HOTEL Chocolat.

ANNUAL REPORT AND ACCOUNTS 2019

Chocolate. Reinvented.

HOTEL
Chocolat.

The leading UK direct-to-consumer chocolate company, making innovative and accessible luxury chocolates.

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

ALLEGRA 2015

COMPANY OVERVIEW

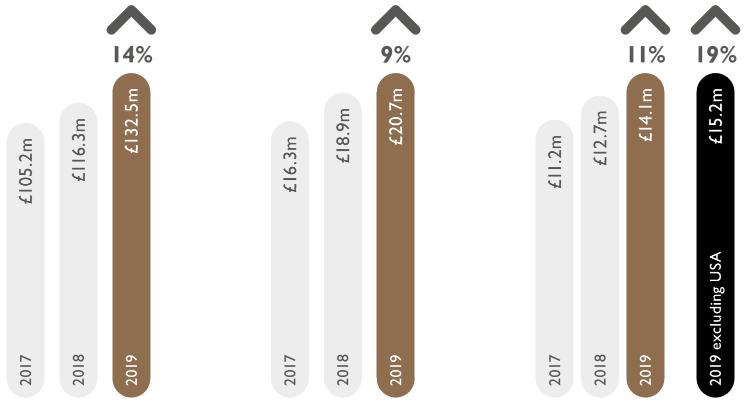
STRATEGIC REPORT

GOVERNANCE

FINANCIAL STATEMENTS

For the latest information, view our website at:
www.HotelChocolat.com

2019 HIGHLIGHTS



Revenue
£132.5m
(2018: £116.3m)
Up 14% (13% excl. USA)

Underlying EBITDA[1]
£20.7m
(2018: £18.9m)
Up 9% (14% excl. USA)

Profit Before Tax
£14.1m
(2018: £12.7m)
Up 11% (19% excl. USA)

Profit After Tax
£10.9m
(2018: £10.0m)

Diluted EPS
9.5p
(2018: 8.8p)

Final dividend
1.2p
(Full year: 1.8p | 2018: 1.7p)

16 New locations

2 New USA locations

Japan joint venture commenced trading

900,000 VIP signups

Launch of Velvetiser to 5 star reviews

Drinks, Ices & experiences rollout to more locations

1 Underlying EBITDA of £20.7m excludes share-based payment charges and related tax of £0.9m (FY18: £0.7m).

AT A GLANCE

The leading UK premium chocolate brand, manufacturing innovative and accessibly priced luxury chocolate. We connect our brand direct to customers via our 130 Hotel Chocolat locations, online and subscriptions.

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 cacao, less sugar" results in a superior taste, drawing on the invaluable knowledge from farming our own organic cacao estate.

ETHICS

Doing the right thing, not just saying it. Engaged Ethics: a sustainably good approach for cacao, for the planet, for people.

Key Product Ranges

LEISURE

Our Wall of Chocolate – over 120 recipes

Drinks + Ices; unique creations, Choc Shakes and Hot Chocolate etc.

Rare & Vintage – made with the top 10% of the world's cacao

Chocolate Lock-In tastings and School of Chocolate experiences

GIFT

Selection boxes / gift sets from £5–£500

10x collections per annum for long established seasonal events

Cacao-based alcohols

Cacao-based beauty, inspired by nature on our organic cacao estate

SUBSCRIPTION

Velvetiser drinking chocolate system – Refill subscription launching FY20

The Chocolate Tasting Club

What sets us apart

DIRECT TO CONSUMER

Investing in building relationships via our own channels means we know more about our customers so we can give better service and create things that we know they will want, or test their appetite for more radical concepts.

DIFFERENTIATED PRODUCT

Rather than copying continental chocolate traditions, Hotel Chocolat has carved out a modern British take on luxury chocolate. Cacao and great design are at the heart of everything we do.

REJECTION OF THE TRADITIONAL CHOCOLATE PRICING MODEL

We believe we have created a new and better price:quality relationship. Cacao is the most expensive ingredient, sugar the cheapest. Check the ingredients, unlike some rivals, cacao is always our main ingredient.

We sell our chocolate direct to customers and via carefully selected partners.

The business began in the UK in the 1990s with online and subscription. Our first physical location came later, in 2004, after the creation of the Hotel Chocolat brand. Physical Hotel Chocolats are a key element in our multi-channel model, symbiotically working with online and wholesale, varying in size from 100 sq ft up to 5,000 sq ft and trading profitably across all UK regions.

This year we opened two locations in the USA and started up a new joint venture in Japan. These are two of the three largest economies in the world.

We also operate in Scandinavia with a partner under a franchise system.

116
UK Stores

14
International locations, including 8 franchise and 2 JV

1
Boutique Hotel & Cacao Estate in St Lucia

INNOVATION CULTURE

Balancing prolific new-concept creation with a disciplined range architecture is a key competitive strength.

VERTICALLY INTEGRATED

We apply our expertise at every stage to create superior products at sustainably strong margins.

STRONG BRAND

The Hotel Chocolat brand evokes escapism and contemporary luxury. Our clear, long-term brand ethos sustains a healthy culture.

PROGRESSIVE DIGITAL MARKETING

We were born digital, meaning it's always at the centre of our customer strategies.

Strategic report

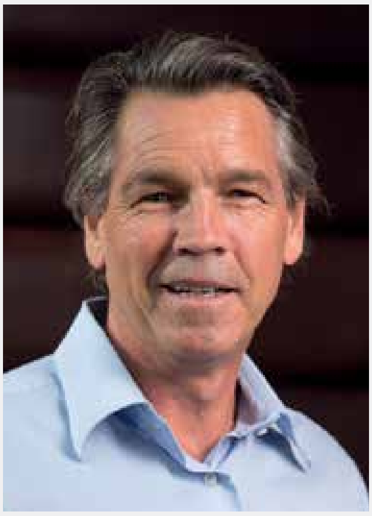
DRINKS + ICES

'Drinks and Ices are proving to be our most engaging social media content'

Further innovation in our range of Drinks + Ices has created more reasons to visit, growing the brand's summertime appeal in the UK, USA and Japan.

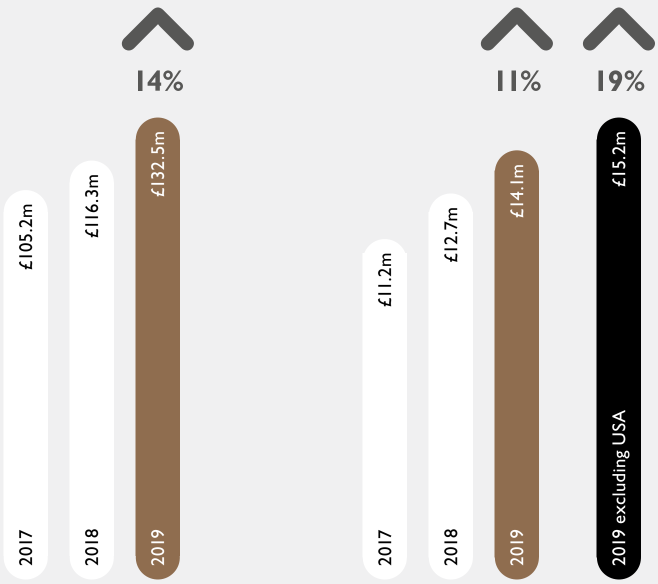
Strategic report

CHAIRMAN'S STATEMENT



"I am pleased to be able to update our stakeholders on another good year for the Group. Following a year of accelerating growth in the UK, the business also made encouraging progress with its tests to develop and grow the Hotel Chocolat brand across new products and new international markets."

Andrew Gerrie
Non-executive Chairman



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£132.5m

(2018: £116.3m)
Up 14% (13% excl. USA)

Profit Before Tax

£14.1m

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OVERVIEW

In FY19 the Group's existing operations continued to grow and improve profitability. In addition, the new test locations in the USA and a JV partner in Japan are showing encouraging early results. The Group continues to have many opportunities and is taking a disciplined approach to deliver long-term growth and returns.

RESULTS

The Group achieved a pleasing result in FY19 with revenue of £132.5m and growth of 14% versus FY18. Profit before tax grew by 11% to £14.1m. The Group results included £0.5m of sales and £1.2m of losses relating to investments in new locations in the USA which performed in line with our business plan. Excluding the USA, Group sales grew +13% and profit before tax grew +19%.

STRATEGY

The growth strategy remains unchanged; to carefully continue to open more locations, to invest in digital to make it increasingly easier for consumers to access our brand, and work with selected partners to extend our reach and accessibility. The profit generation from these activities supports investment in; additional manufacturing capacity and improved efficiency, and the continued trials in two large international markets taking a cautious 'test, learn, grow' approach.

PEOPLE

The Group continues to be led by a strong founder-led executive management team who have built a strong brand and successful business. I would like to extend my thanks to the whole Hotel Chocolat team for their energy and creativity which has delivered another year of results to be proud of.

Following three successful years of growth, the Remuneration Committee has approved the full vesting of the 2016 LTIP award for senior management, reflecting the outperformance of the existing operations, and the impact of new investments in the USA. In total 2.8m share options will vest and become exercisable.

DIVIDENDS

The Board is pleased to propose a final dividend of 1.2 pence per share bringing the full year dividend to 1.8 pence per share. If approved by shareholders at the AGM on 21 November 2019 it will be paid on 20 December 2019 to shareholders on the register at 22 November 2019.

OUTLOOK

Despite the challenges and uncertainties facing the wider economy the strength of the brand drives great customer loyalty and we are well positioned for future growth, 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

User-generated social media content demonstrates high levels of Brand engagement

OUR BUSINESS MODEL

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

Creating

We grow

We own a cacao estate in Saint Lucia called the Rabot Estate. This is the source of some of the exclusive beans featured in our Rare & Vintage range, and of our deep understanding of the cacao growing process. This knowledge enables us to continuously improve our relationship with all of our cacao growers worldwide and further our Engaged Ethics programme which now covers 100% of the cacao we use.

We design

A dedicated in-house team of designers are the source of our unique brand aesthetic, working on everything from the Velvetiser to the latest Easter egg or marketing campaign.

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

Re-investing

We keep getting better

Our culture of continuous improvement drives a relentless re-investment into everything from location upgrades to systems technology and manufacturing.

We Care

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

Making

We manufacture

Our chocolate manufacturing campus in Cambridgeshire makes 95% of our chocolate products. We love in-house production because it allows faster innovation, increases control over quality, protects intellectual property and improves gross margins.

ORIGINALITY

AUTHENTICITY

ETHICS

Entertaining

We own our channels

'Entertaining while we sell' is our mantra. Underpinned by great digital storytelling and a knowledgeable School of Chocolate qualified team. A complete 100% happiness guarantee backs up everything we do.

– Digital
– Physical
– Cacao Estate
– Premium wholesale partners

We distribute

We run our own Distribution Centre in Cambridgeshire with our own fleet of vehicles. Owning the supply chain improves responsiveness, enabling high levels of product availability, an essential element in keeping our customers happy.

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 our products are purchased as gifts and considers that both our competitor set and growth opportunity are far wider than just traditional chocolate retailing.

UK GIFTING

Gifting Market

£20bn[1]

Hotel Chocolat Share of Market

<1.0%

Strategy

- Continuous product innovation, focused on chocolate gifting and 'extension' categories including cacao alcohols and cacao beauty
- Grow customer database, increase visit frequency across all channels

Progress Update

- VIP ME card scheme launched September 2018 attracted 900,000 active members in the first year
- Introduced wider range of gift-sleeves/bags, making year-round ranges more relevant to specific gift occasions whilst reducing reliance on seasonal stocks
- Gift app launching FY20

UK CHOCOLATE

Chocolate Market

£6bn[2]

<2.5%

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

- Opened 14 locations in UK & Ireland in FY19, signed leases on a further six due to open before Christmas 2019. 'Upsized' three existing sites and refitted two locations
- Wholesale grew strongly, supported by the development of capsule ranges specifically tailored to each wholesale partner's customers' needs
- Subscription app launching in FY20

DRINKS + ICES

Cafe Market

£8bn[3]

<0.1%

- Roll out of Drinks + Ices to more locations
- Retro-fit of Drinks + Ices and seating
- Relocate existing sites to larger prime locations with seats
- Grow in-home hot chocolate category

- Rollout of Drinks + Ices is supporting summer trading, and giving reasons to visit more frequently year-round as a leisure activity
- The Velvetiser in-home hot chocolate system launched to 5-star reviews. New refill flavours and refill subscription launching this autumn

INTERNATIONAL

US & Japan Gifting Markets

>£175bn[4]

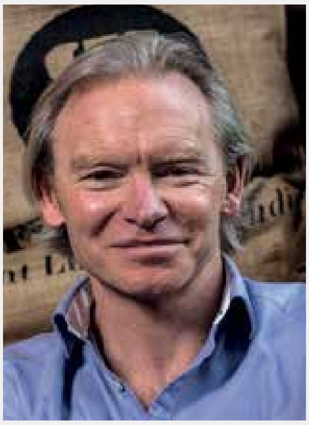
<0.02%

- Prove site-level economics in USA & Japan (via JV) to inform rollout potential
- Franchise in Scandinavia
- New product development to incorporate relevance for local markets

- Two sites opened in USA, two further leases signed and website now live
- Two JV locations opened in Japan, website live, three further locations to open ahead of Spring '20 peak

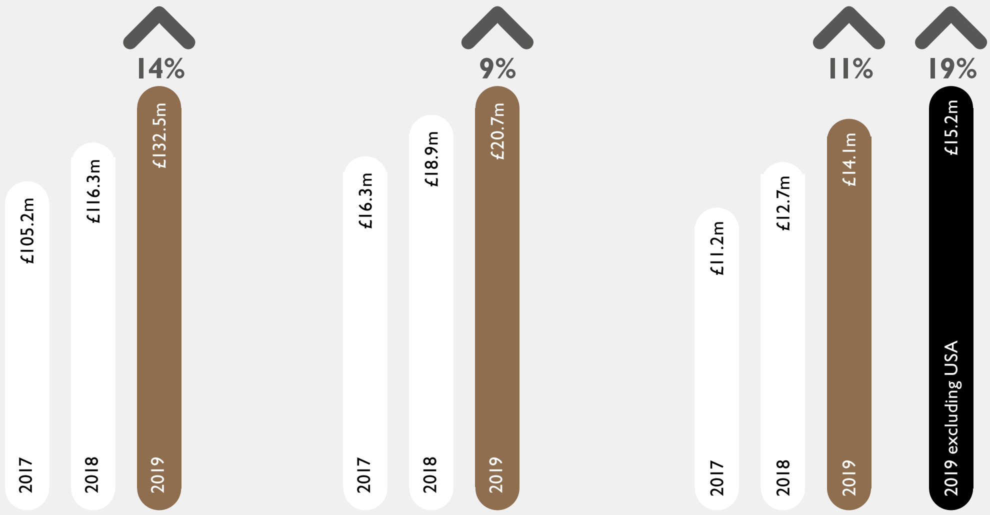
1 Mintel, 2007 2 Canadean, 2014 3 Allegra, 2016 4 Forbes 2017 Yano Keizei

CHIEF EXECUTIVE'S STATEMENT



"In the three years since IPO we have grown sales by 45% and underlying EBITDA by 67%, with many significant opportunities ahead. Our mission is to become the leading direct-to-consumer premium chocolate brand, globally."

Angus Thirwell
Co-founder and Chief Executive Officer



Sales

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Profit Before Tax

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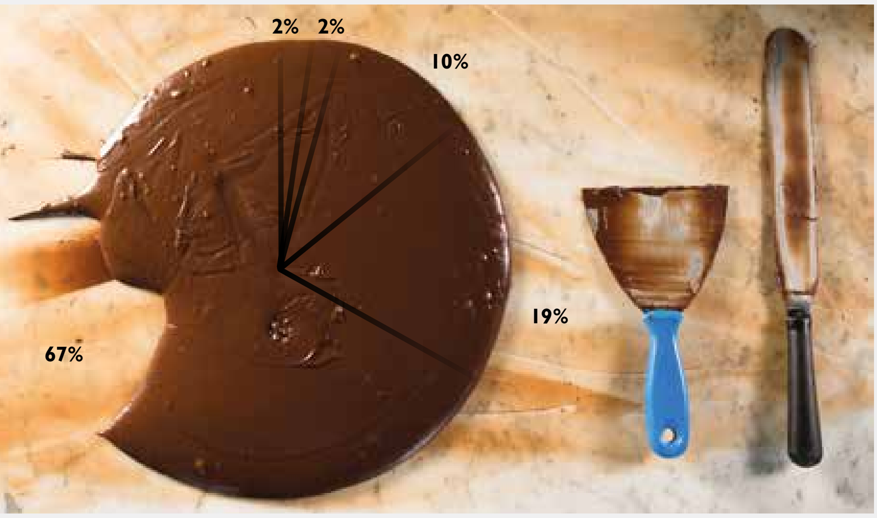
REVENUE BY CHANNEL

	Sales Mix	Growth year on year
UK		
Physical	67%	15%
Digital	19%	8%
Partners & B2B	10%	19%
International	2%	17%
Cacao estate & hotel	2%	10%



1 Underlying EBITDA excludes share-based payment costs and related tax of £0.9m (FY18: £0.7m).

I am pleased to report another year of significant progress for the Group. Revenue grew by 14% to £132.5m, underlying EBITDA[1] increased by 9% to £20.7m and profit before tax increased by 11% to £14.1m. The UK continues to deliver sales growth with profits improving faster than sales due to increasing efficiency and the benefits of scale. Our new test locations in the US and with our Joint Venture partner in Japan are both delivering encouraging sales and costs are tracking in line with expectations.

SALES CHANNEL REVIEW

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

UK

Physical

Hotel Chocolat locations are a doorway into instant escapist happiness. We relentlessly innovate to make our spaces exciting, relevant, friendly and experiential. The immediate gratification of leisure-driven self-purchase is augmented by carefully selected gifts for a wide spectrum of occasions and budgets. Launching multiple seasonal gift ranges every year means there is something exciting happening all the time. We have always understood the need for our spaces to deliver for our guests on the leisure and experience level, and I'm delighted that our work here is gaining such strong traction; Drinks + Ices and Chocolate Lock-in tasting experiences have performed extremely well this year, with further huge potential, also shown by the prolific customer-generated social sharing.

Our existing locations performed very well over the year, therefore we opened a further 14 new locations in the UK and Ireland. We have also seen encouraging results from investments in upgrades in existing catchments; Westfield London (FY19), and Cardiff and Brighton (Q1 FY20) all moved to better locations, adding Drinks + Ices with seating. Gateshead Metro Centre, where we have built a great customer base since 2007, received a Drinks + Ices and seating upgrade as part of a refit.

Whilst macro-economic trends have created headwinds, we remain confident that further new openings can deliver attractive financial returns and improve customers' ease of access to our brand, based on our multi-channel leisure and gift format.

We observed an acceleration in same-store sales growth in H2 following the launches of our Velvetiser in-home hot chocolate system and VIP ME scheme. This strong trading performance further improved the collective EBITDA profitability of our established sites (open more than 12 months). In addition, our new locations made a positive contribution to EBITDA in their maiden part-year.

900,000 registered members

- VIP ME members shop more frequently and spend more per visit.
- Multichannel shoppers have highest lifetime value.
- Increasing customer frequency and maximising lifetime value across channels, seasons and ranges is a key opportunity.

Our strong British brand is based on an ethos of:

ORIGINALITY

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AUTHENTICITY

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ETHICS

Doing the right thing, not just saying it. Engaged Ethics: a sustainably good approach for cacao, for the planet, for people.

1 Underlying EBITDA excludes share-based payment costs and related tax of £0.9m (FY18: £0.7m).

CHIEF EXECUTIVE'S STATEMENT *continued*

"I would like to thank the whole team for their drive, creativity and commitment, without which these results would not have been possible. We are building an ever-stronger team united by common goals and behaviours that reflect our unchanging brand values of Originality, Authenticity and Ethics, underpinned by the mantra 'be brave and be kind'."

As you may expect, we constantly evaluate the potential return on capital of our different growth investment options. In assessing physical locations, the Board modelled three scenarios, based on various growth rates and cost inflation for our physical store estate:

1) A continuation of the FY19 growth rates for sales and for overhead costs – which would mean that store estate EBITDA profitability would continue to 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 FY19 – this would still mean that the retail estate would continue to generate significant EBITDA profit in five years' time. Our average lease length is 5.5 years and our average time to break-clause is 3.5 years, giving us a good degree of agility to adapt in a timely manner.

3) However, we continue to focus 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 VIP ME, adding more leisure experiences, and empowering our store teams to deliver an ever-better experience for our guests, tasting and demonstrating more of our exciting new products.
- 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.

Digital

Being born digital means that it is always at the centre of our strategy, giving Hotel Chocolat an unusually high proportion of digital sales compared to other chocolate brands, at 19%. In the year we welcomed Lysa Hardy, our first ever Chief Marketing Officer who brings a breadth of experience in brand communication, omnichannel marketing, digital engagement and subscriptions.

- Sales through our own website increased by 22%. In the year we focussed on assembling the elements necessary to drive stronger growth: investing in a more skilled and experienced team supporting the new CMO role and instigating certain tech upgrades we have been developing for a while. During FY20 we are insourcing all CRM and email activity to give greater control and improved personalisation, digitising the successful VIP ME loyalty scheme, launching a gift-sending app, launching new app-based subscription models, and improving e-commerce navigation and conversion. We anticipate each of these improvements benefitting the autumn/winter peak for FY20.
- Subscription sales reduced by 26%. We are not perturbed by this as it is part of our remodelling plan and reflects our pause in acquisition marketing for this part of our model. A new subscription app is scheduled for launch in H1 bringing with it new offers, intended to create a sustainable subscription growth platform for the future. As a result of the temporary pause in acquisition marketing, profitability increased year on year.

Wholesale Partners

We have achieved very encouraging growth in the year with UK B2B sales growing by 19%. Each partner is selected on a careful balance of attributes and customer demographics, then matched with a specific capsule collection from our product range. As these partnerships have become established, we have been able to curate capsule ranges that are specific to the needs of each wholesale partners' customers. Each partner typically has less than 10 percent of our total range, meaning we retain many reasons to visit our own locations and website, where we can offer the deepest brand experience and service, nourishing the brand for the long term.

INTERNATIONAL

FY19 was a significant year for our global aspirations, opening Hotel Chocolats in two of the three largest economies in the world. In both markets the brand has been well received by customers, with our approach seen as refreshing and attractive and our prices perceived as fair value. With only a part-year of data, our initial site-level sales are tracking in line with our expectations, a level at which we believe we can deliver EBITDA profitability once supply chain costs are normalised. We are making continuous improvements to our sea-freight supply chains driving higher availability and higher gross margins. Both our 100% owned business in the US and the JV in Japan remain sub-scale in this test phase but we have invested in high calibre local teams to ensure the brand is well presented and the foundations are being laid for potential roll-out, with a clear success criteria for our 'test, learn, grow' approach.

USA

- Lexington Avenue, New York opened Nov 2018.
- Garden State Plaza Mall, New Jersey opened Feb 2019.
- Both locations featured the full Hotel Chocolat offer with Drinks + Ices and seating.
- Union Station, Washington DC and Columbus Circle, a mass transit location in New York will both be opening in H1 FY20.
- We are upgrading our US transactional website and exploring the potential for wholesale partnerships.

Japan JV

- Laketown Mall, Tokyo opened Nov 2018. Japan's largest mall.
- Narita Mall, Tokyo opened Feb 2019.
- Both locations feature the full Hotel Chocolat offer with Drinks + Ices and prominent seating.
- Three further locations are planned to open ahead of the Spring '20 peak.
- The website is live and social outreach is being invested in.
- The gifting seasons are different in Japan, where Valentine's and White Day in February and March generate a sales peak similar to Christmas in the UK.

Scandinavia Franchise

- Four Danish locations now open.
- New central Copenhagen location opening H1 FY20.
- Our partner continues to explore opportunities for growth in the market including B2B wholesale, concessions and opening more locations.

CHIEF EXECUTIVE'S STATEMENT *continued*

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 by 180bps from 52.2% of sales to 50.3%.

In FY19 gross margin reduced by 250bps. The decline was primarily driven by the growth of the Velvetiser and Wholesale, both of which have lower gross margins but also have lower overhead costs as a percent of sales. We made 40bps of margin gains from operational improvements which were re-invested in sales-driving activity with VIP me. Further detail is provided in the Financial review on p25.

Manufacturing Investment

Having invested over £4m in production capex in the previous two years, in FY19 we focussed on; optimising and fine-tuning the performance of these new assets and building detailed capacity plans for 5-year and 15-year horizons. We acquired land adjacent to our freehold factory campus in Huntingdon, Cambridgeshire and have obtained outline planning permission that would ultimately enable us to increase our site output capacity by more than 200% as and when required. We focus on maximising return on capital employed by improving existing asset utilisation, only investing in additional productive assets as and when the capacity is clearly required. We are well advanced with plans for a fourth production line, a capital project of approximately £4m due to enter service in 2021, the project will also enable the addition of up to two further lines by 2024.

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. We have always invested heavily in innovation and creativity, and as a result we now have many years of new innovations in the pipeline. Those that we launch will have made it through our disciplined testing and trialling approach. Recent highlights included the Velvetiser, our in-home hot chocolate system, which launched to the best customer reviews we have ever received. Our amazing chocolate-dipped Ice Lollies were tested this spring and proved so popular we immediately began a rollout to more locations.

Key launches for FY20 include Biscuits of the Gods, aiming to offer the best chocolate biscuit on the planet, exciting new Velvetiser chocolate flavours, Dark Chocolate Mint Cream Liqueur and new variants of a product the Japanese in particular have fallen in love with, the all Chocolate Macaron.

Experiences

Leisure experiences are ever-increasing as the new luxury, with consumers seeking to go beyond the purely transactional, but only with the brands they love. We are well positioned as an early pioneer and a brand that enjoys a good degree of consumer love. It's an area of strong focus for us. We are determined to step-up further the multi-sensory elements at all our Hotel Chocolat locations. We are extending the range of experiences we offer, starting with increased in-store demonstration and perpetual product sampling, adding Drinks + Ices for immediate gratification, all the way up to our most immersive experiences, the Chocolate Lock-Ins, as featured in our hit documentary Inside Hotel Chocolat and now featuring over twenty different themes including season-specific evenings and in-depth tastings of a single chocolate genre.

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 cacao, less sugar" is applied to every single grade of our chocolate, from whites, through milks and darks, and our pipeline of product innovation continues to focus on ways to reduce sugar further. In August we refreshed our super-premium Rare & Vintage range, made from the top 10% of the world's cacao harvest and showcasing our expertise in tree-to-bar chocolate-making know-how, making us the most authentic player in premium chocolate.

Engaged Ethics

Consumers expect brands they love to do the right thing, using their resources and influence to make the world a better place whenever and wherever 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 three areas we focus on are cacao, the planet and people:

1) **Cacao:** All of our cacao is sourced under our Engaged Ethics scheme. We pay more for our cacao to ensure that farmers receive a premium, sustainable farming practices are encouraged, and to fund productivity and community projects. Further detail on our progress in the year is on page 30.

2) **The planet:** whilst we have always taken a responsible approach to packaging, we now explicitly state a target to further reduce our impact: 100% of our packaging will be compostable, reusable or recyclable by 2021. We have already begun to replace plastics with alternatives that meet these goals, offer recycling through our locations for *any* chocolate brand's plastic packaging and will continue to look for innovative ways to reduce our impact on our planet. Further detail is on page 31.

3) **People:** We know that culture is the essential ingredient in building winning teams. Ensuring that our colleagues are happy at work and feel they can maximise their potential are key to engagement. We listen continuously to employee feedback and are strengthening our investments in team development. We are building an ever-stronger team united by common goals and behaviours that reflect our unchanging brand values of Originality, Authenticity and Ethics, as underpinned by the mantra 'be brave and be kind'. Further detail is on page 32.

The innovation pipeline is strong

PRODUCTS

Velvetiser refills – seasonal flavours.

Mint cream liqueur for this Christmas.

Biscuits of the Gods.

New & Improved Easter range.

CHANNELS & FORMATS

Subscription app launch.

Upgrade VIP Me from card to app.

Store refits and relocations.

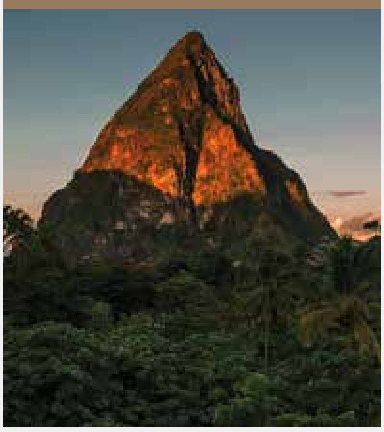
Travel retail test.

BRAND

Planet pledge, plastic & sustainability.

Further recipe developments; more cacao less sugar, more Vegan recipes.

2nd series of TV show in production.



CHIEF EXECUTIVE'S STATEMENT *continued*

"We have always understood the need to deliver leisure experiences for our guests. Drinks + Ices, and tasting experiences have performed extremely well this year."

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.

Our growth is in large UK markets with significant headroom, which gives lots of scope for continued success through both brand-owned channels and carefully selected wholesale partners. The defensive attributes of the business are well-honed and include the strength and integrity of our brand and the agility of vertical integration. We have reviewed the potential impacts from a 'hard Brexit' and have contingency plans in place to mitigate potential short-term supply disruptions. We are focussing our international growth efforts in the US and Japan, two of the world's largest and most attractive markets.

The market and wider economy may not be without challenges; however, I remain confident that our plans for the coming year and well beyond will deliver sustainable growth. We have a strong brand and exciting pipeline of opportunities. Our aim of eventually becoming the global leader in direct-to-consumer chocolate is firmly in our sights.

Angus Thirlwell
Co-founder and Chief Executive Officer



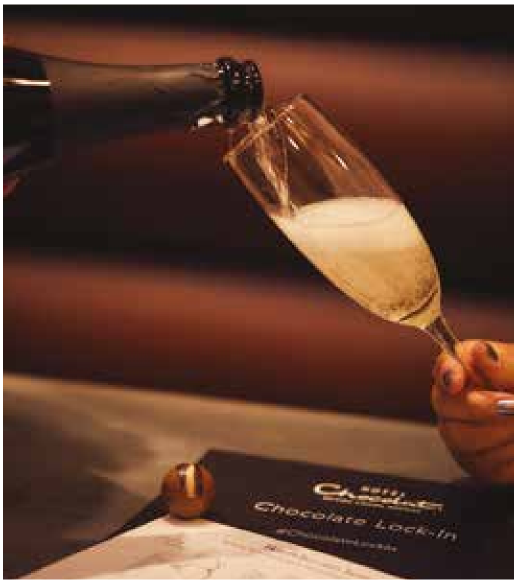



Customer Insight

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 ‘Hotel Chocolats’, in a variety of locations including smaller towns and cities.
2. Developing more and better experiential ‘retail theatre’; adding Drinks + Ices, seating and lock-ins to more locations, creating more reasons to visit our locations more often.
3. Developing new types of subscription to make it easier to regularly receive Hotel Chocolat at home.
4. Growing carefully with selected wholesale partners, giving consumers the most convenient choices of how to buy.

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:

1.
GROW UK PHYSICAL SPACE

OPENING NEW LOCATIONS AND TESTING NEW FORMATS AND CATCHMENT TYPES

We continue to open locations and are investing in the existing estate with a combination of refits and relocations to larger sites.

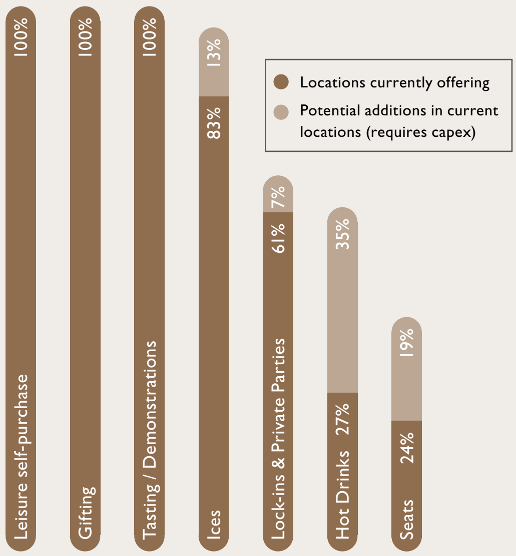
The EBITDA profitability of our existing estate increased and new locations made a positive EBITDA contribution in their first part-year.

In the year we opened 14 new locations in the UK and Ireland and have invested in refits at Gateshead and Liverpool, three relocations to larger sites with drinks, ices and seating in Westfield London, Cardiff and Brighton, and a programme of refresh activity to enhance the presentation of the brand in existing locations.

CUSTOMER SERVICE AND 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. The extension of Drinks + Ices to more locations create more reasons to visit, driving frequency.

THE ROLLOUT OF EXPERIENCES TO EXISTING ESTATE IS PROGRESSING WELL



Our strategy has four pillars:

1.	2.	3.	4.
GROW UK PHYSICAL SPACE OPENING NEW LOCATIONS AND UPGRADING EXISTING SITES	GROW DIGITAL SALES INCLUDING WHOLESALE, WORKING WITH CAREFULLY SELECTED PARTNERS	INCREASE MANUFACTURING EFFICIENCY AND CAPABILITY	CONTINUE OUR 'TEST, LEARN, GROW' APPROACH IN NEW INTERNATIONAL MARKETS

2.
GROW UK DIGITAL SALES

INCLUDING WHOLESALE, WORKING WITH CAREFULLY SELECTED PARTNERS TO MAKE IT EASIER FOR CUSTOMERS TO ACCESS THE BRAND

In the year we launched VIP Me and have now signed up over 900,000 active shoppers, giving us the ability to communicate with these engaged customers for the first time.

VIP Me is intended to act as a two-way fan club, allowing us to share product news, brand stories, incentives and prizes that excite our guests, and to share additional benefits only available to VIP members.

WEBSITE

Website sales grew by 22%. Traffic increased 31%, with over 80% of the growth coming from mobiles, which industry wide have lower conversion. We have achieved an 'excellent' user rating on Trustpilot and continue to improve the user experience. Innovations to create an ever-better digital experience launching this autumn include:

- VIP and Velvetiser chocolate apps.
- Love Match; a fun simple way to quickly identify the chocolates from our range you are most likely to love.
- In-sourcing the management of email and CRM. Investing in new systems will allow us to better segment customers and match them with more relevant personal communication from us.

SUBSCRIPTION

Existing members remain highly engaged and loyal. We deliberately paused new customer recruitment, sales declined by 26%, whilst profitability increased.

A new subscription app will launch in FY20 offering new subscription products including easy Velvetiser chocolate refills.

WHOLESALE PARTNERS

The performance with our existing partners exceeded our sales target. By refining the capsule ranges to match customer needs we have been able to grow sales whilst ensuring the full range is only available via our own channels giving reasons for both channels to co-exist and mutually benefit. We now have a dedicated growth team focussed on global opportunities, headed up by a new Director of Global Wholesale role.

OUR STRATEGY *continued*

3.
INCREASE MANUFACTURING EFFICIENCY AND CAPABILITY

DEVELOPING INNOVATIVE NEW PRODUCTS AND IMPROVING GROSS MARGINS

We focus on improving the efficiency and effectiveness of our current production assets to support near-term growth, and then progressively invest in new assets only as demand requires.

CAPITAL PROJECTS WITHIN EXISTING FACTORY

We are now one year in to a three-year project to add a fourth production line inside the existing factory roofline, which will deliver over 30% more production capacity from 2021. We have purchased land adjacent to our freehold factory and have secured outline planning permission to undertake a phased expansion, which, as and when required can deliver up to +200% more capacity in incremental steps, with the ultimate potential for up to seven production lines. We are investing over £1m in a new facility to produce Velvetiser Chocolate refills due to enter service in FY20, delivering increased capacity, improved gross margins and a wider variety of seasonal flavours.

OPTIMISING PRODUCTION

We have continued to increase production efficiency and reduce wastage which has contributed 40bps to gross margin YoY (see page 25).

4.
CONTINUE OUR 'TEST, LEARN, GROW' APPROACH
IN OUR TWO NEW INTERNATIONAL MARKETS

The positive customer response has encouraged us to progress to the next stage of our tests in these new markets of scale.

JAPAN
Market research suggests that Japan presents an exciting opportunity, with strong demographics and a gift-giving culture centred on the spring seasons of Valentine's and White Day.

The Group has an initial 20% stake in a joint venture and will supply goods on a wholesale basis under a development agreement. Having opened two locations in FY19 a cautious 'test, learn, grow' approach will be taken with a further three locations expected to open in Tokyo this winter. Put option mechanisms are in place triggered by business performance metrics, that would ultimately result in the Group owning a majority controlling interest. The Group has loaned £2.5m to the JV on commercial terms.

USA
The US has the world's largest chocolate market and gifting market. Two locations were opened in FY19 and a further two locations are expected to open before the 2019 'Holiday' peak. Sales and local site-level costs are tracking in line with expectations. Optimising supply chain and reducing capex costs have the potential to create a scalable model. As expected, the business is loss-making at this scale and stage.

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 now operates in four locations in Denmark, and is exploring growth opportunities from online, B2B, department store concessions and further store openings.

FINANCIAL REVIEW

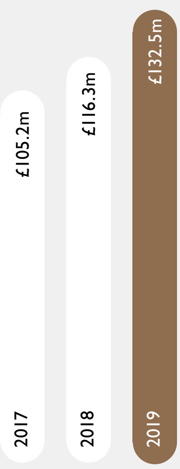
"Strong UK performance has delivered Group profit growth and has enabled investment in international markets."

Matt Pritchard
Chief Financial Officer

	FY19 £m	FY19 ex-USA £m	**FY18 £m**
Revenue	**132.5**	**132.0**	**116.3**
Gross profit	87.3	87.0	79.6
Operating expenses	66.7	65.3	60.7
Underlying EBITDA	**20.7**	**21.7**	**18.9**
Share-based payments	0.9	0.8	0.7
Depreciation & amortisation	5.5	5.4	4.8
Impairment (non-recurring)	0	0	0.3
(Profit)/loss on disposal	0	0	(0.1)
Operating profit	**14.3**	**15.4**	**13.2**
Finance income	0.1	0.1	0.0
Finance expense	0.3	0.3	0.6
Profit before tax	**14.1**	**15.2**	**12.7**
Tax	3.1	3.1	2.7
Profit for the period	**10.9**	**12.1**	**10.0**

PERFORMANCE INDICATORS

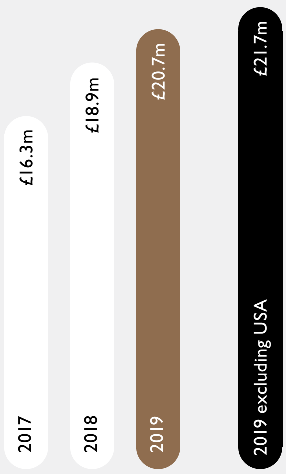
The Group monitors its performance using a number of key indicators which are agreed at Board meetings and monitored at operational and Board level.



Revenue Growth

+14%

+13% excluding USA

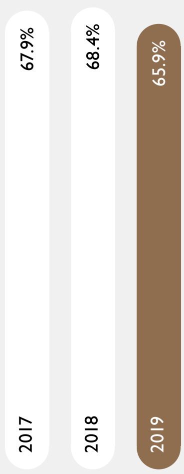


Underlying EBITDA[1] Margin

15.6%

16.4% excluding USA

(2018: 16.3%)

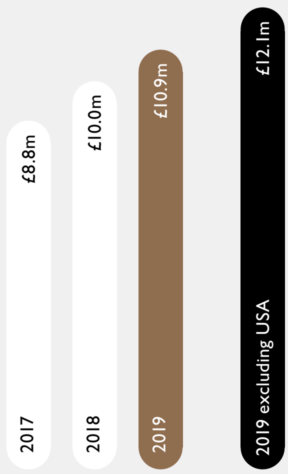


Gross Margin

65.9%

65.9% excluding USA

(2018: 68.4%)



Profit after tax Margin

8.2%

9.2% excluding USA

(2018: 8.6%)

1 Underlying EBITDA excludes share-based payment costs and related tax of £0.9m (FY18: £0.7m).

REVENUE

Reported revenue for 52 weeks ending 30 June 2019 was £132.5m. Revenue increased by 14% compared to the 52 weeks ending 1 July 2018. The new locations in the US generated £0.5m sales in their first part-year, having opened too late in the year to fully capitalise on the seasonal peak. The US contributed 0.5% percentage points to Group year on year sales growth with the rest of the Group growing by 13.5%.

GROSS MARGIN

Gross profit as a percent of sales reduced 250 basis points from 68.4% to 65.9%. Increased efficiency of production and better buying generated gains of +40bps. Foreign exchange impacted the sterling cost of imported raw materials, which reduced margin by -20bps. The launch of VIP Me, which is intended to drive visit frequency and sales volume growth, resulted in -60bps of costs for sign-up incentives associated with the initial launch phase. The balance of the gross margin decline was due to the growth of Velvetiser and Wholesale, both of which generate lower gross margins, but which also have lower overhead operating expenses as a percent of sales when compared to higher gross margin areas.

OPERATING EXPENSES

A focus on efficiency and cost control meant that externally driven cost inflation was mitigated, this combined with the favourable mix effect of the lower overhead Wholesale and Velvetiser channels meant that overheads as a percentage of sales fell by 180bps from 52.2% to 50.3%.

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 charges and related tax of £0.9m. (FY18: £0.7m). On this basis, underlying EBITDA increased by £1.8m on the prior year, and as a percent of sales reduced from 16.3% to 15.6%. Within this figure the US generated an EBITDA loss of £1m on sales of £0.5m. The rest of the Group generated underlying EBITDA growth of 14% with EBITDA margin rising from 16.3% to 16.4%.

IFRS16 LEASES

Effective from FY20 onward, IFRS16 requires lessees to recognise a lease liability and right of use asset. Rent expenses will be removed from operating expenses and depreciation and interest will increase. Operational cash flows and business decision-making will be completely unaffected. The modelled impact to FY20 operating profit is not expected to be material. Further detail on the forecast impact to the financial statement presentation is provided in Note 2 of the accounts on page 62.

FINANCE INCOME AND EXPENSE

Finance expense relates to a working capital overdraft. The Board intends to finance its ongoing working capital requirements using a £22m overdraft facility with Lloyds bank. Capital expenditure projects will be financed from operating cashflow. Finance income relates to interest received on bank deposits and the £2.5m of loans made to the Japan JV. The loans to Japan are made on commercial terms at market rates of interest and are being used to fund capital investments and start-up costs.

DEPRECIATION & AMORTISATION

Depreciation increased as a result of additional capital expenditure. Capital expenditure of £8.9m comprised investments in 16 new locations, re-sites and refits, a number of IT projects and operational projects including work-in-progress upgrades to factory capacity and capability including a fourth production line which is due to enter use in 2021.

PROFIT BEFORE TAX

Profit before tax increased 11% from £12.7m to £14.1m. Excluding the reported losses of the US entity Hotel Chocolat Inc, profit from the rest of the Group increased by 19%.

TAXATION

The effective rate of taxation is 22.2% (FY18: 21.5%). This is higher than the standard rate of 19% mainly due to permanent timing differences between depreciation charges and capital allowances, and overseas losses that are not deductible against UK corporation tax.

EARNINGS PER SHARE (EPS) AND DIVIDENDS

Diluted earnings per share were 9.5p (FY18: 8.8p). Profit after tax increased by 10%. The weighted average number of shares in FY19 was 113m (FY18: 113m). Having delivered a year of strong growth the Board is pleased to propose a final dividend of 1.2 pence per share, bringing the total dividend for the year to 1.8 pence per share (FY18: 1.7 pence per share).

CASH POSITION

The Group had £5.8m of cash at period-end, an increase of £5.5m as a result of increased EBITDA generation and working capital management.

WORKING CAPITAL

Closing inventories increased by 2% to £12.8m, growing more slowly than sales growth of 14%, this as a result of improved working capital management. This change reduced stock cover from approximately 13 weeks in FY18 to 10 weeks in FY19.

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	NEGATIVE PUBLICITY AFFECTING THE BRAND	DISRUPTION TO SUPPLY OR PRODUCTION OF GOODS, OR TO IT SYSTEMS	INCONSISTENT QUALITY OR CONTAMINATION OF THE GROUP'S PRODUCTS	INTERNATIONAL EXPANSION
Potential Impact	Negative publicity affecting the brand could reduce consumer demand for the Group's products.	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 could reduce demand for the Group's products.	Operating in new territories may give rise to increased complexity and costs.
Mitigation	• The business adheres to core values of originality, authenticity and ethics which result in a strong brand.	• The Group maintains a business continuity plan which is updated annually and tested quarterly with the incident management team.	• The business applies strict quality controls and seeks independent validation of these controls by the British Retail Consortium (BRC).	• 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.
Change from FY18 and Commentary	→	→ The business undertakes risk assessments on an ongoing basis.	→ Production facilities achieved 'A grade' accreditation from the BRC in 2019.	↑ 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 24 September 2019.

Matt Pritchard
Chief Financial Officer

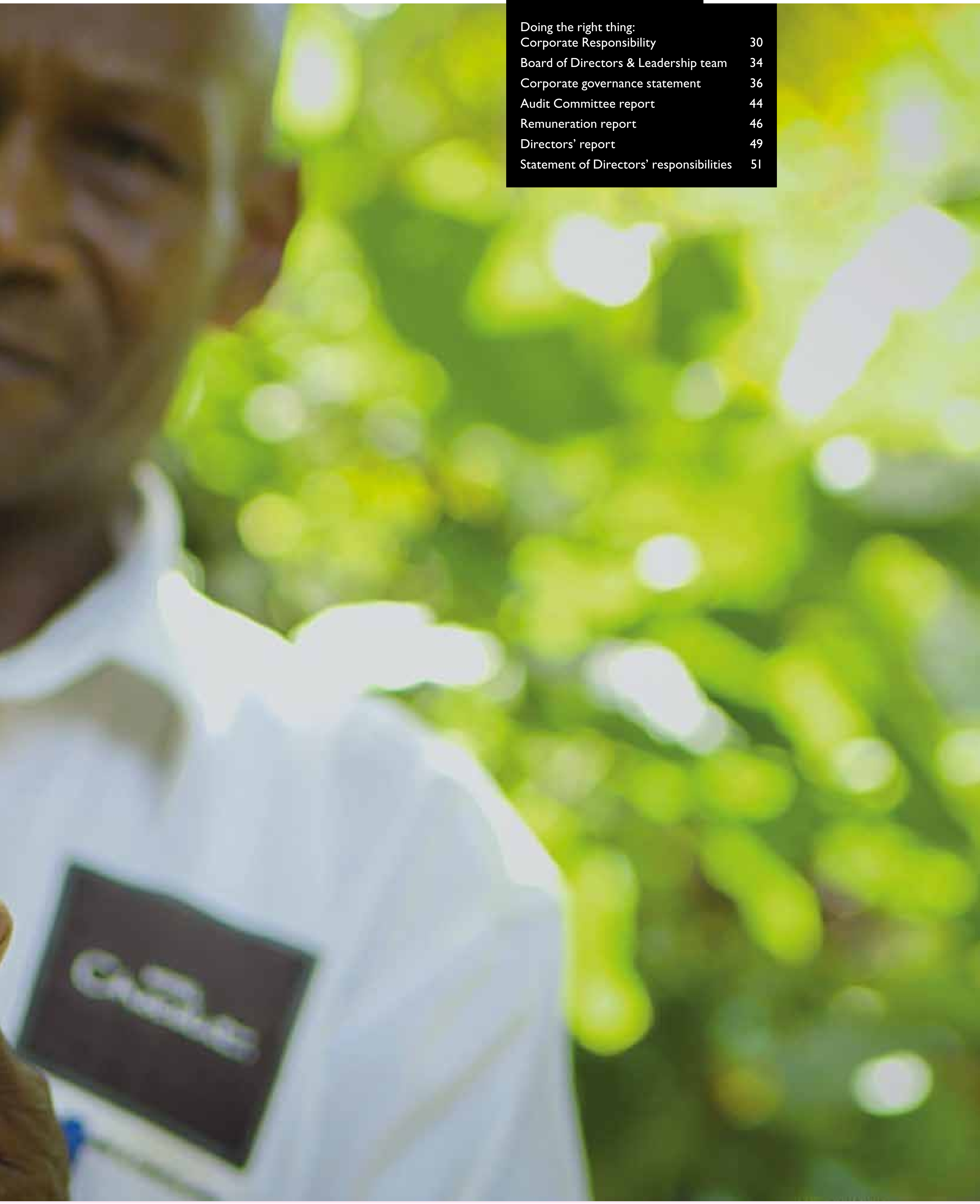
FOREIGN EXCHANGE	ECONOMIC AND POLITICAL FACTORS BEYOND THE GROUP'S DIRECT CONTROL	SHORT-TERM DISRUPTION TO INTERNATIONAL SUPPLY CHAINS AS A RESULT OF BREXIT	INCREASED COMPETITION AND CHANGES IN CONSUMER TASTES	KEY MANAGEMENT
The Group purchases many of its ingredients and capital items in currencies other than sterling. A fall in the value of sterling would increase the cost of imports. Revenues from the US and the hotel in Saint Lucia are denominated in US dollars.	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.	Whilst the Group manufactures and sells over 95% of its products in the UK. 'No deal' or an as yet unspecified deal may impact upon the timeliness of imports of raw materials and exports of finished goods.	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.	Loss of key personnel could impact the Group's ability to implement strategy and the intended pace of growth.
• The Group forecasts its requirement for foreign exchange purchases and hedges these purchases 18 months ahead.	• 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.	• Raw material purchases planned for November have been brought forward to September. Exports of finished goods scheduled to land in November will be despatched earlier to arrive in-market in October.	• 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.	• 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.
↑ Whilst sterling has fallen, the Group extends its currency hedges on a quarterly basis and is currently hedged for the whole of FY20.	↑ Brexit has increased macro-economic uncertainty, however trading in FY19 and since period-end has remained in line with the Board's expectations.	↑ Whilst the timing and terms of Brexit remain uncertain, supply chain contingency plans are in place and the Group's strategy and risk reviews have been considering potential Brexit impacts, mitigations and opportunities since 2016.	→	→ The IPO enabled the business to launch share-based incentives to assist in retaining key personnel.

Governance

ENGAGED ETHICS

'Our cacao estate in Saint Lucia is where we first developed our Engaged Ethics approach to cacao growing, which is now applied to 100% of our cacao supply'

Governance



DOING THE RIGHT THING: CORPORATE SOCIAL RESPONSIBILITY

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

Engaged Ethics is our programme for a kinder approach to our CACAO, OUR PLANET, OUR PEOPLE.

CACAO

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

1
ENGAGE DIRECTLY WITH FARMERS AND PAY A PREMIUM

…for cacao grown to sustainable standards of stewardship. 100% of the cacao 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.

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 cacao 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 cacao growing communities and independently assess the impact.

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

Seedlings
40,000
free cacao tree seedlings supplied this year by funded nurseries

Young farmers
52
Trained a further 52 Young Farmers with 220 trained to date

Training
3 model farms
Educating in best practice to increase yields, cacao trees now over a year old with first fruit expected 2021

Clean Electricity & Water
Solar power
Trialling solar powered street lights and power for isolated communities. Funded three new boreholes including the Osuben medical centre

PLANET

Plastic

At Easter 2019 we launched our first test of Bagasse, a compostable alternative to plastic

Recycling

We take and recycle plastic packaging from any chocolate brand

Planet Pledge

We have committed that 100% of our packaging will be re-usable or recyclable by 2021

The Group is committed to being a market leader for sustainable sourcing, production and consumption, safeguarding the environment and avoiding the waste of valuable resources.

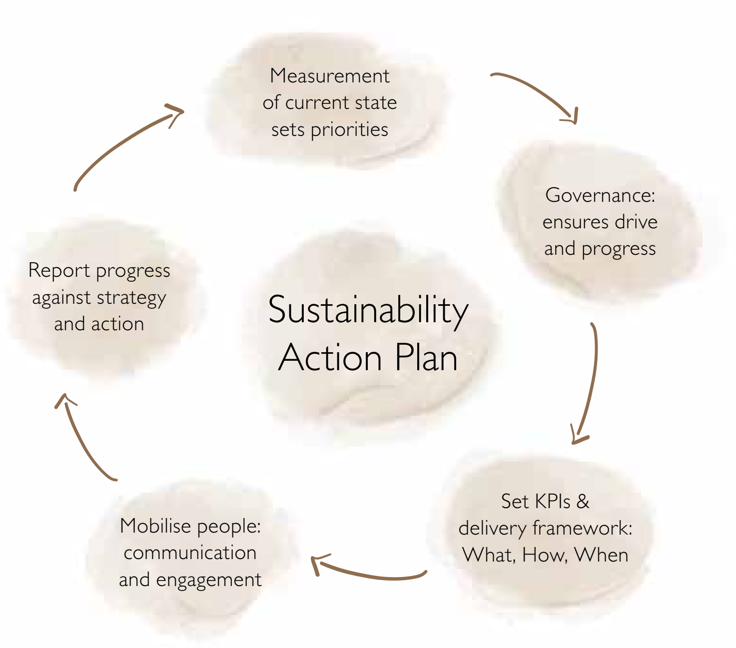
The Group has set up a Sustainability Committee comprising all of the Executive Directors plus functional leaders from across the business. The committee will meet regularly to oversee the progress of the business against its sustainability goals under five key themes:

1. Energy; reducing energy use, reducing CO_2 footprint, and ensuring resilience to climate change impacts.
2. Minimising waste and maximising re-use.
3. Products and packaging; sustainable sourcing, production and recycling.
4. Land and Biodiversity; protecting the environment and communities.
5. People; communication and engagement including suppliers, colleagues and customers.

The committee is working with external experts to benchmark the current areas of strength and opportunity, to undertake measurement of carbon footprint, and to set clear KPIs for each of the five focus areas to track progress.

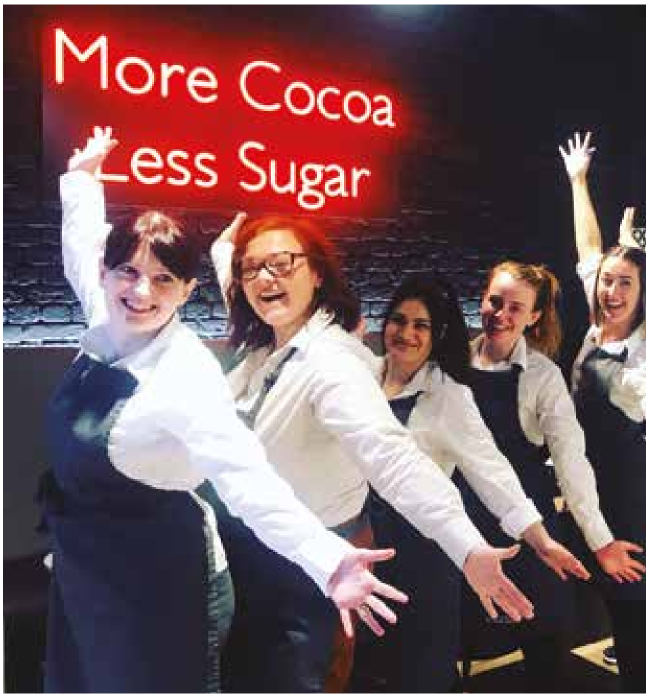
In the year the Group made progress in a number of areas:

- Introduced new plastic pledge; 100% of our packaging will be reusable or recyclable by 2021.
- Recycling points in all stores for any brand's chocolate packaging.
- Energy efficient transport fleet upgrades.
- 100% of electricity derived from renewable sources.



DOING THE RIGHT THING: CORPORATE SOCIAL RESPONSIBILITY *continued*

PEOPLE



CUSTOMERS

The business is committed to a philosophy of "more cacao, less sugar" designed to ensure that our products offer a differentiated and satisfying cacao-rich taste with lower sugar content than many premium chocolate brands. Our range of chocolate meets Public Health England's 2020 target for sugar per gram.

We work continuously to develop new and improved types. In FY19 we launched our first ever 'free from' chocolate for allergy sufferers, expanded our ranges suitable for Vegans and have launched more products containing 100% cacao and 0% sugar.

COMMUNITIES

In the year, many teams from across the business took part in activities to raise money and support local communities, ranging from sponsored mountain climbs and fancy dress days, to holding chocolate 'lock-in' activities for residents at Crossreach dementia care.

The success of these initiatives has encouraged us to plan our first ever company-wide charity week taking place later this year. Teams from across the business will be encouraged to choose both a national charity and local projects to support, via a combination of fundraising activities and company donations.

EMPLOYEES

We strongly believe that our team are a key ingredient in the business and we are undertaking a business-wide programme to improve communication, to encourage everyone to share their views, and to feel empowered to make decisions for the good of the business and our stakeholders. The business regularly measures employee engagement in every team with a focus on ensuring that all team members are listened to, and any concerns addressed with practical action-plans.

We are committed to actively promoting diversity in our team. By encouraging the greatest possible breadth of experience we can best meet the diverse needs of our customers. The current gender composition of our team is as follows:

Headcount by Gender June 2019	Female	Male
Co-founders	–	2
Non-executive Directors	1	2
Executive Directors	1	2
Executives' direct reports	6	8
Line managers	153	71
Team members	911	373

The Board are committed to ensuring that employees can have a voice in the boardroom with a regular agenda item to discuss this. Sophie Tomkins, a Non-executive Director 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 cacao growing and chocolate making.

BOARD OF DIRECTORS & LEADERSHIP TEAM

Experienced, founder led team




Andrew Gerrie (56) Non-executive Chairman	**Sophie Tomkins (50)** Independent Non-executive Director	**Greg Hodder (67)** Independent Non-executive Director	**Angus Thirlwell (56)** Co-founder and Chief Executive Officer
Appointed date			
June 2015	April 2016	May 2017	Co-founded in 1993
Experience, skills and personal qualities			
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 locations across 49 countries, with sales in excess of £450m. Andrew holds a B.Com degree from Auckland University.	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 Committees at CloudCall Group plc and System1 Group PLC, and senior Independent Director and chair of Remuneration committee at Proactis Holdings PLC. Sophie qualified as a Chartered Accountant in 1994 and is a fellow of the Chartered Institute for Securities and Investment.	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 a Non-executive Director at Naked Wines PLC. Greg has considerable experience of growth through digital and international retail.	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 Business Growth Programme and is a committee member for The Academy of Chocolate.
Committee membership			
G A	G A R *Lead contact for employee representation in the Boardroom.*	G A R	G E

Committee membership

Ⓐ Audit Committee
Ⓡ Remuneration Committee
Ⓔ Executive Committee
● Chair
Ⓖ Group Board

Peter Harris (64)
Co-founder and Development Director

Co-founded in 1993

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.

G E

Matt Pritchard (45)
Chief Financial Officer

May 2014

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.

G E

Matt Margereson (48)
Chief Operating Officer

2006

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.

G E

Lysa Hardy (49)
Chief Marketing Officer

September 2018

Lysa joined Hotel Chocolat in 2018 and is responsible for marketing, e-commerce and category management.

She has over 20 years of experience including CMO role at Holland & Barrett, Chief Customer Officer at Joules and a decade in telecoms subscription marketing. Lysa is a fellow of the Marketing Academy.

E

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.

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.

Andrew Gerrie
Non-executive Chairman

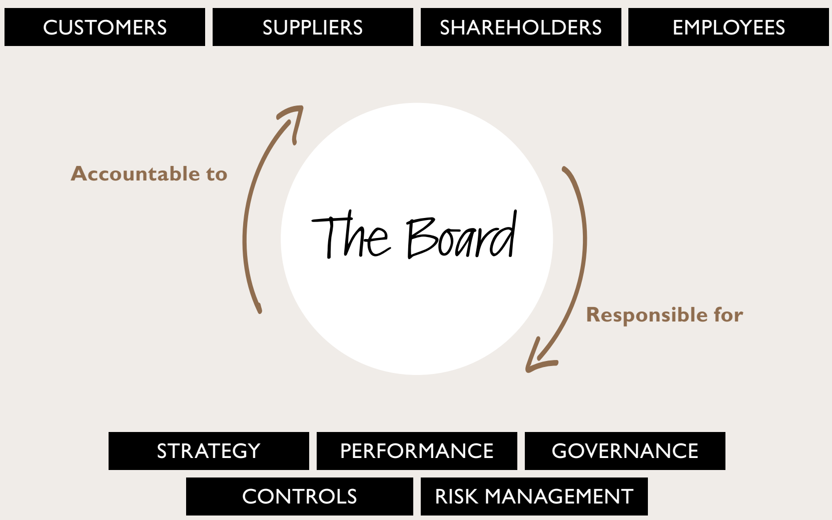
"Good governance supports strategic planning and sound decision making, and provides assurance on controls and culture, all of which drives performance."

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 UK businesses in the US, the Board has approved him taking on additional mentoring 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.

GOVERNANCE FRAMEWORK



BOARD AND COMMITTEE COMPOSITION

4
Executive Directors

3
Non-executive Directors

The Board

The operation of the Board is documented in a formal schedule of matters reserved for its approval, which is reviewed annually.

Committees

The Board has delegated specific responsibilities to the Audit and Remuneration Committees. 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.

Audit Committee

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.

Remuneration Committee

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.

HOW THE BOARD OPERATES

The Board is responsible for the Group's strategy and for its overall management. The strategic report on pages 6 to 27 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 11 times in the period. In addition the Board held strategy days in July 2018 and March 2019 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	11/11	–	4/4
Sophie Tomkins	11/11	3/3	4/4
Greg Hodder	11/11	3/3	4/4
Angus Thirlwell	10/11	–	–
Peter Harris	11/11	–	–
Matt Pritchard	11/11	–	–
Matt Margereson	10/11	–	–

CORPORATE GOVERNANCE STATEMENT *continued*

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 both considered to be 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 reviews the risk register to ensure that it is comprehensive and that appropriate mitigations are in place. 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 46 to 48 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. If 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.

INTERNAL CONTROLS & RISK MANAGEMENT

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

The principle risks faced by the business are summarised on pages 26 and 27.

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;
- Segregation of duties so no individual can have undue influence or control over an activity, process or transaction;
- 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.

BOARD EXPERIENCE

	Andrew Gerrie	Sophie Tomkins	Greg Hodder	Angus Thirlwell	Peter Harris	Matt Pritchard	Matt Margereson
Financial Management		✔			✔	✔	
Global business	✔	✔	✔				
Leadership & Values	✔	✔	✔	✔	✔	✔	✔
Sales and marketing	✔		✔	✔			
Technology & Operations		✔	✔	✔		✔	✔
Retail	✔		✔	✔	✔	✔	

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; and
- That the Board had the appropriate composition and skill to discharge its duties.

The Board identified specific actions including the appointment of an independent Company Secretary.

The skills and experience of the Board are set out in their biographical details on pages 34 and 35. The experience and knowledge of each of the Directors gives them the ability to constructively challenge strategy and to scrutinise performance. The Board meets regularly with external experts including the NOMAD to ensure that it remains abreast of developments and current best practice.

The Chairman meets individually with each Director at least once a year to discuss board and individual effectiveness.

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.

CORPORATE GOVERNANCE STATEMENT *continued*

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.

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 feedback on culture and behaviours. Sophie Tomkins has taken the lead on ensuring that all employees have the opportunity to have their views represented in the Board room and has attended business briefings to explain how this works in practice.

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. An annual performance appraisal of Non-executive Directors is undertaken by the Chairman as part of the Board evaluation process, at which time any training or development needs are addressed. All of the Board attend business conferences and briefings.

EXTERNAL APPOINTMENTS

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

CONFLICTS OF INTEREST

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

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

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

ELECTION OF DIRECTORS

All continuing Directors of the Group will offer themselves for election or re-election at the Annual General Meeting.

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 guests in physical Hotel Chocolat locations, online reviews and via social media.

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

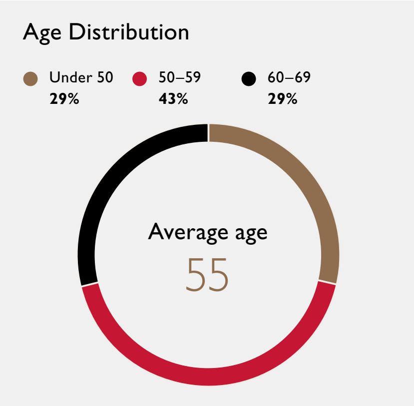
We meet with existing and potential suppliers and visit trade fairs. We also meet with charities, other activist groups, academics and specialists to keep abreast of developments in fields such as sustainability, recycling and nutrition.

Employee feedback is sought via regular anonymous surveys, with the opportunity to discuss topics directly with the Board or via an intermediary to present topics on their behalf.

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.

During the year the Board arranged a capital markets day to update investors and analysts on the Group's strategy, 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 **21 November 2019**. 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.

CORPORATE GOVERNANCE STATEMENT *continued*

The QCA Corporate Governance Code

The Board has adopted the QCA Code. Set out below is how the Board currently complies with the key principles set out in the code.

	Governance principles	Compliant	Explanation	Further reading
Deliver Growth	Establish a strategy and business model to promote long-term value for shareholders.	✔	The strategy for the Group is decided by the Board and progress towards delivering objectives is actively tracked and debated by the Directors.	See pages 8 to 23 to find out more about our strategy and business model.
	Seek to understand and meet shareholder needs and expectations.	✔	Regular meetings are held with investors and analysts and the Board regularly considers how decisions could impact, and be received by, shareholders. Our AGM provides an opportunity for all shareholders to hear from and meet with our Directors.	See page 41 for more information on our relations with shareholders. We also publish lots of information relevant to shareholders on our website www.hotelchocolat.com/uk/investor-relations.html.
	Take into account wider stakeholder and social responsibilities and their implications for long-term success.	✔	The Board has identified the main stakeholders in the business and regularly discusses how employees, suppliers, customers and others might be affected by decisions and developments in the business. We take our social responsibilities seriously and constantly strive to enhance our environmental and social credentials.	See page 40 to learn more about how we collate feedback from our stakeholders.
	Embed effective risk management, considering both opportunities and threats, throughout the organisation.	✔	Both the Board and Audit Committee regularly review risks, including new threats, and the processes to mitigate and contain them. Whilst the Board is responsible for risk, our culture seeks to empower all colleagues to manage risk effectively.	We have summarised the main risks faced by the business and how they are being managed on pages 26 and 27. Further details about our approach to risk management and internal controls are provided in the Audit Committee report on page 44 and 45.
Maintain a dynamic management framework	Maintain the Board as a well-functioning, balanced team led by the chair.	✔	Our Board works well together as a team exploiting the deep experience of strategy, retail, international and financial matters. Meetings are characterised by lively debate and active idea generation and management are rigorously challenged and held to account.	Our Directors and details of their individual roles, backgrounds and experience are provided on pages 34 and 35.
	Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities.	✔	We assess the adequacy of the Board's collective skills and experience as part of the annual Board evaluation. Directors' individual development needs are discussed annually with the Chairman.	Further information about how Directors keep their knowledge and skills up-to-date are provided on page 40.

	Governance principles	Compliant	Explanation	Further reading
Maintain a dynamic management framework *continued*	Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement.	✔	An annual Board evaluation is undertaken to review the board's effectiveness, track improvements since the previous year and plan additional actions.	The criteria assessed as part of the Board evaluation are summarised on page 39.
	Promote a corporate culture that is based on ethical values and behaviours.	✔	The Hotel Chocolat values of authenticity, originality and ethics have always underpinned, and are evident in, everything we do. Examples include our engaged ethics programme, sustainability commitments, workforce engagement and community activities.	Our corporate social responsibility statement on pages 30 to 33 illustrates some of the ways in which our corporate culture positively influences what we do.
	Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board.	✔	Our governance structures are underpinned by the matters which the Board reserves to itself. A scheme of delegation, including established committees, an annual agenda plan, regular business deep-dives and good information flows all contribute to the Board making well-informed and properly debated decisions.	More detailed information about our governance structures and processes can be found in our corporate governance statement on pages 36 to 41 and the reports of the Audit Committee and Remuneration Committee on pages 44 to 48.
Build trust	Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.	✔	We communicate with a range of stakeholders. Employee concerns and issues are represented in the boardroom by Sophie Tomkins who has been given special responsibility in this respect. We also actively engage with our cacao growers and other suppliers and with Hotel Chocolat guests in store and online.	Further information on our dialogue with stakeholders and shareholders can be found in our corporate social responsibility statement on pages 30 to 33 and in our corporate governance statement on pages 40 and 41. We also publish lots of information relevant to our wider stakeholders on our website www.hotelchocolat.com/uk/investor-relations.html.

AUDIT COMMITTEE REPORT

Sophie Tomkins
Chair of the Audit Committee

Meetings held

4

Members and attendance

Sophie Tomkins	**4**
Andrew Gerrie	**4**
Greg Hodder	**4**

"On behalf of the Board, I am pleased to present the Audit Committee report for the period ended 30 June 2019."

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 fully 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 four 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 Committees at CloudCall Group plc and System1 Group plc. A Chartered Secretary from Chadwick Corporate Consulting acts as Secretary to the Committee. I report the Committee's deliberations at the next Board meeting and the minutes of each meeting are made available to all members of the Board.

DUTIES

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

- Review of the FY19 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 39 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, speak up about 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 and its suppliers 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

Meetings held

3

Members and attendance

Greg Hodder	**3**
Sophie Tomkins	**3**

"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.

REMUNERATION STRATEGY

As you will see elsewhere in this Annual Report and Accounts, the Board of Hotel Chocolat is pursuing an ambitious strategy for growth for the business through continual innovation, expansion of our UK estate and international operations, development of strategic partnerships and enhancement of our digital presence. The people within our business are key to successful delivery of these aspirations and our remuneration strategy is designed to incentivise colleagues right across the Group to achieve the goals we have set for ourselves. Our pay and reward arrangements, both at executive level and throughout the organisation, are overseen by the Remuneration Committee. This report describes the operations of the Committee and the policies it has adopted as well as specific Directors' remuneration arrangements.

COMPOSITION AND ROLE

The Remuneration Committee's members are Greg Hodder (as Chair), and Sophie Tomkins. The Committee operates under agreed terms of reference and is responsible for reviewing all senior executive appointments and determining the Group's policy in respect of the terms of employment, including remuneration packages of Executive Directors. The Remuneration Committee met three times during the period and plans to meet at least twice a year going forward.

REMUNERATION POLICY

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

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

EXECUTIVE DIRECTORS' SERVICE CONTRACTS

The Executive Directors signed new service contracts with the Group on admission to AIM in May 2016. These are not of fixed duration. Angus Thirlwell and Peter Harris' contracts are terminable by either party giving 12 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 30 June 2019. Bonus payments received in FY19 represent the maximum amount payable under the rules of the scheme. Greg Hodder received additional fees in FY19 in connection with additional time commitments mentoring the new CEO of the US business.

	FY19					FY18			
	Basic salary/fee	Additional fees	Performance Bonus	Pension	Total	Basic salary/fee	Performance Bonus	Pension	Total
Executive									
Angus Thirlwell	235,000	–	–	8,288	243,288	235,000	–	5,937	240,937
Peter Harris	215,000	–	–	7,837	222,837	215,000	–	5,688	220,688
Matt Pritchard	215,000	–	86,000	4,837	305,837	215,000	17,200	2,688	234,888
Matt Margereson	215,000	–	86,000	4,837	305,837	215,000	17,200	2,688	234,888
Non-executive									
Andrew Gerrie	50,000	–	–	–	50,000	50,000	–	–	50,000
Sophie Tomkins	40,000	–	–	–	40,000	40,000	–	–	40,000
Greg Hodder	40,000	75,000*	–	–	115,000	40,000	–	–	40,000

* In respect of additional time commitment mentoring the CEO of the US business.

The Executive remuneration policy for 2020 is set out in the table below. Executive Directors will receive a 1% pay increase, the first increase in three years. The remuneration policy for 2020 will operate as follows:

	Basic salary/fee	Maximum cash bonus	Matching bonus deferred in equity (to June 2022)	Pension
Executive				
Angus Thirlwell	£237,000	Waived – nil	Nil	£10,110
Peter Harris	£217,000	Waived – nil	Nil	£9,150
Matt Pritchard	£217,000	50%	50%	£6,150
Matt Margereson	£217,000	50%	50%	£6,150

REMUNERATION REPORT *continued*

BONUS

Maximum bonus opportunities are disclosed in the table above. An increase in potential annual incentive is offset by a reduction in the value of the FY22 LTIP. However the majority of the increase in potential executive bonus will be paid in the form of deferred equity, vesting at the end of FY22, two years after the performance FY20 condition has been met. The FY20 bonus will be assessed against Group profit and international sales. The cash bonus will adjust from zero at a threshold profit growth, up to 40% for a stretch profit growth. A further 10% cash bonus is payable if international sales targets are exceeded. Any cash bonus earned will be matched by an equivalent value of nil cost share options vesting two years later (July 2022). Malus and clawback provisions will apply to the deferred equity element of the bonus. The actual performance targets are not disclosed as they are considered to be commercially sensitive.

LONG-TERM INCENTIVE PLAN

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

In addition to the FY22 incentive plan, the Board are reviewing the potential of the Group to achieve a more ambitious rate of growth over a time horizon of five years or more. Once the Board have assessed the feasibility of such a growth strategy, the Remuneration Committee will be asked to review the potential appropriateness of a longer-term incentive that rewards a material acceleration in growth rates.

Matt Pritchard and Matt Margereson along with other senior management 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. The Remuneration Committee have reviewed the performance conditions for the 2016 and 2017 LTIP's and have taken account of the Group's new activities that were not part of the strategic plan at the time of grant, and accordingly:

- 100% of 2016 LTIP has vested. There is a requirement for Directors to maintain a shareholding of 100% of salary.
- The Group budgeted profit for FY20 as approved by the Board would not trigger the stretching vesting condition for the 2017 LTIP, and therefore no accrual has been made for share-based payments relating to the 2017 scheme. Actual vesting if any will be assessed by reference to the FY20 accounts.

	Performance condition	Date of grant	Number of ordinary shares under option	Value of shares under option	Exercise price	Exercise period
Matt Pritchard	FY19 Profit after tax	04.05.16	800,000[1]		148p	24.09.19–03.05.26
	FY20 Profit after tax	16.03.17	200,000		292p	22.09.20[2]–15.03.27
	FY22 profit after tax	25.09.19	n/a	£217,000	1p	26.09.22–24.09.29
Matt Margereson	FY19 Profit after tax	04.05.16	800,000[1]		148p	24.09.19–03.05.26
	FY20 Profit after tax	16.03.17	200,000		292p	22.09.20[2]–15.03.27
	FY22 profit after tax	25.09.19	n/a	£217,000	1p	26.09.22–24.09.29

1 Vested following signing of FY19 financial statements.

2 Anticipated date of signing of FY20 financial statements.

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 30 June 2019.

The corporate governance statement on pages 36 to 43 also forms part of this Directors' report.

REVIEW OF BUSINESS

The Chairman's statement on page 6 and the strategic report on pages 4 to 27 provide a review of the business, the Group's trading for the period ended 30 June 2019, 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 58. The Company financial statements have been prepared under FRS 102 for the period ended 30 June 2019.

The Group's revenue of £132.5m (FY18: £116.3m), gross margin of 65.9% (FY18: 68.4%) and profit after tax of £10.9m (FY18: £10.0m) represent a successful period for the business. The Group continued to strengthen its position.

	Reported IFRS	
Period ended	**30 June 2019**	**1 July 2018**
Revenue (£m)	132.5	116.3
Gross margin %	65.9%	68.4%
Profit after tax (£m)	10.9	10.0

The Board is recommending a final dividend of 1.2 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 34 and 35.

DIRECTORS' INTERESTS

No Director has any beneficial interest in the share capital of any subsidiary undertaking. As at 30 June 2019, the Group owned 32% of a joint venture called Rabot 1745 Limited, in which Andrew Gerrie held 50%, Matt Margereson 1% and Matt Pritchard 1% 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 page 91.

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 30 June 2019, the Company's issued share capital was £112,838 divided into 112,838,213 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.

DIRECTORS' REPORT *continued*

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 20 to 23.

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 30).

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 21 November 2019. The ordinary business comprises receipt of the Directors' report and audited financial statements for the period ended 30 June 2019, 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 24 September 2019.

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 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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 or United Kingdom Generally Accepted Accounting Practice, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

WEBSITE PUBLICATION

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

Financial statements

SINGLE ORIGIN: RARE & VINTAGE

12 world-beaters. 7 countries.

Rare: Only from the best 10% of the world's cacao

Vintage: Unblended – taste the changing flavours each harvest


42% Caramelised White Dominican Republic
53% Caramelised Milk Colombia
55% Malted Milk Nicaragua
65% Supermilk Honduras
72% Dark Honduras
75% Dark Colombia
75% Coffee-Dark Colombia
76% Supermilk Nicaragua
80% Dark Tanzania
84% Dark Saint Lucia
100% Dark Honduras
100% Dark Ecuador

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 52 week period ended 30 June 2019 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 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 102 the Financial Reporting Standard applicable in the UK and Republic of Ireland (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 30 June 2019 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 were:

- 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 12 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.

Key audit matter	How we addressed the Key audit matter in the audit
Valuation of inventory See accounting policy in Note 2 and inventory Note 18. As part of calculating inventory at cost, management include labour, packaging and overhead absorption based on a standard costing model, to calculate the total cost of an inventory item. Management are required to determine the appropriate deferral of variances based on the average inventory holding period. Given the size of the balance and the judgemental nature of the calculations in the standard cost model, there is a risk that an error could lead to a material misstatement. Therefore, inventory is considered a significant risk and given the importance of the impact of a misstatement on key reporting metrics this is also considered a key audit matter.	Our audit procedures included: **Raw materials procedures** We selected a sample of raw materials and obtained support for the unit cost. We compared the unit cost per invoice to the standard cost per period end listing to ensure accuracy and challenged management on any discrepancies. An extrapolation was performed on any variances identified. **Finished goods procedures** We selected a sample of finished goods from the period end inventory listing. We have compared the cost of each sampled item to the standard cost card used by management to value inventory. **Standard cost variance analysis** We have gained an understanding of the nature of the variances arising between standard cost and the cash costs of production. We have assessed the accuracy of the information used by management in the calculation of these variances. We have also assessed the reasonability of the deferral of variances and performed a sensitivity analysis to stress test its parameters. **Net realisable value procedures** We considered whether inventory was valued at the lower of cost and net realisable value by selecting a sample of items and comparing the standard cost to the retail price. **Inventory provision procedures** Provision is made against inventory exceeding levels expected to be required to meet foreseeable demand within a reasonable period. We challenged the appropriateness of management's assumptions and considered evidence to support the validity of assumptions made by comparing to historic write-off trends and slow moving inventory listings. **Key observations** Nothing came to our attention through our audit testing to suggest that the valuation of inventory was materially misstated.

OUR APPLICATION OF MATERIALITY

We consider materiality to be the magnitude by which misstatements, individually or in aggregate, including omissions, could reasonably influence the economic decisions of users that are made on the basis of the financial statements. We apply the concept of materiality both in planning and performing our audit, and in evaluating the results of our work. Misstatements below these levels will not necessarily be evaluated as immaterial as we also take into account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

We determined materiality for the group financial statements as a whole to be £702,000 (2018: £633,000) which represents 5% of profit before tax.

Performance materiality for the group was set at £526,500 (2018: £475,000) which represents 75% of the above materiality level.

We agreed with the audit committee that we would report to them misstatements identified during our audit above £35,100 (2018: £31,650).

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.

We determined materiality in respect of the audit of the Parent Company to be £362,000 (2018: £359,000) using a benchmark of 2% of total assets, with performance materiality set at £271,500 (2018: £269,250). For each significant component we allocated a materiality threshold of 75% of the overall group materiality.

INDEPENDENT AUDITORS' REPORT *continued*

to the members of Hotel Chocolat Group plc

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

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

The group consists of seven trading entities incorporated in three jurisdictions; the UK, Europe and Rest of World. Statutory audits are required for the UK entities, and all of the significant components of the group are UK entities, and these are carried out by the group audit team. No other entities, representing insignificant components have a statutory audit requirement and so procedures are carried out by the group audit team limited to a number of judgemental areas. The group audit team obtained an understanding of the internal control environment related to the financial reporting process and assessed the appropriateness, completeness and accuracy of group journals and other adjustments performed on consolidation.

OTHER INFORMATION

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report and Accounts, 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.

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, 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: 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 Parent 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 Parent 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 Parent Company and the Parent 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

24 September 2019

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 30 June 2019

	Notes	52 weeks ended 30 June 2019 £	52 weeks ended 1 July 2018 £
Revenue	4	132,479,543	116,331,566
Cost of Sales		(45,139,983)	(36,740,859)
		87,339,560	79,590,707
Administrative expenses	5	(73,028,333)	(66,360,796)
		14,311,227	13,229,911
Finance income	10	68,967	22,113
Finance expenses	10	(294,966)	(578,760)
Share of joint venture (loss)/profit	11	(33,969)	35,501
Profit before tax		14,051,259	12,708,765
Tax expense	12	(3,122,486)	(2,729,123)
Profit for the period		10,928,773	9,979,642
Other comprehensive income/(loss):			
Derivative financial instruments	17	71,931	(106,001)
Deferred tax charge on derivative financial instruments	16	16,667	20,561
Currency translation differences arising from consolidation		372,795	(168,661)
Total other comprehensive income/(loss) for the period		461,393	(254,101)
Total comprehensive income for the period		11,390,166	9,725,541
Earnings per share – Basic	13	9.7p	8.8p
Earnings per share – Diluted	13	9.5p	8.8p

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Notes	As at 30 June 2019 £	As at 1 July 2018 £
ASSETS			
Non-current assets			
Intangible assets	14	2,911,586	2,788,152
Property, plant and equipment	15	40,115,095	36,408,775
Deferred tax asset	16	622,649	623,961
Derivative financial assets	17	–	68,721
Prepayments	19	18,000	1,643
Loan to Hotel Chocolat KK	20	2,488,041	–
Investment in JV	11	8,731	35,501
		46,164,102	39,926,753
Current assets			
Derivative financial assets	17	81,299	14,925
Inventories	18	12,810,049	12,555,517
Trade and other receivables	19	9,359,766	7,486,894
Cash and cash equivalents	22	5,778,205	235,936
		28,029,319	20,293,272
Total assets		74,193,421	60,220,025
LIABILITIES			
Current liabilities			
Trade and other payables	23	19,527,743	15,545,845
Corporation tax payable		1,607,069	1,328,673
Derivative financial liabilities	17	1,671	54,691
Borrowings	24	16,811	201,732
		21,153,294	17,130,941
Non-current liabilities			
Other payables and accruals	23	2,757,158	2,581,044
Derivative financial liabilities	17	9,106	–
Borrowings	24	–	16,811
Provisions	25	943,627	879,808
		3,709,891	3,477,663
Total liabilities		24,863,185	20,608,604
NET ASSETS		49,330,236	39,611,421
EQUITY			
Share capital	26	112,838	112,838
Share premium	27	11,750,056	11,749,487
Retained earnings	27	33,358,932	24,348,409
Translation reserve	27	1,253,355	880,560
Merger reserve	27	223,251	223,251
Capital redemption reserve	27	6,301	6,301
Other reserves	27	2,625,503	2,290,575
Total equity attributable to shareholders		49,330,236	39,611,421

The financial statements of Hotel Chocolat Group plc, registered number 08612206 were approved by the Board of Directors and authorised for issue on 24 September 2019. They were signed on its behalf by:

Matt Pritchard
Chief Financial Officer
24 September 2019

CONSOLIDATED STATEMENT OF CASH FLOW

For the period ended 30 June 2019

	Notes	52 weeks ended 30 June 2019 £	52 weeks ended 1 July 2018 £
Profit before tax for the period		14,051,259	12,708,765
Adjusted by:			
Depreciation of property, plant and equipment	15	4,939,982	4,247,550
Impairment loss on fixtures and equipment	15	–	284,681
Amortisation of intangible assets	14	512,862	509,892
Net interest expense	10	225,999	556,647
Share-based payments	9	246,262	726,585
Share of Joint Venture Loss	11	33,969	–
(Profit)/loss on disposal of property, plant and equipment and intangible assets	5	44,100	(88,253)
Operating cash flows before movements in working capital		20,054,433	18,945,867
Increase in inventories		(259,442)	(2,931,781)
Increase in trade and other receivables		(1,890,866)	(1,460,333)
Increase in trade and other payables and provisions		4,076,600	277,219
Cash inflow generated from operations		21,980,725	14,830,972
Interest received		40,935	22,113
Income tax paid		(2,820,395)	(2,466,051)
Interest paid on:			
– finance leases and hire purchase loans		–	(1,192)
– bank loans and overdraft		(110,282)	(28,802)
– derivative financial liabilities		(180,083)	(147,747)
Cash flows from operating activities		18,910,900	12,209,293
Purchase of property, plant and equipment		(8,295,817)	(10,645,621)
Proceeds from disposal of property, plant and equipment		9,500	340,737
Purchase of intangible assets		(580,795)	(949,229)
Loan to joint venture		(2,460,009)	–
Acquisition of joint venture		(7,200)	–
Cash flows used in investing activities		(11,334,321)	(11,254,113)
Dividends paid		(1,918,250)	(2,482,432)
Buy back of Chocolate bonds		–	(6,505,500)
Sale of shares		570	–
Capital element of hire purchase and finance leases repaid		(201,732)	(237,195)
Cash flows (used in)/from financing activities		(2,119,412)	(9,225,127)
Net change in cash and cash equivalents		5,457,167	(8,269,946)
Cash and cash equivalents at beginning of period	22	235,936	8,470,178
Foreign currency movements		85,102	35,704
Cash and cash equivalents at end of period	22	5,778,205	235,936

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2019

	Share capital £	Share Premium £	Retained earnings £	Translation reserve £	Merger reserve £	Capital redemption reserve £	Other reserve £	Total £
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
Issue of share capital	–	569	–	–	–	–	–	569
Profit for the period	–	–	10,928,773	–	–	–	–	10,928,773
Dividends	–	–	(1,918,250)	–	–	–	–	(1,918,250)
Share-based payments	–	–	–	–	–	–	246,262	246,262
Deferred tax charge on share-based payments	–	–	–	–	–	–	68	68
Other comprehensive income:								
Derivative financial instruments	–	–	–	–	–	–	71,931	71,931
Deferred tax charge on derivative financial instruments	–	–	–	–	–	–	16,667	16,667
Currency translation differences arising from consolidation	–	–	–	372,795	–	–	–	372,795
Equity as at 30 June 2019	112,838	11,750,056	33,358,932	1,253,355	223,251	6,301	2,625,503	49,330,236

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2019

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 21.

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:

IFRS 16 Leases	IFRS 16 'Leases' is a replacement for IAS 17 'Leases' and will be effective for the year ending 28 June 2020 onwards. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. It eliminates the lease classification of leases as either operating leases or financial leases and introduces a single lease accounting model requiring lessees to recognise a lease liability reflecting future lease payments and a right-of-use asset for lease contracts. Relevant leased assets which will be impacted by this new standard include retail property. The preparations for this standard are substantially complete. The Group intends to adopt the 'modified retrospective' approach whereby for leases previously classified as operating leases the right of use asset will be measured at carrying amount as if the standard had always been applied, but discounted using the incremental borrowing rate at the date of initial application. In the period ended 28 June 2020 comparative information relating to prior years will not be restated.
	Impact on the Financial Statements **Statement of Financial Position:** Operating leases capitalised at a relevant discount rate to create a 'Right of Use' asset of approximately £53m. A new corresponding lease liability of approximately £57m will be recognised. The impact of these changes will be a reduction in retained earnings of approximately £3m. The balance represents amounts already recognised in the financial statements in respect of lease incentives, prepaid rent and dilapidations. **Statement of Comprehensive Income:** Administrative expenses will reduce as rent costs are removed. Depreciation will increase as the leased assets are depreciated over their useful economic lives. Finance expenses will increase with an interest charge on the lease liability. The expense in the Income Statement will be the same over the life of the lease, but the finance charge will be front-loaded as it is recognised using the effective interest rate method. **Statement of Cash Flow:** The presentation of cashflows will be changed, however the total cashflows reported will not. The operating cash outflows will reduce in line with the reduction of administrative expenses. Cash flows from financing activities will see a corresponding increase. There will be no impact to business decisions or operational cash.

2. ACCOUNTING POLICIES *CONTINUED*

The following standards came into effect for the first time in the period to 30 June 2019:

IFRS 15 Revenue from Contracts with Customers	IFRS 15 'Revenue from contracts with customers' is a replacement for IAS 18 'Revenues' and came into effect for the year ending 30 June 2019 onwards. Revenue in the Group is primarily driven by the sale of goods to customers, with a single performance obligation of transferring those goods to the customer. That performance obligation is still considered to be satisfied upon despatch of goods, and as such the adoption of the standard had had no impact on revenue recognition. Revenue is recognised in the financial statements when the goods have been despatched or services delivered. The adoption of the standard has had no impact on existing revenue policies.
IFRS 9 Financial Instruments	IFRS 9 'Financial Instruments' is a replacement for IAS 39 'Financial Instruments' and came into effect for the year ending 30 June 2019 onwards. IFRS 9 introduces a single classification and subsequent measurement model for financial assets and financial liabilities, a new model for recognising provisions based on expected credit losses and simplified hedge accounting. The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. To measure expected credit losses on a collective basis, trade receivables are grouped based on similar credit risk and ageing. Expected loss rates for CTC member debt are based on historical credit losses experienced over the four years prior to the period end. Expected loss rates for the recently expanded corporate/wholesale business are based on historical credit losses experienced over the last 12 months to the period end. There are no expected losses for retail sales as consideration is received at the point of sale. This is the first time that the Group has extended a loan facility to a joint venture there is no other historical information on which to base an expected credit loss. The Group applies the IFRS 9 general approach to measuring expected credit losses on the joint venture loan. Future expected cashflows of the loan are discounted to identify any potential impairment. The expected credit losses in Hotel Chocolat Group are not material. IFRS 9 introduced changes to hedge accounting, establishing new criteria which are less complex than that under IAS 39. The Group only holds derivatives for hedging purposes and all are designated as such. Essentially there is no difference in the treatment of the simple cashflow that the Group undertakes between IAS 39 and IFRS 9.

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 21 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.

NOTES TO THE FINANCIAL STATEMENTS *continued*

For the period ended 30 June 2019

2. ACCOUNTING POLICIES *CONTINUED*

Going concern

The Directors have prepared a cash flow forecast covering a period extending beyond 18 months from the financial information presented as at 30 June 2019.

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. In physical retail locations revenue is recognised at the point goods are transferred to the customer. For online, partners and B2B transactions revenue is recognised on despatch of goods. For Cacao estate and hotel revenue is recognised over the duration of the guests stay. 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.

(i) 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.

(ii) 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.

2. ACCOUNTING POLICIES *CONTINUED*

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 has discretion to recover the employer's National Insurance liability from the employee. For the 2016 LTIP the company has chosen not to, and the liability has been accrued.

Leases

Operating leases

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

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

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

Hire purchase agreements and finance leases

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

NOTES TO THE FINANCIAL STATEMENTS *continued*

For the period ended 30 June 2019

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 improvements	– Over the remaining lease term
Plant and machinery	– 5 to 15 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.

Assets in the course of construction are carried at cost, less any recognised impairment loss. Depreciation of these assets commences once the assets are ready for their intended use.

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.

The cost of development and/or implementation of other software utilised by the Group is amortised over the useful economic life of the software.

Management estimates that the useful life of assets is as follows:

Software	– 3 to 10 years on a straight line basis
Website development costs	– 3 to 5 years on a straight line basis

Loan to joint venture

The loan to a joint venture was initially measured at fair value upon recognition. The loan has subsequently been classified under IFRS 9 as an amortised cost asset.

The Group applies the IFRS 9 general approach to measuring expected credit losses on the joint venture loan, on the basis of possible situations and developments that may lead to the joint venture defaulting within a period of 12 months. However, if the Group believes that significant change has occurred in the credit risk of the joint venture, expected credit losses are reassessed over the lifetime of the loan.

Relevant information that is accessible without undue cost or effort is used to determine (twice a year) whether the credit risk has increased significantly and to measure expected credit losses. A significant increase in the risk is deemed to have occurred if performance of the joint venture has fallen significantly below expectations.

2. ACCOUNTING POLICIES *CONTINUED*

Inventories

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

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

Interest in other entities

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

Impairment

Impairment of loans and receivables (including trade receivables) follows a two stage process:

1. Separate identification of specific poorly performing loans and receivables and appropriate impairment;

2. For the remaining loans and receivables an 'expected loss' model calculates (on a discounted basis) the expected losses using year-end balances and the probability of a loss based on historic figures.

(i) Specific 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) Expected losses on financial assets

The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. To measure expected credit losses on a collective basis, trade receivables are grouped based on similar credit risk and ageing.

Expected loss rates for CTC member debt are based on historical credit losses experienced over the four years prior to the period end. Expected loss rates for the recently expanded corporate/wholesale business are based on historical credit losses experienced over the last 12 months to the period end. There are no expected losses for retail sales as consideration is received at the point of sale.

This is the first time that the Group has extended a loan facility to a joint venture there is no other historical information on which to base an expected credit loss. The Group applies the IFRS 9 general approach to measuring expected credit losses on the joint venture loan. Impairment of the loan has been calculated by calculating the discounted value of future expected cashflows of this loan back to current values.

NOTES TO THE FINANCIAL STATEMENTS *continued*

For the period ended 30 June 2019

2. ACCOUNTING POLICIES *CONTINUED*

(iii) 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.

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.

2. ACCOUNTING POLICIES *CONTINUED*

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.

Chocolate bonds

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

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

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.

During the prior period, the Group repaid in full all outstanding 'Chocolate bonds' which had been issued in 2010 and 2014.

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 fair value through profit or loss, amortised cost or fair value through other comprehensive income. The classification depends on the purpose for which the financial assets were acquired.

Fair value through profit or loss assets comprise in the money derivatives. They are carried in the Consolidated Statement of Financial Position at fair value with changes in fair value recognised in the Consolidated Statement of Comprehensive Income. There are no other assets classified as fair value through profit or loss.

Amortised cost assets are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They arise principally through the provision of services to customers (eg trade receivables), and through the loan to a joint venture. The Group's assets at amortised cost comprise trade and other receivables, loan to joint venture and cash and cash equivalents including cash held at bank.

The Group applies the simplified approach under IFRS 9 for measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. To measure expected credit losses on a collective basis, trade receivables are grouped based on similar credit risk and ageing. Expected loss rates are based on historical credit losses experienced and are then adjusted for current and forward looking information on factors affecting the Group's customers.

The Group applies the general approach under IFRS 9 for measuring expected credit losses for the joint venture loan. There is little historical information on which to base an expected credit loss as this is the first time that the Group has extended a loan facility to a joint venture. The expected credit losses are based on current and forward looking information affecting the joint venture.

NOTES TO THE FINANCIAL STATEMENTS *continued*

For the period ended 30 June 2019

2. ACCOUNTING POLICIES *CONTINUED*

Financial liabilities

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

On initial recognition, financial liabilities are classified as either fair value through profit or loss, or other financial liabilities

Fair value through profit or loss liabilities comprise out of the money derivatives. They are carried in the Consolidated Statement of Financial Position at fair value with changes in fair value recognised in the Consolidated Statement of Comprehensive Income. There are no other liabilities classified as fair value through profit or loss.

Other financial liabilities are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

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 when the following criteria are met:

- The hedging instrument is measured at fair value through profit or loss and is with an external party to the Group
- The hedged items are reliably measurable
- The items are managed as a group for risk management purposes
- For cash flow hedges the foreign currency and the reporting period, nature and volume of forecast transactions expecting to affect profit or loss is specified
- At the inception of hedge there is formal designation and documentation of the hedging relationship, the Group's risk management objective and strategy for undertaking the hedge, the hedged item and hedging instrument, and how the hedge effectiveness will be assessed
- An economic relationship exists between the hedged item and the hedging instrument
- Credit risk does not dominate changes in value
- The hedge ratio is the same for both the hedging relationship and the quantity of the hedged item actually hedged and the quantity of the hedging instrument used to hedge it

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. During the period under review management re-assessed the useful economic lives of plant and machinery at the Huntingdon manufacturing site. As a result of this review some assets have had their useful economic lives extended and depreciation has reduced by £176,709. Actual useful lives however, may vary due to unforeseen events.

NOTES TO THE FINANCIAL STATEMENTS *continued*

For the period ended 30 June 2019

4. REVENUE

	52 weeks ended 30 June 2019 £	52 weeks ended 1 July 2018 £
Sale of goods and services	132,479,543	116,331,566
Total revenue	132,479,543	116,331,566

Segmental analysis

The Group operates in five primary revenue channels. The Board of Directors monitors revenue on this basis.

Revenue for each of the channels is as follows:

	52 weeks ended 30 June 2019 £	52 weeks ended 1 July 2018 £
Revenue by channel		
UK		
Physical	89,191,751	77,556,475
Digital	25,433,629	23,556,922
Partners & B2B	13,113,986	11,064,022
International	2,711,060	2,316,328
Cacao estate & hotel	2,029,117	1,837,819
Total revenue	132,479,543	116,331,566

Below this level the Group is an integrated operation and as such the Board considers the Groups activity constitutes one operating and one reporting segment.

Revenue by geographical areas is as follows:

	52 weeks ended 30 June 2019 £	52 weeks ended 1 July 2018 £
Revenue by destination of sale		
United Kingdom	127,739,366	112,177,419
Europe	1,674,180	2,316,328
Rest of World	3,065,997	1,837,819
Total revenue	132,479,543	116,331,566

Non-current assets are held in the United Kingdom, Ireland, the United States and St Lucia.

Non-current assets for each of the countries is as follows:

	52 weeks ended 30 June 2019 £	52 weeks ended 1 July 2018 £
Non-current assets		
United Kingdom	33,355,962	29,226,984
Ireland	660,758	385,569
United States	1,146,432	-
St Lucia	11,000,950	10,314,200
Total non-current assets	46,164,102	39,926,753

5. PROFIT FROM OPERATIONS

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

	52 weeks ended 30 June 2019 £	52 weeks ended 1 July 2018 £
Staff cost (see Note 7)	35,840,518	30,658,433
Depreciation of property, plant and equipment (see Note 15)	4,939,982	4,247,550
Impairment of property, plant and equipment (see Note 15)	–	284,681
Amortisation of intangible assets (see Note 14)	512,862	509,892
Loss/(profit) on disposal of property, plant and equipment and intangible assets	44,100	(88,253)
Operating leases:		
– Property	11,516,556	10,582,822
– Plant and equipment	225,337	148,949
Exchange differences	(10,507)	106,760
Bad debt expense	47,527	57,940

6. AUDIT AND NON-AUDIT FEES

An analysis of auditors' remuneration is as follows:

	52 weeks ended 30 June 2019 £	52 weeks ended 1 July 2018 £
Audit fees	137,500	115,000
Audit related assurance services	12,500	10,000
Taxation compliance services	20,042	25,652
Other taxation advisory services	12,376	17,688
Non-audit fees	44,918	53,340

7. STAFF COSTS

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

	52 weeks ended 30 June 2019	52 weeks ended 1 July 2018
Production staff	244	242
Administrative staff	1,010	1,006
Total	1,254	1,248

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

	52 weeks ended 30 June 2019 £	52 weeks ended 1 July 2018 £
Wages and salaries	31,784,738	27,433,753
Share-based payments	871,598	726,585
Social security costs	2,672,613	2,209,489
Pension costs	511,569	288,606
Total	35,840,518	30,658,433

Share-based payments includes £626,457 of employers national insurance for 2016 LTIP (1 July 2018: nil).

NOTES TO THE FINANCIAL STATEMENTS *continued*

For the period ended 30 June 2019

8. REMUNERATION OF KEY MANAGEMENT PERSONNEL

Key management personnel includes all members of the executive committee of the Group and a statutory director of the St Lucia subsidiaries. The number of key management personnel has increased to nine (1 July 2018: eight). Emoluments and benefits include:

	52 weeks ended 30 June 2019 £	52 weeks ended 1 July 2018 £
Short-term employee benefits	1,495,022	1,114,577
Share-based payments	544,152	344,984
Social security costs	186,479	185,258
Post-employment benefits	29,204	17,000
Total	2,254,857	1,661,819

Further information about the remuneration of individual Directors, including the highest paid Director, is provided in the Remuneration report on pages 46 to 48.

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 30 June 2019		52 weeks ended 1 July 2018	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at beginning of the period	3,657,000	1.82	3,692,000	1.83
Granted during the period	–	–	–	–
Exercised during the period	–	–	–	–
Forfeited during the period	(43,000)	2.32	(35,000)	2.92
Outstanding at the end of the period	3,614,000	1.81	3,657,000	1.82
Exercisable at the end of the period	–	–	–	–

The awards outstanding at 30 June 2019 have a weighted average remaining contractual life of 0.48 years (1 July 2018: 1.48 years), a weighted average exercise price of £1.81 (1 July 2018: £1.82) 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 30 June 2019 of £38,462 (1 July 2018: £559,149).

There were no options granted during the period ended 30 June 2019 (1 July 2018: aggregate fair value of options granted £nil).

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.

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 30 June 2019		52 weeks ended 1 July 2018	
	Number of share options	**Weighted average exercise price £**	**Number of share options**	**Weighted average exercise price £**
Outstanding at beginning of the period	625,137	1.68	553,165	1.48
Granted during the period	102,403	2.56	136,863	2.47
Exercised during the period	(385)	1.48	–	–
Forfeited during the period	(55,698)	2.09	(64,891)	1.65
Outstanding at the end of the period	671,457	1.78	625,137	1.68
Exercisable at the end of the period	–	–	–	–

The awards outstanding at the end of 30 June 2019 have a weighted average remaining contractual life of 0.71 years (1 July 2018: 1.45 years) and an exercise price of £1.78 (1 July 2018: £1.68).

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 30 June 2019 of £151,081 (1 July 2018: £167,436).

The aggregate of the fair value of these shares granted during the period ended 30 June 2019 was £84,403 (1 July 2018: £170,805).

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 30 June 2019	52 weeks ended 1 July 2018
Weighted average share price (£)	2.56	2.47
Exercise price (£)	2.56	2.47
Expected volatility (%)	38.0%	32.0%
Option life (years)	3.5	3.5
Risk free interest rate (%)	0.95%	0.6%

For the schemes which vest in 2019 and 2020 there was an absence of any historical volatility data for Hotel Chocolat Group plc, therefore the expected volatility was determined by reviewing the volatility of the share price of similar entities which are currently traded on AIM. For the scheme which vests in 2021 volatility data was available for Hotel Chocolat Group plc.

Share-based bonus entitlement

The Group recognised total expense of £56,719 in relation to a share-based bonus for an employee (1 July 2018: nil). The fair value of shares was $75,000.

NOTES TO THE FINANCIAL STATEMENTS *continued*

For the period ended 30 June 2019

10. FINANCE INCOME AND EXPENSES

	52 weeks ended 30 June 2019 £	52 weeks ended 1 July 2018 £
Interest from related party	28,032	–
Interest on bank deposits	40,935	22,113
Finance income	68,967	22,113
Interest on bank borrowings	78,947	92,373
Unrealised interest on derivative financial instruments	35,828	121
Realised interest on derivative financial liabilities	180,083	147,747
Finance leases and hire purchase contracts	108	1,192
Finance charges on Chocolate bonds	–	337,327
Finance expenses	294,966	578,760

11. INVESTMENTS IN JOINT VENTURES

The Group has an interest in joint venture Rabot 1745 Limited, a separate company incorporated and operating in the United Kingdom.

Ownership has changed as follows:

1 July 2017 to 18 August 2017	30.0%
19 August 2017 to 13 February 2019	34.5%
14 February 2019 to 30 June 2019	32.0%

The Group recognised a loss from its share in this joint venture of £26,769 (1 July 2018: profit of £35,501).

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.

Summary financial information for Rabot 1745 Limited is as follows:

	As at 30 June 2019 £	As at 30 June 2018 £
Current assets	414,035	298,794
Current liabilities	(379,132)	(71,565)
The following amounts have been included in the amounts above		
Cash and cash equivalents	27,584	120,217
Revenue	379,091	380,319
Total comprehensive loss	(82,138)	131,014

The summarised financial information is not the Group's share but the total results of Rabot 1745 Ltd.

11. INVESTMENTS IN JOINT VENTURES *CONTINUED*

During the period ended 30 June 2019 the Group acquired a 20% interest in joint venture Hotel Chocolat KK, a separate company incorporated and operating in Japan for £7,200.

The Group recognised a loss from its share in this joint venture of £7,200.

Detail of Hotel Chocolat KK are as follows:

Country of Incorporation:	Japan.
Registered address:	MG Meguro Ekimae 2-15-19, Kamiosaki, Shinagawa-ku, Tokyo 141-0021
Principal Activity:	Sale of chocolate.

Summary financial information for Hotel Chocolat KK can be found in Note 20.

12. TAXATION

	52 weeks ended 30 June 2019 £	**52 weeks ended 1 July 2018 £**
UK corporation tax	3,122,556	2,695,564
Adjustment in respect of previous periods	(7,424)	(85,126)
Overseas corporation tax	(10,675)	29,406
Total current tax charge	3,104,457	2,639,844
Deferred tax:		
Adjustment in respect of previous periods	407	10,273
Origination and reversal of timing differences	17,622	79,006
Total tax expense	3,122,486	2,729,123

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 30 June 2019 £	**52 weeks ended 1 July 2018 £**
Profit on ordinary operations before income tax	14,051,259	12,708,765
Weighted average standard rate of corporation tax	19.00%	19.00%
Profit for the year multiplied by the standard rate of corporation tax	2,669,739	2,414,665
Effects of:		
Expenses not deductible for tax purposes	29,557	68,077
Permanent depreciation	281,245	246,908
Adjustment in respect of prior years	(7,016)	(74,853)
Adjust closing deferred tax in respect of change in future rate of taxation	(31,558)	(9,105)
Adjust opening deferred tax in respect of change in future rate of taxation	18,416	2,499
Movement to unrecognised deferred tax	161,537	45,197
Overseas tax	566	35,735
Tax expense	3,122,486	2,729,123

NOTES TO THE FINANCIAL STATEMENTS *continued*

For the period ended 30 June 2019

12. TAXATION *CONTINUED*

The Group's effective tax rate for the period ended 30 June 2019 was 22.2% (1 July 2018: 21.5%). The effective rate is an amalgamation of UK and European rates for the periods reported. At 30 June 2019 the Group has tax losses to carry forward against future profits of the Irish branch of £297,000 (1 July 2018: £103,000). The tax value of such losses amounted to approximately £37,000 (1 July 2018: £13,000), have no expiry date and have 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 30 June 2019 £	52 weeks ended 1 July 2018 £
Profit after tax for the period	10,928,773	9,979,642

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 30 June 2019	52 weeks ended 1 July 2018
Weighted average number of share in issue for the period – basic	112,838,191	112,837,828
Effect of dilutive potential shares:		
Share-based payments – Hotel Chocolat Group plc Save as You Earn Plan	271,405	244,987
Share-based payments – Long Term Incentive Plan 2016	1,617,021	–
Weighted average number of shares in issue used in the calculation of earnings per share (number) – Diluted	114,726,617	113,082,815
Earnings per share (pence) – Basic	9.7	8.8
Earnings per share (pence) – Diluted	9.5	8.8

As at 30 June 2019, the total number of potentially dilutive shares issued under the Hotel Chocolat Group plc Long-Term Incentive Plan was 830,000 (1 July 2018: 3,657,000). 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 26.

14. INTANGIBLE ASSETS

	52 weeks ended 30 June 2019 £	52 weeks ended 1 July 2018 £
Goodwill arising on consolidation (Note (a))	945,004	934,918
Computer software and website costs (Note (b))	1,966,582	1,853,234
	2,911,586	2,788,152

14. INTANGIBLE ASSETS *CONTINUED*

(a) Goodwill arising on consolidation

	52 weeks ended 30 June 2019 £	52 weeks ended 1 July 2018 £
At beginning of period	934,918	938,408
Translation differences	10,086	(3,490)
At end of period	945,004	934,918

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 discounting 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 material impairment of goodwill in the year.

(b) Computer software and website costs

	52 weeks ended 30 June 2019 £	52 weeks ended 1 July 2018 £
Cost:		
At beginning of period	2,957,815	1,994,322
Additions	625,289	963,493
Exchange difference	1,005	–
At end of period	3,584,109	2,957,815
Amortisation:		
At beginning of period	1,104,581	594,689
Amortisation charge	512,862	509,892
Exchange difference	84	–
At end of period	1,617,527	1,104,581
Net book value	1,966,582	1,853,234

Included in computer software is £569,111 relating to finance system software which has a remaining useful economic life of nine years.

NOTES TO THE FINANCIAL STATEMENTS *continued*

For the period ended 30 June 2019

15. PROPERTY, PLANT AND EQUIPMENT

	Freehold property £	Leasehold improvements £	Furniture & fittings, equipment & hardware £	Plant & machinery £	Total £
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
Disposal	–	–	(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
52 weeks ended 30 June 2019					
Cost:					
As at 1 July 2018	12,837,367	734,999	34,890,442	18,895,928	67,358,736
Reclassifications	–	–	(743,041)	743,041	–
Additions	1,589,584	–	4,726,534	1,946,508	8,262,626
Disposals	(68,193)	–	(2,727,832)	(41,292)	(2,837,317)
Translation differences	416,127	–	38,309	–	454,436
As at 30 June 2019	14,774,885	734,999	36,184,412	21,544,185	73,238,481
Accumulated depreciation:					
As at 1 July 2018	724,685	734,206	18,752,462	10,738,608	30,949,961
Reclassifications	–	–	160,159	(160,159)	–
Depreciation charge	157,518	793	3,625,732	1,155,939	4,939,982
Disposal	(68,193)	–	(2,709,079)	(6,445)	(2,783,717)
Impairment	–	–	–	–	–
Translation differences	1,632	–	15,528	–	17,160
As at 30 June 2019	815,642	734,999	19,844,802	11,727,943	33,123,386
Net book value					
As at 30 June 2019	13,959,243	–	16,339,610	9,816,242	40,115,095

As at 30 June 2019, the net book value of freehold property includes land of £2,930,823 (1 July 2018: £2,817,709), which is not depreciated.

Included above are assets held under finance leases and hire purchase agreements. As at 30 June 2019, the net book value of such assets within computer software and hardware is £274,547 (1 July 2018: £395,586).

15. PROPERTY, PLANT AND EQUIPMENT *CONTINUED*

During the period, assets were re-classified to more accurately represent their asset class.

Included in Freehold Property is £3,767,475 of assets under construction (1 July 2018: £2,302,203).

Included in Furniture & fittings, equipment & hardware is £340,120 of assets under construction (1 July 2018: £1,129,774).

Included in Plant & machinery is £2,137,056 of assets under construction (1 July 2018: £2,294,675).

16. DEFERRED INCOME TAX ASSET AND LIABILITY

	52 weeks ended 30 June 2019 £	52 weeks ended 1 July 2018 £
Deferred taxation asset	622,649	623,961
	622,649	623,961

Reconciliation of deferred tax balances:

	52 weeks ended 30 June 2019 £	52 weeks ended 1 July 2018 £
Balance at beginning of period	623,961	213,819
Deferred tax charge for the period through income statement	(18,047)	(89,261)
Deferred tax charge for the period through other comprehensive income	16,667	20,561
Deferred tax charge for the period through Statement of Changes in Equity	68	478,842
Balance at end of period	622,649	623,961

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

	52 weeks ended 30 June 2019 £	52 weeks ended 1 July 2018 £
Fixed asset differences	(742,509)	(533,939)
Short-term differences	252,464	121,272
Derivative financial instruments	(13,179)	(29,846)
Share-based payments	1,088,705	1,053,580
Unused trade losses	37,168	12,894
	622,649	623,961

At 30 June 2019, the Group had £221,000 of unrecognised deferred tax assets (1 July 2018: £64,000).

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 in the 52 week period ended 28 June 2020 a rate of 18.5% has been used. For any remaining temporary differences expected to reverse after 28 June 2020 a rate of 17.0% has been used.

NOTES TO THE FINANCIAL STATEMENTS *continued*

For the period ended 30 June 2019

17. DERIVATIVE FINANCIAL INSTRUMENTS

	52 weeks ended 30 June 2019 £	52 weeks ended 1 July 2018 £
Derivative financial assets:		
Current		
Foreign currency forward contracts	81,299	14,925
	81,299	14,925
Non-current		
Foreign currency forward contracts	–	68,721
	–	68,721
Derivative financial liabilities:		
Current		
Foreign currency forward contracts	1,671	54,691
	1,671	54,691
Non-current		
Foreign currency forward contracts	9,106	–
	9,106	–

All derivatives held by the Group are designated as hedging instruments. The Group has elected to adopt the hedge accounting requirements of IFRS 9 Financial Instruments. The Group enters hedge relationships where the critical terms of the hedging instrument and the hedged item match, therefore, for the prospective assessment of effectiveness a qualitative assessment is performed. Hedge effectiveness is determined at the origination of the hedging relationship. Quantitative effectiveness tests are performed at each period end to determine the continued effectiveness of the relationship. There are no forecast transactions for which hedge accounting had previously been used, but which are no longer expected to occur.

The fair value of the derivative financial assets and 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 30 June 2019, 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 30 June 2019 was £14,309,722 (1 July 2018 £17,446,374). The movement in the fair value on forward contracts in the period of £71,931 profit (1 July 2018: £106,001 loss) has been included within other comprehensive income in the Consolidated Statement of Comprehensive Income.

18. INVENTORIES

	52 weeks ended 30 June 2019 £	52 weeks ended 1 July 2018 £
Raw materials	2,674,910	3,592,960
Finished goods	10,135,139	8,962,557
	12,810,049	12,555,517

Total inventory recognised as an expense in the Statement of Comprehensive Income during the period was £44,573,997 (1 July 2018: £36,341,318).

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 30 June 2019 £	52 weeks ended 1 July 2018 £
Current		
Trade receivables	918,306	1,053,758
Other receivables	384,200	419,544
Prepayments	8,057,260	6,013,592
	9,359,766	7,486,894
Non-current		
Prepayments	18,000	1,643
	18,000	1,643

20. LOAN TO HOTEL CHOCOLAT KK

During the period Hotel Chocolat signed a loan agreement with Hotel Chocolat KK. The loan is denominated in sterling and interest is payable on a quarterly basis. Hotel Chocolat KK first drew down on the loan in July 2018 and during the period made further drawdowns bringing the total loan balance including interest to £2,488,041 at 30 June 2019. The loan facility has been extended to Hotel Chocolat KK from July 2018 to December 2023.

Interest is charged on a commercial basis and accrues quarterly.

Summarised financial information for Hotel Chocolat KK is set out below.

	As at 30 June 2019 £
Current assets	905,972
Non-current assets	962,567
Current liabilities	(469,985)
Non-current liabilities	(2,515,371)
The following amounts have been included in the amounts above	
Cash and cash equivalents	199,738
Revenue	1,435,419
Total comprehensive loss	(1,068,674)
The following amounts have been included in the amounts above	
Depreciation and amortisation	(97,948)
Interest income	88
Interest expense	(27,648)
Income tax	824

The summarised financial information is not the Group's share but the total results of Hotel Chocolat KK.

NOTES TO THE FINANCIAL STATEMENTS *continued*

For the period ended 30 June 2019

21. INVESTMENT IN SUBSIDIARIES

The Group's operating subsidiaries as at 30 June 2019 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%	
Hotel Chocolat UK Holdings Ltd	Holding Company	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 Restauranteur	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%
CTC Distribution GmbH	Chocolate Distributer	Switzerland[5]		100%
Chocolate Tasting Club Inc	Chocolate Distributer	USA[3]		100%
Hotel Chocolat Inc	Chocolate Retailer	USA[3]		100%
HCLEX Inc	Property Holding Company	USA[3]		100%
HCGSP Inc	Property Holding Company	USA[3]		100%
HC Union Inc	Property Holding Company	USA[3]		100%
Hotel Chocolat Estates Limited	Hotel & Cocoa Plantation	St Lucia[6]		100%

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. INVESTMENT IN SUBSIDIARIES *CONTINUED*

Name	Principal activities	Country of business / incorporation	Registered Number	Proportion of ordinary shares held by the Group
Indirect Holdings – exempt from audit*				
Hotel Chocolat Stores Limited*	Chocolate Distributor	England & Wales[1]	05131765	100%
Rabot Estate UK Limited*	Property Holding Company	England & Wales[1]	07087702	100%
Almondhill Properties Limited*	Property Holding Company	England & Wales[1]	06841292	100%
Apricothill Properties Limited*	Property Holding Company	England & Wales[1]	07648840	100%
Applehill Properties Limited*	Property Holding Company	England & Wales[1]	07256434	100%
Bananahill Properties Limited*	Property Holding Company	England & Wales[1]	08497588	100%
Braeburnhill Properties Limited*	Property Holding Company	England & Wales[1]	08450491	100%
Bramleyhill Properties Limited*	Property Holding Company	England & Wales[1]	07273442	100%
Brazilnuthill Properties Limited*	Property Holding Company	England & Wales[1]	06943897	100%
Cashewhill Properties Limited*	Property Holding Company	England & Wales[1]	06969589	100%
Chestnuthill Properties Limited*	Property Holding Company	England & Wales[1]	06974431	100%
Colanuthill Properties Limited*	Property Holding Company	England & Wales[1]	07330700	100%
Crispinhill Properties Limited*	Property Holding Company	England & Wales[1]	08745825	100%
Croftonhill Properties Limited*	Property Holding Company	England & Wales[1]	08745828	100%
Datehill Properties Limited*	Property Holding Company	England & Wales[1]	07693373	100%
Gingerhill Properties Limited*	Property Holding Company	England & Wales[1]	06932089	100%
Grapehill Properties Limited*	Property Holding Company	England & Wales[1]	07538281	100%
Groundnuthill Properties Limited*	Property Holding Company	England & Wales[1]	06966865	100%
Guavahill Properties Limited*	Property Holding Company	England & Wales[1]	07716562	100%
Hazelnuthill Properties Limited*	Property Holding Company	England & Wales[1]	06915444	100%
Hotel Chocolat DK Limited*	Property Holding Company	England & Wales[1]	07883740	100%
Lemonhill Properties Limited*	Property Holding Company	England & Wales[1]	07330699	100%
Limehill Properties Limited*	Property Holding Company	England & Wales[1]	07398952	100%
Macadamiahill Properties Limited*	Property Holding Company	England & Wales[1]	06944026	100%
Mandarinhill Properties Limited*	Property Holding Company	England & Wales[1]	08208760	100%
Mangohill Properties Limited*	Property Holding Company	England & Wales[1]	06932093	100%
Melonhill Properties Limited*	Property Holding Company	England & Wales[1]	07649613	100%
Olivehill Properties Limited*	Property Holding Company	England & Wales[1]	07910349	100%
Orangehill Properties Limited*	Property Holding Company	England & Wales[1]	06931016	100%
Papayahill Properties Limited*	Property Holding Company	England & Wales[1]	07792376	100%
Peachhill Properties Limited*	Property Holding Company	England & Wales[1]	07367105	100%
Peanuthill Properties Limited*	Property Holding Company	England & Wales[1]	06916365	100%
Pearhill Properties Limited*	Property Holding Company	England & Wales[1]	07273951	100%
Pearmainhill Properties Limited*	Property Holding Company	England & Wales[1]	08450794	100%
Pecanhill Properties Limited*	Property Holding Company	England & Wales[1]	06916337	100%
Pinenuthill Properties Limited*	Property Holding Company	England & Wales[1]	07289903	100%
Pippinhill Properties Limited*	Property Holding Company	England & Wales[1]	08745773	100%
Plumhill Properties Limited*	Property Holding Company	England & Wales[1]	06944023	100%
Russethill Properties Limited*	Property Holding Company	England & Wales[1]	07289847	100%
Satsumahill Properties Limited*	Property Holding Company	England & Wales[1]	08022899	100%
Sloehill Properties Limited*	Property Holding Company	England & Wales[1]	08458654	100%
Walnuthill Properties Limited*	Property Holding Company	England & Wales[1]	06481305	100%

* Hotel Chocolat Group plc has issued a parental guarantee exempting the company from the requirements of the Companies Act 2006 related to the audit of individual accounts by virtue of s479A of the Act.

NOTES TO THE FINANCIAL STATEMENTS *continued*

For the period ended 30 June 2019

22. CASH AND CASH EQUIVALENTS

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

	52 weeks ended 30 June 2019 £	52 weeks ended 1 July 2018 £
Cash and cash equivalents	5,778,205	235,936
	5,778,205	235,936

The Group has an overdraft facility. The interest rate is charged at 1.25% over base rate.

23. TRADE AND OTHER PAYABLES

	52 weeks ended 30 June 2019 £	52 weeks ended 1 July 2018 £
Current		
Trade payables	7,848,496	6,800,747
Other payables	5,292,888	2,574,971
Other taxes payable	2,082,303	761,544
Accruals	4,304,056	5,408,583
	19,527,743	15,545,845
Non-current		
Other payables and accruals	2,757,158	2,581,044
	2,757,158	2,581,044

24. BORROWINGS

	52 weeks ended 30 June 2019 £	52 weeks ended 1 July 2018 £
Current		
Finance and lease hire purchase liabilities	16,811	201,732
	16,811	201,732
Unamortised costs of issue	–	–
Total current borrowings	16,811	201,732
Non-current		
Finance and lease hire purchase liabilities	–	16,811
Total non-current borrowings	–	16,811
Total borrowings	16,811	218,543

During the prior period, the Group repaid in full all outstanding ‘chocolate bonds’ which had been issued in 2010 and 2014.

24. BORROWINGS *CONTINUED*

	Finance lease and hire purchase liabilities £
Maturity of debt	
52 weeks ended 1 July 2018	
In one year or less or on demand	201,732
In more than one year but not more than two years	16,811
Total non-current borrowings	16,811
Total borrowings	218,543
52 weeks ended 30 June 2019	
In one year or less or on demand	16,811
In more than one year but not more than two years	–
Total non-current borrowings	–
Total borrowings	16,811

The Group has a bank overdraft facility which is secured by a charge over the Groups assets and cross guarantees. The interest rate is charged at 1.25% over base rate.

The existing hire purchase and finance leases are secured by a charge over the related fixed assets and have incurred interest at an effective annual rate of 0%.

25. PROVISIONS

	52 weeks ended 30 June 2019 £	52 weeks ended 1 July 2018 £
Non-current		
Lease dilapidations provision	943,627	879,808
	943,627	879,808

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

NOTES TO THE FINANCIAL STATEMENTS *continued*

For the period ended 30 June 2019

25. PROVISIONS *CONTINUED*

The movement in dilapidations provision is summarised below:

	Lease dilapidation provision £
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
52 weeks ended 30 June 2019	
At beginning of period	879,808
Released through profit and loss	(25,571)
Amounts capitalised during the period	88,104
Exchange difference	1,286
At end of period	943,627

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.

26. SHARE CAPITAL

	As at 30 June 2019		As at 1 July 2018	
	Shares	**£**	**Shares**	**£**
Allotted, called up and fully paid:				
Ordinary shares of £0.001 each	112,838,213	112,838	112,837,828	112,838
	112,838,213	112,838	112,837,828	112,838

The Board proposes a final dividend of 1.2p per share (1 July 2018: 1.1p) being a total of £1,354,059 (1 July 2018: £1,241,216), for approval at the next AGM.

Period ending 30 June 2019:

385 ordinary shares were issued during the period ending 30 June 2019 to satisfy shares allotted under the Company's Save as You Earn plan.

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.

27. 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 30 June 2019 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 period the Group paid a dividend of 1.7p (1 July 2018: 2.2p) per share £1,918,250 (£2,482,432) out of retained earnings, being a final dividend of 1.1p per share in relation to the period ended 1 July 2018 (1 July 2018: 1.6p) and an interim dividend of 0.6p per share in relation to the period ended 30 June 2019 (1 July 2018: 0.6p).

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 21 and is not distributable by way of dividends.

Retained earnings are the current net profits in the Consolidated Statement of Comprehensive Income.

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.

28. 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 30 June 2019 £	**52 weeks ended 1 July 2018 £**
Land and buildings		
Operating leases which expire:		
Within one year	11,039,898	9,842,294
In two to five years	31,372,912	27,895,009
In over five years	17,021,423	17,888,405
	59,434,233	55,625,708
Other		
Operating leases which expire:		
Within one year	259,317	315,797
In two to five years	165,607	356,605
	424,924	672,402

NOTES TO THE FINANCIAL STATEMENTS *continued*

For the period ended 30 June 2019

29. CAPITAL COMMITMENTS

There were no amounts contracted for but not provided for as at 30 June 2019 (1 July 2018: £ nil).

30. 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 has an interest in joint venture Rabot 1745 Limited, a separate company incorporated and operating in the United Kingdom. The primary activity of Rabot 1745 Ltd is the manufacture and sale of beauty products.

Ownership has changed as follows:

1 July 2017 to 18 August 2017	30.0%
19 August 2017 to 13 February 2019	34.5%
14 February 2019 to 30 June 2019	32.0%

Andrew Gerrie holds 50%.

During the period, the Group purchased goods from Rabot 1745 Limited with a value of £483,075 (1 July 2018: £366,935). At the period end £27,896 was outstanding (1 July 2018: £nil).

The contractual arrangement provides the Group with only the rights to the net assets of the joint arrangement, with the rights to the assets and obligations for liabilities of the joint arrangement resting primarily with Rabot 1745 Limited. Under IFRS 11 this joint arrangement is classified as a joint venture and has been included in the consolidated financial statements using the equity method.

During the year the Group obtained a 20% interest in joint venture Hotel Chocolat KK, a separate company incorporated and operating in Japan. The primary activity of Hotel Chocolat KK is the sale of chocolate and related products.

During the period, the Group sold goods and recharged costs to Hotel Chocolat KK with a value of £669,771. The Group also extended long-term loan facilities to Hotel Chocolat KK. At the period end a total of £2,488,041 was outstanding.

Hotel Chocolat Ltd agreed to provide working capital funding to Hotel Chocolat KK. During the period Hotel Chocolat KK borrowed £2,488,041 all of which is outstanding at the period end.

The contractual arrangement provides the Group with only the rights to the net assets of the joint arrangement, with the rights to the assets and obligations for liabilities of the joint arrangement resting primarily with Hotel Chocolat KK. Under IFRS 11 this joint arrangement is classified as a joint venture and has been included in the consolidated financial statements using the equity method.

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) totaled £202,109 in the period ended 30 June 2019 (1 July 2018: £182,920). 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 $8,725 (1 July 2018: $16,209) and there are no amounts outstanding at the balance sheet date (1 July 2018: £nil).

In the prior period, 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 (1 July 2018: £nil).

No other amounts were due to Directors (1 July 2018: £nil).

31. CATEGORIES OF FINANCIAL INSTRUMENTS

	52 weeks ended 30 June 2019 £	52 weeks ended 1 July 2018 £
Financial assets		
At amortised cost		
Trade and other receivables (excluding prepayments)	1,302,506	1,473,301
Loan to Hotel Chocolat KK	2,488,041	–
Cash and cash equivalents	5,778,205	235,936
	9,568,752	1,709,237
At fair value		
Derivative financial assets	81,299	83,646
Financial liabilities		
At amortised cost		
Trade and other payables	11,091,501	9,183,573
Total borrowings	16,811	218,543
Accruals	5,056,146	5,152,399
	16,164,458	14,554,515
At fair value		
Derivative financial liabilities	10,777	54,691

In the Directors' view, the fair value of the Group's borrowings is considered 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.

NOTES TO THE FINANCIAL STATEMENTS *continued*

For the period ended 30 June 2019

32. FINANCIAL RISK MANAGEMENT

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

Market risk

Foreign exchange risk

The Group enters into foreign currency forward contracts in order to manage the exposure to foreign exchange risk which arises on transactions denominated in foreign currencies. Refer to Note 17 for further information about the Group's foreign currency forward contracts.

Interest Risk

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

Price risk

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

Credit risk

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

Ageing analysis:

	52 weeks ended 30 June 2019 £	**52 weeks ended 1 July 2018 £**
Trade receivables		
Up to three months	926,236	931,760
Three to six months	15,152	73,181
Above six months	14,565	67,430
Impairment provision	(37,647)	(18,613)
Total	918,306	1,053,758

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

The Group applies the IFRS 9 simplified approach to measure credit losses using a lifetime expected credit loss provision for trade receivables.

Expected loss rates for CTC member debt are based on historical credit losses experienced over the four years prior to the period end. The expected loss rate is 0.8% and results in a loss provision of £407.

Expected loss rates for the recently expanded partners & B2B business are based on historical credit losses experienced over the 12 months prior to the period end. There have not been any credit losses over this period. The expected loss rate is 0% and the expected loss provision is nil.

The impairment provision of £37,647 relates to £37,240 of specifically provided debt and £407 of expected credit losses.

Credit risk for the loan receivable from the joint venture has not increased significantly since its initial recognition. Credit risk for trade receivables has not increased significantly since their initial recognition.

32. FINANCIAL RISK MANAGEMENT *CONTINUED*

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

	52 weeks ended 30 June 2019 £	52 weeks ended 1 July 2018 £
United Kingdom	715,453	1,045,823
Europe	202,853	2,236
Rest of World	–	5,699
Total	918,306	1,053,758

Liquidity risk

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

Borrowings and other liabilities mature according to the following schedule:

	Within one year £	One to two years £	Two to five years £
52 weeks ended 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	–
52 weeks ended 30 June 2019			
Trade and other payables	16,238,573	–	–
Derivative financial instruments	12,161,057	2,148,666	–
Borrowings	16,811	–	–
	28,416,441	2,148,666	–

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.

NOTES TO THE FINANCIAL STATEMENTS *continued*

For the period ended 30 June 2019

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

There have been no material events subsequent to the period end and up to 24 September 2019, the date of approval of the financial statements by the Board.

34. ULTIMATE CONTROLLING PARTY

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

COMPANY STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Notes	As at 30 June 2019 £	As at 1 July 2018 £
ASSETS			
Non-current assets			
Investments	36	10,664,472	10,418,210
		10,664,472	10,418,210
Current assets			
Trade and other receivables	37	6,754,765	8,728,097
Cash and cash equivalents	38	2,605,497	192,578
		9,360,262	8,920,675
Total assets		20,024,734	19,338,885
LIABILITIES			
Current liabilities			
Trade and other payables	39	316,223	458,956
		316,223	458,956
Total liabilities		316,223	458,956
NET ASSETS		19,708,511	18,879,929
EQUITY			
Share capital	40	112,838	112,838
Share premium	40	11,750,056	11,749,487
Retained earnings	40	6,239,571	5,657,820
Capital redemption reserve	40	6,301	6,301
Share based payment reserve	40	1,599,745	1,353,483
Total equity attributable to shareholders		19,708,511	18,879,929

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 30 June 2019 is £2,500,000 (1 July 2018: profit £5,003,980).

The financial statements of Hotel Chocolat Group plc, registered number 08612206 were approved by the Board of Directors and authorised for issue on 24 September 2019. They were signed on its behalf by:

Matt Pritchard
Chief Financial Officer
24 September 2019

COMPANY STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2019

	Share capital £	Share premium £	Retained earnings £	Capital redemption reserve £	Share based payment reserve £	Total £
As at 2 July 2017	112,838	11,749,487	3,136,272	6,301	626,898	15,631,796
Share based payments	–	–	–	–	726,585	726,585
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	1,353,483	18,879,929
Share based payments	–	–	–	–	246,262	246,262
Issue of share capital	–	569	–	–	–	569
Dividends paid	–	–	(1,918,249)	–	–	(1,918,249)
Profit for the period	–	–	2,500,000	–	–	2,500,000
Equity as at 30 June 2019	112,838	11,750,056	6,239,571	6,301	1,599,745	19,708,511

The opening reserves as at 2 July 2017 were previously stated without the inclusion of the share based payment reserve. See Note 36 for more information.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the period ended 30 June 2019

35. ACCOUNTING POLICIES

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

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with FRS 102 the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland. The principal accounting policies, which have been applied consistently, are set out below.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies.

In preparing the separate financial statements of the parent company, advantage has been taken of the following disclosure exemptions available in FRS 102:

- only one reconciliation of the number of shares outstanding at the beginning and end of the period has been presented as the reconciliations for the Group and parent company would be identical;
- no statement of cashflow has been prepared for the parent company;
- disclosures in respect of the parent company's share-based payment arrangements have not been presented as equivalent disclosures have been provided in respect of the Group as a whole; and
- no disclosure has been given for the aggregate remuneration of the key management personnel of the parent company as their remuneration is included in the totals for the Group as a whole.

Investments

Fixed asset investments comprise investments by the Company in the shares of subsidiary undertakings. At the end of each financial period, the Directors review the carrying amount of the Company's investments to determine whether there is any indication that those assets have suffered an impairment loss. They are stated at cost less provisions for diminution in value.

Financial assets

Financial assets, other than investments and share based payments, are initially measured at transaction price (including transaction costs) and subsequently held at cost, less any impairment. Impairments are calculated on an incurred loss basis.

The Company's assets at amortised cost comprise trade and other receivables, and cash and cash equivalents including cash held at bank.

Financial liabilities

Financial liabilities are classified according to the substance of the financial instrument's contractual obligations rather than the financial instrument's legal form. Financial liabilities are initially measured at transaction price (after deducting transaction costs) and subsequently held at cost, less any impairment.

Share-based payments

Details of the Group's share option schemes are provided in Note 9 to the consolidated financial statements.

The Company grants share options under the share-based schemes directly to employees of its subsidiaries. In accordance with the provisions of the plan, the cost of the share-based payments will be recorded by each subsidiary as an expense, with a corresponding credit to a share-based payment reserve. The Company, over whose share options are issued, recognises an increase in the investment in the related subsidiary and a credit to the share-based payment reserve. The fair value of the employee service is based on the fair value of the equity instrument granted.

NOTES TO THE COMPANY FINANCIAL STATEMENTS *continued*

For the period ended 30 June 2019

36. INVESTMENTS

	52 weeks ended 30 June 2019 £	52 weeks ended 1 July 2018 £
Cost		
At beginning of period	10,418,210	9,691,625
Share based payments	246,262	726,585
At end of period	10,664,472	10,418,210
Carrying amount	10,664,472	10,418,210

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 21.

The investment balance has been restated to include share based payment charges which are on-charges of subsidiary entities. A corresponding entry has been made in the share based payment reserve. The impact on the opening investment balance in the prior year is £626,898.

37. 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 30 June 2019 £	52 weeks ended 1 July 2018 £
Other receivables	–	288,030
Amounts due from Group undertakings	6,754,765	8,440,067
	6,754,765	8,728,097

38. 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.

39. TRADE AND OTHER PAYABLES

	52 weeks ended 30 June 2019 £	52 weeks ended 1 July 2018 £
Accruals	300	300
Amounts due to Group undertakings	315,923	458,656
Total trade and other payables	316,223	458,956

40. SHARE CAPITAL AND RESERVES

The share capital, share premium, retained earnings, share based payment reserve and the capital redemption reserve are consistent with Hotel Chocolat Group plc financial statements. Refer to Notes 26 and 27 of the Group financial statements.

During the period the Group paid a dividend of 1.7p (1 July 2018: 2.2p) per share £1,918,250 (£2,482,432) out of retained earnings, being a final dividend of 1.1p per share in relation to the period ended 1 July 2018 (1 July 2018: 1.6p) and an interim dividend of 0.6p per share in relation to the period ended 30 June 2019 (1 July 2018: 0.6p).

41. CAPITAL COMMITMENTS

There were no amounts contracted for but not provided for as at 30 June 2019 (1 July 2018: £nil).

42. RELATED PARTY TRANSACTIONS

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

There are no employees during either period. The remuneration of the Directors of the Company is disclosed within the Remuneration Report on pages 46 to 48.

Interests and related party transactions are disclosed in Note 30 of the Group financial statements.

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