HOTEL Chocolat.

ANNUAL REPORT AND ACCOUNTS

2018

A better model for luxury chocolate

COMPANY OVERVIEW

STRATEGIC REPORT

GOVERNANCE

FINANCIAL STATEMENTS

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 more intelligent way

AUTHENTICITY

We are the real thing, our focus on "more cocoa, less sugar" results in a superior taste, drawing on the invaluable knowledge from farming our own organic cocoa estate

ETHICS

Doing the right thing, not just saying it. Engaged Ethics: a sustainably good approach for all our stakeholders

2018 highlights

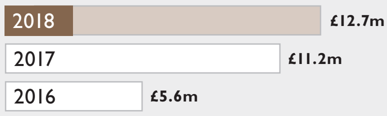
REVENUE
£116.3m
(2017: £105.2m)

up 11%

UNDERLYING EBITDA[1]
£18.9m
(2017: £16.3m)

up 16%

PROFIT BEFORE TAX
£12.7m
(2017: £11.2m)



up 13%

PROFIT AFTER TAX
£10.0m
(2017: £8.8m)

EARNINGS PER SHARE
8.8p
(2017: 7.8p)

FINAL DIVIDEND
1.1p
(Full year: 1.7p | 2017: 1.6p)

15
NEW STORES OPENED IN THE PERIOD

2
NEW WHOLESALE ACCOUNTS ADDED SINCE THE PERIOD

£6.5m
CHOCOLATE BONDS REPAID IN FULL

100%
OF COCOA SUPPLY NOW TO ENGAGED ETHICS STANDARD

INTERNATIONAL
US STORE OPENING IN FY19
JAPAN JV SIGNED STORE OPENING IN FY19
NEW SCANDINAVIAN FRANCHISE PARTNER

VIP ME
REWARDS CARD LAUNCHED

25%
INCREASE IN FACTORY CAPACITY

1 Underlying EBITDA of £18.9m excludes share-based payment charges of £0.7m.
FY17 underlying EBITDA of £16.3m excludes £0.6m of share-based payment charges.

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 113 stores.

KEY PRODUCT RANGES

SELF PURCHASE

Selectors

Over 120 flavours

Cafe drinks and ice cream

GIFT & OCCASION

Boxed chocolates

Seasonal specials

Gift sets

RARE & VINTAGE

Connoisseur's choice

Provenance & tasting notes

OTHER

Drinking chocolate

Cocoa-infused alcohols

Experiences

Cocoa-based beauty

GEOGRAPHIC FOOTPRINT

104
UK STORES

9
INTERNATIONAL STORES

1
BOUTIQUE HOTEL & COCOA ESTATE

The business began in the 1990s with online and subscription, and our first physical store followed in 2004 after creation of the Hotel Chocolat brand. Our store roll-out plan is informed and supported by a database showing the buying patterns of our loyal multi-channel customers. The physical formats range from 100 sq ft to 5,000 sq ft and trade profitably across the whole UK. We are also developing our international retail knowledge with franchises in Scandinavia, Spain and Hong Kong, and a joint venture in Japan. We have signed a lease on a store in Manhattan, due to open this winter.

We sell our chocolate direct to customers via subscription, online and our 113 stores.

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.

Multi-channel retail distribution

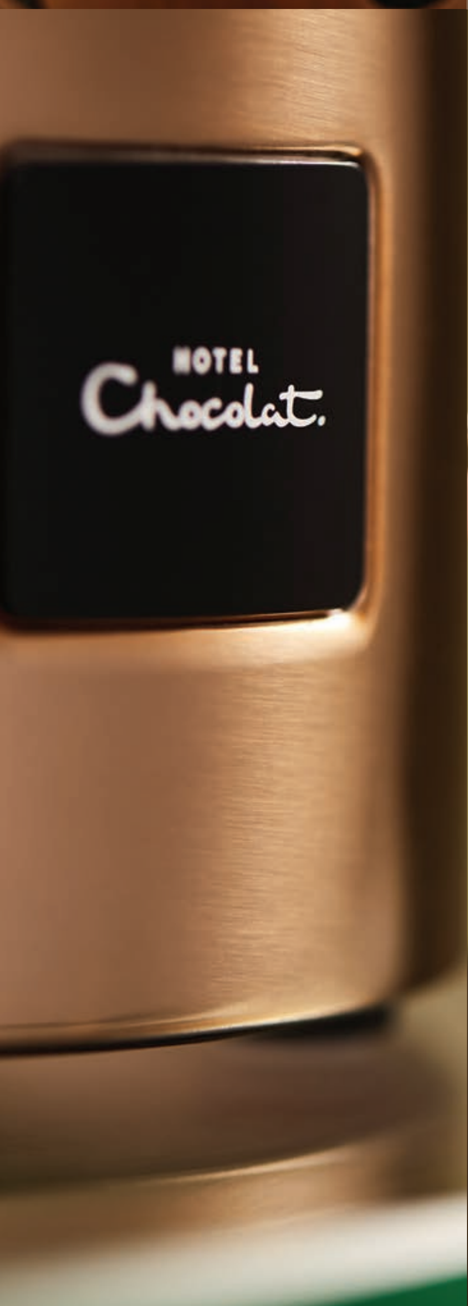
Trading via our own website and physical stores means we know more about our customers so we can give better service and create products and services that our customers want.

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.

Our innovative and beautiful Velvetiser makes barista-grade hot chocolate at home at the touch of a button.

Strategic report



Chocolat Cream Liqueur

We melted our chocolate into vodka and cream and built on the popularity of our Cocoa Gin and Salted Caramel Vodka. Launched September 2018.

Chairman's statement

"Following another good year of growth, the business is making progress with tests to develop and grow the Hotel Chocolat brand across new products and new markets."

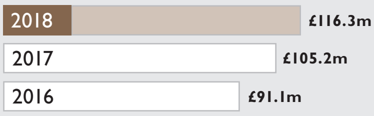
ANDREW GERRIE

Non-executive Chairman

REVENUE

£116.3m

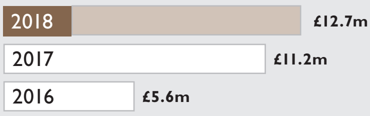
(2017: £105.2m)



PROFIT BEFORE TAX

£12.7m

(2017: £11.2m)



OVERVIEW

FY18 represented another good year for Hotel Chocolat and the investments in new stores and factory capacity have again driven growth and improved profitability. The Group now has the confidence and resources to test the brand in a number of significant markets including Scandinavia, Japan and the US.

RESULTS

The Group achieved a pleasing result in FY18 with revenue of £116.3m and growth of 11% versus FY17. Strong cost control meant that operating margins improved with profit before tax increasing by 13% to £12.7m.

STRATEGY

The growth strategy remains unchanged and is based on proven and profitable business models; to carefully continue to open more stores, to invest in digital to make it easier for consumers to access our brand and to link with selected partners to extend our reach and accessibility.

This growth enables ongoing return-enhancing investment opportunities in our infrastructure whilst we increase capacity and improve efficiency. The growth of the Group and improved profitability means that the business now has the bandwidth and resources to extend its tests of international markets, taking a cautious 'test, learn, grow' approach.

PEOPLE

The Group continues to be led by a strong founder-led executive management team that have built a successful business. I would like to extend my thanks to the whole Hotel Chocolat team for their hard work and commitment which has delivered results to be proud of.

DIVIDENDS

The Board is pleased to propose a final dividend of 1.1 pence per share bringing the full year dividend to 1.7 pence per share. If approved by shareholders at the AGM on 29 November 2018 it will be paid on 21 December 2018 to shareholders on the register at 23 November 2018.

OUTLOOK

Despite challenges and uncertainties in the wider economy the strength of the brand drives great customer loyalty and we are well positioned for the future, with a strong pipeline of opportunities.

Trading since the end of the financial period is in line with management expectations.

Andrew Gerrie
Non-executive Chairman

Our business model

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

We source

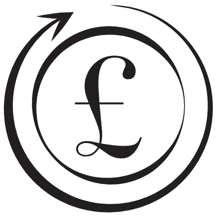
We seek out the best partners to supply premium ingredients to ensure that our products set us apart from the competition.

We grow

We own a cocoa estate 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 which now covers 100% of the cocoa we use.

See page 28

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



We re-invest

Our Engaged Ethics programme drives a progressively increasing investment in sustainability, both in the UK and worldwide.

See page 28

We deliver

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

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 95% of our products.

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

See page 20

ORIGINALITY

AUTHENTICITY

ETHICS

We sell

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

See page 17

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.

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]

<1.0%
HC SHARE

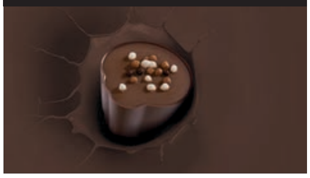
STRATEGY

- Continuous product innovation, focused on chocolate gifting and "extension" categories including in-home drinking chocolate, cacao spirits, cacao beauty
- Grow customer database, increase visit frequency across all channels

PROGRESS UPDATE

- Largest ever seasonal range a real success, encouraging customers to trade up
- New children's ranges at Christmas in responsible portion sizes drove incremental sales
- VIP ME rewards card scheme launched September 2018

UK CHOCOLATE



£6bn
MARKET[2]

<2.0%
HC SHARE

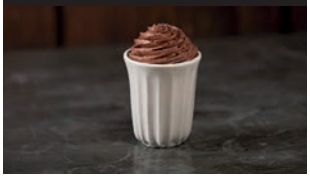
STRATEGY

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

PROGRESS UPDATE

- Opened 15 stores in FY18, signed leases on a further 9 due to open before Christmas 2018
- 8% increase in mobile conversion with Gift Finder and Gift by Text launching autumn 2018
- Amazon, Ocado and QVC partnerships now making it easier for consumers to access the HC brand using their preferred delivery method. Agreements signed to test capsule ranges with two further partners this Christmas

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

- 11 of the 15 new stores opened in FY18 featured cafes
- Launching a new in-home drinking chocolate maker; The Velvetiser

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

- Signed franchise and development agreement for Denmark and wider Scandinavia
- Company owned pilot store to open in Manhattan this winter
- New Joint Venture created in Japan (pilot store scheduled to open this winter)

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

"In the two years since IPO we have grown sales by 28% and underlying EBITDA by 53%, with many significant opportunities ahead."

ANGUS THIRLWELL
Co-founder and Chief Executive Officer

I am pleased to report another year of significant progress for the Group. Revenue grew by 11% to £116.3m, underlying EBITDA[1] increased by 16% to £18.9m and profit before tax increased by 13% to £12.7m. We further refined our business model and all channels achieved growth, whilst a sound grip on cost efficiency resulted in an improved EBITDA margin. The decline of sterling created pressure on raw material costs but we have been able to mitigate this by improving productivity and leveraging increased scale.

I would like to thank the whole team for their enthusiasm and passion, without which these results would not have been possible. Team empowerment is a key part of the culture within Hotel Chocolat and we intend to keep investing in this as we evolve.

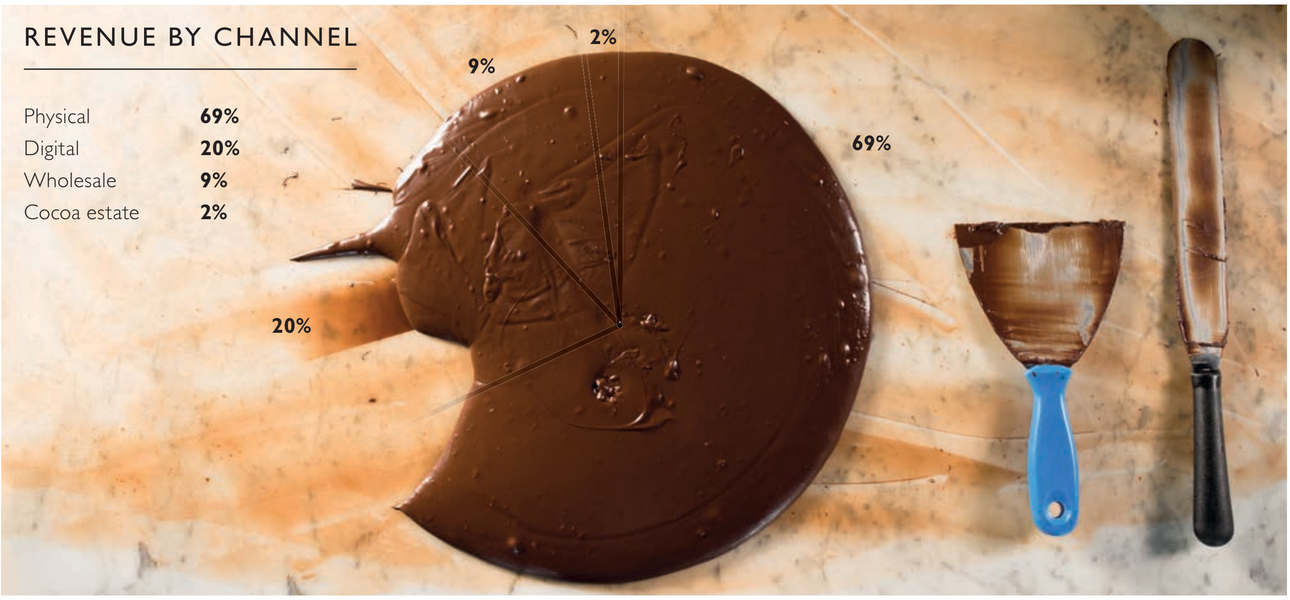
SALES CHANNEL REVIEW

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

Physical

Our physical stores offer a contemporary version of accessible luxury. We innovate and work hard to make our spaces exciting, relevant, friendly, experiential and fully multi-channel. The immediate gratification of self purchase is a powerful element of our physical space, augmented by carefully selected gifts for a wide spectrum of occasions and budgets. Trading eight gift-giving seasons every year means there is always something exciting happening, with Chocolate Lock-Ins and perpetual sampling generating extra levels of engagement.

Our existing locations performed well over the year and we also opened in a further 15 new locations. The flexibility of our offer means that we can design the appropriate store for each location. Our hot chocolat drinks and Ice Cream of the Gods have now become a core part of the brand proposition.



YOY SALES +11%		UNDERLYING EBITDA[1] +16%		PROFIT BEFORE TAX +13%	
2018	£116.3m	2018	£18.9m	2018	£12.7m
2017	£105.2m	2017	£16.3m	2017	£11.2m
2016	£91.1m	2016	£12.4m	2016	£5.6m

1 Underlying EBITDA excludes share-based payment costs of £0.7m (FY17: £0.6m).

There has been much media attention regarding the future of physical retail. Whilst macro-economic trends have undoubtedly created headwinds, we obviously continually evaluate the performance of our stores. We remain confident that further new openings can deliver attractive financial returns, and improve customers' ease of access to our brand.

All of our established stores are profitable and the latest vintage of openings are delivering comparable EBITDA per site to that of the earliest stores.

The Board have modelled 3 scenarios, based on various growth rates and cost inflation for our physical store estate:

1) A continuation of the FY18 growth rates for sales and for overhead costs would mean that store estate profitability would rise in future years.

2) A more pessimistic scenario, reflecting a drop to negative sales growth, and with externally driven cost inflation at rates in excess of FY18, would still mean that the retail estate would continue to generate significant EBITDA profit in 5 years' time. (Our average lease length is 5 years).

3) However we are focusing all our energies on delivering a third, and better, scenario which has the scope to generate a material increase in EBITDA, by:

- Increasing the rate of sales growth, driven by product innovation, gaining a deeper relationship with our customers via the recently launched VIP ME rewards card, and empowering our store teams to deliver an even better experience for our guests.
- Mitigating cost pressures using a combination of better buying, further innovation in our processes, and perpetual focus on working smarter whilst never compromising on product quality or service experience.

The warmth and knowledge of our team is a competitive advantage

Company overview
Strategic report
Governance
Financial statements

Chief Executive's statement *continued*

Digital

Being 'born digital', means that it is always at the centre of our strategies, giving Hotel Chocolat an unusually high proportion of digital sales compared to other chocolate brands.

Sales through our own website increased by 14%. Since the end of the year, we have developed innovations to make the digital Hotel Chocolat experience as slick as possible:

- The Gift Finder poses 3 quick questions before serving up bespoke solutions.
- The Whoosh Instant Gifts by Text service makes it fun and easy to get a gift to someone's smartphone. It is easier for the sender as there is no postcode searching or delivery angst, whilst the recipient benefits from delivery option control, discrete swapping and quick thanking.

Over the year we deliberately paused new customer recruitment into our subscription model leading to a sales decline of 14%.

Over the last 10 years, we have made it progressively easier for customers to access our brand, particularly through physical stores, and this has challenged us to sharpen the appeal of our chocolate subscriptions and to innovate new ways to acquire subscribers. Members of our Tasting Club continue to form the bedrock of our relationship with our customers. They are the most engaged of all our customers and continue to play an active role in developing new products. Since the end of the year, we launched the Velvetiser in-home hot chocolat making system, a major plank of our future subscription plans.

Wholesale

Market research has shown that UK consumers cite "lack of access" as the main barrier to purchasing more from Hotel Chocolat. We acted to reduce this barrier by entering carefully selected wholesale relationships with new partners including Amazon, Ocado and QVC. We have achieved very encouraging growth in the first part-year and are excited to begin tests with two further partners that will launch in time for Christmas 2018. Each partner is selected on a careful balance of attributes and customer demographics, then matched with a specific capsule collection from our product range.

International

Our international aspirations continue to follow our strategy of a careful 'test, learn, grow' approach. Our experience in Hong Kong and Denmark has shown that customers are receptive to the brand and product range. Supply chains are evolving and becoming more cost-effective for the relatively small volumes at start-up scale, allowing us to adopt a competitive price position, mirroring our affordable luxury position in the UK. Since the end of the period we have moved to extend our international tests:

1) In July 2018 we signed a franchise development agreement covering the whole of Scandinavia and transferred our 2 Danish stores to our new partner, who brings deep experience of retail operations in the region and has already opened 2 new stores in Aarhus and Roskilde in Denmark.
2) In September 2018 Hotel Chocolat Inc. a wholly owned subsidiary of the Group, signed a lease to open a Hotel Chocolat store on Lexington Avenue, New York, which is anticipated to open this winter. Greg Hodder, Non-executive Director will be very involved in overseeing our US strategy, leveraging his wealth of experience growing British brands in the US including Charles Tyrwhitt shirts.

3) Also in September 2018 we signed a franchise Joint Venture Development Agreement for Japan. Hotel Chocolat initially has a 20% stake with local management holding 80%. Goods will be supplied wholesale with a royalty paid on sales. It is anticipated the first store will open in Tokyo this winter in advance of the peak Japanese gift-giving seasons in February and March. Chris Horobin is CEO of the joint venture. Chris has extensive retail experience and was previously the CEO of QVC Japan.

OPERATIONAL REVIEW

The key seasonal ranges traded strongly and our ability to create imaginative and desirable products continues to be a carefully nurtured asset. Our vertically integrated business infrastructure is well invested and as the business grows we remain focused on controlling overheads which as a result reduced from 52.4% of sales to 52.2%.

Chocolate Bonds

We were delighted to reach a stage as a business where we were able to fully repay the £6.5m of Chocolate Bonds. The bonds were initially raised from our customers in 2010 and 2014 to finance capital expenditure projects and the monthly "interest" was paid in the form of boxes of chocolate. I would like to personally thank our amazing bond holders, with their support we were able to invest in ethical cocoa, British manufacturing, create hundreds of jobs, and repay them in full, as planned.

Manufacturing Investment

In January we completed a £1.4m project to increase our molten chocolate handling capacity by 190%. The capital project, combined with improved planning of production and a focus on waste reduction supported a 50 basis points improvement in gross margin and enables the next stage of our expansion plans.

We have identified the opportunity to further increase our factory capacity by adding a fourth chocolate making line within the existing factory roofline. We anticipate completing this project by 2021, increasing our capacity by over 30%. This plan means that the extension of the factory roofline previously planned for 2020 can now take place at a later date, bringing with it the potential to add up to a further three chocolate making lines to synchronise with our future demand growth.

BRAND REVIEW

We continue to invest in our most valuable 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 trialling approach. Recent highlights included our unique take on the patisserie macaron in chocolate form and a sculpted bulldog puppy in 40% milk chocolate.

Key launches for Christmas 2018 include our Chocolat Cream Liqueur and the Velvetiser in-home drinking chocolate maker.

Wellness

Consumers increasingly want delicious and hedonistic chocolate that's also made with responsible amounts of sugar. Hotel Chocolat's 15-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.

Super Slim Truffles with Tasmanian peppermint

Company overview
Strategic report
Governance
Financial statements

Chief Executive's statement *continued*

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.

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. Our 2 Schools of Chocolate and 40 Chocolate Lock-In locations are popular with customers and give our team an opportunity to share their knowledge with like-minded enthusiasts. We see experiences playing a steadily stronger role in our physical spaces as we develop our skills and learning and the market develops.

Engaged Ethics

Consumers expect brands they love to do the right thing, using their resources and influence to make the world a better place when they can. This has always been a central element of the Hotel Chocolat DNA and we challenge ourselves to progressively strengthen our programmes and initiatives year-on-year. The 3 areas we focus on are cocoa, the planet and people:

1) Cocoa: A real milestone was reached midway through 2018 when for the first time we were able to fully connect our Engaged Ethics scheme to 100% of our cocoa supplies. The additional costs of achieving this is something we are very happy to invest in, with the funds used to pay farmers a premium, encourage sustainable farming practices and support productivity and community projects.

2) The planet: whilst we have always taken a responsible approach to packaging, we have now decided to explicitly state a target to challenge ourselves to further reduce our impact:

   100% of our packaging will be compostable, reuseable or recyclable by 2021.

3) People: We know that our team culture is the essential ingredient in making all our plans come true. We have solid plans to increase diversity in our team at all levels, to increase employee representation in the boardroom, to foster more empowered behaviour, and to create clear career development opportunities for our teams.

OUTLOOK

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.

Successful growth channels in large UK markets with significant headroom leaves lots of scope for continued success.

New ventures with wholesale partners and new international market developments offer the potential to create significant new avenues for growth.

The defensive attributes of the business are well-honed and include the strength and integrity of our brand and the agility of vertical integration.

The market and wider economy may not be without challenges, however I remain confident that our plan for the coming year will deliver growth. Our capital investments are prudent, going into proven store formats and digital channels, as well as in known production methods and technology.

Angus Thirlwell
Co-founder and Chief Executive Officer

Our strategy

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

A focus on proven formats and channels in the UK provides a strong platform to step up the level of tests in international markets:

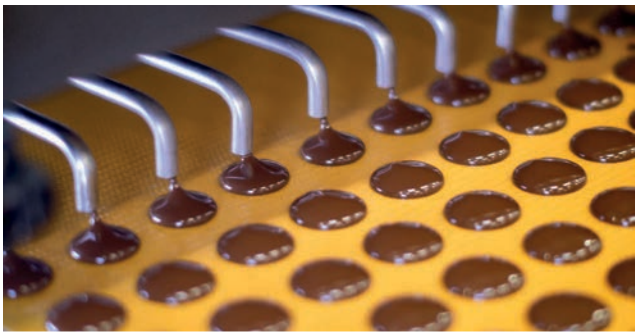
Our strategy has four pillars

1
GROW UK PHYSICAL SPACE
OPENING NEW STORES AND TESTING NEW FORMATS AND CATCHMENT TYPES

2
GROW DIGITAL SALES INCLUDING WHOLESALE
WORKING WITH CAREFULLY SELECTED PARTNERS TO MAKE IT EASIER FOR CUSTOMERS TO ACCESS THE BRAND

3
INCREASE MANUFACTURING EFFICIENCY AND CAPABILITY
CAPITAL INVESTMENT TO INCREASE CAPACITY AND IMPROVE EFFICIENCY

4
TESTS IN NEW INTERNATIONAL MARKETS
CAUTIOUS ‘TEST, LEARN, GROW’ APPROACH

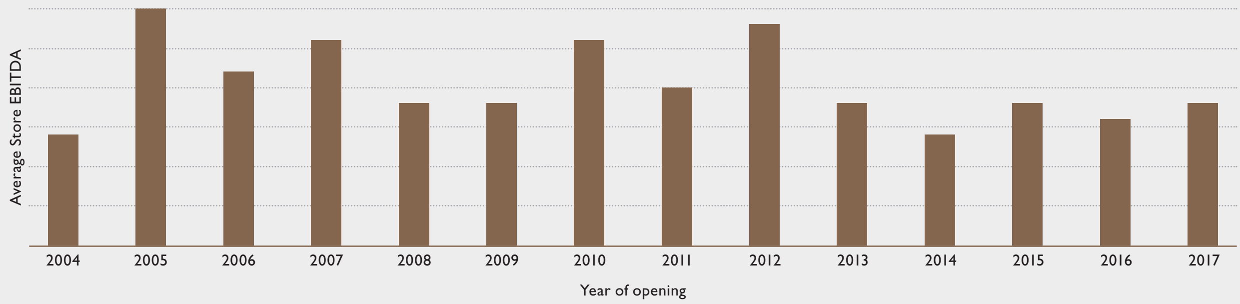


Progress against strategy

1 GROW UK PHYSICAL SPACE

In the period we increased the pace of openings and reduced capital expenditure per square foot by 10% without compromising the brand's look and feel.

All established UK stores are EBITDA profitable. Recent openings continue to deliver comparable EBITDA to earlier vintages:



We have achieved successful openings across a number of formats including city centres (3), designer outlets (2), smaller towns and cities (9) and edge of town retail parks (1).

CUSTOMER SERVICE & EXPERIENCES

Our retail strategy is focused on developing our teams, empowering all team members to make more decisions locally and promoting team diversity to best match the diversity of our customers. Our unique internal School of Chocolate training programme creates a depth of knowledge that has allowed us to roll out 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.

2
GROW DIGITAL SALES INCLUDING WHOLESALE

The strong shift towards mobile-use continues and we are focused on delivering the best possible experience on smartphones.

WEBSITE

Website sales grew by 14%. Over half of traffic is now on smartphones which industry-wide have a lower conversion. We increased mobile conversion by 8%. Innovations to create an ever-better digital experience launching this autumn include:

- The Gift Finder serves up bespoke gift solutions after a 3-question routine.
- The Whoosh, Instant Gifts by Text service makes it fun and easy to send a last minute gift using just a mobile phone number via SMS.

SUBSCRIPTION

Existing members remain highly engaged and loyal. Wider distribution of Hotel Chocolat products has meant profitable new customer acquisition using our usual methods has become more challenging. We have paused new customer recruitment and sales declined 14%.

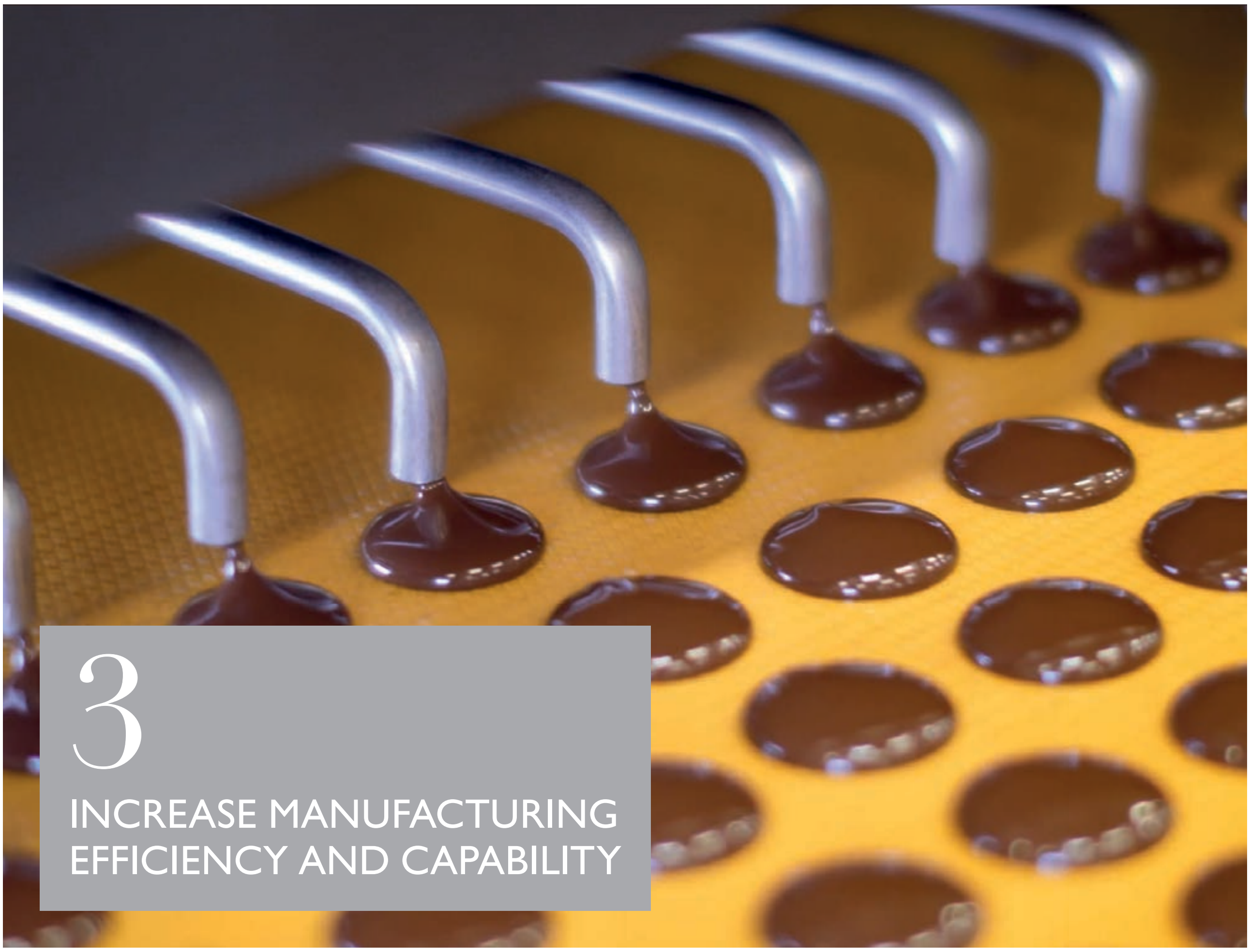
Further new subscription formats are in development, including the Velvetiser in-home hot chocolat maker, supported by easy subscription for the convenient single-serve sachets.

NEW DIGITAL WHOLESALE PARTNERS

The performance of our new partners exceeded our sales target in their first part-year. Customers are now able to choose their preferred delivery method to access capsule collections of HC products.

Two new wholesale partnerships in autumn 2018.

Progress against strategy *continued*



3

INCREASE MANUFACTURING EFFICIENCY AND CAPABILITY

A combination of capital investment, improved asset utilisation and intelligent planning delivered a 25% increase in production capacity. We have identified significant scope for further investment to increase capacity and unlock efficiencies.

CAPITAL PROJECTS WITHIN EXISTING FACTORY

£1.4m of investments to increase storage and handling capacity were completed on time and on budget.

A 3-year project has commenced to add a fourth production line inside the existing factory roofline which will deliver over 30% more production capacity from 2021.

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 have previously been relatively high as a proportion of output. Consolidation of manufacture into fewer production runs delivered significant additional capacity, increased efficiency and reduced wastage.

FURTHER INVESTMENTS

Further increases in capacity will be achieved by extending the existing factory roofline to add up to three more chocolate making lines. The process of planning applications has begun with a target implementation after 2021 on a phased basis with each additional line only being added when required.

4

TESTS IN NEW INTERNATIONAL MARKETS

The positive customer response in Denmark and Hong Kong has encouraged us to extend our tests in new markets of scale.

SCANDINAVIA

In July 2018 the Group transferred its Danish retail business to Retail Brands, a Danish multi-brand franchise operator. The aim is to combine the Hotel Chocolat brand allure with local operational knowledge and grow a sustainable business across Scandinavia.

The partner has already opened two more stores in Denmark. If they deliver against the development agreement this triggers an option to extend the franchise to other Scandinavian markets.

JAPAN

Market research suggests that Japan may present an exciting opportunity, with strong demographics and a gift-giving culture centred on the spring seasons of Valentines and White Day.

The Group has taken a 20% stake in a joint venture and will supply goods on a wholesale basis under a development agreement. A cautious 'test, learn, grow' approach will be taken with the first store expected to open in Tokyo this winter.

USA

A lease has been signed on a pilot store in Lexington Avenue, Manhattan and is expected to open this winter. The Group has been carefully evaluating the potential of the US market. Tests of a store in Boston in 2010 showed that consumers were attracted to the brand, but at that time the Group did not have the capital resources to achieve an economic scale. Since 2010 third party supply chain economics have improved and the Group intends to test one or two locations in FY19.

Financial review

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

MATT PRITCHARD

Chief Financial Officer

	FY18 £m	FY17 £m
Revenue	**116.3**	**105.2**
Gross profit	79.6	71.5
Operating expenses	60.7	55.2
Underlying EBITDA	**18.9**	**16.3**
Share-based payments	0.7	0.6
Depreciation & amortisation	4.8	3.7
Impairment (non-recurring)	0.3	–
(Profit)/loss on disposal	(0.1)	0.1
Operating profit	**13.2**	**11.9**
Finance income	0.0	0.0
Finance expense	0.6	0.7
Profit before tax	**12.7**	**11.2**
Tax	2.7	2.4
Profit for the period	**10.0**	**8.8**

REVENUE

Reported revenue for 52 weeks ending 1 July 2018 was £116.3m. Revenue increased by 11% compared to the 53 weeks ending 2 July 2017 and by 12% compared to the comparable 52 week period in constant currency.

GROSS MARGIN

Gross profit as a percent of sales improved from 67.9% to 68.4%, supported by the increased efficiency of production and better buying, partially offset by increased investments in Engaged Ethics cocoa sustainability, and the impact of foreign exchange on the euro-denominated purchase of ingredients.

OPERATING EXPENSES

A focus on efficiency and cost control meant that externally driven cost inflation was mitigated and as a result operating expenses as a percentage of sales fell from 52.4% to 52.2%.

UNDERLYING EBITDA

Whilst EBITDA is not a statutory measure the Board believe it is helpful to investors to include it as an additional metric. Underlying EBITDA as reported excludes non-cash share-based payment expenses of £0.7m. (FY17: £0.6m). On this basis, underlying EBITDA as a percent of sales increased from 15.5% to 16.3%.

FINANCE INCOME AND EXPENSE

Finance expense relates to a working capital overdraft and the interest paid on Chocolate Bonds. All £6.5m of bonds were repaid in full in June 2018.

The Board intends to finance its ongoing working capital requirements using a £20m overdraft facility arranged with Lloyds bank. Capital expenditure projects will be financed from operating cashflow.

REVENUE GROWTH

+11%

UNDERLYING EBITDA MARGIN

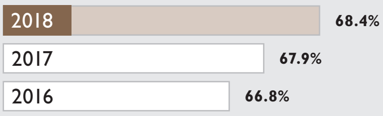
16.3%

Underlying EBITDA margin improved from 15.5% to 16.3%

GROSS MARGIN

68.4%

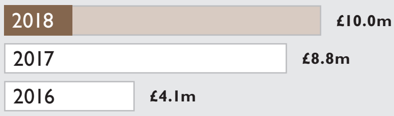
Gross margin improved from 67.9% to 68.4%



PROFIT AFTER TAX MARGIN

8.6%

Profit after tax margin increased from 8.3% to 8.6%



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.

DEPRECIATION & AMORTISATION

Depreciation increased as a result of additional capital expenditure. Capital expenditure of £11m comprised investments in 15 new stores, 2 re-sites, a number of IT projects and operational projects including upgrades to factory capacity and capability.

IMPAIRMENT

In July 2018 the Group's Danish operations were transferred to Retail Brands, a Danish franchise operator. The fixed asset values as at the balance sheet date were impaired to reflect the agreed sale price. As such this impairment charge is non-recurring.

PROFIT BEFORE TAX

Profit before tax increased from £11.2m to £12.7m. Excluding the non-recurring impairment charge profit before tax increased from £11.2m to £13.0m.

TAXATION

The effective rate of taxation is 21.5% (FY17: 21.8%). This is higher than the standard rate of 19% mainly due to permanent timing differences between depreciation charges and capital allowances.

EARNINGS PER SHARE (EPS) AND DIVIDENDS

Diluted and undiluted earnings per share were 8.8p (FY17: 7.8p). Profit after tax increased by 14%. The weighted average number of shares in FY18 was 113m (FY17: 113m). 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 final dividend of 1.1 pence per share, bringing the total dividend for the year to 1.7 pence per share (FY17: 1.6 pence per share).

CASH POSITION

The Group had £0.2m of cash at period-end, a reduction of £8.2m primarily as a result of the £6.5m repayment to Chocolate Bond holders.

WORKING CAPITAL

Closing inventories increased by £2.7m 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 12 weeks cover in FY17 to 13 weeks in FY18.

Matt Pritchard
Chief Financial Officer

Risk management

The Board is responsible for reviewing risks to ensure that the business is not exposed to unnecessary or poorly-managed risks. Whilst review of the risk register is a scheduled item on the annual calendar of Board agenda items, the Board's consideration of risk matters is not limited to those occasions. Risks and opportunities are factors which are continually considered when the Board is making decisions about the business and strategy. The Audit Committee assists the Board in this process by reviewing the risk register as well as the effectiveness of internal controls, including financial controls.

Risk category	Potential impact
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.
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.
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.
KEY MANAGEMENT	Loss of key personnel could impact the Group's ability to implement strategy and the intended pace of growth.
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.
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.
NEGATIVE PUBLICITY AFFECTING THE BRAND	Negative publicity affecting the brand could reduce consumer demand for the Group's products.
INTERNATIONAL EXPANSION	Operating in new territories may give rise to increased complexity and costs.

Mitigation	Change to residual risk in FY 2018	Commentary
• 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.	→	
• 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.	↑	Brexit has increased macro-economic uncertainty, however trading in FY18 and since period-end has remained in line with the Board's expectations.
• 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 FY19.
• 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.
• The Group maintains a business continuity plan which is updated annually and tested quarterly with the incident management team.	→	The business undertakes risk assessments on an ongoing basis.
• 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 2018.
• The business adheres to core values of originality, authenticity and ethics which result in a strong brand.	→	
• The business adopts a cautious 'test, learn, grow' approach to each new market. • Due diligence undertaken to ensure appropriate local partner. • New position of Chief Marketing Officer recruited to increase executive team bandwidth.	↑	The business adopts a 'test, learn, grow' approach to international expansion, combining careful research and planning with small-scale tests before making significant investments.

This strategic report and information referred to herein was approved on behalf of the Board on 25 September 2018.

Matt Pritchard
Chief Financial Officer

Our cocoa estate in Saint Lucia, where we first developed our Engaged Ethics approach to cocoa growing, now applied to 100% of our cocoa supply.

Governance

Corporate social responsibility

The Group strives to ensure that the business' activities positively benefit all stakeholders including customers, growers, suppliers, employees, shareholders and local communities.

ENGAGED ETHICS

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. **100% of the cocoa purchased by Hotel Chocolat is sourced in accordance with our Engaged Ethics standards.**

2) **Help farmers improve yields** by providing knowledge, tools and materials to improve productivity. Hotel Chocolat has partnered with a local NGO, Green Tropic Group, for over 15 years to support higher productivity in Ghana. In 2018, our investments delivered 3 new model farms and seedling nurseries 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.

4) **Continuous Improvement.** Whilst we are proud that 100% of our cocoa is sourced to our Engaged Ethics standard we believe there will always be ways to further improve. We are working with University of Ghana to better understand where we should prioritise our next investments to support the sustainability of cocoa growing communities and independently assess the impact.

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 meet 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.

EMPLOYEES

We strongly believe that our team are a key ingredient in the business, and are undertaking a business-wide review to improve communication, encourage everyone to share their views, and feel empowered to make decisions for the good of the business. 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 are committed to actively promoting diversity in our workforce, by encouraging the greatest possible breadth of experience we can best meet the diverse needs of our customers.

The Board are committed to ensuring that employees can have a voice in the boardroom with a standing agenda item to discuss this at every meeting. Sophie Tomkins, one of the Non-executive Directors has been given a special remit to ensure employee views and concerns are fully represented. Employees have the opportunity to meet in person with the Board to discuss key issues or alternatively topics can be presented on their behalf.

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

The majority of our packaging is currently recycled or recyclable, and we have made a commitment that by 2021, 100% of our packaging will be recyclable.

We have recently implemented an initiative within the supply chain to make smarter use of packaging that we anticipate will reduce our transit packaging cardboard usage by 75% in FY19.

100% of our electricity is obtained from renewable sources. Energy efficiency is a high priority in every capital investment decision that we make, including in-store lighting, distribution vehicles and our factory operation.

100%
OF COCOA SOURCED TO ENGAGED ETHICS STANDARD

168
YOUNG FARMERS GROWING THE NEXT GENERATION

60,000
COCOA SEEDLINGS SUPPLIED THIS YEAR BY FUNDED NURSERIES

OVER
1,200
FARMERS ENROLLED IN SCHEME

3
MODEL FARMS EDUCATING IN BEST PRACTICE TO INCREASE YIELDS

CLEAN WATER
FUNDING 5 COMMUNITY BOREHOLES

Board of Directors

Experienced founder-led team.

Andrew Gerrie (55)
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.

Angus Thirlwell (55)
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 (63)
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 (44)
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.

Audit Committee member

Highlight:
Our progress with developing international tests

Highlight:
Building confidence in our teams that they can be empowered and make decisions

Highlight:
Accelerating the store rollout and testing new catchments whilst reducing capex cost per square foot

Highlight:
The pipeline of product innovation, including the Velvetiser hot chocolat system

Matt Margereson (47)
Chief Operating Officer

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

He has over 20 years of 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 (49)
Independent
Non-executive Director

Sophie has considerable public markets experience gained through a 17-year career in the City. Sophie is Non-executive Director and Chair of the Audit Committee at CloudCall Group plc and Non-executive Director and Audit Committee member at System1 Group plc.

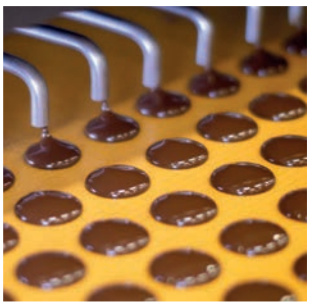
Sophie qualified as a Chartered Accountant in 1994 and is a fellow of the Chartered Institute for Securities and Investment.

Audit Committee Chair
Remuneration Committee member

Greg Hodder (66)
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



Highlight:
Seeing improvement in teamwork translate into new ideas that improve performance

Highlight:
Launching the "employee voice" in the boardroom with immediate engagement from the team

Highlight:
The launch of the VIP ME scheme, which develops a stronger link with our customers

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 third annual report as an AIM-listed entity.

The Board believes that it complies with all of the principles of the QCA Corporate Governance Code for growing Companies ("QCA code"). 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. Sophie Tomkins has no connections with the business and is fully independent. To leverage Greg Hodder's considerable experience of launching and growing businesses in the US, the Board has recently approved him taking on additional leadership responsibilities relating to the development of the Group's new business there. The Board is satisfied that this does not compromise his independence of thought or judgement and therefore Greg Hodder continues to be considered by the Board to be fully independent.

The Chairman is responsible for leading the Board, setting its agenda and monitoring its effectiveness. There is a clear division of responsibility between the Chairman and the Chief Executive Officer.

HOW THE BOARD OPERATES

The Board is responsible for the Group's strategy and for its overall management. The strategic report on pages 17 to 21 summarises the Board's approach to promote sustainable long-term growth and value for shareholders. 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 strategy days in July 2017 and July 2018 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
Sophie Tomkins	11/11	4/4	3/3
Greg Hodder	11/11	4/4	3/3
Angus Thirlwell	11/11	–	–
Peter Harris	11/11	–	–
Matt Pritchard	11/11	–	–
Matt Margereson	11/11	–	–

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. The Board reviews its AIM obligations with its Nominated Advisor annually, and endeavours to keep up with best practice governance via seminars, conferences and training material.

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. No new independent external advice was sought by the Board or its Committees during the period.

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 38 and 39 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.

BOARD EFFECTIVENESS

The Board has undertaken an evaluation of its effectiveness. Input was obtained from every Board member on a number of key topics including:

- The effectiveness of the Board in setting strategy
- Confirmation that rigorous and wide ranging debate of issues was taking place
- That decision making was balanced and objective
- That the Board was responsive to new events and new information
- That the Board had the appropriate composition and skill to discharge its duties.

The Board identified specific actions which are being implemented.

Corporate governance statement *continued*

BOARD EFFECTIVENESS *CONTINUED*

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

All 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 implemented.

BUSINESS CULTURE, VALUES AND BEHAVIOURS

The brand and the business have been guided from the beginning by the principles of authenticity, originality and ethics. This informs every aspect of business operation and decision making from the agreement of strategy to the operational implementation of the business plan. The business conducts regular engagement surveys with all employees and also operates a number of confidential hotlines to allow employees to feed back on culture and behaviours.

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.

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 overleaf).

INTERNAL CONTROLS & RISK MANAGEMENT

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.

The Board conducts annual reviews of its register of key risks and on a bi-annual basis seeks independent third party support to review the risk landscape in detail, including a consideration of risks, likelihood, scale of potential impact and the existence of assurance, mitigation or appropriate contingencies.

RELATIONS WITH STAKEHOLDERS

The Group maintains communication with a wide range of stakeholders to ensure that their needs, interests and expectations are understood and reflected within the Group's strategy.

Customer feedback is collected from stores, online reviews and via social media.

We work with cocoa growers and other agricultural producers, and with organisations that promote their interests to understand their needs.

We meet with existing and potential suppliers and visit trade fairs. We also meet with charities, other activist groups, academics and specialists to keep abreast of developments in fields such as sustainability, recycling and nutrition.

Employee feedback is sought via regular anonymous surveys, with the opportunity to discuss topics directly with the Board.

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. In the period the feedback from shareholders did not give rise to any material change in business strategy.

ANNUAL GENERAL MEETING (AGM)

The Annual General Meeting of the Group will take place on 29 November 2018. The Notice of Annual General Meeting and the ordinary and special resolutions to be put to the meeting are included in the Notice of AGM accompanying this Annual Report.

Audit Committee report

Sophie Tomkins
Chair of the Audit Committee

On behalf of the Board, I am pleased to present the Audit Committee report for the period ended 1 July 2018.

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 Chair of the Audit Committee at CloudCall Group plc and a member of System1 Group plc Audit Committee. 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 FY18 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.

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.

AUDIT PROCESS

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

INTERNAL AUDIT

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

RISK MANAGEMENT AND INTERNAL CONTROLS

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

WHISTLEBLOWING

The Group has in place a whistleblowing policy which sets out the formal process by which an employee of the Group may, in confidence, raise concerns about possible improprieties in financial reporting or other matters. Whistleblowing is a standing item on the Committee's agenda. 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

Greg Hodder
Chair of the Remuneration Committee

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 (as Chair), and Sophie Tomkins. The Committee operates under the Group's agreed terms of reference and is responsible for reviewing all senior executive appointments and determining the Group's policy in respect of the terms of employment, including remuneration packages of Executive Directors. The Remuneration Committee met four 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.

DIRECTORS' REMUNERATION

The following table summarises the total gross remuneration of the Directors who served during the period to 1 July 2018. Bonus payments in FY18 represent 20% of the maximum amount payable under the rules of the scheme. Matt Pritchard and Matt Margereson were eligible for an annual bonus relating to FY18 profit growth. Achieving stretch profit growth would have given rise to a bonus of 40% of base pay. Actual profit performance resulted in a bonus of 8% of base pay.

	2018				2017			
	Basic salary/fee	Bonus	Pension	Total	Basic salary/fee	Bonus	Pension	Total
Executive								
Angus Thirlwell	235,000	–	5,937	240,937	235,000	70,500	5,350	310,850
Peter Harris	215,000	–	5,688	220,688	215,000	64,500	4,792	284,292
Matt Pritchard	215,000	17,200	2,688	234,888	215,000	64,500	2,150	281,650
Matt Margereson	215,000	17,200	2,688	234,888	215,000	64,500	1,792	281,292
Non-executive								
Andrew Gerrie	50,000	–	–	50,000	50,000	–	–	50,000
Sophie Tomkins	40,000	–	–	40,000	35,833	–	(29)	35,804
Greg Hodder	40,000	–	–	40,000	6,667	–	–	6,667

The remuneration policy for 2019 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 2019 financial period are disclosed in the table above. The 2019 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 FY19 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 grant, 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 1 July 2018.

The corporate governance statement on pages 32 to 35 also forms part of this Directors' report.

REVIEW OF BUSINESS

The Chairman's statement on page 7 and the strategic report on pages 17 to 21 provide a review of the business, the Group's trading for the period ended 1 July 2018, 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 49. The Company has applied FRS 101: Reduced Disclosure Framework to the Company accounts for the period ended 1 July 2018.

The Group's revenue of £116.3m (FY17: £105.2m), gross margin of 68.4% (FY17: 67.9%) and profit after tax of £10.0m (FY17: 8.8m) represent a successful period for the business. The Group continued to strengthen its position.

	Reported IFRS	
Period ended	**1 July 2018**	**2 July 2017**
Revenue (£m)	116.3	105.2
Gross margin %	68.4%	67.9%
Profit after tax (£m)	10.0	8.8

The Board is recommending a final dividend of 1.1 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 30 and 31.

DIRECTORS' INTERESTS

No Director has any beneficial interest in the share capital of any subsidiary undertaking. As at 1 July 2018, the Group owned 34.5% of a joint venture called Rabot 1745 Limited, in which Andrew Gerrie held 53.5%, 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 31 to the Consolidated Financial Statements on pages 79 and 80.

EXISTENCE OF BRANCHES

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

SHARE CAPITAL STRUCTURE

At 1 July 2018, 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 17 to 21.

EMPLOYEE INVOLVEMENT POLICIES

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

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 29 November 2018. The ordinary business comprises receipt of the Directors' report and audited financial statements for the period ended 1 July 2018, 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 25 September 2018.

Matt Pritchard
Chief Financial Officer

Statement of Directors' responsibilities

The Directors are responsible for preparing the strategic report, the Annual Report and the financial statements in accordance with applicable law and regulations.

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

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

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

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

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

WEBSITE PUBLICATION

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

"Our team culture is the essential ingredient"

ANGUS THIRLWELL

Chief Executive Officer


late tasting

Financial statements

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 1 July 2018 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flow, the consolidated statement of changes in equity, the Company statement of financial position, the Company statement of cash flow, 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 1 July 2018 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 and the Parent Company 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

The accounting policy in Note 2 states that 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 determined 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.

The Group holds significant levels of inventory and determination of the cost of manufactured goods is considered to be a significant risk area due to the nature and complexity of the estimates involved, including determination and attribution of production costs to individual product lines. Furthermore, given the stock includes perishable items there is a risk over the net realisable value and sufficiency of provisions against slow moving items or items nearing their best before end date.

Our procedures to address this risk included substantively testing the consistency of application of the standard costing calculations to production runs across the period and challenging and substantively testing the Company's determination and allocation of variances from standard to actual costs. In addition to the above, we have substantively tested a sample of line items against post year end sales prices to ensure the net realisable value is greater than recorded cost and substantively tested the level of inventory provisions at the period end by reviewing stock write offs in the period for indications of obsolescence, and considering slow moving items.

OUR APPLICATION OF MATERIALITY

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 consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

We determined materiality for the financial statements as a whole to be £633,000 (2017: £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 £31,500 (2017: £27,500). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

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.

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Performance materiality was set at £474,750 (2017: £412,500) which represents 75% (2017: 75%) of the above materiality levels.

Whilst materiality for the financial statements of a whole was £633,000, each component of the Group was audited to a lower level of materiality. Component materiality ranged from £4,000 to £580,000.

Materiality in respect of the audit of the Parent Company has been set at £360,000 (2017: £312,000) using a benchmark of 2% of gross assets. We consider gross assets to be the most appropriate measure for the basis of materiality as the Parent Company is a holding company of various subsidiaries of the group.

OVERVIEW OF THE SCOPE OF OUR AUDIT

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 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 including the Group audit risk areas applicable to those components. 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 year 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.

Independent Auditors' report *continued*

to the members of Hotel Chocolat Group plc

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.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the Directors' responsibilities statement (set out on page 42), 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

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.

USE OF OUR REPORT

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.

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

25 September 2018

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 1 July 2018

	Notes	52 weeks ended 1 July 2018 £	53 weeks ended 2 July 2017 £
Revenue	4	116,331,566	105,240,130
Cost of sales		(36,740,859)	(33,757,943)
		79,590,707	71,482,187
Administrative expenses	5	(66,360,796)	(59,554,041)
		13,229,911	11,928,146
Finance income	10	22,113	3,230
Finance expenses	10	(578,760)	(725,865)
Share of joint venture profit/(loss)	11	35,501	(300)
Profit before tax		12,708,765	11,205,211
Tax expense	12	(2,729,123)	(2,441,362)
Profit for the period		9,979,642	8,763,849
Other comprehensive (loss)/income:			
Derivative financial instruments	17	(106,001)	(316,658)
Deferred tax charge on derivative financial instruments	16	20,561	64,039
Currency translation differences arising from consolidation		(168,661)	696,095
Total other comprehensive (loss)/income for the period		(254,101)	443,476
Total comprehensive income for the period		9,725,541	9,207,325
Earnings per share – Basic	13	8.8p	7.8p
Earnings per share – Diluted	13	8.8p	7.8p

Consolidated Statement of Financial Position

As at 1 July 2018

	Notes	As at 1 July 2018 £	As at 2 July 2017 £
ASSETS			
Non-current assets			
Intangible assets	14	2,788,152	2,338,041
Property, plant and equipment	15	36,408,775	31,397,582
Deferred tax asset	16	623,961	213,819
Derivative financial assets	17	68,721	–
Prepayments	19	1,643	7,250
Investment in JV	11	35,501	–
		39,926,753	33,956,692
Current assets			
Derivative financial assets	17	14,925	306,526
Inventories	18	12,555,517	9,878,122
Trade and other receivables	19	7,486,894	6,020,954
Cash and cash equivalents	21	235,936	8,470,178
		20,293,272	24,675,780
Total assets		60,220,025	58,632,472
LIABILITIES			
Current liabilities			
Trade and other payables	22	15,545,845	16,632,717
Corporation tax payable		1,328,673	1,104,746
Derivative financial liabilities	17	54,691	137,480
Borrowings	23	201,732	3,371,444
		17,130,941	21,246,387
Non-current liabilities			
Other payables and accruals	22	2,581,044	1,934,057
Derivative financial liabilities	17	–	33,970
Borrowings	23	16,811	3,504,544
Provisions	24	879,808	750,629
		3,477,663	6,223,200
Total liabilities		20,608,604	27,469,587
NET ASSETS		39,611,421	31,162,885
EQUITY			
Share capital	25	112,838	112,838
Share premium	26	11,749,487	11,749,487
Retained earnings		24,348,409	16,851,199
Translation reserve	26	880,560	1,049,221
Merger reserve	26	223,251	223,251
Capital redemption reserve	26	6,301	6,301
Other reserves	26	2,290,575	1,170,588
Total equity attributable to shareholders		39,611,421	31,162,885

The financial statements of Hotel Chocolat Group plc, registered number 08612206 were approved by the Board of Directors and authorised for issue on 25 September 2018. They were signed on its behalf by:

Matt Pritchard
Chief Financial Officer
25 September 2018

Consolidated Statement of Cash Flow

For the period ended 1 July 2018

	Notes	52 weeks ended 1 July 2018 £	53 weeks ended 2 July 2017 £
Profit before tax for the period		12,708,765	11,205,211
Adjusted by:			
Depreciation of property, plant and equipment	15	4,247,550	3,302,776
Impairment loss on fixtures and equipment	15	284,681	–
Amortisation of intangible assets	14	509,892	442,071
Net interest expense	10	556,647	722,635
Share-based payments	9	726,585	562,256
(Profit)/loss on disposal of property, plant and equipment	5	(88,253)	111,880
Operating cash flows before movements in working capital		18,945,867	16,346,829
Increase in inventories		(2,931,781)	(3,438,589)
Increase in trade and other receivables		(1,460,333)	(485,906)
Increase in trade and other payables and provisions		277,219	905,022
Cash inflow generated from operations		14,830,972	13,327,356
Interest received		22,113	3,230
Income tax paid		(2,466,051)	(1,831,913)
Interest paid on:			
– finance leases and hire purchase loans		(1,192)	(14,306)
– bank loans and overdraft		(28,802)	(248,232)
– derivative financial liabilities		(147,747)	(181,134)
Cash flows from operating activities		12,209,293	11,055,001
Purchase of property, plant and equipment		(10,645,621)	(7,505,141)
Proceeds from disposal of property, plant and equipment		340,737	14,210
Purchase of intangible assets		(949,229)	(893,296)
Cash flows used in investing activities		(11,254,113)	(8,384,227)
Dividends paid		(2,482,432)	–
Buy back of Chocolate bonds		(6,505,500)	(217,500)
Capital element of hire purchase and finance leases repaid		(237,195)	(610,465)
Cash flows used in financing activities		(9,225,127)	(827,965)
Net change in cash and cash equivalents		(8,269,946)	1,842,809
Cash and cash equivalents at beginning of period	21	8,470,178	6,475,446
Foreign currency movements		35,704	151,923
Cash and cash equivalents at end of period	21	235,936	8,470,178

Consolidated Statement of Changes in Equity

For the period ended 1 July 2018

	Share capital £	Share premium £	Retained earnings £	Translation reserve £	Merger reserve £	Capital redemption reserve £	Other reserves £	Total £
As at 26 June 2016	112,838	11,749,487	8,087,350	353,126	223,251	6,301	532,155	21,064,508
Profit for the period	–	–	8,763,849	–	–	–	–	8,763,849
Share-based payments	–	–	–	–	–	–	562,256	562,256
Deferred tax charge on share based payments	–	–	–	–	–	–	328,796	328,796
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
Profit for the period	–	–	9,979,642	–	–	–	–	9,979,642
Dividends	–	–	(2,482,432)	–	–	–	–	(2,482,432)
Share-based payments	–	–	–	–	–	–	726,585	726,585
Deferred tax charge on share based payments	–	–	–	–	–	–	478,842	478,842
Other comprehensive income:								
Derivative financial instruments	–	–	–	–	–	–	(106,001)	(106,001)
Deferred tax charge on derivative financial instruments	–	–	–	–	–	–	20,561	20,561
Currency translation differences arising from consolidation	–	–	–	(168,661)	–	–	–	(168,661)
Equity as at 1 July 2018	112,838	11,749,487	24,348,409	880,560	223,251	6,301	2,290,575	39,611,421

Notes to the financial statements

For the period ended 1 July 2018

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
IFRS 9 Financial Instruments (2014) and amendment	IFRS 9 'Financial instruments' is a replacement for IAS 39 'Financial instruments' and will be effective for the period ending 30 June 2019 onwards. IFRS 9 introduces: • new requirements for the classification and measurements of financial assets and financial liabilities, • a new model for recognising provisions based on credit losses, and • simplified hedge accounting by aligning hedge accounting more closely with an entity's risk management methodology. The impact of the adoption of the Standard has not yet been completed, however it is expected that the adoption will not have a material impact.
IFRS 15 Revenue from Contracts with Customers	IFRS 15 'Revenue from contracts with customers' is a replacement for IAS 18 'Revenues' and will be effective for the period ending 30 June 2019 onwards. IFRS 15 introduces a five-step approach to revenue recognition based on performance obligations in customer contracts. The impact of the adoption of the Standard has not yet been completed, however it is expected that the adoption will not have a material impact.
IFRS 16 Leases	IFRS 16 'Leases' is a replacement for IAS 17 'Leases' and will be effective for the period ending 28 June 2020 onwards. IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a right-of-use asset for lease contracts. The Group is currently assessing the impact of IFRS 16 on its existing lease portfolio and it is expected to impact the majority of their operating lease commitments. This includes a significant impact on the balance sheet, as both assets and liabilities will increase, and it is also expected to have a significant impact on key components on the income statement, such as depreciation on the right-of-use asset and interest recognised on the lease liability. This will result in a change to the profile of the income statement over the life of the lease and will consequently impact profit before tax. There will be no impact on cashflows, although the presentation of the cash flow statement will change significantly. Management has begun to review and quantify the expected impact using the current lease portfolio. However, it is not possible to provide an accurate assessment of the further effect of this standard until a detailed review has been completed on a lease by lease basis. The impact of this will also depend upon the facts and circumstances as at the time of adoption and the transition choices adopted. The Group's current operating lease commitments as at 1 July 2018 under the current leasing standard are disclosed in Note 27.

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 1 July 2018

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.

Going concern

The Directors have prepared a cash flow forecast covering a period extending beyond 18 months from the financial information presented as at 1 July 2018.

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.

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, but before finance income or expenses.

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.

2. ACCOUNTING POLICIES *CONTINUED*

b) Group companies

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

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

Employee benefits

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

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, distribution site or 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.

Notes to the financial statements *continued*

For the period ended 1 July 2018

2. ACCOUNTING POLICIES *CONTINUED*

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
Fixtures, fittings, equipment 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 to 5 years on a straight line basis
Website development costs	– 3 to 5 years on a straight line basis

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.

2. ACCOUNTING POLICIES *CONTINUED*

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.

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

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

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

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

Notes to the financial statements *continued*

For the period ended 1 July 2018

2. ACCOUNTING POLICIES *CONTINUED*

Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker.

The chief operating decision-maker has been identified as the management team including the Chief Executive Officer and Chief Financial Officer.

The Board considers that the Group's activity constitutes one operating and one reporting segment, as defined under IFRS 8.

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 were 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 were recognised as a liability. Each year the fixed interest rate paid is recognised as an interest expense.

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.

2. ACCOUNTING POLICIES *CONTINUED*

Financial instruments

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

Financial assets

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

The classification depends on the purpose for which the financial assets were acquired.

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.
- 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.

Notes to the financial statements *continued*

For the period ended 1 July 2018

2. ACCOUNTING POLICIES *CONTINUED*

Cash flow hedges

The effective part of forward contracts designated as a hedge of the variability in cash flows of foreign currency risk arising from firm commitments, and highly probable forecast transactions, are measured at fair value with changes in fair value recognised in other comprehensive income and accumulated in 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 within share premium. 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 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

	52 weeks ended 1 July 2018 £	53 weeks ended 2 July 2017 £
Sale of goods and services	116,331,566	105,240,130
Total revenue	116,331,566	105,240,130

Segmental analysis

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

Revenue for each of the geographical areas is as follows:

	52 weeks ended 1 July 2018 £	53 weeks ended 2 July 2017 £
Revenue by location		
United Kingdom	112,177,419	101,253,605
Europe	2,316,328	2,060,937
Rest of World	1,837,819	1,925,588
Total revenue	116,331,566	105,240,130

Non-current assets held in the Rest of World amount to £10,314,200 in the period ended 1 July 2018 (2 July 2017: £10,185,564).

5. PROFIT FROM OPERATIONS

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

	52 weeks ended 1 July 2018 £	53 weeks ended 2 July 2017 £
Staff cost (see Note 7)	30,658,433	28,310,135
Depreciation of property, plant and equipment (see Note 15)	4,247,550	3,302,776
Impairment of property, plant and equipment (see Note 15)	284,681	–
Amortisation of intangible assets (see Note 14)	509,892	442,071
(Profit)/Loss on disposal of property, plant and equipment	(88,253)	111,880
Operating leases:		
– Property	10,582,822	9,260,982
– Plant and equipment	148,949	176,831
Exchange differences	106,760	249,567
Bad debt expense	57,940	58,782

Notes to the financial statements *continued*

For the period ended 1 July 2018

6. AUDIT AND NON-AUDIT FEES

An analysis of auditors' remuneration is as follows:

	52 weeks ended 1 July 2018 £	53 weeks ended 2 July 2017 £
Audit fees	115,000	94,150
Audit related assurance services	10,000	10,340
Taxation compliance services	25,652	120,031
Other taxation advisory services	17,688	7,440
Non-audit fees	53,340	137,811

7. STAFF COSTS

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

	52 weeks ended 1 July 2018	53 weeks ended 2 July 2017
Production staff	242	235
Administrative staff	1,006	823
Total	1,248	1,058

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

	52 weeks ended 1 July 2018 £	53 weeks ended 2 July 2017 £
Wages and salaries	27,433,753	25,404,249
Share-based payments	726,585	562,256
Social security costs	2,209,489	2,153,230
Pension costs	288,606	190,400
Total	30,658,433	28,310,135

8. REMUNERATION OF KEY MANAGEMENT PERSONNEL

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

	52 weeks ended 1 July 2018 £	53 weeks ended 2 July 2017 £
Short-term employee benefits	1,114,577	1,279,278
Share-based payments	344,984	277,685
Social security costs	185,258	168,481
Post-employment benefits	17,000	14,054
Total	1,661,819	1,739,498

Further information about the remuneration of individual Directors, including the highest paid Director, is provided in the Remuneration report on pages 38 and 39.

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:

	52 weeks ended 1 July 2018		53 weeks ended 2 July 2017	
	Number of share options	**Weighted average exercise price £**	**Number of share options**	**Weighted average exercise price £**
Outstanding at beginning of the period	3,692,000	1.83	2,972,000	1.48
Granted during the period	–	–	890,000	2.92
Exercised during the period	–	–	–	–
Forfeited during the period	(35,000)	2.92	(170,000)	1.48
Outstanding at the end of the period	3,657,000	1.82	3,692,000	1.83
Exercisable at the end of the period	–	–	–	–

The awards outstanding at the end of 1 July 2018 have a weighted average remaining contractual life of 1.48 years (2 July 2017: 2.41 years), a weighted average exercise price of £1.82 (2 July 2017: £1.83) and a range of exercise prices between £1.48 and £2.92.

The Group recognised total expenses related to the above equity-settled share-based payment transactions in the form of options during the period ended 1 July 2018 of £559,149 (2 July 2017: £430,032).

There were no options granted during the period ended 1 July 2018 (2 July 2017: the aggregate fair value of options granted was £714,670).

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

	52 weeks ended 1 July 2018	**53 weeks ended 2 July 2017**
Weighted average share price (£)	–	2.92
Exercise price (£)	–	2.92
Expected volatility (%)	–	32.0%
Option life (years)	–	10.0
Risk free interest rate (%)	–	0.6%

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 1 July 2018

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 share awards outstanding are as follows:

	52 weeks ended 1 July 2018		53 weeks ended 2 July 2017	
	Number of share options	**Weighted average exercise price £**	**Number of share options**	**Weighted average exercise price £**
Outstanding at beginning of the period	553,165	1.48	–	–
Granted during the period	136,863	2.47	621,622	1.48
Exercised during the period	–	–	–	–
Forfeited during the period	(64,891)	1.65	(68,457)	1.48
Outstanding at the end of the period	625,137	1.68	553,165	1.48
Exercisable at the end of the period	–	–	–	–

The awards outstanding at the end of 1 July 2018 have a weighted average remaining contractual life of 1.45 years (2 July 2017: 2.17 years) and a weighted average exercise price of £1.68 (2 July 2017: £1.48).

The Group recognised total expenses related to the above equity-settled share-based payment transactions in the form of the employee share plan during the period ended 1 July 2018 of £167,436 (2 July 2017: £132,224).

The aggregate of the fair value of these shares granted during the period ended 1 July 2018 was £170,805 (2 July 2017: £499,784).

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

	52 weeks ended 1 July 2018	53 weeks ended 2 July 2017
Weighted average share price (£)	2.47	1.48
Exercise price (£)	2.47	1.48
Expected volatility (%)	32.0%	32.0%
Option life (years)	3.5	3.5
Risk free interest rate (%)	0.6%	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

	52 weeks ended 1 July 2018 £	53 weeks ended 2 July 2017 £
Interest on bank deposits	22,113	3,230
Finance income	22,113	3,230
Interest on bank borrowings	92,373	253,430
Unrealised interest on derivative financial instruments	121	130,252
Realised interest on derivative financial instruments	147,747	65,779
Finance leases and hire purchase contracts	1,192	14,306
Finance charges on Chocolate bonds	337,327	262,098
Finance expenses	578,760	725,865

11. INVESTMENTS IN JOINT VENTURES

During the period ended 1 July 2018, Hotel Chocolat Group plc increased its ownership of its joint venture, Rabot 1745 Limited, from 30% to 34.5%. The Group recognised a profit from its share in this joint venture of £35,501 (2 July 2017: £300 loss).

Detail of Rabot 1745 Limited are as follows:

Country of Incorporation: England.
Registered address: 2nd Floor Heathmans House, 19 Heathmans Road, London, SW6 4TJ.
Principal Activity: Sale of beauty products.

12. TAXATION

	52 weeks ended 1 July 2018 £	53 weeks ended 2 July 2017 £
UK corporation tax	2,695,564	2,395,714
Adjustment in respect of previous periods	(85,126)	(70,695)
Overseas corporation tax	29,406	16,316
Total current tax charge	2,639,844	2,341,335
Deferred tax:		
Adjustment in respect of previous periods	10,273	31,620
Origination and reversal of timing differences	79,006	68,407
Total tax expense	2,729,123	2,441,362

Notes to the financial statements *continued*

For the period ended 1 July 2018

12. TAXATION *CONTINUED*

Factors affecting current tax charge:

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

	52 weeks ended 1 July 2018 £	53 weeks ended 2 July 2017 £
Profit on ordinary operations before income tax	12,708,765	11,205,211
Weighted average standard rate of corporation tax	19.00%	19.75%
Profit for the year multiplied by the standard rate of corporation tax	2,414,665	2,213,029
Effects of:		
Expenses not deductible for tax purposes	68,077	93,539
Permanent depreciation	246,908	195,128
Adjustment in respect of prior years	(74,853)	(39,075)
Adjust closing deferred tax in respect of change in future rate of taxation	(9,105)	9,387
Adjust opening deferred tax in respect of change in future rate of taxation	2,499	(7,926)
Movement (from)/to unrecognised deferred tax	45,197	(22,720)
Overseas tax	35,735	–
Tax expense	2,729,123	2,441,362

The Group's effective tax rate for the period ended 1 July 2018 was 21.5% (2 July 2017: 21.8%). The effective rate is an amalgamation of UK and European rates for the periods reported. At 1 July 2018 the Group has tax losses to carry forward against future profits of £103,000 (2 July 2017: £6,000). The tax value of such losses amounted to approximately £13,000 (2 July 2017: £1,000), 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:

	52 weeks ended 1 July 2018 £	53 weeks ended 2 July 2017 £
Profit after tax for the period	9,979,642	8,763,849

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

	52 weeks ended 1 July 2018 £	53 weeks ended 2 July 2017 £
Weighted average number of shares in issue used in the calculation of earnings per share (number) – Basic	112,837,828	112,837,828
Effect of dilutive potential shares:		
Share-based payments – Hotel Chocolat Group plc Save as You Earn Plan	244,987	145,187
Weighted average number of shares in issue used in the calculation of earnings per share (number) – Diluted	113,082,815	112,983,015
Earnings per share (pence) – Basic	8.8	7.8
Earnings per share (pence) – Diluted	8.8	7.8

As at 1 July 2018, the total number of potentially dilutive shares issued under the Hotel Chocolat Group plc Long-Term Incentive Plan was 3,657,000 (2 July 2017: 3,692,000). 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

	52 weeks ended 1 July 2018 £	53 weeks ended 2 July 2017 £
Goodwill arising on consolidation (Note (a))	934,918	938,408
Computer software and website costs (Note (b))	1,853,234	1,399,633
	2,788,152	2,338,041

(a) Goodwill arising on consolidation

	52 weeks ended 1 July 2018 £	53 weeks ended 2 July 2017 £
At beginning of period	938,408	914,098
Translation differences	(3,490)	24,310
At end of period	934,918	938,408

The goodwill figure has been derived from two separate corporate transactions; the first for £683,534, for the corporate business and the second, for £251,384, 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%. 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, 1% point reduction in growth rate or a 10% decrease in sales or EBITDA, would not have resulted in any impairment of goodwill in the period.

(b) Computer software and website costs

	52 weeks ended 1 July 2018 £	53 weeks ended 2 July 2017 £
Cost:		
At beginning of period	1,994,322	2,393,335
Additions	963,492	899,002
Disposals	–	(1,298,015)
At end of period	2,957,814	1,994,322
Amortisation:		
At beginning of period	594,689	1,450,633
Amortisation charge	509,892	442,071
Disposals	–	(1,298,015)
At end of period	1,104,581	594,689
Net book value	1,853,233	1,399,633

Notes to the financial statements *continued*

For the period ended 1 July 2018

15. PROPERTY, PLANT AND EQUIPMENT

	Freehold property £	Leasehold property £	Furniture & fittings, equipment & hardware £	Plant & machinery £	Total £
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
52 weeks ended 1 July 2018					
Cost:					
As at 2 July 2017	12,588,855	734,999	28,418,804	16,319,351	58,062,009
Additions	606,892	–	6,735,380	2,576,577	9,918,849
Disposals	(236,084)	–	(259,713)	–	(495,797)
Translation differences	(122,296)	–	(4,029)	–	(126,325)
As at 1 July 2018	12,837,367	734,999	34,890,442	18,895,928	67,358,736
Accumulated depreciation:					
As at 2 July 2017	567,231	733,256	15,796,562	9,567,378	26,664,427
Depreciation charge	156,847	950	2,918,523	1,171,230	4,247,550
Disposals	–	–	(151,603)	–	(151,603)
Impairment	–	–	284,681	–	284,681
Translation differences	607	–	(95,701)	–	(95,094)
As at 1 July 2018	724,685	734,206	18,752,462	10,738,608	30,949,961
Net book value					
As at 1 July 2018	12,112,682	793	16,137,980	8,157,320	36,408,775

As at 1 July 2018, the net book value of freehold property includes land of £2,817,709 (2 July 2017: £2,867,081), which is not depreciated.

Included above are assets held under finance leases and hire purchase agreements. As at 1 July 2018, the net book value of such assets within plant & machinery is £ nil (2 July 2017: £359,172) and within computer hardware is £395,586 (2 July 2017: £516,626).

16. DEFERRED INCOME TAX ASSET AND LIABILITY

	52 weeks ended 1 July 2018 £	53 weeks ended 2 July 2017 £
Deferred taxation asset	623,961	213,819
	623,961	213,819

Reconciliation of deferred tax balances:

	52 weeks ended 1 July 2018 £	53 weeks ended 2 July 2017 £
Balance at beginning of period	213,819	(78,989)
Deferred tax charge for the period through income statement	(89,261)	(100,027)
Deferred tax charge for the period through other comprehensive income	20,561	64,039
Deferred tax charge for the period through Statement of Changes in Equity	478,842	328,796
Balance at end of period	623,961	213,819

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

	52 weeks ended 1 July 2018 £	53 weeks ended 2 July 2017 £
Fixed asset differences	(533,939)	(278,887)
Short-term differences	121,272	101,703
Derivative financial instruments	(29,846)	(50,407)
Share-based payments	1,053,580	441,410
Unused trade losses	12,894	–
	623,961	213,819

At 1 July 2018, the Group has unrecognised deferred tax assets amounting to £64,000 (2 July 2017: £19,000).

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 ending 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 1 July 2018

17. DERIVATIVE FINANCIAL INSTRUMENTS

	52 weeks ended 1 July 2018 £	53 weeks ended 2 July 2017 £
Derivative financial assets:		
Current		
Foreign currency forward contracts	14,925	306,526
	14,925	306,526
Non-current		
Foreign currency forward contracts	68,721	–
	68,721	–
Derivative financial liabilities:		
Current		
Foreign currency forward contracts	54,691	137,480
	54,691	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 1 July 2018, 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 1 July 2018 was £17,446,374 (2 July 2017 £15,652,171). The movement in the fair value on forward contracts in the period of £106,001 loss (2 July 2017: £316,658 loss) 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

	52 weeks ended 1 July 2018 £	53 weeks ended 2 July 2017 £
Raw materials	3,592,960	3,320,248
Finished goods	8,962,557	6,557,874
	12,555,517	9,878,122

Total inventory recognised as an expense in the Statement of Comprehensive Income during the period was £36,341,318 (2 July 2017: £32,540,621).

19. TRADE AND OTHER RECEIVABLES

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

	52 weeks ended 1 July 2018 £	53 weeks ended 2 July 2017 £
Current		
Trade receivables	1,053,758	542,673
Other receivables	419,544	352,381
Prepayments	6,013,592	5,125,900
	7,486,894	6,020,954
Non-current		
Prepayments	1,643	7,250
	1,643	7,250

20. INVESTMENT IN SUBSIDIARIES

The Group's operating subsidiaries as at 1 July 2018 are as follows:

Name	Principal activities	Country of business / incorporation	Proportion of ordinary shares directly held by parent	Proportion of ordinary shares held by the Group
Direct Holding				
HOTC Limited	Holding Company	England & Wales[1]	100%	
Hotel Chocolat Limited	Manufacturer and Distributer 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%
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%

Notes to the financial statements *continued*

For the period ended 1 July 2018

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				
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%
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%
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%
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%
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%

20. INVESTMENT IN SUBSIDIARIES *CONTINUED*

Registered addresses:	
1	Mint House, Newark Close, Royston, Herfordshire, 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, USA
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

21. CASH AND CASH EQUIVALENTS

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

	52 weeks ended 1 July 2018 £	53 weeks ended 2 July 2017 £
Cash and cash equivalents	235,936	8,470,178
	235,936	8,470,178

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

	52 weeks ended 1 July 2018 £	53 weeks ended 2 July 2017 £
Current		
Trade payables	6,800,747	6,825,958
Other payables	2,574,971	2,988,090
Other taxes payable	761,544	1,303,810
Accruals	5,408,583	5,514,859
	15,545,845	16,632,717
Non-current		
Other payables and accruals	2,581,044	1,934,057
	2,581,044	1,934,057

Notes to the financial statements *continued*

For the period ended 1 July 2018

23. BORROWINGS

	52 weeks ended 1 July 2018 £	53 weeks ended 2 July 2017 £
Current		
Finance lease and hire purchase liabilities	201,732	237,194
Chocolate bonds	–	3,208,500
	201,732	3,445,694
Unamortised costs of issue	–	(74,250)
Total current borrowings	201,732	3,371,444
Non-current		
Finance lease and hire purchase liabilities	16,811	218,544
Chocolate bonds	–	3,286,000
Total non-current borrowings	16,811	3,504,544
Total borrowings	218,543	6,875,988

During the period under review the Group repaid in full all outstanding "chocolate bonds" which had been issued in 2010 and 2014.

	Finance lease and hire purchase liabilities £	Chocolate bonds £	Bank loans overdrafts £	Total £
Maturity of debt				
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
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
52 weeks ended 1 July 2018				
In one year or less or on demand	201,732	–	–	201,732
In more than one year but not more than two years	16,811	–	–	16,811
Total non-current borrowings	16,811	–	–	16,811
Total borrowings	218,543	–	–	218,543

23. BORROWINGS *CONTINUED*

Chocolate bonds paid 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 was fixed by number of boxes. For bonds where there was a return paid by way of a Hotel Chocolat gift card, there was a fixed rate of interest. The interest as stated on issue of the bonds ranged between 6.7% and 7.3%.

Chocolate bonds were repayable subject to formal notice given six months prior to a redemption note. In order to redeem the bond, bondholders needed to give notice by January and payment would have been made in July of the same year. For all chocolate bonds, where notice had been given, the amount repayable was shown within current liabilities. The remaining bonds for which notice had not yet been given were shown within non-current liabilities. Both bonds had matured and were unsecured. All bonds were repaid by the Group prior to period end.

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 Group's 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 0%.

24. PROVISIONS

	52 weeks ended 1 July 2018 £	**53 weeks ended 2 July 2017 £**
Non-current		
Lease dilapidations provision	879,808	750,629
	879,808	750,629

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

The movement in dilapidations provision is summarised below:

	Lease dilapidation provision £
53 weeks ended 2 July 2017	
At beginning of period	464,486
Released through profit and loss	(8,857)
Amounts capitalised during the period	295,000
At end of period	750,629
52 weeks ended 1 July 2018	
At beginning of period	750,629
Released through profit and loss	(20,057)
Amounts capitalised during the period	149,236
At end of period	879,808

Provisions for 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.

Notes to the financial statements *continued*

For the period ended 1 July 2018

25. SHARE CAPITAL

	As at 1 July 2018		As at 2 July 2017	
	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 final dividend of 1.1p per share (2 July 2017: 1.6p per share) being a total of £1,241,216 (2 July 2017: £1,805,405), for approval at the next AGM.

Period ending 1 July 2018:

There were no movements in the Ordinary shares of Hotel Chocolat Group plc during the period ending 1 July 2018.

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.

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 1 July 2018 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.

During the year the Group paid a dividend of 2.2p per share (£2,482,432) out of retained earnings, being a final dividend of 1.6p per share in relation to the period ended 2 July 2017 and an interim dividend of 0.6p per share in relation to the period ended 1 July 2018.

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.

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:

	52 weeks ended 1 July 2018 £	53 weeks ended 2 July 2017 £
Land and buildings		
Operating leases which expire:		
Within one year	9,842,294	8,698,227
In two to five years	27,895,009	25,985,274
In over five years	17,888,405	17,192,437
	55,625,708	51,875,938
Other		
Operating leases which expire:		
Within one year	315,797	391,091
In two to five years	356,605	608,387
	672,402	999,478

28. CAPITAL COMMITMENTS

There were no amounts contracted for but not provided for as at 1 July 2018 (2 July 2017: £ nil).

29. RELATED PARTY 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 £182,920 in the period ended 1 July 2018 (2 July 2017: £183,914). 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 $16,209 (2 July 2017: $15,935) and there are no amounts outstanding at the balance sheet date (2 July 2017: £ nil).

The Group hold a joint venture with Rabot 1745 Limited. The Group owns 34.5% (increased during the period from 30%) and Andrew Gerrie holds 53.5%, with the balance being held by non-related parties. During the period, the Group purchased goods from Rabot 1745 Limited with a value of £366,935 (2 July 2017: £ nil). There were no amounts outstanding at the period end (2 July 2017: £ nil).

On 31 May 2018, Hotel Chocolat Estates Limited, a subsidiary located in St Lucia, sold and transferred the freehold titles of two plots, one each to Angus Thirlwell and Peter Harris for a price of £170,368 per plot. This resulted in a total profit on disposal of £98,029. There were no amounts outstanding at the period end (2 July 2017: £ nil).

No other amounts were due to Directors (2 July 2017: £ nil).

Notes to the financial statements *continued*

For the period ended 1 July 2018

30. CATEGORIES OF FINANCIAL INSTRUMENTS

	52 weeks ended 1 July 2018 £	53 weeks ended 2 July 2017 £
Financial assets		
At amortised cost		
Trade and other receivables (excluding prepayments)	1,473,301	902,304
Cash and cash equivalents	235,936	8,470,178
	1,709,237	9,372,482
At fair value		
Derivative financial assets	83,646	306,526
Financial liabilities		
At amortised cost		
Trade and other payables	9,183,573	9,465,274
Total borrowings	218,543	6,875,988
Accruals	5,152,399	5,238,653
	14,554,515	21,579,915
At fair value		
Derivative financial liabilities	54,691	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.

31. FINANCIAL RISK MANAGEMENT

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

Market risk

Foreign exchange risk

The Group enters into foreign currency forward contracts in order to manage the exposure to foreign exchange risk which arises on transactions denominated in foreign currencies. Refer to Note 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:

	52 weeks ended 1 July 2018 £	53 weeks ended 2 July 2017 £
Trade receivables		
Up to three months	931,760	524,407
Three to six months	73,181	35,980
Above six months	67,430	–
Impairment provision	(18,613)	(17,714)
Total	1,053,758	542,673

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

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

	52 weeks ended 1 July 2018 £	53 weeks ended 2 July 2017 £
United Kingdom	1,045,823	525,970
Europe	2,236	786
Rest of World	5,699	15,917
Total	1,053,758	542,673

Notes to the financial statements *continued*

For the period ended 1 July 2018

31. 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 £
53 weeks ended 2 July 2017			
Trade and other payables	14,594,367	109,560	–
Derivative financial instruments	9,450,827	6,201,344	–
Borrowings	3,553,539	3,851,469	17,805
	27,598,733	10,162,373	17,805
52 weeks ended 1 July 2018			
Trade and other payables	13,933,676	402,296	–
Derivative financial instruments	11,265,218	6,181,156	–
Borrowings	201,732	16,811	–
	25,400,626	6,600,263	–

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.

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

There have been no material events subsequent to the period end and up to 25 September 2018, the date of approval of the financial statements by the Board.

33. ULTIMATE CONTROLLING PARTY

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

Company Statement of Financial Position

As at 1 July 2018

	Notes	As at 1 July 2018 £	As at 2 July 2017 £
ASSETS			
Non-current assets			
Investments	35	9,064,727	9,064,727
		9,064,727	9,064,727
Current assets			
Trade and other receivables	36	8,728,097	2,727,891
Cash and cash equivalents	37	192,578	3,672,518
		8,920,675	6,400,409
Total assets		17,985,402	15,465,136
LIABILITIES			
Current liabilities			
Trade and other payables	38	458,956	460,238
		458,956	460,238
Total liabilities		458,956	460,238
NET ASSETS		17,526,446	15,004,898
EQUITY			
Share capital	39	112,838	112,838
Share premium	39	11,749,487	11,749,487
Retained earnings		5,657,820	3,136,272
Capital redemption reserve	39	6,301	6,301
Total equity attributable to shareholders		17,526,446	15,004,898

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 1 July 2018 is £5,003,980 (2 July 2017: profit £3,699,981).

The financial statements of Hotel Chocolat Group plc, registered number 08612206 were approved by the Board of Directors and authorised for issue on 25 September 2018. They were signed on its behalf by:

Matt Pritchard
Chief Financial Officer
25 September 2018

Company Statement of Changes in Equity

For the period 1 July 2018

	Share capital £	Share premium £	Retained earnings £	Capital redemption reserve £	Total £
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
Profit for the period	–	–	5,003,980	–	5,003,980
Dividends paid	–	–	(2,482,432)	–	(2,482,432)
Equity as at 1 July 2018	112,838	11,749,487	5,657,820	6,301	17,526,446

Notes to the Company financial statements

For the period 1 July 2018

34. 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).

35. SUBSIDIARY UNDERTAKINGS

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

	52 weeks ended 1 July 2018 £	53 weeks ended 2 July 2017 £
Cost		
At beginning of period	9,064,727	9,064,727
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.

Notes to the Company financial statements *continued*

For the period 1 July 2018

36. TRADE AND OTHER RECEIVABLES

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

	52 weeks ended 1 July 2018 £	**53 weeks ended 2 July 2017 £**
Other receivables	288,030	288,030
Amounts due from related parties	8,440,067	2,439,861
	8,728,097	2,727,891

37. CASH AND CASH EQUIVALENTS

To the extent a disclosure is relevant to both the Hotel Chocolat Group and Company financial statements, refer to the Group financial statements.

38. TRADE AND OTHER PAYABLES

	52 weeks ended 1 July 2018 £	**53 weeks ended 2 July 2017 £**
Accruals	300	300
Amounts due to related parties	458,656	459,938
Total trade and other payables	458,956	460,238

39. 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.

40. CAPITAL COMMITMENTS

There were no amounts contracted for but not provided for as at 1 July 2018 (2 July 2017: £ nil).

41. RELATED PARTY TRANSACTIONS

Amounts owed by and to subsidiaries are disclosed in Notes 36 and 38 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 38 and 39.

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

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BRITISH COCOA GROWER

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