25 October 2023

Virgin Wines UK plc

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

AUDITED ANNUAL RESULTS FOR THE PERIOD ENDED 30 JUNE 2023

Results in line with expectations; strategic initiatives on track

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 period ended 30 June 2023 ("FY23").

Financial highlights

- **Revenue** – Group revenue of £59.0m (FY22: £69.2m, FY19: £42.3m), in line with expectations
    - Impacted by previously reported one-off exceptional events including Group's implementation of new Warehouse Management System ("WMS")
    - WineBank scheme revenue of £35.3m (FY22: £38.5m, FY19: £19.4m)

- **Adjusted EBITDA**(1) – FY23 £1.8m (FY22: £6.2m)
- **Adjusted profit before tax**(2) – FY23 £0.6m (FY22: £5.2m)

- **(Loss)/earnings per share** – FY23 (1.1)p (FY22: earnings per share 7.8p)

- **Cash** – The Group's net cash balance at 30 June 2023 was £5.5m (1 July 2022: £7.7m), with no debt

- **Inventory** – 24% reduction in inventory, from £11m in December 2022 to £8.4m at year-end

- **Gross Margins**(3) – FY23 29.6% (FY22: 31.4%), reflecting inflationary pressures
    - DTC (Direct To Consumer) product margins on repeat sales broadly flat at 40.5% (FY22: 41.0%)

	FY23 audited £m	FY22 audited £m
Revenue	**59.0**	69.2
Adjusted EBITDA(1)	**1.8**	6.2
Adjusted PBT(2)	**0.6**	5.2
Operating (loss)/profit	**(0.7)**	5.2
(Loss)/profit before tax	**(0.7)**	5.1
(Loss)/profit for the period	**(0.6)**	4.4

(1) Adjusted EBITDA is after adding back exceptional costs (FY23: £1.0m, FY22: nil) and share-based payments (FY23: £0.3m, FY22: £0.1m).
(2) Adjusted profit before tax is after adding back exceptional costs and share-based payments.
(3) Product margins exclude packaging and delivery costs.

Strategic highlights

- Disciplined approach to new customer acquisition drives returns despite headwinds
    - 91.5k new customers acquired in the Period
    - Over 70% acquired through key partnership channel (FY22: 67.5%)

    - Cost per recruit £11.99, one of the lowest recorded outside of COVID-19 years (FY22: £13.22)
    - Conversion rate broadly consistent to FY22 levels, at 46.8% (FY22: 48.6%)

- Active customer base of 173k (FY22: 186k), with a record 133k WineBank members (FY22: 130k)
    - WineBank customer deposits at a seasonal high of £8m by year-end (FY19: £4.5m)
    - Customers on subscription schemes contributed 87% of DTC sales (FY22: 82%)
    - WineBank cancellation rates at 17.3% by year-end following improvements in H2 (FY22: 16.7%)

- Strong strategic partnerships drive advancements in commercial channel and customer acquisition
    - New partnerships agreed with WH Smith Travel, Saga, Go Outdoors and OnTheMarket
    - Commercial revenue contributed 11.6% of total FY23 sales (FY22: 10%)

- Significant progress made on ESG, including:
    - Certified carbon neutral according to PAS 2060 standard for carbon neutrality
    - Reduced Scope 1 and 2 emissions by 24% and continued to reduce Scope 3
    - Committed to science-based targets under the SBTi
    - Became a member of the Sustainable Wine Roundtable and Harpers Sustainability Charter

Current trading and outlook

- 12% increase in YOY sales achieved in Q1 2024, as conversion and cancellation rates continue to improve. Sales through core repeat channels were 15.5% ahead YOY.

- The commercial sales channel also continues to show positive YOY growth, +8% post Period end.

- The strategic initiatives identified during the Group's Business Review are expected to be introduced during Q2/Q3 2024 with the benefits starting from H2 2024. This includes a new value proposition launching in late October, alongside a premium Australian Wine Club, whilst a full creative brand refresh will be rolled out over Q2/Q3 2024.

- New WMS now operating robustly with Q1 2024 operating variable cost reduced by 9.4% YOY and a 15.5% YOY reduction in Q124 warehouse cost per case against last year's highs. The Group sees potential for future productivity benefits and increased efficiency, with its growth plans futureproofed.

- The business has carried out extensive planning for the peak Christmas trading period, with operational preparation prioritised.

- As previously announced, the Board expects double-digit sales growth in FY 2024, with EBITDA margin of c. 4-5% as inflationary pressures, particularly on freight and glass, start to ease.

Jay Wright, Chief Executive Officer, said:
"FY23 has been a year affected by a number of challenges, from well-documented macroeconomic headwinds to a number of one-off, exceptional issues, most specifically relating to the implementation of our new Warehouse Management System in H1. Despite this, we have continued to grow our WineBank membership, maintain excellent discipline in our customer acquisition channel and deliver a healthy balance sheet, remaining debt free with £5.5m cash reserves and much reduced levels of stock.

"Our unique wines, market-leading propositions and best-in-class customer service continue to support our base of loyal customers, and WineBank remains a great way for them to spread the cost of enjoying high-quality wines. Looking ahead, the implementation of a number of exciting new strategic initiatives following the completion of our Business Review earlier in the year will support our resilience, enhancing our ability to cater to a wider range of customers. More broadly, we remain confident in our longer-term prospects given the strength of the customer proposition and our proven business model. Our continued focus on profit, generating cash and driving efficiencies also positions us uniquely within the sector. These pillars will remain consistent elements of our strategy moving forward."

Investor Meet Company

Virgin Wines has postponed its presentation on IMC scheduled for Friday 27 October due to unforeseen medical circumstances. The meeting will be rearranged in due course and a date will be announced as soon as practicable.

- Ends -

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Notes to editors:

About Virgin Wines

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 retailing.

The Company, which is headquartered in Norwich, UK, was established in 2000 by the Virgin Group and was subsequently acquired by Direct Wines in 2005 before being bought out by the Virgin Wines management team, led by CEO Jay Wright and CFO Graeme Weir, in 2013. It listed on the London Stock Exchange's Alternative Investment Market (AIM) in 2021.

Virgin Wines has almost 700 wines and c. 150 spirits in its portfolio which it sells to an active customer base of more than 170,000 members. It has approximately 200 employees and more than 40 trusted winemaking partners and suppliers around the world.

The Company drives the majority of its revenue though its fast-growing WineBank subscription scheme, using a variety of marketing channels, as well as through its Wine Advisor team, Wine Plan channel and Pay As You Go service.

Along with its extensive range of award-winning products, Virgin Wines was delighted to be named Online Drinks Retailer of the Year for 2022 at last year's Drinks Retailing Awards, as well as receiving the bronze award for Contact Centre of the Year at the 2022 UK National Contact Centre Awards. In addition, in 2023 the Group's Head of Buying, Sophie Lord, was also named Buyer of the Year by Decanter magazine.

https://www.virginwinesplc.co.uk/

Chairman's Statement

Introduction

It has undoubtedly been a challenging year for the economy and as with many other consumer-facing businesses, the Group continued to experience a number of headwinds during the period, impacting the supply chain, costs and underlying consumer demand. Despite this, Virgin Wines has demonstrated a high level of resilience in 2023 that has been a testament to the Group's strategy and its people.

The business' underlying fundamentals remain strong and continues to perform robustly within the ecommerce segment of the drinks market. The shift in attitudes and behaviours towards working from home has supported underlying demand. Meanwhile, the quality and consistency of the product and one of the leading customer propositions in the marketplace leave Virgin Wines well positioned to overcome the current macroeconomic pressures.

Whilst our revenues and profits are down on the prior year, much of the growth has been retained when compared with pre-pandemic levels. Our brand personality and values are unchanged and remain critical to our success. I would like to thank all our customers, suppliers, partners and, above all, our colleagues for making this possible.

Strategy

During the year, the Board and senior leadership team held a comprehensive strategy review where we evaluated the business' fundamental proposition and considered various opportunities including consumer segmentation, product range and geographical expansion.

The Group has started to implement the outcomes of the session, and benefits will be realised from FY24. These include – but are not limited to – the introduction of new premium and value ranges of wines, alongside an exit from the over-supplied beer category. The Board is confident that these strategic developments will solidify and enhance the Group's offer in order to continue to capture wider demographics of customers.

Throughout the year more widely, the Group continued to make good strategic progress against its wider strategic pillars. More detail on this is included in the CEO Statement.

ESG

ESG remains an important driver of the business. It informs our culture, strategy and stakeholder engagement. We are conscious of our responsibility to the environment and the need to take this into account in all our business practices. The Group remains committed to operating an ethical, transparent business, delivering value for all stakeholders in line with its long-term growth strategy.

During the year, the business took a number of important steps to drive its sustainability, including obtaining respected accreditations as a Carbon Neutral business under PAS 2060. We maintain a stable, experienced Board with a shared vision for the Group's growth, and ambitions to realise meaningful shareholder value into the future.

Outlook

While macroeconomic headwinds are expected to persist into FY24, compounded by the additional alcohol duty increase implemented post period end, there are a number of reasons to be excited at Virgin Wines and its opportunities for further financial progress over coming years.

Looking ahead, the Board and I remain highly optimistic of Virgin Wines' future growth prospects. There is encouraging, underlying consumer demand for the Group's leading proposition. The business model remains robust with an excellent in-house team driven to help the business grow through meaningful strategic progress.

JOHN RISMAN

Chairman

Chief Executive's Review

Introduction

It is well-known that our sector experienced a year of persistent macroeconomic challenges and inflationary pressures. At Virgin Wines, our financial year 2023 also saw us overcome a number of internal issues which impacted our performance particularly in the first half. This included the previously reported operational difficulties which took place during the early implementation of our new Warehouse Management System (WMS) during our peak Christmas trading period in 2022. Following further investment and rigorous testing, we are pleased to have resolved these issues, and our systems are now better placed to support trading in line with our growth ambitions.

Despite these headwinds, the Group delivered results for the year in line with expectations. We also continued to see positive momentum on a number of our core strategic initiatives, including an ongoing focus on low-cost, disciplined new customer acquisition, driving the strength and loyalty of our key WineBank customer base and delivering a number of new strategic partnerships in both our acquisition and Commercial channels.

Meanwhile, the fundamental Virgin Wines business model remains highly relevant, and we continue to be well positioned in the sector, expecting to benefit considerably as trading conditions start to improve. Demand for our uniquely sourced, high-quality offering and market-leading expertise remains strong, our customers remain loyal, and we look forward to realising the benefits from the implementation of several new initiatives over the coming months following our recent Business Review.

I am always inspired by the talent and resilience of my colleagues who have remained unwaveringly positive throughout this challenging year. Despite the pressures that the current climate has placed on them both personally and professionally, the enthusiasm, dedication, and energy that they possess and the optimism they display day-in, day-out, is an inspiration to work alongside. I am hugely proud to work with such outstanding people and delighted that we have been able to retain our unique culture in such volatile and uncertain times.

This all supports our ongoing optimism in our opportunities for future growth into FY24 and beyond.

Business overview

During the year we delivered revenues of £59m, a 14.5% decrease on the prior year but still a 39% increase on the last pre-covid year. We also achieved an adjusted EBITDA of £1.8m, a decrease from £6.2m the previous year.

There were a number of contributory factors to the FY23 financial performance with significant cost increases across the supply chain, a Virgin brand directive to restrain from direct marketing activity during the mourning period following the passing of the Queen in September '22, as well as the well-documented issues we experienced with the implementation of the new Warehouse Management System.

In addition, the Consumer Confidence Index fell to record lows during the past 12 months, driven by an especially challenging macro- economic landscape following significant increases in interest rates, the spiralling costs of energy, generationally high levels of inflation and war in Ukraine.

Nonetheless, we are pleased to have been able to mitigate a number of these headwinds. Our disciplined approach to customer acquisition has ensured the marketing cost of recruiting new customers has decreased 9% YOY, our open-source buying model has allowed us to concentrate on sourcing wines with the best quality/value ratios, whilst utilising UK bottling has allowed us to minimise freight costs. Well executed margin discipline through the sales channels ensured our gross margins for repeat sales to existing customers achieved 40.5%*, just a slight dip from 41% the previous year.

In addition, our balance sheet remained strong during the year, ending with net cash of £5.5m, £8m of WineBank customer deposits and no debt.

Strategic progress

We continued to focus strongly on delivering against our core strategic pillars during FY23. These are:

- Acquiring large numbers of high-quality, new customers, at a low cost per recruit.
- Driving membership growth onto our WineBank scheme.
- Maximising gross margins through our DTC channels.
- Optimising working capital to maximise free cash flow.
- Maintaining strict control of costs in a highly inflationary environment.

These pillars have supported the Group's growth and profitability for many years, and we continue to focus on these core pillars to deliver long-term, sustainable growth in both revenue and profitability.

New customer acquisition

During FY23 we were pleased to acquire more than 91k new customers, taking us to a total active customer base of 173k. Our marketing cost per recruit was just £11.99, a decrease on FY22 of 9% and one of the lowest levels we have reported outside the Covid affected years (FY22: £13.22). This remains industry- leading and is testament to our disciplined approach to new customer acquisition.

Strategic partnerships

We continued to focus on driving new partnerships with brands where we have complementary product categories, a similar demographic profile and where we believe our proposition and offers would be well suited. During the year, new partnerships developed included those with WHSmith Travel, Saga, Go Outdoors and On The Market amongst many others. These have supported both our new customer acquisition and the development of our Commercial business.

We have a strong pipeline of further partnerships into next year and look forward to continuing to introduce our exclusive high-quality wines to new customers around the UK over the coming months and years.

Subscription schemes

Our flagship subscription scheme, WineBank, continued to grow over the year, achieving a seasonal high of £8m in customer deposits by year-end. The scheme enables customers to spread the cost of buying wine by saving money each month and in turn earning 20% ‘interest’ on the money they save to then spend on wine. This has been particularly popular as many consumers find the convenience of saving smaller amounts regularly an effective way of budgeting for their wine purchases.

Despite a challenging environment, the resilience of the scheme was highlighted by the membership growing 2.3% over the year to 133k (FY22: 130k) while cancellation rates only ticked up marginally to 17.3% (FY22: 16.7%).

It is also pleasing to see much of the growth realised during the Covid lockdown periods has been maintained with the WineBank membership 52% higher than prior to that period.

The cash from the WineBank scheme is ring-fenced, held in a separate account and is not used to help fund the business or for working capital, and therefore not included in the Group’s stated net cash position.

The business also operates two quarterly wine plan schemes, Discovery Club and justREDS. This year has been particularly challenging for these types of service as the cost-of-living crisis has intensified and put more pressure on traditional continuity programmes. This has encouraged us to focus further on WineBank where customers have the ability to make smaller, regular payments and have the flexibility to purchase whatever they want, whenever they want with the benefit of free express delivery and their 20% ‘interest’.

Wine Advisors

Our 43-strong Wine Advisor team continues to offer a personal and highly valued one-to-one service to over 50k customers, delivering the highest levels of customer engagement alongside the highest average order values and the highest average spend per annum of any group of customers. The team delivers an exceptional service, ensuring every wine purchased is perfectly suited to their customers' tastes and that their personal client base receives the ‘inside track’ on new wines and special discoveries that they may have otherwise missed. Our Wine Advisors also handle any service queries that may occur, meaning they handle customers' entire relationship with Virgin Wines. This focus on delivering an unbeatable customer experience remains core to our proposition.

Conversion and cancellation rates

As previously reported, the conversion and cancellation rates fluctuated over the course of the year. Given the pressure put on consumer spending over H123, alongside the system issues over the Christmas period, we saw a downturn in the conversion rate of new customers during the first half of the year which then largely recovered over the second half. The 12-month rolling conversion rate for FY22 was 48.8% and while we saw it bottom out in December '22, it has subsequently been on a consistent monthly upward trend, finishing the year at 46.8%.

Similarly, we had seen the 12-month rolling WineBank cancellation rate tick upwards over the first half of the year. It started in July ’22 at 17.8% before peaking in December ’22. By June ’23 we had seen the rate reduce down to 17.3%, again showing a positive trend throughout H223.

Gross margins

We have seen substantial cost increases across the business over the past 12 months, several of which have placed direct pressure on gross margins. In particular, the rising cost of energy, coupled with the effects of the war in Ukraine, led to exceptional increases in the cost of glass and the bottling of wine. Freight costs, both over sea and land, increased at varying degrees of severity depending on the region globally, as did packaging. All these factors had the effect of increasing the cost price of a bottle of wine without positively influencing the quality in any way.

The business worked hard to mitigate the effects of these wherever possible, whether that be reducing bottle weights, shipping by tank into the UK or focusing more heavily than ever on countries and regions that were able to deliver the best quality/value ratios.

Our ability to curate our own case configurations also helped deliver the flexibility to couple great quality wines with value for money pricing, whilst managing the gross margins across the individual channels of the business.

The result of these factors was a reduction in statutory gross margin from 31.4% to 29.6%. Another contributory factor was the continued success of the Commercial channel, where gross margins are lower due to the wholesale element of a significant proportion of the revenue. With this being a larger proportion of the overall sales year-on-year, it has a negative effect on the overall gross margin of the business.

Working capital and free cash flow

At the start of our financial year, we took the decision to bring stock into the UK early for the peak Christmas trading period due to the continued issues within the supply chain and the sporadic, but extensive, delays we were still experiencing from shippers and transporters globally, along with blockages in UK ports. This increased our stock holding and, coupled with weaker than planned trading over the peak period, resulted in us carrying higher than desired levels of working capital into H2. We worked hard over H223 to positively effect this and stock reduced by 24% over the final six months of the year from £11m to £8.4m.

The introduction of the new Warehouse Management System increased our capital expenditure this year. However, the business still ended FY23 debt free and with £5.5m of cash on the balance sheet, in addition to £8m in WineBank deposits.

Cost control

In addition to the pressure on gross margins through the escalation of input costs, we have also seen the impact of the inflationary environment on several additional areas. Of particular note is the annual increase in the National Living Wage, more general wage inflation across the business, and increases in the cost of packaging and courier charges, all of which inflate our operational costs or our fixed overhead.

In an increasingly heavily taxed environment, we have also seen dramatic increases over the last two years in the waste levy charged to businesses on all carboard and plastic packaging, glass and metal imported into the UK. Since FY21 this has increased by 211%, equating to £283k of additional cost in FY23.

Wine sourcing model

Uniquely, we continue to source our wines from a large network of trusted long-term winemaking partners and suppliers across the globe using a data driven, customer focused, open-source supply model. This means that we can focus our efforts on sourcing from countries and regions across the globe that deliver the best quality grapes for each individual vintage, while maintaining the flexibility to ensure we can blend, and deliver, the very best value wines to our customers.

96% of the wines we sell by volume are exclusive to Virgin Wines. This control of the winemaking process ensures we have the ability to blend our wines ourselves, matching the precise stylistic qualities and taste profiles that we know our loyal customers are looking for – this is achieved through the constant use of extensive data and clever analytics from tens of thousands of customer reviews.

We believe that our unique model differentiates Virgin Wines for both our customers and investors, ensuring working capital can be minimised, quality/value ratios can be maximised whilst delivering the most advantageous gross margins. This sourcing model is key in supporting the resilience of our business and the strength of our investment case.

Our culture, values and people

At Virgin Wines, the welfare, support and development of our people is a priority. As a business that has always prided itself on placing its values and culture at its very centre, we continue to adapt how we achieve that in an ever-changing working environment.

Within our workplace we aim to create a fun and informal environment but combine that with the highest of standards and exemplary levels of professionalism. We also aim to be a supportive and inclusive business where our team members are proud to work.

Over the past year we have completed an externally managed employee engagement survey to understand what we are doing well and where we can improve. We have created an environment that encourages hybrid working and flexibility, however, with that the needs and expectations of our people have also changed, and it was helpful to understand the various thoughts of our team in detail through an anonymous, in-depth survey.

The introduction of our Employee Assistance Programme has been well received and used extensively. The service allows all employees to access a range of free services and support documents from one-to- one counselling to advice on finances, health, and personal welfare. We have also introduced a new HR system that that allows us to have a consistent and thorough onboarding service, instant access to policies and self-management of annual leave. It is also the central hub for access to the Employee Assistance Programme.

A welcoming and inclusive environment for all is paramount and we continue to deliver a range of initiatives to promote this. This year we have carried out an external inclusivity survey while a large number of employees have completed an LGBTQ+ Awareness Training course with a certificate awarded recognising the continued professional development of individuals on the topic.

We continue to support a range of charities, including Bright Start in South Africa that aims to give children from impoverished backgrounds a chance of a quality education, Growing Well, a specialist mental health charity that champions recovery through outdoor activity in two Cumbrian market gardens, and The Drinks Trust that aims to safeguard the drinks industry community as a whole.

We also understand the importance of responsible drinking and the dangers of alcohol abuse. As such we continue to actively promote to our customers the importance of enjoying alcohol in moderation and we continue to drive our unique messaging that 'Drinking is only fun when you don't overdo it'.

Progress on sustainability

As well as delivering on our commercial ambitions we understand that it is our responsibility to have a positive impact on our planet. Both the Board of Directors and our Senior Management are committed to minimising our environmental impact through product innovation, targeted operational initiatives and collaboration with our stakeholders. We are also committed to operating in a transparent manner and ensuring our products are sourced through a visibly ethical supply chain.

I am delighted to say this year has been one of positive progress for the business with several landmark achievements and new initiatives.

In particular, we were delighted to be officially certified as carbon neutral in October '22 to the PAS 2060 standard for carbon neutrality. PAS 2060 is an internationally recognised standard and one of few officially verified routes to achieving this status. Whilst this is an excellent first step on our sustainability journey, we had also targeted to reduce our Scope 1 and 2 emissions by 25% in FY23 and through a variety of initiatives, including the major project of installing LED lighting across our premises, we are pleased to have beaten that target.

One of the ways we have been able to drive down our greenhouse gas emissions in recent years has been the ever-increasing amount of wine that we bottle in the UK. This is one of the most significant ways we can positively affect our GHG emissions, and we achieve this by shipping in tank and then using Greencroft Bottling, itself a BRC Grade AA+ facility, to bottle the wine for us at its state-of-the- art bottling plant just outside Durham. This is a substantially more environmentally friendly way to import wine for several reasons, but specifically due to the lower weight involved, with no glass being shipped, and also because of the reduced amount of space it takes to ship bulk liquid compared to bottled product. In the last 12 months we used Greencroft to bottle 39.8% of our wines compared to 28% the year before, delivering a material benefit on our GHG emissions.

We have also become a member of the Sustainable Wine Roundtable, an industry-wide initiative that is committed to delivering best practice across the wine industry, including a commitment to reducing bottle weights to minimise the amount of glass used across the sector.

In addition to our environmental impact efforts, we have also reviewed and improved our supplier due diligence process. We have undertaken a supplier review to ensure all partners are acting in a sustainably responsible manner and with values that align with ours. We are also introducing a company-wide sustainable procurement policy.

Moving forwards our key initiatives include shifting our focus away from offsetting and towards insetting. By generating real change within our own value chain, we will lower our GHG emissions and contribute to the creation of carbon reduction solutions for the wine industry as a whole.

Our focus on insetting will go beyond carbon emissions, however, and we will pay attention to other areas that put our environmental future at risk. We're in the process of conducting our first double-materiality assessment, so we can discover where our stakeholder priorities lie, and ensure we're focusing on the environmental issues that are most important to all of us.

Business Review

We have completed our Business Review, which has identified several strategic initiatives that we are planning to start implementing over Q224. We believe these will either add further credibility to the existing Virgin Wines offering or allow growth into an area of the market where the business is currently under-represented.

These initiatives are aimed at enhancing our trading with a wider range of consumers, as well as refining and refreshing the appeal of the core business. We expect these to predominantly benefit trading from H224 onwards. This includes a new value proposition, Warehouse Wines, launching in late October, alongside a premium Australian Wine Club, Five O'clock Somewhere (5OS). In addition, the Board remains open to exploring future opportunities for growth, including strategic partnerships or geographical expansion.

Outlook

As previously announced, the Board expects double digit sales growth in FY24, alongside EBITDA margin of circa 4% - 5% as inflationary pressures, particularly on freight and glass, start to ease. This will be supported by the elimination of the previously reported one-off factors that negatively affected this year's performance, alongside the development of the Group's new strategic initiatives and a return to operational efficiency.

I am pleased to report that we have finished our Q1 period with year-on-year revenue growth of 12%, with the ongoing loyalty of our existing customer base particularly encouraging to see. In addition, both new customer conversion rates and WineBank cancellation rates continue to trend positively from our year-end position and revenue through our core repeat sales channels are up 15% up year-on-year. Customer acquisition continues to be the most challenging area of the business, however, we continue to see encouraging year-on-year growth through our Commercial channel.

We remain confident in the long-term prospects of the business given the strength of the customer proposition and proven business model. We look forward to pushing further forward in both our financial and operational progress in the months and years ahead.

JAY WRIGHT

Chief Executive Officer

Financial Review

Business summary

The financial performance for FY23 was affected by several factors impacting both revenue and cost, the most significant being the disruption caused by the launch of the new Warehouse Management System in late Q1 FY23. This drove an additional £1m in operational costs which are categorised as exceptional in FY23 due their scale and one-off nature. The negative impact on revenue and net contribution is not included in exceptional costs. With the WMS now performing as expected the Group is in a position to start to deliver the planned benefits in efficiency and customer service.

High inflation driven by food and energy costs, hikes in interest rates particularly in 2023 calendar year and the unwinding of any remaining Covid impact resulted in much tougher underlying market conditions in FY23. Despite these headwinds many of the core fundamentals of the Virgin Wines model were unchanged. The disciplined approach to new customer acquisition delivering new recruits at a marketing cost of only £11.99 per recruit (FY22: £13.22), with 70% of the new recruits joining via the partnership model, up from 67% in FY22. The conversion of new recruits into active customers recovered strongly in H2, finishing the year at 46.8% (FY22: 48.6%). Despite a drop in order frequency WineBank customers continue to be the main source of repeat revenue. The scheme membership increased again in the year to 133k (FY22: 130k) with membership cancellation from the active base edging up only marginally from 16.7% to 17.3% and WineBank deposits grew to £8.0m from £7.4m in FY22 which should reflect pent up demand and future Group revenue.

The Group remains debt free and in a strong position to benefit from improvements in consumer confidence.

Loss/profit before tax

Loss before tax for FY23 was £0.6m compared to a profit of £4.4m in FY22. After adjusting for exceptional costs and share based payments profit before tax was £0.6m, (FY22: £5.2m). The Group does not propose to pay a dividend.

Adjusted EBITDA

Given the trading challenges in FY23, adjusted EBITDA was lower at £1.8m, down from £6.2m in FY22. As a percentage of revenue, the adjusted EBITDA margin was 3.0% compared to 9.0% in FY22. The adjusted EBITDA for FY23 is calculated after adding back exceptional costs of £1.0m (FY22: nil), share based payments of £0.3m (FY22: £0.1m) and depreciation/amortisation to the reported operating loss of £0.7m. Adjusted EBITDA is not a statutory reporting measure but is included as an additional performance measure consistent with previous reporting.

Exceptional costs

The reported results include £1m of exceptional items (FY22: nil). The exceptional items relate solely to additional costs incurred as a result of operational issues following the implementation of a new Warehouse Management System. Impacts related to the loss of revenue due to early Christmas cut off have not been included in exceptional costs. The Board is satisfied that the additional costs incurred are non recurring in scale and nature. Significant progress has been made throughout the second half of FY23 to improve the system stability and performance. Along with enhanced staff training and experience the system is now operating as planned.

Revenue

Reported revenue for the 52-week period to 30 June 2023 fell by £10.2m (14.7%) to £59m (FY22: £69.2m). The revenue was impacted by the exceptional events referred to in the business summary and by the challenging trading environment throughout FY23. Commercial revenues were unchanged at £6.9m. The proportion of repeat revenue from subscription customers, WineBank and Wine Plan increased to 87% from 82% in FY22, with the revenue contribution from non subscription (PAYG) customers continuing to fall.

Gross margin

Reported gross margin for the 52-week period to 30 June 2023 declined by 186 basis points to 29.6%, (FY22: 31.4%). This reflected a full year of lower margins on recruitment activity that started back in H2 of FY22 and the impact of inflationary pressure on dry good input costs in what remains a highly competitive pricing landscape. Gross profit in these Financial Statements is stated as revenue less wine cost, packaging, and carrier delivery costs. UK Duty, inbound packaging, and freight costs are included in the wine cost. Direct to consumer (DTC) product margins on repeat sales held up well despite the cost pressures, achieving 40.5% compared to 41.0% in FY22. Product margins exclude packaging and delivery costs.

Operating expenses

Operating expenses excluding exceptional costs increased by £0.2m to £15.7m, (FY22: £15.5m). Selling and distribution expenses fell due to lower volumes in FY23. However, administration expenses increased, reflecting inflationary cost pressures and ongoing investment in future growth opportunities. Energy and waste levy costs increased sharply, and the business continued to invest in IT development and staff retention.

Finance income and expense

Finance income relates to interest received on company cash deposits and increased by £0.13m to £0.16m, (FY22: £0.03) as interest rates increased during FY23. Finance expenses increased slightly to £0.17m (FY22: £0.13m) due to the increased cost of borrowing on right of use assets. The charge in financial statements for both years relates solely to the interest charge on right of use assets and the adoption of IFRS 16 for leases.

Further details are available in notes 11 and 12 of the Financial Statements.

Amortisation and depreciation

Amortisation and depreciation increased to £1.2m in FY23 from £0.9m in FY22 as the Group continued to invest in IT developments and the new WMS which went live in the year.

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 15.

Taxation

The tax credit in the Financial Statements for FY23 is £0.14m, tax charge (FY22: £0.7m). The tax credit relates to the loss for the period. This resulted in an increase in the deferred tax asset and has no cash impact. The deferred taxes have been measured using the tax rate of 25% (FY22: 25%).

Earnings Per Share (EPS)

The Group reported loss for the year equates to a loss per share of 1.1p. This compares to earnings per share of 7.8p in FY22. The diluted loss per share is 1.1p, FY22 diluted earnings per share 7.8p. The weighted average number of shares in issue for FY23 was 55.8m, FY22 55.8m (see note 14 of the Financial Statements for more details).

Cash and working capital

The Group end of year cash balance for FY23 was £13.5m (FY22: £15.1m). These balances include cash deposits from WineBank customers of FY23 £8.0m, (FY22: £7.4m). The WineBank customer deposits are not used to fund working capital and are kept in a ring- fenced client account separate from Group cash. Net of WineBank customer deposits and the deferred payments the net cash position was year end £5.5m, (FY22: £7.7m). The Group funded investment in capital projects of £0.9m in FY23, (FY22: £1.0m). As signposted in our Interim Report, as supply chain risks reduced, in H2 the Group commenced a programme to reduce inventory levels. As a result inventories fell from a peak of £11.0m by the year end in December 2022 by £2.6m to £8.4m, (FY22: £8.7m). Trade and other payables reduced in FY23 to £14.2m from £15.4m in FY22 reflecting the slowdown in purchasing activity in the latter part of H2 FY23.

The Group has cash reserves, no borrowing, ring-fenced client funds and can continue to deploy working capital to achieve future growth plans and manage any downside financial risk.

GRAEME WEIR

Chief Financial Officer

Consolidated Statement of Comprehensive Income

for the 52-week period ended 30 June 2023

	Note	**30 June 2023**	1 July 2022
		£'000	£'000
Revenue	5	**58,998**	69,152
Cost of sales		**(41,560)**	(47,429)
Gross profit		**17,438**	21,723
Administrative expenses before exceptional items		**(5,981)**	(4,356)
Administrative expenses before exceptional items		**(5,981)**	(4,356)
Exceptional items	6	**(990)**	-
Administrative expenses		**(6,971)**	(4,356)
Selling and distribution costs		**(11,189)**	(12,166)
Operating (loss)/profit	7	**(722)**	5,201
Finance income	11	**159**	31
Finance costs	12	**(174)**	(134)
(Loss)/profit before taxation		**(737)**	5,098
Taxation credit/(expense)	13	**143**	(747)
(Loss)/profit for the financial period and total comprehensive (expense)/income		**(594)**	4,351
Basic and diluted (loss)/earnings per share (pence)	14	**(1.1)**	7.8

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

The Group has no other comprehensive income or expense other than the (loss)/profit above and therefore no separate statement of other comprehensive income has been presented.

Consolidated Statement of Financial Position

as at 30 June 2023

Company number 13169238	Note	**30 June 2023 £'000**	1 July 2022 £'000
ASSETS			
Non-current assets			
Intangible assets	15	**11,350**	11,113
Property, plant and equipment	16	**402**	400
Right of use assets	17	**2,870**	3,262
Deferred tax asset	18	**496**	428
Total non-current assets		**15,118**	15,203
Current assets			
Inventories	19	**8,367**	8,653
Trade and other receivables	20	**2,615**	2,477
Derivative financial instruments	24	**-**	16
Cash and cash equivalents	21	**13,514**	15,070
Total current assets		**24,496**	26,216
Total assets		**39,614**	41,419
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	22	**(14,206)**	(15,451)
Derivative financial instruments	24	**(12)**	-
Lease liability	17	**(521)**	(456)
Total current liabilities		**(14,739)**	(15,907)
Non-current liabilities			
Provisions	23	**(321)**	(290)
Lease liability	17	**(2,732)**	(3,149)
Total non-current liabilities		**(3,053)**	(3,439)
Total liabilities		**(17,792)**	(19,346)
Net assets		**21,822**	22,073

Equity			
Share capital	25	**558**	558
Share premium		**11,989**	11,989
Own share reserve		**–**	(36)
Merger reserve		**65**	65
Share based payment reserve		**402**	95
Retained earnings		**8,808**	9,402
Total equity		**21,822**	22,073

The Financial Statements on pages 77 to 104 were approved by the Board of Directors and authorised for issue on 25 October 2023. They were signed on its behalf by:

Jay Wright

Chief Executive Officer

The notes on pages 81 to 104 of the Annual Report 2023 form part of these Financial Statements.

Consolidated Statement of Changes in Equity

for the 52-week period ended 30 June 2023

	Share capital	Share premium	Own share reserve	Merger reserve	Share based payment reserve	Retained earnings	Total Shareholders' funds
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
3 July 2021	558	11,989	(36)	65	–	5,051	17,627
Profit for the financial period	–	–	–	–	–	4,351	4,351
Total comprehensive income for the period	–	–	–	–	–	4,351	4,351
Share-based payments (note 10)	–	–	–	–	95	–	95
Total transactions with owners recognised in equity	–	–	–	–	95	–	95
1 July 2022	558	11,989	(36)	65	95	9,402	22,073
2 July 2022	**558**	**11,989**	**(36)**	**65**	**95**	**9,402**	**22,073**
Loss for the financial period	–	–	–	–	–	**(594)**	**(594)**
Total comprehensive income for the period	–	–	–	–	–	**(594)**	**(594)**
Share-based payments (note 10)	–	–	–	–	**307**	–	**307**
Own shares distributed	–	–	**36**	–	**–**	–	**36**
Total transactions with owners recognised in equity	–	–	**36**	–	**307**	–	**343**
30 June 2023	**558**	**11,989**	**–**	**65**	**402**	**8,808**	**21,822**

The notes on pages 81 to 104 of the Annual Report 2023 form part of these Financial Statements.

Consolidated Statement of Cash Flows

for the 52-week period ended 30 June 2023

		30 June 2023 £'000	1 July 2022 £'000
Cash flows from operating activities	Note		
(Loss)/profit before taxation		**(737)**	5,098
Adjustments for:			
Depreciation and amortisation	7	**1,195**	963
Share-based payment expense	10	**307**	95
Own shares distributed	25	**36**	–
Net finance costs	11, 12	**15**	103
Increase in trade and other receivables		**(122)**	(941)
Decrease/(increase) in inventories		**286**	(1,414)
Decrease in trade and other payables		**(1,126)**	(2,928)
Net cash (used in)/generated from operating activities		**(146)**	976
Cash flows from investing activities			
Interest received	11	**159**	31
Disposal of intangible fixed assets	15	**35**	–
Purchase of intangible and tangible fixed assets	15, 16	**(968)**	(969)
Net cash used in investing activities		**(774)**	(938)
Cash flows from financing activities			
Payment of lease liabilities	17	**(462)**	(494)
Payment of lease interest	12	**(174)**	(134)
Net cash used in financing activities		**(636)**	(628)
Net (decrease)/increase in cash and cash equivalents		**(1,556)**	(590)
Cash and cash equivalents at beginning of period		**15,070**	15,660
Cash and cash equivalents at end of period		**13,514**	15,070
Cash and cash equivalents comprise:			
Cash at bank and in hand		**13,514**	15,070

The notes on pages 81 to 104 of the Annual Report 2023 form part of these Financial Statements.

Notes Forming Part of the Financial Statements

for the 52-week period ended 30 June 2023

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, Ribbleton, 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

On 31 December 2020, IFRS as adopted by the European Union at that date were brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK endorsement Board. The Group transitioned to the UK- adopted International Accounting Standards in the Group Financial Statements on 1 July 2021. This change constitutes a change in accounting framework. However, there is no impact on recognition, measurement or disclosure in the periods reported as a result of the change in framework. The Group Financial Statements have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under these standards.

The financial information set out in this announcement does not constitute the Group's financial statements for the period ended 30 June 2023 as defined by Section 434 of the Companies Act. This financial information should be read in conjunction with the financial statements of the Group for the period ended 1 July 2022 (the "Prior year financial statements"), which are available from the Registrar of Companies. The Prior year financial statements were prepared in accordance with UK adopted international accounting standards and the applicable legal requirements of the Companies Act 2006. The auditors, PricewaterhouseCoopers LLP, reported on those accounts and their report was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 (2) or (3) of the Companies Act 2006.

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 adopted an accounting period of 52 weeks, and as a result of this, the exact year-end was 30 June 2023 (2022: 1 July 2022).

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 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 17 and IFRS 4, 'Insurance contracts', deferral of IFRS 9, as amended in June 2020 - effective for the year ending 30 June 2024

- 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 24.

During the period the Group met its day-to-day working capital requirements through its trading 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.

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.

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.

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 when customers spend their WineBank cash balance but not the associated interest. The material right performance obligation is calculated on a portfolio basis taking into account inactive customers and expected future cash receipts which reduce the portfolio value of the material right. The material right provision is included within contract liabilities and 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 income statement 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 Financial Statements 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 estimate 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 re- categorised 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 comprehensive income.

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 five to ten years, but may have extension options as detailed in note 16.

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 payment 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 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 transactions 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; and
- 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 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.

Exceptional items

The Company presents certain items as “exceptional” on the face of the Consolidated Statement of Comprehensive Income account in arriving at operating profit. These are items which in management’s judgement need to be disclosed separately by virtue of their size, nature and occurrence.

Employee benefits

The Group 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 Group operates a number of country-specific defined contribution plans for its employees. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. Once the contributions have been paid the Group 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 Group 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 Group has discretion to recover the employer’s National Insurance liability from the employee. For the current active schemes the company has chosen to do so.

Merger reserve

The merger reserve was created during FY21 as a result of the share for share exchange under which Virgin Wines UK plc became the parent undertaking prior to the IPO. Under merger accounting principles, the assets and liabilities of the subsidiaries were consolidated at book value in the Group Financial Statements and the consolidated reserves of the Group were adjusted to reflect the statutory share capital, share premium and other reserves of the Company as if it had always existed, with the difference presented as the merger reserve.

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.

Section 479c Companies Act 2006 Audit exemption

The subsidiaries Virgin Wine Online Limited (registered number 03800762) and Virgin Wines Holding Company Limited (registered number 07970057) are exempt from the requirements of the Act relating to the audit of accounts under section 479A of the Companies Act 2006.

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

In preparing these Financial Statements, the Directors have made the following key judgements and estimates:

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.

Assessment of carrying values of plc company investments and amounts due from Group undertakings

In relation to the plc company's investments in subsidiaries, the Directors are required to assess whether there are any indicators of impairment at each reporting date. All relevant potential indicators are considered, including the performance of the underlying trading subsidiary and the results of the Group’s impairment assessment performed as at the same date as described above. The Directors exercise their judgement in determining whether any such indicators exist. Where an indicator of impairment is identified in relation to the company’s investments or intercompany receivable balances, a full impairment review is performed. The Directors performed their assessment and concluded that no impairment indicators existed at 30 June 2023 and, as such, a full impairment review over the company’s investments in subsidiaries and intercompany receivables was not performed.

In relation to the amounts due from Group undertakings, the Directors are required to assess their carrying amount for any impairment using the expected credit losses ("ECL") model. As set out in note 5 to the Company Financial Statements, the amounts owed by Group undertakings are unsecured, interest free and repayable on demand. Consistent with the ECL model, the Directors have assessed the carrying amount for impairment on the assumption that repayment of the amounts were demanded at the reporting date. The Directors, having determined that the borrower had insufficient highly liquid resources at the reporting date, considered the expected manner of recovery and recovery period of these loans (the company’s ‘recovery scenarios’). The Directors determined that the only non-trivial recovery scenario would be realised by way of a dividend distribution by the Group's trading subsidiary, Virgin Wine Online Limited. The Directors, amongst other factors, considered the ability and intent of the subsidiary to make such a distribution if required, and ultimately determined that any reduction in the carrying amount of these receivables would be inconsequential to the company's financial statements. On that basis, no ECL provision has been recognised.

Sources of estimation uncertainty

The Group has considered other estimates and assumptions that, whilst not deemed to represent a significant risk of material adjustment, do represent important estimates at 30 June 2023 and are disclosed accordingly. The valuation of the material right provision is disclosed as an other estimate in the current year.

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.

The level of aggregation of results reported to and assessed by the CODM supports that there are not operating segments smaller than the business as a whole, 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 regards 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 having similar recognition policies and whilst the Group provides services, Management 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 (2022: no customers).

6. Exceptional items

Exceptional items relate to additional labour costs (£687k), goodwill compensation given to customers (£97k) and other incremental costs (£206k) due to operational issues following the implementation of the new Warehouse Management System. These costs are deemed exceptional due to their size and non recurring nature (2022: £nil).

7. Operating (loss)/profit

Operating (loss)/profit is stated after charging/(crediting):

	30 June 2023 £'000	1 July 2022 £'000
Inventory charged to cost of sales	**37,548**	43,060
Depreciation (note 16)	**232**	139
Depreciation of right of use asset (note 17)	**501**	502
Staff costs (note 8)	**8,192**	7,660
Share based payments (note 10)	**307**	89
Movement in inventory provision	**(98)**	38
Intangible asset amortisation (note 15)	**462**	322
Low value and short-term rentals excluded from right of use asset	**70**	51
Auditors' remuneration:		
– for the audit of the Group and parent company Financial Statements	**219**	187
– non audit fees (tax compliance services)	**13**	11

8. Staff costs

	30 June 2023 £'000	1 July 2022 £'000
Staff costs (including directors) consist of:		

Wages and salaries	**6,948**	6,477
Social security costs	**790**	707
Other pension costs	**454**	476
	8,192	7,660

The amount recognised in the Consolidated Statement of Comprehensive Income as an expense in relation to the Group's defined contribution schemes is £454,000 (2022: £476,000).

The monthly average number of employees (including directors) during the period was as follows:

By function	**30 June 2023 Number**	1 July 2023 Number
Sales	**164**	164
Management and administrative	**36**	36
	200	200

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

9. Key management personnel

	30 June 2023 £'000	1 July 2022 £'000
Short-term employee benefits	**675**	669
Post employment benefits	**24**	31
	699	700

During the period, retirement benefits were accruing to two directors (2022: two) 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.

Additional analysis can be found in the Remuneration Committee report.

10. Share-based payments

In the 52-week period ended 30 June 2023 the Group operated an equity-settled share-based payment plan as described below. The charge in the period attributed to the plan was £307,000 (2022: £89,000).

The total amount recognised in relation to share based payments is £402,000 (2022: £95,000).

Under the Virgin Wines UK plc Long-Term Incentive Plan, the Group gives performance share awards (PSA) and restricted share awards (RSA) to Directors and senior staff subject to the achievement of a pre-agreed revenue and net 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 period 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'.

		30 June 2023		1 July 2022	
Grant date	Vesting Date	**Share price at grant**	**Number of share options**	Share price at grant	Number of share options
PSA Share Awards					
6 December 2021	1 November 2024			193p	696,393
6 December 2022	6 December 2025	**70p**	**1,606,003**		–
			1,606,003		696,393
RSA Share Awards					
6 December 2021	1 November 2024			193p	87,058
6 December 2022	6 December 2023	**70p**	**204,654**		–
6 December 2022	6 December 2024	**70p**	**204,654**		–
6 December 2022	6 December 2025	**70p**	**275,949**		–
			685,257		87,058

	Number of Shares 30 June 2023	Number of Shares 1 July 2022
Outstanding at start of period	**1,204,217**	433,288
Granted during the period	**2,291,260**	783,451
Lapsed during the period	**(305,451)**	–
Forfeitures in the period	**(378,381)**	(12,522)
Outstanding at end of period	**2,811,645**	1,204,217

The awards outstanding at 30 June 2023 have a weighted average remaining contractual life of 1.9 years (2022: 2.0 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

	30 June 2023 £'000	1 July 2022 £'000
Bank interest	**159**	31

12. Finance costs

	30 June 2023 £'000	1 July 2022 £'000
Interest payable for lease liabilities	**174**	134

13. Taxation

	30 June 2023 £'000	1 July 2022 £'000
Analysis of charge for the period		
Current tax		
Adjustment in respect of prior period	**75**	–
Charge for the year	**–**	75
Total current tax	**75**	75
Deferred tax		
Origination and reversal of timing differences	**165**	857
Adjustment in respect of prior period	**(97)**	(82)
Effect of changes in tax rates	**–**	(103)
Total deferred tax	**68**	672
Tax charge on profit on ordinary activities	**143**	747

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.

Deferred taxes at the balance sheet date have therefore been measured using the effective tax rate (25%).

The tax assessed for the period is higher (2022: lower) than the standard rate of corporation tax in the UK applied to profit before tax. The differences are explained below:

	30 June	1 July

	2023 £'000	2022 £'000
(Loss)/profit before tax	**(737)**	5,098
(Loss)/profit before tax at the standard rate of corporation tax in the UK of 25% (period ended 1 July 2022 – 19%)	**(184)**	969
Effects of:		
Expenses not deductible for tax purposes	**77**	–
Tax rate change	**–**	(103)
Adjustment in respect of prior period	**22**	(82)
Other permanent differences	**(58)**	(37)
Total tax (credit)/charge for the period	**(143)**	747

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 period.

At 30 June the total number of potentially dilutive shares issued under the Virgin Wines UK plc long term incentive plan was 2,811,645

(2022: 1,204,217). Due to the contingent nature of options under the long term incentive scheme, these share have no dilutive effect on the loss per share.

The calculation of basic profit per share is based on the following data:

Statutory EPS

	30 June 2023	1 July 2022
Earnings (£'000)		
(Loss)/profit after tax	**(594)**	4,351
Dividend attributed to preference shareholders	–	–
(Loss)/earnings for the purpose of basic earnings per share	**(594)**	4,351
Number of shares		
Adjusted average number of shares for the purposes of basic earnings per share	**55,837,560**	55,837,560
Adjusted average number of shares for the purposes of diluted earnings per share	**55,837,560**	55,945374
Basic and diluted (loss)/earnings per ordinary share (pence)	**(1.1)**	7.8

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 restructuring finance costs, all net of taxation, and are considered to show the underlying performance of the Group.

	30 June 2023	1 July 2022
Earnings (£'000)		
(Loss)/earnings for the purpose of basic earnings per share	**(594)**	4,351
Exceptional items	**990**	–
Tax effect of above	**(248)**	–
Earnings for the purpose of adjusted earnings per share	**148**	4,351
Number of shares		
Adjusted average number of shares for the purposes of basic earnings per share	**55,837,560**	55,837,560
Adjusted average number of shares for the purposes of diluted earnings per share	**58,649,205**	55,945,374
Basic earnings per ordinary share (pence)	**0.3**	7.8
Diluted earnings per ordinary share (pence)	**0.25**	7.8

15. Intangible assets

	Goodwill £'000	Software £'000	Total £'000
Cost			
At 3 July 2021	9,623	2,188	11,811
Additions	–	593	593
At July 2022	9,623	2,781	12,404
Additions	–	734	734
Disposals	–	(35)	(35)
30 June 2023	**9,623**	**3,480**	**13,103**
Accumulated amortisation and impairment			
At 3 July 2021	–	969	969
Amortisation charge	–	322	322
At 1 July 2022	–	1,291	1,291
Amortisation charge	–	462	462
30 June 2023	–	1,753	1,753

Net book value			
30 June 2023	**9,623**	**1,727**	**11,350**
1 July 2022	9,623	1,490	11,113

Included within Software is £0.4m (2022: £0.6m) net book value in relation to development of the Mantiki core IT platform, which has a remaining amortisation period of two (2022: three) years and £0.6m (2022: £0.2m) in relation to development of the Korber Warehouse Management System, which has a remaining amortisation period of four years (2022: five years).

Included in Software is £0.7m (2022: £0.5m) of internally generated asset.

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 cashflow model which adjusts for risks associated with the assets. The discount rate applied is a pre-tax rate of 13.8% (2022: 11.5%)

The forecasts for the business are based over a five-year projection period, use past experience and apply a forecast annual growth rate. The key assumptions used in the discounting cashflow were the sales and EBITDA figures (based on board approved plans), the future growth rate (including 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	**Computer hardware & warehouse equipment**	**Fixtures & fittings**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Cost				
At 3 July 2021	20	631	277	928
Additions	–	268	108	376
At 1 July 2022	20	899	385	1,304
Additions	–	81	153	234
At 30 June 2023	**20**	**980**	**538**	**1,538**

Accumulated depreciation				
At 3 July 2021	20	516	229	765
Charge for the period	–	96	43	139
At 1 July 2022	20	612	272	904
Charge for the period	–	138	94	232
At 30 June 2023	**20**	**750**	**366**	**1,136**
Net book value				
At 30 June 2023	**–**	**230**	**172**	**402**
At 1 July 2022	–	287	113	400

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.

On 14 June 2022 the Group extended the lease on its offices in Norwich to 24 September 2032. The lease has a break clause on 24 September 2026 and on 24 September 2030.

The Group entered into a lease for a warehouse in Preston on 19 October 2016 under a ten-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 ten-year lease term ending on 31 August 2030. The first break clause in 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 full retrospective approach was adopted to calculate the cost of the right-of-use asset.

	Leasehold property	**Computer hardware & warehouse equipment**	**Total**
	£'000	**£'000**	**£'000**
Cost			
At 3 July 2021	4,202	104	4,306
Additions	858	39	897

At 1 July 2022	5,060	143	5,203
Additions	–	109	109
At 30 June 2023	**5,060**	**252**	**5,312**
Accumulated depreciation			
At 3 July 2021	1,415	24	1,439
Charge for the period	476	26	502
At 1 July 2022	1,891	50	1,941
Charge for the period	466	35	501
At 30 June 2023	**2,357**	**85**	**2,442**
Net book value			
At 30 June 2023	**2,703**	**167**	**2,870**
At 1 July 2022	3,169	93	3,262

Lease liability

	Leasehold property	**Computer hardware & warehouse equipment**	**Total**
	£'000	**£'000**	**£'000**
At 3 July 2021	**3,120**	**82**	**3,202**
Additions	**858**	**39**	**897**
Interest expense	**130**	**4**	**134**
Lease payments	**(599)**	**(29)**	**(628)**
At 2 July 2022	**3,509**	**96**	**3,605**
Additions	**–**	**109**	**109**
Interest expense	**169**	**5**	**174**
Lease payments	**(596)**	**(39)**	**(635)**
At 30 June 2023	**3,082**	**171**	**3,253**

18. Deferred tax

	30 June 2023 £'000	1 July 2022 £'000
Brought forward	**428**	1,100
Utilisation through income statement	**68**	(672)
Carried forward	**496**	428

The balance comprises temporary differences attributable to:

	Fixed asset differences £'000	Other timing differences £'000	Tax losses £'000	Total £'000
Deferred tax asset at 3 July 2021	593	15	492	1,100
Recognised in the period through income statement	(175)	(5)	(492)	(672)
Deferred tax asset at 2 July 2022	418	10	–	428
Recognised in the period through income statement	(323)	10	381	68
Deferred tax asset at 30 June 2023	**95**	**20**	**381**	**496**

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 and Virgin Wines UK plc.

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 £0.9m (2022: £0.9m).

The deferred tax asset is expected to be utilised in more than one year. Deferred tax is calculated based on the expected tax rate in force when the timing differences reverse of 25% (2022: 25%).

19. Inventories

	30 June 2023 £'000	1 July 2022 £'000
Finished goods for resale	**8,367**	8,653

There is no difference between the replacement cost of stocks and carrying value (1 July 2022: £nil). Inventories are stated after provision for impairment of £195,000 (2022: £293,000).

20. Trade and other receivables

	30 June 2023 £'000	1 July 2022 £'000
Amounts falling due within one year:		
Gross carrying amount - trade receivables	**821**	946
Loss allowance	**(7)**	(13)
Net carrying amount - trade receivables	**814**	933
Prepayments	**1,582**	1,331
Other receivables	**219**	213
	2,615	2,477

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 aging. 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 three years prior to the period 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 2023 there were two (1 July 2022: three) 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.

Other receivables relates to uncleared sales receipts from customers, processed in the normal course of business. The maturity analysis of trade receivables and other debtors is shown below:

	30 June 2023			1 July 2022		
	Gross £'000	**Provision £'000**	**Net £'000**	Gross £'000	Provision £'000	Net £'000
Trade receivables and other debtors						

Not yet due	**776**	**–**	**776**	823	–	823
Overdue	**45**	**(7)**	**38**	123	(13)	110
	821	**(7)**	**814**	946	(13)	933

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

	30 June 2023 £'000	1 July 2022 £'000
Opening provision for impairment of trade receivables and contract assets	**13**	13
Recovered provided debt	**5**	–
Increase during the period	**(10)**	–
Write off of provided debt	**(1)**	–
Carried forward	**7**	13

21. Cash and cash equivalents

Included in Cash and cash equivalents is a balance of £8.0m (1 July 2022: £7.4m) relating to advance payments received from WineBank customers. The corresponding creditor to customers is included in contract liabilities.

£3.1m of the cash balance is held on 95 day notice (2022: £2.0m) at a preferential interest rate of 4.75% (1 July 2022: 1.45%).

22. Trade and other payables

	30 June 2023 £'000	1 July 2022 Restated £'000
Trade payables	**2,227**	2,810
Taxation and social security	**1,581**	2,928
Contract liabilities	**8,721**	8,091
Accruals and other creditors	**1,677**	1,622
	14,206	15,451

The Directors consider the fair value of creditors to be equal to the book value given their short-term nature. Contract liabilities includes a £0.5m material rights provision related to WineBank (FY22: £0.4m).

Trade and other payables at 1 July 2022 have been restated to reclassify the WineBank material right provision of £0.4m from accruals and other creditors to contract liabilities. This balance was previously included in accruals and other creditors. However, the Directors have concluded its nature is more in line with contract liabilities. The overall balance on Trade and other payables has remained unchanged.

23. Provisions

Leasehold dilapidation provision

	30 June 2023 £'000	1 July 2022 £'000
Brought forward	**290**	275
Charged in income statement	**31**	15
Carried forward	**321**	290

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'. 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 2023 £'000	1 July 2022 £'000
October 2026	**254**	248
August 2030	**67**	42
	321	290

24. Financial instruments 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 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 2023 £'000	1 July 2022 Restated £'000
Trade and other receivables	**1,033**	1,146
Cash and cash equivalents	**13,514**	15,070
Financial assets measured at amortised cost	**14,547**	16,216
Derivative financial assets measured at fair value through profit or loss	**–**	16
Financial assets measured at fair value through comprehensive income	**–**	16
Derivative financial liabilities measured at fair value through profit or loss	**(12)**	–
Financial liabilities measured at fair value through comprehensive income	**(12)**	–
Trade and other payables, excluding non-financial liabilities	**(3,904)**	(4,432)
Lease liabilities	**(3,253)**	(3,605)
Financial liabilities measured at amortised cost	**(7,157)**	(8,037)

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

Financial assets measured at fair value through comprehensive income represent the Group’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.

Trade and other payables, excluding non-financial liabilities at 1 July 2022 has been restated to exclude £0.4m of material right provision (see note 22).

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 2023 £'000	1 July 2022 £'000
Financial assets measured at amortised cost	**14,547**	16,216
Financial assets measured at fair value through comprehensive income	**–**	16

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.

Details of the trade receivables impairment policy can be found 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 as at 30 June 2023:

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	**3,904**	**3,904**	**3,904**	**–**	**–**
Lease liabilities	**3,253**	**3,872**	**675**	**2,096**	**1,101**
	7,157	**7,776**	**4,579**	**2,096**	**1,101**
Derivative financial liabilities:					
Foreign currency forwards					
(Inflow)		**(1,376)**	**(1,376)**	**–**	**–**
Outflow		**1,364**	**1,364**	**–**	**–**
	(12)	**(12)**	**(12)**	**–**	**–**
Total	**7,145**	**7,764**	**4,567**	**2,096**	**1,101**

Contractual maturities of financial liabilities as at 1 July 2022 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 - Restated	4,432	4,432	4,432	–	–
Lease liabilities	3,605	4,384	629	2,284	1,471
	8,037	8,816	5,061	2,284	1,471

Derivative financial liabilities: Foreign currency forwards					
(Inflow)		(1,463)	(1,463)	–	–
Outflow		1,447	1,447	–	–
	(16)	(16)	(16)	–	–
Total	8,021	8,800	5,045	2,284	1,471

Trade and other payables, excluding non-financial liabilities at 1 July 2022 has been restated to exclude £0.4m of material right provision (see note 22).

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 2023, the outstanding contracts all mature within 6 months (2022: 6 months) of the period end. The Group is committed to buy Euro and Australian Dollars (2022: Euro, Australian Dollars and US Dollars) with a Sterling value of £1.38m (2022: £1.44m).

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 reporting period was as follows:

	30 June 2023 £'000	1 July 2022 £'000
AUS EUR	**128 –**	197 –
USD	**–**	140
Total	**128**	337

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 2023	1 July 2022

	£'000	£'000
Loss on 10% strengthening of functional currency	**(104)**	(103)
Gain on 10% weakening of functional currency	**128**	126

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.

	30 June 2023 £'000	1 July 2022 £'000
Net cash	**10,261**	11,465
Equity	**21,822**	22,073

25. Share capital

	30 June 2023 £'000	1 July 2022 £'000
Authorised, Allotted, called up and fully paid		
55,837,560 (2022: 55,837,560) ordinary shares of £0.01 each	**558**	558

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. 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. Nil (2022: 3,660,100) Ordinary Shares of £0.01 are held within the Group by the Employee Benefit Trust.

The Directors have not approved and interim dividend and do not recommend the payment of a final dividend (2022: nil).

26. 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.

	3 July 2021 £'000	New Leases £'000	Other non-cash changes £'000	Cashflow £'000	1 July 2022 £'000
Cash at bank and in hand	15,660	–	–	(590)	15,070
Lease liabilities	(3,202)	(897)	(134)	628	(3,605)
Net cash	12,458	(897)	(134)	38	11,465
Decrease in cash in the period					(590)
New leases					(897)
Lease interest					(134)
Lease payments					628
Movement in net cash in the period					(993)
Net cash at 2 July 2021					12,458
At 1 July 2022					11,465

	2 July 2022 £'000	New Leases £'000	Other non-cash changes £'000	Cashflow £'000	30 June 2023 £'000
Cash at bank and in hand	**15,070**	**–**	**–**	**(1,556)**	**13,514**
Lease liabilities	**(3,605)**	**(109)**	**(174)**	**635**	**(3,253)**
Net cash	**11,465**	**(109)**	**(174)**	**(921)**	**10,261**
Decrease in cash in the period					**(1,556)**
New leases					**(109)**
Lease interest					**(174)**

Lease payments	**635**
Movement in net cash in the period	**(1,204)**
Net cash at 1 July 2022	**11,465**
At 30 June 2023	**10,261**

27. Related Party disclosures

During the period ended 30 June 2023, sales of £800,654 (2022: £618,367) were made 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. Details of remuneration of key management personnel can be found in note 8.

During the period the Group paid £47,203 (2022: £41,397) in monitoring fees and expenses to Gresham House Asset Management Limited. At 30 June 2023 £3,900 (2022: £4,500) was due to Gresham House Asset management Limited. Gresham House Asset Management Limited has significant influence over the Group by virtue of their appointment of a board member.

During the period sales of £nil (2022: £1,221) were made to Gresham House Asset Management Limited.

During the period sales of £24,405 (2022: £20,499) were made to LKB Enterprises Limited. At 30 June 2023 £4,695 (2022: £3,440) remaining outstanding from LKB Enterprises Limited, a company in which Virgin Wines UK plc's CEO's wife has significant control.

28. Ultimate parent undertaking

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

29. Events after the end of the reporting period

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

30. Capital commitments and contingent liabilities

There are no capital commitments and no contingent liabilities not provided in the Financial Statements for the period ended and as at 30 June 2023 (1 July 2022: £0.3m commitment for new Warehouse Management System).

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

31. 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 Benefits Trust).

Merger reserve

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

Share-based payment reserve

The movements on share based payments.

Retained earnings

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