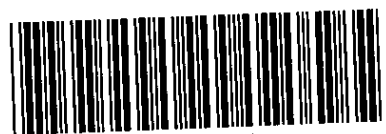


Registered number: 01095091

Direct Wines Limited
Annual report and financial statements
For the year ended 2 July 2021

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Direct Wines Limited

Annual report and financial statements for the year ended 2 July 2021

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Direct Wines Limited

Company information

Directors

A J Clifford King	Non-executive
A H G Laithwaite CBE	Non-executive
B A Laithwaite	Non-executive
H J H Laithwaite	Non-executive
W W Laithwaite	Non-executive
T A E Laithwaite	Non-executive
A J Porter	Non-executive
J W H Weir	
D B Gates	

Registered office

One Waterside Drive
Arlington Business Park
Theale
Berkshire
RG7 4SW

Bankers

Barclays Bank plc
Apex Plaza
Forbury Road
Reading
Berkshire
RG1 1AX

HSBC
Level 7
Thames Tower
Station Road
Reading
Berkshire
RG1 1LX

Solicitors

CMS Cameron McKenna Nabarro Olswang LLP
Cannon Place,
78 Cannon Street
London
EC4N 6AF
United Kingdom

Direct Wines Limited

Strategic report for the year ended 2 July 2021

The directors present their strategic report of the Company for the year ended 2 July 2021.

Review of business and principal activities

The principal activity of the Company during the period was the importing and distribution of wines.

The income statement for the period is set out on page 12.

Following a good start to the year, the UK rose further to the challenges presented by the pandemic. Revenue increased by 28.5% compared to last year and combined with good margin control and reduced costs of recruiting new customers, profit before income tax increased to £3,108k (2020: profit of £2,015k).

For the second year running, we were winners of the IWC award for Best Online Retailer.

The total number of customers increased during the year and it is pleasing to report that once again the number of higher spending customers increased year on year, reflecting our strategy of focusing our efforts in the most profitable segments of our base.

In addition to the customer base, the business monitors other key performance indicators which include measures on productivity, costs, sales and margin. Our gross product margin increased on last year to 39.2% (2020: 38.1%), primarily due to sales mix.

Risk management

The directors recognise the following as the principal risks of the business and meet regularly to update and review the risk register:

Technology risk/IT Security

- Any significant failure of IT systems would affect our ability to trade. The Company ensures that the organisation appropriately manages the IT risk across security, availability, performance and compliance. These risks are monitored through dedicated governance reviews, regular tests and annual audits from a number of independent organisations, all of which is reported to the Audit Committee. The Company continues to invest significantly in IT development and deployed a new system at the end of the previous financial year which is proving to be a firm foundation for future growth and enhanced controls and security.

People risk

- The success of our business is based on employing the best people with the right capabilities. The Company recognises that the loss of staff with specific knowledge or skills can be disruptive to the business. The Board, through the People Committee, continues to maintain focus on retaining staff and reviews pay and benefits policies annually as well as succession planning for key staff.

Operational risk

- In the event of an emergency incident, business continuity plans are key to ensure the business is appropriately protected against risk. These plans are in place and are regularly tested. The performance of the Company throughout the Covid-19 pandemic has shown the ability of the business to react rapidly and appropriately to unexpected and disruptive events.

Direct Wines Limited

Strategic report for the year ended 2 July 2021 (continued)

Risk management (continued)

Regulatory risk/Compliance

- We need to ensure compliance with all legal and regulatory requirements in the markets in which we operate and to monitor any legal or regulatory changes. The Company employs a UK legal and compliance team to ensure that we are aware and comply with all requirements and this is reported into the Audit Committee. Areas covered include governance and policies, security of personal data and marketing communications (including GDPR).

Performance risk

- Performance against budget is tracked as any negative variance could lead to a failure to deliver the long-term goals. The Board is informed about the Company's progress on a monthly basis and any deviations from the budget are discussed at Board meetings.

Economic risk

- The Board reviews a broad range of economic, regulatory and political risks as part of the Strategic Planning process.

Financial risk

- Foreign exchange, interest rate, credit and liquidity risks are managed with appropriate financial instruments and the directors approve the FX hedging policy annually. Further information is provided in the Directors' Report.

Brexit

- The Company recognise the ongoing risks of the Brexit process principally in the supply of wine to customers in Northern Ireland. A Brexit working group exists to monitor the legacy issues resulting from Brexit and the company actively participates in industry initiatives to influence positive change. Working closely with WSTA the Government scrapped VI1's – thus eliminating a key risk to the wine trade.

Covid-19

- The Company has managed through the pandemic well, activating elements of its business continuity plans to enable large scale home working for the majority of employees and adapting warehouse procedures to ensure safe working conditions for staff. These actions played a key part in allowing the business to meet increased demand with the smallest possible impact on service levels. A Covid-19 Management Group meets weekly to ensure we remain informed as government advice changes and that we continue to consider all options to optimise the business as the pandemic develops.

The directors meet regularly to evaluate business risks, monitor the economic climate and take appropriate action where necessary.

The main objectives of the Company continue to be the maintenance of a positive trajectory on revenue, profit and customer numbers; to build long-term customer relationships and to work with our partners to source outstanding and great value wine for our customers with a growing digital dimension to our operation.

Direct Wines Limited

Strategic report for the year ended 2 July 2021 (continued)

Considering the interests of stakeholders

The Company is committed to developing its relationships with key stakeholders, including our employees and our suppliers of wine and other goods and services.

Employee loyalty has been a key driver of the Company's success and the Board (through the work of the People Committee) has put in place a number of initiatives to support employees' interests, including:

- Introduction of enhanced parental leave entitlements beyond statutory requirements
- A charity partnership scheme in which employees have nominated a local charity with whom each local office carries out fundraising activities
- Offering all UK employees the opportunity to take advantage of a flexible, tax efficient payroll giving scheme, through which individuals may opt to make regular donations to a charity or good cause of their choice
- Ongoing commitment to Gender Pay equality
- All employees (with the exception of some Board members) are members of the annual company profit share scheme, which is paid based on business performance
- As part of our 50th anniversary celebrations, the directors have awarded an additional day's annual leave (to be taken on or around each employee's birthday) as an ongoing benefit
- Introduction of wellness sessions with a particular emphasis on the challenges posed by the ongoing pandemic and implications on the working environment
- Increased learning and development opportunities across a wide range of topics
- A new benefit of a gift of a case of champagne given to any employee for their wedding

We consider our long-term relationships with wine suppliers to be a strategic point of difference from our competitors, and we aim to connect our suppliers directly with our customers through events such as our annual Vintage Festival. In order to ensure these relationships remain strong, and to demonstrate their importance to the Company, we have a policy that every Board member should aim to accompany a buying trip at least once a year.

Across our supplier base, we want to be known as a reliable customer. Our Payment Practice Reports demonstrate that we pay invoices much faster than the national average, and we continue to review our published results together with those of our competitors to ensure that our payment policies are industry-leading. We engage suppliers on the basis of trust, openness and shared values, and our formal Supplier Take On process includes consideration of compliance with relevant policies on matters such as Modern Slavery, Anti-Bribery and Corruption and business ethics.

Section 172(1) statement

Under the Companies (Miscellaneous Reporting) Regulations 2018, we are required to publish a statement which sets out how the Board of Directors fulfils its duties under s.172 of the Companies Act 2006 to have regard for the long-term success of the Company (Direct Wines Limited) and the interests of its stakeholders. The Board's approach to fulfilling these duties is set out below.

The role of the Board

The Board's primary responsibility is to promote the long-term success of the Company by creating and delivering sustainable value to shareholders. The delivery of the business's long-term plan relies on building and maintaining positive relationships with a wide range of stakeholders (examples of relevant activities are set out below). The Board seeks to achieve this plan by formally setting out its strategy during the annual budget and long-term planning process, monitoring performance against those targets and reviewing the implementation of the strategy by the executive management team.

Direct Wines Limited

Strategic report for the year ended 2 July 2021 (continued)

Section 172(1) statement (continued)

Board Governance

We aim to establish and maintain Board structures which conform with corporate governance best practice while remaining appropriate to the size and structure of our business.

The Board of Directors includes all of our shareholders (the founders and their three sons), two Independent Non-Executive Directors and two Executive Directors. Our Non-Executive Directors are independent at the time of their appointment – selection is carried out through an open search conducted by reputable firms against a full brief. The size and composition of the Board is appropriate to our business, reflecting the family heritage and ownership as well as benefiting from wider experience in large and small business, including publicly-owned and family-owned companies.

The Board has two Co-Chairs, one of whom is a family member and one of whom is an Independent Non-Executive, who is also the Chair of a listed plc. The role of the Co-Chairs is separate from that of the Chief Executive, in order to ensure that there is an effective balance of responsibilities, decision-making and accountability.

Directors undergo appropriate training to ensure they are aware of and equipped to meet their statutory duties as well as possessing an appropriate level of knowledge of new and emerging legislation to be able to lead the business effectively and in a compliant way. In recent years, the Board has completed a number of targeted training sessions in response to new legislative requirements. These include matters which are specific to their role as company directors and their s.172 duty, as well as pieces of legislation which present specific risk to a direct-to-consumer wine merchant, such as the Modern Slavery Act and the General Data Protection Regulation. In recognition of the increasing threat facing our business, a cyber-security training session was completed with the Board during the current financial year.

While many key decisions which affect the day-to-day management of the business are appropriately delegated to executive management, Board oversight is always maintained, with each Board member having a clear understanding of their individual accountability and responsibility for decisions which are taken.

Some of the duties of the Board are also executed via subcommittees chaired by Board members. These include the Audit Committee and the People Committee, which covers the functions of a remuneration committee and a nominations committee, as well as considering succession planning both within the shareholders' family and in the key executive management roles in the wider business. We believe that these subcommittees allow the Board to challenge and directly influence a broad range of areas across the business.

We have an Internal Governance Policy which sets out items which are reserved for Board-level decision-making, items which may be delegated and the level of delegation. This ensures that the key areas for decision-making and compliance are considered in a structured and timely way. The policy is reviewed at every Board meeting to ensure it remains appropriate.

All Board meetings are scheduled at least a year in advance. Formal Board meetings are held at least every two months, but Board documentation is prepared and circulated monthly, irrespective of whether there is a meeting. This documentation seeks to provide information on all key aspects of business performance, and includes standard elements such as financial results, non-financial KPIs, relevant industry/market news, updates on opportunities, risks and strategic initiatives (which are agreed by the Board as part of the annual Budget and Three Year Planning process) and some regular compliance matters (for example a health and safety report and a whistleblowing report). Board documentation may also include one-off papers to cover specific agenda items as required. The Co-Chairs and the Executives meet regularly to ensure that the Board agenda is complete and that all appropriate topics are covered.

Direct Wines Limited

Strategic report for the year ended 2 July 2021 (continued)

Section 172(1) statement (continued)

Activities of the Board during the financial year

All board decisions take into account their potential impact on different stakeholders; board papers include stakeholder views that have been gathered to allow informed decision-making. We recognise that different groups of stakeholders are impacted by, or may benefit from, decisions made by the board in different ways. The Board recognises that directors must act both collectively and individually in a way that they consider, in good faith, to be most likely to promote the success of the business for the benefit of its members as a whole, with regard to all its stakeholders and to the matters set out in paragraphs a to f of Section 172 of the Companies Act 2006. Examples of these duties are set out below:

A director of a company must...have regard (amongst other matters) to -		Evidence
(a)	The likely consequence of any decision in the long term	During the current financial year, the Board agreed a new formal strategy to provide overarching direction to guide the business and clarifying where to focus our investment and our people. The Board subsequently approved investments to support this via our annual budgeting and long-term planning process, which included funding for a major refresh to Laithwaites branding (completed during the financial year). Other long-term investments included upgrades to our website architecture and warehouse management system.
(b)	The interests of the company's employees	<p>The Board has kept the wellbeing and development of employees at the heart of decision-making during the pandemic. Throughout the financial year, funding has been allocated to provide practical support, including the provision of advice on effective working from home and home-schooling, and a number of professional mental health and wellbeing seminars (including daily sessions during Mental Health Week).</p> <p>The Board has introduced development initiatives such as our Leadership Standard, a tool to drive positive behaviours among our staff, aligned with our core values, which we term Doing Things Beautifully. The Leadership Standard is an element of each employee's Personal Development Plan. The Board also set up a series of voluntary development sessions open to all employees ("Lunch and Learn") - the sessions have been led by Board members, members of the wider management teams and guest speakers, and have covered a wide range of topics intended to promote a better understanding of how our business works and give employees more opportunity to ask questions directly of our senior leaders. Attendance at these sessions has been excellent, with more than 150 attendees regularly joining the calls.</p> <p>The Board also established a working party to survey employee opinion on ways of working beyond the pandemic, which resulted in the approval of a new hybrid working policy. The aim of the policy is to balance a clear wish from employees for more flexible arrangements than were available previously, with the business' desire to maintain and expand our culture which evolves from the kind of day-to-day interactions (both formal and informal) which can only occur when people meet face-to-face. The policy is due to go live in September 2021 (home working as the norm will continue until then) and is likely to evolve as practical issues of hybrid working become clearer. This policy also led us to invest in reconfiguring the office space in Theale to allow for more collaborative work spaces for the future.</p>

Direct Wines Limited

Strategic report for the year ended 2 July 2021 (continued)

Section 172(1) statement (continued)

A director of a company must...have regard (amongst other matters) to -	Evidence
<p>(c) The need to foster the company's business relationships with suppliers, customers and others; and</p> <p>(d) The impact of the company's operations on the community and the environment</p>	<p>The Board agreed a Corporate Social Responsibility programme to integrate with the new strategy. A key element of this is to reduce our environmental impact across our supply chain by working with our suppliers towards a common goal of reaching Net Zero emissions by 2035. We are already reviewing contracts with suppliers to align with our sustainability goals and ethical outlook. The CSR programme will also include the establishment of a support fund for our smaller producers to provide funding, time and expertise as they move to sustainable wine production, aligned with our own sustainability objectives.</p> <p>Although the programme is at an early stage, other elements already agreed include an exercise to benchmark our environmental impact against other businesses in our sector as well as industry leaders, setting appropriate milestones along our journey to Net Zero, and investments in approved Carbon Offsetting Schemes. A pilot project has been authorised to minimise the use of glass in our supply chain.</p> <p>The Board is passionate about our role as a responsible wine retailer and has championed a sustainable approach in our own production businesses for many years. However, the integration of environmental responsibility with our business strategy demonstrates the Board's wider commitment to engage with stakeholders across our supply chain and build a more sustainable future for the industry.</p>
<p>(e) The desirability of the company maintaining a reputation for high standards of business conduct</p>	<p>The Board is proud of our reputation for good conduct and we seek to maintain this through good works both locally and nationally. During the current financial year the Board, recognising the difficult conditions presented to French growers by severe spring frosts, authorised one of our regular advertising offers in the Sunday Times to be replaced by a message of support to growers and highlighting the issue for readers. We believe that this is an appropriate way for us to make a positive difference to growers, educate the wine-drinking public (not just our customers) and show our commitment to helping the wider industry.</p> <p>On a more local level, the Board was pleased to support the donation of a number of our used laptop computers in support of home-schooling efforts – this promotes recycling and benefits our local community. The Board also agreed to match funding raised by our offices in support of their local charity partners.</p> <p>As a means of demonstrating transparency, the Board has also agreed to invest in an independent audit of our tax contribution to the UK Exchequer with a view to including a public statement on our UK websites. Our priority is tax compliance rather than tax planning and we are proud of the contribution we make to the public finances.</p>

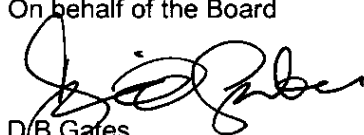
Direct Wines Limited

Strategic report for the year ended 2 July 2021 (continued)

Section 172(1) statement (continued)

A director of a company must...have regard (amongst other matters) to -	Evidence
(f) The need to act fairly as between the members of the company	The Group remains 100% family-owned and the founders and their three children are equal shareholders as well as directors. The wider family is represented through a Family Council whilst the Board contains a number of Independent Non-Executive Directors. These arrangements ensure that all shareholders are fairly represented when the Board makes decisions.

On behalf of the Board



D/B Gates

Director

22nd September 2021

Direct Wines Limited

Directors' report for the year ended 2 July 2021

The directors present their annual report and the financial statements of the Company for the year ended 2 July 2021.

Results and dividends

The financial result for the period amounted to a profit of £1,326,000 (2020: profit of £1,638,000). The directors are not proposing a dividend (2020: £Nil). Dividend paid in the year amounted to £52,147,000 (£1,030,58 per share) in respect of year ended 2 July 2020

Future developments

The future developments of the Company are disclosed in the Strategic Report.

Directors

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

A H G Laithwaite	
B A Laithwaite	
A J Porter	
A J Clifford-King	
J W H Weir	
H J H Laithwaite	
W W Laithwaite	
T A E Laithwaite	
D B Gates	(Appointed 1st September 2020)
D A Thatcher	(Resigned 2 st November 2020)

Directors' and Officers' liability insurance

The Company maintains liability insurance for its directors and officers.

Financial risk management

The Company's operations expose it to a variety of financial risks that include liquidity risk, foreign exchange risk, interest rate risk and credit risk. The Company has a risk management programme that limits the adverse effect of these financial risks on the financial performance of the Company.

The risk management policies are set by the Board of directors and implemented by the Company's finance department. The policies provide specific guidelines to manage foreign exchange risk, interest rate risk, credit risk and circumstances where it would be appropriate to use financial instruments to manage these risks.

The Company is exposed to foreign exchange risk as purchases are made in a number of currencies other than Sterling. The Company managed this risk through purchasing forward foreign currency in accordance with its treasury policy.

The Company is exposed to interest rate risk as it borrows funds at floating interest rates.

Direct Wines Limited

Directors' report for the year ended 2 July 2021 (continued)

Political and charitable contributions

The Company made charitable donations of £52,158 (2020: £192,466). The main donation of £41,614 was to Drinkaware (2020: £87,466 to Drinkaware). A further non-charitable donation to support the local community of £150,000 was made during the year (2020: £Nil). No political donations were made during the period (2020: £Nil).

Employees

The Board has always believed in open dialogue between themselves, senior management and employees. The necessity for, and the importance of, good communications and relations with all employees is well recognised and accepted throughout the Company. Employees are encouraged to discuss with management factors affecting the Company and any matters about which they are concerned. Suggestions from employees aimed at improving the Company's performance are encouraged.

In addition, the Board takes account of employees' interests when making decisions and employees are informed regularly of the Company's performance, both operational and financial by way of monthly intranet updates and quarterly presentations by Board members. During the Covid-19 disruption, these communications have been supplemented by weekly emails giving updates on developments with government advice and our own working conditions, and the quarterly presentations have been held as online sessions.

The Board recognises the benefits of this engagement with employees in developing a productive and creative working environment, and a shared sense of pride in the success of the business. The annual engagement survey measures employee satisfaction with the business as a whole as well as in each department. All feedback is considered at Board level to ensure that business policies and practices are aligned with our purpose and values. In the current financial year, the survey included specific questions aimed at determining the impact of changes to working conditions resulting from Covid-19 and to seek feedback on actions the business has taken to respond to the pandemic.

All employees participate in the company's annual Management Bonus Scheme and are rewarded based on the profitability and customer growth of the business in the financial year.

The Company also supports the employment of persons with disability wherever possible, through recruitment and by retention of those who suffer disability during their employment, and generally through training, career development and promotion

Simplified Energy and Carbon Reporting

The Company has taken advantage of the provisions of Part 7A of Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (amended by Regulation 7 of the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018) to include its Streamlined Energy and Carbon Reporting within the Group Directors' Report of its parent company, Direct Wines Holdings Limited.

Statement of directors' responsibilities

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

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

Direct Wines Limited

Directors' report for the year ended 2 July 2021 (continued)

Statement of directors' responsibilities (continued)

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

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

On behalf of the Board



D B Gates
Director
22nd September 2021

Direct Wines Limited

Income Statement for the year ended 2 July 2021

		52 week period ended 2 July 2021 £'000	53 week period ended 3 July 2020 £'000
	Note		
Revenue	4	301,983	235,081
Cost of sales		(183,703)	(145,556)
Gross profit		118,280	89,525
Administrative expenses		(127,957)	(96,820)
Operating income		12,917	9,390
Operating profit	5	3,240	2,095
Finance costs	6	(132)	(80)
Profit before income tax		3,108	2,015
Income tax expense	9	(1,782)	(377)
Profit for the financial year		1,326	1,638

Statement of comprehensive income for the year ended 2 July 2021

	52 week period ended 2 July 2021 £'000	53 week period ended 3 July 2020 £'000
Profit for the financial year	1,326	1,638
Other comprehensive income/(expense):		
- Changes in fair value of cash flow hedges	(2,395)	698
- Tax on Other comprehensive (expense)/income	517	(119)
Other comprehensive income/(expense) for the year, net of tax	(1,878)	579
Total comprehensive income/(expense) for the year	(552)	2,217

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

Direct Wines Limited

Balance sheet as at 2 July 2021

	Note	2 July 2021 £'000	3 July 2020 £'000
Fixed assets			
Intangible assets	10	17,128	18,698
Property, plant and equipment	11	5,040	3,128
Investments	12	-	59,783
Total fixed assets		22,168	81,609
Current assets			
Inventories	13	35,981	28,928
Trade and other receivables	14	11,166	8,270
Cash at bank and in hand	15	24,312	41,691
Total current assets		71,459	78,889
Trade and other payables	16	(74,941)	(89,113)
Net current liabilities		(3,482)	(10,224)
Total assets less current liabilities		18,686	71,385
Net assets		18,686	71,385
Capital and reserves			
Called up share capital	20	51	51
Hedging deficit		(1,310)	568
Retained earnings		19,945	70,766
Total equity		18,686	71,385

For the year ending 2 July 2021 the Company was entitled to exemption from audit under section 479A of the Companies Act 2006 relating to subsidiary companies.

The members have not required the Company to obtain an audit of its accounts for this year in accordance with section 476 of the Act.

The directors acknowledge their responsibilities for complying with the requirements of the Companies Act 2006 with respect to accounting records and the preparation of accounts.

The notes on pages 15 to 38 are an integral part of these financial statements.

The financial statements on pages 12 to 38 were approved by the Board of directors on 22nd September 2021 and were signed on its behalf by:



D B Gates
Director
Direct Wines Limited
Registered Number: 01095091

Direct Wines Limited

Statement of changes in equity for the year ended 2 July 2021

	Called up share capital	Retained earnings	Hedging reserve/ (deficit)	Total equity
	£'000	£'000	£'000	£'000
Balance as at 28 June 2019	51	69,128	(11)	69,168
Profit for the year	-	1,638	-	1,638
Other comprehensive income for the year				
- Changes in fair value of cash flow hedges	-	-	579	579
Total comprehensive income for the year	-	1,638	579	2,217
Balance as at 3 July 2020	51	70,766	568	71,385
Profit for the year	-	1,326	-	1,326
Other comprehensive income for the year				
- Cash flow hedge net of tax	-	-	(1,878)	(1,878)
Total comprehensive income/(expense) for the year	-	1,326	(1,878)	(552)
Dividends paid (Note 11)	-	(52,147)	-	(52,147)
Total transactions with owners, recognised directly in equity	-	(50,821)	-	(50,821)
Balance as at 2 July 2021	51	19,945	(1,310)	18,686

Direct Wines Limited

Notes to the financial statements for the year ended 2 July 2021

1 General information

Direct Wines Limited is a private company limited by shares and is incorporated in England. The address of its registered office is One Waterside Drive, Arlington Business Park, Theale, Berkshire, RG7 4SW.

The principal activity of the Company is the sale and distribution of wines.

2 Statement of compliance

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

3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

These financial statements are prepared on the going concern basis, under the historical cost convention, as modified by certain financial assets and liabilities measured at fair value through the income statement.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3(r).

Financial period

The financial statements are made up to the Friday nearest to 30 June each year. Periodically this results in a financial period of 52 weeks. The current accounting period is for the 52 week period ended 2 July 2021. The previous accounting period was for the 53 weeks ended 3 July 2020.

(b) Exemption for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions, if certain conditions, have been complied with, including notification of and no objection to, the use of exemptions by the Company's shareholders. A qualifying entity is defined as a member of a group that prepares publicly available financial statements, which give a true and fair view, in which that member is consolidated. Direct Wines Holdings Limited is the group entity in which these financial statements are consolidated.

Direct Wines Limited

Notes to the financial statements for the year ended 2 July 2021 (continued)

3 Summary of significant accounting policies (continued)

(b) Exemption for qualifying entities under FRS 102 (continued)

As a qualifying entity, the Company has taken advantage of the following exemptions:

- (i) from the requirement to prepare a statement of cash flows as required by paragraph 3.17(d) of FRS 102;
- (ii) from the requirement to present certain financial instrument disclosures, as required by sections 11 and 12 of FRS 102;
- (iii) from the requirement to present a reconciliation of the number of shares outstanding at the beginning and end of the period as required by paragraph 4.12(a)(iv) of FRS 102; and
- (iv) from the requirement to disclose the key management personnel compensation in total as required by paragraph 33.7 of FRS 102.

(c) Exemption from audit by parent guarantee

Under Section 479A of the Companies Act 2006, exemption from an audit of the financial statements for the financial year ending 2 July 2021 has been taken by the Company.

(d) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents the amount receivable for goods supplied or services rendered, net of returns, discounts and rebates allowed by the Company and value added taxes.

The Company recognises revenue when (a) the significant risks and rewards of ownership have been transferred to the buyer which is generally upon delivery; (b) the Company retains no continuing involvement or control over the goods; (c) the amount of revenue can be measured reliably; (d) it is probable that future economic benefits will flow to the entity and (e) when the specific criteria relating to each of the Company's sales channels have been met, as described below.

The Company bases its estimate of goods returned on historic results, taking into consideration the type of customer, the type of transaction and specifics of each arrangement.

Revenue for subscriptions and tastings is recognised when the service is provided.

Franchise fees, included within revenue are recognized as they accrue under the terms of the franchise agreements.

Where the consideration receivable in cash or cash equivalents is deferred, and the arrangement constitutes a financing transaction, the fair value of the consideration is measured as the present value of all future receipts using the imputed rate of interest.

Direct Wines Limited

Notes to the financial statements for the year ended 2 July 2021 (continued)

3 Summary of significant accounting policies (continued)

(e) Employee benefits

The Company provides a range of benefits to employees, including 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 scheme

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

(f) Intangible assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated, using the straight-line method, to allocate the depreciable amount of the assets to their residual values over their estimated useful lives, as follows:

- Software 3 to 7 years

Amortisation is charged to Administrative expenses in the income statement and commences at the earlier of when the asset is brought into use or the asset is available to use.

Where factors, such as technological advancement or changes in market price, indicate that residual value or useful life have changed, the residual value, useful life or amortisation rate are amended prospectively to reflect the new circumstances.

The assets are reviewed for impairment if the above factors indicate that the carrying amount may be impaired.

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

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

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

Direct Wines Limited

Notes to the financial statements for the year ended 2 July 2021 (continued)

3 Summary of significant accounting policies (continued)

(g) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated 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, dismantling and restoration costs.

Depreciation is provided on all property, plant and equipment, other than freehold land, using the straight-line method, to allocate the depreciable amount to its estimated residual value over its expected useful life, as follows:

Land and Buildings	
- Freehold land	not depreciated
- Freehold properties	over 50 years
- Improvements to freehold properties	over 5 to 10 years
- Short leasehold property improvements and shop premiums	the shorter of the lease life and 10 years
Computer hardware and furniture and fittings	over 3 to 10 years
Assets in the course of construction	not depreciated
Warehouse fixtures and fittings	over 7 years
Motor vehicles	over 1 to 4 years

Repairs, maintenance and minor inspection costs are expensed as incurred.

Property, plant and equipment are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in the income statement.

(h) Leased assets

At inception the Company assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

(i) Finance leased assets

Leases of assets that transfer substantially all the risks and rewards incidental to ownership are classified as finance leases.

Finance leases are capitalised at commencement of the lease as assets at the fair value of the leased asset or, if lower, the present value of the minimum lease payments calculated using the interest rate implicit in the lease. Where the implicit rate cannot be determined the Company's incremental borrowing rate is used. Incremental direct costs, incurred in negotiating and arranging the lease, are included in the cost of the asset.

Assets are depreciated over the shorter of the lease term and the estimated useful life of the asset. Assets are assessed for impairment at each reporting date.

The capital element of lease obligations is recorded as a liability on inception of the arrangement. Lease payments are apportioned between capital repayment and finance charge, using the effective interest rate method, to produce a constant rate of charge on the balance of the capital repayments outstanding.

Direct Wines Limited

Notes to the financial statements for the year ended 2 July 2021 (continued)

3 Summary of significant accounting policies (continued)

(h) Leased assets (continued)

(ii) Operating leased assets

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Rentals payable under operating leases are charged to the income statement on a straight line basis over the lease term.

(iii) Lease incentives

Incentives received to enter into a finance lease reduce the fair value of the asset and are included in the calculation of present value of minimum lease payments.

Incentives received to enter into an operating lease are credited to the income statement, to reduce the lease expense, on a straight-line basis over the period of the lease.

The Company has taken advantage of the exemption in respect of lease incentives on leases in existence on the date of transition to FRS 102 (28 June 2014) and continues to credit such lease incentives to the income statement over the period to the first review date on which the rent is adjusted to market rates.

(i) Inventories

Inventories, work in progress and raw materials are stated at the lower of cost and estimated selling price less cost to sell. Inventories are recognised as an expense in the period in which the related revenue is recognised.

Cost is determined using the first-in first-out method for under bond stock and weighted average method for stock duty paid. Cost includes the purchase price, including taxes and duties and transport and handling directly attributable to bringing the inventory to its present location and condition.

At the end of each reporting period inventories are assessed for impairment. If an item of inventory is impaired, the identified inventory is reduced to its selling price less costs to complete and sell and an impairment charge is recognised in the income statement. Where a reversal of the impairment is recognised the impairment charge is reversed, up to the original impairment loss, and is recognised as a credit in the income statement.

(j) Foreign currencies

(i) Functional and presentation currency

The Company's financial statements are presented in Pounds Sterling and rounded to thousands.

(ii) Transaction and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement except when deferred in 'Other comprehensive income'.

Direct Wines Limited

Notes to the financial statements for the year ended 2 July 2021 (continued)

3 Summary of significant accounting policies (continued)

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank, cash in hand and short-term deposits with an original maturity date of three months or less, held for the purpose of meeting short-term cash commitments and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

Included in cash at bank and in hand is a balance of £730,424 (2020: £807,741) relating to advance payments received from customers. The corresponding creditor to customers is included in accruals.

(l) Impairment of non-financial assets

At each balance sheet date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset may be impaired. If there is such an indication the recoverable amount of the asset is compared to the carrying amount of the asset.

The recoverable amount of the asset is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future pre-tax and interest cash flows obtainable as a result of the asset's continued use. The pre-tax and interest cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the income statement, unless the asset has been revalued when the amount is recognised in other comprehensive income to the extent of any previously recognised revaluation. Thereafter any excess is recognised in the income statement.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the income statement.

(m) Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

(i) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

(ii) Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Direct Wines Limited

Notes to the financial statements for the year ended 2 July 2021

3 Summary of significant accounting policies (continued)

(m) Taxation (continued)

Deferred tax is recognised on all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

(n) Provisions and contingencies

(i) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as a finance cost.

(ii) Contingencies

Contingent liabilities are not recognised, except those acquired in a business combination. Contingent liabilities arise as a result of past events when (i) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date or (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the Company's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

(o) Financial instruments

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

(i) Financial assets

Basic financial assets, including trade and other receivables, cash and bank balances and investments in commercial paper, are initially recognised at the transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the income statement.

Direct Wines Limited

Notes to the financial statements for the year ended 2 July 2021 (continued)

3 Summary of significant accounting policies (continued)

(o) Financial instruments (continued)

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in income statement.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

(ii) Financial liabilities

Basic financial liabilities, including trade and other payables, bank loans and loans from fellow group companies, are initially recognised at the transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

(iii) Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

(iv) Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Subject to the paragraph below 'Hedging arrangements', changes in the fair value of derivatives are recognised in the income statement in finance costs or income as appropriate. All derivatives are included in assets when their value is positive and liabilities when their fair value is negative after taking account of any master netting agreements in place.

(v) Hedging arrangements

The Company applies hedge accounting in respect of forward foreign exchange contracts held to manage the cash flow exposures of forecast transactions denominated in foreign currencies.

Changes in the fair values of derivatives designated as cash flow hedges, and which are effective, are recognised directly in other comprehensive income. Any ineffectiveness in the hedging relationship (being the excess of the cumulative change in fair value of the hedging instrument since inception of the hedge over the cumulative change in the fair value of the hedged item since inception of the hedge) is recognised in the income statement.

Direct Wines Limited

Notes to the financial statements for the year ended 2 July 2021 (continued)

3 Summary of significant accounting policies (continued)

(o) Financial instruments (continued)

(v) *Hedging arrangements (continued)*

The gain or loss recognised in other comprehensive income is reclassified to the income statement when the hedge relationship ends. Hedge accounting is discontinued when the hedging instrument expires, no longer meets the hedging criteria, the forecast transaction is no longer highly probable, the hedged debt instrument is derecognised or the hedging instrument is terminated.

(p) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(q) Related party transactions

The Company discloses transactions with related parties which are not wholly owned within the same group. Where appropriate, transactions of a similar nature are aggregated unless, in the opinion of the directors, separate disclosure is necessary to understand the effect of the transactions on the financial statements. It does not disclose transactions with members of the same group that are wholly owned.

(r) Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) *Critical judgements in applying the Company's accounting policies*

a) *Derivative financial instruments*

Judgement is exercised when determining the key assumptions used in valuing the forward purchase and sale contracts. Management have decided to value derivative financial instruments at the forward market values of purchase and sale contracts. The key assumptions used in valuing the forward purchase and sale contracts are the closing exchange rates on the London foreign exchange markets and independent third party pricing services.

(ii) *Key accounting estimates and assumptions*

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

a) *Provisions*

Provision is made for dilapidations and contingencies. These provisions require management's best estimate of the costs that will be incurred based on legislative and contractual requirements. In addition, the timing of the cash flows and the discount rates used to establish the net present value of the obligations require management's judgement.

Direct Wines Limited

Notes to the financial statements for the year ended 2 July 2021 (continued)

3 Summary of significant accounting policies (continued)

(r) Critical accounting judgements and estimation uncertainty (continued)

(ii) Key accounting estimates and assumptions(continued)

b) Inventory provisioning

The Company distributes wine and is subject to changing consumer demands. As a result it is necessary to consider the recoverability of the cost of inventory and the associated provisioning required. When calculating the inventory provision, management considers the nature and condition of the inventory, as well as applying assumptions around anticipated saleability of finished goods. See note 13 for the net carrying amount of the inventory and associated provision.

c) Impairment of intangible assets

The Company considers whether intangible assets are impaired. Where an indication of impairment is identified recoverable value requires estimation of the future cash flows and also selection of appropriate discount rates in order to calculate the net present value of those cashflow.

d) Impairment of receivables

The Company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other debtors, management considers factors including the current credit rating of the debtor, the ageing profile of debtors and historical experience. See note 14 for the net carrying amount of the debtors and associated impairment provision.

e) Useful economic lives of tangible assets

The annual depreciation and amortisation charge for tangible and intangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 10 for the carrying amount of the intangible assets, note 11 for the carrying amount of the property plant and equipment, and notes 3(f) and 3(g) for the useful economic lives for each class of assets.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Direct Wines Limited

Notes to the financial statements for the year ended 2 July 2021 (continued)

4 Revenue

The Company's revenue was all derived from its principal activity. Sales were made in the following geographical markets.

	52 week period ended 2 July 2021 £'000	53 week period ended 3 July 2020 £'000
United Kingdom	295,827	229,075
Rest of World	6,156	6,006
	301,983	235,081

5 Operating profit/(loss)

	52 week period ended 2 July 2021 £'000	53 week period ended 3 July 2020 £'000
Operating profit/(loss) is stated after charging/(crediting):		
Staff costs (Note 7)	36,463	29,692
Depreciation charge for the period (Note 11)	1,033	1,058
Amortisation charge for the period (Note 10)	6,037	6,090
Profit on disposals of property, plant and equipment	(39)	(17)
Loan waiver	6,232	-
Inventory recognised as an expense	106,617	80,573
Operating lease rentals:		
Plant and machinery	102	113
Other assets	2,182	2,273
Services provided by the company's auditors :		
Fees payable for the audit of the Company	95	81
Fees payable for the audit of the Company's associates	187	67
Non-audit services	119	92

6 Finance costs

	52 week period ended 2 July 2021 £'000	53 week period ended 3 July 2020 £'000
On bank loans and overdrafts	132	80

Direct Wines Limited

Notes to the financial statements for the year ended 2 July 2021 (continued)

7 Employees Information

The average monthly number of persons (including the executive directors) employed during the period was:

By activity	52 week period ended 2 July 2021	53 week period ended 3 July 2020
Office and management	246	227
Selling and distribution	445	410
	691	637

Staff costs for the above persons comprised:

	52 week period ended 2 July 2021 £'000	53 week period ended 3 July 2020 £'000
Wages and salaries	34,283	27,659
Social security costs	3,012	2,591
Pension costs (Note 23)	1,475	1,342
	38,770	31,592

Included in the above, staff costs of £2,307,930 (2020: £1,900,037) have been capitalised into intangible assets as part of the cost of development of software assets. These costs are included in "Software under construction" and "Computer software".

8 Directors' emoluments

Directors

	52 week period ended 2 July 2021 £'000	53 week period ended 3 July 2020 £'000
Aggregate emoluments	2,829	2,649

In the current period retirement benefits are accruing for 1 director (2020: 1 director) under the group's defined contribution scheme. The contribution paid in the current year was £833 (2020: £10,000).

Direct Wines Limited

Notes to the financial statements for the year ended 2 July 2021 (continued)

8 Directors' emoluments (continued)

Highest paid director

The highest paid director's emoluments were as follows:

	52 week period ended 2 July 2021 £'000	53 week period ended 3 July 2020 £'000
Aggregate emoluments	768	1,300

Key management compensation

Key management includes the directors and members of senior management. The compensation paid or payable to key management for employee services is shown below:

	52 week period ended 2 July 2021 £'000	53 week period ended 3 July 2020 £'000
Salaries and other short-term benefits	4,409	3,795
Post-employment benefits	53	60
	4,462	3,855

9 Income tax

(a) Tax income/(expense) included in profit or loss

	52 week period ended 2 July 2021 £'000	53 week period ended 3 July 2020 £'000
Current tax		
United Kingdom corporation tax on profits for the year	(2,801)	(1,041)
Other current tax		
Adjustment in respect of prior periods	340	93
Total current tax	(2,461)	(948)
Deferred tax		
Origination and reversal of timing difference	783	642
Adjustment in respect of prior periods	(419)	(70)
Impact on change in tax rate	315	(1)
Total deferred tax	679	571
Income tax expense	(1,782)	(377)

Direct Wines Limited

Notes to the financial statements for the year ended 2 July 2021 (continued)

9 Income tax (continued)

(b) Tax income/(expense) included in other comprehensive income

	52 week period ended 2 July 2021 £'000	53 week period ended 3 July 2020 £'000
Deferred tax		
- Origination and reversal of timing differences	(599)	(133)
- Adjustment in respect of prior period	20	-
- Impact of change in tax rate	62	14
Total tax income/(expense) included in other comprehensive income	(517)	(119)

(c) Reconciliation of tax charge

The tax assessed for the period is higher (2020: lower) than the standard rate of corporation tax in the UK of 19% (2020: 19%).

The differences are explained below:

	52 week period ended 2 July 2021 £'000	53 week period ended 3 July 2020 £'000
Profit/(Loss) before income tax	3,108	2,015
Profit/(Loss) multiplied by standard rate of corporation tax in the UK of 19% (2020: 19%)	590	383
Effects of:		
Fixed assets ineligible for capital allowance	81	12
Expenditure not allowable for tax purposes	1,346	4
Adjustment in respect of prior periods	80	(23)
Adjustment to closing deferred tax rate	(315)	1
Income tax expense/(income)	1,782	377

(d) Tax rate changes

The standard rate of corporation tax in the UK for this accounting period is 19%

A reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020. An increase in the UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the company's future current tax charge accordingly.

The deferred taxes have been calculated based on these rates, reflecting the expected timing of reversal of the related timing differences (2020: 19%).

Direct Wines Limited

Notes to the financial statements for the year ended 2 July 2021 (continued)

10 Intangible assets

	Software under construction £'000	Computer Software £'000	Total £'000
Cost			
At 3 July 2020	1,550	36,964	38,514
Additions	4,486	21	4,507
Disposals	-	(82)	(82)
Assets brought into use	(5,007)	5,007	-
At 2 July 2021	1,029	41,910	42,939
Accumulated amortisation and impairment			
At 3 July 2020	-	19,816	19,816
Amortisation charge for the period	-	6,037	6,037
Disposals	-	(42)	(42)
At 2 July 2021	-	25,811	25,811
Net book value			
At 2 July 2021	1,029	16,099	17,128
At 3 July 2020	1,550	17,148	18,698

Direct Wines Limited

Notes to the financial statements for the year ended 2 July 2021 (continued)

11 Property, plant and equipment

	Land and buildings		Computer hardware and furniture and fittings	Assets in course of construction	Warehouse fixtures and fittings	Motor vehicles	Total
	Freehold properties	Short leasehold property improvements and shop premiums					
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost							
At 3 July 2020	626	7,502	4,037	10	5,422	26	17,623
Additions	-	637	341	447	1,519	2	2,946
Disposals	-	(304)	(951)	-	(823)	-	(2,078)
Assets brought into use	-	315	126	(457)	15	-	-
At 2 July 2021	626	8,150	3,553	-	6,134	28	18,491
Accumulated depreciation							
At 3 July 2020	211	6,552	3,420	-	4,303	9	14,495
Charge for the period	12	237	405	-	371	8	1,033
Disposals	-	(304)	(950)	-	(823)	-	(2,077)
At 2 July 2021	223	6,485	2,875	-	3,851	17	13,451
Net book value							
At 2 July 2021	403	1,665	678	0	2,283	11	5,040
At 3 July 2020	415	950	617	10	1,119	17	3,128

Direct Wines Limited

Notes to the financial statements for the year ended 2 July 2021 (continued)

12 Investments

	Loans to group companies £'000
Cost and net book value at 3 July 2020	59,783
Waived	(6,232)
Netted	(52,147)
Reclassified	(1,204)
Cost and net book value 2 July 2021	-

Investments relate to long term loans to other companies within the Direct Wines Holdings Limited group. The directors believe the carrying value of the investments to be supported by underlying net assets of the other group companies.

During the period the company waived £6.2m of the amount due from the Direct Wines Finance Limited, assigned the remaining amount due of £52.1m to Direct Wines Holdings Ltd. The company then declared a dividend of an equal amount that was netted against the assigned loan balance. The remaining loans to other group companies were reclassified from Investments to Trade and Other Receivables.

Details of all subsidiary undertakings are as follows:

Subsidiary	Registered office	Class of holding	Proportion held	Nature of business
Bordeaux Direct Limited	One Waterside Drive, Arlington Business Park, Theale, Berkshire, RG7 4SW	Ordinary	100%	Dormant
Direct Wines (Windsor) Limited	One Waterside Drive, Arlington Business Park, Theale, Berkshire, RG7 4SW	Ordinary	100%	Dormant
Laithwaites Limited	One Waterside Drive, Arlington Business Park, Theale, Berkshire, RG7 4SW	Ordinary	100%	Dormant
Laithwaites Wine Limited	One Waterside Drive, Arlington Business Park, Theale, Berkshire, RG7 4SW	Ordinary	100%	Dormant

Direct Wines Limited

Notes to the financial statements for the year ended 2 July 2021 (continued)

13 Inventories

	2 July 2021 £'000	3 July 2020 £'000
Raw materials and consumables	1,208	1,167
Finished goods and goods for resale	28,160	22,386
Work in progress	6,613	5,375
	35,981	28,928

The amount of inventories recognised as an expense during the year was £106,616,782 (2020: £80,573,202).

Inventories are stated after provisions for impairment of £1,037,432 (2020: £879,947).

The difference between the carrying amount of inventory and the replacement cost amounted to £518,901 (2020: £287,456).

14 Trade and other receivables

	2 July 2021 £'000	3 July 2020 £'000
Amounts falling due within one year		
Trade receivables	2,439	3,501
Other receivables	109	84
Deferred tax asset	1,656	461
Amounts owed by group undertakings	3,999	-
Derivative financial instruments (Note 18)	376	1,514
Prepayments and accrued income	2,586	2,710
	11,166	8,270

Amounts owed by group undertakings due within one year are unsecured, interest free and expected to be paid within a year.

Trade and other receivables are stated after provisions for impairment of £129,284 (2020: £258,631).

Deferred tax asset includes amounts falling due after one year.

15 Cash at bank and in hand

Included in cash at bank and in hand is a balance of £730,424 (2020: £807,741) relating to advance payments received from customers. The corresponding creditor to customers is included in accruals and deferred income.

Direct Wines Limited

Notes to the financial statements for the year ended 2 July 2021 (continued)

16 Trade and other payables

	2 July 2021 £'000	3 July 2020 £'000
Bank overdraft	4,313	4,994
Trade payables	26,426	29,971
Amounts owed to group undertakings	3,518	8,985
Other taxation and social security costs	6,763	15,786
Derivative financial instruments (Note 18)	1,745	488
Corporation tax	436	507
Other Payables	1,491	1,061
Accruals and deferred income	30,249	27,321
	74,941	89,113

The bank overdrafts and loans of other subsidiary undertakings within the Direct Wines Holdings Limited group are secured by cross guarantees between the UK companies. At 2 July 2021 the potential liability of the Company under the cross guarantees was £6,290,505 (2020: £7,769,384).

17 Deferred taxation

Deferred tax assets are recognised only to the extent that the directors consider it more likely than not that there will be suitable, taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred taxation recognised in the financial statements is as follows:

	2 July 2021 £'000	3 July 2020 £'000
Tax effect of timing differences because of:		
Accelerated capital allowances	(407)	(390)
Other timing differences	1,721	1,025
Cashflow hedge fair value	342	(174)
Deferred tax asset	1,656	461

There is no unrecognised deferred tax asset or liability.

The net deferred tax liability expected to reverse in the 52 week period ended 1 July 2022 is £400,000. This primarily relates to the reversal of timing differences on acquired intangible and tangible assets and capital allowances through depreciation and amortisation.

Direct Wines Limited

Notes to the financial statements for the year ended 2 July 2021 (continued)

18 Financial Instruments

The Company has the following financial instruments:

	Note	2 July 2021 £'000	3 July 2020 £'000
Financial assets measured at fair value through other comprehensive income:			
Derivative financial instruments	14	376	1,514
Financial assets that are debt instruments measured at amortised cost:			
Trade receivables	14	2,439	3,501
Amounts owed by group undertakings	14	3,999	-
Other receivables	14	109	84
		6,547	3,585
Financial liabilities measured at fair value through other comprehensive income:			
Derivative financial instruments	16	1,745	488
Financial liabilities measured at amortised cost			
Bank overdraft		4,313	4,994
Trade payables	16	24,426	29,971
Accruals and deferred income	16	30,249	27,321
Amounts owed to group undertakings	16	3,518	8,985
Other payables	16	1,491	1,061
		63,997	72,332

Direct Wines Limited

Notes to the financial statements for the year ended 2 July 2021 (continued)

18 Financial Instruments (continued)

Derivative financial instruments – Forward contracts

The Company enters into forward foreign currency contracts to mitigate the exchange rate risk for certain foreign currency payables. In accordance with Board-approved treasury policy, foreign exchange contracts in the current period include foreign exchange forwards, vanilla foreign exchange options and foreign exchange swaps and are arranged with approved market counterparties. At 2 July 2021, the outstanding contracts all mature within 24 months (2020: 24 months) of the year end.

The forward currency contracts are measured at fair value, which is determined using valuation techniques that utilise observable inputs. The key inputs used in valuing the derivatives are the forward exchange rates for GBP:USD and GBP:EUR. The fair value of the forward-foreign currency contracts is a liability of £1,369k (2020: an asset of £1,026k). During the year, a hedging loss of £2,395k (2020: profit £698k) was recognised in other comprehensive income for changes in the fair value of cash flows hedges.

The notional principal amounts of the outstanding forward foreign exchange contracts at 2 July 2021 were £93,858,129 (2020: £75,607,492).

The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next 24 months. Gains and losses recognised in the hedging reserve in equity on forward foreign exchange contracts as of 2 July 2021 are recognised in the income statement in the period or periods during which the hedged forecast transaction affects the income statement. This is within 24 months of the end of the reporting period.

19 Financial risk management

Risk Management

The Board approves prudent treasury policies and delegates certain responsibilities including changes to treasury policies and the implementation of risk strategy to the Audit Committee. Senior management directly control day-to-day treasury operations on a centralised basis. The treasury function is not permitted to speculate in financial instruments. Its purpose is to identify, mitigate and hedge treasury-related financial risks inherent in the Company's business operations. To do this, the Company can enter into a range of financial instruments including foreign exchange contracts and interest rate swaps to protect against currency and interest rate risk.

The primary treasury-related financial risks faced by the Company are:

(a) Market risk

(i) Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, Australian dollar and Euro. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

Management has set up a policy to require the Company to manage its foreign exchange risk against the functional currency. To manage the foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, the Company uses forward contracts. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

Direct Wines Limited

Notes to the financial statements for the year ended 2 July 2021 (continued)

19 Financial risk management (continued)

(b) Credit risk

The Company is exposed to credit related losses in the event of non-performance by counterparties to financial instruments. Board-approved investment policies and relevant debt facility agreements provide counterparty investment limits to mitigate against counterparty credit risk. The Company maintains a prudent split of cash and cash equivalents across market counterparties, operating within counterparty investment limits. The Company monitors counterparty credit ratings regularly.

(c) Liquidity risk

Liquidity risk is the risk that the company is not able to meet its financial obligations as they fall due.

The Company produces short- and long-term forecasts which enable management to conclude that the cash and committed debt facilities are sufficient to fund its forecast financial commitments, and that covenant terms are likely to be met.

20 Called up share capital

	2 July 2021 £'000	3 July 2020 £'000
Authorised		
1,000,000 (2020:1,000,000) ordinary shares of £1 each	1,000	1,000
Allotted and fully paid		
50,600 (2020: 50,600) ordinary shares of £1 each	51	51

There is a single class of ordinary shares. There are no restrictions on the distribution of dividends and the repayment of capital.

21 Contingent liabilities

The Company has given indemnities to its bankers in respect of duty deferment guarantees made by the bank on behalf of the Company. At 2 July 2021 these amounted to £562,500 (2020: £562,500).

The bank overdrafts and loans of other subsidiary undertakings within the Direct Wines Holdings Limited group are secured by cross guarantees between the UK companies. At 2 July 2021 the potential liability of the Company was £6,290,505 (2020: £7,769,384).

The Company has given indemnities to its bankers in respect of guarantees made by the bank on behalf of companies within the Direct Wines Holdings Limited group. At 2 July 2021 these amounted to £226,492 (2020: £231,429).

Direct Wines Limited

Notes to the financial statements for the year ended 2 July 2021 (continued)

22 Financial commitments

At 2 July 2021 the Company had future lease payments under non-cancellable operating leases for each of the following period:

	2 July 2021 £'000	3 July 2020 £'000
Not later than one year	1,112	2,031
Later than one year but not later than five years	7,511	6,988
Later than five years	6,233	7,691
	14,856	16,710

The Company had no capital or other commitments at 2 July 2021 (2020: £Nil).

23 Pension commitments

The Company operates defined contribution pension schemes whose assets are held separately from those of the Company in independently administered funds. The pension cost charge represents contributions payable by the Company and amounted to £1,475,388 (2020: £1,341,694). There were unpaid contributions of £212,640 at the period end (2020: £194,492).

24 Related party transactions

The Company has taken up an exemption from the requirement to disclose the key management personnel compensation in total as required by paragraph 33.7 of FRS 102.

The Company is also exempt from disclosing other related party transactions as they are with other companies that are wholly owned within the Group.

During the year the Company purchased £Nil (2020: £Nil) of goods from Wyfold Vineyard Limited, a company partly owned by B.A. Laithwaite and H.J.H. Laithwaite, directors of the Company. The amount outstanding at the year end was £Nil (2020: £Nil). The Company also sold £4,000 (2020: £Nil) of goods to Wyfold Vineyard Limited. The amount due from this company to the Company at the year end was £Nil (2020: £Nil).

During the year the Company purchased £52,000 (2020: £36,000) of goods from Harrow & Hope Limited, a company owned by H.J.H. Laithwaite, a director of the Company. The amount outstanding at the year end was £Nil (2020: £Nil). The Company also sold £3,000 (2020: £Nil) of goods to Harrow & Hope Limited. The amount due from this company to the Company at the year end was £Nil (2020: £Nil).

During the year the Company purchased £157,000 (2020: £99,000) of goods from The Loose Cannon Brewing Company Limited, a company owned by W.W. Laithwaite, a director of the Company. The amount outstanding at the year end was £Nil (2020: £Nil). The Company also sold £24,000 (2020: £19,000) of goods to The Loose Cannon Brewing Company Limited. The amount due from this company to the Company at the year end was £4,000 (2020: £7,000).

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

Direct Wines Limited

Notes to the financial statements for the year ended 2 July 2021 (continued)

25 Ultimate parent company and controlling party

The immediate and ultimate parent company is Direct Wines Holdings Limited. According to the register kept by the Company, Direct Wines Holdings Limited had a 100% interest in the equity capital of Direct Wines Limited at 2 July 2021 and is the parent undertaking of the largest and smallest group of undertakings to consolidate these financial statements at 2 July 2021. Copies of the parent's consolidated financial statements may be obtained from Direct Wines Holdings Limited, One Waterside Drive, Arlington Business Park, Theale, Reading, Berkshire, RG7 4SW.

The directors regard the Laithwaite family as the ultimate controlling party of the Company by virtue of their interest in the share capital of Direct Wines Holdings Limited.