues around lack of stock availability. The Company remains confident that it is well placed to continue to supply its customers with a full range of wines, beers and spirits from around the world.

Despite these wider economic challenges, with consumer demand still buoyant and our stock levels in excellent shape, the Board remains optimistic and excited about the year ahead. The Group continues to trade in line with management expectations for FY22.

Jay Wright, Chief Executive Officer, said:

"FY21 has been a transformational year for the Group, starting a new chapter on the public markets and emerging in a stronger financial position. I would again like to wholeheartedly thank everyone across the business for their continued commitment and support, particularly in such an unprecedented time. We have made a number of changes to the way we work together as a business to ensure we serve our customers efficiently, and our teams have shown great skill and adaptability, while keeping each other safe.

Our focus this year has been on acquiring increased numbers of new customers, converting them to become long-term advocates of Virgin Wines, whilst maximising the loyalty of our existing customers, and in turn, driving growth in our overall customer base. I am delighted that all of these objectives were met and that all our core trading channels have seen substantial year-on-year growth. We have also seen substantial growth in our gift and commercial channels, made significant headway in developing our craft beer and quality spirit offerings, all whilst continuing to deliver the very highest levels of customer service.

Following this milestone year, I look forward to working with our stakeholders over the coming 12 months to maintain this exciting momentum and drive the business further towards achieving its significant potential. Whilst we remain mindful of the potential impact from the easing of lockdown restrictions on consumer spending patterns, recent customer retention data has proven promising and we are confident that Virgin Wines, underpinned by underlying, subscription-weighted growth drivers, its strong brand and unique customer proposition remains well placed to take advantage of future consumer trends."

A presentation to investors will be hosted by Chief Executive Jay Wright and Chief Financial Officer Graeme Weir via conference call at 4.30pm on Thursday 28 October 2021. Register via the following link to view the webcast: <https://www.investormetcompany.com/virgin-wines-uk-plc/register-investor>

A recording will be made available on the website shortly after the call.

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Enquiries:

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Notes to editors:

Virgin Wines is one of the UK's largest direct-to-consumer online wine retailers. It is an award-winning business which has a reputation for supplying and curating high quality products, excellent levels of customer service and innovative ways of re-tailing.

Chairman's Statement

FY21 Summary

The 2021 financial year was a transformational one for Virgin Wines during which we became a public company, representing an exciting new chapter in the Group's long-term development.

As a result of the IPO, for which we received strong support from a host of high-quality institutional investors, the Company raised gross proceeds of £13m. The fundraise has empowered the Company to execute on its ambitious growth plans and to continue to take market share in the large and growing online wine, spirits and beer markets.

Throughout the year, the Group experienced strong levels of customer demand for its product offering, in part driven by an accelerated shift in consumer behaviour towards online retailing as a result of the Covid-19 pandemic alongside increased digital marketing activity and capitalising on the underlying growth drivers across the direct-to-consumer wine sector. Our strong sales, taken together with high rates of cash conversion and a tightly managed balance sheet, means the Company emerges from this year significantly stronger than when it went in.

Group revenue for the 12 months to 30 June 2021 was £73.6m, a 30% increase compared to the prior year. This is the second year in succession in which we have now seen over 30% growth. Adjusted EBITDA was up 46% to £7.0m and the Group saw an improvement in its adjusted EBITDA margin to 29.5%. We were pleased also to see strong order frequency amongst our existing customers.

Environment, Social and Governance

ESG is an important driver of our business. It informs our culture, our strategy and our stakeholder engagement. We are committed to operating an ethical, transparent business, delivering value for all stakeholders in line with our long-term growth strategy. It is of the utmost importance to us that every wine we sell is, from grape to glass, created and delivered to customers' homes in a way that we are proud of.

At the IPO, Virgin Wines was delighted to announce the appointments of Helen Jones, Sophie Tomkins and Ed Wass as Non-Executive Directors as it strengthened its Board of Directors. Helen has more than 35 years' experience in the food and beverage sector, having held previous roles as Group Executive Director at Caffè Nero, Managing Director at Zizzi, as well as spending nine years at Unilever. Sophie has extensive public markets experience gained through nearly two decades at London-based stockbrokers, having previously held the role of Head of Equities at Fairfax plc and has also held roles at Collins Stewart and Cazenove & Co. Ed sat on the Virgin Wines Board pre-IPO and now represents Gresham House Asset Management Limited in its position as shareholder.

I would like to officially welcome our new Board colleagues and thank them for their valuable contribution to the Group as it continues on its journey as a listed company.

The Group has chosen to apply the QCA Corporate Governance Code (QCA Code) as the most appropriate for our size and structure. We have complied with the principles of the QCA Code since adoption.

The Virgin Wines Community

Over the past 18 months, the Covid-19 pandemic disrupted the lives of all the Group's stakeholders. I would like to thank our colleagues for their continued hard work, our customers for their loyalty, and our partners for their collaboration throughout this challenging time.

The skill, flexibility and, above all, dedication of the Virgin Wines team has been highlighted during this period characterised by disruption to the ways we work and interact. We have made a number of changes to the way we work together as a business to ensure that we can continue to serve our customers efficiently while keeping our people safe. We are hopeful, however, that with the successful roll-out of the UK vaccination programme, our people and our customers can return to normal ways of living and working in the near future.

Outlook

The current year has got off to a good start. Despite the ending of Covid-19 related restrictions, and therefore a fully operational hospitality sector, revenue for the Group was up 13.3% year-on-year for the first quarter (1 July to 30 September) whilst the number of new customers acquired also delivered a 10.7% year-on-year increase.

The direct-to-consumer wine sector is a large, addressable market and is buoyed by multiple positive consumer trends. These trends include an increasing shift towards premiumisation in the alcoholic beverage market, consumers increasingly purchasing alcohol online and increasing consumer spend on food and drink based subscriptions.

Whilst the Board remains mindful of the potential impact from the easing of lockdown restrictions on consumer spending patterns, I am confident that Virgin Wines, underpinned by underlying growth drivers, its strong brand and unique

customer proposition as well as its growing, subscription-weighted customer base, remains well placed for the future.

JOHN RISMAN

Chairman

Chief Executive's Review

Our passion pairs well with our strategy for growth

Last year was a highly eventful period for the business. The year was punctured with both national and regional lockdowns which, for us along with many other e-commerce businesses, caused a noticeable uptick in sales as customers remained at home. We also saw a continuation of macro-trends which directly benefited the off-trade wine specialists such as ourselves, including customers increasingly purchasing alcohol online as well as the growth in popularity of food and drink subscriptions. In addition, we completed a highly successful IPO in March 2021, listing on AIM and raising £13m of gross proceeds.

Business Overview

The past two years have seen a marked period of growth for the business. Back in July 2019, at the start of FY20 and following a period of transition within our customer base, we made the strategic decision to increase our investment in customer acquisition, delivering double-digit growth. In March 2020, when Covid-19 and the subsequent lockdowns struck, we saw a step-change in consumer behaviour, with substantial additional traffic driven to direct-to-consumer businesses.

This last financial year has seen a further acceleration of this growth, and whilst we fully appreciate the unique circumstances the country has seen itself in, and the benefits this has delivered to businesses in the direct-to-consumer sectors, we are also encouraged that the foundations that were laid to deliver this growth have allowed it to be delivered in a profitable and sustainable fashion. Customers who have experienced the benefits of buying wine online – quality, price, range and service – have formed habits which we believe will be maintained in the long term and will lead to further online penetration in the sector.

During FY21 we sold over one million cases and served over 250,000 customers. Our revenue growth of 73% over the past two years has significantly increased market share whilst also driving adjusted EBITDA up 163% to £7.0m from £2.6m over the same period. We also increased our customer base by 24% during the year and by 44% since January 2020.

As well as delivering against our financial objectives we also achieved significant progress against our strategic goals. Over the period we saw substantial growth in our gift and commercial channels, significant headway made in developing our craft beer and quality spirit offerings, all whilst continuing to deliver the very highest levels of customer service to our customers.

This was all achieved whilst keeping the welfare of our people as our priority and supporting them through what was a challenging time for many, both personally and professionally.

Core Sales

During the past year the business has been focused on acquiring increased numbers of new customers, converting them into becoming long-term advocates of Virgin Wines, whilst maximising the loyalty of our existing customers, and in turn, driving growth in our overall customer base. I am delighted that all of these objectives were met and that all our core trading channels, from email to Wine Advisors, Wine Plan to web, have seen substantial year-on-year growth.

The sales channels have been supported superbly across the business in a number of ways. We have delivered very high levels of customer service, ensuring an 'Excellent' rating on Trustpilot. We have also focused on continuing to develop and improve our wine offering, resulting in an average customer rating of 4.2 out of 5 from over 120k reviews, and we have invested heavily in both our operational capacity and our digital marketing.

Our Consumer Propositions

Fundamental to the ongoing success of the business is the popularity of the different services we offer our customers, and I am delighted that all our customer groups demonstrated pleasing growth during FY21.

Our WineBank customers are our most active and most loyal, so we were delighted to deliver a 22% increase in the WineBank membership, growing it to over 120k in total. Our Wine Plan schemes also continued to be popular, with our Discovery Wine Club the key driver of sales in this area and the membership of the active 1-12 month base having increased 16% to just over 19k customers. Our Pay As You Go customers, who prefer to use our services without being part of a subscription scheme, grew by 51%, driven by large numbers of walk-up and digital traffic in the early months of lockdown. Conversion rates on these customers in FY21 were extremely positive, giving a substantially increased active base.

Finally, the popularity of our Wine Advisor service continues to increase, with 45k customers now enjoying the one-to-one attention of their own personal wine expert to help them through every step of their relationship with Virgin Wines.

Our Wine Sourcing Model

We operate a unique wine buying model where we source our wine from a large network of trusted long-term winemaking partners and suppliers using an open-source supply model. This means we can source the best quality grapes from every region of every country for every vintage. This ensures that we are able to deliver the very best value wines to our customers, which we blend to match their stylistic preferences through the constant use of data and analytics from over 100k customer reviews, to curate a range of premium quality, exclusive wines.

Gifts

It has been a particularly successful year for our gift channel with sales 75% ahead year-on-year. It is also pleasing to see habits that were formed during lockdown being maintained since. Having first launched our gift service in 2015, we have seen consistent year-on-year growth as innovative new product developments, such as our ground-breaking wine, gin and beer advent calendars and our prosecco, wine and G&T Christmas Crackers, have driven engagement and increased interest. We have also launched a gift reminder service over the past year to help customers remember important forthcoming occasions and we continue to drive incremental volume through our partnership with Amazon.

Commercial

The corporate B2B sales channel within our business has developed over the past year to take on a full commercial scope delivering much more than just corporate gift solutions. As the department has grown, so have the opportunities, with the variety of services the team now provides. These range from wholesale relationships with travel operators (LNER and Avanti) and wine and gift range initiatives with other retailers (Shop Direct), through to large-scale promotions to drive significant new customers for key partners (Virgin Money) and more traditional one-off gift solutions to reward other companies' staff, customers or suppliers.

Sales grew by 73% year-on-year despite much of the year being negatively affected through limited opportunities with our holiday, travel and leisure partners with new opportunities being developed to more than replace the shortfall through these sectors.

Beers and Spirits

A new initiative in FY20, our move into the adjacent product categories of craft beers and quality spirits virtually doubled in sales volume during FY21 with revenue up 98% year-on-year. Key to the future growth and profitability of these product ranges is the replication of our wine sourcing model where we work hand-in-hand with some of the best brewers and distillers around the world to develop an exclusive range that delivers increased quality/value ratios to our customers while increasing loyalty to drive future purchases. It also drives incremental margin by cutting out all the agencies, wholesalers and marketing/advertising costs of the brand owners to ensure every penny is spent on delivering the best taste profiles at the most competitive prices.

Operational Review

One of the most challenging areas of the business during FY21 was our warehouse and fulfilment operations. Our priority throughout the year was, and continues to be, the safety, the working conditions and the wellbeing of our people. This involved a complete change in processes for picking and packing and I am incredibly proud that we adapted so quickly to ensure customers continued to receive the very highest service standards, which they have been so used to receiving over the years.

The growth in our volumes led to the urgent requirement for additional warehouse capacity and we were delighted to secure an additional 50,000 sq ft of fully bonded warehouse in September 2020. Without the addition of this space, it would have been impossible to service our customers so brilliantly throughout the peak Christmas trading period, a non-negotiable for us given our laser-like focus on exceptional service levels. The fact the warehouse was fully operational, bonded and working efficiently within three months of the original viewing says much of the urgency and expertise of the team delivering the project.

It would be wrong not to thank our partners at DHL who throughout FY21 worked tirelessly with us to ensure our customers continued to receive fast, safe and effective deliveries all over the UK, even as they were also going through significant operational challenges.

Market Opportunity

The size of the UK direct-to-consumer wine market is estimated at approximately £750m, of which Virgin Wines has approximately 10% market share. We believe that the market will increase due to multiple consumer factors such as premiumisation, the increase in online buying patterns and the increased popularity in subscription schemes. Furthermore, with our continued focus on customer acquisition, we hope to continue to grow our market share. We also have a huge untapped opportunity in the craft beer and spirit segments of the market.

Our Culture and Values

Throughout the challenges of FY21, it has been more apparent than ever how important it is to be a business with a clear purpose and shared values. Virgin Wines has been built with the overarching ambition of making people's lives more enjoyable, and we have been proud to be able to bring some happiness into people's lives over a period where many were finding that hard to come by. We also know how important it is for customers to enjoy alcohol in moderation and we pushed our messaging that 'Drinking is only fun when you don't overdo it' with a greater intensity than ever before.

The strong culture within Virgin Wines has ensured our team have helped and supported each other, as well as our customers and winemaking partners, through this past year where our values such as 'We Are Family', 'Heartfelt Service' and 'Smart Disruption' have been more appropriate than ever.

Our People

Across all businesses and walks of life, many individuals have found the past year as challenging as any in recent memory. I couldn't be prouder of the way our teams, right across the business, were able to adapt to very different working environments and significantly increased volumes, all the time continuing to serve our customers superbly whilst looking out for, and supporting, each other. The resilience, determination, compassion and desire that was in evidence sums up the character we have amongst our people, and I am incredibly grateful for the way everyone has pulled together in these unique circumstances.

Focused on Building Our Business Responsibly

As part of our ongoing commitment to build on the work that has already been done in recent years, we have recently introduced our ESG ambition which is 'to be a leader on creating positive impacts on our environment and communities within the drinks industry'.

We already have rigorous recycling initiatives, are proud to support two hugely deserving charities in The Drinks Trust and Growing Well and now bottle 25% of our wines in the UK, reducing the carbon footprint of a bottle of wine by a third. We are also committed to supporting our people within the business and have introduced a free service for all employees where they can receive fully funded counselling sessions, online or in person, as well as confidential help on a variety of issues, from financial advice to family worries.

However, we know we can do more, and we have committed to focus right across the business, working with our suppliers, our staff and all stakeholders, to drive forward a variety of initiatives to progress our responsibilities around the key areas of environment, social and governance.

FY21 has been a transformational year for the Group and I would like to take the opportunity to wholeheartedly thank everyone across the business for their continued commitment and support. Following this milestone year, I look forward to working with our stakeholders over the coming 12 months to maintain this exciting momentum and drive the business further towards achieving its significant potential.

Outlook

This coming financial year is clearly a difficult one to predict with an ever-changing consumer landscape. However, we are delighted that we have seen positive year-on-year trends as we come out of our Q1 period with revenue up 13.3% year-on-year, repeat revenue up 16.1% and the number of new customers acquired up 10.7%. This all comes despite the end of lockdowns and the return to full operational capability of on-trade hospitality, highlighting the continued support from customers acquired over the lockdown period as well as a continued appetite from new potential customers to venture into the direct-to-consumer market for the first time for the supply of their wines, beers and spirits.

We are also well aware of the many supply chain issues that are providing businesses globally with operational challenges and cost inflation. We took the decision to stock up for the key Christmas trading period well in advance to mitigate any issues around stock availability and are confident that we are well placed to continue to supply our customers with a full range of wines, beers and spirits from around the world, without limitations.

Despite these challenges, with consumer demand still buoyant and our stock levels in excellent shape, we remain optimistic and excited about the year ahead. The Group continues to trade in line with management expectations for FY22.

JAY WRIGHT

Chief Executive Officer

Financial Review

Strong sales growth with improving gross margins and good cost control ensured a further improvement in profitability

| | FY21 audited £m | FY20 unaudited £m | Growth % |
|-------------------------------|-----------------------|-------------------------|-------------|
| Revenue | 73.6 | 56.6 | 30.3% |
| Gross profit | 23.3 | 17.1 | 36.3% |
| Operating Expenses | 16.3 | 12.3 | 32.5% |
| Adjusted EBITDA | 7.0 | 4.8 | 45.8% |
| Exceptional costs (IPO fees) | 3.5 | 0.0 | |
| Amortisation and depreciation | 0.9 | 0.7 | |
| Operating profit | 2.6 | 4.1 | |
| Finance expense | 1.0 | 1.3 | |
| Profit before tax | 1.7 | 2.8 | |
| Tax | 1.0 | 0.2 | |
| Profit for the period | 0.7 | 2.6 | |

Revenue

Reported revenue for FY21 was £73.6m, an increase of £17.0m (30.3%) from FY20 with revenue of £56.6m. Revenue growth was consistently good across all sales channels and business segments. Repeat D2C revenues grew by 31.5% in FY21 and 29.2% in FY20. Revenue from the Commercial department (B2B) was up 72.8% in FY21 and 13.7% in FY20.

Gross Profit

Gross profit margin increased by 1.3ppt from 30.3% to 31.6%. The uplift was mainly due to the increase in proportion of repeat D2C sales as a percentage of the total sales mix. Cost of sales includes wine cost, outbound packaging and carrier delivery costs. Duty, inbound packaging and freight costs are included in the wine cost.

Operating expenses (comprising administrative expenses and selling and distribution costs) increased by £4.0m (32.5%) to £16.3m in FY21 from £12.3m in FY20. This reflects an increase in volume-related costs and infrastructure investment in staff and premises to support the strong revenue growth. Since FY19 sales have increased by £31.2m (73.4%). In September 2020, the business added a new warehouse facility of 50,000 sq ft near Bolton. This effectively doubled in-house storage and pick-and-pack capacity. The new National Distribution Centre was up and running by the end of October 2020 and provided much-needed additional capacity over the Christmas peak. The second warehouse has improved business resilience by allowing us to switch volumes between sites to cover spikes in demand. Despite this step-change in capacity, operating expenses as a percentage of revenue has changed little, with FY21 at 22.1% compared to 21.8% in FY20.

Adjusted EBITDA

Adjusted EBITDA improved by £2.2m (45.8%) to £7.0m in FY21. Adjusted EBITDA margin increased by 1.0ppt from 8.5% in FY20 to 9.5% in FY21, with good cost control enabling the margin gain to flow into profit. Adjusted EBITDA excludes IPO transaction fees which represent an exceptional cost of £3.5m in FY21 (FY20: £nil).

Finance Expense and Income

Finance expenses of £1.0m in FY21 and £1.3m in FY20 relate mainly to interest on term loans that existed under the previous private equity ownership structure. The reduction in cost is due to the early settlement in full on 2 March 2021 of the outstanding loans.

Amortisation and Depreciation

The total charge for FY21 was £0.8m compared to £0.7m in FY20. Amortisation relates to the charge for intangible assets for software development. Depreciation charges relate to tangible assets written down in accordance with Group policies.

Initial public offering (IPO)

Due to a recent change in guidance from the Financial Reporting Council (FRC) companies listing on AIM and using the predecessor accounting approach, the Group has been advised to refer to prior year comparative numbers as unaudited, even though technically the underlying numbers and the IFRS adjustments were audited.

The comparative figures in the financial statements and referenced in the Strategic Report and Directors' Report are unaudited. The schedule opposite illustrates the impact of adopting IFRS as compared to the audited financial statements of Virgin Wines Holding Company Limited, which are publicly available.

IFRS adoption impact on the Consolidated statement of comprehensive income

| | UK GAAP 2021 £'000 | IFRS16 Leases £'000 | IAS38 Prepayments £'000 | IAS38 Amortisation £'000 | IFRS 2021 £'000 |
|--------------------------------------|--------------------------|---------------------------|-------------------------------|--------------------------------|-----------------------|
| Audited | | | | | |
| Adjusted EBITDA | 6,443 | 606 | (69) | - | 6,980 |
| Exceptional costs | (3,512) | | | | (3,512) |
| EBITDA after exceptional costs | 2,931 | 606 | (69) | - | 3,468 |
| Amortisation and depreciation | (974) | (447) | | 589 | (832) |
| Finance costs | (823) | (135) | | | (958) |
| Taxation | (933) | | | | (933) |
| Profit for the financial year | 201 | 24 | (69) | 589 | 745 |
| | | | | | |
| | UK GAAP 2020 £'000 | IFRS16 Leases £'000 | IAS38 Prepayments £'000 | IAS38 Amortisation £'000 | IFRS 2020 £'000 |
| Audited | | | | | |
| EBITDA after exceptional costs | 4,390 | 368 | - | | 4,758 |
| Amortisation and depreciation | (943) | (311) | | 589 | (665) |
| Finance costs | (1,224) | (82) | | | (1,306) |
| Taxation | (211) | | | | (211) |
| Profit for the financial year | 2,012 | (25) | - | 589 | 2,576 |

Impairment review

At the reporting date the Directors tested goodwill for impairment in accordance with the requirements of IAS 36 Impairment of Assets. The total carrying amount of the Group's single cash-generating unit was compared to its estimated value in use. No impairment was identified. For further details see note 2.

Profit before tax

Profit before tax in FY21 was £1.7m (FY20: £2.8m). After adjusting for exceptional costs of £3.5m the adjusted profit before tax increased by £2.4m, 86%, to £5.2m (FY20 £2.8m).

Taxation

The tax charge in the financial statements relate to a release of the deferred tax asset and have no cash impact. The deferred tax asset is expected to be utilised in full within a year and before announced changes to the corporation tax rate, so the deferred taxes have been measured using the current tax rate of 19%.

The tax assessed for the year is higher (2020 unaudited: lower) to the standard corporation tax rate due mainly to expenses not deductible for tax purposes.

Earnings per share (EPS)

The basic and diluted loss per share for FY21 is (0.5p) compared to a profit per share of 5.4p for FY20. The adjusted basic and diluted profit per share for FY21 is 9.0p and for FY20 6.5p (see note 14 for more details). Adjusted earnings per share is calculated after adding back to earnings IPO exceptional costs and the preference dividend paid in FY21.

The weighted average number of shares in issue has been amended to show the same number for both reporting periods and therefore a like for like comparison.

Dividend

The Group does not propose to pay a dividend for FY21 but will keep this policy under review depending on future surplus cash generation and investment opportunities.

Cash and Working Capital

The Group end of year cash balance for FY21 was £15.7m (FY20: £19.9m). These balances include cash deposits from WineBank customers of £7.3m for FY21, (FY20: £5.4m). This cash is ring fenced as customer deposits and not used to fund working capital. As a direct result of Covid 19 the Group deferred tax payments of £7.2m as at 30 June 2020. When it became clear that the business would be able to remain open these deferred payments were settled in full by the end of August 2020. The Group did not apply for or use any other government financing support or the furlough scheme. Net of WineBank customer deposits and the deferred payments the adjusted cash position was £8.4m for as at 30 June 2021 (FY20: £7.3m).

The Group raised £12.1m net of issue costs as part of the IPO listing to settle in full term loans of £12m and paid a dividend to former investors of £1.3m and IPO fees of £3.5m.

The Group invested in working capital and in particular an increase in stockholding of £2.2m (45%) to fund the growth in volume and to provide an additional buffer against supply challenges.

The Group is cash generative with no net borrowing. In the opinion of the Board the Group is well funded to achieve future growth plans and manage any downside financial risk.

Comparative figures for FY20 and FY19 are stated as unaudited in these financial statements.

GRAEME WEIR

Chief Financial Officer

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2021

| | | Year ended 30 June 2021 £'000 Audited | Year ended 30 June 2020 £'000 Unaudited |
|---|------|---|---|
| | Note | | |
| Revenue | 5 | 73,634 | 56,554 |
| Cost of sales | | (50,353) | (39,420) |
| Gross profit | | 23,281 | 17,134 |
| Administrative expenses before exceptional items | | (5,381) | (3,598) |
| Exceptional items | 6 | (3,512) | – |
| Administrative expenses | | (8,893) | (3,598) |
| Selling and distribution costs | | (11,752) | (9,443) |
| Operating profit | 7 | 2,636 | 4,093 |
| Finance income | 11 | 5 | 5 |
| Finance costs | 12 | (963) | (1,311) |
| Profit before taxation | | 1,678 | 2,787 |
| Taxation | 13 | (933) | (211) |
| Profit for the financial year and total comprehensive income | | 745 | 2,576 |
| Basic and diluted (loss)/earnings per share (pence) | 14 | (0.5) | 5.4 |

The results for the years shown above are derived entirely from continuing activities.

The Company has no other comprehensive income or expense other than the profit above and therefore no separate statement of other comprehensive income has been presented.

Consolidated Statement of Financial Position

as at 30 June 2021

| | | 30 June 2021 £'000 Audited | 30 June 2020 £'000 Unaudited |
|--------------------------------------|------|-------------------------------------|---------------------------------------|
| Company number 13169238 | Note | | |
| ASSETS | | | |
| Non-current assets | | | |
| Intangible assets | 15 | 10,842 | 11,033 |
| Property, plant and equipment | 16 | 163 | 116 |
| Right-of-use assets | 17 | 2,867 | 1,500 |
| Deferred tax asset | 18 | 1,100 | 2,033 |
| Total non-current assets | | 14,972 | 14,682 |
| Current assets | | | |
| Inventories | 19 | 7,239 | 4,996 |
| Trade and other receivables | 20 | 1,552 | 2,441 |
| Derivative financial instruments | 24 | – | 81 |
| Cash and cash equivalents | 21 | 15,660 | 19,904 |
| Total current assets | | 24,451 | 27,422 |
| Total assets | | 39,423 | 42,104 |
| LIABILITIES AND EQUITY | | | |
| Current liabilities | | | |
| Trade and other payables | 22 | (18,314) | (22,062) |
| Derivative financial instruments | 25 | (5) | – |
| Lease liability | 17 | (489) | (319) |
| Total current liabilities | | (18,808) | (22,381) |
| Non-current liabilities | | | |
| Provisions | 23 | (275) | (238) |
| Lease liability | 17 | (2,713) | (1,372) |
| Loans and borrowings | 24 | – | (11,976) |
| Total non-current liabilities | | (2,988) | (13,586) |
| Total liabilities | | (21,796) | (35,967) |
| Net assets | | 17,627 | 6,137 |
| Equity | | | |
| Share capital | 26 | 558 | 477 |
| Share premium | | 11,989 | 31 |
| Own share reserve | | (36) | (36) |
| Merger reserve | | 65 | – |
| Retained earnings | | 5,051 | 5,665 |
| Total Equity | | 17,627 | 6,137 |

The financial statements of Virgin Wines UK plc were approved by the Board of Directors and authorised for issue on 28 October 2021. They were signed on its behalf by

Consolidated Statement of Changes in Equity

for the year ended 30 June 2021

| | Called up share capital £'000 | Share premium £'000 | Own share reserve £'000 | Merger reserve £'000 | Retained earnings £'000 | Total shareholders' funds £'000 |
|--|-------------------------------------|---------------------------|-------------------------------|----------------------------|-------------------------------|--|
| 1 July 2019 | 477 | 31 | (36) | – | 3,274 | 3,746 |
| Profit for the financial year | – | – | – | – | 2,576 | 2,576 |
| Total comprehensive income for the year | – | – | – | – | 2,576 | 2,576 |
| Dividends paid | – | – | – | – | (185) | (185) |
| Total transactions with owners recognised in equity | – | – | – | – | (185) | (185) |
| 30 June 2020 | 477 | 31 | (36) | – | 5,665 | 6,137 |
| 1 July 2020 | 477 | 31 | (36) | – | 5,665 | 6,137 |
| Profit for the financial year | – | – | – | – | 745 | 745 |
| Total comprehensive income for the year | – | – | – | – | 745 | 745 |
| Group reorganisation | (477) | (31) | – | – | – | (508) |
| Issue of shares | 559 | 12,967 | – | 65 | – | 13,591 |
| Share issue costs | – | (978) | – | – | – | (978) |
| Buy back of preference shares | (1) | – | – | – | – | (1) |
| Dividends paid | – | – | – | – | (1,359) | (1,359) |
| Total transactions with owners recognised in equity | 81 | 11,958 | – | 65 | (1,359) | 10,745 |
| 30 June 2021 | 558 | 11,989 | (36) | 65 | 5,051 | 17,627 |

Consolidated Statement of Cash Flows

for the year ended 30 June 2021

| | Year ended 30 June 2021 £'000 Audited | Year ended 30 June 2020 £'000 Unaudited |
|---|---|---|
| Cash flows from operating activities | | |
| Profit before taxation | 1,678 | 2,787 |
| Adjustments for: | | |
| Depreciation and amortisation | 832 | 665 |
| Net finance costs | 958 | 1,306 |
| Decrease/(increase) in trade and other receivables | 969 | (898) |
| Increase in inventories | (2,243) | (16) |
| (Decrease)/increase in trade and other payables | (3,567) | 12,306 |
| Net cash (used in)/generated from operating activities | (1,373) | 16,150 |
| Cash flows from investing activities | | |
| Interest received | 5 | 5 |
| Purchase of intangible and tangible fixed assets | (242) | (247) |
| Net cash used in investing activities | (237) | (242) |
| Cash flows from financing activities | | |
| Dividend paid | (1,359) | (185) |
| Interest on loans and borrowings | (953) | (1,304) |
| Repayment of borrowings | (11,986) | – |
| Share issue (net of issue costs) | 12,104 | – |
| Payment of lease liabilities | (305) | (221) |
| Payment of lease interest | (135) | (82) |
| Net cash used in financing activities | (2,634) | (1,792) |
| Net (decrease)/increase in cash and cash equivalents | (4,244) | 14,116 |
| Cash and cash equivalents at beginning of year | 19,904 | 5,788 |
| Cash and cash equivalents at end of year | 15,660 | 19,904 |
| | (4,244) | 14,116 |
| Cash and cash equivalents comprise: | | |
| Cash at bank and in hand | 15,660 | 19,904 |

Company number 13169238

Notes Forming Part of the Financial Statements

for the year ended 30 June 2021

1 General information

The principal activity of the Group is import and distribution of wine.

The Company was incorporated on 1 February 2021 in the United Kingdom and is a public company limited by shares registered in England and Wales. The registered office is 37-41 Roman Way Industrial Estate, Longridge Road, Ribblesdale, Preston, Lancashire, United Kingdom, PR2 5BD. The registered company number is 13169238.

2 Accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements to the extent that they have not already been disclosed in the other notes above. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of Virgin Wines UK plc and its subsidiaries.

Basis of preparation

The consolidated financial statements of the Virgin Wines UK plc Group have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

Statutory accounts for the year ended 30 June 2021 have been reported on by the auditors who issued an unqualified opinion and the auditors' report did not contain statements under 498(2) or 498(3) of the Companies Act 2006. The statutory accounts for the year ended 30 June 2021, which were approved by the Board on 28 October 2021, will be delivered to the Registrar of Companies following the Company's Annual General Meeting.

Accounting reference date

UK company law permits a company to draw up financial statements to a date seven days either side of its accounting reference date. For operational reasons the Company has in the current financial year adopted an accounting period of 52 weeks, and as a result of this, the exact year-end was 2 July 2021.

Historical cost convention

The financial statements have been prepared on a historical cost basis except for certain financial assets and liabilities (including derivative instruments), measured at fair value through the income statement.

New standards, interpretations and amendments issued not yet effective

There are a number of standards, amendments to standards, and interpretations which have been issued by the EU that are effective in future accounting periods that the Group has decided not to adopt early.

The following standards were in issue but have not come into effect:

Amendments to

- IFRS 16 'Leases' – Covid-19 related rent concessions (Extension of the practical expedient) – effective for the year ending 30 June 2022
- IFRS 17 and IFRS 4, 'Insurance contracts', deferral of IFRS 9, as amended in June 2020 – effective for the year ending 30 June 2024
- IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 – effective for the year ending 30 June 2022
- IFRS 3, IAS 16, IAS 37 (narrow scope) and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16 – effective for the year ending 30 June 2022
- IAS 1, Presentation of financial statements on classification of liabilities – effective for the year ending 30 June 2024
- IAS 1, Practice statement 2 and IAS 8 (narrow scope) – effective for the year ending 30 June 2024
- IAS 12 – deferred tax related to assets and liabilities arising from a single transaction – effective for the year ending 30 June 2024
- IFRS 17, 'Insurance contracts' – effective for the year ending 30 June 2024

The Directors anticipate that the adoption of planned standards and interpretations in future periods will not have a material impact on the financial statements of the Group.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report and the Directors' Report, which also describes the financial position of the Group. The Group's financial risk management objectives and its exposure to credit risk and liquidity risk are set out in note 25.

During the year the Group met its day-to-day working capital requirements through cash generated from operating activities. The Group's forecasts and projections, taking account of a severe but plausible change in trading performance, show that the Group should be able to operate using cash generated from operations, and that no additional borrowing facilities will be required. As a result, the stock financing facility was terminated in the year and the investor loans were repaid on IPO. The Group is therefore no longer subject to any external borrowings or covenants.

Having assessed the principal risks, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing

its consolidated financial statements.

Basis of consolidation

The financial statements consolidate the financial information of the Group and companies controlled by the Group (its subsidiaries) at each reporting date.

Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity, has the rights to variable returns from its involvement with the investee and has the ability to use its power to affect its returns. The results of subsidiaries acquired or sold are included in the financial information from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the results of acquired subsidiaries to bring their accounting policies into line with those used by the Group.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

The financial statements of all Group companies are adjusted, where necessary, to ensure the use of consistent accounting policies.

Employee Benefit Trust

The assets and liabilities of the Employee Benefit Trust (EBT) have been included in the consolidated financial statements. Any assets held by the EBT cease to be recognised on the Consolidated Statement of Financial Position when the assets vest unconditionally in identified beneficiaries.

The costs of purchasing own shares held by the EBT are shown as a deduction against equity. The proceeds from the sale of own shares held increase equity. Neither the purchase nor sale of own shares leads to a gain or loss being recognised in the Consolidated Statement of Comprehensive Income.

Initial public offering (IPO)

The Company's shares were admitted to trading on AIM, a market operated by the London Stock Exchange, on 2 March 2021. These financial statements are the Company's first subsequent to its admission to AIM. In connection with the admission to AIM, the Group undertook a Group reorganisation of its corporate structure which resulted in the Company becoming the ultimate holding company of the Group. Prior to the reorganisation the ultimate holding company was Virgin Wines Holding Company Limited. The transaction was accounted for as a capital reorganisation rather than a reverse acquisition since it did not meet the definition of a business combination under IFRS 3. In a capital reorganisation, the consolidated financial statements of the Group reflect the predecessor carrying amounts of Virgin Wines Holding Company Limited Group with comparative information of Virgin Wines Holding Company Limited Group presented for all periods since no substantive economic changes have occurred. The comparative information is unaudited.

Revenue recognition

Revenue from contracts with customers contains one performance obligation, unless it is a WineBank sale, in which case there are two performance obligations and this is described separately further below. The single performance obligation is the supply of goods. The transaction price is fully allocated to the single performance obligation for non-WineBank sales. The Group recognises revenue at a point in time when the single performance obligation is satisfied. The performance obligation is satisfied when control is passed to the customer. Control is deemed to pass to the customer upon delivery of the goods.

Revenue is recognised at the transaction price of the sale of goods, net of discounts and excluding value added tax, in the ordinary course of business.

The Group uses its accumulated historical experience to estimate the level of returns on a portfolio level using the expected value method. Credit terms are only provided to corporate customers, and the average days are 60.

Contract balances

Timing of revenue recognition may differ from the timing of invoicing to customers. Contract assets represent revenue recognised prior to invoicing when it has satisfied its performance obligation and has the unconditional right to payment.

Contract liabilities consists of fees received related to unsatisfied performance obligations at the end of the period.

WineBank

Amounts deposited by customers for WineBank are initially reported as a liability in the Statement of Financial Position. On registering as a WineBank customer, subscription customers agree to lodge a regular monthly sum into their WineBank account. These sums accumulate in the customer account and build a balance to use against their next purchase from the Group.

Amounts deposited by WineBank customers are reported within the Group cash balance but are held separate to Group funds. WineBank deposits are not used to fund the working capital of the business. WineBank customers can cancel their WineBank account at any time and may request to receive their money back immediately with no penalty whatsoever.

Using funds deposited through the WineBank scheme entitles account holders to benefit from an extra discount on the Group's website prices. This discount represents a 'material right' under IFRS 15 Revenue from Contracts with Customers, which is a separate performance obligation which is fulfilled when the customer uses that discount. The transaction price allocated to the material right performance obligation represents the value of the discount earned, and is deferred until the customer uses the discount on a future order.

Orders placed through the WineBank scheme also contain the same performance obligation as for other sales, as described above. The transaction price allocated to this performance obligation is the remaining amount after allocating the element to the material right, and is recognised upon delivery to the customer.

Finance costs

Finance costs on financial liabilities are recognised in the profit and loss account over the term of such instruments at a constant rate on the carrying amount. Issue costs relating to financial instruments are recognised in the profit and loss account over the term of the debt at a constant rate over the instrument's life.

Interest on leases is calculated based on the interest rate implicit in the lease. If that rate cannot be readily determined, which is

generally the case for leases in the Group, the lessee's incremental borrowing rate is used (see lease accounting policy).

Taxation

Tax on the profit or loss for the year comprises current and deferred tax.

Tax is recognised in the Consolidated Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates and laws enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates and laws enacted or substantively enacted at the reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

The carrying amounts of deferred tax assets are reviewed at each reporting date.

Foreign currencies

Functional and presentational currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The functional currency of the Group is Pounds Sterling. The financial statements have been rounded to thousands.

Transactions and balances

Transactions denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at quoted rates of exchange ruling at the balance sheet date. Exchange profits and losses arising from current trading are included in operating profit.

Goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised.

The goodwill in the consolidated financial statements represents the goodwill recognised in the predecessor holding company accounts at the original carrying value.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Intangible assets

Computer software is stated at cost less accumulated amortisation and impairment losses. Software is amortised over its estimated useful life, of between five and eight years, on a straight-line basis.

Where factors, such as technological advancement or changes in market prices, 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.

Property, plant and equipment

Property, plant and equipment are stated at historic purchase cost less accumulated depreciation and impairment losses. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Leasehold property – over the life of the lease

Fixtures and fittings – 33.33% per annum

Computer hardware and warehouse equipment – 33.33% per annum

Assets classified as 'work in progress' are not depreciated as such assets are not currently available for (or in) use. Once in use, assets will be recategorised and depreciated at the rate appropriate to their classification.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the net sale proceeds and the carrying amount of the asset and is recognised in the Statement of Comprehensive Income.

Impairment of non-financial assets (excluding goodwill)

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future

cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

Leases

A contract, or a portion of a contract, is accounted as a lease when it conveys the right to use an asset for a period of time in exchange for consideration. Leases are those contracts that satisfy the following criteria:

- there is an identified asset;
- the Group obtains substantially all the economic benefits from use of the asset; and
- the Group has the right to direct use of the asset.

The Group considers whether the supplier has substantive substitution rights. If the supplier does have those rights, the contract is not identified as giving rise to a lease. In determining whether the Group obtains substantially all the economic benefits from use of the asset, the Group considers only the economic benefits that arise from use of the asset. In determining whether the Group has the right to direct use of the asset, the Group considers whether it directs how and for what purpose the asset is used throughout the period of use. If the contract or portion of a contract does not satisfy these criteria, the Group applies other applicable IFRS rather than IFRS 16.

The Group leases various offices, warehouses and equipment. Rental contracts are typically made for fixed periods of 5 to 10 years, but may have extension options as detailed in note 17.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third-party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by Virgin Wines UK plc, which does not have recent third-party financing; and
- makes adjustments specific to the lease, for example term and security.

If a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the Group entities use that rate as a starting point to determine the incremental borrowing rate.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Inventory

Inventories are valued at the lower of cost and net realisable value on a first in, first out (FIFO) basis. Cost comprises purchase price plus associated freight and duty costs for imported goods. Inventories are regularly assessed for evidence of impairment. Where such evidence is identified, a provision is recognised to reduce the value of inventories to its selling price after incurring any future costs to sell.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and with banks, as well as any deposits made with financial institutions with a maturity period of less than three months from the date of deposit. Cash and cash equivalents also includes amounts received from WineBank customers which are not restricted and as such are presented as cash and cash equivalents.

Financial instruments

Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transaction costs, except for those carried at fair value through profit or loss which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition:

- Financial assets at amortised cost
- Financial assets/liabilities held at fair value through profit or loss (FVTPL)

Financial assets at amortised cost

Financial assets at amortised cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

The Group recognises a loss allowance for expected credit losses (ECL) on financial assets that are measured at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL on trade receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

All income and expenses relating to financial assets that are recognised in the Consolidated Statement of Comprehensive Income are presented within finance costs or finance income, except for impairment of trade receivables which is presented within other administrative expenses.

Classification and subsequent measurement of financial liabilities

The Group's financial liabilities include trade and other payables, accruals and contract liabilities, loans and borrowings and derivative financial instruments.

Financial liabilities are measured at amortised cost using the effective interest method, except for financial liabilities held for trading or designated at FVTPL, that are carried at fair value with gains or losses recognised in the Consolidated Statement of Comprehensive Income.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in the Consolidated Statement of Comprehensive Income are included within finance costs or finance income.

Derivative financial liabilities

Derivatives are initially recognised at fair value at the date a derivative is entered into and are subsequently remeasured to their fair value at each reporting date. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. The resulting gain or loss is recognised in the Consolidated Statement of Comprehensive Income immediately. A derivative is presented as a non-current asset or non-current liability if the Group has an unconditional right to defer payment beyond 12 months. Otherwise derivatives are presented as current assets or liabilities.

Borrowing

Inventory financing facilities are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis through the profit and loss account using the effective interest method and are added to the carrying amount of the instrument to the extent they are not settled in the period in which they arise.

Exceptional items

The Company presents certain items as 'exceptional' on the face of the profit and loss account in arriving at operating profit. These are non-recurring items which in management's judgement need to be disclosed separately by virtue of their size, nature and occurrence.

Employee benefits

The Company provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and defined contribution pension plans.

(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 contribution pension plans

The Company operates a number of country-specific defined contribution plans for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown in accruals in the balance sheet. The assets of the plan are held separately from the Company in independently administered funds.

(iii) Share-based payments

A transaction is accounted for as a share-based payment where the Group receives services for employees, Directors or third parties and pays for these in shares or similar equity instruments.

The Group makes equity-settled share-based payments to certain employees and Directors. Equity-settled share-based schemes are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant, measured by use of an appropriate valuation model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the period services are received, based on the Group's estimate of shares that will eventually vest.

Share options are forfeited when an employee ceases to be employed by the Group unless determined to be a 'Good Leaver'. A 'Good Leaver' is a participant who ceases employment by reason of death, injury, ill-health or disability.

The Company has discretion to recover the employer's National Insurance liability from the employee. For the 2021 LTIP the Company has chosen to do so.

Merger reserve

During the year the Company became the ultimate Parent Company of the Group. The merger reserve was created during the year as a result of the share-for-share exchange under which Virgin Wines UK plc became the parent undertaking prior to the IPO. The mandatory use of merger relief under section 612 of the Companies Act 2006 gave rise to a merger reserve, being the difference between the share capital issued by Virgin Wines UK plc and the consideration received.

Retained earnings

Retained earnings includes all current and prior period retained profits and losses, including foreign currency translation differences arising from the translation of financial statements of the Group's foreign entities.

All transactions with owners of the parent are recorded separately within equity.

Dividends are recognised when approved by the Group's shareholders or, in the case of interim dividends, when the dividend has been paid.

3 Judgements in applying accounting policies and key sources of estimation uncertainty

In preparing these financial statements, the Directors have made the following estimates:

Recognition of deferred tax asset

The Directors have used estimation in determining the extent to which deferred tax assets for tax losses and other timing differences should be recognised. In concluding on the recognition of the deferred tax assets, the Directors took account of the forecast future trading of the Group and the likely availability of future taxable profits against which the deferred tax assets can be utilised.

Goodwill impairment assessment (note 15)

At each reporting date, the Group tests goodwill for impairment in accordance with the requirements of IAS 36. The recoverable amount of the Group's single cash-generating unit (CGU) is determined by calculating its value in use. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the single CGU and to use a suitable discount rate in order to calculate their present value. The value in use is then compared to the total of the relevant assets and liabilities of the CGU. See note 15 for details of the test for impairment and the relevant key assumptions.

Revenue recognition

In determining the appropriate amount of revenue to be recognised for WineBank sales when applying the accounting policy set out in note 2 above, the Directors make key estimates in relation to the amount of breakage (to reflect their expectation of customers who will not exercise all of their rights to future discounts) and the total transaction price relating to existing and future orders.

In preparing these financial statements, the Directors have made the following judgements:

IPO costs

IPO costs are accounted for either through equity or the income statement depending on the nature of the costs, and a judgement is involved in determining the appropriate treatment of each of the costs according to the following:

- Transaction costs directly attributable to the issuance of new shares that otherwise would have been avoided are deducted from equity;
- Transaction costs relating to the listing of shares, whether new or existing, are expensed through the income statement;
- Where transaction costs relate jointly to more than one transaction (e.g. the issue of new shares, the sale of existing shares and listing all the shares), the costs have been appropriately allocated to each activity.

4 Segmental reporting

IFRS 8 requires operating segments to be determined based on the Group's internal reporting to the Chief Operating Decision Maker (CODM). The CODM has been determined to be the Board as it is primarily responsible for the allocation of resources to segments and the assessment of performance of the segments.

As such, there is only one operating segment, which comprises all of the operations of the Group. Performance of this operating segment is assessed on revenue and Adjusted EBITDA (being operating profit excluding any adjusted items). These are the financial performance measures that are reported to the CODM, along with other operational performance measures, and are considered to be useful measures of the underlying trading performance of the segment. Adjusted items are not allocated to the operating segment as this reflects how they are reported to the Board.

5 Revenue

The Directors have considered the requirement of IFRS 15 with regard to disaggregation of revenue and do not consider this to be required as the Group has only one operating segment, which is the sale of alcohol.

There is one geographical market, being the UK, all revenue streams have similar recognition policies, and whilst the Group provides services, the Directors do not believe such analysis would provide meaningful information for users of the financial statements.

There were no major customers that individually accounted for more than 10% of total revenues (2020 unaudited: no customers).

6 Exceptional items

Exceptional items relate to legal and professional fees associated with the Group's admission to AIM on 2 March 2021. These costs are deemed exceptional due to their size and non-recurring nature.

7 Operating profit

Operating profit is stated after charging/(crediting):

| | Year ended 30 June 2021 £'000 Audited | Year ended 30 June 2020 £'000 Unaudited |
|--|---|---|
| Inventory charged to cost of sales | 45,616 | 35,599 |
| Depreciation (note 16) | 91 | 84 |
| Depreciation of right-of-use asset (note 17) | 447 | 311 |
| Employee benefit expenses (note 8) | 7,534 | 6,364 |
| Net exchange gains (including movements on fair value through profit and loss derivatives) | (125) | (21) |
| Movement in inventory provision | 118 | 71 |
| Intangible asset amortisation (note 15) | 294 | 271 |
| Auditors' remuneration: | | |
| - for the audit of the Group financial statements | 110 | — |
| - for the audit of the subsidiary financial statements | 65 | 41 |
| - non-audit fees (tax compliance services) | 10 | 15 |
| - non-audit fees (tax advice) | 59 | — |

8 Staff costs

| | Year ended 30 June 2021 £'000 Audited | Year ended 30 June 2020 £'000 Unaudited |
|---|---|---|
| Staff costs (including Directors) consist of: | | |
| Wages and salaries | 6,502 | 5,476 |
| Social security costs | 645 | 534 |
| Other pension costs | 387 | 354 |
| | 7,534 | 6,364 |

The amount recognised in the Consolidated Statement of Comprehensive Income as an expense in relation to the Group's defined contribution schemes is £387k (2020 unaudited: £354k).

The average number of employees (including Directors) during the year was as follows:

| | Year ended 30 June 2021 Number | Year ended 30 June 2020 Number |
|-------------------------------|---|---|
| By function | | |
| Sales | 155 | 127 |
| Management and administrative | 32 | 31 |
| | 187 | 158 |

The majority of employees are eligible to join the defined contribution pension plan.

9 Key management personnel

| | Year ended 30 June 2021 £'000 Audited | Year ended 30 June 2020 £'000 Unaudited |
|------------------------------|---|---|
| Short-term employee benefits | 510 | 415 |
| Post-employment benefits | 44 | 40 |
| | 554 | 455 |

During the year, retirement benefits were accruing to 2 Directors (2020 unaudited: 2) in respect of defined contribution pension schemes.

Key management personnel include only the Directors and, as such, no further disclosures in respect of compensation are given.

10 Share-based payments

In the year ended 30 June 2021 the Group operated an equity-settled share-based payment plan as described below.

The charge in the year attributed to the plan was £6,000 (2020 unaudited: nil).

Under the Virgin Wines UK plc Long-Term Incentive Plan, the Group gives awards to Directors and staff subject to the achievement of a pre-agreed revenue and profit figure for the financial year of the Group, three financial years subsequent to the date of the award. These shares vest after the delivery of the audited revenue and profit figure for the relevant financial year has been announced.

Awards are granted under the plan for no consideration and carry no dividend or voting rights.

Awards are exercisable at the nominal share value of £0.01.

Awards are forfeited if the employee leaves the Group before the awards vest, except under circumstances where the employee is considered a 'Good Leaver'.

| | Number of shares |
|------------------------------------|---------------------|
| At 1 July 2020 | — |
| Granted during the year | 433,288 |
| Outstanding at 30 June 2021 | 433,288 |

The Company granted its first share options on 23 June 2021. The awards outstanding at 30 June 2021 have a weighted average remaining contractual life of 2.3 years.

The fair value at grant date was determined with reference to the share price at grant date, as there are no market-based performance conditions and the expected dividend yield is 0%. Therefore there was no separate option pricing model used to determine the fair value of the awards.

11 Finance income

| | Year ended 30 June 2021 £'000 Audited | Year ended 30 June 2020 £'000 Unaudited |
|---------------|---|---|
| Bank interest | 5 | 5 |

12 Finance costs

| | Year ended 30 June 2021 £'000 Audited | Year ended 30 June 2020 £'000 Unaudited |
|--|---|---|
| Investor loans | 828 | 1,227 |
| Interest payable for lease liabilities | 135 | 81 |
| Stock financing facility | — | 3 |
| | 963 | 1,311 |

13 Taxation

| | Year ended 30 June 2021 £'000 Audited | Year ended 30 June 2020 £'000 Unaudited |
|--|---|---|
| Analysis of charge for the year | | |
| Current tax: | | |
| Total current tax | – | – |
| Deferred tax: | | |
| Origination and reversal of timing differences | 933 | 475 |
| Adjustment in respect of prior year | – | (5) |
| Effect of changes in tax rates | – | (259) |
| Total deferred tax | 933 | 211 |
| Tax charge on profit on ordinary activities | 933 | 211 |

Factors that may affect future tax charges:

On 3 March 2021, the 2021 UK Budget announced an increase to the corporation tax rate from 19% to 25% effective from April 2023. This was substantively enacted on 24 May 2021.

The deferred tax asset is expected to be utilised before the increased tax rate comes into effect. Deferred taxes at the balance sheet date have therefore been measured using the current tax rate (19%).

The tax assessed for the year is higher (2020 unaudited: lower) to the standard rate of corporation tax in the UK applied to profit before tax. The differences are explained below:

| | Year ended 30 June 2021 £'000 Audited | Year ended 30 June 2020 £'000 Unaudited |
|--|---|---|
| Profit before tax | 1,678 | 2,787 |
| Profit at the standard rate of corporation tax in the UK of 19% (year ended 30 June 2020 unaudited: 19%) | 319 | 530 |
| Effects of: | | |
| Expenses not deductible for tax purposes | 667 | 53 |
| Tax rate change | – | (259) |
| Adjustment in respect of prior year | – | (5) |
| Other permanent differences | (53) | (108) |
| Total tax charge for the year | 933 | 211 |

For further information on deferred tax balances see note 18.

14 Earnings per share

Basic and diluted earnings per share are calculated by dividing the earnings attributable to equity shareholders by the weighted average number of Ordinary Shares in issue during the year.

The calculation of basic (loss)/earnings per share is based on the following data:

Statutory EPS

| | Year ended 30 June 2021 Audited | Year ended 30 June 2020 Unaudited |
|---|--|--|
| Earnings (£'000) | | |
| Profit after tax | 745 | 2,576 |
| Dividend attributed to preference shareholders | (1,006) | – |
| (Loss)/earnings for the purpose of basic earnings per share | (261) | 2,576 |
| Number of shares | | |
| Weighted average number of shares for the purpose of basic earnings per share | 50,634,884 | 47,617,287 |
| Weighted average number of shares for the purpose of diluted earnings per share | 50,643,194 | 47,617,287 |
| Basic and diluted (loss)/earnings per Ordinary Share (pence) | (0.5) | 5.4 |

Adjusted EPS

The calculation of adjusted earnings per share is based on the after-tax adjusted operating profit after adding back certain costs as detailed in the table below. Adjusted earnings per share figures are given to exclude the effects of exceptional items and pre-reorganisation finance costs, all net of taxation, and are considered to show the underlying performance of the Group.

The weighted average number of shares uses the number of shares in issue post admission on 2 March 2021. This has been applied retrospectively to the number of shares in issue at 30 June 2020 and the metric has been restated to ensure that the adjusted earnings per share figures are comparable over the two periods.

| | Year ended 30 June 2021 Audited | Year ended 30 June 2020 Unaudited |
|---|--|--|
| Earnings (£'000) | | |
| (Loss)/earnings for the purpose of basic earnings per share | (261) | 2,576 |
| Preference dividend | 1,006 | – |
| Exceptional items | 3,512 | – |
| Private equity finance cost | 963 | 1,311 |
| Tax effect of above | (183) | (249) |
| Earnings for the purpose of adjusted earnings per share | 5,037 | 3,638 |
| Number of shares | | |
| Weighted average number of shares for the purpose of basic earnings per share | 55,837,560 | 55,837,560 |
| Weighted average number of shares for the purpose of diluted earnings per share | 55,845,869 | 55,845,869 |
| Basic and diluted earnings per Ordinary Share (pence) | 9.0 | 6.5 |

15 Intangible assets

| | Goodwill £'000 | Software £'000 | Group Total £'000 |
|--|-------------------|-------------------|-------------------------|
| <i>Cost</i> | | | |
| At 1 July 2019 | 9,623 | 1,898 | 11,521 |
| Additions | – | 187 | 187 |
| At 1 July 2020 | 9,623 | 2,085 | 11,708 |
| Additions | – | 103 | 103 |
| 30 June 2021 | 9,623 | 2,188 | 11,811 |
| <i>Accumulated amortisation and impairment</i> | | | |
| At 1 July 2019 | – | 404 | 404 |
| Amortisation charge | – | 271 | 271 |
| At 1 July 2020 | – | 675 | 675 |
| Amortisation charge | – | 294 | 294 |
| 30 June 2021 | – | 969 | 969 |
| <i>Net book value</i> | | | |
| 30 June 2021 | 9,623 | 1,219 | 10,842 |
| 30 June 2020 (unaudited) | 9,623 | 1,410 | 11,033 |

Included within software is £0.8m net book value in relation to development of the Mantiki core IT platform, which has a remaining amortisation period of four years.

Amortisation is charged to administrative expenses in the Consolidated statement of comprehensive income.

Software is amortised over its estimated useful economic life.

The Group is required to test, on an annual basis, whether goodwill has suffered any impairment. The recoverable amount is determined based on value-in-use calculations. The use of this method requires the estimation of future cash flows and the determination of a discount rate in order to calculate the present value of the cash flows.

The goodwill figure has been derived from the acquisition of 100% of the share capital of Virgin Wine Online Limited by Virgin Wines Holding Company Limited in 2013 and as such there is only one cash-generating unit.

The Group has estimated the value in use of the business as a cash-generating unit based on a discounted cash flow model which adjusts for risks associated with the assets. The discount rate applied is a pre-tax rate of 9.1%.

The forecasts for the business are based over a 5-year projection period, use past experience and apply a forecast annual growth rate. The key assumptions used in the discounted cash flow are the revenue and EBITDA figures (based on Board-approved plans), the future growth rate (including the long-term growth rate of 2%) and the discount rate.

The Directors have assessed the sensitivity of the impairment test to reasonably possible changes in the key assumptions described above, and noted that sufficient headroom existed in all cases.

16 Property, plant and equipment

| | Leasehold property £'000 | Computer hardware & warehouse equipment £'000 | Fixtures & fittings £'000 | Total £'000 |
|---------------------------------|--------------------------------|---|---------------------------------|----------------|
| <i>Cost</i> | | | | |
| At 1 July 2019 | 20 | 511 | 212 | 743 |
| Additions | – | 38 | 21 | 59 |
| At 1 July 2020 | 20 | 549 | 233 | 802 |
| Additions | – | 95 | 44 | 139 |
| Disposals | – | (13) | – | (13) |
| At 30 June 2021 | 20 | 631 | 277 | 928 |
| <i>Accumulated depreciation</i> | | | | |
| At 1 July 2019 | 20 | 401 | 181 | 602 |
| Charge for the year | – | 59 | 25 | 84 |
| At 1 July 2020 | 20 | 460 | 206 | 686 |
| Charge for the year | – | 68 | 23 | 91 |
| Disposals | – | (12) | – | (12) |
| At 30 June 2021 | 20 | 516 | 229 | 765 |
| <i>Net book value</i> | | | | |
| At 30 June 2021 | – | 115 | 48 | 163 |
| At 30 June 2020 (unaudited) | – | 89 | 27 | 116 |

Depreciation is charged to administrative expenses in the Consolidated statement of comprehensive income.

17 Right-of-use assets

The Group leases a number of properties across the UK, in Norwich, Preston and Bolton.

The Group entered into a lease for an office in Norwich on 1 October 2017 under a 5-year lease term ending on 30 September 2022.

The Group entered into a lease for a warehouse in Preston on 19 October 2016 under a 10-year lease term ending on 18 October 2026. The Group sometimes negotiates break clauses in its property leases. The factors considered in deciding to negotiate a break clause include:

- the length of the lease term; and
- whether the location represents a new area of operations for the Group.

The Preston warehouse lease has a second break clause on 18 October 2024.

The Group entered into a lease for a bulk storage facility in Bolton on 1 September 2020 under a 10-year lease term ending on 31 August 2030. The first break clause is on 31 August 2026.

For all of the property leases, the periodic rent is fixed over the lease term.

The Group also leases certain items of plant and equipment. Leases of plant and equipment comprise fixed payments over the lease terms.

The fully retrospective approach was adopted to calculate the cost of the right-of-use asset.

| | Leasehold property £'000 | Computer hardware & warehouse equipment £'000 | Total £'000 |
|---------------------------------|--------------------------------|---|----------------|
| <i>Cost</i> | | | |
| At 1 July 2019 | 2,423 | 28 | 2,451 |
| Additions | – | 67 | 67 |
| At 1 July 2020 | 2,423 | 95 | 2,518 |
| Additions | 1,779 | 35 | 1,814 |
| Disposals | – | (26) | (26) |
| At 30 June 2021 | 4,202 | 104 | 4,306 |
| <i>Accumulated depreciation</i> | | | |
| At 1 July 2019 | 684 | 23 | 707 |
| Charge for the year | 299 | 12 | 311 |
| At 1 July 2020 | 983 | 35 | 1,018 |
| Charge for the year | 432 | 15 | 447 |
| Disposals | – | (26) | (26) |
| At 30 June 2021 | 1,415 | 24 | 1,439 |
| <i>Net book value</i> | | | |
| At 30 June 2021 | 2,787 | 80 | 2,867 |
| At 30 June 2020 (unaudited) | 1,440 | 60 | 1,500 |

Lease liability

| | Leasehold property £'000 | Computer hardware and warehouse equipment £'000 | Group Total £'000 |
|------------------------|--------------------------------|---|-------------------------|
| At 1 July 2019 | 1,844 | 2 | 1,846 |
| Additions | – | 67 | 67 |
| Interest expense | 79 | 2 | 81 |
| Lease payments | (293) | (10) | (303) |
| At 1 July 2020 | 1,630 | 61 | 1,691 |
| Additions | 1,779 | 35 | 1,814 |
| Interest expense | 132 | 3 | 135 |
| Lease payments | (421) | (17) | (438) |
| At 30 June 2021 | 3,120 | 82 | 3,202 |

18 Deferred tax

| | £'000 |
|---|--------------|
| 1 July 2020 | 2,033 |
| Utilisation through profit and loss account | (933) |
| 30 June 2021 | 1,100 |

The balance comprises temporary differences attributable to:

| | Fixed asset differences £'000 | Other timing differences £'000 | Tax losses £'000 | Total £'000 |
|--|-------------------------------------|--------------------------------------|---------------------|----------------|
| Brought forward deferred tax asset | 703 | 11 | 1,319 | 2,033 |
| Recognised in the year through profit and loss | (110) | 4 | (827) | (933) |
| Carried forward deferred tax asset | 593 | 15 | 492 | 1,100 |

The Directors consider that sufficient future taxable profits will be available and as such deferred tax assets have been recognised in full for Virgin Wine Online Limited. A deferred tax asset has been recognised on losses in Virgin Wines Holding Company Limited to the extent to which the losses can be utilised through group relief. The deferred tax asset not recognised in Virgin Wines Holding Company is £0.7m (2020 unaudited: £0.7m).

The deferred tax asset is expected to be recovered against profits within the next financial year (2020 unaudited: £0.6m).

19 Inventories

| | 30 June 2021 £'000 Audited | 30 June 2020 £'000 Unaudited |
|---------------------------|-------------------------------------|---------------------------------------|
| Finished goods for resale | 7,239 | 4,996 |

There is no difference between the replacement cost of stocks and carrying value (30 June 2020 unaudited: £nil).

Inventories are stated after provision for impairment of £255k (2020 unaudited: £137k).

20 Trade and other receivables

| | 30 June 2021 £'000 Audited | 30 June 2020 £'000 Unaudited |
|---|-------------------------------------|---------------------------------------|
| Amounts falling due within one year: | | |
| Gross carrying amount – trade receivables | 458 | 530 |
| Loss allowance | (13) | (47) |
| Net carrying amount – trade receivables | 445 | 483 |
| Taxation and social security | 90 | 1 |
| Other debtors | – | 1,224 |
| Prepayments | 1,017 | 733 |
| | 1,552 | 2,441 |

At 30 June 2021 the stock financing balance was a receivable of £nil (2020 unaudited: £1.22m) which forms part of other receivables, as transfers to the lender exceeded the amount drawn down at that date. On 11 September 2020 the stock financing facility was terminated by the Group as it was no longer required.

Trade receivables are considered past due once they have passed their contracted due date. Trade receivables and contract assets are assessed for impairment based upon the expected credit losses model.

The Group applies the IFRS 9 Simplified Approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables and contract assets. To measure expected credit losses on a collective basis, trade receivables and contract assets are grouped based on similar credit risk and ageing. The contract assets have similar risk characteristics to the trade receivables for similar types of contracts.

The expected loss rates are based on the Group's historical credit losses experienced over the 3 years prior to the year end. The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Group's customers.

The average credit period on sales is 30 days after the invoice has been issued. No interest is charged on outstanding trade receivables.

At 30 June 2021 there were 4 (2020 unaudited: 2) customers who owed in excess of 10% of the total trade debtor balance. These customers were operating within their agreed credit terms and the Directors do not foresee an increased credit risk associated with these customers. As such no provision for impairment has been recognised on these balances.

Trade receivables and contract assets are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 60 days past due. There are no amounts outstanding on financial assets that were written off during the reporting period and which are still subject to enforcement activity. Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

The maturity analysis of trade receivables and other debtors is shown below:

| | Gross £'000 | Provision £'000 | 30 June 2021 Net £'000 Audited | Gross £'000 | Provision £'000 | 30 June 2020 Net £'000 Unaudited |
|--|----------------|--------------------|--|----------------|--------------------|--|
| Trade receivables and other debtors | | | | | | |
| Not yet due | 442 | – | 442 | 380 | (10) | 370 |
| Overdue | 16 | (13) | 3 | 150 | (37) | 113 |
| | 458 | (13) | 445 | 530 | (47) | 483 |

Movements in the impairment allowance for trade receivables and contract assets are as follows:

| | 30 June 2021 £'000 Audited | 30 June 2020 £'000 Unaudited |
|---|-------------------------------------|---------------------------------------|
| Opening provision for impairment of trade receivables and contract assets | 47 | 30 |
| Receivables written off during the year as irrecoverable | (47) | - |
| Increase during the year | 13 | 17 |
| Carried forward | 13 | 47 |

21 Cash and cash equivalents

Included in cash and cash equivalents is a balance of £7.3m (2020 unaudited: £5.4m) relating to advance payments received from WineBank customers. The corresponding creditor to customers is included in contract liabilities.

£2.0m of the cash balance is held on 95 day notice at a preferential interest rate of 0.45% (2020 unaudited: £2.0m at a rate of 0.85%).

22 Trade and other payables

| | 30 June 2021 £'000 Audited | 30 June 2020 £'000 Unaudited |
|------------------------------|-------------------------------------|---------------------------------------|
| Trade payables | 4,174 | 4,188 |
| Taxation and social security | 2,594 | 9,918 |
| Contract liabilities | 8,168 | 5,871 |
| Accruals | 3,378 | 2,085 |
| | 18,314 | 22,062 |

The Directors consider the fair value of trade payables to be equal to the book value given their short-term nature.

The growth in WineBank membership has resulted in an increase in advance customer payments held within contract liabilities.

23 Provisions

Leasehold dilapidation provision

| | 30 June 2021 £'000 Audited | 30 June 2020 £'000 Unaudited |
|-----------------------------|-------------------------------------|---------------------------------------|
| Brought forward | 238 | 217 |
| Charged in income statement | 37 | 21 |
| Carried forward | 275 | 238 |

Leasehold dilapidations relate to the estimated cost of returning a leasehold property to its original state at the end of the lease as a result of general 'wear and tear' and removal of fixtures and fittings. The cost is recognised as an expense in the Consolidated Statement of Comprehensive Income and accrued for over the term of the lease, on the basis that the 'wear and tear' increases over the period of the lease. The main uncertainty relates to estimating the cost that will be incurred at the end of the lease.

Maturity analysis for provisions

Dilapidation provisions are expected to mature at the end of the lease term as follows:

| | 30 June 2021 £'000 Audited | 30 June 2020 £'000 Unaudited |
|--------------|-------------------------------------|---------------------------------------|
| Over 5 years | 275 | 238 |
| | 275 | 238 |

24 Loans and borrowings

| | 30 June 2021 £'000 Audited | 30 June 2020 £'000 Unaudited |
|---------------------------|-------------------------------------|---------------------------------------|
| Secured shareholder loans | – | 11,976 |
| | – | 11,976 |

The movements in loans and borrowings during the year were as follows:

| | 30 June 2021 £'000 Audited | 30 June 2020 £'000 Unaudited |
|---------------------------------|-------------------------------------|---------------------------------------|
| Brought forward | 11,976 | 11,969 |
| Accrued interest (note 12) | 828 | 1,226 |
| Repayment of loans and interest | (12,804) | (1,219) |
| Carried forward | – | 11,976 |

In November 2013, the Group took out a loan note with investor clients of Connection Capital LLP of £3,390,479, with interest payable at 11% on a quarterly basis. The original loan note was due for repayment in November 2018 but this was extended to May 2022. As part of the IPO the loan was repaid in full in March 2021.

In November 2013, the Group took out two loan notes with venture capital trusts advised by Mobeus Equity Partners LLP totalling £8,499,736, split into a loan of £6,199,736 with interest payable at 11% on a quarterly basis and a loan note of £2,300,000 that was reduced to £2,000,000 in August 2014, with interest payable at 6% on a quarterly basis. The principal balance for all reporting periods is £8,199,736. The original loan notes were due for repayment in November 2018 but this was extended to May 2022. As part of the IPO the loan was repaid in full in March 2021.

In November 2013 the Group took out a loan note with the management team of £43,700 that was paid down to £35,871 in July 2016, with interest payable at 11% on a quarterly basis. In January 2019 an additional £360,000 loan note was issued, such that at June 2019 the loan note value held by the management team totalled £395,871. Interest on the additional loan notes is payable at 11% on a quarterly basis. The original loan note was due for repayment in November 2018 but this was extended to May 2022. As part of the IPO the loan was repaid in full in March 2021.

Shareholder/investor loans related to mezzanine finance and investor loans issued to the Group which were secured by way of a fixed and floating charge over all assets of the Group and bear interest at market rates. Following repayment of the loans in full upon IPO, these fixed and floating charges were relinquished.

25 Financial instrument and financial risk management

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- trade and other receivables;
- cash and cash equivalents;
- trade and other payables; and
- lease liabilities.

The existence of these financial instruments exposes the Group through its operations to the following financial risks:

- credit risk;
- liquidity risk;
- foreign currency risk; and
- capital management.

The Group's financial instruments may be analysed as follows:

| | 30 June 2021 £'000 Audited | 30 June 2020 £'000 Unaudited |
|--|-------------------------------------|---------------------------------------|
| Trade and other receivables | 445 | 1,707 |
| Cash and cash equivalents | 15,660 | 19,904 |
| Financial assets measured at amortised cost | 16,105 | 21,611 |
| Derivative financial assets measured at fair value through profit or loss | – | 81 |
| Financial assets measured at fair value through profit and loss | – | 81 |
| Derivative financial liabilities measured at fair value through profit or loss | (5) | – |
| Financial liabilities measured at fair value through profit and loss | (5) | – |
| Trade and other payables, excluding non-financial liabilities | (7,552) | (6,273) |
| Lease liabilities | (3,202) | (1,691) |
| Loan notes | – | (11,976) |
| Financial liabilities measured at amortised cost | (10,754) | (19,940) |

Financial assets which are debt measured at amortised cost comprise trade receivables, other receivables and cash and cash equivalents.

Financial assets measured at fair value through profit and loss represent the Company's derivative financial instruments, being foreign exchange forward contracts.

Financial liabilities measured at amortised cost comprise trade payables, accruals and other creditors, lease liabilities and loans and borrowings.

Credit risk

The Group's maximum exposure to credit risk is limited to the carrying amount of the financial assets recognised at the reporting date, as summarised below:

| | 30 June 2021 £'000 Audited | 30 June 2020 £'000 Unaudited |
|---|-------------------------------------|---------------------------------------|
| Financial assets measured at amortised cost | 16,105 | 21,611 |
| Financial assets measured at fair value through profit and loss | – | 81 |

The Group's cash and cash equivalents are all held on deposit with leading international banks and hence the Directors consider the credit risk associated with such balances to be low.

The Group provides credit to customers in the normal course of business. The principal credit risk therefore arises from the Group's trade receivables. In order to manage credit risk the Directors set credit limits for corporate customers based on a combination of payment history, credit references and a financial review of the business. Credit limits are reviewed on a regular basis in conjunction with debtor ageing and payment history. Historic credit losses of the Group have been negligible as referenced in note 20.

Liquidity risk

Liquidity risk arises from the Group's management of working capital and the amount of funding required for growth. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group manages its cash and borrowing requirements through preparation of annual cash flow forecasts reflecting known commitments and anticipated projects in order to maximise interest income and minimise interest expense, whilst ensuring that the Group has sufficient liquid resources to meet the operating needs of the Group. Borrowing facilities are arranged as necessary to finance requirements.

The following table shows the maturities of gross undiscounted cash flows of financial liabilities:

| | Carrying amount £'000 | Contractual cash flows £'000 | <1 year £'000 | 1-5 years £'000 | >5 years £'000 |
|---------------------------------------|-----------------------------|------------------------------------|------------------|--------------------|-------------------|
| Non-derivative financial liabilities: | | | | | |
| Trade and other payables | 7,552 | 7,552 | 7,552 | – | – |
| Lease liabilities | 3,202 | 3,753 | 621 | 2,067 | 1,065 |
| | 10,754 | 11,305 | 8,173 | 2,067 | 1,065 |
| Derivative financial liabilities: | | | | | |
| Foreign currency forwards | | | | | |
| (Inflow) | | (5,082) | (5,082) | – | – |
| Outflow | | 5,087 | 5,087 | – | – |
| | 5 | 5 | 5 | – | – |
| Total | 10,759 | 11,310 | 8,178 | 2,067 | 1,065 |

Contractual maturities of financial liabilities as at 30 June 2020 unaudited are as follows:

| | Carrying amount £'000 | Contractual cash flows £'000 | <1 year £'000 | 1-5 years £'000 | >5 years £'000 |
|---------------------------------------|-----------------------------|------------------------------------|------------------|--------------------|-------------------|
| Non-derivative financial liabilities: | | | | | |
| Trade and other payables | 6,273 | 6,273 | 6,273 | – | – |
| Lease liabilities | 1,691 | 1,911 | 388 | 1,198 | 325 |
| Loans and borrowings | 11,976 | 13,738 | 1,235 | 12,503 | – |
| | 19,940 | 21,922 | 7,896 | 13,701 | 325 |
| Derivative financial liabilities: | | | | | |
| Foreign currency forwards | | | | | |
| (Inflow) | | (1,445) | (1,445) | – | – |
| Outflow | | 1,364 | 1,364 | – | – |
| | (81) | (81) | (81) | – | – |
| Total | 19,859 | 21,841 | 7,815 | 13,701 | 325 |

Foreign currency risk

Foreign exchange risk is the risk that movements in exchange rates affect the profitability of the business. The Group purchases goods from overseas suppliers and is invoiced in currencies other than GBP. It is therefore exposed to movements in the GBP exchange rate against the currencies in which suppliers invoice the Group. The Group monitors exchange rate movements closely and ensures adequate funds are maintained in appropriate currencies to meet known liabilities.

The Group enters into forward foreign currency contracts to mitigate the exchange rate risk for certain foreign currency payables. At 30 June 2021, the outstanding contracts all mature within 6 months (2020 unaudited: 6 months) of the year end. The Company is committed to buy Euros, Australian Dollars, US Dollars and New Zealand Dollars (2020 unaudited: Australian Dollars and Euros) with a Sterling value of £5.1m (2020 unaudited: £1.4m).

The forward currency contracts are measured at fair value, by reference to the spot rate. This is a level 1 valuation in that the spot rate is a directly observable input.

The Group's exposure to foreign currency risk at the end of the respective year was as follows:

| | 30 June 2021 £'000 Audited | 30 June 2020 £'000 Unaudited |
|-------|-------------------------------------|---------------------------------------|
| AUS | 15 | 293 |
| EUR | 1,493 | 1,293 |
| USD | 56 | 186 |
| Total | 1,564 | 1,772 |

Liabilities include the monetary assets and liabilities of subsidiaries denominated in foreign currency.

The Group is exposed to foreign currency risk on the relationship between the functional currencies of Group companies and the other currencies in which the Group's material assets and liabilities are denominated. The table below summarises the effect on reserves had the functional currencies of the Group weakened or strengthened against these other currencies, with all other variables held constant.

| | 30 June 2021 £'000 Audited | 30 June 2020 £'000 Unaudited |
|---|-------------------------------------|---------------------------------------|
| (Loss)/gain on 10% strengthening of functional currency | (320) | 30 |
| Gain/(loss) on 10% weakening of functional currency | 391 | (36) |

Capital risk management

The Group's capital management objectives are:

- to ensure the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing products and services commensurate with the level of risk.

To meet these objectives, the Group reviews the budgets and forecasts on a regular basis to ensure there is sufficient capital to meet the needs of the Group.

The capital structure of the Group consists of shareholders' equity as set out in the Consolidated Statement of Changes in Equity. All working capital requirements are financed from existing cash resources.

In the prior year the capital structure included £12.0m of investor loans, which were repaid upon IPO. The Group maintained a net cash position in both the current and prior year.

| | 30 June 2021 £'000 Audited | 30 June 2020 £'000 Unaudited |
|----------|-------------------------------------|---------------------------------------|
| Net cash | 12,458 | 6,237 |
| Equity | 17,627 | 6,137 |

26 Share capital

| | 30 June 2021 £'000 Audited | 30 June 2020 £'000 Unaudited |
|---|-------------------------------------|---------------------------------------|
| Authorised, allotted, called up and fully paid | | |
| 55,837,560 (2020: 15,687,291) Ordinary Shares of £0.01 each | 558 | 156 |
| Nil (2020: 80,000) A Ordinary Shares of £0.01 each | – | 1 |
| Nil (2020: 30,899,252) B Ordinary Shares of £0.01 each | – | 309 |
| Nil (2020: 950,744) C Ordinary Shares of £0.01 each | – | 10 |
| Nil (2020: 79,200) A and B preference shares of £0.01 each | – | 1 |
| | 558 | 477 |

Virgin Wines UK plc was incorporated on 1 February 2021 with authorised, allocated and fully paid share capital of 5,000,000 Ordinary Shares of £0.01 each.

Prior to the transaction referred to in the next paragraph, the previous ultimate parent undertaking, Virgin Wines Holding Company Limited, issued 1,604,900 new shares to existing shareholders. These shares form part of the share capital of Virgin Wines Holding Company Limited which was subject to the transaction referred to below.

On 2 March 2021 the Group underwent a reorganisation in which Virgin Wines UK plc became the ultimate parent undertaking of the Group. The share capital at 30 June 2020 reflects the shares in Virgin Wines Holding Company Limited, the previous ultimate parent undertaking of the Group. Virgin Wines UK plc issued 44,222,147 Ordinary Shares of £0.01 each and 79,200 A and B preference shares of £0.01 each in exchange for shares in Virgin Wines Holding Company Limited. All of the A and B preference shares were redeemed, at par on 2 March 2021.

As part of the reorganisation 6,615,413 new Ordinary Shares of £0.01 each were created.

The new shares were fully paid and will rank pari passu in all respects with the existing Ordinary Shares, including the right to receive all dividends and other distributions.

£0.98m of costs in relation to the issue of new shares have been charged to the share premium account.

3,660,100 (2020 unaudited: 3,660,100) Ordinary Shares of £0.01 are held within the Group by the Employee Benefit Trust.

The Directors have approved an interim dividend of £1.36m (0.02p per share) in the year, which was approved and paid before the Group's IPO (2020 unaudited: £0.19m). The Directors do not recommend the payment of a final dividend.

27 Analysis and reconciliation of net cash

This section sets out an analysis of the movements in net cash, which includes cash and cash equivalents and liabilities arising from financing activities.

| | 1 July 2020 £'000 | New leases £'000 | Other non- cash changes £'000 | Cash flow £'000 | 30 June 2021 £'000 |
|--------------------------|-------------------------|---------------------|-------------------------------------|--------------------|--------------------------|
| Group | | | | | |
| Cash at bank and in hand | 19,904 | – | – | (4,244) | 15,660 |
| Lease liabilities | (1,691) | (1,816) | (135) | 440 | (3,202) |
| Borrowings | (11,976) | – | (10) | 11,986 | – |
| Net cash | 6,237 | (1,816) | (145) | 8,182 | 12,458 |

28 Related party disclosures

During the year ended 30 June 2021, management fee income of £205,522 (2020: £206,548) was charged by Virgin Wines Holding Company Limited to Virgin Wine Online Limited. These have been eliminated on consolidation.

During the year ended 30 June 2021, management fee income of £324,122 (2020: £nil) was charged by Virgin Wines UK plc to Virgin Wine Online Limited. These have been eliminated on consolidation.

Balances between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation.

There was an intercompany dividend in the period to 30 June 2021 from Virgin Wine Online Limited of £1,654,239 (2020: £3,929,082).

Details of remuneration of key management personnel can be found in note 9.

As part of the Group reorganisation the following loan notes, issued by Virgin Wines Holding Company Limited to its shareholders,

were repaid on 2 March 2021:

- Mobeus Equity Partners LLP totalling £8,199,736 repaid (2020: £8,199,736 outstanding). Interest of £538,238 (2020: £801,971) was charged in the period.
- Connection Capital LLP £3,390,479 repaid (2020: £3,390,479 outstanding). Interest of £250,338 (2020: £372,953) was charged in the period.
- Management team £395,871 repaid (2020: £395,871 outstanding). Interest of £29,229 (2020: £43,546) was charged in the period.

During the period, the Group paid £37,058 (2020: £33,099) in monitoring fees and expenses to Mobeus Equity Partners LLP and £19,688 (2020: £28,614) to Connection Capital LLP. At 30 June 2021 £4,500 (2020: £3,278) was due to Mobeus Equity Partners LLP and £nil (2020: £3,261) was due to Connection Capital LLP.

During the period, sales of £6,511 (2020: £5,112) were made to Mobeus Equity Partners LLP and sales of £2,173 (2020: £1,152) were made to Connection Capital LLP. At 30 June 2021 £164 (2020: £nil) was due from Connection Capital LLP.

During the period, sales of £15,904 (2019: £16,742) were made to LKB Enterprises Limited. At 30 June 2021 £4,076 (2020: £1,229) remained outstanding from LKB Enterprises Limited.

29 Ultimate parent undertaking

In the opinion of the Directors, there is no single controlling party.

30 Events after the end of the reporting year

There have been no matters arising after the balance sheet date that would require disclosure in the financial statements.

31 Capital commitments and contingent liabilities

At 30 June 2021 there were no capital commitments or contingent liabilities not provided in the financial statements (2020: £nil).

The Group has a bank guarantee in place of £0.1m in relation to the operation of its bonded warehouses.

32 Nature of each reserve

Share premium

Amount subscribed for share capital in excess of nominal value.

Own shares reserve

Shares held within the EBT (Employee Benefit Trust).

Merger reserve

The difference between the nominal value of shares issued in exchange for the book value of assets acquired.

Retained earnings

All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

Graeme Weir

Chief Financial Officer

28 October 2021