HOTEL Chocolat.

ANNUAL REPORT AND ACCOUNTS

2017

Not all chocolates are created equal

HOTEL Chocolat.

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

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

ALLEGRA 2015

Our strong British brand is based on an ethos of:

ORIGINALITY

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

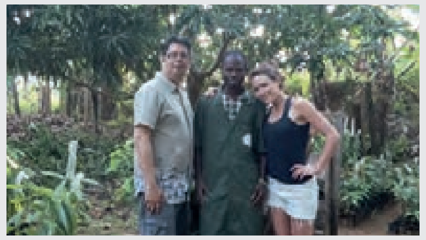
FIND OUT MORE IN OUR CASE STUDY ON PAGE 35

AUTHENTICITY

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

FIND OUT MORE IN OUR CASE STUDY ON PAGE 36

ETHICS

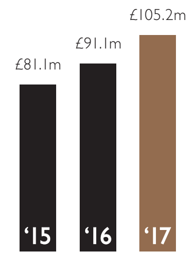


We focus on ensuring that we deliver sustainable outcomes for all our stakeholders

FIND OUT MORE IN OUR CASE STUDY ON PAGE 37

Cover image shows Berry Crumbles from our autumn range

2017 highlights



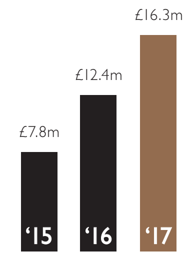
REVENUE

£105.2m

(2016: £91.1m)

+12%

YEAR-ON-YEAR[1]



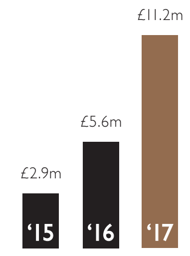
UNDERLYING EBITDA[2]

£16.3m

(2016: £12.4m)

+32%

YEAR-ON-YEAR



PROFIT BEFORE TAX

£11.2m

(2016: £5.6m)

+100%

YEAR-ON-YEAR

PROFIT AFTER TAX

£8.8m

(2016: £4.1m)

EARNINGS PER SHARE

7.8p

(2016: 3.9p)

MAIDEN DIVIDEND

1.6p

12 NEW STORES OPENED IN THE PERIOD

+30% MOBILE CONVERSION GROWTH ON NEW WEBSITE

+20% INCREASE IN FACTORY CAPACITY

8 NEW STORE LEASES SIGNED SINCE PERIOD END

6 NEW WHOLESALE ACCOUNTS SINCE PERIOD END

2 FRANCHISE STORES IN HONG KONG TO DATE

Company overview

Highlights	01
At a glance	02

Strategic report

Chairman's statement	06
Our business model	08
Our 360 degree business	12
Digital	16
Our markets	18
Chief Executive's statement	20
Our strategy	24
Financial review	28
Risk management	30

Governance

Corporate social responsibility	34
Our values	35
Board of Directors	38
Corporate governance statement	40
Audit Committee report	43
Remuneration report	45
Directors' report	48
Statement of Directors' responsibilities	51

Financial statements

Independent auditor's report	54
Consolidated Statement of Comprehensive Income	57
Consolidated Statement of Financial Position	58
Consolidated Statement of Cash Flow	59
Consolidated Statement of Changes in Equity	60
Notes to the financial statements	61
Company Statement of Financial Position	91
Company Statement of Cash Flow	92
Company Statement of Changes in Equity	93
Notes to the Company financial statements	94
Company Information	96

1 Reported revenue for FY17 of £105.2m is for 53 weeks, (FY16: 52 weeks £91.1m). Revenue growth for a comparable 52 week period on a pro forma basis in constant currency is 12% (FY17: £104.2m, FY16: £93.1m). Hotel Chocolat Estates Limited, Saint Lucia (HCESL) was acquired by the Group in May 2016 and is included in the pro forma growth as if the Company had always been a member of the Group.

2 Underlying EBITDA of £16.3m excludes share-based payment charges of £0.6m. FY16 underlying EBITDA of £12.4m excludes £0.1m of share-based payment charges and £2.6m of costs relating to the flotation of the Group in May 2016.

At a glance

The leading UK premium chocolate brand, manufacturing innovative and accessibly priced luxury chocolate. We connect our brand direct to customers via subscription, online and our 96 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

91 UK STORES

3 COPENHAGEN STORES

2 FRANCHISED STORES IN HONG KONG

1 BOUTIQUE HOTEL & PLANTATION

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 5,000 sq ft and trade profitably across the UK. We are also developing our international retail knowledge with three stores in Copenhagen and two franchise sites in Hong Kong.

Company overview
Strategic report
Governance
Financial statements

WHAT SETS US APART

Strong & distinctive brand

The Hotel Chocolat brand evokes escapism and contemporary luxury.

Premium differentiated product

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

Product innovation

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

Vertically integrated

We apply our expertise at every stage of the process to create superior products at improved margins.

Omni-channel retail distribution

Trading via our own website and physical stores means we know more about our customers 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

Chairman's statement	06
Our business model	08
Our 360 degree business	12
Digital	16
Our markets	18
Chief Executive's statement	20
Our strategy	24
Financial review	28
Risk management	30

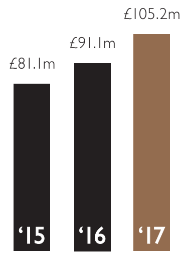
"We are just as obsessed with our customers as they are with us."

ANGUS THIRLWELL
Chief Executive Officer

Strategic report

Chairman's statement

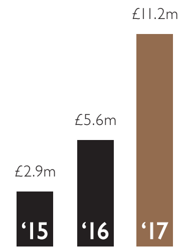
"A strong year of growth. The business has great potential to further develop and grow the Hotel Chocolat brand."



REVENUE

£105.2m

(2016: £91.1m)



PROFIT BEFORE TAX

£11.2m

(2016: £5.6m)

OVERVIEW

FY17 represented another good year for Hotel Chocolat and the investments in new stores, new website and factory capacity have driven excellent growth and improved profitability. The brand continued to expand with a range of innovations that both supported this growth and set up exciting new and future opportunities.

RESULTS

The Group achieved a pleasing result in FY17 with revenue of £105.2m and growth of 12% versus FY16[1]. Strong cost control meant that operating margins improved with profit before tax increasing by 100% to £11.2m.

STRATEGY

The growth strategy remains unchanged and is based on proven and profitable business models; to continue to open more stores and invest in digital to make it easier for consumers to access our brand, whilst investing in infrastructure to increase capacity and improve efficiency.

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 Greg Hodder to the Board as a Non-executive Director. He has already made a valuable contribution to the Board and brings excellent experience to his role as Chair of the Remuneration Committee. I would also like to extend my thanks to the whole Hotel Chocolat team for their tireless hard work and commitment which has delivered results to be proud of.

DIVIDENDS

The Board is pleased to propose a maiden final dividend of 1.6 pence per share. If approved by shareholders at the AGM on 23 November 2017 it will be paid on 22 December 2017 to shareholders on the register at 24 November 2017.

OUTLOOK

Despite challenges and uncertainties in the wider economy, trading since the end of the financial period has been encouraging. The strength of the brand drives great customer loyalty and we are well positioned for the future, with a strong pipeline of opportunities.

ANDREW GERRIE
Non-executive Chairman

1 Reported revenue for FY17 of £105.2m is for 53 weeks, (FY16: 52 weeks £91.1m). Revenue growth for a comparable 52 week period on a pro forma basis in constant currency is 12% (FY17: £104.2m, FY16: £93.1m). HCESL was acquired by the Group in May 2016 and is included in the pro forma growth as if the Company had always been a member of the Group.

Ice Cream of the Gods

Infused with cocoa nibs. Named after the cocoa plant Theobroma Cacao, which translates literally as "cocoa, food of the gods". Now served in 40 locations and driving counter-seasonal sales growth.

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 some of the exclusive beans used in our Rare & Vintage range and of our deep understanding of the cocoa growing process. This knowledge enables us to continuously improve our relationship with all of our cocoa growers worldwide and further our Engaged Ethics programme.

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 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, protects intellectual property 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 invested 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.


HOTEL Chocolat.
BRITISH COCOA GROWER
CHOCOLATE STARTS AT THE ROOTS OF THE CACAO TREE.
SO WE GOT STUCK IN.
...me, stay with us on our plantation.
We'll teach you.
MOLTEN MASTERPIECES
GRAND NEW LINE-UP
HOCOLAT • ICE CREAM • COFFEE • TEAOLAT
HAPPY BIRTHDAY

Our 360 degree business

INVESTING IN THE ESTATE

- Opened in 2004, our Milton Keynes store has stood the test of time. In summer 2017 we completed our first test of a full store refit including the addition of a cafe to an existing shop
- Early results are very encouraging
- Trading area increased by 10% to 1,500 sq ft
- Targeting payback in less than two years

GIFT SLEEVES

- Launched in 2016
- Enables the customer to tailor a flavour box to a gift occasion or seasonal event
- Strong demand has led to launch for more occasions and calendar events including Congratulations, Diwali and Eid

SPECTACULAR CHOICE

- Market leading range of chocolate genres
- Our 'Selector' wall of chocolates features over 120 for self-consumption, with simple navigation
- £1 to £300 price architecture

"MORE COCOA, LESS SUGAR"

- Has been our philosophy from the beginning
- Delivers superior taste that customers appreciate
- More than 95% of range meet Public Health England 2018 targets for sugar
- Increasing ranges for dietary preferences including vegan
- Shortly launching our first ever zero-added sugar milk chocolate called Supermilk Pure

CAFE

- A 'cool refuel', with our award winning hot chocolate the unique selling point
- Simple operation, low waste
- Modular construction, flexible and low capital expenditure
- More reasons to visit all year round

FIND OUT MORE ABOUT OUR CAFES
www.hotelchocolat.com/uk/cocoa-bar-cafes

OMNI CHANNEL

- Customers can order online and collect in-store or send a gift in-store
- In FY17 began collecting email addresses from retail buyers for the first time, active database increased by 46%
- Launching improved subscription gift packs in store in FY18

SEASONAL STRENGTH

- Unique products developed for 10 season themes annually
- Supported by multi-channel, integrated marketing
- Constant in-store sampling drives excitement and sales
- Halloween and Advent calendars extended for autumn 2017 with widest ever choice

INVESTING IN KNOWLEDGE

- Our unique School of Chocolate diploma equips teams with knowledge on every aspect of cocoa and chocolate making
- Confidence in the product and brand supports great service
- 'Step into leadership' programme develops talent internally, majority of management roles filled by internal promotions
- In 2017 we launched "Chocolate Lock-Ins", paid tasting experiences in-store, after hours that are proving very popular and increasing advocacy

Digital

Digital comprises both our website and our subscription business.

OVER
50%
OF WEBSITE TRAFFIC NOW COMES VIA MOBILES AND TABLETS

Social Media Engagement

Active social media campaigns drive customer engagement with the brand reaching in excess of 400,000 people.

Single View of the Customer

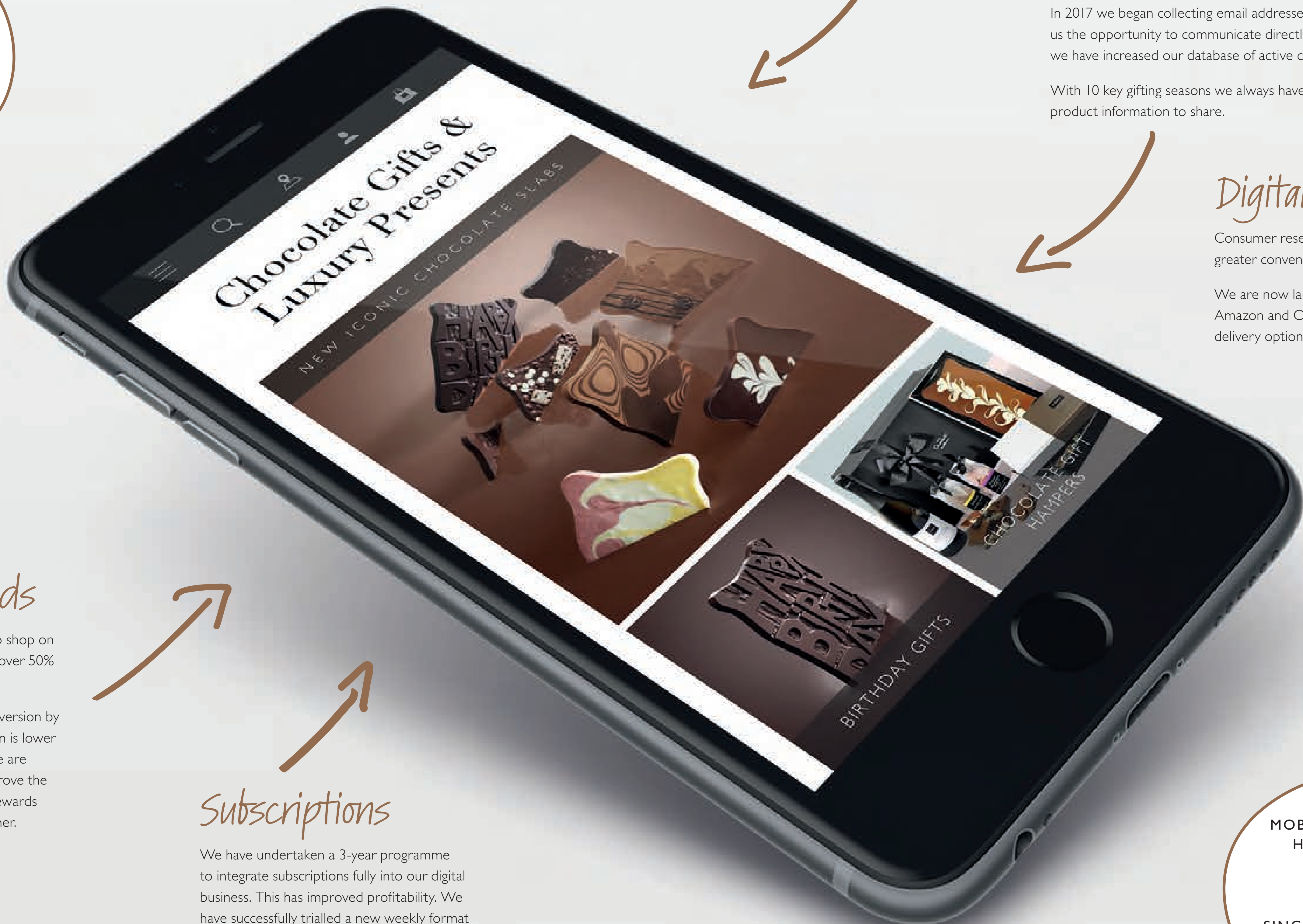
In 2017 we began collecting email addresses from retail buyers, giving us the opportunity to communicate directly for the first time. So far we have increased our database of active customers by over 46%.

With 10 key gifting seasons we always have exciting new and different product information to share.

Digital Wholesale

Consumer research shows an appetite for greater convenience.

We are now launching capsule collections on Amazon and Ocado, giving customers more delivery options.



Consumer Trends

Consumers are increasingly choosing to shop on mobile devices which now account for over 50% of website traffic.

Our new site has increased mobile conversion by 30%, however industry-wide conversion is lower on mobile devices than desktops, so we are developing an app that will further improve the shopping experience, offer customer rewards and provide a single view of the customer.

Subscriptions

We have undertaken a 3-year programme to integrate subscriptions fully into our digital business. This has improved profitability. We have successfully trialled a new weekly format and will extend this trial in 2018.

MOBILE CONVERSION HAS INCREASED
30%
SINCE THE LAUNCH OF THE NEW WEBSITE

FIND OUT MORE ABOUT DIGITAL
www.hotelchocolat.com

Company overview
Strategic report
Governance
Financial statements

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]

0.5% HC SHARE

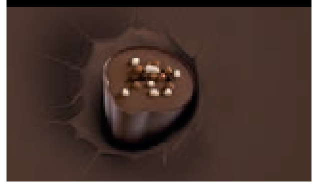
STRATEGY

- Improve gift products for stores and online
- Launch best in class gifting app
- Grow customer database

PROGRESS UPDATE

- New modular gift sets a real success at Christmas, encouraging customers to trade up
- New childrens ranges at Easter in responsible portion sizes drove incremental sales
- Have begun to collect customer email addresses in store, giving us opportunity to talk to our retail buyers about our seasonal activities for the first time, growing our database significantly

UK CHOCOLATE



£6BN MARKET[2]

<2.0% HC SHARE

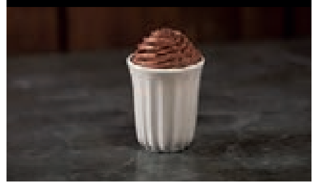
STRATEGY

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

PROGRESS UPDATE

- Opened 12 stores in FY17, signed leases on a further 8 due to open before Christmas 2017
- New website delivered 30% increase in mobile conversion with mobile now accounting for over half of all website visit traffic
- 6 new wholesale accounts signed since period-end, allowing customers more choice in how and where to purchase

UK CAFES



£8BN MARKET[3]

<0.1% HC SHARE

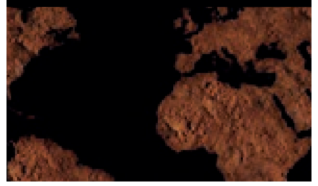
STRATEGY

- Apply Shop+cafe model to selected new sites
- Test takeaway-only hot chocolate and ice cream in smaller stores

PROGRESS UPDATE

- 8 of the 12 new stores opened in FY17 featured cafes
- Successful test of takeaway-only cafe offer at our new Euston Station store
- Testing first retrofit of a cafe into an existing mature store at Milton Keynes
- Takeaway ice cream now available in 40 stores

INTERNATIONAL



>£70BN MARKET

<0.02% HC SHARE

STRATEGY

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

PROGRESS UPDATE

- New Denmark country manager delivered significant sales uplift in H2 FY17
- Appointed a new retail partner in Hong Kong, opened a branded concession within Sogo department store, and since end of period have opened a standalone store in APM mall, Kowloon

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

Customer Insight

In our UK consumer research, two thirds of premium chocolate buyers said Hotel Chocolat was their favourite premium chocolate brand. They also said they would be happy to buy more Hotel Chocolat product if it were easier to access. We will address this opportunity by:

1. Opening more shops across more store formats, including smaller towns and cities
2. Continuously improving the website to make it easier to shop whilst on the move
3. Developing new types of subscription to make it easier to regularly receive Hotel Chocolat products
4. Adding more carefully selected wholesale partners, giving consumers more choices how to buy

Chief Executive's statement

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

In my second Chief Executive's statement, I am pleased to report another year of significant progress for the Group. Revenue grew by 12%[1], underlying EBITDA[2] increased by 32% to £16.3m and profit after tax increased by 115% to £8.8m. 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 passion, without which these results would not have been possible.

+12%
YOY SALES[1]

+32%
UNDERLYING EBITDA GROWTH[2]

1 Reported revenue for FY17 of £105.2m is for 53 weeks, (FY16: 52 weeks £91.1m). Revenue growth for a comparable 52 week period on a pro forma basis in constant currency is 12% (FY17: £104.2m, FY16: £93.1m). HCESL was acquired by the Group in May 2016 and is included in the pro forma growth as if the Company had always been a member of the Group.

2 Underlying EBITDA excludes share-based payment costs of £0.6m (FY16: £0.1m) and £2.6m of costs related to the flotation of the Group in May 2016.

SALES CHANNEL REVIEW

Our multi-channel model continues to work well: each channel supports the others and all channels are in growth.

Physical

Our existing stores continued to perform very well and we opened twelve new stores in the year, eight of which were in the Shop+cafe format. We will continue to open both pure chocolate shops and Shop+cafe formats to best match the opportunity in each location. We opened stores with cafes in Worcester, London Euston Station, London Covent Garden, Cheshire Oaks Designer Outlet, Bury St Edmunds, Chelmsford, Glasgow Buchanan Street, and our second store in Belfast. Through modular design techniques we are now able to open a Shop+cafe for the same capital expenditure as a Shop-only store previously. The results from this format have given us confidence to test it in smaller catchments, which if successful has the potential to materially increase the number of new sites in the UK. We also opened Shop-only stores in Wandsworth, Clapham Junction Station, Peterborough and Crawley.

Our existing estate also received investment. We brought Ice Cream of the Gods to 40 locations and in the summer we completed our first retrofit of a cafe into an existing store, at Milton Keynes. If this test proves successful we see scope to add cafes in many of our larger locations. Adding a cafe adds more reasons to visit, whilst deepening the customer experience. By keeping the operation simple, this can be achieved without significant additional operating costs and with modest additional capital expenditure. Since the end of the financial period we have opened two stores in Beverley and Clarks Village, a designer outlet in Street, and at the time of writing have signed leases on a further six, all of which we expect to be trading before Christmas 2017.

Digital

Digital sales growth in the year was a combined 8%, made up of 18% growth in online sales and a decline of 5% in subscriptions as we continued to reform and improve this part of our model, prior to investing in the next stage of growth. Subscription profits increased due to the focus on improving the operational infrastructure and increasing synergies with our other channels.

Now that we have improved the operational foundations of subscription, we are well positioned to extend further trials of our new subscription concepts including a new weekly subscription, called the M-Box, which achieved encouraging customer reaction in trials and is now ready for the next stage of development.

Our new mobile-optimised website has had a successful debut. Increasingly consumers are choosing to shop on mobiles rather than desktops, but conversion to buy on mobiles is typically lower than on desktop, so it is encouraging that we have increased mobile conversion by 30%. Mobile devices now account for more than half of all traffic to our website and we expect this to increase. A new app is under development, which will make mobile gift sending fun and easy as well as allowing us to offer loyalty rewards to more of our customers.

Wholesale

Market research has shown that UK consumers cite "lack of access" as the main barrier to purchasing more from Hotel Chocolat. We have acted to reduce this barrier by entering carefully selected wholesale relationships with six new customers including Amazon, Ocado and Fenwicks department store. From autumn 2017, edited 'capsule collections' of our products will be available, enabling customers to take advantage of their preferred methods of delivery.

International

Our international aspirations continue to follow our strategy of a careful 'test, learn, grow' approach.

Highlights include ongoing performance growth in Copenhagen, as well as a debut in Hong Kong in two locations, with a local partner. Early results from Hong Kong have been encouraging and we are preparing for the peak gifting seasons which will determine the pace of any store roll out.

The current revamping of our subscription offer is also a key element in our international digital aspirations.

OPERATIONAL REVIEW

The key seasonal ranges traded strongly. Particular highlights included our new modular gift sets at Christmas, which encouraged customers to trade up, and our new childrens' character range at Easter, which extended Hotel Chocolat luxury without compromise to a younger market.

Our business infrastructure is already well invested and as the business grows we remain focused on controlling overheads. It was pleasing this year to deliver a dilution of our underlying overhead ratio from 53.2% of sales to 52.4%.

Manufacturing Investment

At the beginning of the financial year we completed our largest-ever capital project, a £4m upgrade of our main truffle making production line. This investment increased our truffle making capacity by 70% and our total factory capacity by over 20%. We have identified significant opportunities to further optimise our production by improved scheduling of our manufacturing cycles. This adjustment has driven an increase in inventories but is expected to deliver improved efficiency during FY18.

We are well advanced with planning further phases of operational capital expenditure. Our next major investment will be in the storage and handling of liquid chocolate, due to enter service in 2018. These new facilities will further increase capacity and improve efficiency.

We are also progressing our plans to extend the factory by 2020 in order to add further chocolate making capacity to support our growth, and continue to explore opportunities for further automation.

BRAND REVIEW

We continue to invest in our most important asset, the Hotel Chocolat brand, at many levels.

Our culture of constant innovation is crucial in ensuring the brand remains fresh and relevant. The pipeline of future excitements is reassuringly healthy. Those that we launch will have made it through our disciplined testing and live trialling system.

Aesthetically, our in-house design studio has strengthened the simplicity and confidence of our packaging design. In our stores too, the look has evolved to a lighter and more distinctive interior design.

Becoming a leading one-stop gift brand is a strategic goal and our new event sleeves brought us closer to this, offering customers relevant products for more gift occasions, from Birthday and Congratulations to Eid & Diwali gifts.

Our recipe creations collected an impressive haul of awards with 17 from the Academy of Chocolate and 3 Great Taste Awards. Winners included Saint Lucia Supermilk made with Buffalo Milk and Salted Pumpkin Seeds, Gianduja Hazelnuts, Lychee Sake Martini truffle, Teaolat infusion drink with cacao & peppermint, and Supermilk Hazelnut.

THE MOST IMPORTANT INVESTMENT HAS BEEN IN OUR BRAND VALUES AND CULTURE, WHICH CONTINUE TO MARK US OUT AS A DIFFERENT TYPE OF LUXURY BRAND.

Our new baton boxes

Chief Executive's statement *continued*

"We have a relentless focus on making our customers happier, which informs everything we do."

CONSUMER TRENDS

Wellness

Consumers increasingly want uncompromisingly delicious and hedonistic chocolate that's also made with responsible amounts of sugar. Hotel Chocolat's 13-year track record of "more cocoa, less sugar" is applied to every grade of chocolate, from our whites, through milks and darks. This makes us virtually unique amongst premium chocolate brands. Flip over and read the ingredients of other milk and white brands and you will find it quite revealing! Sugar will most often be the number one ingredient even with premium pricing. In our view, if cocoa isn't the number one ingredient, it really should not be called chocolate. All our chocolate grades meet this 'cocoa first' requirement, even our whites and milks. When you consider that sugar is about 20 times cheaper than cocoa, the reason why other brands take a different route becomes clear.

We carry a very wide range of darks, with cocoa percentages ranging from 70% all the way up to 100%. Public Health England have recently issued targets to reduce sugar in confectionery. Over 95% of our entire range already meets the targets for 2018. Our focus is on adding portion size information and increasing our ultra-low sugar and no added sugar recipes. We are about to launch Supermilk Pure, a zero-added sugar milk chocolate without any artificial sweeteners either. It's truly delicious, with a simple recipe of 0% sugar, 20% milk and 80% cocoa.

Experiences

Experiences are becoming increasingly popular as a new luxury and consumers are seeking to go beyond the purely transactional, but only with brands they love. We are well positioned to grow with this trend. "Chocolate Lock-Ins" were launched in the year, attracting ticketed customers in small groups into our stores after closing time for some tutored tasting and nocturnal private shopping. The customer feedback has been extremely positive. It also enables our School of Chocolate graduates to show off their knowledge and converse with other real chocolate enthusiasts. We intend to continue developing the range of experiences we can offer, showcasing the brand obsession with making the best chocolate on the planet, from farm to finished product and aspire to turn customers into advocates.

Mobile

Living an increasingly mobile and flexible life is a clear trend. Phase one of our plan to optimise the mobile shopping experience was completed with the launch of our new website. Phases two and three will include the introduction of an app to make it even easier to select and send a gift, and the creation of a digital rewards scheme for all customers, including retail buyers, with the aim of increasing purchase frequency.

OUTLOOK

In summary, I am confident that our plan for the coming year will deliver more growth. Our capital investments are prudent, going into proven store formats and digital channels, as well as in known production methods and technology. Continued innovation and a relentless focus on customer happiness aims to generate sales growth. By combining this with a tight control of costs, we aim to improve returns.

The market and wider economy may not be without challenges, but we still have significant addressable market headroom in the UK and benefit from having distribution and manufacturing directly under our control, which supports the resilience of our business. New ventures with online wholesale partners and a new international retail partner in Asia offer the potential to create new avenues for growth.

Maintaining the strong relationship we enjoy with our customers will always be our top priority.

ANGUS THIRLWELL
Co-founder and Chief Executive Officer

Our new zero-added sugar milk chocolate, Supermilk Pure

"Investing in School of Chocolate knowledge has grown a team proud to deliver fabulous service."

ANGUS THIRLWELL
Chief Executive Officer

Our strategy

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

Our strategy is based on a proven format and channels and has three key pillars:

1 OPEN NEW STORES

INCLUDING SHOP+ CAFE FORMAT

- Continuing UK roll-out
- Refit existing sites, relocate key stores to larger, prime sites and add cafe offer

Our latest shopfits have achieved significant reductions in cost per sq ft.

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

2 GROW DIGITAL SALES

AND IMPROVE GIFTING PROPOSITION

- Launch unique gift-sender app with customer rewards program
- Complete subscription model revamp and start growing from improved base

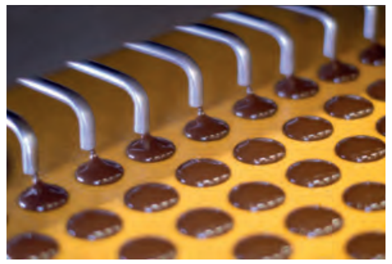
As more customers choose to browse on mobiles and tablets we are investing in improving our mobile shopping experience and offering the most convenient forms of delivery.

3 INCREASE CAPACITY AND CAPABILITY

IN PRODUCTION & SUPPLY CHAIN

- Investment in proven technology to increase factory capacity
- Use smarter production planning to increase efficiency
- Improve gross margins

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.



PROGRESS AGAINST STRATEGY

1 OPEN NEW STORES

In the period we increased the pace of store openings and reduced average capital expenditure per store without compromising the look and feel. The modular cafe model means we can increase profitability for a given catchment, this makes more potential locations viable.

OPENED 12 NEW STORES, 8 WITH CAFE

Now delivering Shop+cafe sites for same capital investment as shop-only previously.

Cafe improves visit frequency and increases sales from catchment.

Means smaller catchments now thought to be viable, further testing required.

CUSTOMER SERVICE

In the year, 55 team members completed our unique internal School of Chocolate training programme.

The depth of knowledge has allowed us to develop "Chocolate Lock-Ins". A ticketed after hours event where guests can taste a wider range of chocolates and learn about cocoa from our knowledgeable team.

Our retail strategy is focused on developing our teams with over 50% of vacancies now filled with internal promotions.

TESTING OPPORTUNITIES IN EXISTING PORTFOLIO

Milton Keynes store traded profitably for 12 years without refit.

Refitted in July 2017, removed stockroom to increase selling area and added cafe offer to create a true flagship experience and drive increased sales.

Conducting further tests and if successful will roll out to more stores.

FIND OUT MORE ABOUT OUR STORES
www.hotelchocolat.com/uk/chocolate-shops

Our strategy *continued*

PROGRESS AGAINST STRATEGY

2 GROW DIGITAL SALES

The new website increased mobile conversion by 30%, and we are seeing a strong shift towards mobile use.

WEBSITE

Website sales grew by 18%.

New website launched, delivering a 30% uplift in mobile conversion.

Improved data analysis better targets marketing investment.

INTERNATIONAL

New website offers capability for international sites at marginal cost (multi-lingual, multi currency).

SUBSCRIPTION

Sales declined 5% but operational improvements drove profit growth.

Successfully trialled a weekly subscription concept, with encouraging customer lifetime value.

New website provides single customer journey, for subscription and buy as you go, with easier account management.

NEW DIGITAL WHOLESALE PARTNERS

Signed agreements with Ocado & Amazon to list 'capsule collections' of year-round core product.

Allows consumers to take advantage of their preferred household delivery method, for example adding Hotel Chocolat to their Ocado delivery, or using Amazon Prime.

FIND OUT MORE ABOUT DIGITAL
www.hotelchocolat.com

PROGRESS AGAINST STRATEGY

3 INCREASE CAPACITY AND CAPABILITY

Investments in the factory were completed on time resulting in a 20% increase in capacity. We have identified significant scope for further investment to increase capacity and unlock efficiencies.

CAPITAL PROJECTS WITHIN EXISTING FACTORY

Upgrades to the main truffle making facility were completed on time in September 2016 delivering over 20% increase in total factory capacity.

A project is now underway to increase storage and handling capacity for liquid chocolate. Targeted completion in 2018 will further increase factory capacity. This will make it possible to receive larger deliveries of materials, reducing delivery charges and improving efficiency.

OPTIMISING PRODUCTION

A key feature of the operation is the high level of flexibility which enables us to produce over 400 different recipes. However this flexibility means that production runs are relatively short and downtime and changeover costs can be relatively high as a proportion of output.

Implemented from summer 2017, consolidation of manufacture into fewer production runs mean that it is possible to unlock significant unused capacity and to increase efficiency and reduce wastage.

FURTHER INVESTMENTS

Long-term projections will require further increases in capacity, this will be achieved by extending the existing factory to add a fourth chocolate making line. The process of planning applications has begun with a target implementation of 2020. Once the benefits of planning optimisation and the timing of the fourth line are confirmed, focus will shift to automation to further improve efficiency and reduce reliance on agency labour at seasonal peaks.

Financial review

"Strong sales growth coupled with rising margins and cost control have resulted in further improvement in profitability."

	FY17 £m	FY16 £m
Revenue	**105.2**	**91.1**
Gross profit	71.5	60.9
Operating expenses	55.2	48.5
Underlying EBITDA	**16.3**	**12.4**
Exceptional costs	–	2.6
Share-based payments	0.6	0.1
Depreciation & amortisation	3.7	3.2
Loss on disposal	0.1	0.1
Operating profit	**11.9**	**6.4**
Finance income	0.0	0.2
Finance expense	0.7	0.9
Profit before tax	**11.2**	**5.6**
Tax	2.4	1.5
Profit for the period	**8.8**	**4.1**

REVENUE

Reported revenue for 53 weeks ending 2 July 2017 was £105.2m. Revenue for the comparable 52 week period ended 25 June 2017 increased by 12%[1] in constant currency on a pro forma basis.

GROSS MARGIN

Gross profit as a percent of sales improved from 66.8% to 67.9%, supported by the increased efficiency of the upgraded production line and better buying, partially offset by ongoing investment in improved product quality and increased investments in sustainability in Ghana.

OPERATING EXPENSES

A focus on cost control meant that underlying operating expenses as a percentage of sales reduced from 53.2% to 52.4%.

UNDERLYING EBITDA

Whilst EBITDA is not a statutory measure the Board believe it is helpful to investors to include as an additional metric. Underlying EBITDA as reported excludes share-based payment expenses of £0.6m (FY16: £0.1m) and is stated before exceptional costs relating to the flotation of the Group in May 2016 (FY17: £ nil, FY16: £2.6m). On this basis, underlying EBITDA as a percent of sales increased from 13.6% to 15.5%.

FINANCE INCOME AND EXPENSE

Finance income in the prior year of £0.2m (FY17: £ nil) relates to interest on loans made to Hotel Chocolat Estates Saint Lucia before the company became part of the Group in April 2016.

In April 2016 the Group arranged an £18m 2-year RCF facility with Lloyds bank. Following a review by the Board of the Group's projected working capital requirements the RCF was replaced in May 2017 with a £10m overdraft facility with Lloyds bank.

DEPRECIATION & AMORTISATION

Depreciation increased as a result of additional capital expenditure.

Capital expenditure of £8m comprised investments in new stores and re-sites, IT projects and in operational projects including upgrades to factory capacity and capability.

1 Reported revenue for FY17 of £105.2m is for 53 weeks, (FY16: 52 weeks £91.1m). Revenue growth for a comparable 52 week period on a pro forma basis in constant currency is 12% (FY17: £104.2m, FY16: £93.1m). HCESL was acquired by the Group in May 2016 and is included in the pro forma growth as if the Company had always been a member of the Group.

PROFIT BEFORE TAX

Profit before tax increased from £5.6m to £11.2m.

TAXATION

The effective rate of taxation is 21.8% (FY16: 27.0%). This is higher than the standard rate of 19.75% (FY16: 20.0%) mainly due to permanent timing differences between depreciation charges and capital allowances.

EARNINGS PER SHARE (EPS) AND DIVIDENDS

Earnings per share was 7.8p (FY16: 3.9p). Profit after tax increased by 115% but as a result of the increased weighted average number of shares, EPS as reported has increased by 100%. The weighted average number of shares in FY17 was 113m (FY16: 103m). The number of shares in issue is unchanged since the IPO in May 2016.

Having delivered a year of strong growth the Board is pleased to propose a maiden final dividend of 1.6 pence per share.

CASH POSITION

The Group had £8.5m of cash at period-end and £6.5m 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 £3.3m driven by a change to the frequency of production which improves factory capacity and gross margin but means stock will be manufactured sooner in advance of each trading season. This change increased stock cover from approximately 9 weeks cover in FY16 to 12 weeks in FY17.

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%[1] year-on-year on a pro forma basis in constant currency

GROSS MARGIN

67.9%

Gross margin improved from 66.8% to 67.9%

UNDERLYING EBITDA MARGIN

15.5%

Underlying EBITDA margin improved from 13.6% to 15.5%

PROFIT AFTER TAX MARGIN

8.3%

Profit after tax margin increased from 4.5% to 8.3%

MATT PRITCHARD
Chief Financial Officer

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 2017	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 and customer happiness.	→	
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 in FY17 and 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 FY18.
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 2017.
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.	→	
INTERNATIONAL EXPANSION	Operating in new territories may give rise to increased complexity and costs.	• The business adopts a cautious test and learn approach to each new market. • Due diligence undertaken to ensure appropriate local partner.	↑	

This strategic report and information referred to herein was approved on behalf of the Board on 27 September 2017.

MATT PRITCHARD
Chief Financial Officer

Governance

Corporate social responsibility	34
Our values	35
Board of Directors	38
Corporate governance statement	40
Audit Committee report	43
Remuneration report	45
Directors' report	48
Statement of Directors' responsibilities	51

Our unique vintage chocmobile

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' 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 the cocoa sector around 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) **Engage directly with farmers and pay a premium** for cocoa grown to sustainable standards of stewardship. Hotel Chocolat is committed to ensuring that 100% of its cocoa is certified sustainable by 2020.

2) **Help farmers improve yields** by providing knowledge, tools and materials to improve productivity. Hotel Chocolat has partnered with an NGO, Green Tropic Group, for over 14 years to support higher productivity in Ghana. We more than doubled the level of financial support in FY17 literally "sowing the seeds" of model farms and increasing the number of farmers that can benefit from materials, training and development of better practices.

3) **Support local communities**. Hotel Chocolat and the Tasting Club members have funded the construction of a health centre in Osuben, Ghana, which received certification in 2017 and is now providing care such as emergency medicine, midwifery services and preventative healthcare.

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 with lower sugar content than many premium chocolate products. Over 95% of all products already meet the Public Health England's 2018 target for sugar per gram. In order to ensure that all products achieve the more stringent target for 2020 a project is underway to ensure accurate portion size guidance is included on all 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 regularly 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. In the year engagement scores and survey response rates both improved.

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 changes to tasting club distribution which will save 75 tonnes of CO_2 in FY18. From January 2018, compostable takeaway cups and lids will be in use in all of our cafes. Targeting inefficient processes also reduces environmental wastage.

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 targets those with the skills and appetite to succeed in a retail career.

100%
increase in funding for sustainable projects in Ghana

3
model farms in development

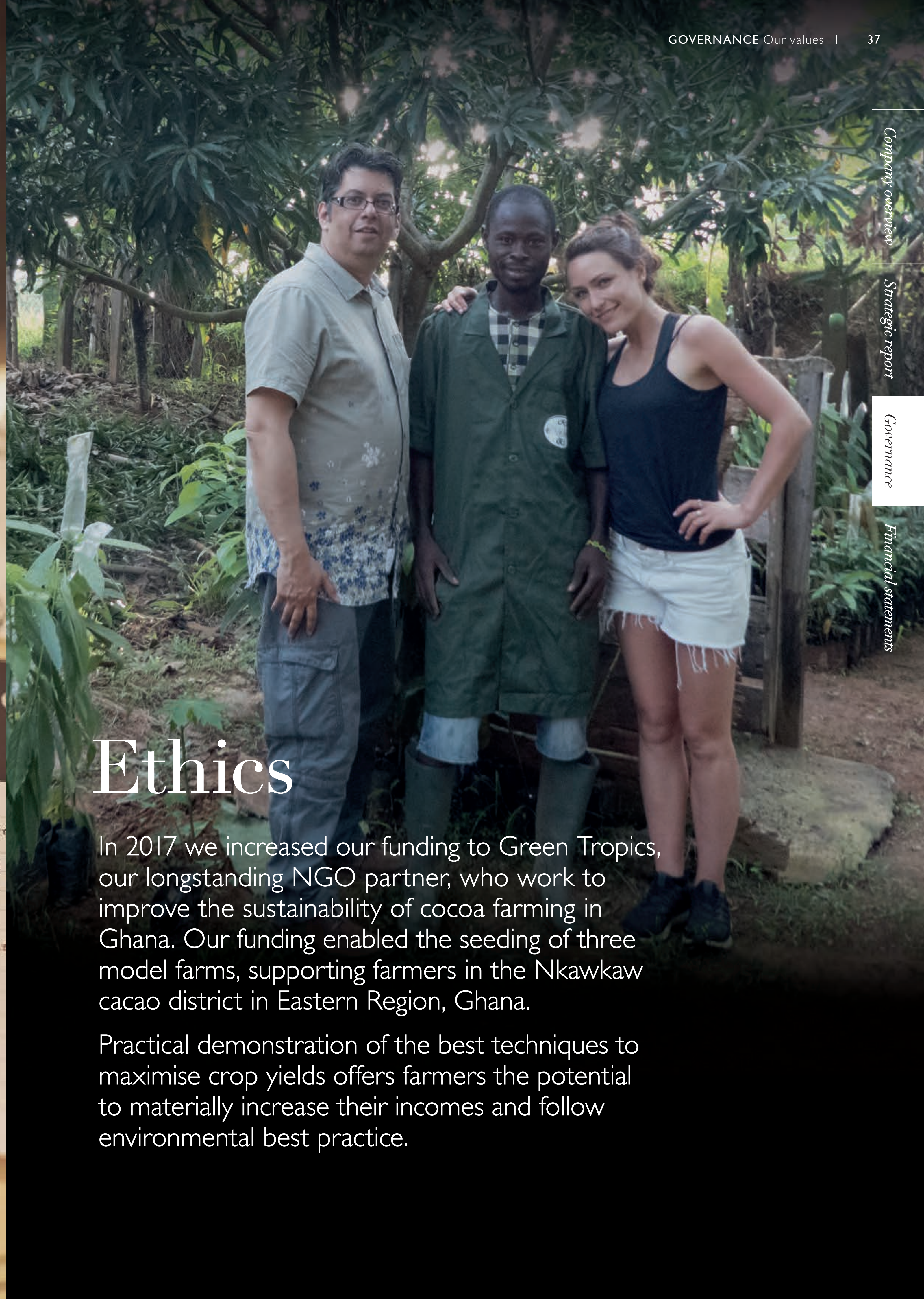
Originality

From sketch to sculpture to finished product. The development of our new character hollow shapes.

Authenticity

The launch of Chocolate Lock-Ins now offers small groups of paying guests the opportunity to spend extended time with our store team, tasting a wider range of products and benefitting from their enthusiasm and knowledge.

Company overview
Strategic report
Governance
Financial statements



Ethics

In 2017 we increased our funding to Green Tropics, our longstanding NGO partner, who work to improve the sustainability of cocoa farming in Ghana. Our funding enabled the seeding of three model farms, supporting farmers in the Nkawkaw cacao district in Eastern Region, Ghana.

Practical demonstration of the best techniques to maximise crop yields offers farmers the potential to materially increase their incomes and follow environmental best practice.

Board of Directors

Experienced founder-led team.

Andrew Gerrie (54)
Non-executive Chairman

Andrew Joined Hotel Chocolat 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.

Audit Committee member

Angus Thirlwell (54)
Co-founder and Chief Executive Officer

Angus co-founded Hotel Chocolat 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.

Peter Harris (62)
Co-founder and Development Director

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

Peter qualified as a Chartered Accountant in 1979.

Matt Pritchard (43)
Chief Financial Officer

Matt joined Hotel Chocolat as Chief Financial Officer in 2014 and is responsible for the finance function, retail operations and IT.

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

Matt qualified as a Certified Accountant in 1998.

Matt Margereson (46)
Chief Operating Officer

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

He 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.

Sophie Tomkins (48)
Independent Non-executive Director

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.

Audit Committee Chair
Remuneration Committee member

Greg Hodder (65)
Independent Non-executive Director

Greg was CEO of Charles Tyrwhitt from 2008 to 2017 and previously CEO of Direct Wines including Laithwaites and The Sunday Times Wine Club. He is currently Chairman of Majestic Wine plc. Greg has considerable experience of growth through digital and international retail.

Remuneration Committee Chair
Audit Committee member

"Opening our first Hotel Chocolat concession in Hong Kong, working with a local partner."

"Successful testing of our new weekly subscription concept."

"Opening our new flagship Shop+cafe on Glasgow Buchanan Street."

"The teamwork and cross functional organisation that successfully achieved overhead dilution."

"Commissioning our new truffle line to schedule, increasing capacity by 20%."

"Significant acceleration in the number of wholesale accounts."

"Joining the Board and having the opportunity to meet a number of great store teams. The culture at Hotel Chocolat is highly uplifting"

Corporate governance statement

AN INTRODUCTION FROM OUR CHAIRMAN

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. 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 second annual report as an AIM-listed entity.

As an AIM-listed entity, the Group is not subject to the requirements of the UK Corporate Governance Code. However, the Board is mindful of the Code's principles and 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 based upon practices which the Board believes are proportional to the size, risks, complexity and operations of the business and reflective of the Group's values.

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. The Board comprises three Non-executive Directors and four Executive Directors. 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 met eleven times in the period. In addition the Board held two strategy days in November 2016 and July 2017 specifically to review growth opportunities and priorities across the medium to longer term.

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 period:

	Board	Remuneration	Audit
Andrew Gerrie	10/11	3/3	3/3
Sophie Tomkins	10/11	3/3	3/3
Greg Hodder	2/2	–	0/1
Angus Thirlwell	11/11	–	–
Peter Harris	10/11	–	–
Matt Pritchard	11/11	–	–
Matt Margereson	10/11	–	–

All Directors attended the strategy sessions held.

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, to inform decision-making, Directors receive accurate, sufficient 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 and to seek independent advice at the Group's expense where appropriate.

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. These terms of reference are kept under 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 members are Andrew Gerrie and Greg Hodder. Sophie Tomkins and Greg Hodder 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 Greg Hodder. 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 45 to 47 contains more detailed information on the Committee's role and the Directors' remuneration and fees.

Nominations Committee

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.

As part of the annual Board evaluation and strategic review processes, the Board considered matters relating to Board composition and succession planning during the period. As a result, the Board decided to strengthen the Board by appointing an additional Non-executive Director, Greg Hodder.

BOARD EFFECTIVENESS

The Board has undertaken an evaluation of its effectiveness and identified specific actions to make improvements to Board information flows, agenda planning and leadership development. A plan to address these issues is being implemented.

The skills and experience of the Board are set out in their biographical details on pages 38 to 39. The experience and knowledge of each of the Directors gives them the ability to constructively challenge strategy and to scrutinise performance.

All Directors take part in a thorough induction process on joining the Board, tailored to the existing knowledge and experience of the Director concerned.

Consistent with the Board's commitment to active succession planning, a senior management development programme is being considered.

TIME COMMITMENTS

All Directors recognise the need to commit sufficient time to fulfil the role. This requirement is 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.

Corporate governance statement *continued*

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.

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 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 agile 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 23 November 2017. 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 2 July 2017. 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: myself, Sophie Tomkins (as Chair) and Greg Hodder. Andrew Gerrie is also a member but is not considered independent because of his involvement as a shareholder in Rabot 1745 Limited, a joint venture with the Group. Matt Pritchard, Chief Financial Officer, and other Executive Directors may attend Committee meetings by invitation. The Committee met three times 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 Chartered Secretary 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 FY17 audit plan and audit engagement letter;
- Consideration of key audit matters and how they are addressed;
- 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;
- meeting with the external auditor without management present; and
- review of whistleblowing and anti-bribery arrangements.

Audit Committee report *continued*

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 primarily relate to tax advice for the Group. 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.

FINANCIAL REPORTING COUNCIL (FRC)

During the year, the Annual Report and Accounts for the period ended 26 July 2016 were selected for review by the Conduct Committee of the FRC. The enquiry has been closed. The review provided some useful guidance on disclosures which has been incorporated in these accounts, notably in Note 2, Accounting Policies, which provides detail on the Group's approach to accounting for chocolate bonds.

During the year, the audit of the Annual Report and Accounts for the period ended 26 June 2016 was selected for review by the FRC's Audit Quality Review Team. I, as Chair, have discussed the findings with both the FRC and the Audit Partner. The findings have informed the process for the audit of the Annual Report and Accounts for the period ended 2 July 2017.

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 42 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. The Committee is comfortable that the current policy is operating effectively.

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. The Committee is comfortable that the current policy is operating effectively.

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 Greg Hodder, who is the Chair of the Committee, and Sophie Tomkins. Andrew Gerrie was Chair of the committee until March 2017. 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 three times 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 in May 2016. 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 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.

Remuneration report *continued*

DIRECTORS' REMUNERATION

The following table summarises the total gross remuneration of the Directors who served during the period to 2 July 2017. Bonus payments represent 75% of the maximum amount payable under the rules of the scheme.

	2017				2016			
	Basic salary/fee	Bonus	Pension	Total	Basic salary/fee	Bonus	Pension	Total
Executive								
Angus Thirlwell	235,000	70,500	5,350	310,850	235,840	47,200	5,358	288,398
Peter Harris	215,000	64,500	4,792	284,292	232,634	47,200	3,000	282,834
Matt Pritchard	215,000	64,500	2,150	281,650	202,404	40,250	2,024	244,678
Matt Margereson	215,000	64,500	1,792	281,292	202,404	40,250	–	242,654
Non-executive								
Andrew Gerrie	50,000	–	–	50,000	7,820	–	–	7,820
Sophie Tomkins	35,833	–	(29)	35,804	6,641	–	29	6,670
Greg Hodder*	6,667	–	–	6,667	–	–	–	–

*Appointed to the Board on 1 May 2017.

The remuneration policy for 2018 will operate as follows:

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

Maximum bonus opportunities for the 2018 financial period are disclosed in the table above. The 2018 bonus will be assessed against Group profit. The bonus will adjust from zero at a threshold profit growth, up to 40% for a stretch profit growth. Challenging performance targets have been set such that maximum award would represent outperformance to current market expectations. The actual performance targets are not disclosed as they are considered to be commercially sensitive.

Angus Thirlwell and Peter Harris have requested not to participate in the FY18 bonus scheme, in order to enable re-investment in entrepreneurial growth projects.

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 periods in question. The performance thresholds are not disclosed as they are considered to be commercially sensitive but represent outperformance to current market consensus. At the time of publication, achieving market consensus profit expectations for FY19 of £11.1m would lead to the vesting of 3% of the shares under option.

	Performance condition	Date of grant	Number of ordinary shares under option	Exercise price	Exercise period
Matt Pritchard	FY19 Profit after tax	04.05.16	800,000	148p	04.05.19–03.05.26
	FY20 Profit after tax	16.03.17	200,000	292p	16.03.20–15.03.27
Matt Margereson	FY19 Profit after tax	04.05.16	800,000	148p	04.05.19–03.05.26
	FY20 Profit after tax	16.03.17	200,000	292p	16.03.20–15.03.27

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

Greg Hodder
Chair of the Remuneration Committee

Directors' report

The Directors present their report together with the audited financial statements for the period ended 2 July 2017.

The corporate governance statement on pages 40 to 42 also forms part of this Directors' report.

REVIEW OF BUSINESS

The Chairman's statement on page 6 and the strategic report on pages 6 to 31 provide a review of the business, the Group's trading for the period ended 2 July 2017, 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 57. The Company has applied FRS 101: Reduced Disclosure Framework to the Company accounts for the period ended 2 July 2017.

The Group's revenue of £105.2m (FY16: £91.1m), gross margin of 67.9% (FY16: 66.8%) and profit after tax of £8.8m (FY16: £4.1m) represent a successful period for the business. The Group continued to strengthen its position.

	Reported IFRS	
Period ended	**2 July 2017**	**26 June 2016**
Revenue (£m)	105.2	91.1
Gross margin %	67.9%	66.8%
Profit after tax (£m)	8.8	4.1

The Board is recommending a maiden final dividend of 1.6 pence per share.

DIRECTORS

The Directors of the Group during the period were:

Executive	**Non-executive**
Angus Thirlwell	Andrew Gerrie
Peter Harris	Sophie Tomkins (Independent)
Matt Pritchard	Greg Hodder (Independent)
Matt Margereson	

The names of the Directors, along with their brief biographical details are given on pages 38 to 39.

DIRECTORS' INTERESTS

No Director has any beneficial interest in the share capital of any subsidiary undertaking. As at 2 July 2017, the Group owned 30% of a joint venture called Rabot 1745 Limited, in which Andrew Gerrie held 49%, with the balance being held by non-related parties.

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 auditor is 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 auditor is 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 32 to the Consolidated Financial Statements on pages 89 and 90.

EXISTENCE OF BRANCHES

The Group has three branches outside the United Kingdom. They are located in Denmark, The Netherlands and the Republic of Ireland.

SHARE CAPITAL STRUCTURE

At 2 July 2017, the Company'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 general meetings of the Company.

SHARE OPTION SCHEMES

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

PURCHASE OF OWN SHARES

There was no purchase of own shares in the period.

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 6 to 31.

Directors' report *continued*

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 34).

EQUAL OPPORTUNITIES

The Group is committed to eliminating discrimination and encouraging diversity. Its aim is that its people will be truly representative of all sections of society and that each person feels respected and is able to perform to the best of their ability. The Group aims for people to reflect the diverse customer base that it enjoys.

The Group won't make assumptions about a person's ability to carry out their work, for example on their ethnic origin, gender, sexual orientation, marital status, religion or other philosophical beliefs, age or disability. Likewise it won't make general assumptions about capabilities, characteristics and interests of particular groups that may influence the treatment of individuals, the assessment of their abilities and their access to opportunities for training, development and promotion.

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 23 November 2017. The ordinary business comprises receipt of the Directors' report and audited financial statements for the period ended 2 July 2017, the re-election of Directors, approval of the final proposed dividend, the reappointment of BDO LLP as auditor and authorisation of the Directors to determine the auditor's remuneration. Special resolutions are also proposed to authorise the Directors, to a limited extent consistent with Pre-emption Group guidelines, to allot new shares, to disapply statutory pre-emption rights, and to make market purchases of the Company's shares. The Notice of Annual General Meeting sets out the ordinary and special resolutions to be put to the meeting.

APPROVAL

This Directors' report was approved on behalf of the Board on 27 September 2017.

Matt Pritchard
Chief Financial Officer

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial period. Under that law the Directors have 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.

Financial statements

Independent auditor's report	54
Consolidated Statement of Comprehensive Income	57
Consolidated Statement of Financial Position	58
Consolidated Statement of Cash Flow	59
Consolidated Statement of Changes in Equity	60
Notes to the financial statements	61
Company Statement of Financial Position	91
Company Statement of Cash Flow	92
Company Statement of Changes in Equity	93
Notes to the Company financial statements	94
Company Information	96

Independent Auditors' Report

to the members of Hotel Chocolat Group plc

OPINION

We have audited the financial statements of Hotel Chocolat Group plc (the 'Parent Company') and its subsidiaries (the 'Group') for the period ended 2 July 2017 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Company Statement of Financial Position, the Consolidated Statement of Cash Flow, the Company Statement of Cash Flow, the Consolidated Statement of Changes in Equity, the Company Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 *Reduced Disclosure Framework* (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 2 July 2017 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.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

CONCLUSIONS RELATING TO GOING CONCERN

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

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Carrying value of inventory

See accounting policy in Note 2.

The Group holds significant levels of inventory and determination of the cost of manufactured goods is considered to be a risk area due to the nature and complexity of the estimates involved, including determination and attribution of production costs to individual product lines.

Our procedures to address this risk included challenging and substantively testing the assumptions in the underlying standard costing calculations, substantively testing the consistency of application of the standard costing calculations to production runs across the period and challenging and substantively testing the Group's determination and allocation of variances from standard to actual costs.

OUR APPLICATION OF MATERIALITY AND OVERVIEW OF THE SCOPE OF OUR AUDIT

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality which, together with qualitative considerations, help us to determine the nature, timing and extent of our audit procedures on the individual financial statement areas and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

We determined materiality for the financial statements as a whole to be £550,000 which represents 5% of profit before tax. We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £27,500.

We used profit before tax as a benchmark given the importance of profit as a measure for shareholders in assessing the performance of the Group.

The Group consists of trading entities incorporated in three jurisdictions; the UK, Rest of Europe and St Lucia. Statutory audits are required for the UK entities and these are carried out by the Group audit team. The entities in the Rest of Europe and St Lucia do not have a local audit requirement and are not a significant part of the Group, and so procedures are carried out by the Group audit team on a number of judgemental areas. The Group audit team obtained an understanding of the internal control environment related to the financial reporting process and assessed the appropriateness, completeness and accuracy of Group journals and other adjustments performed on consolidation.

OTHER INFORMATION

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the Directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

- adequate accounting records have not been kept, 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.

Independent Auditors' Report *continued*

to the members of Hotel Chocolat Group plc

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the Directors' responsibilities statement set out on page 51, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Mark RA Edwards (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London

27 September 2017

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 2 July 2017

	Notes	53 weeks ended 2 July 2017 £	52 weeks ended 26 June 2016 £
Revenue	4	105,240,130	91,089,824
Cost of sales		(33,757,943)	(30,237,009)
		71,482,187	60,852,815
Administrative expenses	5	(59,554,041)	(54,486,943)
		11,928,146	6,365,872
Finance income	10	3,230	172,106
Finance expenses	10	(725,865)	(946,884)
Share of joint venture loss	11	(300)	–
Profit before tax		11,205,211	5,591,094
Tax expense	12	(2,441,362)	(1,507,290)
Profit for the period		8,763,849	4,083,804
Other comprehensive income:			
Derivative financial instruments	17	(316,658)	581,959
Deferred tax charge/(credit) on derivative financial instruments	16	64,039	(114,446)
Currency translation differences arising from consolidation		696,095	896,053
Total other comprehensive income for the period		443,476	1,363,566
Total comprehensive income for the period		9,207,325	5,447,370
Earnings per share – Basic	13	7.8p	3.9p
Earnings per share – Diluted	13	7.8p	3.9p

Consolidated Statement of Financial Position

As at 2 July 2017

	Notes	As at 2 July 2017 £	As at 26 June 2016 £
ASSETS			
Non-current assets			
Intangible assets	14	2,338,041	1,856,800
Property, plant and equipment	15	31,397,582	26,111,111
Deferred tax asset	16	213,819	–
Derivative financial assets	17	–	85,075
Prepayments	19	7,250	7,461
		33,956,692	28,060,447
Current assets			
Derivative financial assets	17	306,526	439,239
Inventories	18	9,878,122	6,604,104
Trade and other receivables	19	6,020,954	5,534,835
Cash and cash equivalents	21	8,470,178	6,475,446
		24,675,780	19,053,624
Total assets		58,632,472	47,114,071
LIABILITIES			
Current liabilities			
Trade and other payables	22	16,632,717	16,334,191
Corporation tax payable		1,104,746	611,051
Derivative financial liabilities	17	137,480	–
Borrowings	23	3,371,444	432,544
		21,246,387	17,377,786
Non-current liabilities			
Other payables and accruals	22	1,934,057	1,485,090
Derivative financial liabilities	17	33,970	–
Deferred tax liability	16	–	78,989
Borrowings	23	3,504,544	6,643,212
Provisions	24	750,629	464,486
		6,223,200	8,671,777
Total liabilities		27,469,587	26,049,563
NET ASSETS		31,162,885	21,064,508
EQUITY			
Share capital	25	112,838	112,838
Share premium	26	11,749,487	11,749,487
Retained earnings		16,851,199	8,087,350
Translation reserve	26	1,049,221	353,126
Merger reserve	26	223,251	223,251
Capital redemption reserve	26	6,301	6,301
Other reserves	26	1,170,588	532,155
Total equity attributable to shareholders		31,162,885	21,064,508

The financial statements of Hotel Chocolat Group plc, registered number 08612206 were approved by the Board of Directors and authorised for issue on 27 September 2017. They were signed on its behalf by:

Matt Pritchard
Chief Financial Officer
27 September 2017

Consolidated Statement of Cash Flow

For the period ended 2 July 2017

	Notes	53 weeks ended 2 July 2017 £	52 weeks ended 26 June 2016 £
Profit before tax for the period		11,205,211	5,591,094
Adjusted by:			
Depreciation of property, plant and equipment	15	3,302,776	2,516,632
Amortisation of intangible assets	14	442,071	676,977
Net interest expense	10	722,635	774,778
Share-based payments	9	562,256	64,642
Loss on disposal of property, plant and equipment and intangible assets	5	111,880	128,874
Operating cash flows before movements in working capital		16,346,829	9,752,997
Increase in inventories		(3,438,589)	(2,294,585)
Increase in trade and other receivables		(485,906)	(309,174)
Increase in trade and other payables and provisions		905,022	1,516,121
Cash inflow generated from operations		13,327,356	8,665,359
Interest received		3,230	109
Income tax paid		(1,831,913)	(548,994)
Interest paid on:			
– finance leases and hire purchase loans		(14,306)	(30,020)
– bank loans and overdraft		(248,232)	(660,663)
– derivative financial instruments		(181,134)	–
Cash flows from operating activities		11,055,001	7,425,791
Purchase of property, plant and equipment		(7,505,141)	(5,625,076)
Proceeds from disposal of property, plant and equipment		14,210	200,000
Purchase of intangible assets		(893,296)	(760,224)
Acquisition of subsidiary		–	228,006
Cash flows used in investing activities		(8,384,227)	(5,957,294)
Buy back of Chocolate bonds		(217,500)	(145,000)
Capital element of hire purchase and finance leases repaid		(610,465)	(378,462)
Repayment of bank loans		–	(654,021)
Cost of issue of new equity		–	(240,000)
Issue of shares		–	12,000,130
Cash flows (used in)/from financing activities		(827,965)	10,582,647
Net change in cash and cash equivalents		1,842,809	12,051,144
Cash and cash equivalents at beginning of period	21	6,475,446	(5,697,390)
Foreign currency movements		151,923	121,692
Cash and cash equivalents at end of period	21	8,470,178	6,475,446

Consolidated Statement of Changes in Equity

For the period ended 2 July 2017

	Share capital £	Share premium £	Retained earnings £	Translation reserve £	Merger reserve £	Capital redemption reserve £	Other reserves £	Total £
As at 28 June 2015	103,418	–	4,003,546	(542,927)	223,251	5,078	–	3,792,366
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
Profit for the period	–	–	4,083,804	–	–	–	–	4,083,804
Other comprehensive income:								
Derivative financial instruments	–	–	–	–	–	–	581,959	581,959
Deferred tax charge on derivative financial instruments	–	–	–	–	–	–	(114,446)	(114,446)
Currency translation differences arising from consolidation	–	–	–	896,053	–	–	–	896,053
Equity as at 26 June 2016	112,838	11,749,487	8,087,350	353,126	223,251	6,301	532,155	21,064,508
Share-based payments	–	–	–	–	–	–	562,256	562,256
Deferred tax charge on share-based payments	–	–	–	–	–	–	328,796	328,796
Profit for the period	–	–	8,763,849	–	–	–	–	8,763,849
Other comprehensive income:								
Derivative financial instruments	–	–	–	–	–	–	(316,658)	(316,658)
Deferred tax charge on derivative financial instruments	–	–	–	–	–	–	64,039	64,039
Currency translation differences arising from consolidation	–	–	–	696,095	–	–	–	696,095
Equity as at 2 July 2017	112,838	11,749,487	16,851,199	1,049,221	223,251	6,301	1,170,588	31,162,885

Notes to the financial statements

For the period ended 2 July 2017

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 20.

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.

The financial statements have been prepared on the historical cost basis, except for the revaluation of derivative financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

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.	2 July 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.	2 July 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 July 2019

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

Notes to the financial statements *continued*

For the period ended 2 July 2017

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 before 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 20 excluding Hotel Chocolat (St Lucia) Holdings Limited. 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.

The results for the period ended 26 June 2016 have been adjusted to reflect a restatement of fair value of foreign currency forward contracts. The impact of this restatement has been to increase net assets by £935,026 (impacting the derivative financial instruments and deferred tax balances) and increase total comprehensive income by £935,026. Profit after tax and earnings per share are unchanged.

Going concern

The Directors have prepared a cash flow forecast covering a period extending beyond 18 months from the financial information presented as at 2 July 2017.

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 and services is recognised when the goods have been despatched or services delivered. 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 period and allow comparison with prior periods.

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 relevant 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

(i) 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.

(ii) 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.

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

The Group 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.

Notes to the financial statements *continued*

For the period ended 2 July 2017

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 its head office, factory site or 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.

Management 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
Furniture, fittings, equipment, computer software and hardware	– 5 to 10 years on a straight line basis
Freehold property	– 50 years on a straight line basis

Land held by the Group is not depreciated. 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.

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.

Management 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

2. ACCOUNTING POLICIES *CONTINUED*

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.

Interest in other entities

The Group's joint ventures are entities over which the Group shares joint control and has an interest in the net assets of the entity. The Group applies equity accounting for joint ventures.

Impairment

(i) 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.

(ii) Impairment of non-financial assets

Impairment tests on goodwill are undertaken at each reporting period. The carrying values of both tangible and 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.

Notes to the financial statements *continued*

For the period ended 2 July 2017

2. ACCOUNTING POLICIES *CONTINUED*

Deferred taxation continued

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.

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 boxes 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 these bonds was recognised as a liability. Each year, the cost value of the chocolates is recognised as an interest expense.

For the bond with a return paid by the way of a Hotel Chocolat gift card which is redeemable for any of Hotel Chocolat's goods or services, there is a fixed rate of interest. At inception, the net cash proceeds received for these bonds was recognised as a liability. Each year the fixed interest rate paid is recognised as an interest expense.

2. ACCOUNTING POLICIES *CONTINUED*

Chocolate bonds continued

The appropriate treatment in accordance with IFRS, would be to allocate a portion of the consideration received at date of bond issuance to deferred revenue, recognising revenue and cost of sales when the chocolate is delivered, and initially recognise the remaining balance as a financial liability at its fair value (i.e. at a discount to its par value given that no cash interest is paid). As with other financial liabilities measured at amortised cost, the effective interest rate would be calculated on this latter component and an interest expense recognised as it accretes over time up to its par value and the bond is redeemed.

The difference between this treatment and the Group's simplified approach has been assessed and is not material.

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.

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.

Fair value through the income statement category comprises financial assets 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 with the changes in fair value recognised in the Consolidated Statement of Comprehensive Income.

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 excluding chocolate bonds 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 with the changes in fair value recognised in the Consolidated Statement of Comprehensive Income.

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.

Notes to the financial statements *continued*

For the period ended 2 July 2017

2. ACCOUNTING POLICIES *CONTINUED*

Hedge accounting continued

- 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 at each reporting date.

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 the hedging reserve, within 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 hedging 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 hedging 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.

4. REVENUE

	53 weeks ended 2 July 2017 £	52 weeks ended 26 June 2016 £
Sale of goods and services	105,240,130	91,089,824
Total revenue	105,240,130	91,089,824

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:

	53 weeks ended 2 July 2017 £	52 weeks ended 26 June 2016 £
Revenue by location		
United Kingdom	101,253,605	88,915,149
Europe	2,060,937	1,879,240
Rest of World	1,925,588	295,435
Total revenue	105,240,130	91,089,824

Non-current assets held in the Rest of World amount to £10,185,564 in the period ended 2 July 2017 (26 June 2016: £9,268,494).

5. PROFIT FROM OPERATIONS

Profit from operations is arrived at after charging:

	53 weeks ended 2 July 2017 £	52 weeks ended 26 June 2016 £
Staff cost (see Note 7)	28,462,455	24,835,020
Depreciation of property, plant and equipment	3,302,776	2,516,632
Impairment of property, plant and equipment	–	–
Amortisation of intangible assets	442,071	676,977
Loss on disposal of property, plant and equipment and intangible assets	111,880	128,874
Operating leases:		
– Property	9,260,982	8,613,438
– Plant and equipment	176,831	145,185
Exchange differences	249,567	48,725
Exceptional items	–	2,642,177
Bad debt expense	58,782	126,967

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 in May 2016.

Notes to the financial statements *continued*

For the period ended 2 July 2017

6. AUDIT AND NON-AUDIT FEES

An analysis of auditors' remuneration is as follows:

	53 weeks ended 2 July 2017 £	52 weeks ended 26 June 2016 £
Audit fees	94,150	117,900
Audit related assurance services	10,340	45,212
Taxation compliance services	120,031	185,560
Other taxation advisory services	7,440	126,336
Corporate finance services	–	308,500
Other services	–	39,828
Non-audit fees	137,811	705,436

The above fees for the period ended 2 July 2017 include exceptional costs totalling £nil (26 June 2016: £389,172).

7. STAFF COSTS

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

	53 weeks ended 2 July 2017 £	52 weeks ended 26 June 2016 £
Production staff	235	206
Administrative staff	823	726
Total	1,058	932

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

	53 weeks ended 2 July 2017 £	52 weeks ended 26 June 2016 £
Wages and salaries	25,582,209	22,842,934
Share-based payments	562,256	64,642
Social security costs	2,127,590	1,778,662
Pension costs	190,400	148,782
Total	28,462,455	24,835,020

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:

	53 weeks ended 2 July 2017 £	52 weeks ended 26 June 2016 £
Short-term employee benefits	1,344,888	1,206,628
Share-based payments	277,685	38,715
Post-employment benefits	14,083	10,383
Total	1,636,656	1,255,726

Further information about the remuneration of individual Directors, including the highest paid Director, is provided in the Remuneration report on pages 45 to 47.

9. SHARE-BASED PAYMENTS

The Hotel Chocolat Group plc Long-Term Incentive Plan

Under the Hotel Chocolat Group plc 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 Group, three financial years subsequent to the date of the award. These shares vest after the delivery of the audited net profit figure for the relevant financial year 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:

	53 weeks ended 2 July 2017		52 weeks ended 26 June 2016	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at beginning of the period	2,972,000	1.48	–	–
Granted during the period	890,000	2.92	2,972,000	1.48
Exercised during the period	–	–	–	–
Forfeited during the period	(170,000)	1.48	–	–
Outstanding at the end of the period	3,692,000	1.83	2,972,000	1.48
Exercisable at the end of the period	–	–	–	–

The awards outstanding at the end of 2 July 2017 have a weighted average remaining contractual life of 2.41 years (26 June 2016: 3.25 years) and a weighted average exercise price of £1.83 (26 June 2016: £1.48).

The Group recognised total expenses related to the above equity-settled share-based payment transactions in the form of options during the period ended 2 July 2017 of £430,032 (26 June 2016: £64,642).

The aggregate of the fair value of the options granted during the period ended 2 July 2017 was £714,670 (26 June 2016: £1,292,820).

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

	53 weeks ended 2 July 2017 £	52 weeks ended 26 June 2016 £
Weighted average share price (pence)	2.92	1.48
Exercise price (pence)	2.92	1.48
Expected volatility (%)	32.0%	32.0%
Option life (years)	10.0	10.0
Risk free interest rate (%)	0.6%	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.

Notes to the financial statements *continued*

For the period ended 2 July 2017

9. SHARE-BASED PAYMENTS *CONTINUED*

The Hotel Chocolat Group plc Save As You Earn Plan

Under the Hotel Chocolat Group plc Save As You Earn Plan, all employees of the Group who have been employed for a minimum period set by the Remuneration Committee are eligible to join. In order to participate in the scheme, employees must make a regular monthly contribution up to an agreed maximum, for a three-year period, after which time employees can utilise the lump sum to purchase Ordinary Shares in the Group, at a pre-agreed price.

The option to purchase shares is 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 outstanding shares that could be purchased under this scheme are as follows:

	53 weeks ended 2 July 2017		52 weeks ended 26 June 2016	
	Number of options	Weighted average exercise price £	Number of options	Weighted average exercise price £
Outstanding at beginning of the period	–	–	–	–
Granted during the period	621,622	1.48	–	–
Exercised during the period	–	–	–	–
Forfeited during the period	(68,457)	1.48	–	–
Outstanding at the end of the period	553,165	1.48	–	–
Exercisable at the end of the period	–	–	–	–

At the end of 2 July 2017 the outstanding number of shares that could be purchased under this scheme have a weighted average remaining contractual life of 2.17 years (26 June 2016: not applicable) and an exercise price of £1.48 (26 June 2016: not applicable).

The Group recognised total expenses related to the above equity-settled share-based payment transactions in the form of the employee share purchase plan during the period ended 2 July 2017 of £132,224 (26 June 2016: £nil).

The aggregate of the fair value of these shares granted during the period ended 2 July 2017 was £499,784 (26 June 2016: £nil).

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

	53 weeks ended 2 July 2017 £	52 weeks ended 26 June 2016 £
Weighted average share price (pence)	1.48	–
Exercise price (pence)	1.48	–
Expected volatility (%)	32.0%	–
Option life (years)	3.5	–
Risk free interest rate (%)	0.2%	–

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

	53 weeks ended 2 July 2017 £	52 weeks ended 26 June 2016 £
Interest from related party	–	171,997
Interest on bank deposits	3,230	109
Finance income	3,230	172,106
Interest on bank borrowings	253,430	572,150
Unrealised interest on derivative financial instruments	130,252	57,645
Realised interest on derivative financial instruments	65,779	–
Finance leases and hire purchase contracts	14,306	30,020
Finance charges on Chocolate bonds	262,098	287,069
Finance expenses	725,865	946,884

11. INVESTMENTS IN JOINT VENTURES

During the period ended 2 July 2017, Hotel Chocolat Group plc entered into a joint venture called Rabot 1745 Limited, in which it owns 30%. During the period the Group recognised a loss from its share in joint ventures of £300 (26 June 2016: £nil), which is comprised of the start-up costs incurred by the joint venture.

12. TAXATION

	53 weeks ended 2 July 2017 £	52 weeks ended 26 June 2016 £
UK corporation tax	2,395,714	1,409,454
Adjustment in respect of previous periods	(70,695)	(93,207)
Overseas corporation tax	16,316	10,507
Total current tax charge	2,341,335	1,326,754
Deferred tax:		
Adjustment in respect of previous periods	31,620	(2,518)
Origination and reversal of timing differences	68,407	183,054
Total tax expense	2,441,362	1,507,290

Factors affecting current tax charge:

Notes to the financial statements *continued*

For the period ended 2 July 2017

12. TAXATION *CONTINUED*

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:

	53 weeks ended 2 July 2017 £	52 weeks ended 26 June 2016 £
Profit on ordinary operations before income tax	11,205,211	5,591,094
Weighted average standard rate of corporation tax	19.75%	20.00%
Profit for the year multiplied by the standard rate of corporation tax	2,213,029	1,118,219
Effects of:		
Expenses not deductible for tax purposes	93,539	338,860
Permanent depreciation	195,128	200,852
Adjustment in respect of prior years	(39,075)	(95,725)
Adjust closing deferred tax in respect of change in future rate of taxation	9,387	10,878
Adjust opening deferred tax in respect of change in future rate of taxation	(7,926)	2,359
Movement to unrecognised deferred tax	(22,720)	(68,153)
Tax expense	2,441,362	1,507,290

The Group's effective tax rate for the period ended 2 July 2017 was 21.8% (26 June 2016: 27.0%). The effective rate is an amalgamation of UK and European rates for the periods reported. At 2 July 2017 the Group has tax losses to carry forward against future profits of £6,000 (26 June 2016: £21,000). The tax value of such losses amounted to approximately £1,000 (26 June 2016: £4,000), have no expiry date and have not been recognised as a deferred tax asset.

13. EARNINGS PER SHARE

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

	53 weeks ended 2 July 2017 £	52 weeks ended 26 June 2016 £
Profit after tax for the period	8,763,849	4,083,804

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:

	53 weeks ended 2 July 2017 £	52 weeks ended 26 June 2016 £
Weighted average number of shares in issue used in the calculation of earnings per share (number) – Basic	112,837,828	103,411,610
Effect of dilutive potential share:		
Share-based payments – Hotel Chocolat Group plc Save As You Earn Plan	145,187	–
Weighted average number of shares in issue used in the calculation of earnings per share (number) – Diluted	112,983,015	103,411,610
Earnings per share (pence) – Basic	7.8	3.9
Earnings per share (pence) – Diluted	7.8	3.9

As at 2 July 2017, the total number of potentially dilutive shares issued under the Hotel Chocolat Group plc Long-Term Incentive Plan was 3,692,000 (26 June 2016: 2,972,000). Due to the nature of the options granted under this scheme, they are considered contingently issuable shares and therefore have no dilutive effect.

For further information on the movements in the share capital, please refer to Note 25.

14. INTANGIBLE ASSETS

	53 weeks ended 2 July 2017 £	52 weeks ended 26 June 2016 £
Goodwill arising on consolidation (Note (a))	938,408	914,098
Computer software and website costs (Note (b))	1,399,633	942,702
	2,338,041	1,856,800

(a) Goodwill arising on consolidation

	53 weeks ended 2 July 2017 £	52 weeks ended 26 June 2016 £
At beginning of period	914,098	683,534
Acquired on business combinations (see Note 30)	–	230,564
Translation differences	24,310	–
At end of period	938,408	914,098

The goodwill figure has been derived from two separate corporate transactions; the first for £683,534, for the corporate business and the second, for £254,874, for the acquisition of Hotel Chocolat Estates Limited, St Lucia. The Group has estimated the value in use of these businesses and their respective cash generating units based on a discounted cashflow model which adjusts for risks associated with the assets. The discount rate applied is a pre-tax rate of 10%.

The forecasts for the corporate business are based over a 5 year projection period, use past experience and apply an annual growth rate of 2%. For the business in St Lucia, the forecasts for the hotel and visitor attraction are based over a 10 year period, reflecting the Directors best estimate of the appropriate period to build the business to its full potential. An average growth rate of 2.5% has been applied over this time. Additional revenue streams are included in the forecast reflecting further development of properties at the resort.

The key assumptions used in the discounted cashflow were the sales and EBITDA figures (based on board approved plans), the future growth rate and the discount rate. Management consider that reasonably possible changes in assumptions would be an increase in the discount rate of 1% point or a reduction in the growth rate of 1% point. As an indication of sensitivity, when applied to the value in use calculation a 1% point increase in discount rate or 1% point reduction in growth rate would not have resulted in any material impairment of goodwill in the year.

(b) Computer software and website costs

	53 weeks ended 2 July 2017 £	52 weeks ended 26 June 2016 £
Cost:		
At beginning of period	2,393,335	1,652,098
Additions	899,002	760,224
Disposals	(1,298,015)	(18,987)
At end of period	1,994,322	2,393,335
Amortisation:		
At beginning of period	1,450,633	782,199
Amortisation charge	442,071	676,977
Disposals	(1,298,015)	(8,543)
At end of period	594,689	1,450,633
Net book value	1,399,633	942,702

Notes to the financial statements *continued*

For the period ended 2 July 2017

15. PROPERTY, PLANT AND EQUIPMENT

	Freehold property £	Leasehold property £	Furniture & fittings, Equipment, Computer software & hardware £	Plant & machinery £	Total £
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
53 weeks ended 2 July 2017					
Cost:					
As at 26 June 2016	11,469,455	734,999	22,899,192	14,662,588	49,766,234
Additions	540,751	–	5,877,065	1,662,108	8,079,924
Disposals	–	–	(447,863)	(5,345)	(453,208)
Translation differences	578,649	–	90,410	–	669,059
As at 2 July 2017	12,588,855	734,999	28,418,804	16,319,351	58,062,009
Accumulated depreciation:					
As at 26 June 2016	408,612	732,306	14,013,001	8,501,204	23,655,123
Depreciation charge	160,387	950	2,070,722	1,070,717	3,302,776
Disposals	–	–	(322,573)	(4,543)	(327,116)
Translation differences	(1,768)	–	35,412	–	33,644
As at 2 July 2017	567,231	733,256	15,796,562	9,567,378	26,664,427
Net book value					
As at 2 July 2017	12,021,624	1,743	12,622,242	6,751,973	31,397,582

As at 2 July 2017, the net book value of freehold property includes land of £2,867,081 (26 June 2016: £2,725,212), which is not depreciated.

Included above are assets held under finance leases and hire purchase agreements. As at 2 July 2017, the net book value of such assets within plant & machinery is £359,172 (26 June 2016: £557,454) and within computer software & hardware is £516,626 (26 June 2016: £nil).

16. DEFERRED INCOME TAX ASSET AND LIABILITY

	53 weeks ended 2 July 2017 £	52 weeks ended 26 June 2016 £
Deferred taxation asset	213,819	–
Deferred taxation liability	–	(78,989)
	213,819	(78,989)

Reconciliation of deferred tax balances:

	53 weeks ended 2 July 2017 £	52 weeks ended 26 June 2016 £
Balance at beginning of period	(78,989)	215,993
Deferred tax charge for the period through income statement	(100,027)	(180,536)
Deferred tax charge for the period through other comprehensive income	64,039	(114,446)
Deferred tax charge for the period through Statement of Changes in Equity	328,796	–
Balance at end of period	213,819	(78,989)

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

	53 weeks ended 2 July 2017 £	52 weeks ended 26 June 2016 £
Fixed asset differences	(278,887)	(28,015)
Short-term differences	101,703	51,733
Derivative financial instruments	(50,407)	(114,446)
Share-based payments	441,410	11,739
	213,819	(78,989)

At 2 July 2017, the Group has unrecognised deferred tax assets amounting to £19,000 (26 June 2016: £42,000).

Deferred tax is calculated using the rate that is expected to be in force on the date the temporary differences are expected to reverse. For temporary differences expected to reverse before 30 June 2019 a rate of 19.0% has been used. For those temporary differences expected to reverse in the 52 week period ended 28 June 2020 a rate of 18.5% has been used. For any remaining temporary differences expected to reverse after 28 June 2020 a rate of 17.0% has been used.

Notes to the financial statements *continued*

For the period ended 2 July 2017

17. DERIVATIVE FINANCIAL INSTRUMENTS

	53 weeks ended 2 July 2017 £	52 weeks ended 26 June 2016 £
Derivative financial assets:		
Current		
Foreign currency forward contracts	306,526	439,239
	306,526	439,239
Non-current		
Foreign currency forward contracts	–	85,075
	–	85,075
Derivative financial liabilities:		
Current		
Foreign currency forward contracts	137,480	–
	137,480	–
Non-current		
Foreign currency forward contracts	33,970	–
	33,970	–

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, within other reserves in equity as at 2 July 2017, 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 assets in the Consolidated Statement of Financial Position.

The gross contractual cash flows for the forward contracts as at 2 July 2017 was £15,652,171 (26 June 2016: £13,415,259). The movement in the fair value on forward contracts in the period of £316,658 loss (26 June 2016: £581,959 gain) 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.

18. INVENTORIES

	53 weeks ended 2 July 2017 £	52 weeks ended 26 June 2016 £
Raw materials	3,320,248	1,906,706
Finished goods	6,557,874	4,697,398
	9,878,122	6,604,104

Total inventory recognised as an expense in the Statement of Comprehensive Income during the period was £32,540,621 (26 June 2016: £28,899,518).

19. TRADE AND OTHER RECEIVABLES

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

	53 weeks ended 2 July 2017 £	52 weeks ended 26 June 2016 £
Current		
Trade receivables	542,673	839,304
Other receivables	352,381	128,324
Prepayments	5,125,900	4,567,207
	6,020,954	5,534,835
Non-current		
Prepayments	7,250	7,461
	7,250	7,461

Notes to the financial statements *continued*

For the period ended 2 July 2017

20. INVESTMENT IN SUBSIDIARIES

The Group's operating subsidiaries as at 2 July 2017 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 Holdings				
HOTC Limited	Holding Company	England & Wales[1]	100%	
Hotel Chocolat Limited	Manufacturer and Distributor of chocolates	England & Wales[1]	100%	
The Chocolate Tasting Club plc	Chocolate Retailer	England & Wales[1]	100%	
HC International Limited	Holding Company	Malta[2]	100%	
Hotel Chocolat USA Inc	Holding Company	USA[3]	100%	
Hotel Chocolat (St Lucia) Holdings Limited	Holding Company	St Lucia[4]	100%	
Indirect Holdings				
Hotel Chocolat Retail Limited	Chocolate Retailer and Restaurateur	England & Wales[1]		100%
Hotel Chocolat Stores Limited	Chocolate Distributor	England & Wales[1]		100%
Rabot Estate UK Limited	Property Holding Company	England & Wales[1]		100%
Hotel Chocolat Europe Limited	Chocolate Retailer	England & Wales[1]		100%
Hotel Chocolat EU Retail Limited	Chocolate Retailer	England & Wales[1]		100%
Hotel Chocolat Corporate Limited	Dormant	England & Wales[1]		100%
Hotel Chocolat HK Limited	Dormant	England & Wales[1]		100%
HCIP Limited	Trademark Holder	Malta[2]		100%
HC Sales Limited	Holding Company	Malta[2]		100%
CTC Distribution GmbH	Chocolate Distributor	Switzerland[5]		100%
Chocolate Tasting Club Inc	Chocolate Distributor	USA[3]		100%
Hotel Chocolat Inc	Chocolate Retailer	USA[3]		100%
Hotel Chocolat Estates Limited	Hotel & Cocoa Plantation	St Lucia[6]		100%
HCRF Inc	Property Holding Company	USA[3]		100%
Almondhill Properties Limited	Property Holding Company	England & Wales[1]		100%
Apricothill Properties Limited	Property Holding Company	England & Wales[1]		100%
Applehill Properties Limited	Property Holding Company	England & Wales[1]		100%
Bananahill Properties Limited	Property Holding Company	England & Wales[1]		100%
Braeburnhill Properties Limited	Property Holding Company	England & Wales[1]		100%
Bramleyhill Properties Limited	Property Holding Company	England & Wales[1]		100%
Brazilnuthill Properties Limited	Property Holding Company	England & Wales[1]		100%
Cashewhill Properties Limited	Property Holding Company	England & Wales[1]		100%
Chestnuthill Properties Limited	Property Holding Company	England & Wales[1]		100%
Chocexpress Limited	Property Holding Company	England & Wales[1]		100%
Colanuthill Properties Limited	Property Holding Company	England & Wales[1]		100%
Crispinhill Properties Limited	Property Holding Company	England & Wales[1]		100%
Croftonhill Properties Limited	Property Holding Company	England & Wales[1]		100%
Datehill Properties Limited	Property Holding Company	England & Wales[1]		100%

20. 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*				
Gingerhill Properties Limited	Property Holding Company	England & Wales[1]		100%
Grapehill Properties Limited	Property Holding Company	England & Wales[1]		100%
Groundnuthill Properties Limited	Property Holding Company	England & Wales[1]		100%
Guavahill Properties Limited	Property Holding Company	England & Wales[1]		100%
Hazelnuthill Properties Limited	Property Holding Company	England & Wales[1]		100%
Hotel Chocolat DK Limited	Property Holding Company	England & Wales[1]		100%
Hotel Chocolat NL Limited	Property Holding Company	England & Wales[1]		100%
Kiwihill Properties Limited	Property Holding Company	England & Wales[1]		100%
Lemonhill Properties Limited	Property Holding Company	England & Wales[1]		100%
Limehill Properties Limited	Property Holding Company	England & Wales[1]		100%
Macadamiahill Properties Limited	Property Holding Company	England & Wales[1]		100%
Mandarinhill Properties Limited	Property Holding Company	England & Wales[1]		100%
Mangohill Properties Limited	Property Holding Company	England & Wales[1]		100%
Melonhill Properties Limited	Property Holding Company	England & Wales[1]		100%
Olivehill Properties Limited	Property Holding Company	England & Wales[1]		100%
Orangehill Properties Limited	Property Holding Company	England & Wales[1]		100%
Papayahill Properties Limited	Property Holding Company	England & Wales[1]		100%
Peachhill Properties Limited	Property Holding Company	England & Wales[1]		100%
Peanuthill Properties Limited	Property Holding Company	England & Wales[1]		100%
Pearhill Properties Limited	Property Holding Company	England & Wales[1]		100%
Pearmainhill Properties Limited	Property Holding Company	England & Wales[1]		100%
Pecanhill Properties Limited	Property Holding Company	England & Wales[1]		100%
Pinenuthill Properties Limited	Property Holding Company	England & Wales[1]		100%
Pippinhill Properties Limited	Property Holding Company	England & Wales[1]		100%
Plumhill Properties Limited	Property Holding Company	England & Wales[1]		100%
Raisinhill Properties Limited	Property Holding Company	England & Wales[1]		100%
Russethill Properties Limited	Property Holding Company	England & Wales[1]		100%
Satsumahill Properties Limited	Property Holding Company	England & Wales[1]		100%
Sloehill Properties Limited	Property Holding Company	England & Wales[1]		100%
Walnuthill Properties Limited	Property Holding Company	England & Wales[1]		100%

Registered addresses:

1. Mint House, Newark Close, Royston, Hertfordshire, SG8 5HL, United Kingdom
2. Suite 3, Tower Business Centre, Tower Street, Swatar, BKR4013, Malta
3. c/o Ruberto, Israel & Weiner, PC, 7th Floor, 255 State Street, Boston, MA 02109, United States of America
4. Foster Capital Inc, Robin Kelton Building, Choc Bay, Castries, St Lucia
5. Bahnhofstrasse 23, 6301 Zug, Switzerland
6. #20 Micoud Street, Castries, St Lucia

Notes to the financial statements *continued*

For the period ended 2 July 2017

21. CASH AND CASH EQUIVALENTS

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

	53 weeks ended 2 July 2017 £	52 weeks ended 26 June 2016 £
Cash and cash equivalents	8,470,178	6,475,446
	8,470,178	6,475,446

On 3 May 2017, the Group converted its bilateral revolving credit facility (RCF) into an overdraft facility. The interest rate is charged at 1.25% over base rate.

22. TRADE AND OTHER PAYABLES

	53 weeks ended 2 July 2017 £	52 weeks ended 26 June 2016 £
Current		
Trade payables	6,825,958	5,439,251
Other payables	2,988,090	3,416,370
Other taxes payable	1,303,810	810,114
Accruals	5,514,859	6,668,456
	16,632,717	16,334,191
Non-current		
Other payables and accruals	1,934,057	1,485,090
	1,934,057	1,485,090

23. BORROWINGS

	53 weeks ended 2 July 2017 £	52 weeks ended 26 June 2016 £
Current		
Finance and lease hire purchase liabilities	237,194	425,544
Chocolate bonds	3,208,500	102,000
	3,445,694	527,544
Unamortised costs of issue	(74,250)	(95,000)
Total current borrowings	3,371,444	432,544
Non-current		
Finance and lease hire purchase liabilities	218,544	35,462
Chocolate bonds	3,286,000	6,610,000
	3,504,544	6,645,462
Unamortised costs of issue	–	(2,250)
Total non-current borrowings	3,504,544	6,643,212
Total borrowings	6,875,988	7,075,756

23. BORROWINGS *CONTINUED*

	Finance and lease hire purchase liabilities £	Chocolate bonds £	Bank loans/ overdraft £	Total £
Maturity of debt				
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
53 weeks ended 2 July 2017				
In one year or less or on demand	237,194	3,208,500	–	3,445,694
In more than one year but not more than two years	201,732	3,286,000	–	3,487,732
In more than two years but not more than five years	16,812	–	–	16,812
In more than five years	–	–	–	–
Total non-current borrowings	218,544	3,286,000	–	3,504,544
Unamortised costs of issue	–	–	(74,250)	(74,250)
Total borrowings	455,738	6,494,500	(74,250)	6,875,988

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 within the calendar year. For chocolate bonds issued in 2010 for which notice has been given, and for all chocolate bonds issued in 2014 the amount repayable is shown within current liabilities. All remaining bonds issued in 2010, for which notice has not yet been given are shown within the non-current liabilities. Both bonds have matured and are unsecured.

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

On 3 May 2017, the Group converted its bilateral revolving credit facility (RCF) into an overdraft facility. The bank overdraft is secured by a charge over the Groups assets and cross guarantees. The interest rate is charged at 1.25% over base rate.

The existing 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%. A new finance lease was signed during the period.

Notes to the financial statements *continued*

For the period ended 2 July 2017

24. PROVISIONS

	53 weeks ended 2 July 2017 £	52 weeks ended 26 June 2016 £
Non-current		
Lease dilapidations provision	750,629	464,486
	750,629	464,486

The dilapidations provision relates to potential rectification costs expected should the Group vacate its head office, factory site or retail locations.

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

	Onerous lease provision £	Lease dilapidation provision £	Total £
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
53 weeks ended 2 July 2017			
At beginning of period	–	464,486	464,486
Released through profit and loss	–	(8,857)	(8,857)
Amounts capitalised during the period	–	295,000	295,000
At end of period	–	750,629	750,629

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.

25. SHARE CAPITAL

	As at 2 July 2017		As at 26 June 2016	
	Shares	£	Shares	£
Allotted, called up and fully paid:				
Ordinary shares of £0.001 each	112,837,828	112,838	112,837,828	112,838
	112,837,828	112,838	112,837,828	112,838

The Board proposes a maiden final dividend of 1.6p per share being a total of £1,805,405 (26 June 2016: £nil), for approval at the next AGM.

25. SHARE CAPITAL *CONTINUED*

Period ending 2 July 2017:

There were no movements in the Ordinary shares of Hotel Chocolat Group plc during the period ending 2 July 2017.

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 10 May 2016, 2,569,156 Interim shares of £0.001 each were converted to Ordinary shares of £0.001 each and 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.

26. 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 2 July 2017 are presented in the Consolidated Statement of Changes in Equity.

The share premium represents the amounts subscribed for share capital in excess of the nominal value of the shares.

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.

The merger reserve arose when the Company undertook a share for share exchange with the companies listed in Note 20 and is not distributable by way of dividends.

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

Other reserves includes the movements in share-based payments and derivative financial instruments. For further details, refer to Notes 9 and 17 respectively.

Notes to the financial statements *continued*

For the period ended 2 July 2017

27. 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:

	53 weeks ended 2 July 2017 £	52 weeks ended 26 June 2016 £
Land and buildings		
Operating leases which expire:		
Within one year	8,698,227	7,177,794
In two to five years	25,985,274	20,184,525
In over five years	17,192,437	12,273,996
	51,875,938	39,636,315
Other		
Operating leases which expire:		
Within one year	391,091	115,080
In two to five years	608,387	133,518
	999,478	248,598

28. CAPITAL COMMITMENTS

There were no amounts contracted for but not provided for as at 2 July 2017 (26 June 2016: £nil).

29. RELATED PARTY TRANSACTIONS

Remuneration of Directors and other transactions

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

The Group rents property in the ordinary course of business from Harwell Management, a company in which Peter Harris and Angus Thirlwell have a material interest. The rentals (inclusive of building insurance) totalled £183,914 in the period ended 2 July 2017 (26 June 2016: £180,000). There were no amounts due at either period end.

During the period family members of the Directors stayed at the Group's hotel in St Lucia. Total amounts paid equalled $15,935 and there are no amounts outstanding at the balance sheet date.

During the period, the Group entered into a joint venture called Rabot 1745 Limited. The Group owns 30% of the joint venture and Andrew Gerrie holds 49%, with the balance being held by non-related parties.

No other amounts were due to Directors (26 June 2016: £nil).

Trading transactions

As explained in Note 30, Hotel Chocolat Group plc completed the acquisition of Hotel Chocolat Estates Limited during the prior 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.

30. PRIOR YEAR 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 included 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 14)			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 expected to collect all contractual receivables.

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

In the prior period, Hotel Chocolat Estates Limited contributed £295,435 to Group revenues and a loss of £71,191 to Group profit post-acquisition. 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 pro forma 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.

There is no material biological asset value attributed to land.

Notes to the financial statements *continued*

For the period ended 2 July 2017

31. CATEGORIES OF FINANCIAL INSTRUMENTS

	53 weeks ended 2 July 2017 £	52 weeks ended 26 June 2016 £
Financial assets		
At amortised cost		
Trade and other receivables (excluding prepayments)	902,304	975,089
Cash and cash equivalents	8,470,178	6,475,445
	9,372,482	7,450,534
At fair value		
Derivative financial assets	306,526	524,314
Financial liabilities		
At amortised cost		
Trade and other payables	9,465,274	8,785,864
Total borrowings	6,875,988	7,075,756
Accruals	5,514,859	6,668,456
	21,856,121	22,530,076
At fair value		
Derivative financial liabilities	171,450	–

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

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 than 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 17 for further information.

There have been no transfers between levels in the period.

32. 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 17 for further information about the Group's foreign currency forward contracts.

Interest Risk

The Group is exposed to interest rate risk on its overdraft facility, which carries interest at variable rates on amounts which are overdrawn. The overdraft facility is typically used on a short-term basis 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.

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:

	53 weeks ended 2 July 2017 £	52 weeks ended 26 June 2016 £
Trade receivables		
Up to three months	524,407	843,137
Three to six months	35,980	91,093
Above six months	–	–
Impairment provision	(17,714)	(94,926)
Total	542,673	839,304

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:

	53 weeks ended 2 July 2017 £	52 weeks ended 26 June 2016 £
United Kingdom	525,970	821,902
Europe	786	4,486
Rest of World	15,917	12,916
Total	542,673	839,304

Notes to the financial statements *continued*

For the period ended 2 July 2017

32. FINANCIAL RISK MANAGEMENT *CONTINUED*

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 26 June 2016			
Trade and other payables	15,524,077	1,485,090	–
Derivative financial instruments	9,969,073	3,446,186	–
Borrowings	583,215	102,311	7,328,692
	26,076,365	5,033,587	7,328,692
53 weeks ended 2 July 2017			
Trade and other payables	15,328,907	1,934,057	–
Derivative financial instruments	9,450,827	6,201,344	–
Borrowings	3,553,539	3,851,469	17,805
	28,333,273	11,986,870	17,805

The amounts detailed within derivative financial instruments relate to the gross contractual cash flows of the Group's forward contracts.

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.

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

There have been no material events subsequent to the period end and up to 27 September 2017, the date of approval of the financial statements by the Board.

34. ULTIMATE CONTROLLING PARTY

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

Company Statement of Financial Position

As at 2 July 2017

	Notes	As at 2 July 2017 £	As at 26 June 2016 £
ASSETS			
Non-current assets			
Investments	36	9,064,727	9,064,727
		9,064,727	9,064,727
Current assets			
Trade and other receivables	37	2,727,891	1,498,362
Cash and cash equivalents	38	3,672,518	1,224,248
		6,400,409	2,722,610
Total assets		15,465,136	11,787,337
LIABILITIES			
Current liabilities			
Trade and other payables	39	460,238	482,420
		460,238	482,420
Total liabilities		460,238	482,420
NET ASSETS		15,004,898	11,304,917
EQUITY			
Share capital	40	112,838	112,838
Share premium	40	11,749,487	11,749,487
Retained earnings	40	3,136,272	(563,709)
Capital redemption reserve	40	6,301	6,301
Total equity attributable to shareholders		15,004,898	11,304,917

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 2 July 2017 is £3,699,981 (26 June 2016: £563,709 loss).

The financial statements of Hotel Chocolat Group plc, registered number 08612206 were approved by the Board of Directors and authorised for issue on 27 September 2017. They were signed on its behalf by:

Matt Pritchard
Chief Financial Officer
27 September 2017

Company Statement of Cash Flow

For the period ended 2 July 2017

	Notes	53 weeks ended 2 July 2017 £	52 weeks ended 26 June 2016 £
Profit/(loss) for the period		3,699,981	(563,709)
Adjusted by:			
Dividends received from subsidiaries		(3,700,000)	
Operating cash flows before movements in working capital		(19)	(563,709)
Increase in other receivables		(158,804)	(124,226)
(Decrease)/increase in accruals		(145,929)	146,229
Interest paid – borrowings		–	(113,000)
Cash flows used in operating activities		(304,752)	(654,706)
Acquisition of subsidiary		–	(54,921)
Increase in intercompany balances		(946,978)	(9,826,125)
Dividends received from subsidiaries		3,700,000	–
Cash flows used in investing activities		2,753,022	(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		2,448,270	1,224,248
Cash and cash equivalents at beginning of period	38	1,224,248	–
Cash and cash equivalents at end of period	38	3,672,518	1,224,248

Company Statement of Changes in Equity

For the period ended 2 July 2017

	Share capital £	Share premium £	Retained earnings £	Capital redemption reserve £	Total £
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
Cost 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
Profit for the period	–	–	3,699,981	–	3,699,981
Equity as at 2 July 2017	112,838	11,749,487	3,136,272	6,301	15,004,898

Notes to the Company financial statements

For the period ended 2 July 2017

35. 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. 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).

36. SUBSIDIARY UNDERTAKINGS

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

	53 weeks ended 2 July 2017 £	52 weeks ended 26 June 2016 £
Cost		
At beginning of period	9,064,727	108,496
Additions	–	8,956,231
At end of period	9,064,727	9,064,727
Carrying amount	9,064,727	9,064,727

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 20.

37. TRADE AND OTHER RECEIVABLES

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

	53 weeks ended 2 July 2017 £	52 weeks ended 26 June 2016 £
Other receivables	288,030	124,226
Prepayments	–	5,000
Amounts due from related parties	2,439,861	1,369,136
	2,727,891	1,498,362

38. CASH AND CASH EQUIVALENTS

The cash flow statement on page 92 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.

39. TRADE AND OTHER PAYABLES

	53 weeks ended 2 July 2017 £	52 weeks ended 26 June 2016 £
Accruals	300	146,229
Amounts due to related parties	459,938	336,191
Total trade and other payables	460,238	482,420

40. SHARE CAPITAL AND RESERVES

The share capital, share premium and the capital redemption reserve are consistent with Hotel Chocolat Group plc financial statements.

Refer to Notes 25 and 26 of the Group financial statements.

41. CAPITAL COMMITMENTS

There were no amounts contracted for but not provided for as at 2 July 2017 (26 June 2016: £nil).

42. RELATED PARTY TRANSACTIONS

Amounts owed by and to subsidiaries are disclosed in Notes 37 and 39 respectively, of the Company financial statements.

There are no employees during either period. The remuneration of the Directors of the Company are disclosed within the Remuneration report on pages 45 to 47.

Interests and related party transactions are disclosed in Note 29 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 emperor
in association with the Hotel Chocolat design team
Visit us at emperor.works

HOTEL
Chocolat.

BRITISH COCOA GROWER

REGISTERED OFFICE

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