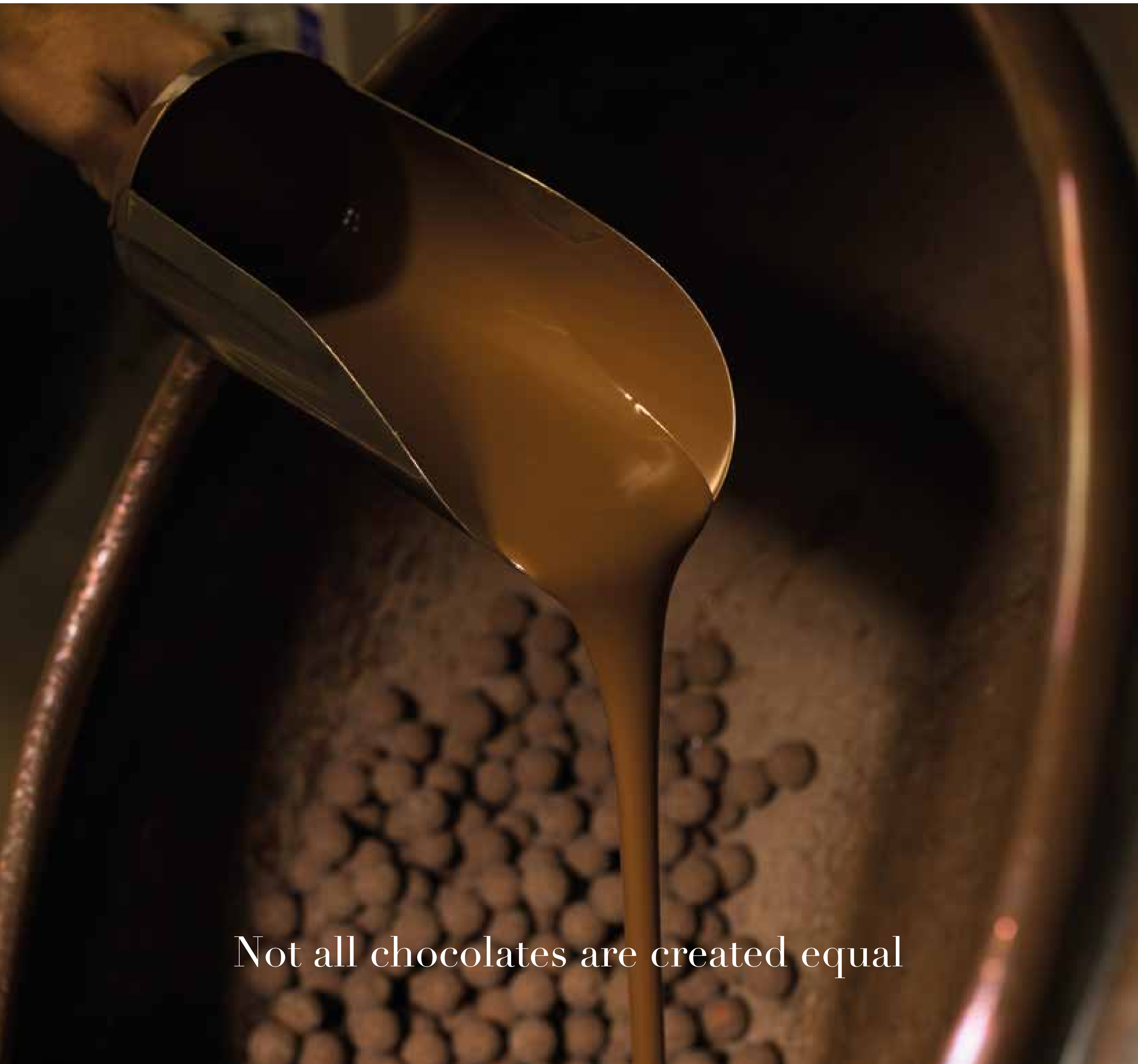
HOTEL Chocolat.

ANNUAL REPORT AND ACCOUNTS

2016



HOTEL Chocolat.

The leading UK premium chocolate company, making innovative and affordable luxury chocolates.

We sell our chocolate direct to our customers via subscription, online and our 83 stores.

Our strong British brand is based on an ethos of:

Originality · Authenticity · Ethics

Highlights

£91.1m
REVENUE (2015: £81.1m)
(Proforma £92.6m, 2015: £82.6m)

+12%
SALES GROWTH
Digital Growth +20%

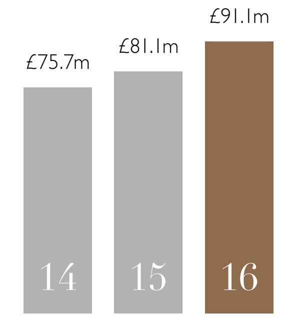
+57%
EBITDA GROWTH

£12.3m
EBITDA (pre-exceptional)
(2015: £7.8m)

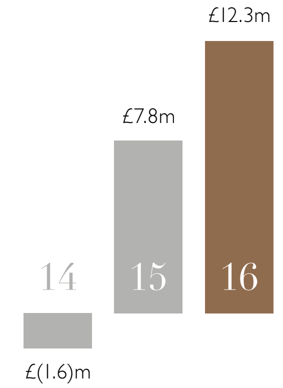
£8.2m
PROFIT BEFORE TAX (pre-exceptional)
(Profit before tax £5.6m, 2015: £2.9m)

£4.1m
PROFIT AFTER TAX
(2015: £2.0m)

REVENUE



EBITDA (pre-exceptional)



£8.3m capital investments completed
INCLUDING NEW STORES AND FACTORY UPGRADES

18 Academy of Chocolate Awards
WON

'Hotel Chocolat is the nation's favourite premium chocolate brand'
Allegra 2015

Contents

Originality

We believe in being fresh, creative and innovative, doing things in a different way

A STRONG DESIGN ETHOS

For our new Rare & Vintage range, we took inspiration from pleated fabric to sculpt a beautiful look which is also perfect for breaking into thin pieces.

Authenticity

We are the real thing, our focus on "more cocoa, less sugar" results in a superior taste

TREE TO BAR CHOCOLATE MAKING

Visitors to our beautiful Saint Lucian plantation hotel, called Boucan, can make their own chocolate bar from beans grown on the estate.

Ethics

We focus on ensuring that we deliver sustainable outcomes for all our stakeholders; our Engaged Ethics programme aims to unite cocoa growers and lovers of fine chocolate, being fair to both

A BLUEPRINT FOR SUSTAINABLE COCOA GROWING

We partner with more than 150 Saint Lucian growers, committing to pay a fair price and support productivity improvements, including the supply of high quality cocoa seedlings. We are now applying the same techniques to the higher volume Ghanaian cocoa used in our house blends.

At a glance

The leading UK premium chocolate brand, manufacturing innovative and accessibly priced luxury chocolates. We sell our chocolate direct to customers via subscription, online and our 83 stores.

Key product ranges

SELF PURCHASE

Selectors
Over 120 flavours

GIFT & OCCASION

Boxed chocolates
Seasonal specials

RARE & VINTAGE

Connoisseur's choice
Provenance & tasting notes

OTHER

Impulse & children's gifts
Drinking chocolate
Unique wine and spirits

Geographic footprint

The business began in the 1990s with online and subscription, and our first physical store followed in 2004. Our store roll-out plan is informed and supported by a database showing the buying patterns of our loyal multi-channel customers. Our store formats range from 100 sq ft to 6,000 sq ft and trade profitably across the UK. We are also developing our international retail knowledge with three stores in Copenhagen.

80 UK STORES

3 DANISH STORES

1 BOUTIQUE HOTEL

The story so far

The IPO in May 2016 represents just one milestone in a journey that began in 1997 with the launch of our first consumer facing website.

1990s
First website launched under 'ChocExpress' brand

1998
Tasting Club subscriptions launched

2003
Hotel Chocolat brand created

2004
First store opens in Watford

2008
Factory opens in Huntingdon, Cambridge

22 stores

2012
Boucan Hotel opens in Saint Lucia

60 stores

2014
New Shop+Cafe format

77 stores

2016
IPO
Sales £91.1m
EBITDA £12.3m
83 stores

Our growth strategy

Open new stores
INCLUDING SHOP+CAFE FORMAT

Upgrade digital platform
AND IMPROVE GIFTING OPTIONS

Increase capacity & capability
IN PRODUCTION AND SUPPLY CHAIN

Our business model has evolved and grown by making natural extensions to our existing products and services, testing them and once proven investing in roll-out. There is significant growth headroom in the UK and we will continue to open new stores. Our current website is successful with digital revenues growing +20% in FY16, but there remains opportunity to add new features and services. We design and make our own chocolates; investing in manufacturing capacity and capability will allow us to keep pace with sales growth, improve product margins and develop innovative new products.

Chairman's statement

In the year we have cemented the foundations for future growth.

"Our combination of strong brand and vertically integrated business model is starting to deliver strong results."

ANDREW GERRIE

Independent Non-executive Chairman

OVERVIEW

FY16 represented a landmark year in the history of Hotel Chocolat (HC). The IPO in May 2016 marked the next stage of the development and growth of the business and provides the capital to accelerate our growth strategy whilst raising the profile of the business.

RESULTS

The Group achieved a pleasing result in FY16 with revenue of £91.1m and growth of 12% versus FY15. Strong control of costs meant that operating margins improved with pre-exceptional EBITDA margin rising from 9.7% to 13.5%.

PEOPLE

The Group continues to be led by a strong founder-led executive management team that have built a successful business. In April, we welcomed Sophie Tomkins to the Board as a Non-executive Director. She has already made a valuable contribution to the Board and brings excellent experience to her role as Chair of the Audit Committee. I would also like to extend my thanks to the whole Hotel Chocolat team for their hard work, commitment and for a job well done.

DIVIDENDS

The Group remains in a growth phase and is presented with many strong investment opportunities, each of which is assessed using a disciplined approach to capital allocation and risk. The Board intends to invest the IPO proceeds to support the business strategy, with the goal of accelerating the growth of the business and a target of improving returns. The Board therefore is not recommending a dividend for FY16 but is committed to adopting a progressive dividend policy in future as the business grows.

Originality · Authenticity · Ethics

The Tasting Club

Tasting Club members taste our newest recipes every month. They score the chocolates and only the best make it into our retail ranges. Club members are strong supporters of our Engaged Ethics programme; some have also supported our growth by investing in chocolate bonds.

What sets us apart?

A strong differentiated brand underpinned by vertical integration.

Strong & distinctive brand

The Hotel Chocolat brand evokes escapism and offers a contemporary take on luxury chocolate.

An in-house design team carefully curates the look and feel – from chocolate casting mould creation to packaging, from recipes to marketing communications and store fit-outs.

Premium differentiated product

Rather than copying continental chocolate traditions, Hotel Chocolat has carved out a modern British take on luxury chocolate.

Many aspects of the product range have successfully overturned traditional approaches: for example our 'Selector' wall of chocolates replaces the traditional glass cabinet of loose chocolates, offering wider choice, fresher product and faster service.

Product innovation

Innovation is in our DNA, from the Tasting Club to chocolate bonds, from award winning new chocolate recipes, to cocoa gin and the use of cocoa as a savoury ingredient.

We ensure that strong innovation is balanced by a disciplined range architecture, ensuring only the edited best of the best feature in our product ranges.

Vertically integrated

Being vertically integrated means we can apply our expertise at every stage of the process to create superior and innovative products at improved margins, and gives the flexibility to trade each season responsively.

Owning the sales channels also allows our teams to pass on their knowledge and enthusiasm to our guests.

Omni-channel retail distribution

Investing in digital and physical store distribution channels means we know more about our customers than would be possible by following a traditional FMCG distribution route, so we can give better service and create products and services that our customers want.

Progressive digital marketing

We have our origins in e-commerce. Not only has this informed our store roll-out, it means that digital is always at the centre of our customer strategies.

Our business model

We believe that growth and re-investment can benefit all of Hotel Chocolat's stakeholders.

We Grow

We own a cocoa plantation in Saint Lucia called the Rabot Estate. This is the source of the exclusive beans used in our Rare & Vintage range and of our deep understanding of the cocoa growing process. This knowledge will enable us to continuously improve our relationship with all of our cocoa growers worldwide.

We Source

We seek out the best partners to supply premium ingredients to ensure that our products set us apart from the competition.

We Design

All of our products are developed and designed in-house and are exclusive to the brand.

With the goal of being the true sector specialist, we have created a broad product range.

We strive for continual innovation in a disciplined range framework.

We Make

In 2008 we established a dedicated production facility near Cambridge where we now make over 95% of our products.

In-house production increases control over quality, allows faster innovation and improves gross margins.

Everything we do is guided by the three basic values that we started with and will always retain:

Originality
Authenticity
Ethics

We Sell

We reach our customers through an omni-channel model. Our focus is on great service to ensure 100% happiness.

DIGITAL & SUBSCRIPTION | RETAIL | COCOA ESTATE | PREMIUM WHOLESALE PARTNERS

We Distribute

Our main Distribution Centre is near Cambridge. The majority of our products are packaged here and then distributed to stores using our own fleet of vehicles. Owning the supply chain improves responsiveness and enables high levels of product availability.

We Deliver

– *Customer happiness*
– *Employee engagement*
– *Supply sustainability*
– *Shareholder value*

We Re-invest

Our Engaged Ethics programme drives investment in sustainability both in the UK and worldwide.

Our markets

We operate in four large and growing markets, all offering significant headroom.

Our differentiated product offer is well placed and has the potential to increase market share. The Board believes that approximately half of products are purchased as gifts and considers that both our competitor set and growth opportunity are wider than just traditional chocolate retailing.

UK gifting

£20BN MARKET[1]

HC HAS <0.5% SHARE

STRATEGY

- Improve gift products for stores and online
- Increase range of hampers and gift packs
- Grow customer database

UK chocolate

£6BN MARKET[2]

HC HAS <2.0% SHARE

STRATEGY

- Open more stores across the UK
- Digital upgrades improve loyalty and acquisition, conversion and tablet optimised site.
- Extend dietary luxury (vegan, gluten free, "more cocoa, less sugar")

UK cafes

£8BN MARKET[3]

HC HAS <0.1% SHARE

STRATEGY

- Apply Shop+Cafe model to selected new sites
- Test takeaway-only Hot Chocolat and ice cream in smaller stores

International

>£70BN MARKET

HC HAS <0.02% SHARE

STRATEGY

- Prove store economics in Denmark
- Gain international know-how to be equipped for larger markets later
- New website brings international expansion opportunity

1) Mintel, 2007 2) Canadean, 2014 3) Allegra, 2016

In consumer research UK shoppers named Hotel Chocolat as their favourite premium chocolate brand, they also cited the main reasons for not buying as "lack of access" and "lack of awareness". Opening more stores and improving digital will address this opportunity and capitalise on the significant market headroom.

Our strategy

We maintain a disciplined approach to capital investment to deliver returns and contain risk.

Open new stores

INCLUDING SHOP+CAFE FORMAT

Continue roll-out of Shop-only format

Continue roll-out of Shop+Cafe format

Refit existing sites, resite key stores to larger, prime sites and add cafe offer

Our property strategy is targeting new sites across the UK. Our latest shopfits have achieved significant reductions in cost per sq ft.

We will continue to innovate, adding new ranges and services.

Upgrade digital platform

AND IMPROVE GIFTING PROPOSITION

New website in 2017

Responsive design across all devices including tablet/mobile

International website capability at marginal cost

Trial a gift-sending app

Our current website launched in 2013 and has delivered strong growth, with digital revenue up +20% year-on-year in FY16. However there are significant opportunities to further enhance the ease of navigation and increase the number of gift-sending options. The new website will launch in 2017 and will also bring the ability to add international websites more rapidly and at a lower marginal cost.

Increase capacity & capability

IN PRODUCTION AND SUPPLY CHAIN

Investment in new technology to increase factory capacity

Redesign products to reduce packaging cost

Improve gross margins

Our production facility at Huntingdon opened in 2008 and has evolved continuously to keep pace whilst sales have more than doubled. To accommodate projected future growth we are investing £10m in a three-year programme of works that will reduce cost of production without any compromise in quality and will allow us to further innovate with new products.

Originality · Authenticity · Ethics

Investing in our store roll-out

We have profitable store formats from 100 sq ft to 6,000 sq ft. Our new Shop+Cafe format adds a premium drinks range to our full retail range, giving customers more reasons to visit, and offers a counter-seasonal sales profile. This allows us to increase sales and profitability in mature catchments and to open in smaller catchments where a Shop-only format might not be viable.

Chief Executive's statement

Our results continue to improve and we see significant opportunity for future growth.

"The brand has continued to gain in strength, meaning we are well positioned for growth in all of our markets."

ANGUS THIRLWELL

Co-founder and Chief Executive Officer

In my first Chief Executive's statement I am pleased to report a year of significant progress for the Group. Revenue grew by 12% to £91.1m and profit before tax increased by 91% to £5.6m. We further refined our business model and all channels achieved growth, whilst a focus on cost efficiency resulted in an improved EBITDA margin.

I would like to thank the whole team for their enthusiasm and tireless commitment, without which these results would not have been possible.

SALES CHANNEL REVIEW

Our multi-channel model continues to work well: each channel supports the others and all channels are in growth. Digital growth of +20% was particularly strong.

Our stores continued to perform well and the opening of our fifth Shop+Cafe site in Worcester represented an encouraging step as we continue to hone this new format. We will continue to open both pure chocolate shops and Shop+Cafe formats to best match the opportunity in each location.

In the year we opened seven new stores in Regent Street and Tottenham Court Road in London, Birmingham New Street Station, Glasgow Braehead, Manchester Market Street, Manchester Piccadilly Station and Sheffield Fargate.

In the year we also closed three stores that had reached the end of their leases and weren't meeting our returns hurdles, thus improving the overall profitability of the retail estate. Since the end of the financial period we have opened three stores in Worcester, Peterborough and Chelmsford, and have signed leases on a further five including our first Designer Outlet store at Cheshire Oaks, all of which we expect to be trading before Christmas 2016.

Our international operations remain at the exploratory stage and highlights have included a refit of our Shop+Cafe site in Copenhagen city centre and the opening of a new franchised store in Gibraltar, with our partner Sandpiper, who already operate Hotel Chocolat franchise stores in Jersey and Guernsey.

OPERATIONAL REVIEW

A major focus for the period was on improving availability to ensure customers can always find their favourite Hotel Chocolat products which helped increase sales growth rates across all channels. The key seasonal ranges have also traded strongly.

Originality · Authenticity · Ethics

From 'bean to bar'

For our Rare & Vintage range we carefully source beans from all around the world to complement those we grow ourselves. Each type of bean is selected to showcase the variety of flavours that fine cocoa can achieve.

We ensure that the growers are accredited as sustainable, and we commit that our team will conduct visits to every site.

Our development team then experiments to find the best roasting temperatures and conching (grinding) times to bring out the delicate flavour of the different beans. This results in a unique range of some of the best cacao on the planet, priced at an accessible luxury level.

Chief Executive's statement *continued*

Further investments are planned for summer 2017 to improve capacity and efficiency.

MANUFACTURING INVESTMENT

Following the end of Easter and preceding the build-up for the winter peak, each summer presents our annual 'window' to undertake infrastructure investment.

In summer 2015 we completed a £1.0m investment to relocate the packing of our finished products from our factory in Huntingdon to our nearby Distribution Centre in St Neots. This change increased the factory's capacity by freeing up space, allowing more efficient and responsive supply of product and reducing the amount of miles travelled moving product between our sites.

In summer 2016 we completed a £3.7m investment installing a mezzanine floor in the factory and significantly upgrading one of our three key production lines. This has resulted in an increase in factory capacity of over 20% as well as improved efficiency and the ability to conjure up more exciting recipes.

We also invested to increase our 'bean to bar' manufacturing capacity, enabling us to produce more of our super-premium Rare & Vintage product range.

Further investments are planned for summer 2017 to improve capacity and efficiency.

BRAND REVIEW

As a result of our continued nurturing the Hotel Chocolat brand continues to strengthen. At the beginning of FY16 we relaunched our key boxed chocolate ranges, improving the packaging and adding new recipes to increase choice. Over the Christmas gifting season, redesigned boxed chocolates proved a particular success.

We won an impressive 18 awards from the Academy of Chocolate including for our new Teaolat infusion drinks, our Saint Lucian Buffalo Milk 65% Chocolate and our new 'Banana Bread' chocolate.

We also launched new gift sleeves which allow guests to quickly personalise a product for a gift recipient, with early signs being very encouraging. This is part of our strategy to become a leading one-stop destination for gifts, both digitally and in-store.

CONSUMER TRENDS

Wellness

We see an increasing trend that consumers want uncompromisingly delicious and hedonistic chocolate that's also made with responsible amounts of sugar. Hotel Chocolat's 12-year track record of "more cocoa, less sugar" is applied to every grade of chocolate, from our whites, through milks and darks. We carry a very wide range of darks with cocoa percentages ranging from 70% all the way up to 100%. Our new supermilk genre means we can offer a milky and mellow taste, but with less sugar than most dark chocolates on the market. Our award-winning vegan darks also continue to see significant sales growth.

Experiences

Experiences are becoming increasingly popular as a new luxury and consumers are seeking to go beyond the purely transactional. We are well positioned to take advantage of this trend. Whilst a stay at our Boucan Hotel in Saint Lucia remains the pinnacle, great experiences are available throughout the UK. We offer School of Chocolate customer experiences nationwide, priced from £20 to £120 and we introduced new brunches and afternoon teas at our London and Leeds flagships. Our amazing Hot Chocolat is now available in more locations as we expand our new Shop+Cafe format. We intend to continue to develop the range of experiences we can offer, showcasing the brand specialisation from farm to finished product and aspire to turn customers into advocates.

Mobile

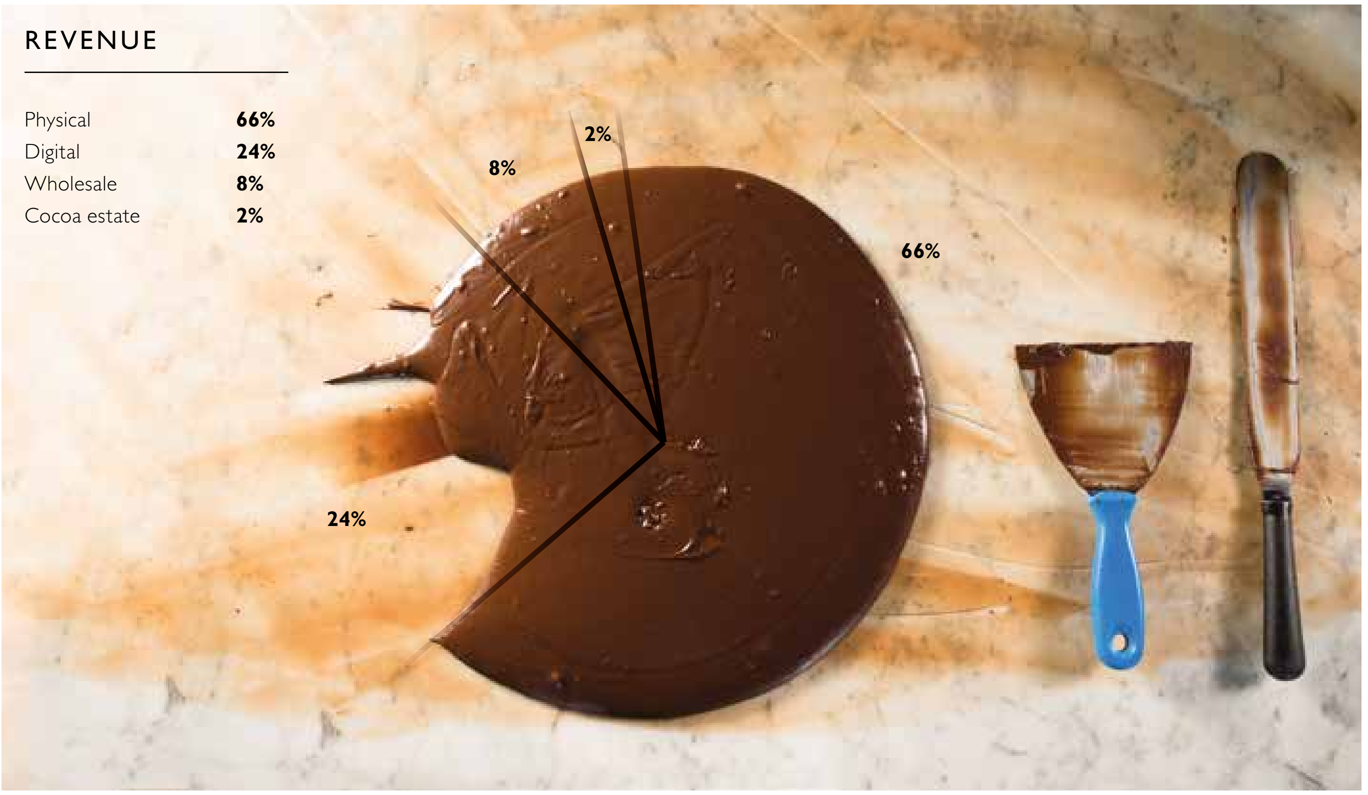
Living an increasingly mobile and flexible life is a clear trend. Plans are underway to make it easier to send an HC gift whilst on the move with our new digital capability coming on stream in H1 2017. This will deliver improved content optimised for smartphones and tablets.

OUTLOOK

I am confident that our plan for the coming year is robust. Our capital plans are based on proven store formats and digital channels, and on making greater use of existing production methods and technology. Our strategy remains on track and our continued innovation and focus on customer happiness aim to deliver increased sales, combined with disciplined capex and a tight control on costs with the goal of improving returns.

The market and wider economy may not be without challenges, but we still have significant addressable market headroom and benefit from having distribution and manufacturing directly under our control, which supports the resilience of our business.

Ensuring that we maintain the strong relationship we enjoy with our customers will always be our top priority.



Financial review

Strong sales growth coupled with improving margins and cost control have resulted in an improvement in profitability.

"Investments in proven formats and in increasing production capacity have supported growth. A focus on costs has improved operating leverage and profit margins."

MATT PRITCHARD
Chief Financial Officer

	Period ended 26 June 2016 £000	Period ended 28 June 2015 £000
Revenue	**91,090**	**81,068**
Gross profit	60,853	53,982
Operating expenses	(48,522)	(46,148)
Pre-exceptional EBITDA	**12,331**	**7,834**
Depreciation & amortisation	(3,194)	(4,239)
Exceptional costs	(2,642)	–
Operating profit	6,366	3,463
Finance income	172	188
Finance expense	(947)	(720)
Profit before tax	5,591	2,931
Tax expense	(1,507)	(884)
Profit for the period	**4,084**	**2,047**

REVENUE

Revenue grew by 12% from £81.1m to £91.1m. An overview of revenue is included in the Chief Executive's statement.

GROSS MARGIN AND OPERATING EXPENSE

Gross profit margin improved from 66.6% to 66.8%, as a result of a focus on efficiency and better buying, partially offset by ongoing investment in product quality.

A focus on cost control meant that operating expenses as a percentage of sales reduced from 56.9% to 53.3%.

EXCEPTIONAL COSTS

The exceptional costs of £2.6m relate to the costs of flotation of the Group in May 2016 and to the acquisition of Hotel Chocolat Estates Limited, Saint Lucia by the Group at the time of IPO.

FINANCE EXPENSE

A £5.6m loan was taken out with Lloyds bank in July 2015 and was repaid in full from operating cash flow prior to the IPO. In addition the Group made use of an overdraft facility provided by Lloyds bank. This was replaced with an £18m 2-year RCF facility in April 2016.

TAXATION

The effective rate of taxation is 27%. This is higher than the standard rate primarily as a result of costs relating to the IPO, which are not allowable for tax purposes.

EARNINGS PER SHARE (EPS) AND DIVIDENDS

The capital reorganisation in conjunction with the IPO increased the number of shares in issue to 112,837,828 resulting in an FY16 EPS of 3.9p.

The business continues to be in a growth phase and has recently raised new capital to finance investment activity with the goal of increasing returns. Therefore the Board does not propose a dividend, but intends to adopt a progressive dividend policy in future years as the business grows.

CASH POSITION

The Group had £6.5m of cash at year end and £6.7m of borrowings in the form of chocolate bonds where bondholders receive boxes of chocolate or gift cards in lieu of interest.

WORKING CAPITAL

Closing inventories increased by £2.1m driven by an investment in inventory to improve availability for customers which has supported sales growth, and by a requirement to build additional inventory in advance of a temporary factory shutdown to complete capital investment in July and August 2016.

CAPITAL EXPENDITURE

Capital expenditure of £8.3m comprised investments in new stores and re-sites, IT projects and in operational projects including upgrades to factory capacity and capability.

ACQUISITION OF HOTEL CHOCOLAT ESTATES LIMITED, SAINT LUCIA (HCESL)

Hotel Chocolat Group Limited acquired HCESL on 24 April 2016. As such the audited financial statements are required by the Companies Act to include the activities, assets and liabilities of HCESL from the date of acquisition. The admission document published prior to the IPO was required to include the results of HCESL as if the Company had always been a member of the Group. The proforma numbers below are therefore provided for comparative purposes.

Hotel Chocolat Group plc proforma basis

	Period ended 26 June 2016 £000	Period ended 28 June 2015 £000
Revenue	92,636	82,614
Pre-exceptional EBITDA	12,270	8,106

PERFORMANCE INDICATORS

The Group monitors its performance using a number of key indicators which are agreed at Board meetings and monitored at operational and Board level.

REVENUE GROWTH

+12%

Revenue grew 12% year-on-year

GROSS MARGIN

66.8%

Gross margin improved from 66.6% to 66.8%

PRE-EXCEPTIONAL EBITDA MARGIN

13.5%

EBITDA margin before exceptional costs improved from 9.7% to 13.5%.

Risk management

The Board sets out below the principal risks that the Directors consider could impact the business. The Board continually reviews the risks facing the Group, the controls in place to mitigate any potential adverse impacts and assurance sought to check that the controls are working effectively. The Board recognises that the nature and scope of risks can change and there may be other risks to which the Group is exposed so the list is not intended to be exhaustive.

Risk category	Potential impact	Mitigation	Change to residual risk in FY 2016	Commentary
INCREASED COMPETITION AND CHANGES IN CONSUMER TASTES	**Changes to competition and/or consumer preferences may reduce demand for the Group's products.** **Increased competition could make it more difficult or more costly to acquire new store leases.**	• The business adheres to core values of originality, authenticity and ethics which result in a strong brand. • The Board strives for continuous improvement to products and services to increase sales.	→	
ECONOMIC AND POLITICAL FACTORS BEYOND THE GROUP'S DIRECT CONTROL	**A downturn in the macro-economy may reduce consumer demand generally. Costs may be increased by changes to government policy, including tax changes or other legislation.**	• The Board seeks to ensure the brand retains its position as affordable luxury in order to appeal to a broad range of consumers and at price points that are appropriate. • Ongoing focus on cost efficiency assists in mitigating individual cost increases.	↑	The Brexit vote has increased macro-economic uncertainty, however trading since period-end has remained in line with the Board's expectations.
FOREIGN EXCHANGE	**The Group purchases many of its ingredients and capital items in currencies other than sterling. A fall in the value of sterling would increase the cost of imports.** **Revenues from the hotel in Saint Lucia are denominated in US dollars.**	• The Group forecasts its requirement for foreign exchange purchases and hedges these purchases 18 months ahead.	↑	Whilst sterling has fallen, the Group extends its currency hedges on a quarterly basis and is currently hedged for the whole of FY17.
KEY MANAGEMENT	**Loss of key personnel could impact the Group's ability to implement strategy and the intended pace of growth.**	• Business plans and initiatives are documented and prepared with cross-functional input to reduce reliance on single individuals. • The Remuneration Committee seeks to ensure rewards are commensurate with performance and aid retention.	↓	The IPO has enabled the business to launch share-based incentives to assist in retaining key personnel.
DISRUPTION TO SUPPLY OR PRODUCTION OF GOODS, OR TO IT SYSTEMS	**Disruption to supply or production of goods, or to IT systems, could limit availability of products and consequently reduce sales.**	• The Group maintains a business continuity plan which is updated annually and tested quarterly with the incident management team.	→	The business has extended its risk assessments to include external as well as internal supply chain disruption.
INCONSISTENT QUALITY OR CONTAMINATION OF THE GROUP'S PRODUCTS	**Inconsistent quality or contamination of the Group's products could reduce demand for the Group's products.**	• The business applies strict quality controls and seeks independent validation of these controls by the British Retail Consortium (BRC).	→	Production facilities achieved 'A grade' accreditation from the BRC in 2016.
NEGATIVE PUBLICITY AFFECTING THE BRAND	**Negative publicity affecting the brand could reduce consumer demand for the Group's products.**	• The business adheres to core values of originality, authenticity and ethics which result in a strong brand.	→	

This strategic report and information referred to herein was approved on behalf of the Board on 18 October 2016.

Matt Pritchard
Chief Financial Officer

Corporate social responsibility

The Board believes that the company has a duty to many groups in society: customers, growers and suppliers, employees, shareholders and local communities.

The Group strives to ensure that the business's activities positively benefit all stakeholders.

ENGAGED ETHICS – uniting cocoa growers and lovers of fine chocolate and being fair to both.

The experience gained by revitalising our cocoa estate in Saint Lucia has shown us that there are a number of ways to assist in ensuring cocoa growing is sustainable:

1) **Pay a premium** for cocoa grown to sustainable standards of stewardship. Hotel Chocolat Group plc is working with suppliers and is committed to ensuring that 100% of its cocoa is certified sustainable by 2020.
2) **Help farmers to increase crop yields** by providing knowledge, techniques, tools and materials to improve productivity and where possible grow 'fine' cocoa which can fetch a higher price. Hotel Chocolat (HC) has partnered with an NGO, Green Tropic Group, for 14 years to support higher productivity in Ghana. HC has committed to more than doubling the level of financial support in FY17 in order to increase the number of farmers that benefit from training and resources to improve productivity and farm incomes.
3) **Providing support to local communities**. HC and the Tasting Club members have funded the construction of a health centre in Osuben, Ghana and intend to continue to invest in similar projects.

CUSTOMERS

The business is committed to a philosophy of "more cocoa, less sugar", designed to ensure that the product offers a differentiated cocoa-rich taste, and with lower sugar content than many premium chocolate products.

Customer confidence in pricing is also important. We never go 'on sale' before the end of a season, so the customers know they are paying a fair price for their purchase.

EMPLOYEES

The business measures employee engagement in every team with a focus on ensuring that all team members are listened to and any concerns are addressed. We believe that an engaged team will feel greater job satisfaction and deliver a better experience for customers.

The Group operates an all-employee annual performance bonus and a share-save scheme which launched in August 2016. Career progression is supported and targets are set to ensure as high a proportion of vacancies as possible are filled via internal promotions. The School of Chocolate diploma is available to all employees and provides a detailed understanding of all aspects of cocoa growing and chocolate making.

ENVIRONMENT

Initiatives are underway to reduce CO_2 emissions, including reducing the number of vehicle miles travelled and improving energy efficiency in factories. A new delivery fleet has significantly reduced vehicle NO_2 and reduced vehicle CO_2 by 10% year-on-year. Targeting inefficient processes also reduces environmental wastage; smarter use of packaging in our Distribution Centre will reduce cardboard consumption in FY17.

COMMUNITIES

We have partnered with Drive Forward Foundation, an organisation which supports young people leaving care by assisting them with the transition to the world of work. Drive Forward Foundation helps young people select the right career and provides support, giving them confidence to succeed in the workplace. The collaboration will target those with the skills and appetite to succeed in a retail career.

Originality · Authenticity · Ethics

"more cocoa, less sugar"

We believe cocoa is the most important ingredient in great chocolate so it will always be the main ingredient listed first on the back of our packs, even for milk and white chocolate. For many of our competitors, sugar will be listed as the main ingredient. We believe customers can taste the difference.

Board of Directors

Experienced founder-led team

ANDREW GERRIE (53)
Independent
Non-executive Chairman

Remuneration Committee Chair
Audit Committee member

Andrew Joined HC as Non-executive Chairman in June 2015 and has extensive retail experience, having served as CEO of Lush Cosmetics from 1994 to 2014. During this period Lush grew to over 900 stores across 49 countries, with sales in excess of £450m.

Andrew holds a B.Com degree from Auckland University

FAVOURITE PRODUCT:
Fruit & Nut Frenzy Giant Slab to share

ANGUS THIRLWELL (53)
Co-founder and
Chief Executive Officer

Angus co-founded HC with Peter Harris in 1993 and has a particular focus on brand strategy, product and channel models, marketing and creative.

Angus attended Cranfield School of Management and is a committee member for The Academy of Chocolate.

FAVOURITE PRODUCT:
Breakfast at our restaurant: avocado on toast with cocoa nibs – and a 100% Hot Chocolat

PETER HARRIS (61)
Co-founder and
Development Director

Peter Harris co-founded HC with Angus Thirlwell in 1993 and is responsible for real estate, legal and intellectual property.

Peter qualified as a Chartered Accountant in 1979.

FAVOURITE PRODUCT:
Chocolate-covered almonds

MATT PRITCHARD (42)
Chief Financial Officer

Matt joined HC as Chief Financial Officer in 2014 and is responsible for the finance function and retail operations.

He has over 20 years of experience of finance gained in blue chip retail organisations.

Matt qualified as a Certified Accountant in 1998.

FAVOURITE PRODUCT:
Saint Lucia 70% "La Pepineire" Grown on a single grove within the Rabot Estate

MATT MARGERESON (45)
Chief Operating Officer

Matt joined HC in 2006 and is responsible for product development, manufacturing, supply chain, HR and IT.

Matt has 23 years' experience in operations and supply chain management.

Matt completed an MBA in 2013 and is a member of the Chartered Institute of Logistics and Transport.

FAVOURITE PRODUCT:
Pistachio Praline with a cocoa infusion

SOPHIE TOMKINS (47)
Independent
Non-executive Director

Audit Committee Chair
Remuneration Committee member

Sophie has considerable public markets experience gained through a 17-year career in the City with several investment banks. Sophie is currently Non-executive Director and Chair of the Audit Committee at CloudCall Group plc.

Sophie qualified as a Chartered Accountant in 1994 and is a fellow of the Chartered Institute for Securities and Investment.

FAVOURITE PRODUCT:
Peanut Butter Selector

Corporate governance statement

AN INTRODUCTION FROM OUR CHAIRMAN

In this section of our report we have set out our approach to governance and provided further information on how the Board and its committees operate. This is our first annual report as an AIM-listed entity.

As an AIM-listed entity, the Group is not subject to and does not comply with the requirements of the UK Corporate Governance Code. However, the Directors recognise the value and importance of good corporate governance and are fully accountable to the Group's stakeholders including shareholders, customers, suppliers and employees.

We are also mindful of the recommendations of the QCA Corporate Governance Code for Small and Mid-Size Quoted Companies ("QCA guidelines"). The corporate governance framework which the Group operates, including Board leadership and effectiveness, Board remuneration, and internal control, is set out below.

THE COMPOSITION OF THE BOARD

The Board is responsible to the shareholders and sets the Group's strategy for achieving long-term success. It is also ultimately responsible for the management, governance, controls, risk management, direction and performance of the Group. From flotation the Board comprised two Non-executive Directors and four Executive Directors. The two Non-executive Directors are fully independent.

HOW THE BOARD OPERATES

The Board is responsible for the Group's strategy and for its overall management. The operation of the Board is documented in a formal schedule of matters reserved for its approval, which is reviewed annually. These include matters relating to:

- The Group's strategic aims and objectives
- The structure and capital of the Group
- Financial reporting, financial controls and dividend policy
- Setting budgets and forecasts
- Internal control, risk and the Group's risk appetite
- The approval of significant contracts and expenditure
- Effective communication with shareholders
- Any changes to Board membership or structure

BOARD MEETINGS

Non-executive Directors communicate directly with Executive Directors and senior management between formal Board meetings. The Board as now constituted first met collectively in April 2016 and in total met five times in the period. In addition the Board held a strategy day on 1 August 2016 specifically focused on digital growth.

Directors are expected to attend all meetings of the Board, and of the Committees on which they sit, and to devote sufficient time to the Group's affairs to enable them to fulfil their duties as Directors. In the event that Directors are unable to attend a meeting, their comments on papers to be considered at the meeting will be discussed in advance with the Chairman so that their contribution can be included in the wider Board discussion. The following table shows Directors' attendance at scheduled Board and Committee meetings during the year:

	Board	Remuneration	Audit
Andrew Gerrie	5/5	1/1	1/1
Sophie Tomkins	5/5	1/1	1/1
Angus Thirlwell	4/5	–	–
Peter Harris	5/5	–	–
Matt Pritchard	5/5	–	(Guest 1/1)
Matt Margereson	5/5	–	–

BOARD DECISIONS AND ACTIVITY DURING THE PERIOD

The Board has a schedule of regular business, financial and operational matters, and each Board Committee has compiled a schedule of work to ensure that all areas for which the Board has responsibility are addressed and reviewed during the course of the year. The Chairman, aided by the Company Secretary, is responsible for ensuring that the Directors receive accurate and timely information. The Company Secretary compiles the Board and Committee papers which are circulated to Directors prior to meetings. The Company Secretary also ensures that any feedback or suggestions for improvement on Board papers is fed back to management. The Company Secretary provides minutes of each meeting and every Director is aware of the right to have any concerns minuted.

BOARD COMMITTEES

The Board has delegated specific responsibilities to the Audit and Remuneration Committees, details of which are set out below.

Each Committee has written terms of reference setting out its duties, authority and reporting responsibilities. Copies of all the Committee terms of reference are available on the Group's website. It is intended that these terms of reference will be kept under continuous review to ensure they remain appropriate and reflect any changes in legislation, regulation or best practice. Each Committee comprises Non-executive Directors of the Group.

Audit Committee

The Audit Committee is chaired by Sophie Tomkins and its other member is Andrew Gerrie; both are fully independent. The Audit Committee has primary responsibility for monitoring the quality of internal controls and ensuring that the financial performance of the Group is properly measured and reported on. It receives and reviews reports from the Group's management and auditor relating to the annual accounts and the accounting and internal control systems in use throughout the Group. It also advises the Board on the appointment of the auditor, reviews their fees and discusses the nature, scope and results of the audit with the auditor. The Audit Committee meets at least twice a year and has unrestricted access to the Group's auditor. The Chief Financial Officer attends the Committee meetings by invitation.

Remuneration Committee

The Remuneration Committee is chaired by Andrew Gerrie. Its other member is Sophie Tomkins. The Remuneration Committee reviews the performance of the Executive Directors and makes recommendations to the Board on matters relating to their remuneration and terms of employment. The Remuneration Committee also makes recommendations to the Board on proposals for the granting of share options and other equity incentives pursuant to any share option scheme or equity incentive scheme in operation from time to time. The remuneration and terms and conditions of appointment of the Non-executive Directors of the Group are set by the Board. The Chief Executive Officer and Chief Financial Officer are invited to attend for some parts of the Committee meetings where their input is required although they do not take part in any discussion on their own benefits and remuneration.

The Remuneration report on pages 36 to 37 contains more detailed information on the Committee's role and the Directors' remuneration and fees.

Nominations Committee

The Board is newly formed and is considered by its members to be appropriately sized for the needs of the business. As such it is the view of the Board that a separate Nominations Committee is not required at present. In the event that the needs of the business change, a Nominations Committee will be formed. It has been agreed that the main Board will undertake the activities of Board appointments, re-election and succession, with a view to ensuring that the Board is composed of individuals with the necessary skills and to promote a culture that fosters diversity.

BOARD EFFECTIVENESS

The skills and experience of the Board are set out in their biographical details on pages 30 to 31. The experience and knowledge of each of the Directors gives them the ability to constructively challenge strategy and to scrutinise performance.

All the Directors have been members of the Board since the Group's listing on AIM in May 2016 and took part in a thorough induction process prior to joining the Board. It is intended that, in the future, on joining the Board, new Directors will undergo a formal programme which will be tailored to the existing knowledge and experience of the Director concerned.

TIME COMMITMENTS

All Directors have been advised of the time required to fulfil the role prior to appointment and were asked to confirm that they can make the required commitment before they were appointed. This requirement is also included in their letters of appointment. The Board is satisfied that the Chairman and Non-executive Directors are able to devote sufficient time to the Group's business.
There has been no significant change in the Chairman's other time commitments since his appointment.

DEVELOPMENT

The Company Secretary ensures that all Directors are kept abreast of changes in relevant legislation and regulations, with the assistance of the Group's advisers where appropriate. Executive Directors are subject to the Group's performance review process through which their performance against predetermined objectives is reviewed and their personal and professional development needs considered. It is intended that an annual performance appraisal of Non-executive Directors will be undertaken by the Chairman as part of the Board evaluation process, at which time any training or development needs will be addressed.

Corporate governance statement *continued*

EXTERNAL APPOINTMENTS

As appropriate, the Board may authorise Executive Directors to take Non-executive positions in other companies and organisations, provided the time commitment does not conflict with the Director's duties to the Group, since such appointments should broaden their experience. The acceptance of appointment to such positions is subject to the approval of the Chairman.

CONFLICTS OF INTEREST

At each meeting the Board considers Directors' conflicts of interest. The Group's Articles of Association provide for the Board to authorise any actual or potential conflicts of interest.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Group has purchased Directors' and Officers' liability insurance during the period as allowed by the Group's articles.

ELECTION OF DIRECTORS

All continuing Directors of the Group will offer themselves for election or re-election at the Annual General Meeting (see note below).

INTERNAL CONTROLS

The Board has ultimate responsibility for the Group's system of internal control and for reviewing its effectiveness. However, any such system of internal control can provide only reasonable, but not absolute, assurance against material misstatement or loss. The Board considers that the internal controls in place are appropriate for the size, complexity and risk profile of the Group. The principal elements of the Group's internal control system include:

- close management of the day-to-day activities of the Group by the Executive Directors;
- an organisational structure with defined levels of responsibility, which promotes entrepreneurial decision making and rapid implementation whilst mitigating risks;
- a comprehensive annual budgeting process producing a detailed integrated profit and loss, balance sheet and cash flow, which is approved by the Board;
- detailed monthly reporting of performance against budget; and
- central control over key areas such as capital expenditure authorisation and banking facilities.

The Group continues to review its system of internal control to ensure adherence to best practice, whilst also having regard to its size and the resources available. The Board considers that the introduction of an internal audit function is not appropriate at this juncture.

RELATIONS WITH SHAREHOLDERS

The Group maintains communication with institutional shareholders through individual meetings with Executive Directors, particularly following publication of the Group's interim and full period results. Private shareholders are encouraged to attend the Annual General Meeting at which the Group's activities are considered and questions answered. General information about the Group is also available on the Group's website (www.hotelchocolat.com). The Non-executive Directors are available to discuss any matter stakeholders might wish to raise, and the Chairman and independent Non-executive Directors will attend meetings with investors and analysts as required. Investor relations activity and a review of the share register are standing items on the Board's agenda.

ANNUAL GENERAL MEETING (AGM)

The Annual General Meeting of the Group will take place on 1 December 2016. The Notice of Annual General Meeting and the ordinary and special resolutions to be put to the meeting are included at the end of this Annual Report and financial statements.

Audit Committee report

On behalf of the Board, I am pleased to present the Audit Committee report for the period ended 26 June 2016. The Audit Committee is responsible for ensuring that the financial performance of the Group is properly reported and reviewed. Its role includes monitoring the integrity of the financial statements (including annual and interim accounts and results announcements), reviewing internal control and risk management systems, reviewing any changes to accounting policies, reviewing and monitoring the extent of the non-audit services undertaken by external auditors and advising on the appointment of external auditors.

MEMBERS OF THE AUDIT COMMITTEE

The Committee consists of two independent Non-executive Directors: me (as Chair) and Andrew Gerrie. Matt Pritchard may attend Committee meetings by invitation. The Committee met once in the period. The Board is satisfied that I, as Chair of the Committee, have recent and relevant financial experience. I am a Chartered Accountant and I am currently Chair of the Audit Committee at CloudCall Group plc. A representative from Chadwick Corporate Consulting acts as Secretary to the Committee. I report the Committee's deliberations at the next Board meeting and the minutes of each meeting are made available to all members of the Board.

DUTIES

The main duties of the Audit Committee are set out in its terms of reference, which are available on the Group's website (www.hotelchocolat.com). The main items of business considered by the Audit Committee during the year included:

- review of the FY16 audit plan and audit engagement letter;
- review of suitability of the external auditor;
- review of the financial statements and Annual Report;
- consideration of the external audit report and management representation letter;
- going concern review;
- review of the risk management and internal control systems; and
- meeting with the external auditor without management present.

ROLE OF THE EXTERNAL AUDITOR

The Audit Committee monitors the relationship with the external auditor, BDO LLP, to ensure that auditor independence and objectivity are maintained. Noting the tenure of BDO LLP (since FY12), the Committee will keep under review the need for external tender. As part of its review the Committee monitors the provision of non-audit services by the external auditor. The breakdown of fees between audit and non-audit services is provided in Note 6 of the Group's financial statements. The non-audit fees relate to tax advice for the Group and transaction services in support of the flotation. The Audit Committee also assesses the auditor's performance. Having reviewed the auditor's independence and performance, the Audit Committee recommends that BDO LLP be reappointed as the Group's auditor at the next AGM.

AUDIT PROCESS

The auditor prepares an audit plan for the review of the full period financial statements. The audit plan sets out the scope of the audit, areas to be targeted and audit timetable. This plan is reviewed and agreed in advance by the Audit Committee. Following the audit, the auditor presented its findings to the Audit Committee for discussion. No major areas of concern were highlighted by the auditor during the period, however areas of significant risk and other matters of audit relevance are regularly communicated.

INTERNAL AUDIT

At present the Group does not have an internal audit function and the Committee believes that management is able to derive assurance as to the adequacy and effectiveness of internal controls and risk management procedures without one.

RISK MANAGEMENT AND INTERNAL CONTROLS

As described on page 34 of the corporate governance report, the Group has established a framework of risk management and internal control systems, policies and procedures. The Audit Committee is responsible for reviewing the risk management and internal control framework and ensuring that it operates effectively. During the period, the Committee has reviewed the framework and the Committee is satisfied that the internal control systems in place are currently operating effectively.

WHISTLEBLOWING

The Group has in place a whistleblowing policy which sets out the formal process by which an employee of the Group may, in confidence, raise concerns about possible improprieties in financial reporting or other matters. Whistleblowing is a standing item on the Committee's agenda and updates are provided at each meeting. During the period, there were no incidents for consideration.

ANTI-BRIBERY

The Group has in place an anti-bribery and anti-corruption policy which sets out its zero-tolerance position and provides information and guidance to those working for the Group on how to recognise and deal with bribery and corruption issues. During the period, there were no incidents for consideration.

Sophie Tomkins
Chair of the Audit Committee

Remuneration report

I am pleased to present this remuneration report, which sets out the remuneration policy and the remuneration paid to the Directors for the period. Hotel Chocolat Group plc is listed on the Alternative Investment Market (AIM) and, as such, the following disclosures are prepared on a voluntary basis for the Group.

COMPOSITION AND ROLE

The Remuneration Committee's members are Andrew Gerrie, who is the Chairman of the Committee, and Sophie Tomkins. The Committee operates under the Group's agreed terms of reference and is responsible for reviewing all senior executive appointments and determining the Group's policy in respect of the terms of employment, including remuneration packages of Executive Directors. The Remuneration Committee met once during the period and plans to meet at least twice a year going forward.

REMUNERATION POLICY

The objective of the Group's remuneration policy is to attract, motivate and retain high quality individuals who will contribute fully to the success of the Group. To achieve this objective, the Group provides competitive salaries and benefits to all employees. Executive Directors' remuneration is set to create an appropriate balance between both fixed and performance-related elements. Remuneration is reviewed each year in light of the Group's business objectives. It is the Remuneration Committee's intention that remuneration should reward achievement of objectives and that these are aligned with shareholders' interests over the medium term. Remuneration consists of the following elements:

- Basic salary;
- Performance-related annual bonus;
- Long-Term Incentive Plan; and
- Pension contribution.

EXECUTIVE DIRECTORS' SERVICE CONTRACTS

The Executive Directors signed new service contracts with the Group on admission to AIM. These are not of fixed duration. Angus Thirlwell and Peter Harris' contracts are terminable by either party giving twelve months' written notice. Matt Pritchard and Matt Margereson's contracts are terminable by either party giving six months' written notice.

NON-EXECUTIVE DIRECTORS

The Non-executive Directors signed letters of appointment with the Group on admission to AIM for the provision of Non-executive Directors' services, which may be terminated by either party giving three months' written notice. The Non-executive Directors' fees are determined by the Board.

DIRECTORS' REMUNERATION

The following table summarises the total gross remuneration of the Directors who served during the period to 26 June 2016.

	2016				2015			
	Basic salary/fee	Bonus	Pension	Total	Basic salary/fee	Bonus	Pension	Total
Executive								
Angus Thirlwell	235,840	47,200	5,358	288,398	236,000	47,200	5,360	288,560
Peter Harris	232,634	47,200	3,000	282,834	236,000	47,200	3,000	286,200
Matt Pritchard	202,404	40,250	2,024	244,678	182,500	38,100	1,825	222,425
Matt Margereson	202,404	40,250	–	242,654	185,417	37,083	–	222,500
Non-executive								
Andrew Gerrie	7,820	–	–	7,820	–	–	–	–
Sophie Tomkins	6,641	–	29	6,670	–	–	–	–

The remuneration policy for 2017 will operate as follows:

	Basic salary/fee	Maximum bonus	Pension
Executive			
Angus Thirlwell	£235,000	40%	£5,350
Peter Harris	£215,000	40%	£3,000
Matt Pritchard	£215,000	40%	£2,150
Matt Margereson	£215,000	40%	–
Non-executive			
Andrew Gerrie	£50,000	–	–
Sophie Tomkins	£35,000	–	–

Maximum bonus opportunities for the 2017 financial year are disclosed in the table above. The 2017 bonus will be assessed against Group profit and against personal performance objectives.

The profit element of the bonus will adjust from zero at a threshold profit level, up to 40% for a stretch profit growth. Personal performance against pre-determined objectives will be appraised by the Remuneration Committee. If a Director does not achieve one or more of their personal objectives their profit-related bonus payment will reduce on a pre-determined sliding scale.

Challenging performance targets have been set. The actual performance targets are not disclosed as they are considered to be commercially sensitive.

LONG-TERM INCENTIVE PLAN

Annual awards to Executive Directors under this plan are underpinned by financial performance measures. Angus Thirlwell and Peter Harris are not part of the Long-Term Incentive Plan.

Matt Pritchard and Matt Margereson have been granted options under the Group's Long-Term Incentive Plan. The proportion of the total option shares vesting is subject to testing against a performance condition, being the audited net profit after tax for the financial period ended 30 June 2019. The performance thresholds are not disclosed as they are considered to be commercially sensitive.

	Date of grant	Number of ordinary shares under option	Exercise price	Exercise period
Matt Pritchard	04.05.16	800,000	148p	04.05.19–03.05.26
Matt Margereson	04.05.16	800,000	148p	04.05.19–03.05.26

If you have any comments or questions on anything contained within this remuneration report, I will be available at the AGM.

Andrew Gerrie
Chair of the Remuneration Committee

Directors' report

The Directors present their report together with the audited financial statements for the period ended 26 June 2016.

The corporate governance statement on pages 32 to 34 also forms part of this Directors' report.

REVIEW OF BUSINESS

The Chairman's statement on page 10 and the strategic report on pages 10 to 27 provide a review of the business, the Group's trading for the period ended 26 June 2016, key performance indicators and an indication of future developments.

RESULT AND DIVIDEND

The Group has reported its Consolidated Financial Statements in accordance with International Financial Reporting Standards as adopted by the European Union.

The Group's results for the period are set out in the Consolidated Statement of Comprehensive Income on page 42. The Group has applied FRS 101: Reduced Disclosure Framework to the Company accounts for the period ended 26 June 2016.

Hotel Chocolat Group plc acquired Hotel Chocolat Estates Limited, Saint Lucia (HCESL) on 24 April 2016. As such the audited financial statements are required by the Companies Act to include the activities, assets and liabilities of HCESL from the date of acquisition.

The Group's IFRS profit after tax for FY16 was £4.1m (FY15: £2.0m). The Group's FY16 revenue of £91.1m (FY15: £81.1m), gross margin of 66.8% (FY15: 66.6%) and FY16 adjusted EBITDA of £12.3m (FY15: £7.8m) represent a successful period for the business. The Group continued to strengthen its position.

	Proforma basis		IFRS (acquisition basis)	
Period ended	**26 June 2016 £000**	**28 June 2015 £000**	**26 June 2016 £000**	**28 June 2015 £000**
Revenue	92,636	82,614	91,090	81,068
Gross margin %	67.0%	65.9%	66.8%	66.6%
Adjusted EBITDA	12,270	8,106	12,331	7,834
Profit after tax	3,561	1,887	4,084	2,047

The Board is not recommending a dividend.

DIRECTORS

The Directors of the Group during the period were:

Executive
Angus Thirlwell
Peter Harris
Matt Pritchard
Matt Margereson

Non-executive
Andrew Gerrie
Sophie Tomkins

The names of the Directors, along with their brief biographical details are given on pages 30 to 31.

DIRECTORS' INTERESTS

The Directors' interests in the Group's shares and options over ordinary shares are shown in the remuneration report on page 37.

No Director has any beneficial interest in the share capital of any subsidiary or associate undertaking.

The Group also purchased and maintained throughout the financial period Directors' and Officers' liability insurance in respect of itself and its Directors.

POLITICAL DONATIONS

The Group made no political donations in the financial period.

DISCLOSURE OF INFORMATION TO AUDITOR

As far as the Directors are aware, there is no relevant audit information (that is, information needed by the Group's auditor in connection with preparing their report) of which the Group's auditors are unaware, and each Director has taken all reasonable steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

FINANCIAL INSTRUMENTS

The financial risk management objectives of the Group, including credit risk, interest rate risk and foreign exchange risk, are provided in Note 31 to the Consolidated Financial Statements on pages 72 to 74.

SHARE CAPITAL STRUCTURE

At 26 June 2016, the Group's issued share capital was £112,838 divided into 112,837,828 ordinary shares of 0.1p each. The holders of ordinary shares are entitled to one vote per share at the meetings of the Group.

SHARE OPTION SCHEMES

Details of employee share schemes are set out in Note 9 to the Consolidated Financial Statements.

PURCHASE OF OWN SHARES

Details of shares purchased by the Group are set out in Note 24 to the Consolidated Financial Statements.

GOING CONCERN

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

POST BALANCE SHEET EVENTS

The Board considers that no material post balance sheet events occurred between the end of the period and the date of publication of this report.

FUTURE DEVELOPMENTS

The Board intends to continue to pursue the business strategy as outlined in the strategic report on pages 10 to 27.

EMPLOYEE INVOLVEMENT POLICIES

The Directors believe that the involvement of employees is an important part of the business culture and contributes to the successes achieved to date (view our corporate social responsibility statement on page 28).

AUDITOR

BDO LLP has expressed its willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on 1 December 2016. The ordinary business comprises receipt of the Directors' report and audited financial statements for the period ended 26 June 2016, the re-election of Directors, the reappointment of BDO LLP as auditor and authorisation of the Directors to determine the auditor's remuneration. The Notice of Annual General Meeting and the ordinary and special resolutions to be put to the meeting are included at the end of this Annual Report and financial statements.

APPROVAL

This Directors' report was approved on behalf of the Board on 18 October 2016.

Matt Pritchard
Chief Financial Officer

Statement of Directors' responsibilities

The Directors are responsible for preparing the strategic report, the Annual Report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial period. Under that law the Directors have elected to prepare the Group's Consolidated Financial Statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, and the Company Financial Statements in accordance with FRS 101: Reduced Disclosure Framework.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

WEBSITE PUBLICATION

The Directors are responsible for ensuring the Annual Report and the financial statements are made available on a website. Financial statements are published on the Group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Independent auditor's report

To the members of Hotel Chocolat Group plc

We have audited the financial statements of Hotel Chocolat Group plc for the period ended 26 June 2016 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position and Company Statement of Financial Position, the Consolidated Statement of Cash Flow and Company Statement of Cash Flow, the Consolidated Statement of Changes in Equity and Company Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

OPINION ON FINANCIAL STATEMENTS

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the Parent Company's affairs as at 26 June 2016 and of the Group's profit for the period then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the strategic report and Directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Mark RA Edwards (senior statutory auditor)

For and on behalf of BDO LLP, statutory auditor
London
United Kingdom
18 October 2016

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated Statement of Comprehensive Income

For the period ended 26 June 2016

	Notes	52 weeks ended 26 June 2016 £	52 weeks ended 28 June 2015 £
Revenue	4	91,089,824	81,068,364
Cost of sales		(30,237,009)	(27,086,522)
		60,852,815	53,981,842
Administrative expenses	5	(54,486,943)	(50,519,091)
		6,365,872	3,462,751
Finance income	10	172,106	188,489
Finance expenses	10	(946,884)	(719,808)
Profit before tax for the period		5,591,094	2,931,432
Tax expense	11	(1,507,290)	(884,209)
Profit for the period		4,083,804	2,047,223
Other comprehensive income:			
Derivative financial liabilities	21	(581,959)	–
Deferred tax charge on derivative financial liabilities	11	114,446	–
Currency translation differences arising from consolidation		896,053	(380,039)
Total comprehensive income for the period		4,512,344	1,667,184
Earnings per share – Basic and Diluted	12	3.9p	20.1p

Consolidated Statement of Financial Position

As at 26 June 2016

	Notes	As at 26 June 2016 £	As at 28 June 2015 £	As at 29 June 2014 £
ASSETS				
Non-current assets				
Intangible assets	13	1,856,800	1,553,433	1,512,191
Property, plant and equipment	14	26,111,111	12,294,264	14,030,984
Prepayments	17	7,461	–	–
Deferred tax asset	15	149,903	215,993	240,019
		28,125,275	14,063,690	15,783,194
Current assets				
Inventories	16	6,604,104	4,493,841	3,926,952
Trade and other receivables	17	5,534,835	13,672,466	15,131,549
Corporation tax recoverable		–	166,709	952,873
Cash and cash equivalents	19	6,475,446	4,939,924	4,796,735
		18,614,385	23,272,940	24,808,109
Total assets		46,739,660	37,336,630	40,591,303
LIABILITIES				
Current liabilities				
Trade and other payables	20	16,334,191	12,210,082	14,006,130
Corporation tax payable		611,051	–	–
Derivative financial liabilities	21	554,529	–	–
Bank overdraft	19	–	10,637,314	13,931,197
Borrowings	22	432,544	954,521	723,613
		17,932,315	23,801,917	28,660,940
Non-current liabilities				
Other payables and accruals	20	1,485,090	1,774,731	1,143,491
Derivative financial liabilities	21	85,075	–	–
Borrowings	22	6,643,212	7,298,718	7,723,393
Provisions	23	464,486	668,898	939,715
		8,677,863	9,742,347	9,806,599
Total liabilities		26,610,178	33,544,264	38,467,539
NET ASSETS		20,129,482	3,792,366	2,123,764
EQUITY				
Share capital	24	112,838	103,418	107,078
Share premium	25	11,749,487	–	–
Retained earnings		8,087,350	4,003,546	1,956,323
Translation reserve	25	353,126	(542,927)	(162,888)
Merger reserve	25	223,251	223,251	223,251
Capital redemption reserve	25	6,301	5,078	–
Other reserves	25	(402,871)	–	–
Total equity attributable to shareholders		20,129,482	3,792,366	2,123,764

The financial statements of Hotel Chocolat Group plc, registered number 08612206 were approved by the Board of Directors and authorised for issue on 18 October 2016. They were signed on its behalf by:

Matt Pritchard
Chief Financial Officer
18 October 2016

Consolidated Statement of Cash Flow

For the period ended 26 June 2016

	Notes	52 weeks ended 26 June 2016 £	52 weeks ended 28 June 2015 £
Profit before tax for the period		5,591,094	2,931,432
Adjusted by:			
Depreciation of property, plant and equipment	14	2,516,632	4,044,602
Impairment of property, plant and equipment	14	–	131,998
Amortisation of intangible assets	13	676,977	194,542
Net interest expense	10	774,778	531,319
Share-based payments	9	64,642	–
Loss on disposal of property, plant and equipment and intangible assets	5	128,874	–
Operating cash flows before movements in working capital		9,752,997	7,833,893
Increase in inventories		(2,294,585)	(566,890)
(Increase)/decrease in trade and other receivables		(309,174)	1,252,819
Increase/(decrease) in trade and other payables and provisions		1,516,121	(1,001,379)
Cash inflow generated from operations		8,665,359	7,518,443
Interest received		109	–
Income tax paid		(548,994)	(74,019)
Interest paid on:			
– finance leases and hire purchase loans		(30,020)	(31,654)
– bank loans and overdraft		(660,663)	(593,801)
Cash flows from operating activities		7,425,791	6,818,969
Purchase of property, plant and equipment		(5,625,076)	(2,889,611)
Proceeds from disposal of property, plant and equipment		200,000	–
Purchase of intangible assets		(760,224)	(235,784)
Acquisition of subsidiary	29	228,006	–
Cash flows used in investing activities		(5,957,294)	(3,125,395)
(Buy back)/issue of Chocolate bonds		(145,000)	406,500
Capital element of hire purchase and finance leases repaid		(378,462)	(439,850)
Repayment of bank loans		(654,021)	(160,416)
Cost of issue of new equity		(240,000)	–
Issue/(buy-back) of shares		12,000,130	(3,660)
Cash flows from/(used in) financing activities		10,582,647	(197,426)
Net change in cash and cash equivalents		12,051,144	3,496,148
Cash and cash equivalents at beginning of period	19	(5,697,390)	(9,134,462)
Foreign currency movements		121,692	(59,076)
Cash and cash equivalents at end of period	19	6,475,446	(5,697,390)

Consolidated Statement of Changes in Equity

For the period ended 26 June 2016

	Share capital £	Share Premium £	Retained earnings £	Translation reserve £	Merger reserve £	Capital redemption reserve £	Other reserves £	Total £
As at 30 June 2014	107,078	–	1,956,323	(162,888)	223,251	–	–	2,123,764
Profit for the period	–	–	2,047,223	–	–	–	–	2,047,223
Capital redemption	(5,078)	–	–	–	–	5,078	–	–
Shares issued in the period	1,418	–	–	–	–	–	–	1,418
Other comprehensive expense for the period	–	–	–	(380,039)	–	–	–	(380,039)
Equity as at 28 June 2015	103,418	–	4,003,546	(542,927)	223,251	5,078	–	3,792,366
Profit for the period	–	–	4,083,804	–	–	–	–	4,083,804
Capital redemption	(1,223)	–	–	–	–	1,223	–	–
Shares issued in the period	10,643	11,989,487	–	–	–	–	–	12,000,130
Costs of issue of equity shares	–	(240,000)	–	–	–	–	–	(240,000)
Share-based payments	–	–	–	–	–	–	64,642	64,642
Derivative financial liabilities	–	–	–	–	–	–	(581,959)	(581,959)
Deferred tax charge on derivative financial liabilities	–	–	–	–	–	–	114,446	114,446
Other comprehensive income for the period	–	–	–	896,053	–	–	–	896,053
Equity as at 26 June 2016	112,838	11,749,487	8,087,350	353,126	223,251	6,301	(402,871)	20,129,482

Notes to the financial statements

For the period ended 26 June 2016

1. GENERAL INFORMATION

Hotel Chocolat Group plc (the Company, and together with its subsidiaries, the Group) is a company incorporated in the United Kingdom under the Companies Act. The registered office of the Company is Mint House, Newark Close, Royston, Hertfordshire, SG8 5HL, United Kingdom. The registered company number is 08612206. A list of all of the Company's subsidiaries is presented in Note 18.

The Group's principal activities are that of the manufacture and retail of chocolate in the United Kingdom and overseas.

2. ACCOUNTING POLICIES

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

Basis of preparation

The consolidated financial information has been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs), as adopted by the European Union.

For all periods up to and including the period ended 28 June 2015, the Group prepared its financial statements in accordance with United Kingdom Generally Accepted Accounting Principles (UK GAAP). These financial statements for the period ended 26 June 2016 are the first the Group has prepared in accordance with IFRS. Refer to Note 34 for information on how the Group adopted IFRS.

At the date of authorisation of this financial information, certain new standards, amendments and interpretations to existing standards applicable to the Group have been published but are not yet effective, and have not been adopted early by the Group. These are listed below:

Standard/ interpretation	Content	Applicable for financial years beginning on/after
IFRS 9 Financial Instruments (2009) and amendment	IFRS 9 'Financial instruments' is effective for periods commencing on or after 1 January 2018 subject to endorsement by the EU. IFRS 9 is a replacement for IAS 39 'Financial Instruments' and covers three distinct areas. Phase 1 contains new requirements for the classification and measurement of financial assets and liabilities. Phase 2 relates to the impairment of financial assets and requires the calculation of impairment on an expected loss basis rather than the current incurred loss basis. Phase 3 relates to less stringent requirements for general hedge accounting.	1 January 2018
IFRS 15 Revenue from Contracts with Customers	IFRS 15, 'Revenues from Contracts with Customers', replaces IAS 18, 'Revenues', and introduces a five step approach to revenue recognition based on performance obligations in customer contracts. The International Accounting Standards Board ('IASB') has proposed to issue some clarifications and to defer the standard's effective date of 1 January 2017 to 1 January 2018. The effective date for the Group is also subject to EU endorsement.	1 January 2018
IFRS 16 Leases	IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 completes the IASB's project to improve the financial reporting of leases and replaces the previous leases Standard, IAS 17 Leases, and related Interpretations.	1 January 2019

The impact of the adoption of the Standards listed above, has not yet been assessed.

2. ACCOUNTING POLICIES *CONTINUED*

Basis of consolidation

The consolidated financial information incorporates the financial statements of the Group and all of its subsidiary undertakings. The financial statements of all Group companies are adjusted, where necessary, to ensure the use of consistent accounting policies. Acquisitions are accounted for under the acquisition method from the date control passes to the Group. On acquisition, the assets and liabilities of a subsidiary are measured at their fair values. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill.

As allowed under IFRS 1, any acquisitions or group reorganisations which occurred after the transition date to IFRS have not been restated but instead the previous accounting treatment has been adopted. During the period ended 29 June 2014, Hotel Chocolat Group Limited (now plc) was incorporated and undertook a share for share exchange with the direct subsidiaries listed in Note 18. This has been accounted for under the basis of merger accounting given that the ultimate ownership before and after the transaction remained the same. Merged subsidiaries undertakings are treated as if they had always been a member of the group. Any difference between the nominal value of the shares acquired by the Company and those issued by the Company to acquire them is taken to the merger reserve.

Going concern

The Directors have prepared a cash flow forecast covering a period extending beyond 18 months from the financial information presented as at 26 June 2016.

The Directors have taken into account the historic positive cash flows, growth in business and the inherent risks and uncertainties facing the business, and have derived forecast assumptions that are the Directors' best estimate of the future development of the business. The forecasts and projections, which take into account the projected trading performance of companies within the Group's combined bank facilities, show that the Group will be able to operate within the level of its current facilities. On this basis, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis of accounting in preparing the consolidated financial information. The financial information does not include any adjustments that would result from the going concern basis of preparation being inappropriate.

Revenue recognition

Revenue is the total amount receivable by the Group for goods and services supplied, excluding VAT and trade discounts.

Revenue arising from the sale of goods is recognised when the risks and rewards of owning the product has been transferred to the buyer at the point of sale, which is generally on delivery. Revenue is recognised when the amount of revenue can be reliably measured and it is probable that the future economic benefit will flow to the entity.

Operating profit

Operating profit is stated after all expenses, including those considered to be exceptional, but before finance income or expenses. Exceptional items are items of income or expense which because of their nature or size require separate presentation to allow shareholders to better understand the financial performance of the year and allow comparison with prior periods.

Notes to the financial statements *continued*

For the period ended 26 June 2016

2. ACCOUNTING POLICIES *CONTINUED*

Foreign currency translation

The Group's consolidated financial information is presented in sterling, which is also the parent company's functional currency.

a) **Transactions and balances**
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the Consolidated Statement of Comprehensive Income. Foreign exchange gains and losses resulting from the translation of monetary assets and liabilities denominated in foreign currencies at the reporting period end exchange rates are also recognised in the Consolidated Statement of Comprehensive Income.

b) **Group companies**
The results and financial position of Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities at each period end are translated at the prevailing closing rate at the date of the Consolidated Statement of Financial Position;
- income and expenses for each period within the Consolidated Statement of Comprehensive Income are translated at the rate of exchange at the transaction date. Where this is not possible, the average rate for the period is used; and
- on consolidation, exchange differences arising from the translation of the net investment in foreign entities are recognised in other comprehensive income and accumulated in the translation reserve as a separate component of equity.

Employee benefits

a) **Short-term benefits**
Wages, salaries, paid annual leave and sick leave, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group.

b) **Defined contribution plans**
The Group operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the Group. The annual contributions payable are charged to the Consolidated Statement of Comprehensive Income. The Group also contributes to the personal pension plans of some Directors at the Group's discretion.

Share-based payments

A transaction is accounted for as a share-based payment where the Group receives services from 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.

The Company is not liable for employer's National Insurance on the difference between the market value at date of exercise and exercise price and therefore this expense is not accrued for.

2. ACCOUNTING POLICIES *CONTINUED*

Leases

Operating leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Rentals applicable to operating leases are charged against profits on a straight line basis over the period of the lease.

Onerous lease provisions relate to the present value of the obligation under a lease where the unavoidable costs of the lease exceed the economic benefit expected to be received from it.

Dilapidation provisions relate to potential rectification costs expected should the Group vacate any of its retail locations.

Hire purchase agreements and finance leases

Leases where the lessee retains substantially all the risks and benefits of ownership of the asset are classified as finance leases. Assets held under hire purchase agreements and finance leases are capitalised and disclosed under property, plant and equipment at cost. The capital element of the future payments is treated as a liability and the interest element is charged to the Consolidated Statement of Comprehensive Income on a straight line basis.

Property, plant and equipment

Property, plant and equipment is stated at historic cost, including expenditure that is directly attributable to the acquired item, less accumulated depreciation and impairment losses.

For the period ended 28 June 2015, depreciation was provided to write off cost, less estimated residual values, of all property, plant and equipment, except for investment properties and freehold land, evenly over their expected useful lives, calculated at the following rates:

Leasehold property	– Over the remaining lease term
Plant and machinery	– 20% straight line
Fixtures, fittings, equipment, computer software and hardware	– 20% straight line
Freehold property	– 2% straight line

As no finite useful life for land can be determined, related carrying amounts are not depreciated. The useful life, the residual value and the depreciation method is assessed annually.

During the accounting period ended 26 June 2016, management reviewed its estimates of the useful economic life of tangible assets. Management now estimates that the useful life of assets is as follows:

Leasehold property	– Over the remaining lease term
Plant and machinery	– 5 to 10 years on a straight line basis
Fixtures, fittings, equipment, computer software and hardware	– 5 to 10 years on a straight line basis
Freehold property	– 50 years on a straight line basis

The application of this change is from 29 June 2015 and has not been retrospectively applied.

The impact of these changes in the accounting period to 26 June 2016 is a reduction in the depreciation charge of £1,222,091.

The carrying value of the property, plant and equipment is compared to the higher of value in use and the fair value less costs to sell on an annual basis. If the carrying value exceeds the higher of the value in use and fair value less the costs to sell the asset then the asset is impaired and its value reduced by recognising an impairment provision.

Notes to the financial statements *continued*

For the period ended 26 June 2016

2. ACCOUNTING POLICIES *CONTINUED*

Intangible assets

Goodwill arising on the acquisition of a subsidiary undertaking is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired. Positive goodwill is capitalised.

Impairment tests on the carrying value of goodwill are undertaken:

- at the end of the first full financial period following acquisition and at the end of every subsequent financial period; and
- in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Website development costs where Group companies' websites are expected to generate future revenues in excess of the costs of developing those websites, together with expenditure on the functionality of the website is capitalised and treated as an intangible asset. Expenditure incurred on maintaining websites and expenditure incurred on developing websites used only for advertising and promotional purposes is written off as incurred.

Software which is not an integral part of hardware assets is stated at historic cost, including expenditure that is directly attributable to the acquired item, less accumulated amortisation and impairment losses.

For the period ended 28 June 2015, amortisation was provided to write off cost, less estimated residual values, of all intangible assets, except for goodwill, evenly over their expected useful lives, calculated at the following rates:

Software	– 20% straight line
Website development costs	– 20% straight line

During the accounting period ended 26 June 2016, management reviewed its estimates on the useful economic life of intangible assets. Management now estimates that the useful life of assets is as follows:

Software	– 3 years on a straight line basis
Website development costs	– 3 years on a straight line basis

The application of this change is from 29 June 2015 and has not been retrospectively applied.

The impact of these changes in the accounting period to 26 June 2016 is an increase in the amortisation charge of £361,910.

Inventories

Inventories are carried at the lower of cost or net realisable value. The costs of raw materials, consumables, work in progress and finished goods are measured by means of weighted average cost using standard costing techniques. The cost of finished goods comprises direct production costs such as raw materials, consumables, utilities and labour, and production overheads such as employee costs, maintenance and indirect factory costs. Standard costs are reviewed regularly in order to ensure relevant measures of utilisation, production lead-time and appropriate levels of manufacturing expense are reflected in the standards.

Net realisable value is calculated based on the revenue from sale in the normal course of business less any costs to sell. Due allowance is made for obsolete and slow moving items.

2. ACCOUNTING POLICIES *CONTINUED*

Impairment

a) Impairment of financial assets

All financial assets (other than those categorised at fair value charged through the Consolidated Statement of Comprehensive Income), are assessed at the end of each reporting period as to whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset.

An impairment loss in respect of loans and receivables financial assets is recognised in the Consolidated Statement of Comprehensive Income and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

In a subsequent period, if the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the Consolidated Statement of Comprehensive Income to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

b) Impairment of non-financial assets

The carrying values of intangible assets are reviewed at the end of each reporting period for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. The recoverable amount of the assets is the higher of the assets' fair value less costs to sell and their value in use, which is measured by reference to discounted future cash flow.

An impairment loss is recognised in the Consolidated Statement of Comprehensive Income immediately.

In respect of assets other than goodwill, and when there is a change in the estimates used to determine the recoverable amount, a subsequent increase in the recoverable amount of an asset is treated as a reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the Consolidated Statement of Comprehensive Income immediately.

Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the Consolidated Statement of Financial Position differs from its tax base, except for differences arising on:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- investments in subsidiaries where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the deferred tax liabilities or assets are settled or recovered. Deferred tax balances are not discounted.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- the same taxable Group company; or
- different entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets and liabilities are expected to be settled or recovered.

Notes to the financial statements *continued*

For the period ended 26 June 2016

2. ACCOUNTING POLICIES *CONTINUED*

Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker has been identified as the management team including the Chief Executive Officer and Chief Financial Officer.

The Board considers that the Group's activity constitutes one operating and one reporting segment, as defined under IFRS 8. Management reviews the performance of the Group by reference to total results against budget.

The total profit measures are operating profit and profit for the period, both disclosed on the face of the Consolidated Statement of Comprehensive Income. No differences exist between the basis of preparation of the performance measures used by management and the figures in the Group financial information.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held on call, together with other short-term highly liquid investments which are not subject to significant changes in value and have original maturities of less than three months. The Group's bank facilities are provided under a group facility.

Equity

Equity comprises the following:

- Share capital: the nominal value of equity shares
- Share premium
- Retained earnings
- Translation reserve
- Merger reserve
- Capital redemption reserve
- Other reserves

Chocolate bonds

The Chocolate Tasting Club plc, a subsidiary of the Group, has issued two chocolate bonds which pay a return in boxes of luxury chocolates or, for one of the bonds a Hotel Chocolat gift card. For the bonds with a return in the form of luxury chocolates, the coupon is fixed by number of boxes and can only be settled by the delivery of chocolate. At inception, the net cash proceeds received for the bond are recognised as a liability. Each year, the cost value of the chocolates is recognised as an interest expense.

For the bond where there is a return paid by way of a Hotel Chocolat gift card which can be redeemed at Hotel Chocolat stores, cafes, restaurants and online, there is a fixed rate of interest. At inception, the net cash proceeds received for the chocolate bonds are recognised as a liability. Each year the fixed interest rate paid is recognised as an interest expense.

2. ACCOUNTING POLICIES *CONTINUED*

Financial instruments

Financial instruments are classified according to the substance of the contractual arrangements into which the Group enters. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Financial assets

On initial recognition, financial assets are classified as either financial assets at fair value through income statement, held-to-maturity investments, loans and receivables financial assets, or available-for-sale financial assets, as appropriate.

The classification depends on the purpose for which the financial assets were acquired. The Group classifies all its financial assets as loans and receivables.

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables financial assets. Loans and receivables financial assets are measured at amortised cost using the effective interest method, less any impairment loss. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The Group's loans and receivables financial assets comprise trade and other receivables and cash and cash equivalents as included in the Consolidated Statement of Financial Position.

Financial liabilities

Financial liabilities are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

All financial liabilities are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method other than those categorised as fair value through income statement.

Fair value through the income statement category comprises financial liabilities that are either held for trading or are designated to eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise. Derivatives are also classified as held for trading unless they are designated as hedges. Foreign currency forward contracts were designated as hedges and are included in the Group's financial statements at fair value.

A financial liability is de-recognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same party on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Hedge accounting

Hedge accounting is applied to financial assets and financial liabilities only where all of the following criteria are met:

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge.
- For cash flow hedges, the hedged item in a forecast transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss.
- The cumulative change in the fair value of the hedging instrument is expected to be between 80-125% of the cumulative change in the fair value or cash flows of the hedged item attributable to the risk hedged (i.e. it is expected to be highly effective).
- The effectiveness of the hedge can be reliably measured.
- The hedge remains highly effective on each date tested. Effectiveness is tested on a six-monthly basis.

Notes to the financial statements *continued*

For the period ended 26 June 2016

2. ACCOUNTING POLICIES *CONTINUED*

Cash flow hedges

The effective part of forward contracts designated as a hedge of the variability in cash flows of foreign currency risk arising from firm commitments, and highly probable forecast transactions, are measured at fair value with changes in fair value recognised in other comprehensive income and accumulated in other reserves. The Group uses such contracts to fix the cost of foreign currency transactions in the functional currency of the Group entity concerned.

If a highly probable forecast transaction results in the recognition of a non-monetary asset, the cumulative loss/(gain) is added to/(subtracted from) the cost of the asset acquired ("basis adjustment"). Otherwise the cumulative gain or loss recognised in other comprehensive income is reclassified from the cash flow hedge reserve to profit or loss at the same time as the hedged transaction affects profit or loss. The two transactions are recognised in the same line item.

If a forecast transaction is no longer considered highly probable but the forecast transaction is still expected to occur, the cumulative gain or loss recognised in other comprehensive income is frozen and recognised in profit or loss in accordance with the policy set out in the paragraph above. Subsequent changes in the fair value of the derivative are recognised in profit or loss. If the Group closes out its position before the transaction takes place (even though it is still expected to take place) the cumulative gain or loss on changes in fair value of the derivative is similarly recognised in accordance with the policy set out in the paragraph above. If, at any point, the hedged transaction is no longer expected to occur, the cumulative gain or loss is reclassified from the cash flow hedge reserve to profit or loss immediately.

Equity instruments

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from proceeds. Dividends on ordinary shares are recognised as liabilities when approved for distribution.

3. SUMMARY OF CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Directors to exercise their judgement in the process of applying the accounting policies which are detailed above. These judgements are continually evaluated by the Directors and management and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The key estimates and underlying assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The estimates and judgements which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are discussed below:

- *Useful lives of depreciable assets*

  Management reviews the useful lives of depreciable assets at each reporting date to ensure that the useful lives represent a reasonable estimate of likely period of benefit to the Group. Actual useful lives however, may vary due to unforeseen events.

- *Impairment*

  IFRS requires management to undertake an annual test for impairment of indefinite life assets and, for finite life assets, to test for impairment if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

3. SUMMARY OF CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *CONTINUED*

Impairment testing is an area involving management judgement, requiring assessment as to whether the carrying value of assets can be supported by the net present value of future cash flows derived from such assets using cash flow projections which have been discounted at an appropriate rate. In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters including management's expectations of:

- growth in EBITDA, calculated as adjusted operating profit before depreciation and amortisation;
- long-term growth rates; and
- the selection of discount rates to reflect the risks involved.

The Group prepares financial budgets on an annual basis, and monitors predicted financial performance and cash flow on a rolling monthly basis. These budgets and analyses are used in the calculations.

Changing the assumptions selected by management, in particular the discount rate and growth rate assumptions used in the cash flow projections, could significantly affect the Group's impairment evaluation and hence results.

- *Valuation of intangible assets*

  The determination of the fair value of assets and liabilities including goodwill arising on the acquisition of businesses, website development expenditure and software, which is expected to generate future economic benefits, is based, to a considerable extent, on management's judgement.

  The fair value of these assets is determined by discounting estimated future net cash flows generated by the asset where no active market for the assets exists. The use of different assumptions for the expectations of future cash flows and the discount rate would change the valuation of the intangible assets.

  Allocation of the purchase price affects the results of the Group as finite life intangible assets are amortised, whereas indefinite life intangible assets, including goodwill, are not amortised and could result in differing amortisation charges based on the allocation to indefinite life and finite life intangible assets.

4. REVENUE

	52 weeks ended 26 June 2016 £	52 weeks ended 28 June 2015 £
Sale of goods	91,089,824	81,068,364
Total revenue	91,089,824	81,068,364

Segmental analysis

The Group operates in three main geographic areas: UK, Europe and Rest of World. The Board of Directors monitors revenue on this basis.

Revenue for each of the geographical areas is as follows:

	52 weeks ended 26 June 2016 £	52 weeks ended 28 June 2015 £
Revenue by location		
United Kingdom	88,915,149	78,621,649
Europe	1,879,240	2,040,081
Rest of World	295,435	406,634
Total revenue	91,089,824	81,068,364

The geographical allocation of revenue has been updated to reflect the current basis monitored by the Board.

Non-current assets not held in the United Kingdom amount to £9,409,036 in the period ended 26 June 2016 (28 June 2015: £160,603).

Notes to the financial statements *continued*

For the period ended 26 June 2016

5. PROFIT FROM OPERATIONS

Profit from operations is arrived at after charging/(crediting):

	52 weeks ended 26 June 2016 £	52 weeks ended 28 June 2015 £
Staff cost (see Note 7)	24,835,020	22,444,632
Depreciation of property, plant and equipment	2,516,632	4,044,602
Impairment of property, plant and equipment	–	131,998
Amortisation of intangible assets	676,977	194,542
Loss on disposal of property, plant and equipment and intangible assets	128,874	–
Operating leases:		
– Property	8,189,509	7,865,974
– Plant and equipment	145,185	185,133
Exchange differences	48,725	(281,005)
Exceptional costs	2,642,177	–
Bad debt expense	126,967	43,016

Exceptional costs for the period ended 26 June 2016 relate solely to the acquisition of Hotel Chocolat Estates Limited and the admission to trading on AIM.

6. AUDIT AND NON-AUDIT FEES

An analysis of auditors' remuneration is as follows:

	52 weeks ended 26 June 2016 £	52 weeks ended 28 June 2015 £
Audit fees	117,900	76,200
Audit related assurance services	45,212	–
Taxation compliance services	185,560	111,494
Other taxation advisory services	126,336	71,283
Corporate finance services	308,500	–
Other services	39,828	–
Non-audit fees	705,436	182,777

The above fees for the period ended 26 June 2016 include exceptional costs totaling £389,172 (28 June 2015: £ nil).

7. STAFF COSTS

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

	52 weeks ended 26 June 2016	52 weeks ended 28 June 2015
Production staff	195	158
Administrative staff	737	671
Total	932	829

The cost of employees (including Directors) during the period was made up as follows:

	52 weeks ended 26 June 2016 £	52 weeks ended 28 June 2015 £
Wages and salaries	22,842,934	20,603,231
Share-based payments	64,642	–
Social security costs	1,778,662	1,704,244
Pension costs	148,782	137,157
Total	24,835,020	22,444,632

8. REMUNERATION OF KEY MANAGEMENT PERSONNEL

Key management personnel represent those personnel which hold a statutory directorship of a company within the Group. Directors' emoluments and benefits include:

	52 weeks ended 26 June 2016 £	52 weeks ended 28 June 2015 £
Short-term employee benefits	1,206,628	1,418,122
Share-based payments	38,715	–
Post-employments benefits	10,383	12,018
Total	1,255,726	1,430,140

Notes to the financial statements *continued*

For the period ended 26 June 2016

9. SHARE-BASED PAYMENTS

The Hotel Chocolat Group plc 2016 Long-Term Incentive Plan

Under the Hotel Chocolat Group plc 2016 Long-Term Incentive Plan, the Group gives awards to Directors and staff subject to the achievement of a pre-agreed net profit figure for the financial year of the Company ending 30 June 2019. These shares vest after the delivery of the audited net profit figure for financial year ending 30 June 2019 has been announced.

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

Details of the share awards outstanding are as follows:

	52 weeks ended 26 June 2016		52 weeks ended 28 June 2015	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at beginning of the period	–	–	–	–
Granted during the period	2,972,000	1.48	–	–
Exercised during the period	–	–	–	–
Forfeited during the period	–	–	–	–
Outstanding at the end of the period	2,972,000	1.48	–	–
Exercisable at the end of the period	–	1.48	–	–

The awards outstanding at the end of 26 June 2016 have a weighted average remaining contractual life of 3.25 years (28 June 2015: nil) and an exercise price of £1.48 (28 June 2015: £ nil).

The Group recognised total expenses related to the above equity-settled share-based payment transactions in the form of options during the period ended 26 June 2016 of £64,642 (28 June 2015: £ nil).

The aggregate of the fair value of the options granted during the period ended 26 June 2016 was £1,292,820 (28 June 2015: £ nil).

The fair values were calculated using a Black Scholes model. The inputs used for fair valuing awards granted during the period was as follows:

	52 weeks ended 26 June 2016	52 weeks ended 28 June 2015
Weighted average share price (£)	1.48	–
Exercise price (£)	1.48	–
Expected volatility (%)	32.0%	–
Option life (years)	10.0	–
Risk free interest rate (%)	0.8%	–

In the absence of any historical volatility data for Hotel Chocolat Group plc, the expected volatility was determined by reviewing the volatility of the share price of similar entities which are currently traded on AIM.

10. FINANCE INCOME AND EXPENSES

	52 weeks ended 26 June 2016 £	52 weeks ended 28 June 2015 £
Interest from related party	171,997	188,336
Interest on bank deposits	109	–
Other income	–	153
Finance income	172,106	188,489
Interest on bank borrowings and overdraft	572,150	400,902
Interest on derivative financial liabilities	57,645	–
Finance leases and hire purchase contracts	30,020	31,654
Finance charges on Chocolate bonds	287,069	287,252
Finance expenses	946,884	719,808

11. TAXATION

	52 weeks ended 26 June 2016 £	52 weeks ended 28 June 2015 £
UK corporation tax	1,409,454	887,114
Adjustment in respect of previous periods	(93,207)	(26,931)
Overseas corporation tax	10,507	–
Total current tax charge	1,326,754	860,183
Deferred tax:		
Adjustment in respect of prior periods	(2,518)	–
Origination and reversal of timing differences	183,054	24,026
Total tax expense	1,507,290	884,209
Tax on derivative financial liabilities	114,446	–
Deferred tax	114,446	–

Notes to the financial statements *continued*

For the period ended 26 June 2016

11. TAXATION *CONTINUED*

Factors affecting current tax charge:

The tax assessed on the profit for the period is different to the standard rate of corporation tax in the UK. The differences are explained below:

	52 weeks ended 26 June 2016 £	52 weeks ended 28 June 2015 £
Profit on ordinary operations before income tax	5,591,094	2,931,432
Weighted average standard rate of corporation tax	20.00%	20.75%
Profit for the period multiplied by the standard rate of corporation tax	1,118,219	608,272
Effects of:		
Expenses not deductible for tax purposes	338,860	50,438
Permanent depreciation	200,852	229,908
Adjustment in respect of prior periods	(95,725)	(27,381)
Adjust closing deferred tax in respect of change in future rate of taxation	10,878	7,073
Adjust opening deferred tax in respect of change in future rate of taxation	2,359	(9,033)
Movement to unrecognised deferred tax	(68,153)	24,932
Tax expense	1,507,290	884,209

The Group's effective tax rate for the period ended 26 June 2016 was 27.0% (28 June 2015: 30.2%). The effective rate is an amalgamation of UK and European rates for the periods reported. The change from year to year has been particularly affected by the costs incurred by the Group in relation to the admission to trading on AIM. The majority of the costs are considered to be capital for tax purposes and therefore not deductible. At 26 June 2016 the Group has tax losses to carry forward against future profits of £21,000 (28 June 2015: £217,000). The tax value of such losses amounted to approximately £4,000, have no expiry date and have not been recognised as a deferred tax asset.

12. EARNINGS PER SHARE

Profit for the period used in the calculation of the basic and diluted earnings per share:

	52 weeks ended 26 June 2016 £	52 weeks ended 28 June 2015 £
Profit after tax for the period	4,083,804	2,047,223

The weighted average number of shares for the purposes of diluted earnings per share reconciles to the weighted average number of shares used in the calculation of basic earnings per share as follows:

	52 weeks ended 26 June 2016 £	52 weeks ended 28 June 2015 £
Weighted average number of shares in issue used in the calculation of basic earnings per share (number)	103,411,610	10,200,040
Earnings per share – Basic and Diluted (pence)	3.9	20.1

Due to the nature of the options granted under the Hotel Chocolat Group plc 2016 Long-Term Incentive Plan, they are considered to be contingently issuable shares and therefore have no dilutive effect.

For further information on the movements in the share capital, please refer to Note 24.

13. INTANGIBLE ASSETS

	52 weeks ended 26 June 2016 £	52 weeks ended 28 June 2015 £
Goodwill arising on consolidation (Note (a))	914,098	683,534
Computer software and website costs (Note (b))	942,702	869,899
	1,856,800	1,553,433

(a) Goodwill arising on consolidation

	52 weeks ended 26 June 2016 £	52 weeks ended 28 June 2015 £
At beginning of period	683,534	683,534
Acquired on business combinations (see Note 29)	230,564	–
At end of period	914,098	683,534

The recoverable amount of the goodwill has been determined on a value in use basis. This has been based on the performance of the business and management's forecasts, which assume that the business will perform at least as well as the market generally. The forecasts take into account management's experience and are discounted at a pre-tax rate of 10%.

(b) Computer software and website costs

	52 weeks ended 26 June 2016 £	52 weeks ended 28 June 2015 £
Cost:		
At beginning of period	1,652,098	1,416,314
Additions	760,224	235,784
Disposals	(18,987)	–
At end of period	2,393,335	1,652,098
Amortisation:		
At beginning of period	782,199	587,657
Amortisation charge	676,977	194,542
Disposals	(8,543)	–
At end of period	1,450,633	782,199
Net book value	942,702	869,899

Notes to the financial statements *continued*

For the period ended 26 June 2016

14. PROPERTY, PLANT AND EQUIPMENT

	Freehold property £	Leasehold property £	Furniture & fittings, Equipment, Computer software & hardware £	Plant & machinery £	Total £
52 weeks ended 28 June 2015					
Cost:					
As at 29 June 2014	2,840,841	734,999	19,110,012	9,343,245	32,029,097
Additions	–	–	2,268,415	169,390	2,437,805
Translation differences	–	–	(59,341)	–	(59,341)
As at 28 June 2015	2,840,841	734,999	21,319,086	9,512,635	34,407,561
Accumulated depreciation:					
As at 29 June 2014	251,082	730,406	10,510,017	6,506,608	17,998,113
Depreciation charge	28,409	950	2,841,888	1,173,355	4,044,602
Impairments	–	–	131,998	–	131,998
Translation differences	–	–	(61,416)	–	(61,416)
As at 28 June 2015	279,491	731,356	13,422,487	7,679,963	22,113,297
Net book value					
As at 28 June 2015	2,561,350	3,643	7,896,599	1,832,672	12,294,264
52 weeks ended 26 June 2016					
Cost:					
As at 29 June 2015	2,840,841	734,999	21,319,086	9,512,635	34,407,561
Acquisition on business combinations	8,244,800	–	505,625	–	8,750,425
Additions	35,009	–	2,342,334	5,191,022	7,568,365
Disposals	–	–	(1,425,415)	(41,069)	(1,466,484)
Translation differences	348,805	–	157,562	–	506,367
As at 26 June 2016	11,469,455	734,999	22,899,192	14,662,588	49,766,234
Accumulated depreciation:					
As at 29 June 2015	279,491	731,356	13,422,487	7,679,963	22,113,297
Depreciation charge	51,943	950	1,601,429	862,310	2,516,632
Disposal	–	–	(1,106,985)	(41,069)	(1,148,054)
Translation differences	77,178	–	96,070	–	173,248
As at 26 June 2016	408,612	732,306	14,013,001	8,501,204	23,655,123
Net book value					
As at 26 June 2016	11,060,843	2,693	8,886,191	6,161,384	26,111,111

Included above are assets held under finance leases and hire purchase agreements which, as at 26 June 2016 had a net book value of £557,454 (28 June 2015: £869,845).

15. DEFERRED INCOME TAX ASSET

	52 weeks ended 26 June 2016 £	52 weeks ended 28 June 2015 £
Deferred taxation asset	149,903	215,993
	149,903	215,993

Reconciliation of deferred tax balances:

	52 weeks ended 26 June 2016 £	52 weeks ended 28 June 2015 £
Balance at beginning of period	215,993	240,019
Deferred tax charge for the period through Statement of Comprehensive Income	(180,536)	(24,026)
Deferred tax credit for the period through Statement of Changes in Equity	114,446	–
Balance at end of period	149,903	215,993

The provision for deferred taxation consists of the tax effect of timing differences in respect of:

	52 weeks ended 26 June 2016 £	52 weeks ended 28 June 2015 £
Fixed asset differences	(28,015)	154,765
Short-term differences	51,733	61,228
Derivative financial liabilities	114,446	–
Share-based payments	11,739	–
	149,903	215,993

At 26 June 2016, the Group has unrecognised deferred tax assets amounting to £42,000 (28 June 2015: £128,000).

16. INVENTORIES

	52 weeks ended 26 June 2016 £	52 weeks ended 28 June 2015 £
Raw materials	1,906,706	1,025,109
Finished goods	4,697,398	3,468,732
	6,604,104	4,493,841

17. TRADE AND OTHER RECEIVABLES

There were no material receivables which were past due but not impaired at the end of any period.

	52 weeks ended 26 June 2016 £	52 weeks ended 28 June 2015 £
Current		
Trade receivables	839,304	584,863
Other receivables	128,324	93,959
Prepayments	4,567,207	4,425,220
Related parties	–	8,568,424
	5,534,835	13,672,466
Non-current		
Prepayments	7,461	–
	7,461	–

Notes to the financial statements *continued*

For the period ended 26 June 2016

18. INVESTMENT IN SUBSIDIARIES

The Group's operating subsidiaries as at 26 June 2016 are as follows:

Name	Principal activities	Country of business / incorporation	Proportion of ordinary shares directly held by parent	Proportion of ordinary shares held by the Group
Direct Holding				
HOTC Limited	Holding Company	England & Wales	100%	
Hotel Chocolat Limited	Manufacturer and Distributor of chocolates	England & Wales	100%	
The Chocolate Tasting Club plc	Chocolate Retailer	England & Wales	100%	
HC International Limited	Holding Company	Malta	100%	
Hotel Chocolat USA Inc	Holding Company	USA	100%	
Hotel Chocolat (St Lucia) Holdings Limited	Holding Company	St Lucia	100%	
Indirect Holdings				
Hotel Chocolat Retail Limited	Chocolate Retailer	England & Wales		100%
Hotel Chocolat Stores Limited	Property Holding Company	England & Wales		100%
Rabot Estate UK Limited	Chocolate Retailer and Restaurateur	England & Wales		100%
Hotel Chocolat Europe Limited	Chocolate Retailer	England & Wales		100%
Hotel Chocolat Corporate Limited	Dormant	England & Wales		100%
HCIP Limited	Trademark Holder	Malta		100%
HC Sales Limited	Chocolate Distributor	Malta		100%
CTC Distribution GmbH	Chocolate Distributor	Switzerland		100%
Chocolate Tasting Club Inc	Dormant	USA		100%
Hotel Chocolat Inc	Dormant	USA		100%
Hotel Chocolat Estates Limited	Hotel & Cocoa Plantation	St Lucia		100%
HCRF Inc	Dormant	USA		100%
Almondhill Properties Limited	Property Holding Company	England & Wales		100%
Applehill Properties Limited	Property Holding Company	England & Wales		100%
Apricothill Properties Limited	Property Holding Company	England & Wales		100%
Bananahill Properties Limited	Property Holding Company	England & Wales		100%
Braeburnhill Properties Limited	Property Holding Company	England & Wales		100%
Bramleyhill Properties Limited	Property Holding Company	England & Wales		100%
Brazilnuthill Properties Limited	Property Holding Company	England & Wales		100%
Cashewhill Properties Limited	Property Holding Company	England & Wales		100%
Chestnuthill Properties Limited	Property Holding Company	England & Wales		100%
Colanuthill Properties Limited	Property Holding Company	England & Wales		100%
Crispinhill Properties Limited	Property Holding Company	England & Wales		100%
Croftonhill Properties Limited	Property Holding Company	England & Wales		100%
Datehill Properties Limited	Property Holding Company	England & Wales		100%
Dulcethill Properties Limited	Property Holding Company	England & Wales		100%
Gingerhill Properties Limited	Property Holding Company	England & Wales		100%
Grapehill Properties Limited	Property Holding Company	England & Wales		100%

18. INVESTMENT IN SUBSIDIARIES *CONTINUED*

Name	Principal activities	Country of business / incorporation	Proportion of ordinary shares directly held by parent	Proportion of ordinary shares held by the Group
Indirect Holdings *continued*				
Groundnuthill Properties Limited	Property Holding Company	England & Wales		100%
Guavahill Properties Limited	Property Holding Company	England & Wales		100%
Hazelnuthill Properties Limited	Property Holding Company	England & Wales		100%
Hotel Chocolat DK Limited	Property Holding Company	England & Wales		100%
Hotel Chocolat NL Limited	Property Holding Company	England & Wales		100%
Kiwihill Properties Limited	Property Holding Company	England & Wales		100%
Lemonhill Properties Limited	Property Holding Company	England & Wales		100%
Limehill Properties Limited	Property Holding Company	England & Wales		100%
Macadamiahill Properties Limited	Property Holding Company	England & Wales		100%
Mandarinhill Properties Limited	Property Holding Company	England & Wales		100%
Mangohill Properties Limited	Property Holding Company	England & Wales		100%
Melonhill Properties Limited	Property Holding Company	England & Wales		100%
Olivehill Properties Limited	Property Holding Company	England & Wales		100%
Orangehill Properties Limited	Property Holding Company	England & Wales		100%
Papayahill Properties Limited	Property Holding Company	England & Wales		100%
Peachhill Properties Limited	Property Holding Company	England & Wales		100%
Peanuthill Properties Limited	Property Holding Company	England & Wales		100%
Pearhill Properties Limited	Property Holding Company	England & Wales		100%
Pearmainhill Properties Limited	Property Holding Company	England & Wales		100%
Pecanhill Properties Limited	Property Holding Company	England & Wales		100%
Pinenuthill Properties Limited	Property Holding Company	England & Wales		100%
Pippinhill Properties Limited	Property Holding Company	England & Wales		100%
Plumhill Properties Limited	Property Holding Company	England & Wales		100%
Raisinhill Properties Limited	Property Holding Company	England & Wales		100%
Russethill Properties Limited	Property Holding Company	England & Wales		100%
Satsumahill Properties Limited	Property Holding Company	England & Wales		100%
Sloehill Properties Limited	Property Holding Company	England & Wales		100%
Walnuthill Properties Limited	Property Holding Company	England & Wales		100%

Notes to the financial statements *continued*

For the period ended 26 June 2016

19. CASH AND CASH EQUIVALENTS

For the purpose of the statements of cash flows, cash and cash equivalents comprise the following:

	52 weeks ended 26 June 2016 £	52 weeks ended 28 June 2015 £
Cash and cash equivalents	6,475,446	4,939,924
Bank overdraft	–	(10,637,314)
	6,475,446	(5,697,390)

In April 2016, the Group negotiated a two-year, bilateral revolving credit facility (RCF), which replaces the overdraft facility.

In the previous financial periods, the bank overdraft was secured by a charge over the Group's assets and cross guarantees. The interest rate charged until 4 October 2014 was 2.0% over base rate. On 5 October 2014, the interest rate was increased to 3.9% over base rate and subsequently reduced to 3.2% over base rate on 1 July 2015. Following the repayment of the loan in March 2016, the interest rate on the overdraft facility was reduced to 2.0% over base rate.

20. TRADE AND OTHER PAYABLES

	52 weeks ended 26 June 2016 £	52 weeks ended 28 June 2015 £
Current		
Trade payables	5,439,251	4,631,750
Other payables	3,416,370	1,629,735
Other taxes payable	810,114	1,418,345
Accruals	6,668,456	4,530,252
	16,334,191	12,210,082
Non-current		
Other payables and accruals	1,485,090	1,774,731
	1,485,090	1,774,731

21. DERIVATIVE FINANCIAL LIABILITIES

	52 weeks ended 26 June 2016 £	52 weeks ended 28 June 2015 £
Current		
Foreign currency forward contracts	554,529	–
	554,529	–
Non-current		
Foreign currency forward contracts	85,075	–
	85,075	–

The fair value of the derivative financial liabilities are split between current and non-current depending on the remaining maturity of the derivative contract and its contractual cash flows.

The fair value of foreign currency forward contracts are based on observable information on exchange and interest rates. The hedged forecast transactions denominated in foreign currency are expected to occur at various dates within the next 18 months. Gains and losses on foreign currency forward contracts which have been recognised in the hedging reserve in equity as at 26 June 2016, will be recognised in the Consolidated Statement of Comprehensive Income in the periods during which the hedged forecast transaction occurs.

The maximum exposure to credit risk at the reporting date is the fair value of the derivative liabilities in the Consolidated Statement of Financial Position.

21. DERIVATIVE FINANCIAL LIABILITIES *CONTINUED*

The movement in the fair value on forward contracts in the period of £581,959 (28 June 2015: £ nil) has been included within other comprehensive income in the Consolidated Statement of Comprehensive Income.

There are no forecast transactions for which hedge accounting had previously been used, but which are no longer expected to occur.

22. BORROWINGS

	52 weeks ended 26 June 2016 £	52 weeks ended 28 June 2015 £
Current		
Finance and lease hire purchase liabilities	425,544	397,750
Chocolate bonds	102,000	–
Bank loans	–	556,771
	527,544	954,521
Unamortised costs of issue	(95,000)	–
Total current borrowings	432,544	954,521
Non-current		
Finance and lease hire purchase liabilities	35,462	441,718
Chocolate bonds	6,610,000	6,857,000
	6,645,462	7,298,718
Unamortised costs of issue	(2,250)	–
Total non-current borrowings	6,643,212	7,298,718
Total borrowings	7,075,756	8,253,239

	Finance and lease hire purchase liabilities £	Chocolate bonds £	Bank loans £	Total £
Maturity of debt				
52 weeks ended 28 June 2015				
In one year or less or on demand	397,750	–	556,771	954,521
In more than two years but not more than five years	441,718	6,857,000	–	7,298,718
In more than five years	–	–	–	–
Total non-current borrowings	441,718	6,857,000	–	7,298,718
Total borrowings	839,468	6,857,000	556,771	8,253,239
52 weeks ended 26 June 2016				
In one year or less or on demand	425,544	102,000	–	527,544
In more than one year but not more than two years	35,462	–	–	35,462
In more than two years but not more than five years	–	6,610,000	–	6,610,000
In more than five years	–	–	–	–
Total non-current borrowings	35,462	6,610,000	–	6,645,462
Unamortised costs of issue	–	–	(97,250)	(97,250)
Total borrowings	461,006	6,712,000	(97,250)	7,075,756

Notes to the financial statements *continued*

For the period ended 26 June 2016

22. BORROWINGS *CONTINUED*

Chocolate bonds pay a return either in boxes of luxury chocolates or by way of a Hotel Chocolat gift card. For those bonds with a return in the form of chocolate, the coupon is fixed by number of boxes. For bonds where there is a return paid by way of a Hotel Chocolat gift card, there is a fixed rate of interest. The interest as stated on issue of the bonds ranged between 6.7% and 7.3%.

Chocolate bonds are repayable subject to formal notice given six months prior to a redemption note. In order to redeem the bond, notice must be given by January and payment is made in July of the same year. For the chocolate bonds issued in June 2010, where notice has been given the amount repayable is shown within current liabilities. The remaining bonds for which notice has not yet been given are shown within non-current liabilities. The first notice date for the chocolate bonds issued in June 2014, will be January 2017 and therefore all amounts are shown within non-current liabilities. Both bonds are unsecured.

On 27 April 2016, the Group negotiated a two-year, bilateral revolving credit facility (RCF). Interest is charged at 1.9% over base rate and a commitment fee of 0.8% is due on the available commitment not yet drawn down.

In the previous financial period, interest on the bank loan was charged at 3.9% over base rate. The bank loan was repaid in March 2016 and was secured by a charge over the Group's assets and cross guarantees.

The hire purchase and finance leases are secured by a charge over the related fixed assets and have incurred interest at an effective annual rate of 2.0%.

23. PROVISIONS

	52 weeks ended 26 June 2016 £	52 weeks ended 28 June 2015 £
Non-current		
Onerous lease provision	–	192,143
Lease dilapidations provision	464,486	476,755
	464,486	668,898

The onerous lease provision relates to the present value of the obligation under a lease where the unavoidable costs of the lease exceed the economic benefit expected to be received from it.

The dilapidations provision relates to potential rectification costs expected should the Group vacate its retail locations.

The movements in onerous lease provisions and dilapidations provisions are summarised below:

	Onerous lease provision £	Lease dilapidation provision £	Total £
52 weeks ended 28 June 2015			
At beginning of period	339,750	599,965	939,715
Released through profit and loss	(147,607)	(295,245)	(442,852)
Amounts capitalised during the period	–	172,035	172,035
At end of period	192,143	476,755	668,898
52 weeks ended 26 June 2016			
At beginning of period	192,143	476,755	668,898
Released through profit and loss	-	(57,269)	(57,269)
Utilised during the period	(192,143)	-	(192,143)
Amounts capitalised during the period	-	45,000	45,000
At end of period	–	464,486	464,486

23. PROVISIONS *CONTINUED*

Provisions for onerous leases and dilapidations are inherently uncertain in terms of quantum and timing, not least because they involve negotiations with landlords at future dates. The figures provided in the financial statements represents management's best estimate of the likely outflows to the Group.

24. SHARE CAPITAL

	As at 26 June 2016		As at 28 June 2015	
	Shares	£	Shares	£
Allotted, called up and fully paid:				
Ordinary shares of £0.01 each	–	–	10,200,040	102,000
Ordinary shares of £0.001 each	112,837,828	112,838	–	–
GS1 shares of £0.0001 each	–	–	3,298,500	330
GS2 shares of £0.0001 each	–	–	10,880,000	1,088
	112,837,828	112,838	24,378,540	103,418

Period ending 26 June 2016:

On 3 May 2016, 10,200,040 Ordinary shares of £0.01 each were sub-divided into 102,000,400 Ordinary shares of £0.001 each. On 4 May 2016, 3,248,620 GS1 shares were converted to 324,862 Interim Shares of £0.001 each and on 10 May 2016, 2,569,156 Interim shares of £0.001 each were converted to Ordinary shares of £0.001 each.

On 3 May 2016, 49,880 GS1 shares of £0.0001 and 240,000 GS2 shares of £0.0001 were cancelled and on 10 May 2016, the remaining 11,940,000 GS2 shares were purchased by Hotel Chocolat Group plc and cancelled.

On 12 August 2015, 1,300,000 GS2 shares were allotted and issued at par, for cash. On 10 May 2016, 8,108,108 new Ordinary shares were issued at £1.48 per share, for cash, pursuant to the admission of Hotel Chocolat Group plc to AIM.

On 4 May 2016, a bonus issue of 160,164 Ordinary shares of £0.001 each were allotted and issued. On 10 May 2016, a bonus issue of 2,244,294 Interim shares of £0.001 was allotted and issued.

Period ending 28 June 2015:

On 6 May 2015, 3,298,500 GS1 shares of £0.0001 and 10,880,000 GS2 shares of £0.0001 were allotted and issued at par, for cash.

On 25 November 2014, 110,949 'B' shares of £0.01, 110,946 'C' shares of £0.01, 142,955 'D' shares of £0.01 and 142,952 'E' shares of £0.01 were repurchased and cancelled on 4 December 2014.

Notes to the financial statements *continued*

For the period ended 26 June 2016

25. RESERVES

This note explains material movements recorded in shareholders' equity that are not explained elsewhere in the financial statements. The movements in equity and the balance sheet at 26 June 2016 are presented in the Consolidated Statement of Changes in Equity.

	Share capital £	Share premium £	Capital redemption reserve £
52 weeks ended 28 June 2015			
At beginning of period	107,078	–	–
Capital redemption	(5,078)	–	5,078
Issued during the period for cash	1,418	–	–
At end of period	103,418	–	5,078
52 weeks ended 26 June 2016			
At beginning of period	103,418	–	5,078
Capital redemption	(1,223)	–	1,223
Issued during the period for cash	8,238	11,991,892	–
Bonus issue during the period	2,405	(2,405)	–
Costs of issue of new equity	–	(240,000)	–
At end of period	112,838	11,749,487	6,301

The capital redemption reserve represented the aggregate nominal value of all the ordinary shares repurchased and cancelled by the Group.

The merger reserve arose when the Company undertook a share for share exchange with the companies listed in Note 18 and is not distributable by way of dividends.

The translation reserve represents cumulative foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries and is not distributable by way of dividends.

Other reserves includes the movements in share-based payments and derivative financial liabilities. For further details, refer to Notes 9 and 21 respectively.

26. LEASE COMMITMENTS

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	52 weeks ended 26 June 2016 £	52 weeks ended 28 June 2015 £
Land and buildings		
Operating leases which expire:		
Within one year	7,177,794	5,506,791
In two to five years	20,184,525	12,755,081
In over five years	12,273,996	5,961,877
	39,636,315	24,223,749
Other		
Operating leases which expire:		
Within one year	115,080	–
In two to five years	133,518	–
	248,598	–

27. CAPITAL COMMITMENTS

There were no amounts contracted for but not provided for as at 26 June 2016 (28 June 2015: £ nil).

28. RELATED PARTY TRANSACTIONS

Remuneration of Directors and other transactions

The remuneration of the key management personnel of the company are disclosed in Note 8. Interests and related party transactions are disclosed below.

The Group rents property in the ordinary course of business on an arm's length basis from Harwell Management Limited, a company in which P M Harris and A Thirlwell have a material interest. The rentals totalled £180,000 in the period ended 26 June 2016 (28 June 2015: £40,000). In the prior period, the rent for three quarters' was waived. There were no amounts due at either period end.

No other amounts were due to directors (28 June 2015: £nil).

Trading transactions

As explained in Note 29, Hotel Chocolat Group plc completed the acquisition of Hotel Chocolat Estates Limited during the period and loans to the value of £8,901,181 were capitalised as part of the transaction. Prior to the acquisition, Hotel Chocolat Estates Limited was considered a related party as the entity was jointly controlled by P M Harris and A Thirlwell.

29. ACQUISITION OF HOTEL CHOCOLAT ESTATES LIMITED

On 24 April 2016, the Group completed the acquisition of Hotel Chocolat Estates Limited. The acquisition comprised of the 136 acre Rabot Estate in Saint Lucia, which currently includes a working cocoa plantation with propagation nurseries, a 'tree to bar' chocolate making experience for paying visitors, and a luxury boutique hotel called Boucan, which comprises 14 guest rooms, a spa and a 60-cover restaurant; and the 85 acre Delcer Estate in Saint Lucia which comprises largely undeveloped land.

Hotel Chocolat Group plc capitalised a loan due from Hotel Chocolat Estates Limited to the value of £8,901,181 and paid £54,921 in return for 100% of the issued share capital.

The book values of identifiable assets and liabilities acquired and their fair value to the Group was as follows:

	Book Value £	Adjustment £	Fair Value £
Identifiable assets and liabilities acquired:			
Property, plant & equipment	5,996,413	2,754,012	8,750,425
Trade and other receivables	129,082	–	129,082
Cash	282,927	–	282,927
Trade and other payables	(436,896)	–	(436,896)
Total net assets	5,971,526	2,754,012	8,725,538
Fair value of consideration paid:			
Cash			54,921
Capitalisation of loan receivable from Hotel Chocolat Estates Limited			8,901,181
Total consideration			8,956,102
Goodwill arising (Note 13)			230,564

On acquisition, Hotel Chocolat Estates Limited held trade and other receivables with a book and fair value of £129,082 representing contractual receivables of £129,082. The Group therefore expects to collect all contractual receivables.

The goodwill arising on the Hotel Chocolat Estates Limited acquisition is not deductible for tax purposes.

Notes to the financial statements *continued*

For the period ended 26 June 2016

29. ACQUISITION OF HOTEL CHOCOLAT ESTATES LIMITED *CONTINUED*

Since the acquisition date, Hotel Chocolat Estates Limited has contributed £295,435 to Group revenues and a loss of £71,191 to Group profit. If the acquisition had completed on 29 June 2015, the total Group revenues for financial year ending 26 June 2016 would have been £92,636,086. The total Group profit for the same period would have been £3,561,008. This proforma information is for illustrative purposes only and is not necessarily an indication of the revenues and results of the Group that actually would have been achieved had the acquisition been completed on 29 June 2015, nor is it intended to be a projection of future results.

30. CATEGORIES OF FINANCIAL INSTRUMENTS

	52 weeks ended 26 June 2016 £	52 weeks ended 28 June 2015 £
Financial assets		
At amortised cost		
Trade and other receivables (excluding prepayments)	975,089	9,247,246
Cash and cash equivalents	6,475,445	4,939,924
	7,450,534	14,187,170
Financial liabilities		
At amortised cost		
Trade and other payables	8,785,864	7,099,035
Total borrowings	7,075,756	8,253,239
Accruals	6,668,456	4,530,252
Bank overdraft	–	10,637,317
	22,530,076	30,519,843
At fair value		
Derivative financial liabilities	581,959	–

In the Directors' view, the fair value of the Group's borrowings is considered to be equal to their carrying value.

31. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk and price risk), credit risk and liquidity risk.

Market risk

Foreign exchange risk

The Group enters into foreign currency forward contracts in order to manage the exposure to foreign exchange risk which arises on transactions denominated in foreign currencies. Refer to Note 21 for further information about the Group's foreign currency forward contracts.

Interest Risk

The Group is exposed to interest rate risk from its RCF, which carries interest at variable rates on amounts which are drawn down. Drawdowns are typically short-term and used to fund working capital.

Price risk

Price risk is the risk that oscillation in the price of key input costs will affect the profitability of the business. The Group manages this risk by agreeing long–term prices with suppliers where possible.

31. FINANCIAL RISK MANAGEMENT *CONTINUED*

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. In order to minimise this risk the Group endeavours only to deal with companies which are demonstrably creditworthy. In addition, a significant proportion of revenue results from cash transactions. The aggregate financial exposure is continuously monitored. The maximum exposure to credit risk is the value of the outstanding amount of trade receivables. The management do not consider that there is any concentration of risk within trade receivables.

Ageing analysis:

	52 weeks ended 26 June 2016 £	52 weeks ended 28 June 2015 £
Trade receivables		
Up to three months	843,137	618,632
Three to six months	91,093	9,847
Above six months	–	159,983
Impairment provision	(94,926)	(203,599)
Total	839,304	584,863

These receivables are not secured by any collateral or credit enhancement.

The exposure of credit risk for trade receivables by geographical region is as follows:

	52 weeks ended 26 June 2016 £	52 weeks ended 28 June 2015 £
United Kingdom	821,902	533,975
Europe	4,486	50,888
Rest of World	12,916	–
Total	839,304	584,863

Liquidity risk

The Group currently holds cash balances to provide funding for normal trading activity. The Group also has access to both short-term and long-term borrowings to finance individual projects. Trade and other payables are monitored as part of normal management routine.

Borrowings and other liabilities mature according to the following schedule:

	Within one year £	One to two years £	Two to five years £
52 weeks ended 28 June 2015			
Trade and other payables	10,791,737	1,774,731	–
Borrowings	979,060	–	8,067,913
Bank overdraft	10,637,314	–	–
	22,408,111	1,774,731	8,067,913
52 weeks ended 26 June 2016			
Trade and other payables	15,524,077	1,485,090	–
Borrowings	583,215	102,311	7,328,692
	16,107,292	1,587,401	7,328,692

Notes to the financial statements *continued*

For the period ended 26 June 2016

31. FINANCIAL RISK MANAGEMENT *CONTINUED*

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 and borrowings.

Fair value hierarchy

The financial instruments on the Hotel Chocolat Group plc Consolidated Statement of Financial Position are measured at either fair value or amortised cost.

Cash and cash equivalents, trade and other receivables, trade and other payables, accruals and borrowings have been excluded from this analysis as they are recognised in the financial statements at their carrying value which also approximates the fair values of those financial instruments; therefore, no separate disclosure for fair value hierarchy is required.

The financial instruments are grouped into Levels based on the degree to which the inputs used to calculate the fair value are observable.

– Level 1 fair value measurements are those derived from quoted process (adjusted) in active markets for identical assets and liabilities.

– Level 2 fair value measurements are those derived from inputs other that quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from process).

The Group measures its derivative financial liabilities relating to foreign currency forward contracts at fair value and these are grouped as Level 2 instruments. Movements on the underlying value of financial instruments of foreign exchange contracts have been measured versus market rates and therefore are easily identifiable. Refer to Note 21 for further information.

There have been no transfers between levels in the period.

32. EVENTS SUBSEQUENT TO THE REPORTING DATE – GROUP AND COMPANY

There have been no material events subsequent to the period end and up to 18 October 2016, the date of approval of the financial statements by the Board.

33. ULTIMATE CONTROLLING PARTY

The Directors believe that there is no ultimate controlling party of the Group.

34. TRANSITION TO IFRS

In preparing the financial statements, the Group's opening Consolidated Statement of Financial Position was prepared as at 30 June 2014, the Group's date of transition to IFRS. The historical financial information for the period ended 28 June 2015 has therefore been prepared in accordance with IFRS. Previously, the Group prepared its financial statements for this period in accordance with Generally Accepted Accounting Principles in the United Kingdom (UK GAAP).

Accordingly, the Group has prepared financial information which complies with IFRS applicable for periods ended on or after 28 June 2015, as described in the summary of significant accounting policies. In restating its UK GAAP financial statements, the Group has made provision for additional lease incentives and reversed a charge for the amortisation of goodwill in accordance with accounting policies described below. The Group has also recognised certain non-current assets as intangible rather than tangible assets.

34. TRANSITION TO IFRS *CONTINUED*

A summary of the impact of transition to the Consolidated Statement of Financial Position is as follows:

	52 weeks ended 28 June 2015 As previously reported under UK GAAP £	52 weeks ended 28 June 2015 As reported under IFRS £
ASSETS		
Non-current assets		
Intangible assets	478,469	1,553,433
Property, plant and equipment	13,164,163	12,294,264
Deferred tax asset	215,993	215,993
	13,858,625	14,063,690
Current assets		
Inventories	4,493,841	4,493,841
Trade and other receivables	13,672,466	13,672,466
Corporation tax recoverable	166,709	166,709
Cash and cash equivalents	4,939,924	4,939,924
	23,272,940	23,272,940
Total assets	37,131,565	37,336,630
LIABILITIES		
Current liabilities		
Trade and other payables	12,210,082	12,210,082
Bank overdraft	10,637,314	10,637,314
Borrowings	954,521	954,521
	23,801,917	23,801,917
Non-current liabilities		
Other payables and accruals	1,495,306	1,774,731
Borrowings	7,298,718	7,298,718
Provisions	668,898	668,898
	9,462,922	9,742,347
Total liabilities	33,264,839	33,544,264
NET ASSETS	3,866,726	3,792,366
EQUITY		
Share capital	103,418	103,418
Retained earnings	3,534,979	4,003,546
Translation reserve	–	(542,927)
Merger reserve	223,251	223,251
Capital redemption reserve	5,078	5,078
Total equity attributable to shareholders	3,866,726	3,792,366

Notes:

Website development costs and software which are not an integral part of hardware assets have been reclassified to intangible assets under IFRS. Under UK GAAP, these costs were included as part of property, plant and equipment.

Goodwill is not amortised but is subject to annual impairment review under IFRS. Under UK GAAP, goodwill is amortised.

Lease incentives are recognised over the lease term, on a straight line basis under IFRS. Under UK GAAP, lease incentives are recognised over the shorter of the lease term and the period ending on a date from which it is expected the prevailing market rental will be payable, on a straight line basis.

Notes to the financial statements *continued*

For the period ended 26 June 2016

34. TRANSITION TO IFRS *CONTINUED*

A summary of the impact of transition to the Consolidated Statement of Financial Position is as follows:

	52 weeks ended 28 June 2015 £	52 weeks ended 29 June 2014 £
Equity reported in accordance with UK GAAP	3,866,726	2,117,521
Transition adjustments:		
Amortisation of goodwill	205,065	170,888
Lease incentives	(279,425)	(164,645)
Equity reported in accordance with IFRS	3,792,366	2,123,764

A summary of the impact of transition to the Consolidated Statement of Comprehensive Income is as follows:

	52 weeks ended 28 June 2015 £
Profit reported in accordance with UK GAAP	2,127,826
Foreign exchange translation differences	(380,039)
Total recognised gains and losses for the financial period in accordance with UK GAAP	1,747,787
Transition adjustments:	
Amortisation of goodwill	34,177
Lease incentives	(114,780)
Total comprehensive income in accordance with IFRS	1,667,184

Company Statement of Financial Position

As at 26 June 2016

	Notes	As at 26 June 2016 £	As at 28 June 2015 £
ASSETS			
Non-current assets			
Investments	37	9,064,727	108,496
		9,064,727	108,496
Current assets			
Trade and other receivables	38	1,498,362	–
Cash and cash equivalents	39	1,224,248	–
		2,722,610	–
Total assets		11,787,337	108,496
LIABILITIES			
Current liabilities			
Trade and other payables	40	482,420	–
Total liabilities		482,420	–
NET ASSETS		11,304,917	108,496
EQUITY			
Share capital	41	112,838	103,418
Share premium	41	11,749,487	–
Retained earnings		(563,709)	–
Capital redemption reserve	41	6,301	5,078
Total equity attributable to shareholders		11,304,917	108,496

The financial statements of Hotel Chocolat Group plc, registered number 08612206 were approved by the Board of Directors and authorised for issue on 18 October 2016. They were signed on its behalf by:

Matt Pritchard
Chief Financial Officer
18 October 2016

Company Statement of Cash Flow

For the period ended 26 June 2016

	Notes	52 weeks ended 26 June 2016 £	52 weeks ended 28 June 2015 £
Loss for the period		(563,709)	–
Operating cash flows before movements in working capital		(563,709)	–
Increase in other receivables		(124,226)	–
Increase in accruals		146,229	–
Interest paid – borrowings		(113,000)	–
Cash flows used in operating activities		(654,706)	–
Acquisition of subsidiary		(54,921)	–
Settlement of intercompany balances		(9,826,125)	
Cash flows used in investing activities		(9,881,046)	–
Cost of issue of new equity		(240,000)	
Proceeds from issue of shares		12,000,000	–
Cash flows from financing activities		11,760,000	–
Net change in cash and cash equivalents		1,224,248	–
Cash and cash equivalents at beginning of period	39	–	–
Cash and cash equivalents at end of period	39	1,224,248	–

Company Statement of Changes in Equity

For the period ended 26 June 2016

	Share capital £	Share premium £	Retained earnings £	Capital redemption reserve £	Total £
As at 30 June 2014	107,078	–	–	–	107,078
Capital redemption	(5,078)	–	–	5,078	–
Shares issued in the period	1,418	–	–	–	1,418
Equity as at 28 June 2015	103,418	–	–	5,078	108,496
Loss for the period	–	–	(563,709)	–	(563,709)
Capital redemption	(1,223)	–	–	1,223	–
Shares issued in the period	10,643	11,989,487	–	–	12,000,130
Costs of issue of new equity	–	(240,000)	–	–	(240,000)
Equity as at 26 June 2016	112,838	11,749,487	(563,709)	6,301	11,304,917

Notes to the Company financial statements

For the period ended 26 June 2016

35. COMPANY FINANCIAL STATEMENTS

As permitted by section 408(3) of the Companies Act 2006, a separate Statement of Comprehensive Income, dealing with the results of the Parent Company, has not been presented. The Parent Company profit for the period ended 26 June 2016 is £563,709 (28 June 2015: £ nil).

36. ACCOUNTING POLICIES

To the extent that an accounting policy is relevant to both Hotel Chocolat Group and Company financial statements, refer to the Group financial statements for disclosure of the accounting policy.

Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 100 (FRS 100): Application of Financial Reporting Requirements and Financial Reporting Standard 101 (FRS 101): Reduced Disclosure Framework. The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the periods presented, unless otherwise stated.

The financial statements have been prepared on a historical cost basis, except for the revaluation of certain properties and financial instruments. The presentation currency used is sterling.

Disclosure exemptions adopted in preparing these financial statements the Company has taken advantage of all disclosure exemptions conferred by FRS 101.

Therefore these financial statements do not include:

- certain comparative information as otherwise required by EU-endorsed IFRS;
- the effect of future accounting standards not yet adopted; and
- disclosure of related party transactions with other wholly owned members of the Group headed by Hotel Chocolat Group plc.

In addition, and in accordance with FRS 101 further disclosure exemptions have been adopted because equivalent disclosures are included in the company's consolidated financial statements. These financial statements do not include certain disclosures in respect of:

- share-based payments;
- financial instruments (other than certain disclosures required as a result of recording financial instruments at fair value); or
- fair value measurement other than certain disclosures required as a result of recording financial instruments at fair value).

The Company has adopted a change in reporting GAAP during the current period to FRS 100 and FRS 101. In previous years the financial statements were prepared in accordance with applicable UK accounting standards. This change has not resulted in any amendments to the presentation or measurement to any balances and as such no transition disclosures have been provided.

37. SUBSIDIARY UNDERTAKINGS

Investments in subsidiaries held by the Company as non-current assets are stated at cost less any provision for impairment.

	52 weeks ended 26 June 2016 £	52 weeks ended 28 June 2015 £
Cost		
At beginning of period	108,496	108,496
Additions	8,956,231	–
At end of period	9,064,727	108,496
Carrying amount	9,064,727	108,496

A list of the significant investments in subsidiaries, including the name, proportion of ownership interest, country of operation and country of registration can be found in Note 18.

Notes to the Company financial statements *continued*

For the period ended 26 June 2016

38. TRADE AND OTHER RECEIVABLES

There were no material receivables which were past due but not impaired at the end of any period.

	52 weeks ended 26 June 2016 £	52 weeks ended 28 June 2015 £
Other receivables	124,226	–
Prepayments	5,000	
Amounts due from related parties	1,369,136	–
	1,498,362	–

39. CASH AND CASH EQUIVALENTS

The cash flow statement on page 78 gives a breakdown of cash movements in the year. To the extent a disclosure is relevant to both the Hotel Chocolat Group and Company financial statements, refer to the Group financial statements.

40. TRADE AND OTHER PAYABLES

	52 weeks ended 26 June 2016 £	52 weeks ended 28 June 2015 £
Accruals	146,229	–
Amounts due to related parties	336,191	–
Total trade and other payables	482,420	–

41. SHARE CAPITAL AND RESERVES

The share capital, share premium and the capital redemption reserve are consistent with Hotel Chocolat Group financial statements. Refer to Notes 24 and 25 of the Group financial statements.

42. CAPITAL COMMITMENTS

There were no amounts contracted for but not provided for as at 26 June 2016 (28 June 2015: £nil).

43. RELATED PARTY TRANSACTIONS

Amounts owed by and to subsidiaries are disclosed in Notes 38 and 40 respectively, of the Company financial statements.

The remuneration of the key management personnel of the company are disclosed in Note 8 of the Group financial statements.

Interests and related party transactions are disclosed in Note 28 of the Group financial statements.

Company information

REGISTERED OFFICE

Mint House
Newark Close
Royston
Hertfordshire SG8 5HL

COMPANY WEBSITE

www.hotelchocolat.com

COMPANY SECRETARY

Peter M Harris

ADVISERS

Nominated Adviser and Broker
Liberum Capital Limited
Ropemaker Place
25 Ropemaker Street
London EC2Y 9LY

Legal Advisers to the Company
Stephenson Harwood LLP
1 Finsbury Circus
London EC2M 7SH

AUDITORS

BDO LLP
55 Baker Street
London W1U 7EU

REGISTRARS

Capita Registrars Limited
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Designed and produced by ACCRUE FULTON www.accruefulton.com

REGISTERED OFFICE

Hotel Chocolat Group plc
Mint House
Newark Close
Royston
Hertfordshire SG8 5HL