HOTEL Chocolat.

ANNUAL REPORT AND ACCOUNTS 2020

Chocolate. Reinvented.

HOTEL Chocolat.

Hotel Chocolat Group plc
Annual Report and Accounts 2020

"WE HAVE WORKED HARD TO ADAPT TO THE CHALLENGES OF 2020 AND TO ACCELERATE OUR PLANS. AS A RESULT, WE ARE ON THE PATH TO BECOMING THE LEADING GLOBAL DIRECT-TO-CONSUMER PREMIUM CHOCOLATE BRAND"

Inside this report

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

Financial highlights

	2020	2019	2018		H1	H2	FY20
REVENUE	£136.3m	£132.5m	£116.3m	£136.3m	14%	(14%)	3%
UNDERLYING EBITDA[1]	£9.4m	£20.7m	£18.9m	£9.4m	£1.2m	(£12.4m)	(£11.2m)
PROFIT BEFORE TAX AND EXCEPTIONAL COSTS[2]	£2.4m	£14.1m	£12.7m	£2.4m	+£1.1m	(£12.8m)	(£11.6m)

PROFIT/(LOSS) AFTER TAX
£(6.5)m
2019: £10.9m

DILUTED EPS
-5.5p
2019: 9.5p

FINAL DIVIDEND
Nil
Full Year: Nil FY19: 1.8p

1. Underlying EBITDA is pre-IFRS16, and excludes share based payments and related tax, and exceptional non-cash impairment costs
2. Exceptional costs are non-cash impairment charges (see page 24 for reconciliation to reported figures)

Operational highlights

+100% SUPPLY CHAIN CAPACITY INCREASE
With increased multi-channel agility and greater resilience

IMPROVED MULTICHANNEL FLEXIBILITY
With physical locations closed for 12 weeks, swiftly adjusted to grow delivered gifts and repeat-purchase/ subscriptions

LOYALTY
1.3m active VIP.ME loyalty members, +50% YoY, now with digital app

STRONG BALANCE SHEET
Uninterrupted growth investment

INTERNATIONAL
Japan lifestyle format

USA digital growth

SUSTAINABLE BRAND
Over 90% of packaging, by weight, now recyclable or reusable, on track for 100% target

OUR FARMERS
+12% YoY increase in registered members of Engaged Ethics scheme

ALL STRATEGIC GROWTH INITIATIVES PROGRESSED
In markets with significant headroom

OUR COMMUNITY
Over 70,000 parcels shipped to NHS workers at staff discount rate to raise morale

WORTH SAVOURING...

"Another great box of delights. It is good to taste real chocolate and not simply sugar."

GEORGE, SCOTLAND

★★★★★

At a glance

ON THE PATH TO BECOMING A GLOBAL LIFESTYLE BRAND

"Whilst our short-term performance has been materially impacted by COVID-19 and the related restrictions, our progress in new channels, new markets, new territories and new product categories is giving us increasing confidence in our Brand Vision; from being the leading UK premium chocolate brand to ultimately grow to become the leading global premium direct-to-consumer chocolate brand."

ANGUS THIRLWELL
Chief Executive Officer

Our key product ranges

Multichannel via digital, physical locations and partners

GIFTING

DELIVERED AND CARRY-HOME GIFTS FROM £5 TO £350

In the UK, USA and Japan the gifting market is significantly larger than the FMCG chocolate market

Brand-led compelling chocolate assortments for all occasions and dietary types, £5 to £350

Exclusive alcohol range

Bath and body beauty collection inspired by the nature of our organic cacao estate in Saint Lucia

Luxury 'Biscuits of the Gods'

Gift experiences

Page 21 for more information

IN-HOME

A REGULAR TASTE OF HOTEL CHOCOLAT DELIVERED INTO YOUR HOUSEHOLD: DRINKS AND AT-HOME CHOCOLATE EXPERIENCES

Greater frequency of purchase than gifts

Velvetiser system for hot chocolat, iced chocolat and lattes with a huge library of flavours to try

The Inventing Room subscription; for tasting excitement and discovery

Curated Collections; matched to your tastes, varying each delivery

Rabot Coterie: An annual subscription supporting sustainable fine cacao growing

Simple, no-hassle, recurring free delivery of your exact favourites every time

Page 22 for more information

LEISURE

THE MULTI-SENSORY JOY OF STROLLING INTO A PHYSICAL HOTEL CHOCOLAT FOR AN INSTANT SELF-TREAT

The deepest level of customer engagement with the brand

Our wall of chocolate. 120 of our most popular recipes

Hot chocolat, Choc Shakes, Ice Cream of the Gods, Coffee

'Chocolate Lock-Ins' tasting experiences (instore and online)

Hotel and restaurant set in a UNESCO world heritage site, where we farm organic cacao

Restaurant, cacao bar and café in London's Borough Market

Page 23 for more information

Our strong British brand is based on an ethos of:

ORIGINALITY

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

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 is our sustainable approach to cacao farming, the planet and our communities.

Our business model

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

MAKING
UK manufacture

ENTERTAINING
Own our channels and customer experience

REINVESTING
We care
Keep getting better

CREATING
Grow, invent, design

ORIGINALITY
AUTHENTICITY
ETHICS

Our strategy

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

CUSTOMER-LED

GROW GIFTING | GROW IN-HOME | GROW LEISURE

NURTURE BRAND VALUES
ORIGINALITY AUTHENTICITY ETHICS

INVEST IN AGILE INNOVATION-ENABLING INFRASTRUCTURE

Page 20 for more information on our strategy

At a glance *continued*

We started as an online and subscription business, then made physical locations work to become truly multi-channel.

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.

The Group manufactures its chocolate in the UK and works with long-term partners for the supply of electrical products, beauty products and alcohols.

UK & Ireland

127*

Physical locations
(2019: 118)

Online • Subscription • Partners

USA

4*

Physical locations
(2019: 2)

HotelChocolatusa.com

Japan JV

8*

Physical locations
(2019: 2)

Hotelchocolat.co.jp

St Lucia

1*

Cacao Farm and Hotel

* Store numbers as at date of publication – 28 September 2020

What sets us apart

DIFFERENTIATED PRODUCT
Rather than copy old-school European traditions, we have carved out a modern take on responsible luxury chocolate. Cacao and great design are at the heart of everything we do.

DIRECT-TO-CONSUMER
Building a brand that is relevant and sustainable, backed by investment in a direct relationship with millions of customers.

VERTICALLY INTEGRATED
Protection of IP, supply chain agility, strong margins and high innovation.

Trusted long-term supply partners for electricals, alcohol and beauty.

HOTEL Chocolat.

STRONG BRAND
We aim to bring escapism and contemporary luxury whilst making people happy through our chocolate. Being brave and being kind is our team mantra and our long-term brand ethics sustain a healthy culture.

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

LIFESTYLE
Looking at the world through the lens of a cacao grower gives us a different perspective from our competitors and opens the path to developing as a lifestyle brand.

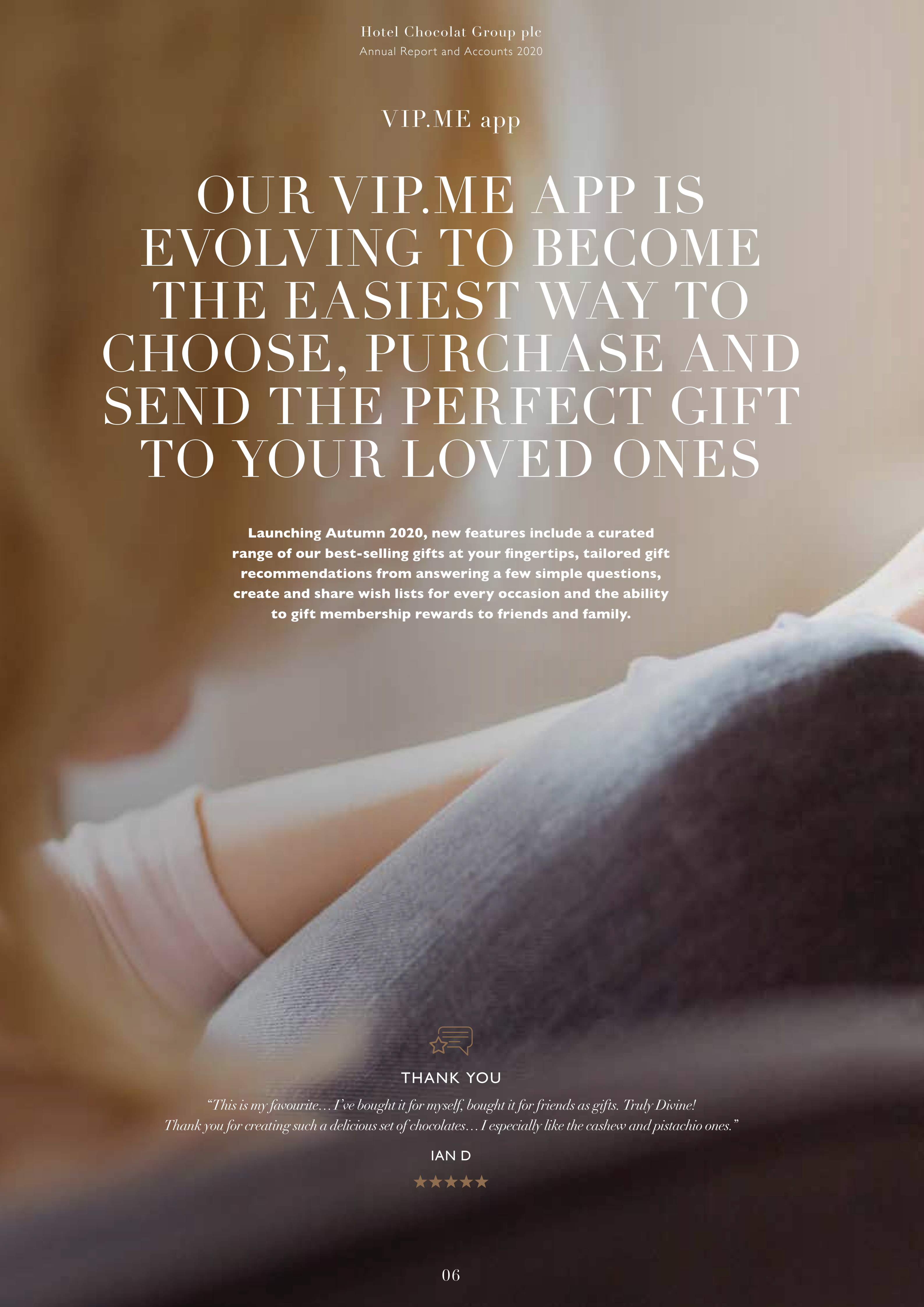
MORE CACAO, LESS SUGAR
Cacao is five times more expensive than sugar and we willingly choose to ensure it is always the main ingredient whether in white, milk or dark recipes. A surprisingly rare approach in the chocolate world. Yet it tastes better, is more satisfying and puts the cacao grower at the centre.

VALENTINE'S DAY GIFT

"My fiancé struggles to find dark chocolate that he likes but he completely fell in love with these the moment they touched his lips."

MISS KD, LONDON

★★★★★



VIP.ME app

OUR VIP.ME APP IS EVOLVING TO BECOME THE EASIEST WAY TO CHOOSE, PURCHASE AND SEND THE PERFECT GIFT TO YOUR LOVED ONES

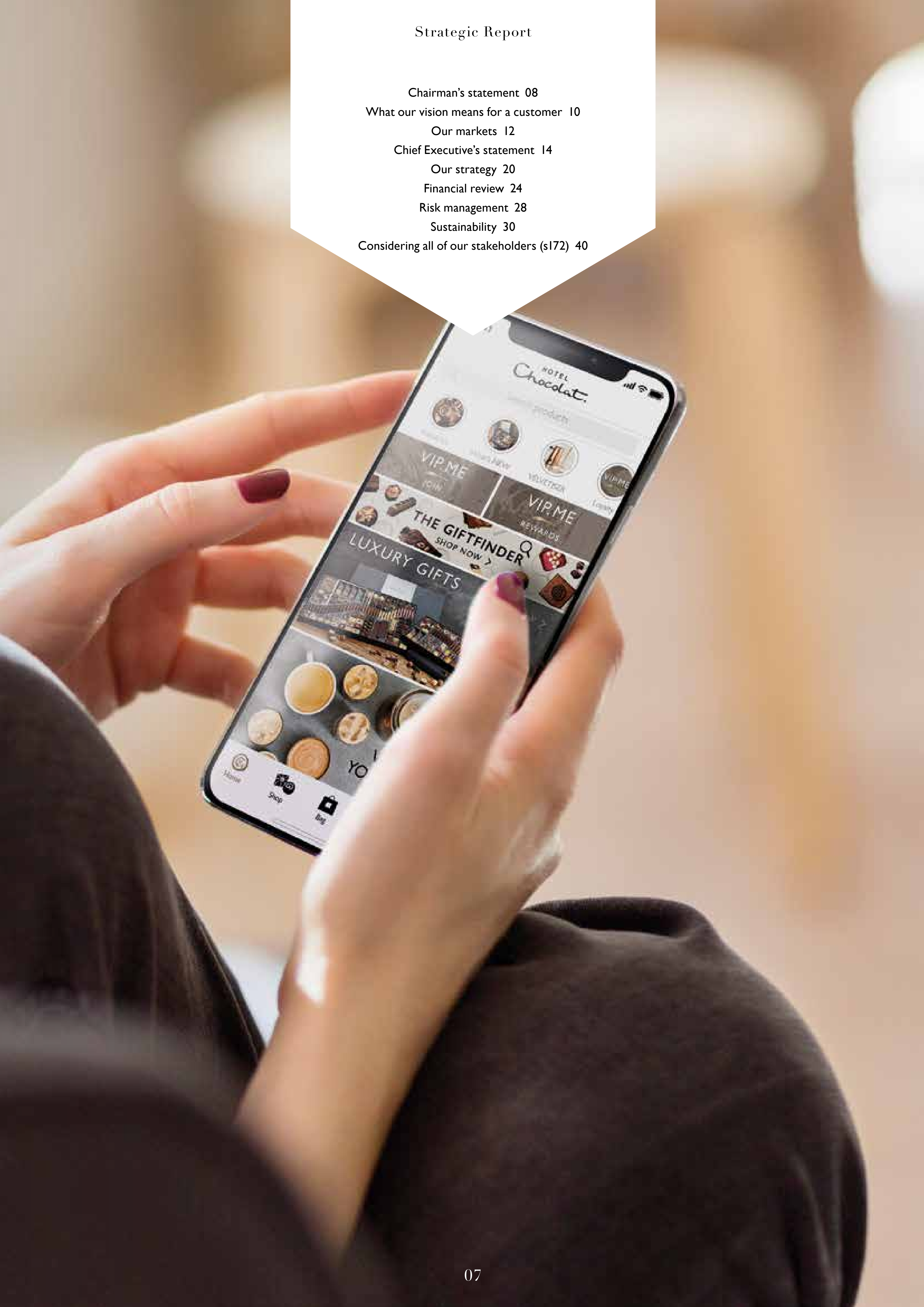
Launching Autumn 2020, new features include a curated range of our best-selling gifts at your fingertips, tailored gift recommendations from answering a few simple questions, create and share wish lists for every occasion and the ability to gift membership rewards to friends and family.

THANK YOU

"This is my favourite… I've bought it for myself, bought it for friends as gifts. Truly Divine! Thank you for creating such a delicious set of chocolates… I especially like the cashew and pistachio ones."

IAN D

★★★★★


HOTEL
Chocolat.
VIP.ME
JOIN
VIP.ME
REWARDS
THE GIFTFINDER
SHOP NOW >
LUXURY GIFTS

Chairman's statement

"A CHALLENGING YEAR HAS BROUGHT OUT THE BEST FROM THE BUSINESS, WHICH CONTINUES TO MAKE GOOD PROGRESS IN PURSUING MULTIPLE OPPORTUNITIES FOR LONG-TERM GROWTH"

"I am pleased to update our stakeholders on the progress of the Group. In the first half of the year we made good headway against our strategy and profitability increased. In the second half, the business-wide response to the impact of COVID-19 was swift and comprehensive. Whilst sales and profitability were adversely affected, the response of our customers and the dynamism of the business have reconfirmed the validity of our strategy. Progress against our long-term plans in our target markets has accelerated, and business resilience has improved."

ANDREW GERRIE
Non-executive Chairman

2020 £136.3m
2019 £132.5m
2018 £116.3m

REVENUE

£136.3m

H1 14%
H2 (14%)
FY20 3%

2020 £9.4m
2019 £20.7m
2018 £18.9m

UNDERLYING EBITDA[1]

£9.4m

H1 £1.2m
H2 (£12.4m)
FY20 (£11.2m)

2020 £2.4m
2019 £14.1m
2018 £12.7m

PROFIT BEFORE TAX AND EXCEPTIONAL COSTS[2]

£2.4m

H1 +£1.1m
H2 (£12.8m)
FY20 (£11.6m)

1. Underlying EBITDA is pre-IFRS16, and excludes share based payments and related tax, and exceptional non-cash impairment costs
2. Exceptional costs are non-cash impairment charges (see page 24 for reconciliation to reported figures)

See my introduction to Governance on **PAGE 48**

The Group is publishing its Annual Report for the year ended 28 June 2020 at a time when communities and economies worldwide continue to face exceptional challenges as a result of the ongoing COVID-19 pandemic. Since the outbreak of the virus, our priority has been the safety and wellbeing of the entire Hotel Chocolat family. I would like to take this opportunity to express the Board's gratitude to our team, our loyal customers, and our business partners for their support and commitment throughout this very challenging period.

OVERVIEW

Having delivered a strong first-half performance, the second half of the year was materially disrupted by COVID-19 and the related restrictions, which led to the closing of all UK retail locations for 12 weeks, and the shutdown of our factory for eight weeks. The business-wide response to the challenges posed was impressive. Rapid adaptations were made to ensure the safety of all colleagues and customers. Reaction to the shift in customer demand to online also improved the flexibility and resilience of the multi-channel business ongoing. The Group continues to have many opportunities and continues to take a disciplined approach to deliver long-term growth and returns.

RESULTS

Group Revenue grew by 3 percent to £136m. In the first half, sales of £92m increased by 14%. Second half sales of £45m declined by 14%. Group profit before tax (PBT) and before exceptional costs[1] was £2.4m compared to £14.1m in FY19. In the first half, PBT before exceptionals was £15m, £1.1m higher year-on-year, whilst in H2 a loss of (£12.6m) compares to a profit of £0.2m in FY19. The H2 loss arose due to the combined impact of lower sales, and additional costs of sales which reduced gross margins.

STRATEGY

The Group has been pursuing a number of growth opportunities. Whilst UK physical retail growth has been adversely affected, the Groups multichannel and international strategy will help mitigate the ongoing impacts on customer behaviour arising from COVID-19. The Board remains committed to physical locations and anticipates that in future the retail property market will adjust to support the ongoing viability of locations.

With 67% of our leases having a break or end in the next 24 months, and another 22% in the following 24 months we have the flexibility to adapt. There is significant growth headroom in the UK, which is being pursued through a combination of innovation and multichannel investment. The Brand has been well received in the Group's two newer markets in the USA and Japan, where the addressable market size is significantly larger than the UK.

PEOPLE

The Group continues to benefit from a strong founder-led management team. A new governance structure has been implemented, comprising the PLC Board and a new Executive committee. On behalf of the Board I would like to thank the whole Hotel Chocolat team for demonstrating great adaptability, strong teamwork and unwavering commitment, for which everyone should be proud.

DIVIDEND

In early March, in anticipation of a potential UK lockdown causing disruption to trade at Easter, the Group raised £22m of new equity to support continued investment in the growth strategy. Having raised additional equity the Board decided to pause the dividend in order to re-invest and preserve capital. A progressive dividend policy will be reinstated when conditions permit.

OUTLOOK

In each market, customers have shown their loyalty to the brand by migrating to new channels when physical locations were closed. The vast majority of physical locations have re-opened but are in aggregate currently trading lower year-on-year. Other channels continue to grow at an accelerated rate and overall trading is in line with management expectations. The Group continues to focus on the long-term and is making careful investments to maximise the medium and long-term opportunity.

ANDREW GERRIE
Non-executive Chairman


THANK YOU

"Thank you @HotelChocolat for the amazing donation to our team! Look at those smiles!"

THEATRES @ CUH

★★★★★

1. Exceptional costs are non-cash impairment charges (see page 24 for reconciliation to reported figures)

What our vision means for a customer

We continue to innovate and develop more reasons for consumers to want to interact with the Hotel Chocolat Brand, as illustrated by our vision of the customer lifecycle:

Instagram obsession

I've become slightly obsessed with HC on Instagram, it's my little bit of escapism, I've also met some great like-minded chocoholics!

Beliefs in action

By subscribing, I receive great chocolate and support cacao growing.

RABOT COTERIE SUBSCRIPTION

Customer engagement

I regularly receive information about my favourite (or new) products by email and through the post. I can't wait to receive my Christmas catalogue – I love circling the things I want to gift.

In the Club

Using a link, I signed up to VIP.ME through the app. I get 15% off my next purchase, 10% off drinks & ices, plus a gift on my birthday!

1.3m
ACTIVE MEMBERS

Monthly Fix

As a regular customer of Hotel Chocolat, I subscribed. I now receive a monthly delivery of chocolates that are most suited to my chocolate tastes.

Online virtual events

Interactive tasting sessions hosted by one of our chocolate experts from the School of Chocolate.

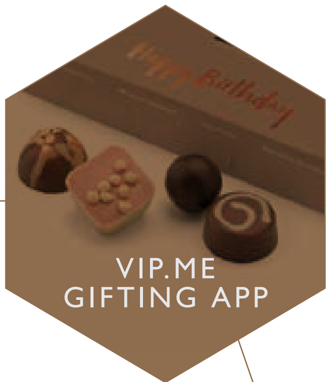
400+
DIFFERENT PRODUCTS

Passing by

I was in town and decided to pop into HC to pick up some chocolates to take to a dinner party on Saturday. The choice is incredible and staff are wonderful at helping you choose.

A nice surprise!

I received a text from my friend, gifting me a hot chocolate! (I love hot chocolate!) – it was easy, I just had to provide my email address to receive the QR code :)



Sharing the Love

Sending gifts is so easy with HC's VIP.ME Gifter app. There's a curated collection of the best gifts to choose from, with an added gift finder for when I need inspiration. A couple of clicks and the gift is on its way.

LAUNCHING AUTUMN 2020

Snuggling up

I was given a Velvetiser for Christmas and it has completely changed my opinion of how hot chocolate should taste, revolutionary in my household!

Our markets

WE OPERATE IN LARGE MARKETS GIVING US SIGNIFICANT HEADROOM FROM RELATIVELY SMALL INCREASES IN MARKET SHARE

Our owned retail and online channels are our predominant route to market, and are the foundation which nourishes and protects the brand. We also work with carefully selected distribution partners who add something extra to our accessibility, by offering capsule-collections, tailored for each partners specific customer base.

CORE MARKETS SINCE 2004

GIFTS

DELIVERED AND TAKE HOME GIFTS FROM £5 TO £350

MARKET SIZE

UK £20bn

USA & JAPAN £175bn

HOTEL CHOCOLAT GLOBAL MARKET SHARE

<0.1%

Source: 2017 Mintel, Forbes 2017, Yano Kenzai 2019

LEISURE

PHYSICAL LOCATIONS; IMPULSE PRODUCTS, DRINKS, ICES AND FOOD, PLUS NEW DIGITALLY DELIVERED EXPERIENCES

MARKET SIZE

UK £14bn

(Chocolate £6bn, Café £8bn)

USA £210bn

HOTEL CHOCOLAT GLOBAL MARKET SHARE

<0.1%

Source: Canadean 2019, Harper Dennis Hobbs, 2019

THE BEST LIQUEUR EVER

"This is the best indulgent winter drink. Smooth and chocolatey, best served with snow outside with your feet up on the sofa in best winter cardigan next to a warm fire flickering in the background."

LIZZY, SHEFFIELD

★★★★★

NEWER MARKETS

IN-HOME

VELVETISER SYSTEM + OTHER SUBSCRIPTIONS/RECURRING CHOCOLATE DELIVERIES

ESTIMATED MARKET SIZE

Worldwide
£3bn

HOTEL CHOCOLAT GLOBAL MARKET SHARE

<0.1%

Grandview research 2019

OTHER

PREMIUM ALCOHOLS, BEAUTY

ESTIMATED MARKET SIZE

Worldwide
£102bn

HOTEL CHOCOLAT GLOBAL MARKET SHARE

<0.1%

Allied research 2016

Chief Executive's statement

"THE EVENTS OF SPRING 2020 CHALLENGED US ALL, BUT ALSO BROUGHT OUT THE BEST OF US"

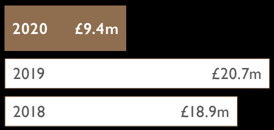
"The events of spring 2020 challenged us all, but also brought out the best of us, ethically, competitively and professionally, making us better equipped to face the ongoing impacts. Our plans anticipate further near-term uncertainty, however I am now confident the business will be stronger in the medium-term in growth, profitability and brand strength."

ANGUS THIRLWELL
Co-founder and Chief Executive Officer

REVENUE

£136.3m

H1	H2	FY20
14%	(14%)	3%



UNDERLYING EBITDA[1]

£9.4m

H1	H2	FY20
£1.2m	(£12.4m)	(£11.2m)

PROFIT BEFORE TAX AND EXCEPTIONAL COSTS[2]

£2.4m

H1	H2	FY20
+£1.1m	(£12.8m)	(£11.6m)

1. Underlying EBITDA is pre-IFRS16, and excludes share based payments and related tax, and exceptional non-cash impairment costs
2. Exceptional costs are non-cash impairment charges (see page 24 for reconciliation to reported figures)

Read about our evolving strategy on **PAGE 20**

I am extremely proud of how the Hotel Chocolat team has responded in such a challenging period. In response to the COVID-19 pandemic, the team acted swiftly, to firstly ensure the safety of colleagues, customers and the community, then adapt the business to continue to serve our customers, whilst also taking prompt actions to strengthen the Group's financial resilience.

All of our UK retail locations were closed for 12 weeks including the busy Easter period. The adaptions we made at pace have given us the confidence to accelerate our existing multichannel strategy. Customers have shown great loyalty to the brand and we will continue to excite them with new products, engage with them more via VIP.ME loyalty, and will keep investing in additional operational capacity to serve the demand across all channels.

Revenue grew by 3%, +14% in the first half (H1) and -14% in the second half (H2). In H1, Profit Before Tax and exceptional costs[1] increased by £1.1m to £15m. H2 loss before tax and exceptional costs[1] was (£12.6m) compared to a profit of £0.2m in H2 FY19. Physical locations typically generate 70% of H2 revenues, an agile response meant that despite 12 weeks of closures including the busy Easter period, we were able to service much of the customer demand online and via partners. This reduced the loss of sales in H2 to just -14%. However these actions did give rise to additional short-term supply costs which reduced margins significantly in H2.

CHANNEL MIX COMPARISON

Locations in UK	Online, subscriptions & partners	Other including hotel and international
FY20: 57%	FY20: 39%	FY20: 4%
FY19: 67%	FY19: 29%	FY19: 4%

SALES REVIEW

Historically we have reported our UK sales by channel. We are now of the view that this classification has become much less relevant, as our customers are increasingly shopping across multiple channels which is, of course, a key business aim.

In FY19, we reported that 67% of sales came from physical UK locations. In the first 12 weeks of FY21 (29 June to 20 September) approximately 56% of sales are coming from physical, and digital sales are up by over 150% year on year. Our focus is always on the customer's relationship with the brand, maintaining an agnostic view on which channels should attract most investment.

Our VIP.ME programme is at the centre of our relationship and the investments we made in people and technology over the last 18 months are key to driving our future performance. The VIP.ME customer base has grown by 50% YoY. The quality of our content and benefits, coupled with the change in shopping patterns following COVID-19, has resulted in higher spend per transaction and a greater propensity to shop across all our channels.

GIFTS

We have seen a huge increase in demand for our delivered gift services and we aim to keep the momentum building with our dedicated VIP.ME Gifter app, launching this Autumn, which aims to deliver the slickest gift-sending experience in the market.

A real focus on gift innovation has led to numerous new products; an extended biscuit range, new and more luxurious bottles for our award-winning alcohol range, a revamped look for our epic top-of-the-range Chocolatier's Table selections, and our first dedicated range for Japan for Valentine's Day 2021, which applies all we have learned about Japanese gifting preferences.

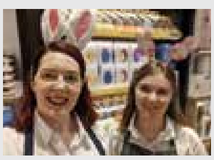
1. Exceptional costs are non-cash impairment charges (see page 24 for reconciliation to reported figures)

2020 TIMELINE

FEBRUARY

H1 results Sales +14%, Profit before tax +8%

Japan Joint venture achieves biggest sales to date at Valentines



MARCH

Our first ever company-wide Charity week

£22m equity raise

22 MARCH

All UK retail locations and factory closed

Online range reduced by more than 90% to allow safe operation

Easter inventory re-boxed and returned from stores to distribution centre

Chief Executive's statement *continued*

"AT A TIME WHEN CUSTOMER BEHAVIOURS ARE CHANGING RAPIDLY WE REMAIN FOCUSSED ON ENSURING WE HAVE THE FLEXIBILITY REQUIRED TO MEET THEIR NEEDS"

IN-HOME, INCLUDING SUBSCRIPTIONS

The Velvetiser system for hot chocolate has revolutionised luxury drinks in the home since we launched it two years ago. Customer reviews have been prolific and very enthusiastic, and we now have a library of flavours, with many more scheduled for launch this year. A new range of lattes for the Velvetiser will hit the market pre Christmas. The Velvetiser Owners Club offers low-friction repeat supplies of chocolate refills, with the inside track on upcoming drink recipe launches shared amongst a community of like-minded enthusiasts for real chocolate drinks.

WE HAVE REVAMPED OUR CHOCOLATE TASTING SUBSCRIPTION MODEL WITH NEW TECHNOLOGY AND NEW CONCEPTS, AND WE NOW HAVE 4 PROPOSITIONS LIVE.

1. **The Inventing Room:** a limited-membership experience with privileged access to taste alongside us all of our potential new ideas, with voting rights on whether they should be launched.
2. **Curated Collections:** based on what we know you like, a 'surprise and delight' changing selection to match your preferences.
3. **Rabot Coterie:** for our most ethically-minded customers and a way to support Saint Lucian Cacao growing as well as receive an annual box of exclusive cacao-themed products and geo-mapped cacao trees planted with your name on our farm.
4. **Recurring purchase/Subscribe to Save:** the simplest way for your household to regularly receive your precise favourites.

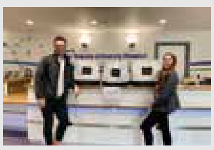
LEISURE / PHYSICAL LOCATIONS

We remain positive about the unparalleled leisure experience a physical Hotel Chocolat can deliver for our multi-channel direct-to-consumer model. The ability of these locations to recruit new customers into our VIP.ME database is highly effective when ranked against other direct digital recruitment methods. A physical Hotel Chocolat satisfies customer desires that cannot be met online: warm and knowledgeable human interaction, the joy of immediate impulse purchasing, a nourishing hot chocolat or Ice Cream of the Gods, the leisure experience of stepping into our multi-sensory world, a chance to taste our latest creations and to come back after-hours for a ticketed tasting event.

In the UK we have temporarily closed five 'commuter' locations due to much reduced footfall. All other locations are open and, in line with our expectations, are currently trading lower year on year in aggregate. Whilst a significant proportion of customer demand has moved online, impulse leisure sales are currently reduced due to lower footfall, particularly in London. We are in active dialogue with our landlords to find collaborative solutions to the ongoing disruption. With 67% of leases reaching a break or end within two years, and 89% within four years, we have significant flexibility to ensure property costs reflect customer behaviour and footfall levels.

In the year we opened 17 locations (11 in the UK, including two relocations, two in the USA, and four in Japan with our joint venture partner). In the UK and USA we have temporarily paused further openings pending likely adjustments to the property market, but we envisage new opportunities in 2021 and beyond. In Japan the property market already sets rents as a percentage of sales, giving us the confidence to continue to invest and support our joint venture partner in opening new locations to increase the reach and awareness of the brand.

2020 TIMELINE



APRIL

Over 165,000 bundles sold online

More than 70,000 morale boosting parcels shipped to NHS

MAY

Factory reopens with safety adaptations

Preliminary works commence ahead of occupying 10,000 sq m DC extension

JUNE

UK retail reopens

Launch of anti racism international working group

EXCELLENT SERVICE

"Thanks again for the excellent service and making purchasing, enjoying and gifting chocolates such a pleasant experience."

HEMANT, CLAPHAM

★★★★★

In Japan, chocolate gifting is more seasonal than in the UK, with over 70% of gift sales happening in H2. This has led us to upweight the counter-seasonal elements of the lifestyle brand proposition; including extending and enhancing the food and beverage offer, and leveraging Rabot 1745, the joint venture beauty brand inspired by our Saint Lucian cacao estate. These requirements for the Japanese market are accelerating the development of our physical proposition for all markets. The recent openings in Omotesando, Shin Urayasu, Marunouchi and Aichi Togo are the closest yet to bringing our vision of an experiential cacao-lifestyle brand to life in physical form. This model will be equally as relevant and appealing in the UK and the USA.

Our international operations in the USA and Japan made good progress in the first half of the year. The goal is to demonstrate that at each sales-channel level we can generate an attractive return on the invested capital, leading to a multi-channel roll-out that can generate businesses of scale. The disruption from COVID-19 in H2 has delayed our achievement of the physical site-level targets, but we are confident the brand appeals to customers, as evidenced by the dramatic acceleration of online growth in both markets when locations were temporarily closed. We see many ways to further improve our customer proposition and reduce operating costs to achieve our financial targets.

In July our Scandinavian franchise was closed due to the impact of the pandemic on their business. Our intention is to focus our resources on the development of the two much larger markets in the USA & Japan.

PARTNERS

We carefully select the distribution partners we work with, creating a 'capsule collection' tailored to the customer needs of each wholesale partner. Each partner adds something specific to our brand accessibility and customer reach. We are always conscious that our biggest asset is our brand, and so in our partner strategies we are careful to maintain the customer experience. As the brand foundation and an obsessed specialist, Hotel Chocolat's owned channels will always remain the only place to experience the full depth and breadth of the proposition. Our recent investment in an enlarged distribution centre will improve cost efficiency, availability and service levels to our partners.

SAINT LUCIA

Our sustainable cacao agro-toursim concept in Saint Lucia is central to the brand ethos. By growing cacao on our own organic estate, we better understand the needs and challenges of our other farmers, both on the island and worldwide. In April we appointed Jo Brett as CEO of Hotel Chocolat Saint Lucia. Jo was formerly President of Pret a Manger USA until 2019, having previously held senior positions at Pret UK. She will play a key role in expanding and enhancing the hotel, opening a new 'tree-to-bar' educational visitor experience and developing the Patrons of Rabot subscription and grower support programme. Jo is passionately committed to deepening the connection between our team in Saint Lucia and our colleagues and customers around the world, by bringing to life our passion for cacao and our role in adding value for cacao growing communities.

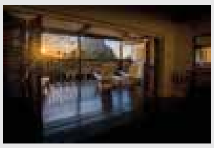
JULY

VIP.ME app launch

AUGUST

New biscuits range launched

Store number seven opens in Japan



SEPTEMBER

St Lucia Hotel re-opens

Two new subscription launches

Store number eight opens in Japan

Chief Executive's statement *continued*

"WE CONTINUE TO INVEST; TO INCREASE CAPACITY, DRIVE INNOVATION, AND ENSURE MULTICHANNEL FLEXIBILITY ACROSS CATEGORIES AND MARKETS TO SUPPORT CONTINUED GROWTH"

OPERATIONAL REVIEW

The key product ranges all traded strongly in H1, delivering sales growth of 14%. Gross margins in H1 reduced by 80 basis points as a result of sales mix shifting to slightly lower gross margin channels and an increase in sales of products produced by third parties. Overhead costs (pre-IFRS16) increased by 15% in H1 as we made investments in people and systems to deliver future growth, including strengthening the digital, marketing and trading teams to enable more and faster product innovation in service of growth in the UK and Internationally. Profit before tax and exceptional costs[1] increased by £1.1m in the first half.

In the second half, the impact from COVID-19 was significant, reducing H2 sales by 14%. The team safely collected Easter inventory from the closed retail estate and re-packaged into pre-selected bundles for online sale, allowing us to safely increase online output in response to a huge rise in online demand. This activity and additional clearance reductions reduced gross margins in H2. As a result, full year gross margins were 5 percentage points lower at 61%.

The investments we made in people and systems in e-commerce, innovation, and multichannel supply chain, made us more resilient during the challenges of H2 as well as setting us up well for the accelerated opportunities, and for further innovation in future.

In March, in anticipation of the potential disruption from COVID-19, the Board concluded that it was in the best interests of the Group to continue to pursue the growth strategy, and raised £22m of new equity in March to support ongoing investment for growth.

Further detail is provided in the financial review **PAGES 24 to 27**

MANUFACTURING

In the year we continued to invest in upgrading our manufacturing infrastructure in preparation for the installation of a fourth production line at our factory in Cambridgeshire, which will be operational in 2022. The factory was closed for eight weeks in spring whilst we made adjustments for COVID-secure working. The factory is now operating at over 90% of previous line output rates per hour and we have added a third production shift, which increases total site capacity, and improves asset utilisation.

SUPPLY

In June we began the fit out of a 10,000 square metre extension to our Distribution Centre in Cambridge. This investment doubles our storage and despatch capacity ahead of the winter 2020 sales peak. We have designed a layout that enables significant channel fulfilment flexibility at short notice, enabling us to shift smoothly between physical, digital and partners.

THE INNOVATION PIPELINE IS STRONG

NEW PRODUCTS

Lattes for Velvetiser

Nutmilk Vegan truffles, caramels and pralines for gifting

Biscuits expansion

Velvetised Chocolate Cream Liqueurs in four flavours

Complete Japan Valentine's range

CHANNELS & FORMATS

Four new subscription offers:
The Inventing Room · Curated Collections
Patrons of Rabot · Recurring purchase

Gift sending app

Lifestyle physical format in Japan with more food and drinks including Rabot Estate Coffee and dedicated space for beauty

Digital-first growth plan for USA

BRAND

Second series of TV show

Sustainability progress in people, planet and cacao

Increased Vegan range

Diversity and Inclusion – new employee-led steering group

New educational and brand-enhancing visitor experience in St Lucia: **'Project Chocolat'**

1. Exceptional costs are non-cash impairment charges (see page 24 for reconciliation to reported figures)

BUILDING LOYALTY

"I received excellent customer service from Lesley, helpful and courteous above and beyond. The service I received from her ensured that I returned, and will continue to return, to your business. You should be proud of employees like her."

LEE, LEAMINGTON SPA

★★★★★

OUTLOOK

In response to the evolving customer landscape we have accelerated many of our existing multichannel growth plans and our rate of product innovation, and as a result intend to make faster progress towards our goal of becoming the leading international direct-to-consumer premium chocolate brand.

The strong culture within the Hotel Chocolat team has meant that we acted with determination, ethics and imagination when put under pressure and we are now slingshotting into a new trajectory. I would like to extend my thanks to every member of the Hotel Chocolat family for making this happen.

We are well capitalised, and are planning prudently in order to improve our resilience against further near-term disruption, whilst also enabling clear-sighted investment for our future. In addition to growth opportunities in our home market we are encouraged by progress in the USA and Japan, two of the world's largest gifting markets.

ANGUS THIRLWELL
Co-founder and Chief Executive Officer

BRAND VALUES REVIEW

We are making progress on many fronts. The table below summarises some of the key elements.

More detail is provided on **PAGES 30 to 41**

	Our farmers and our chocolate	Our chocolate	The planet	Our communities
AUTHENTICITY	On the ground 'getting stuck in' engagement with our farmers and grower co-operatives. We operate our own organic farm in Saint Lucia so we know what we are talking about.	More Cacao, Less Sugar is our mantra. Cacao is always the lead ingredient in our chocolate. Our product range meets the Public Health England targets to control sugar levels in chocolate.	Every executive Director is an active and accountable member of our Sustainability Committee, which is determined to improve sustainability on all fronts.	100% happiness guarantee, we fully stand by our quality and service.
ORIGINALITY	We launched our Engaged Ethics programme in 2002 as a custom-made programme to fit our culture and our specific cacao growing regions with the aim of being an effective long-term partner for sustainable cacao growing.	We create our own ideas and IP, not seeking to copy others. We look, taste and act differently. Our direct connection to our customers is unique in the scaled chocolate world where most is sold in supermarkets.	We actively test new ideas in the search for more sustainable packaging, including tests of new plant-based compostable packaging. We initiated a scheme to take back plastic packaging from any chocolate brand for recycling.	During March we welcomed NHS and emergency service workers into the HC family, offering colleague discount as a thank-you and delivering over 70,000 parcels.
ETHICS	100% of our cacao is sustainably sourced with independent monitoring. Direct research with farmers to identify further improvements.	We aim to make our chocolates as responsibly as possible whilst being delicious. No artificial ingredients.	We are prepared to do the right thing, not the cheapest thing to protect our environment. Working in collaboration with Plastic Pact to find solutions to the challenge of flexible wrap.	Charity week in support of Mind and tackling mental health issues and awareness. Anti-racism steering group.

Our strategy

OUR STRATEGY HAS EVOLVED, MOVING FROM A CHANNEL-BY-CHANNEL APPROACH TO A GREATER FOCUS ON THE CUSTOMER'S LIFESTYLE, DRIVING A DEEPER ENGAGEMENT WITH THE BRAND AND INCREASING OUR RELEVANCE FOR MORE OCCASIONS THROUGH THE YEAR

"We will achieve growth by focussing on our customer, fostering a creative and entrepreneurial culture, whilst maintaining a disciplined and flexible approach to capital allocation to deliver improved returns and contain risk."

OUR STRATEGY FROM 2016 TO 2020:

'THE LEADING UK PREMIUM CHOCOLATE BRAND'

UK locations deliver more than 70% of Group sales.

Online delivering c20% of sales with no other channel or market contributing more than 5% of Group sales.

Over 85% of our product range manufactured in Cambridgeshire.

1. GROW UK PHYSICAL SALES
Locations, experiences, formats, VIP.ME

2. GROW UK DIGITAL
Ease of access via web, subscription, wholesale

3. INCREASE MANUFACTURING
Efficiency, capacity, product innovation

4. INTERNATIONAL
Test, Learn, Grow

FY16-FY19 RESULTS ACHIEVED:

GROUP SALES
£132m
(+13% CAGR)

EBITDA MARGINS STABLE
c16%
of sales

OUR STRATEGY FOR 2021 AND BEYOND:

'TO BECOME THE LEADING GLOBAL DIRECT-TO-CONSUMER PREMIUM CHOCOLATE BRAND'

Led by our values; Authenticity, Originality and Ethics, from 'roots to wrapper'.

Strong brand appeal reinforces premium-price position across multiple product categories.

Growth comes both from attracting new customers, new markets, new categories and by encouraging existing customers to shop more often for a wider variety of occasions.

1. LUXURY GIFTING
The take-home and delivered gift market is more than 3x larger than the chocolate market in the UK

2. IN HOME (VELVETISER AND SUBSCRIPTION)
Velvetiser and subscriptions, creating 'HC households'. More use occasions with higher lifetime value

3. LEISURE
Impulse self-purchase, food & beverage, shared experiences

GUIDING PRINCIPLES:

A channel agnostic approach; be where the customer wants to shop, (provided we can deliver a premium experience and achieve our financial metrics).

Innovation at the heart: forensic review of how we organise to innovate: more, better, faster.

Extension into new categories leveraging third-party production capacity to extend range breadth across more product categories.

Our strategy in action

1
LUXURY GIFTING

WHY IT MAKES SENSE

The gifting market in the UK, the USA and Japan is multiple times larger than the chocolate market. Gifts typically have a higher average order value than impulse purchases, meaning that the order-level economics for online, wholesale and multichannel retail are attractive.

The Board estimates that approximately 50% of Group revenues are generated from gift purchases.

HOW WE ARE RELEVANT

With a carefully nurtured brand, with a differentiated and original contemporary look, our products elicit that all-important frisson of excitement with the recipient. Our new dedicated gift-delivery app aims to make sending them effortless.

PROGRESS IN THE YEAR

New Easter range with stunning reusable tin packaging.

The Velvetiser became a very popular gift and strengthened our gift offer at higher price-points.

Large numbers of previously 'physical only' buyers started to buy online too, opening up the gift-sending potential of our online offer.

COMING IN FY21

Vegan boxed assortments, using our amazing unique 'nutmilk' recipe

Smaller gifts: extended range of chocolate macarons and batons

First Japan-specific seasonal ranges

VIP.ME gift app launch

Extended Velvetised Chocolate Cream Liqueur range

Bespoke capsule range launching in travel retail

Extended Distribution Centre – doubling peak capacity and increasing ability to respond to changing channel mix

VISION FOR THE FUTURE

Become a front of mind brand for delivered gifts

Fully realise our technology-supported concepts to make HC the slickest gift sending solution

Our strategy in action

2
IN-HOME

comprising Velvetiser & subscriptions

WHY IT MAKES SENSE

DRINKS: The Velvetiser was launched in 2018 and has become loved by households as it solves a problem; how to quickly make the most delicious hot chocolate with no fuss and no mess. The reviews and customer behaviour patterns have proven the growth potential of this concept.

CHOCOLATE: The Chocolat Tasting Club subscription, launched in 1998, was one of the Group's earliest successful business models. Which demonstrated the long-term attractiveness of repeat-purchase as a way to build a deep relationship with customers. Over time the growth of our multichannel offer has made it easier to access the brand in other ways, so the time was right to refresh the concept for the 2020s adding more reasons to engage.

HOW WE ARE RELEVANT

DRINKS: Since opening our first Cacao Bar in London's Borough Market in 2008, we have served millions of cups of our signature hot chocolat, all across the UK and in the USA and Japan. We have established deep credibility in drinking chocolate and stimulated advocacy for the real thing, made with actual velvetised chocolate, instead of a sugar-laden instant mix.

CHOCOLATE: We have one of the longest track records in food subscription with our Chocolate Tasting Club and have substantial insights into customers' tastes, preferences and long-term loyalty.

PROGRESS IN THE YEAR

Launched Velvetiser refill subscriptions.

Introduced eight more hot chocolate recipe flavours taking the range to 13.

COMING IN FY21

Velvetiser Owners Club

New range of Velvetiser lattes

New customer acquisition campaign leveraging attractive lifetime value

Configurator to bespoke your Velvetiser purchase bundle

Japan Velvetiser launch

US Velvetiser campaign

The Inventing Room subscription

Curated Collections subscription

Rabot Coterie subscription

New recurring purchase club, ensuring you never run out of household favourites

VISION FOR THE FUTURE

Further range development of our in-home drinks proposition

Extend in-home drinks growth plan to international markets

HC becomes the household purveyor of frictionless deliciousness

Our strategy in action

3
LEISURE

WHY IT MAKES SENSE

As a digital-born business, our physical format had to deliver something extra to what we could do online right from the beginning. For our customers, our locations offer a multi-sensory haven of escapism. Warm and knowledgeable human interaction, the joy of immediate impulse purchasing from our Wall of Chocolate, a nourishing hot chocolat or Ice Cream of the Gods, a complimentary taste of our latest creations and 'after hours' ticketed tasting events. For our multi-channel model the ability of these locations to recruit new customers into our VIP.ME database is highly effective when ranked against other direct digital recruitment methods.

HOW WE ARE RELEVANT

Within the fast-changing physical retail landscape, we believe our strongly branded, database driven model sets us apart from competitors in the gift and chocolate sectors. The investments we make to excite and entertain our customers gives the HC physical leisure format something to offer which is wholly complementary to our digital and partner channels.

In Japan, where rents are normally variable with turnover, the more flexible approach to property costs has resulted in thriving retail-destination malls. Market forces have the potential to lead to more flexible rental models in the UK and USA in future.

PROGRESS IN THE YEAR

Next-generation lifestyle locations opened in Omotesando, Shin Urayasu and Aichi Togo in Japan.

VIP.ME paper card replaced with app for quick registration and increased engagement.

Velvetiser and alcohol demonstration stations drove engagement with new ranges.

NEW RETAIL OPENINGS:

UK & ROI	USA	JAPAN JV
9 +2 Relocations	2	4
Total 126	**Total 4**	**Total 6**

COMING IN FY21

Extended Velvetised Chocolate Cream Liqueur range with new bottle shapes

More online 'Chocolate Lock-In' tasting experiences

Improved visual presentation and range rationalisation to improve navigation and conversion and excitement

VISION FOR THE FUTURE

Stronger multi-category lifestyle offer, applying developments tested in Japan

Technology – seamless link between retail IT, online and VIP.ME to better serve customer preferences

'Experience it, then subscribe' as a key in-location activity

Financial review

"WHILST NEAR-TERM PROFITABILITY HAS REDUCED, THE GROUP HAS ACTED SWIFTLY TO IMPROVE OUR OPERATIONAL FLEXIBILITY, STRENGTHEN LIQUIDITY, AND TO CAREFULLY INVEST FOR FUTURE GROWTH"

"Profitability has been materially impacted by the disruption from COVID-19, with lower sales and additional costs to safely and rapidly adapt. We have raised new equity and increased our banking facilities. We have undertaken near-term scenario planning on a wide range of potential trading outcomes, ensuring under each scenario we can balance necessary actions to preserve liquidity with further investments to support growth and a changing channel mix."

MATT PRITCHARD
Chief Financial Officer

	FY20 post IFRS16	IFRS16	FY20 pre IFRS 16	FY19
Revenue	**136.3**		**136.3**	**132.5**
Gross Profit	83.0		83.0	87.3
Operating Expenses	61.5	12.1	73.6	66.7
Underlying EBITDA	**21.6**	**12.1**	**9.4**	**20.7**
Share-based payments	0.4		0.4	0.9
Depreciation & amortisation	17.3	11.0	6.4	5.5
Profit/loss on disposal	(0.1)	(0.1)	0	0
Operating Profit before exceptional costs	**3.9**	**1.3**	**2.7**	**14.3**
Finance Income	0.2		0.2	0.1
Finance Expense	1.7	1.4	0.3	0.3
Profit before Tax and exceptional costs	**2.4**	**(0.1)**	**2.5**	**14.1**
Reconciliation to reported results				
Operating Profit before exceptional costs	**3.9**			**14.3**
Exceptional non-cash impairment costs	10.0			–
Operating (Loss)/profit	**(6.0)**			**14.3**
Net finance costs	1.5			(0.2)
Reported PBT	**(7.5)**			**14.1**
Tax paid (credit)	(1.1)			3.1
Profit (Loss) after tax	**(6.5)**			**10.9**

PERFORMANCE INDICATORS

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

	2020	2019	2018
Revenue	£136.3m	£132.5m	£116.3m
Underlying EBITDA[1]	£9.4m	£20.7m	£18.9m
Profit before tax and exceptional costs[2]	£2.4m	£14.1m	£12.7m
Gross margin	60.9%	65.9%	68.4%
Active users	£1.3m	0.9m	0

REVENUE
£136.3m
H1 +14% | H2 (14%) | FY20 +3%

UNDERLYING EBITDA[1]
£9.4m
H1 +£1.2m | H2 (£12.4m) | FY20 (£11.2m)

PROFIT BEFORE TAX AND EXCEPTIONAL COSTS[2]
£2.4m
H1 +£1.1m | H2 (£12.8m) | FY20 (£11.6m)

GROSS MARGIN
60.9%
H1 (0.8%) | H2 (13.7%) | FY20 (5.0%)

ACTIVE USERS
1.3m
+50%

1. Underlying EBITDA is pre-IFRS16, and excludes share based payments and related tax, and exceptional non-cash impairment costs
2. Exceptional costs are non-cash impairment charges (see page 24 for reconciliation to reported figures)

REVENUE

Reported revenue for the 52 weeks ended 28 June 2020 was £136.3m. Revenue increased by 3% compared to the 52 weeks ended 30 June 2019. H1 Group revenue of £91.7m was an increase of 14% and H2 revenue of £44.6m was a decline of 14%. With all physical locations closed for 12 weeks including the busy Easter period, the H2 decline of 14% reflects a significant proportion of sales migrating from physical locations to online.

GROSS MARGIN

Gross profit as a percent of sales reduced by 500 basis points from 65.9% to 60.9%. In H1 gross margins reduced by 0.8% due to a shift in channel and product mix. In H2 significant additional unplanned costs were incurred, collecting Easter inventory from over 100 locations, re-stocking the DC and pre-bundling the stock to maximise delivery capacity whilst working safely. The retail closures also resulted in additional clearance reductions upon re-opening. As a result H2 margins of 52.5% were 13.7% percentage points lower than FY19 margins of 66.2%.

OPERATING EXPENSES

In the eight months prior to the start of the COVID-19 impact, overheads (pre-IFRS16) grew by 10%, broadly in line with the sales growth rate. The increase in costs was driven by investments in e-commerce, product innovation and supply chain, which are intended to support the continued growth of the multichannel business in the years ahead.

In response to COVID-19 the Board initiated a review of opportunities to reduce costs, ensuring that discretionary and variable expenditures were reduced, whilst continuing to invest in those activities that improve the resilience and short and long-term prospects for the Group, including making improvements to the brand's online offer and enhancing supply chain flexibility and capacity. As a result of these investments operating expenses increased at a faster rate than sales growth.

Financial review *continued*

UNDERLYING EBITDA[1]

Underlying EBITDA is a non-GAAP metric but is included for comparability to prior years. On a pre-IFRS16 basis and excluding impairment charges, underlying EBITDA was £9.4m, a decline of £11.2m. Sales volume growth generated an additional £2.5m EBITDA YoY, the margin decline in H2 primarily due to COVID impacts resulted in £6.8m lower gross margins and overheads increased by 10% or £6.9m.

IFRS16 LEASES

FY20 is the first year where IFRS16 is applied to leases. Rent is removed from the P&L, a right of use asset and lease liability are recognised on the balance sheet. Rent charges of £12.1m are removed from the P&L, replaced by additional depreciation charges of £11.0m, and £1.4m increase in lease finance expense. The impact of the application of IFRS16 on reported profit is (£0.1m). Subsequently the right of use assets have been impaired by £4.0m as covered below. The Board makes business decisions based on current and future expected cash flows, so the adoption of IFRS 16 has no impact on Group strategy or investment decisions.

FINANCE INCOME AND EXPENSE

Finance income of £0.2m comprises bank deposit interest, unrealised derivative interest, and interest from the loans made to the Japan joint venture. Finance expense of £1.7m comprises £0.1m of bank interest, £0.2m of realised derivative interest, and £1.4m interest charge relating to the application of IFRS16 to leases.

DEPRECIATION AND AMORTISATION

Depreciation and amortisation increased by £11.9m. The new 'right of use' asset of £50.6m, created by application of IFRS16 to store leases, generated £11.0m of depreciation. Capital investment additions of £14.1m included new locations, IT systems and operating capacity.

PROFIT BEFORE TAX AND EXCEPTIONAL COSTS[2]

Profit before tax and exceptional costs was £2.4m, a reduction of £11.6m as a result of the lower sales and reduction in gross margins in the second half of the year.

ALTERNATIVE PERFORMANCE MEASURES

The Group uses the following Alternative Performance Measures (APMs) in reporting financial information. The Group believes that these APMs enhance comparability between periods and provide a more meaningful understanding of performance:

- Underlying EBITDA is pre IFRS16 and excludes share-based payment charges, related tax and non-cash impairment charges.
- Profit/(loss) before tax and exceptional costs excludes non-cash impairment charges.

EXCEPTIONAL COSTS OF ASSET IMPAIRMENT

In the light of current disruption, the Board have considered the potential requirement to impair the carrying value of assets. Consideration is given to the estimated value in use and probable open market value. This review has given rise to a non-cash impairment charge of £10m, comprising three main elements:

1. **Retail leases:** For assets with relatively short lives, such as retail leases, which average three years until the next break event, the forecasted reduced sales performance gives rise to a non-cash impairment of £6.6m affecting 30 locations.
2. **Goodwill:** £0.7m of goodwill relating to the acquisition of Hotel Chocolat Corporate Ltd in the year to June 2009 has been impaired as a result of a change in business strategy whereby corporate gifting sales will be now incorporated within the online platform.
3. **Saint Lucia:** As the 'spiritual home' of the Hotel Chocolat brand, the cacao estate hotel in Saint Lucia is pivotal to the Group and delivers many intangible benefits including customer marketing, employee engagement, and as a source of education on sustainable cacao growing. The Board are required to consider whether at the balance sheet date the carrying value of the assets is supported by either the value in use assuming no future capex investment, or by the open market value of the assets as assessed with the support of appropriately qualified external valuation experts. The disruption caused by COVID-19 has reduced the short-term open market value of such assets, and as a result the carrying value has been impaired by £2.7m. The Board is fully committed to continuing investment in Saint Lucia, including extending the hotel and completing a much enlarged educational 'tree to bar' cacao farm visitor attraction.

LOSS BEFORE TAX

Loss before tax, after non-cash impairment charges of £10m, was (£7.5m), a reduction of £21.6m year-on-year.

TAX

A tax credit of £1.1m arises as a result of the loss before tax. This credit arises as a result of the loss on ordinary operations and permanent timing differences.

1. Underlying EBITDA is pre-IFRS16, and excludes share based payments and related tax, and exceptional non-cash impairment costs
2. Exceptional costs are non-cash impairment charges (see page 24 for reconciliation to reported figures)

EARNINGS PER SHARE AND DIVIDENDS

The Group reported a diluted loss per share of (5.5)p, compared to FY19 profit of 9.5p. The weighted average number of shares in issue was 118m (FY19: 113m). Having raised £22m of new equity in March to fund growth investment the Board will not be proposing a dividend (FY19: 1.8p). The Board anticipates that a progressive dividend policy will be reinstated when conditions permit.

CASH AND WORKING CAPITAL

The Group had £28.1m of cash at period end. Inventories of £13.9m represent approximately 12 weeks' forward cover. The Group has access to a Revolving Credit Facility (RCF) with Lloyds bank of £35m until December 2020, and £25m until December 2021. The RCF will be used to finance working capital. As at 20 September 2020 the Group had cash balances of £16.5m, giving headroom of £51.5m including its £35m RCF facility.

EQUITY PLACING

On 20 March 2020 the Company announced the completion of an equity placing, conducted by way of an accelerated bookbuild, to provide the Company with additional liquidity in response to the impact of COVID-19 and to fund ongoing capital investments in support of the growth strategy.

A total of 9,777,777 new ordinary shares of 0.1 pence were placed at a price of 225 pence per share raising £22m gross proceeds. Following admission of the placing shares and other share issues to satisfy employee share plan awards, the Company's issued and fully paid share capital consisted of 125,500,611 ordinary shares at the period end.

GOING CONCERN

Considering the significant uncertainties faced by the retail sector, the Directors have undertaken a comprehensive assessment to consider the Group's ability to trade as a going concern over the following 12 months.

The Directors have considered the Group's financial position and its committed borrowing facilities as well as alternative sources of financing (including sale & leaseback of freehold property and asset financing) that might reasonably be assumed to be available, as well as the Group's financial commitments, noting the relatively short retail lease commitments of less than three years on average, and the Group's ability to delay the timing of planned capital expenditure.

More broadly, the Directors have considered the strength of the Hotel Chocolat brand, demonstrated by 1.3m active VIP.ME loyalty users and an increase in multi-channel shopping behaviour, together with the flexibility and agility of the Group's business model, noting that, since the end of the UK lockdown, just under half of the Group's sales are generated via online, subscriptions and digital partners.

The Directors have noted the support from the Group's shareholders and bank, evidenced in the successful equity placing immediately prior to the UK lockdown and the subsequent financing facility extension.

In making their assessment the Directors have reviewed management's forecasts based on the following trading scenarios:

BASE PLAN SCENARIO

The base plan assumes a year on year reduction in Retail sales in H1 of FY21 due to lower footfall, but with a strong level of transition to Online and continued delivery of growth plans in Wholesale. The planned transfer of sales from Retail to Online represents an improvement on the achievements at Easter given that the Group can build upon the lessons learned, and the capital investments made since March to increase capacity. For the calendar year 2021, the base plan assumes Group sales will recover to pre-COVID levels.

DOWNSIDE SCENARIO

The downside scenario models the effect of the UK returning to a lockdown for a significant period in the run-up to the Christmas sales peak. It assumes half of the sales lost from closed Retail locations transfer to Online, which is broadly in line with results at Easter 2020, this would result in combined sales from retail and online declining by 18% on H1 FY20. In the second half, physical retail sales are assumed at 50% of that in the base plan with half of the decline transferring to online.

The Group has a £35m CLBILs Revolving Credit facility in place with Lloyds Bank until December 2020, which then reduces to £25m CLBILS Revolving Credit Facility through to December 2021. It is the Directors' intention to review funding requirements for the period from June 2021 onwards in the Spring of 2021, following Christmas trade and with more knowledge on the possible longer-term impacts of COVID-19 on the retail sector. However, based on the two scenarios modelled, the Group and the Company will be able to operate within the level of its current facilities and associated covenants. Taking the above considerations into account, the Directors have a reasonable expectation that the Group and the Company has adequate resources to continue in operational existence throughout the forthcoming 12-month period. Therefore, the Directors continue to adopt the going concern basis of accounting in preparing the consolidated and parent company financial statements.

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.

RISK	GLOBAL OR REGIONAL PANDEMIC	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	The COVID-19 virus, and public health mitigations may lead to loss of access to physical sites impacting ability to trade, reduced customer demand, delays or disruption to the supply of goods.	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	Multi-channel model gives option to trade through alternative channels to market. Proven capability for remote working for many roles for extended periods. Business Continuity Management processes have been proven to operate effectively. Short leases provide ability to flex physical estate in medium term. Increased distribution centre capacity with capability to dynamically flex to match multi channel demand patterns with social distancing.	The business adheres to core values of originality, authenticity and ethics which result in a strong brand. All members of the Executive sit on the Sustainability Committee which aims to drive constant improvement in environmental and social issues.	The Group maintains a business continuity plan which is updated annually and tested quarterly with the incident management team. The Group uses a structured process to mitigate cyber-security risks including specialist roles, software upgrades and mandatory user compliance training.	Factory food safety standards are independently audited by BRC. All upstream suppliers are subject to rigorous risk assessment, independent accreditation, and must confirm adherence to our supplier code of conduct. Supplier performance is monitored, and a rolling programme of supplier audits is undertaken.	The business adopts a cautious 'test, learn, grow' approach to each new market. Due diligence undertaken to ensure appropriate local partner. Ongoing monitoring of international performance and risks including weekly reviews of management information by the Executive and monthly reviews by the PLC Board.
CHANGE IN RESIDUAL RISK IN FY20	The Group's response to the unforeseen pandemic has resulted in many operational changes to help mitigate the impacts of potential future outbreaks.	The Executive Sustainability Committee formed in 2019 made significant progress on many fronts as covered on pages 30 to 41.	The business continuity management process was deployed effectively in response to COVID-19. The Group's response to the unforeseen pandemic has resulted in many operational changes to help mitigate the impacts of potential future outbreaks.	In 2020 the business received the highest possible AA-grade accreditation from the BRC food standards audit. In the year there were no instances of suppliers being delisted due to audit or quality issues.	Progress against the plan has increased the scale of international activity. COVID-19 has introduced greater uncertainty with a wider range of potential impacts.

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.

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. Lower near-term profitability precludes the use of incentives funded from improving performance.
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. The Board has planned for a variety of potential scenarios including mitigations for any contraction in demand.	The Group has made administrative preparations for the ongoing impact of a potential 'no deal' scenario on imports and exports. UK-based suppliers are being asked to provide assurance that adequate preparations are in place to avoid disruption to upstream supply-chains.	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.
The Group extends its currency hedges on a quarterly basis and is currently hedged for the whole of FY21 forecast purchases.	The medium-term impact of COVID-19 is uncertain, meaning the Group has had to plan for a wider range of outcomes. Trading since the end of FY20 is in line with temporarily reduced expectations.	Whilst the 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 Group has continued a programme of innovation in products and services to strengthen the brands appeal.	Shareholder consultation will be undertaken prior to the introduction of any future LTIP incentive arrangements.

Sustainability

THE GROUP STRIVES TO ENSURE THAT ITS ACTIVITIES POSITIVELY BENEFIT ALL OUR STAKEHOLDERS; OUR CUSTOMERS, GROWERS, SUPPLIERS, SHAREHOLDERS, COMMUNITIES, THE ENVIRONMENT AND THE HOTEL CHOCOLAT FAMILY WORLDWIDE

The Group is committed to being a market-leader for sustainable and ethical business practices. In 2019 the Group set up a Sustainability Committee in order to:

- Set targets for further improvement
- Formulate plans to deliver the targets
- Mobilise the business to act
- Report progress
- Measure current performance to establish the 'baseline' position
- Provide governance and oversight to ensure programmes deliver results
- Increase awareness of how communities can play a part in progress on sustainability

The committee met 12 times in FY20. Angus Thirlwell, Peter Harris, Matt Pritchard, Lysa Hardy and Matt Margereson are all active members of the committee with specific accountabilities for sustainability issues. The committee also includes team members with specialist expertise in areas such as sustainable packaging, cacao sourcing, environmental management, nutrition, human resources, and communication. External specialists are also invited to attend both to share knowledge and externally validate activity.

The committee considers what our stakeholders expect from the business, gathering data from many sources and cross-referencing this to the United Nations Sustainable Development Goals to which the Group is committed. Whilst all of the UN goals are relevant and applicable to the Group, we have sought to identify those areas that are most material to the Group's activities and which are therefore where our biggest positive change can be achieved.

Our strong British brand is based on an ethos of:

ORIGINALITY

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

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.

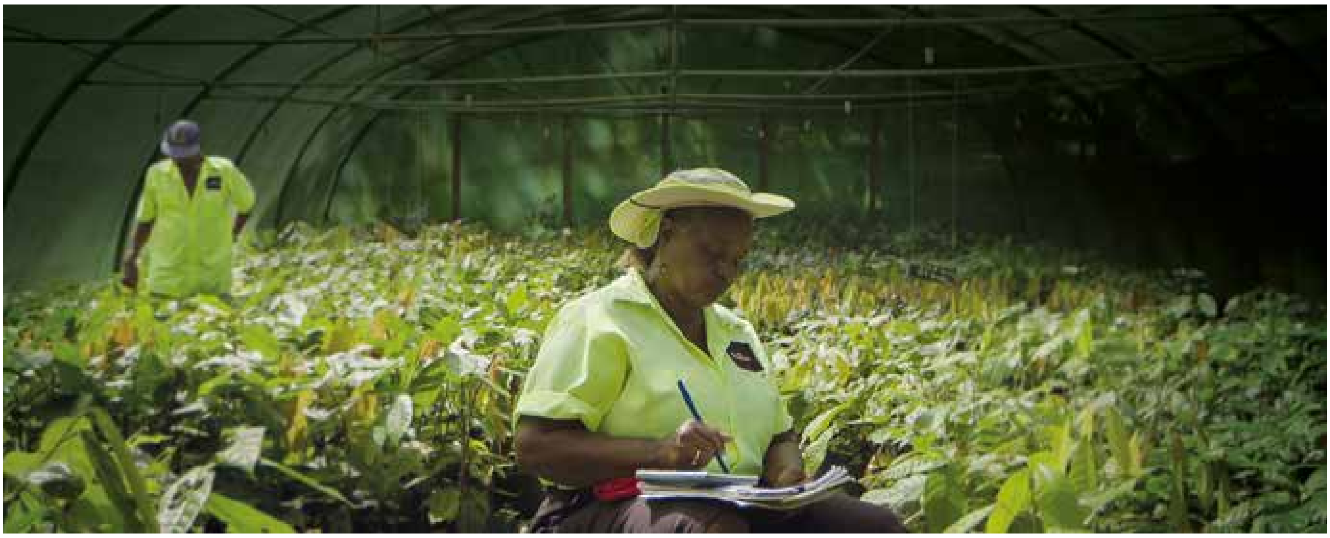
ETHICS

Doing the right thing, not just saying it. Engaged Ethics is our sustainable approach to cacao farming, the planet and our communities.

THE FOLLOWING PAGES SET OUR GOALS, AND OUR PLANS AND PROGRESS IN MORE DETAIL UNDER FOUR THEMES:

- OUR PLANET
- OUR FARMERS
- OUR PEOPLE
- OUR COMMUNITIES

OUR PLANET



We set our very first Planet Pledge in 2017/18, targeting 100% of our packaging will be compostable, recyclable or reusable by 2021.

We are making good progress towards this goal. It is extremely challenging however with many complexities involved. We remain committed to driving our packaging sustainability forwards and have now extended this commitment to making 100% of our packaging recyclable or reusable by 2022.

The UK Government has committed to the UK being Net Zero Carbon by 2050. In support of this, we are pledging to work towards making our direct operations Net Zero Carbon by 2030. This is a huge challenge but we are committed to mapping out a pathway for achieving this in the coming years and working towards it as a business.

	KEY ACHIEVEMENTS IN THE YEAR	OUR VISION
PACKAGING	We joined Wrap/the Plastic Pact, to collaborate with the entire plastics packaging value chain to create a circular economy for hard-to-recycle plastic film. See: **https://www.wrap.org.uk/content/the-uk-plastics-pact** for details. We replaced black plastic trays converting 300 tonnes of packaging p.a to be recyclable at kerbside. Our instore recycling scheme continues to accept plastics from any chocolate brand for recycling.	**100% of packaging to be recyclable or reusable by 2022**
ENERGY AND CO_2	By devising more efficient delivery routes we will reduce vehicle fleet CO_2 by 22% year on year. 100% of electricity is from renewable sources (75% wind 25% biomass). We have measured our baseline CO_2 emissions under SECR and will use this to track progress against our zero carbon objective.	**Net zero carbon for direct operations by 2030**
WASTE	100% of food waste byproducts from production are recycled. Commenced implementation of ISO 14001 Environmental Management System to certify waste reduction and environmental management.	**Zero waste to landfill** **100% traceability of all waste to recycling**
WATER	We upgraded our waste water filtration plant to ensure all waste used in production remains safe for discharge.	**Continuously reduce water consumption**

The UN Sustainable Goals impacted by our actions:

Sustainability *continued*

OUR PLANET CONTINUED

PACKAGING

A key area of focus of our work this last year has been plastic and flexible film, which is used to ensure food can be wrapped safely, but which is more challenging to recycle and currently is not widely collected for recycling by kerbside schemes. We are working in collaboration with our suppliers to find circular solutions, and have joined the Plastic Pact, an industry body with the goal of collaborating to find recyclable replacements. Whilst we search for a solution we have invited our customers to bring both their Hotel Chocolat product packaging and packaging from any other chocolate brand back to any of our stores and we will recycle it on their behalf.

ENERGY & CARBON

FY20 is the first year we are required to report under the Streamlined Energy & Carbon Reporting (SECR) framework. Our SECR covers the energy consumption and Greenhouse Gas (GHG) emissions for the period 1 July 2019 to 30 June 2020. The table below shows the energy and GHG emissions from business activities involving the combustion of gas and fuels, the purchase of electricity and business mileage in both kWh and tCO_2e.

FY20	**Energy Usage in kWh**	**GHG Emissions In tCO_2e**
Scope 1	7,153,837	701
Scope 2	8,286,668	2,735
Scope 3	146,824	201
Total for the period	15,587,328	3,637
Intensity ratio (tCO_2e per m^2)		436

We have selected an intensity metric based on the energy consumption per square metre of area of our sites, this is of 436kg CO_2/m^2. We will use this ratio to monitor our energy efficiency performance over time.

Hotel Chocolat has implemented a range of energy efficiency measures at our manufacturing site, and within our wider retail estate. These include the installation of new more energy efficient cooling chillers, a rolling upgrade to LED lighting, a switch-it-off energy campaign, and a reduction in business travel by making more use of online meetings. A new environmental monitoring system has been installed which monitors the site environmental conditions and will enable us to identify and monitor the impact of future energy efficiency measures.

Hotel Chocolat has set demanding specifications for the retail portfolio that ensure customers are welcomed into a comfortable environment that is energy efficient in terms of lighting, heating and cooling. We have high expectations for the environmental performance of our sites and are continually seeking new and innovative solutions to reduce energy consumption, promote energy efficiency and improve the environmental performance of our supply chain.

Each year we supply many thousands of tree seedlings to cacao farmers in Ghana and Saint Lucia, both cacao plants and associated shade-tree seedlings. These help support farm biodiversity and also help sequester CO_2 from the atmosphere as they grow to maturity. We are currently working with external experts to quantify the potentially material scale of this benefit.

SECR METHODOLOGY:

The figures quoted within this report and detailed within the supporting evidence pack include meter readings for electricity and mileage expense reimbursement claims for business mileage. Conversion factors used are taken from the '2020 UK Government's GHG Conversion Factors for Company Reporting' to calculate emissions for Scope 1,2 and 3. Refunded business mileage has been classed as Scope 3 as Hotel Chocolat Group Plc do not own the assets, emissions from UK Electricity Transmission and Distribution has also been included within this scope. An average CV and CO_2e factor has been applied to the refunded business mileage as individual private vehicle details have not been provided.

SECR MATERIALITY:

The data provided for this report by Hotel Chocolat Group has been determined as accurate and complete and covers 100% of the Group's activities.

PASSIONATE ABOUT SUSTAINABILITY

Sarah Leveridge joined Hotel Chocolat in June 2019. She has over 25 years' experience working in retail, with a specialism in packaging technology.

Sarah has been instrumental in our joining the On-Pack Recycling Label scheme, our membership of the Plastic Pact and switching all our rigid plastics to clear, making them widely recycled. The business is actively pursuing innovative solutions for plastic packaging, having tested compostable bagasse trays these were found to have a higher environmental impact than we thought.

Sarah is passionate about driving the sustainability agenda throughout our business, by working with all departments to build strong plans to ensure we drive substantive progress. In recognition of the progress made during the year, Sarah was promoted to a newly created role; Head of Sustainability, and will oversee co-ordination of the multiple project working groups to deliver our sustainability goals.

For more details on our sustainability credentials go to: www.HotelChocolat.com/sustainability

WASTE & WATER

We strive to ensure that production and supply operations minimise both the resources they use and the levels of waste material created. To drive further progress we have begun implementation of an Environmental Management System (EMS) that will be aligned with the requirements of the internationally recognised standard ISO 14001. Our EMS will provide a structured methodology for measuring, managing and reducing the environmental improvement of our business activities whilst embedding a programme of continual improvement of our environmental performance. The EMS will be bringing together our existing good practice waste management processes, which include segregation at source, diverting waste from landfill and working to circular economy principles. We are continually seeking new and innovative ways to reduce waste and find better solutions for unavoidable waste. For example, 100% of food waste byproducts from production are recycled.

OUR FARMERS

OUR GOAL IS FOR EVERY FARMER TO AFFORD A DECENT LIFE FOR THEMSELVES AND THEIR FAMILIES

Cacao is the foundation of our business, our brand mantra is 'More Cacao, Less Sugar'.

In 2006 we purchased a dilapidated cocoa estate in St Lucia, and began to learn about cacao farming. We were able to revitalise the farm and share our learning with other growers on the island. Today the farm is certified organic and supplies seedlings to local farmers from our nursery. Our vision was to create more economic value within the community by building a hotel on the estate, and to share with visitors the experience of how chocolate is made, all the way from 'tree to bar'.

We are now expanding the award winning hotel, and in 2021 will open a new much enlarged educational tree to bar visitor experience.

St Lucia provides a small proportion of our cacao, the majority comes from Ghana, and we also source cacao from sustainable community co-operatives in Latin America. We apply our experience from St Lucia to all of our interactions with farmers and co-operatives.

KEY PRINCIPLES	KEY ACHIEVEMENTS IN THE YEAR	OUR VISION
KNOW YOUR FARMER Each farm location is GPS mapped Understanding farmer age and gender	We have appointed an independent agency to interview our farmers to identify what they require, in order to further improve our programmes. **https://www.60decibels.com/**	**Farmers work on a professional and diverse farm, which is self-sustaining.**
PROSPERITY Raising incomes Farming best practice to sustainably increase farm yield	60 new young farmers received tools and training in sustainable farming best practice. Weekly radio shows.	**All cocoa farmers can afford a decent life for themselves and their families.**
COMMUNITY Promoting and supporting children in school Child labour prevention	Over 2,500 medical treatments at the HC-funded medical centre in Osuben. Three boreholes providing clean water for farming communities.	**Robust structures are in place that enable communities and government to address the root causes of child labour.**
ENVIRONMENT Farms GPS mapped Encouraging and facilitating tree planting Ensuring no deforestation	Farmers commit to zero deforestation in return for premium price for their cacao. All farms are GPS mapped and confirmed not adjacent to protected land at risk of deforestation. HC-funded model farms have supplied over 100,000 quality tree seedlings in the year.	**Farmers' land is free from deforestation, and farming practice is environmentally-friendly including crop diversification and to mitigate Climate Change impacts.**

The UN Sustainable Goals impacted by our actions:

FOCUS ON GHANA, OUR MAIN SOURCE OF CACAO

Over 90% of our cacao is sourced from farmers in Ghana. Our sustainability programmes in Ghana comprise two layers of investment:

1. All of our Ghanaian cacao is supplied from farmers who have signed up to a sustainability charter covering four key requirements: know your farmer, prosperity, community and environment. In return they receive a premium from us for their cacao, on top of the standard market price. This scheme is administered by Cocoa Horizons, an independent foundation. Farmers' adherence to the charter is monitored and independently verified.
2. In addition, Hotel Chocolat funds a collaboration with a local NGO, Green Tropic, who run a combination of farmer support and community support initiatives in the two regions of Ghana where we source our cacao, Nkawkaw and Juasao. The initiatives include; model farms and radio shows to promote improved farming practice and conservation, seedling nurseries, a scheme providing young farmers with the skills and materials to farm cacao, and community projects including the creation of a medical centre and clean-water boreholes.

For more details go to: **http://www.greentropicsgroup.org/**

"I've been deeply impressed with Hotel Chocolat's achievements since they became cacao growers back in 2006. They have led a transformation of the local cacao growing economy and model with their new approach to sustainable luxury. Their sincere respect for our country has resulted in their pioneering Engaged Ethics programme… not only have they have rejuvenated cacao growing here, they have solidified our reputation as top-quality cacao producers and considerably boosted the attractions of our tourism industry, profiling the strong food culture of the island."

HIS EXCELLENCY GUY MAYERS

Saint Lucia's High Commissioner to the UK

Case study

BOATENG BADU'S STORY

Boateng Badu Barima is part of our Young Farmers Scheme in Ghana. He used to be a galamsey operator (illegal miner) and was exposed to lots of health hazards due to chemical leakages. He was always on the run from task forces set up by government to combat illegal mining. He talks about how the Young Farmers Scheme has enabled him to change his life:

"I witnessed lots of my fellow illegal miners struggling and dying as a result of the collapse of galamsey pits. I resorted to alcohol when those scenes became unbearable to me.

However, everything changed when I heard of the Young Farmers programme and subscribed to it. I was trained in cocoa farm establishment & maintenance and was provided with the required resources for startup. I successfully set up and continue to maintain my two acre farm."

An interview with

PATRICIA LAMONTAGE

Cacao Grower Saint Lucia

"Bananas used to be called the 'green gold'. Now cocoa is the 'brown gold'. Today, I sell 10 times more cocoa than I sold before. This is what I tell farmers when I see them. Why waste time? Go into cocoa. We have a buyer at Hotel Chocolat.

Hotel Chocolat's subsidised cocoa plants helped me replace all our old trees that had died. I bought them by the hundreds. We planted ten acres, with banana and coconut trees in between for shade. We hired two workers to help us maintain them. Now, we're harvesting so much!

They have the best flavour as well. The quality is much better. I know because I make cocoa tea twice a week and my children love it.

Cocoa farming is my passion. I enjoy the work, picking and breaking the cocoa. It's fun. It's healthy. You're getting exercise and using your energy. I love walking the estate in the late afternoon, around 5pm, when it's not too hot. The birds are flying low and getting ready to settle for the evening. It feels very calm. That's the time I enjoy the most.

Farmers who plant cocoa can employ a lot of people looking for work. I tell them, please register with Hotel Chocolat because they'll buy all the cocoa you plant. I've now introduced eight cocoa farmers to Hotel Chocolat. One day, my children will follow in my footsteps. They're going to continue planting and taking care of the cocoa. If you sell the land, the money will eventually be gone. But keep the estate going, and you'll always have an income."

Sustainability *continued*

OUR TEAM

OUR TEAM ARE A KEY INGREDIENT IN THE BUSINESS. WE ARE COMMITTED TO DIVERSITY, INCLUSION AND EQUALITY OF OPPORTUNITY, AND ARE MAKING PROGRESS ON MANY FRONTS

KEY PRINCIPLES	KEY ACHIEVEMENTS IN THE YEAR	OUR VISION
COMMUNICATION Two way open and honest ongoing dialogue	We launched 'The Pod' an internal app to share company news, celebrate success and act as a portal to accesses training materials and personal development tools. We increased our business communication with a weekly and monthly calendar of all-employee briefings. Regular 'listening sessions' are held with small groups across the business to discuss topics important to the team.	**Industry-leading employee engagement resulting in a motivated team that deliver great customer experience and drive continuous innovation.**
OPPORTUNITY TO GROW Everyone can succeed at HC Support Understanding	We celebrated international women's day including a talk by Lysa Hardy, CMO sharing her career experience as a working mum. We launched our mental health awareness week, and introduced trained mental health first aiders.	**To provide a working environment where everyone can meet their potential and are actively supported to do so.**
DIVERSITY & INCLUSION Zero tolerance of racism Increase diversity of workforce	We have created a rolling calendar of business events to recognise and celebrate all forms of diversity. Colleague feedback in response to Black Lives Matter gave rise to the formation of an anti-racism group comprising colleagues and the CEO to find practical ways to improve We are updating all of our team demographic records to ensure a robust baseline for tracking the results of our programmes, including the rollout of diversity and inclusion training to every employee by the end of 2020.	**To foster an active discussion across the whole group that promotes shared understanding to highlight, challenge and oppose discrimination and ensures equality of opportunity.** **We commit to action in order to maintain a working environment where racism and discrimination of any kind are not tolerated.**

The UN Sustainable Goals impacted by our actions:

In the year we launched a number of programmes and tools to improve our two-way communication and engagement. We commenced a programme encouraging women in leadership and formed a new colleague-led working group to support our work against racism and discrimination in all forms.

The Board are committed to ensuring that all employees can have a voice in the boardroom. Our people are a regular topic on the Board agenda and Sophie Tomkins, Non-executive Director has been given a special remit to ensure that employee views and concerns are fully represented.

The Group operates an all employee share-save scheme, which launched in August 2016, with the first vesting taking place in FY20, and in which over 200 colleagues successfully participated.

The Group and the Board are committed to equality. We continually strive to create a working environment in which all individuals are able to make the best use of their skills and talents, free from discrimination or harassment, and in which all decisions are based on merit. We are confident that all of our employees are paid fairly and consistently for the same roles.

We published our latest Gender pay report in March. We added 96 additional employees in the reporting period and 75% of the new roles were filled by women. Our mean gender pay gap reduced by 3%. Of those people in management positions with accountability for making recruitment decisions, 65% are female. Within the highest paid quartile of employees, the majority (59%) are female.

The composition of our team by role level is as follows:

Headcount by gender – June 2020	Female	Male
Team Member	1,098	550
Line Manager	181	88
Direct reports to Executives	7	10
Executive Directors	2	3
Non-executive Directors	1	2
Co-founders	–	2

Case Study

A RESPONSE TO BLACK LIVES MATTER

A number of our team began to share ideas and suggestions in response to the Black Lives Matter protests.

These discussions lead to the formation of an anti-racism working group, comprising passionate volunteers with the shared objective of openly discussing and promoting diversity and equality both inside and outside of Hotel Chocolat, whether by developing new ideas or by ensuring great communication of existing activity. Angus Thirlwell CEO, and Jo Brett CEO St Lucia are members of the group along with volunteers from across the Group.

Shamilla, a retail manager was an early volunteer to join the group. She wanted share her experience celebrating Eid in her local community. The discussions at the working group led to improved business-wide communications explaining the importance of Eid for the Muslim community, which in turn led to a wider distribution of Eid gifts across the business and an increased focus on other religious celebrations, including Hanukkah.

You can see the full video here:
https://youtu.be/p9CZrHsARmE

Sustainability *continued*

OUR COMMUNITIES

	KEY ACHIEVEMENTS IN THE YEAR	OUR VISION
RESPONSIBLE PRODUCTION & SOURCING Food safety Reduce waste Freedom of association, anti slavery and anti-bribery within upstream supply chain	The Group is committed to the highest standards of food safety and achieve the highest possible 'AA' certification from the annual BRC food safety audit. All of our suppliers must adhere to our ethical code of conduct, and are subject to regular risk assessment and physical audits. No issues arose that would have led to a supplier being delisted. See pages 31 to 33 for more detail on waste reduction initiatives. We have reformulated all of our recipes to remove the small volume of RSPO-certified palm oil that we currently use. The rollout of the new recipes will completely remove palm oil from our products and will be complete by 2021.	**To continue to supply products of the highest quality and safety.** **To ensure ethical and sustainable practices throughout the up-stream supply chain.**
RESPONSIBLE CONSUMPTION Nutritional content Waste and recycling Fair and transparent pricing	More Cacao, Less Sugar is our mantra. Our product meets Public Health England's targets intended to reduce use of sugar in chocolate. We replaced black plastic packaging with kerbside recyclable alternatives and take back flexible film from any chocolate brand for recycling. We launched out innovative nutmilk, a vegan alternative to creamy milk chocolate. Our 100% Happiness Guarantee means customers can buy with confidence.	**To leverage our use of the 'More Cacao, Less Sugar' brand mantra to inform consumers about the differences between real chocolate and substitutes laden with cheap sugar.**
GIVING BACK Charity week NHS appreciation	In March 2020 we held our first every charity week with activities across the business raising money for Mind, the mental health support charity. The Group matched the funds raised and a total of £30,000 was raised for charity. In spring we extended our colleague discount scheme to all NHS workers, shipping over 70,000 parcels to provide a little morale-boosting cheer in very challenging times.	**To continually develop our connection with our communities everywhere that we operate.**

The UN Sustainable Goals impacted by our actions:

Case study

SUPPORTING THE LOCAL COMMUNITY

When the St Lucian hospitality industry was closed in response to COVID-19, Chef Ricardo and the team from our hotel decided to make use of the unused food, preparing meals before serving them at the local community support kitchen in nearby Soufriere. The community response has encouraged the team to build an ongoing connection supporting those in need and reducing food waste.

Hotel Chocolat is a business which is based in the heart of communities.

Our product is one which is bought and often gifted to others. We feel passionately about the importance of giving back to these communities that support us, both through ensuring that our product is nutritionally the best it can be, as well as supporting those in need, both in the areas we sell our product, but also from the regions where we source our ingredients.

Case study

CHARITY WEEK

In March we held our first ever charity week. The team were asked vote to select which charity to support. Mind, the mental health charity, were a fitting choice for our first partner charity following a year of focus on mental health awareness in the business, including the introduction of awareness training and new 'mental health first aider' roles. Teams from all across the business came up with amazing ways to raise money from bake sales, to raffles to sponsored fancy dress.

A TOTAL OF

£30,000

was donated.

Considering all of our stakeholders (s172)

We believe that to maximise value and long-term success we must take account of what is important to all our key stakeholders and maintain a reputation for high standards of business conduct. This is best achieved through effective pro-active engagement.

HOW WE ENGAGE

Customers: Our guests

Customer comments, reviews and feedback are collated every week and reported to the Board monthly.

Customer spending behaviour is analysed to identify trends and opportunities for consideration by the Board.

Every customer-facing colleague can report verbatim customer feedback which is used to improve service or gather new product suggestions.

Targeted marketing and social media campaigns are designed to engage customers.

Every employee is guided by our 100% guest happiness guarantee.

PRIORITIES FOR STAKEHOLDER GROUP

Innovative and exciting products for gifting and self consumption.

Ease of access to purchase Hotel Chocolat products.

Responsible, ethical behaviour including product quality and safety, fair sourcing and the environmental impact of products.

See more on page 10

The Hotel Chocolat Family

Every employee receives an induction with the opportunity for ongoing e-learning on personal development and to learn about the cacao and the brand.

Undertake regular all-employee engagement surveys and conduct small-group 'listening sessions' to explore specific issues in detail.

Sophie Tomkins has a specific accountability to ensure employee concerns are represented in the Boardroom.

All-employee briefings held on a weekly basis.

Colleague involvement in sustainability and diversity working groups.

PRIORITIES FOR STAKEHOLDER GROUP

Safe, secure and enjoyable employment.

Opportunity for learning, development and career progress.

Freedom from harassment and equality of treatment.

Recognition for their contribution.

Regular communication on business progress and giving back to society.

See more on page 36

Suppliers & Farmers

Regular visits to cacao growing regions to meet with farmers, co-operatives and NGOs. Every farmer commits to respect a code of conduct. Independent research being conducted to obtain farmer feedback.

Comprehensive supplier assessments prior to on-boarding. Ongoing programme of risk assessments and audits.

Strategic collaborative planning meetings with key suppliers.

Periodic supplier surveys covering topics such as Brexit preparedness, supplier code of conduct etc.

Active dialogue with suppliers with goal of increased innovation on products, packaging, and digital services.

PRIORITIES FOR STAKEHOLDER GROUP

Opportunity to earn a decent living by working with Hotel Chocolat.

Ongoing collaborative relationships for mutual benefit.

Clear shared objectives and business plans.

Prompt payment.

See more on page 34

Shareholders

Individual meetings with institutional shareholders throughout the year particularly following interim and full year results.

Shareholders are invited to submit questions to the Board at the Annual General Meeting.

Investor information including the annual report and accounts published on the companies website.

Maintain an investor relations email address to answer queries.

PRIORITIES FOR STAKEHOLDER GROUP

A clear investment case, strategy and reporting of performance against plan.

Robust governance and appropriate controls to mitigate risk.

The ongoing success of the Group leading to increased return on capital.

Communities

Board members attend forums on environmental, social and governance topics and best practice. External subject-matter experts present to the Executive on topics such as CO_2 reduction.

Employees vote for the annual charity of the year. This year Mind was selected as our partner.

Colleague-led anti-racism group to support the business in making a positive impact to reduce discrimination in society and promote equality of opportunity for all.

Extended staff discount to NHS workers and supplied thank-you parcels to hospitals during COVID-19 lockdown.

PRIORITIES FOR STAKEHOLDER GROUP

The communities where we operate expect us to behave in a responsible way, showing consideration for those around us, making a positive impact to prosperity and creating opportunity, whilst minimising environmental impacts.

See more on page 38

Environment

Board members attend forums on environmental, social and governance topics and best practice. External subject-matter experts present to the Executive on topics such as CO_2 reduction.

Provide subsidised tree seedlings to farmers in Ghana and Saint Lucia to assist in reforestation, good agricultural practice and CO_2 sequestration.

Farmers commit to zero deforestation as a condition of membership of Engaged Ethics scheme.

PRIORITIES FOR STAKEHOLDER GROUP

Ensuring the Group is resilient to the risks of Climate Change on farmers, the supply chain and the business. Minimising pollution and waste.

See more on page 31

This strategic report and information herein was approved on behalf of the Board on 28 September 2020.

MATT PRITCHARD
Chief Financial Officer

In accordance with section 172 of the Companies Act 2006, the Board regularly considers the likely consequences of our strategy and long-term decisions, taking into account the interests of employee colleagues, suppliers, customers, communities and the environment. The table below considers key stakeholder groups, methods of engagement and the impact of feedback on Board discussions and decisions.

Key Board Decisions	Considerations
THE BOARD REVIEWED THE GROUP'S FINANCIAL FACILITIES IN THE LIGHT OF THE IMPACT OF COVID-19 ON THE BUSINESS AND AGREED:	
1. A £22m equity raise via a placing that was successfully completed in March 2. A new £35m Revolving Credit Facility with Lloyds Bank 3. To cancel the FY20 interim dividend	The requirement for additional funding due to the impact of COVID-19 on the Group's trading and cashflow, to provide liquidity to enable the Group to continue to invest to drive future growth and protect the viability of the business during increased near-term uncertainty. Following the institutional equity placing, feedback was received from 'retail' investors requesting the opportunity to participate in future fundraise. The Board have committed to explore new technology platforms to facilitate this.
IN RESPONSE TO THE IMPACT OF COVID-19 ON THE KEY STAKEHOLDERS OF THE BUSINESS THE BOARD APPROVED THE FOLLOWING ACTIONS:	
UK retail locations were closed in advance of Government-mandated 'lockdown'.	The requirement to prioritise welfare, health and safety of colleagues and customers.
During the UK lockdown a number of the team were furloughed with 80% of salary paid by the Government. The Board decided to 'top-up' the pay to 100% of salary.	Paying a 20% 'top-up' ensured furloughed colleagues were not financially disadvantaged compared to those still working during lockdown.
THE BOARD REVIEWED THE GROUP'S BUDGET AND FORECASTS AND APPROVED A NUMBER OF KEY EXPENDITURE/INVESTMENT DECISIONS TO SUPPORT THE ONGOING SUCCESS OF THE GROUP:	
A strategy for continued profitable sales growth with digital partners was presented and approved.	The identification of appropriate partnership businesses with the potential to profitably extend the reach of the Hotel Chocolat brand whilst delivering a good customer experience.
A proposal to sign a lease on an extension to the distribution centre was reviewed and approved.	An increase overall sales volume and a wider mix of multichannel customer demand requiring efficient and reliable customer service at an acceptable cost.
The new CEO of Saint Lucia presented a capital investment proposal to extend the hotel and to complete a new educational visitor attraction, both of which were approved.	The requirement to balance risks and returns for shareholders, to increase employment opportunities. The opportunity to educate consumers about cacao farming and the potential to invest in projects to develop environmental best practice in cacao farming.
A 10 year growth plan for factory operations was presented, with approval granted for the first phase of capital investments to install a fourth production line by 2022.	The requirement to continue to generate growth for shareholders, to create jobs for communities, and to ensure the investments gave consideration to environmental impact.
A multichannel digital growth plan was presented including digital marketing and customer engagement activities and capital investment in IT systems. The plan was approved.	The opportunity to interact with customers in new and more engaging ways resulting in higher brand advocacy by customers and increased customer lifetime value.
A proposal for further loans to the Japan joint venture was proposed and following a review of the business case, was approved.	The scale of the market opportunity, the evidence of potential for a profitable model with reference to current actual performance and the balance of risk and potential return.
INTRODUCTION OF NEW BOARD GOVERNANCE STRUCTURE AND EXECUTIVE COMMITTEE:	
Following a review of strategy the Board agreed to implement a new governance structure, with a new Executive committee created to execute the strategy with the Board overseeing strategy and governance. New terms of reference were created for each Committee.	The requirement to maintain good governance considering the needs of all stakeholders, and to create a senior leadership structure that facilitates the strategic growth aspirations of the Board and the requirements of shareholders, customers, colleagues and suppliers, whilst accelerating progress on environmental programmes.

Focus on Japan

OUR JOINT VENTURE PARTNERSHIP IN JAPAN IS FOSTERING MULTIPLE INNOVATIONS...

...that will benefit the brand in all markets, including new lifestyle retail formats that feature a broader food and beverage range, and a strong link to our activities in Saint Lucia via cacao-inspired Beauty and Coffee sub brands.

SO GRATEFUL!

"So grateful for the chocolates and the heart warming service."

MIZUHO, TOKYO

★★★★★

HOTEL Chocolat.
Use sugar sparingly.
Our Wall of Chocolate
More Cacao
Less Sweet
HOTEL
Chocolat

Board of Directors

AN EXPERIENCED FOUNDER LED TEAM. IN THE YEAR WE ADJUSTED THE LEADERSHIP STRUCTURE, CREATING A NEW BROADER EXECUTIVE COMMITTEE TO EXECUTE THE STRATEGY, OVERSEEN BY THE BOARD

ANDREW GERRIE (57)
Non-executive Chairman

SOPHIE TOMKINS (51)
Independent Non-executive Director

GREG HODDER (68)
Independent Non-executive Director

APPOINTMENT DATE

ANDREW GERRIE	SOPHIE TOMKINS	GREG HODDER
2015	2016	2017

EXPERIENCE AND SKILLS

Andrew Gerrie

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 Tomkins

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 Hodder

Greg was CEO of Charles Tyrwhitt from 2008 to 2017 and previously CEO of Direct Wines including Laithwaites and The Sunday Times Wine Club. Greg has considerable experience of growth through digital and international retail, including as former Chair of Naked Wines.

COMMITTEE MEMBERSHIP

ANDREW GERRIE	SOPHIE TOMKINS	GREG HODDER
A R G E	A R G E	A R G E

Committee membership

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

		
ANGUS THIRLWELL (57) **Co-founder and Chief Executive Officer**	**PETER HARRIS (65)** **Co-founder and Development Director**	**MATT PRITCHARD (46)** **Chief Financial Officer**

APPOINTMENT DATE

Co-founded in 1993	**Co-founded in 1993**	**2014**

EXPERIENCE AND SKILLS

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.	Peter Harris co-founded Hotel Chocolat with Angus Thirlwell in 1993 and is responsible for real estate, legal and intellectual property. Peter qualified as a Chartered Accountant in 1979.	Matt joined Hotel Chocolat as Chief Financial Officer in 2014 and is responsible for the finance function, people 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.

COMMITTEE MEMBERSHIP

A R G E	A R G E	A R G E

The Executive team

THE EXECUTIVE LEADERSHIP TEAM HAS THE BREADTH OF SKILLS TO DELIVER GROWTH AND IMPROVEMENT ON MULTIPLE FRONTS

LYSA HARDY (50)
Chief Marketing Officer

MATT MARGERESON (49)
Chief Operating Officer

JO BRETT (46)
CEO Hotel Chocolat St Lucia

APPOINTMENT DATE

Lysa Hardy	Matt Margereson	Jo Brett
2018	**2006**	**2020**

EXPERIENCE AND SKILLS

Lysa Hardy

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.

Matt Margereson

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

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.

Jo Brett

Jo Brett joined Hotel Chocolat in March 2020 and is CEO for St Lucia.

An experienced executive covering UK and International markets, she was previously the President of Pret A Manger, USA and member of the Shareholder Board. She brings over 20 years of experience in fast-paced, mission led, private equity backed business.

She was also the President of the Pret Foundation, a not for profit organisation.

COMMITTEE MEMBERSHIP

Lysa Hardy	Matt Margereson	Jo Brett
A R G **E**	A R G **E**	A R G **E**

Matt Margereson: Resigned from Group Board on 29 September 2020.

Committee membership

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

BRENDAN DRAKE (45)
CEO Hotel Chocolat USA

APPOINTMENT DATE

2018

EXPERIENCE AND SKILLS

Brendan joined Hotel Chocolat in early 2018 to lead the USA business. Prior to that Brendan worked in senior leadership banking roles in both the UK and Australia. During his time in those roles Brendan worked very closely with a number of large retailers and entrepreneurs, he also played an integral role in launching the Macquarie Middle Market (Corporate Bank) in Australia in 2015.

Brendan holds a Bachelor of Business from Monash University, Melbourne.

COMMITTEE MEMBERSHIP

A R G E

CHRIS HOROBIN (55)
CEO – Hotel Chocolat KK (Japan joint venture)

APPOINTMENT DATE

2018

EXPERIENCE AND SKILLS

Chris and Hotel Chocolat Group formed a joint venture in 2018 to take the brand into Japan.

Chris has over 20 years of retail, media and e-commerce experience. Chris was formerly CEO of QVC Japan from 2007 to 2011.

Corporate governance statement

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

ANDREW GERRIE

Non-executive Chairman

SCHEDULED BOARD MEETINGS HELD

9

MEMBERS AND ATTENDANCE

Andrew Gerrie (Chair) 9
Sophie Tomkins 9
Greg Hodder 8
Angus Thirlwell 9
Peter Harris 9
Matt Margereson 9
Matt Pritchard 9

A further ten Board meetings were held in the year in response to current events.

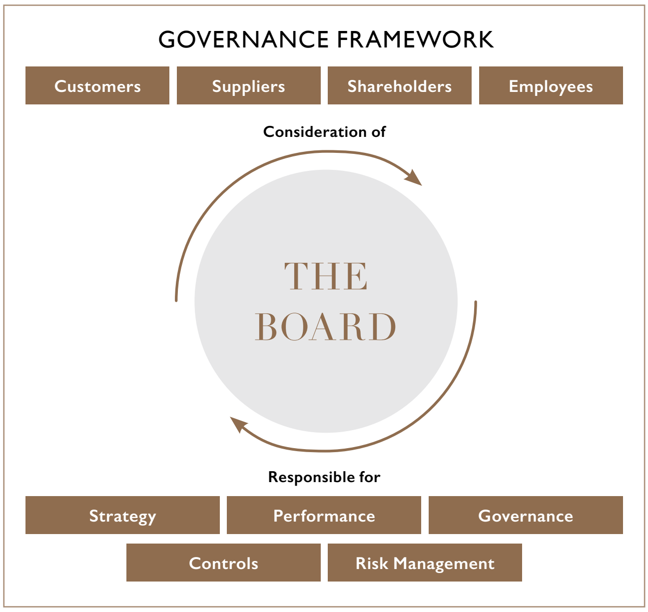
AN INTRODUCTION FROM OUR CHAIRMAN

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.

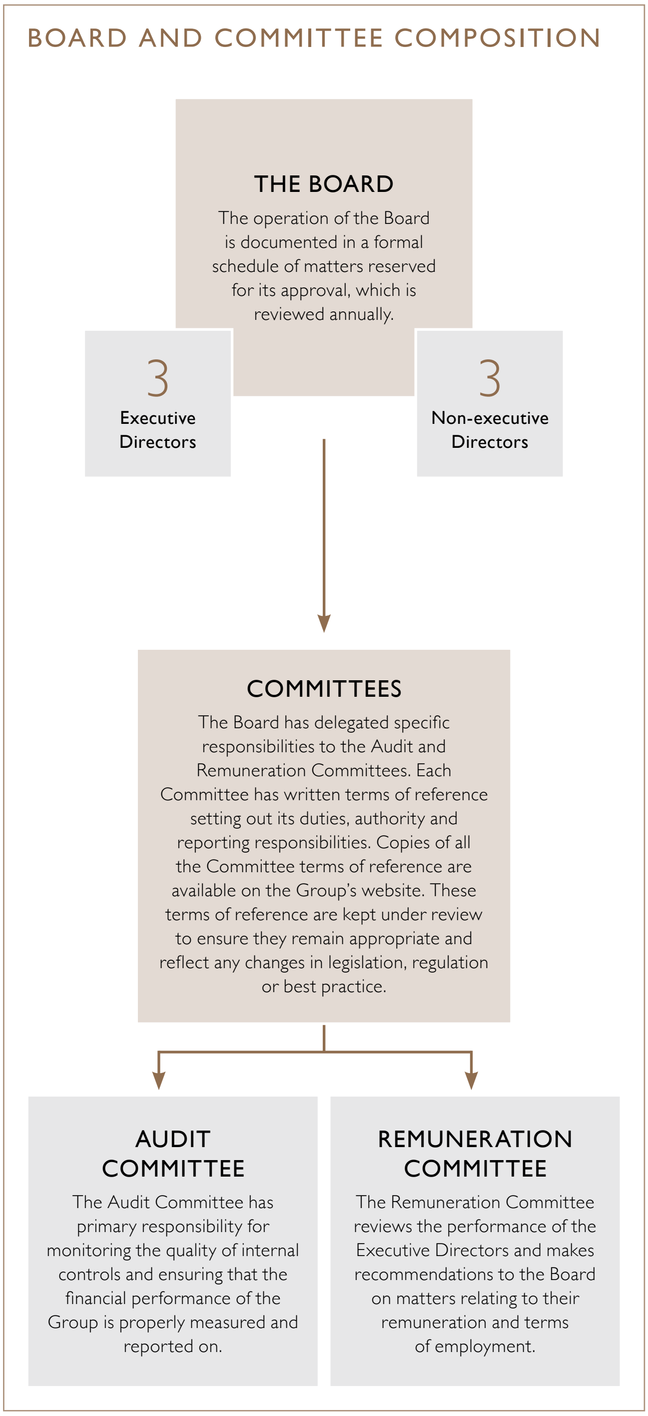
The Board believes that it complies with all of the principles of The QCA Corporate Governance Code (QCA code). The corporate governance framework which the Group operates, including Board leadership and effectiveness, Board remuneration, and internal control is based upon practices which the Board believes are proportional to the size, risks, complexity and operations of the business and reflective of the Group's values.

THE COMPOSITION OF THE BOARD

The Board is responsible to the shareholders and sets the Group's strategy for achieving long-term success. It is also ultimately responsible for the management, governance, controls, risk management, direction and performance of the Group. The Board comprises three Non-executive Directors and three Executive Directors, two of whom are the co-founders. 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 approved him taking on additional mentoring responsibilities relating to the development of the Group's new business there. These responsibilities ceased with effect from February 1st 2020. The Board is satisfied that this did 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.



Corporate governance statement *continued*

HOW THE BOARD OPERATES

The Board is responsible for the Group's strategy and for its overall management. The strategic report on pages 8 to 41 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.
- Oversight of the Executive committee

BOARD MEETINGS

The Board held nine scheduled Board meetings during the period, together with another ten meetings held between full Boards in order to discuss specific issues or matters of an urgent nature. In particular, the Board met more frequently as the COVID-19 situation developed in order to assess and respond to the uncertainty, challenges and opportunities which this created for the business. Board and Committee meetings provide time for collective discussion and decision-making, but informal communication channels also operate to ensure open dialogue and information sharing with the Non-executive Directors continues between meetings.

The following table shows Directors' attendance at scheduled Board and Committee meetings during the period:

	Board	Remuneration Committee	Audit Committee
Scheduled meetings	**9**	**2**	**3**
Andrew Gerrie	9		3
Sophie Tomkins	9	2	3
Greg Hodder	8	2	3
Angus Thirlwell	9		
Peter Harris	9		
Matt Margereson*	9		
Matt Pritchard	9		

* Resigned from PLC board 29 September 2020. Remains a member of the Executive Committee

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.

OVERSIGHT OF THE EXECUTIVE COMMITTEE

In recognition of the increased scale and breadth of the Group's operations the Board reviewed its composition and delegated terms of reference. As a result a new Executive Committee was created to drive the execution of the strategy. Matt Margereson resigned as a Director of the Group PLC but remains a statutory director of a number of Group companies. The Executive committee and PLC Board interact regularly and have agreed an ongoing programme of reviews of key strategic activities.

The Executive Committee is led by Angus Thirlwell, CEO. Its other members are:

- Peter Harris, Development Director and co-founder
- Matt Pritchard, Chief Financial Officer
- Lysa Hardy, Chief Marketing Officer
- Matt Margereson, Chief Operating Officer
- Jo Brett, CEO, Hotel Chocolat Estates, Saint Lucia
- Brendan Drake US CEO, Hotel Chocolat Inc.

Chris Horobin is CEO of the Group's-joint venture partner in Japan, Hotel Chocolat KK, and is actively involved in Executive committee discussions in connection with executing the brand's strategy for success in Japan.

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 Committee report on pages 58 to 60 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 principal risks faced by the business are summarised on pages 28 and 29.

The principal elements of the Group's internal control system include:

- close management of the day-to-day activities of the Group by the Committee;
- 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.

Corporate governance statement *continued*

INTERNAL CONTROLS & RISK MANAGEMENT CONTINUED

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.

As a result of this year's process, a number of actions were agreed including the establishment of the new Executive Committee and further work to identify the Group's stakeholders and their priorities.

The skills and experience of the Board are set out in their biographical details on pages 44 and 45. 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.

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 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 discussed.

General information about the Group is 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 regular 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 27 November 2020. 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

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 page 3 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 pages 40 and 53 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 and take account of their needs and priorities.
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 28 and 29. Further details about our approach to risk management and internal controls are provided in the Audit Committee report on pages 56 and 57.
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 44 and 45.
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 is provided on page 52.

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 52.
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 sustainability report on pages 30 to 39 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 48 to 55 and the reports of the Audit Committee and Remuneration Committee on pages 56 to 60.
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 sustainability report on pages 30 to 39 and in our corporate governance statement on pages 48 to 55. We also publish lots of information relevant to our wider stakeholders on our website www.hotelchocolat.com/uk/investor-relations.html.

Audit Committee report

"On behalf of the Board, I am pleased to present the Audit Committee report for the period ended 28 June 2020."

SOPHIE TOMKINS
Chair of the Audit Committee

COMMITTEE MEETINGS HELD

3

MEMBERS AND ATTENDANCE

3

Sophie Tomkins (Chair) 3
Andrew Gerrie 3
Greg Hodder 3

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 three times in the period. The Board is satisfied that I, as Chair of the Committee, have recent and relevant financial experience. I am a Chartered Accountant and I am Chair of the Audit 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 FY20 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 7 of the Group's financial statements. The non-audit fees primarily relate to the half year agreed upon procedures 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 pages 49 to 52 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 Committee report

"I am pleased to present this remuneration report, which sets out the remuneration policy and the remuneration paid to the Directors for the period."

GREG HODDER
Chair of the Remuneration Committee

COMMITTEE MEETINGS HELD

2

MEMBERS AND ATTENDANCE

2

Greg Hodder (Chair) 2
Sophie Tomkins 2

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 and expansion. 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. COVID-19 has given rise to increased uncertainty, and has constrained financial performance. In addition, we are conscious of the Government support the business has received and that no dividend has been paid for FY20, so we have paused the creation of any new incentive arrangements pending greater clarity that will allow the Committee to appropriately incentivise future value creation. It is important that any future incentives schemes for the Executive and the wider team are both sufficiently stretching, and aligned with the needs of other stakeholders.

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 their terms of employment, including remuneration packages of Executive Directors. The Remuneration Committee met two 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 can consist of the following elements:

- basic salary;
- performance-related annual bonus;
- Long-Term Incentive Plans; 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's contract is 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 28 June 2020. Performance bonus targets relating to FY20 group profitability and international sales were not met and therefore no bonus is payable.

CASH OR ACCRUALS BASIS

	FY20					FY19				
	Basic salary/fee	**Additional fees**	**Performance Bonus**	**Pension**	**Total**	**Basic salary/ fee**	**Additional fees**	**Performance Bonus**	**Pension**	**Total**
Executive										
Angus Thirlwell	235,000	–	Waived – nil	10,095	245,095	235,000	–	Waived – nil	8,288	243,288
Peter Harris	216,500	–	Waived – nil	9,495	225,995	215,000	–	Waived – nil	7,837	222,837
Matt Pritchard	216,500	–	Nil†	6,495	222,995	215,000	–	86,000	4,837	305,837
Matt Margereson	216,500	–	Nil†	6,495	222,995	215,000	–	86,000	4,837	305,837
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	36,400*	–	–	76,400	40,000	75,000*	–	–	115,000

† Financial target not met

* In respect of additional consulting services, in the form of additional time commitments, charged on a per day basis whilst mentoring the CEO of the US business. Provision of the additional services ended 01/02/2020

Remuneration Committee report *continued*

DIRECTORS' REMUNERATION CONTINUED

The Executive remuneration policy FY21 is set out in the table below. Executive Directors will not receive a pay increase. The remuneration policy for FY21 will operate as follows:

FY21	Basic salary/fee	Maximum cash bonus	Pension
Executive			
Angus Thirlwell	£237,000	Waived – nil	10,110
Peter Harris	£217,000	Waived – nil	9,510
Matt Pritchard	£217,000	Nil	6,510
Matt Margereson*	£217,000	Nil	6,510

* Resigned from PLC board 29 September 2020. Remains a member of the Executive Committee

BONUS

Given the increased uncertainty relating to near-term financial performance-improvement targets, annual performance incentives will not operate for FY21. The Remuneration Committee will consider the reintroduction of performance incentives in future years at the appropriate time.

LONG-TERM INCENTIVE PLAN

Awards to Executive Directors were granted in 2016, 2017 and 2019, each underpinned by financial performance triggers. Angus Thirlwell and Peter Harris have elected not to currently take part in the current Long-Term Incentive Plan.

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.

- For the 2017 LTIP, the profit performance condition relating to FY20 was not met and therefore the options lapse and will not vest.
- The 2019 LTIP starts to vest if the Group achieves a threshold FY22 profit after tax of £13.7m, rising on a straight-line basis to 100% vesting at £16.1m.
- Directors in receipt of vested LTIP awards are required to maintain a shareholding of 100% of salary.

In addition to the FY22 incentive plan, the Board are reviewing the potential for 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 and appropriateness of a longer-term incentive that rewards a material acceleration in growth rates and enterprise value, and to consult with institutional shareholders on any proposal.

	Performance condition	Date of Grant	Number of ordinary shares granted under option	Value of ordinary shares under option	Number of shares vested	Number of shares exercised and date	Exercise Price	Exercise Period
Matt Pritchard	FY19 profit after tax	04.05.16	800,000		800,000	779,730 on 24/09/19	148p	24.09.19–03.05.26
	FY20 profit after tax	16.03.17	200,000		Nil: performance condition not met		292p	n/a lapsed
	FY22 profit after tax	25.09.19	n/a	£217,000	n/a		1p	26.09.22[1]–24.09.29
Matt Margereson	FY19 profit after tax	04.05.16	800,000		800,000	779,730 on 24/09/19	148p	24.09.19–03.05.26
						20,270 on 29/11/19	148p	
	FY20 profit after tax	16.03.17	200,000		Nil: performance condition not met		292p	n/a lapsed
	FY22 profit after tax	25.09.19	n/a	£217,000	n/a		1p	26.09.22[1]–24.09.29

1. Anticipated date of publication of FY22 preliminary report & accounts

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 28 June 2020.

The corporate governance statement on pages 48 to 55 also forms part of this Directors' report.

REVIEW OF BUSINESS

The Chairman's statement on page 8 and the strategic report on pages 8 to 41 provides a review of the business, the Group's trading for the period ended 28 June 2020, 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 72. The Company financial statements have been prepared under FRS 102 for the period ended 28 June 2020.

The Group's revenue of £136.3m (FY19: £132.5m), gross margin of 60.9% (FY19: 65.9%) and loss after tax of (£6.5m) (FY19: profit £10.9m) represent an encouraging period for the business given the challenging circumstances relating to COVID-19.

	Reported IFRS	
Period ended	**28 June 2020**	**1 July 2019**
Revenue (£m)	136.3	132.5
Gross margin %	60.9	65.9
Profit/(Loss) after tax (£m)	(6.5)	10.9

The Board is not recommending a final dividend.

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*	

* Resigned from the PLC Board 29 September 2020. Remains a member of the Executive Committee

The names of the Directors, along with their brief biographical details are given on pages 44 and 45.

DIRECTORS' INTERESTS

No Director has any beneficial interest in the share capital of any subsidiary undertaking. As at 28 June 2020, the Group owned 32% of a joint venture (JV) 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. Matt Margereson and Matt Pritchard have subsequently transferred their shareholdings in the JV to the Group for nil consideration, and do not retain any beneficial interest in the venture.

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 34 to the Consolidated Financial Statements on page 112.

EXISTENCE OF BRANCHES

The Group has one branch outside the United Kingdom, located in the Republic of Ireland.

SHARE CAPITAL STRUCTURE

At 28 June 2020, the Company's issued share capital was £125,501 divided into 125,500,611 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*

SUBSTANTIAL SHAREHOLDERS

At 28 June 2020, the Company had been notified of the following substantial shareholders comprising of 4% or more of the issued ordinary share capital:

	% of issued share capital
Angus Thirlwell	29.7%
Peter Harris	29.7%
Aberdeen Standard Life	7.0%
Capital Group	5.9%
Kames Capital	4.0%
Columbia Threadneedle Investments	4.0%

SHARE OPTION SCHEMES

Details of employee share schemes are set out in Note 10 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. Further detail on going concern is on page 27.

POST BALANCE SHEET EVENTS

On 17 September 2020, the Group's holding in Rabot 1745 Limited increased from 32% to 46.99%. Please see Notes 12 and 32 for further information on the Rabot 1745 joint venture.

On 28 September 2020, the Group entered into a trading protocol agreement with Rabot 1745 Limited to formalise the trading arrangements between the parties. The Directors, excluding Andrew Gerrie, who is considered a related party to Rabot, consider, having consulted with the Company's nominated adviser, that the terms of the protocol agreement to be fair and reasonable insofar as the Company's shareholders are concerned.

The Board considers that no other 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 8 to 41.

STAKEHOLDER INVOLVEMENT POLICIES

The Directors believe that the involvement of employees, customers and suppliers is an important part of the business culture and contributes to the successes achieved to date (view our sustainability report on pages 30 to 41).

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 its people to reflect the businesses diverse customer base.

The Group won't make assumptions about a person's ability to carry out their work, for example based 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 27 November 2020. The ordinary business comprises receipt of the Directors' report and audited financial statements for the period ended 28 June 2020, the re-election of Directors, 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 28 September 2020.

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.

THE BEST CHOCOLATE DUVET!

"Decided to treat the family to the Velvetiser and we are so glad we did. This hot chocolate is the winner for us. It envelops you like your favourite duvet."

SARAH, LEIGHTON BUZZARD

★★★★★

Velvetise your World

VELVETISER OWNERS ARE AMONGST OUR MOST ENGAGED CUSTOMERS

The installed base of users increased by over 300% in FY20.

Financial Statements

Independent Auditor's 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 28 June 2020 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, 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 28 June 2020 and of the Group's loss 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
Recognition of leases under IFRS 16 Leases	
See Accounting policy in Note 2, Property, Plant & Equipment Note 16 and Leases Note 17 – Closing right-of-use asset £39.8m and lease liability £46.9m. IFRS 16 'Leases' became effective for the Group from 1 July 2019, meaning that the current period is the first period in which the business has implemented IFRS 16. The Group have adopted the modified retrospective approach from 1 July 2019. Management determined there to be an increase in total assets of £50.6m and an increase in total liabilities of £53.3m for the opening transition balance sheet on 1 July 2019. The Group has a large portfolio of retail sites which are all leased, the impact to the financial statements this year of adopting IFRS 16 is therefore significant. The calculation of lease assets and liabilities involves assumptions of the lease term and the incremental borrowing rate, small changes in either of these assumptions across a number of leases could lead to a material change in the valuation of lease assets and liabilities. Owing to the magnitude of the lease asset and liability balances and the estimation required in accurately assessing these balances, the implementation and application of IFRS16 was raised as a key audit matter.	Our audit procedures included: *Determination of incremental borrowing rate* • Corroborated the inputs applied within the incremental borrowing rate calculation so as to confirm appropriate. *Accuracy of modelling and existence of leases* • Tested the accuracy of the right-of-use asset and lease liability figures calculated by re-performing the calculation for a sample of leases within the transition adjustment, agreeing new leases entered into in the year and lease modifications. *Completeness of Group leases* • Evaluated the completeness of information included in the lease liability calculation through the use of information maintained by a 3rd party in respect of the Group's store lease portfolio. *Assessment of key judgements and estimates* • Evaluated the assumed lease terms with reference to both the underlying lease agreements and consideration of the broader economics of the lease. *Review of financial statement disclosures* • Assessed the adequacy of the disclosures made in the financial statements in light of the requirements of IFRS 16. *Key observations* We found the Group's approach to the adoption of and application of IFRS 16 to be appropriate.
Impact of Covid-19 – Going concern	
See Accounting policy in Note 2 – The basis of preparation note to the financial statements explains how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and Parent Company, and that there is no material uncertainty. The judgement applied by the Board is based on an evaluation of the inherent risks to the Group's and Company's business model and how those risks might affect the Group's and Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements. The risk most likely to adversely affect the Group's and Company's available financial resources over this period was considered to be the uncertainty of the future impact of COVID-19 owing to the unprecedented nature of the event, and as a result, we determined going concern to be a key audit matter.	Our audit procedures included: *Assessment of assumptions within the COVID-19 adjusted cash flow* • Consideration of the scenarios developed by management to understand the potential impacts of COVID-19 on future trading and cash flows • Testing the underlying data generated to prepare the forecast scenarios and determining whether there was adequate support for the assumptions underlying the forecasts *Sensitivity analysis* • Evaluation of sensitivities over the Group's COVID-19 adjusted cashflows with reference to the financial covenants in place over the existing banking facilities. The analysis considered reasonably possible adverse effects that could arise as a result of a decrease in sales due to the impact of COVID-19 as well as a stress test to consider the level of future revenue reduction the Group could support. *Post year end trading performance* • Comparison of the post year end trading results to the COVID-19 adjusted forecasts so as to evaluate the accuracy and achievability of the forecasts prepared. *Disclosures* • Evaluation of the adequacy of the disclosures in relation to the specific risks posed and scenarios the Group has considered in reaching their conclusion on the assessment of going concern. *Key observations* Our observations in respect of this matter are set out in the Conclusions relating to going concern section of this audit report.

Independent Auditor's report *continued*

To the members of Hotel Chocolat Group plc

Key audit matter	How we addressed the Key audit matter in the audit
Impact of Covid-19 – Impairment of goodwill and tangible assets	
See accounting policy in Note 2, Note 5 Exceptional items, Note 15 Intangible fixed assets and Note 16 Tangible fixed assets – Impairment charge £9.9m, closing balance Property, Plant and Equipment £81.7m and closing balance Goodwill £nil . Goodwill in the Group balance sheet is subject to an annual impairment review and an annual assessment for indicators of impairment needs to be performed on tangible fixed assets. Any resulting impairment review requires the Group to estimate the recoverable amount of the various cash generating units (CGUs) which requires the forecasting and discounting of future cashflows for inclusion within a value in use or fair value less cost of disposal model. These models are inclusive of a high degree of estimation uncertainty, particularly owing to the uncertain impact of COVID-19 on the future cash flows of the cash generating units (CGUs). Management determined that an impairment to certain items of Goodwill, Property, Plant and Equipment as well as Right of Use Assets was required. The impairment review of goodwill and tangible fixed assets has therefore been raised as a key audit matter.	Our audit procedures included: *Accuracy of impairment model* • Assessed the mechanical accuracy of the impairment model and the methodology applied by management, ensuring consistency with the requirements of IAS 36. *Completeness of impairment model* • Evaluated the completeness of information included in the impairment model through the use of information maintained by a 3rd party in respect of the Group's store lease portfolio. *Assessment of assumptions within the COVID-19 adjusted cash flow* • Challenged the appropriateness of management's forecasted revenue and EBITDA growth rates through analysis of historical forecasting accuracy and post year-end trading results with particular focus on the impact of Covid-19 on those forecasts. • Assessed whether the lease terms taken into account in the cash flow forecasts related to the store impairments were reasonable. *Assessment of reliability of management's expert* • With the assistance of our internal property valuation experts we evaluated the competence, capability and objectivity of management's expert, whose inputs were used by management to arrive at the valuation of the assets of the Group's St Lucia business. *Discount rate assumptions* • Assessed the appropriateness of the discount rate applied, using input from our valuation experts. *Disclosures* • Assessed the completeness and accuracy of disclosures within the financial statements in accordance with IAS 36. *Key observations* We are satisfied that the judgements applied, impairments recorded and disclosures within the financial statements are appropriate.

Key audit matter	How we addressed the Key audit matter in the audit
Valuation of inventory	
Accounting policy in Note 2 and Inventory Note 20 – £13.9m. 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. Additionally, estimates are required to ensure that inventory is recorded at the lower of cost and net realisable value at the balance sheet date. Estimates are used to calculate provisions for slow moving and obsolete stock. The carrying value of inventory is therefore considered a significant audit 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* • 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* • Selected a sample of finished goods from the period end inventory listing and compared the cost of each sampled item to the standard cost card used by management to value inventory. *Standard cost variance analysis* • Gained an understanding of the nature of the variances arising between standard cost and the cash costs of production. We assessed the accuracy of the information used by management in the calculation of these variances and assessed the reasonability of the deferral of variances, where relevant, performing a sensitivity analysis to stress test its parameters. *Net realisable value procedures* • 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 £495,000 (2019: £702,000) which represents 5% of the average of loss or profit before tax and exceptional items for the current year and previous two financial years.

Performance materiality for the Group was set at £371,000 (2019: £526,500) 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 £24,000 (2019: £35,100).

We used average loss/profit before tax adjusted for exceptional items as a benchmark given the importance of loss or 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 £396,000 (2019: £362,000) using a benchmark of 2% of total assets, with performance materiality set at £297,000 (2019: £271,500). For each significant component we allocated a materiality threshold based on a percentage of the overall Group materiality.

Independent Auditor's 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 geographical areas; the UK, Europe and Rest of World. The audit of the four significant components was carried out by the group audit team in the UK. In respect of the non-significant components we performed analytical procedures together with further limited procedures over revenue and cash where these were material. Our audit procedures on significant components covered 98.3% of group assets, 97.7% of group revenue and 92.7% of Group profit.

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.

DIANE CAMPBELL (SENIOR STATUTORY AUDITOR)

For and on behalf of BDO LLP, Statutory Auditor

London

28 September 2020

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 28 June 2020

	Notes	52 weeks ended 28 June 2020 £000	52 weeks ended 30 June 2019 £000
Revenue	4	136,290	132,480
Cost of Sales		(53,256)	(45,140)
Gross profit		83,034	87,340
Administrative expenses		(79,089)	(73,029)
Exceptional items	5	(9,968)	–
(Loss)/profit from operations	6	(6,023)	14,311
Finance income	11	159	69
Finance expenses	11	(1,668)	(295)
Share of joint venture post-tax results (loss)/profit	12	(9)	(34)
(Loss)/profit before tax		(7,541)	14,051
Tax credit/(expense)	13	1,073	(3,122)
(Loss)/profit for the period		(6,468)	10,929
Other comprehensive (loss)/income:			
Items that may be subsequently reclassified to profit or loss:			
Derivative financial instruments	19	1,276	72
Deferred tax charge on derivative financial instruments	18	(221)	16
Currency translation differences arising from consolidation		326	373
Other comprehensive income, net of tax		1,381	461
Total comprehensive (loss)/income for the period		(5,087)	11,390
Earnings per share – Basic	14	-5.5p	9.7p
Earnings per share – Diluted	14	-5.5p	9.5p

Consolidated statement of financial position

As at 28 June 2020

	Notes	As at 28 June 2020 £000	As at 30 June 2019 £000
ASSETS			
Non-current assets			
Intangible assets	15	2,897	2,911
Property, plant and equipment	16	41,868	40,115
Right of use asset	17	39,848	–
Deferred tax asset	18	597	623
Derivative financial assets	19	92	–
Prepayments	21	–	18
Loan to Hotel Chocolat KK	22	5,705	2,488
Investment in JV	12	–	9
		91,007	46,164
Current assets			
Derivative financial assets	19	1,100	81
Inventories	20	13,916	12,810
Trade and other receivables	21	6,942	9,360
Corporation tax receivable		1,520	–
Cash and cash equivalents	24	28,053	5,778
		51,531	28,029
Total assets		142,538	74,193
LIABILITIES			
Current liabilities			
Trade and other payables	25	27,251	19,528
Lease liabilities	17	10,993	–
Corporation tax payable		–	1,607
Derivative financial liabilities	19	27	1
Borrowings	26	–	17
		38,271	21,153
Non-current liabilities			
Other payables and accruals	25	31	2,757
Lease liabilities	17	35,960	–
Derivative financial liabilities	19	327	9
Provisions	27	959	944
		37,277	3,710
Total liabilities		75,548	24,863
NET ASSETS		66,990	49,330
EQUITY			
Share capital	28	126	113
Share premium	29	37,627	11,750
Retained earnings	29	24,279	33,359
Translation reserve	29	1,579	1,253
Merger reserve	29	223	223
Capital redemption reserve	29	6	6
Other reserves	29	3,150	2,626
Total equity attributable to shareholders		66,990	49,330

The financial statements of Hotel Chocolat Group plc, registered number 08612206 were approved by the Board of Directors and authorised for issue on 28 September 2020. They were signed on its behalf by:

MATT PRITCHARD
Chief Financial Officer
28 September 2020

Consolidated statement of cash flow

For the period ended 28 June 2020

	Notes	52 weeks ended 28 June 2020 £000	52 weeks ended 30 June 2019 £000
(Loss)/profit before tax for the period		(7,541)	14,051
Adjusted by:			
Depreciation of property, plant and equipment	16	5,781	4,941
Depreciation of Right of use asset	16	10,953	–
Impairment loss	5	9,968	–
Amortisation of intangible assets	15	598	513
Gain on lease modification	17	(80)	–
Net interest expense	11	1,509	226
Share-based payments	10	362	246
Share of joint venture loss	12	9	34
(Profit)/loss on disposal of property, plant and equipment	6	(69)	44
Operating cash flows before movements in working capital		21,490	20,054
(Increase)/decrease in trade and other receivables		1,095	(259)
(Increase)/decrease in inventories		(1,106)	(1,891)
Increase/(decrease) in trade and other payables and provisions		5,589	4,077
Cash inflow generated from operations		27,068	21,981
Interest received		29	41
Income tax paid		(2,541)	(2,820)
Interest paid on:			
– bank loans and overdraft		(108)	(110)
– derivative financial liabilities		(223)	(180)
– IFRS 16 lease liabilities		(1,378)	–
Cash flows from operating activities		22,847	18,912
Purchase of property, plant and equipment		(12,740)	(8,296)
Proceeds from disposal of property, plant and equipment		79	10
Purchase of intangible assets		(1,473)	(581)
Loan to joint venture		(3,114)	(2,460)
Acquisition of joint venture		–	(7)
Cash flows (used in) investing activities		(17,248)	(11,334)
Dividends paid		(1,386)	(1,918)
Issue of ordinary shares		26,316	1
Costs associated to issue of ordinary shares		(426)	–
Capital element of hire purchase and finance leases repaid		–	(202)
Payment of IFRS 16 lease liabilities		(7,777)	–
Cash flows generated from/(used in) financing activities		16,727	(2,119)
Net change in cash and cash equivalents		22,326	5,459
Cash and cash equivalents at beginning of period	24	5,778	236
Foreign currency movements		(51)	83
Cash and cash equivalents at end of period	24	28,053	5,778

Consolidated statement of changes in equity

For the period ended 28 June 2020

	Share capital £000	Share Premium £000	Retained earnings £000	Translation reserve £000	Merger reserve £000	Capital redemption reserve £000	Other reserves £000	Total £000
As at 2 July 2018	113	11,749	24,348	880	223	6	2,291	39,610
Issue of share capital	–	1		–	–	–	–	1
Profit for the period	–	–	10,929	–	–	–	–	10,929
Dividends	–	–	(1,918)	–	–	–	–	(1,918)
Share-based payments	–	–	–	–	–	–	246	246
Deferred tax charge on share-based payments	–	–	–	–	–	–	–	–
Other comprehensive income:								
Derivative financial instruments	–	–	–	–	–	–	72	72
Deferred tax charge on derivative financial instruments	–	–	–	–	–	–	17	17
Currency translation differences arising from consolidation	–	–	–	373	–	–	–	373
Equity as at 30 June 2019	113	11,750	33,359	1,253	223	6	2,626	49,330
Adjustment on application of IFRS 16	–	–	(1,226)	–	–	–	–	(1,226)
Equity as at 1 July 2019	113	11,750	32,133	1,253	223	6	2,626	48,104
Issue of share capital	13	26,303	–	–	–	–	–	26,316
Costs associated to issue of share capital	–	(426)	–	–	–	–	–	(426)
Loss for the period	–	–	(6,468)	–	–	–	–	(6,468)
Dividends	–	–	(1,386)	–	–	–	–	(1,386)
Share-based payments	–	–	–	–	–	–	362	362
Deferred tax charge on share-based payments	–	–	–	–	–	–	(699)	(699)
Reclassified to cost of sales and inventory	–	–	–	–	–	–	(194)	(194)
Other comprehensive income:								
Fair value changes in the period	–	–	–	–	–	–	1,276	1,276
Deferred tax charge on derivative financial instruments	–	–	–	–	–	–	(221)	(221)
Currency translation differences arising from consolidation	–	–	–	326	–	–	–	326
Equity as at 28 June 2020	126	37,627	24,279	1,579	223	6	3,150	66,990

Notes to the financial statements

For the period ended 28 June 2020

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 23.

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.

The financial statements have been presented to the nearest thousand, and the prior year comparatives have been updated and rounded accordingly.

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:

- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Definition of Material).
- IFRS 3 Business Combinations (Amendment – Definition of Business).
- Revised Conceptual Framework for Financial Reporting.

In January 2020, the IASB issued amendments to IAS 1, which clarify the criteria used to determine whether liabilities are classified as current or non-current. These amendments clarify that current or non-current classification is based on whether an entity has a right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. The amendments also clarify that 'settlement' includes the transfer of cash, goods, services, or equity instruments unless the obligation to transfer equity instruments arises from a conversion feature classified as an equity instrument separately from the liability component of a compound financial instrument. The amendments are effective for annual reporting periods beginning on or after 1 January 2022. Hotel Chocolat Group Plc is currently assessing the impact of these new accounting standards and amendments.

New standards impacting the Group that have been adopted in the annual financial statements for the year ended 28 June 2020, and which have given rise to changes in the Group's accounting policies are:

- IFRS 16 Leases (IFRS 16); and
- IFRIC 23 Uncertainty over Income Tax Treatments (IFRIC 23).

The Group adopted IFRS 16 and IFRIC 23 with a transition date of 2 July 2019. The Group has chosen not to restate comparatives on adoption of both standards, and therefore, the revised requirements are not reflected in the prior year financial statements. Rather, these changes have been processed at the date of initial application (i.e. 2 July 2019) and recognised in the opening equity balances. Details of the impact these two standards have had are given below. Other new and amended standards and Interpretations issued by the IASB did not impact the Group as they are either not relevant to the Group's activities or require accounting which is consistent with the Group's current accounting policies.

2. ACCOUNTING POLICIES CONTINUED

BASIS OF PREPARATION CONTINUED

IFRIC 23

The Group adopted IFRIC 23 on 1 July 2019. The interpretation explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over the tax position. In particular it addresses;

- how to determine the appropriate unit of account, and that each uncertain tax treatment should be considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty,
- that the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge,
- that the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept that treatment,
- that the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty,
- that the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements.

The adoption of this interpretation did not have a material impact on the Group's financial statements.

IFRS 16 Leases

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 the future lease payments and a right-of-use asset for lease contracts.

a. Transition method and practical expedients applied

The Group has applied the modified retrospective transition approach, with recognition of transitional adjustments on the date of initial application (1 July 2019), without restatement of comparative figures.

Previously, the Group determined at the inception of a contract whether an arrangement was or contained a lease under IFRIC 4 'Determining Whether an Arrangement contains a Lease'. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Group elected to apply the practical expedient allowing the standard to be applied only to contracts that were previously identified as leases under IAS17 and IFRIC 4. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 July 2019.

On transition to IFRS 16 the group elected to apply the following practical expedients on a lease by lease basis as allowed by the standard:

- apply a single discount rate to a portfolio of leases with reasonably similar characteristics
- to rely upon previous assessments of onerous leases
- apply the short term and low value exemptions

Lease payments for low value or short-term leases where the Group has elected not to recognise a right-of-use asset and lease liability are charged as an expense on a straight-line basis.

At the date property leases commence the Group determines the lease term to be the full term of the lease, assuming that any option to break or extend is not likely to be exercised. Leases are regularly reviewed and will be revalued if it becomes likely that a break clause or option to extend will be exercised. The weighted average incremental borrowing rate applied at the date of transition was 2.5%.

b. Right of use assets

Upon transition, the Group recognised a right-of-use asset at the lease commencement date. The right-of-use asset is measured as their carrying amount as if IFRS 16 has been applied since the commencement date, discounted using the lessees incremental rate at the date of initial application. Subsequent to measurement, right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if assessed to be shorter. The accounting policy for Right of Use assets since transition is disclosed on page 83.

Notes to the financial statements *continued*

For the period ended 28 June 2020

2. ACCOUNTING POLICIES CONTINUED

BASIS OF PREPARATION CONTINUED

IFRS 16 Leases continued

c. Lease liabilities

Upon transition, the lease liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as at 1 July 2019. The Group's incremental borrowing rate was the rate at which a similar borrowing could be obtained over a similar term in a similar economic environment. Judgement is required to determine an approximation with consideration given to the Groups borrowing facilities and Bank of England Base rates adjusted by an indicative credit premium and a lease specific adjustment.

Subsequently, the lease liability is increased by the interest cost on the lease liability and decreased by the lease payments made. It is remeasured if there is a modification, a change in lease term or a change in the fixed lease payment. The accounting policy for lease liabilities since transition is disclosed on page 83.

d. Impacts on the financial statements

(i) Balance sheet

The impact on the balance sheet on transition is summarised below:

	1 July 2019 £000
Right of use assets	50,603
Lease liabilities	(53,208)
Deferred tax asset	394
Capital contributions	1,024
Prepayments	(2,259)
Accruals	2,494
Dilapidations	(274)
Retained Earnings	1,226

The Group presents lease liabilities separately in the consolidated balance sheet.

(ii) Income statement

The Group has recognised amortisation and interest costs in respect of leases that were previously classified as operating leases in the income statement, rather than rental charges. During the period ended 28 June 2020, the Group recognised £11m of additional amortisation charges and £1.4m of additional interest costs in respect of these leases.

(iii) Reserves

The Group has applied IFRS 16 using the modified retrospective approach, whereby the initial right-of-use asset was 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. The lease liability was measured at the present value of the remaining lease payments. The mismatch between the liability and asset value at transition is taken to reserves. The Group has taken £1.2m to reserves at the start of the period.

2. ACCOUNTING POLICIES CONTINUED

BASIS OF PREPARATION CONTINUED

The following is a reconciliation of total operating lease commitments at 30 June 2019 (as disclosed in the financial statements to 30 June 2019) to the lease liabilities recognised at 1 July 2019:

	£000	£000
Total operating lease commitments disclosed at 30 June 2019		59,859
Recognition exemptions:		
– Leases of low value assets	(2)	
– Leases with remaining lease term of less than 12 months	(243)	
		(245)
Operating lease liabilities before discounting		59,614
Discounted using incremental borrowing rate		(6,423)
Finance lease obligations (Note 26)		17
Total lease liabilities recognised under IFRS 16 at 1 July 2019		53,208

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 23 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 28 June 2020

2. ACCOUNTING POLICIES CONTINUED

GOING CONCERN

The Board has concluded that it is appropriate to adopt the Going Concern basis, having undertaken a rigorous review of financial forecasts and available resources, with additional specific consideration given to the uncertain impacts to the Group resulting from the COVID-19 pandemic, including short-term disruption and potential longer-term changes in consumer behaviour.

The Board considered a range of potential scenarios in determining the viability of the Group. It is anticipated that COVID-related impacts will impact both the mix of revenue by channel, and the absolute level of revenues, profit and cash flows during FY21. In considering these impacts the Directors have considered two scenarios for Going Concern purposes:

a) Base case:

For H1 FY21, the base case assumes a year-on-year reduction in sales from physical retail, partly offset by a continuation of the strong migration of sales to online and partners.

The Group adapted quickly to increased online sales demand at Easter, due to the UK lockdown. The Group has since undertaken significant planning and investment to further increase its capacity to serve multichannel demand during peak periods on the assumption that online and partners will now generate a materially higher proportion of Group revenue than historically.

For calendar year 2021, the base plan assumes absolute sales and channel mix will revert to pre-COVID levels. In H2 FY21 this would represent growth on H2 FY20, when sales were materially disrupted by 12 weeks of government-mandated retail closures, and by physical capacity constraints which limited the growth of online and partner sales, but which have now been addressed by increasing the size of the distribution centre.

b) Downside scenario:

For FY21 the downside scenario assumes that UK consumers are unable to access the Brand in physical locations for an extended period immediately prior to Christmas, resulting in a greater year on year decline in retail sales, but with a higher online sales level than in the base plan, as a proportion of retail customers migrate to online. The combined effect of these changes would result in H1 Retail & Online sales 18% lower than the prior year. For H2 FY21 the downside scenario assumes that physical retail achieves 50% of the sales assumed in the base plan, with half of the sales decline being offset by sales transferring to online.

The Directors have considered the immediate levers available to mitigate the impact on profit and cash flow if performance and the pandemic were to follow this downside scenario. These include:

- Reductions in working capital in response to lower sales.
- Reduction in variable costs, including lower sales-related costs and costs of production.
- Deferring or cancelling discretionary spend.
- Reducing ongoing fixed costs of operation.
- Deferring Capital expenditure and overseas investment.
- Existing confirmed government funding support.

The downside scenario is considered prudent given performance since the lockdown restrictions have eased. Based on both the scenarios modelled, the Group will be able to operate within the level of its current facilities and associated covenants.

The Directors have also considered but not included as mitigations:

- The successful equity placing in March FY20, and the bank RCF financing facility put in place during the early stages of lockdown, both of which indicate the strength of support from the Group's stakeholders including institutional investors, co-founders and the bank.
- Alternate sources of funding, including asset financing of Factory equipment and mortgaging of freehold property.
- Any new additional Government support or allowances.

2. ACCOUNTING POLICIES CONTINUED

GOING CONCERN CONTINUED

The Group has a £35m CLBILs Revolving Credit facility in place to December 2020, which then reduces to £25m CLBILS Revolving Credit Facility through to December 2021. It is the Board's intention to review the business plan and associated funding requirements during the first half of 2021. This will ensure plans are reflective of recent business performance, and with potentially greater visibility of the possible longer-term impacts of COVID-19 on the Group.

On this basis, the Board has a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for a period of at least twelve months from the date of approval of the financial statements and will not breach any covenants over the remaining term of the current facilities. For these reasons they continue to adopt the going concern basis of accounting in preparing the consolidated and parent company financial information and have concluded that there is no material uncertainty in relation to going concern.

REVENUE RECOGNITION

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

There are a number of volume, rebate & discount agreements, which are assessed on a case by case basis as to whether they are distinct goods or services. Volume rebates are earned based on sales volume triggers set over specific periods and rebates consist of promotional or marketing support provided to customers. If the rebate is not distinct or is judged to represent a discount, this is accounted for as a reduction in the underlying revenue.

EXCEPTIONAL ITEMS

Exceptional items are items of income or expense which because of their nature or size require separate presentation to allow shareholders to better understand the financial performance of the year and allow comparison with prior periods.

GOVERNMENT GRANTS

In response to COVID-19, the UK government announced a number of initiatives for businesses to assist with cashflow. The Group has received financial assistance in the following areas during the year ended 28 June 2020.

a) Retail, Hospitality and Leisure Grant (RHLGF) – the business grant has been recognised in profit and loss and the Group has elected to offset the grants received against the relevant rates expense, in line with IAS 20. Please see Note 6.

b) Coronavirus Job Retention Scheme – these grants are received after the costs have been incurred, on this basis and in line with IAS 20, these amounts have been recognised in profit and loss and the Group has elected to offset the grants received against the relevant payroll expense. Please see Note 8.

OPERATING PROFIT

Operating profit is stated after all expenses, but before finance income or expenses.

FOREIGN CURRENCY TRANSLATION

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

a) Transactions and balances

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

Notes to the financial statements *continued*

For the period ended 28 June 2020

2. ACCOUNTING POLICIES CONTINUED

FOREIGN CURRENCY TRANSLATION CONTINUED

b) Group companies

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

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

EMPLOYEE BENEFITS

a) Short-term benefits

Wages, salaries, paid annual leave and sick leave, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group. Please see government grants accounting policy for treatment of furlough income as part of the Governments COVID-19 initiatives.

b) Defined contribution plans

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

SHARE-BASED PAYMENTS

A transaction is accounted for as a share-based payment where the Group receives services from employees, Directors or third parties and pays for these in shares or similar equity instruments.

The Group makes equity-settled share-based payments to certain employees and Directors. Equity-settled share-based schemes are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant, measured by use of an appropriate valuation model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the period services are received, based on the Group's estimate of shares that will eventually vest.

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. As at 28 June 2020 there were no National Insurance liability amounts accrued in respect of share based payments (2019: As of 30th June 2019, the National Insurance liability for the 2016 LTIP was accrued by the company.)

LEASES

The Group has changed its accounting policy for leases where the Group is the lessee as a result of IFRS 16 'Leases'. Until 30 June 2019 the Group used the following accounting policies for operating leases, finance leases and hire purchase agreements.

2. ACCOUNTING POLICIES CONTINUED

LEASES CONTINUED

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.

The following policies apply subsequent to the date of initial application, 1 July 2019.

The Group leases retail stores, head office and distribution premises, equipment and vehicles.

RIGHT OF USE ASSET

The Group recognises a right-of-use asset at the lease commencement date. Right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the group is contractually required to dismantle, remove or restore the leased asset (typically leasehold dilapidations). Subsequent to measurement, right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if assessed to be shorter.

LEASE LIABILITIES

The lease liabilities are measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as at lease commencement date. The Group's incremental borrowing rate is the rate at which a similar borrowing could be obtained over a similar term in a similar economic environment. Judgement is required to determine an approximation with consideration given to the Groups borrowing facilities and Bank of England Base rates adjusted by an indicative credit premium and a lease specific adjustment.

Subsequently, the lease liability is increased by the interest cost on the lease liability and decreased by the lease payments made. It is re-measured if there is a modification, a change in lease term or a change in the fixed lease payment.

Lease liabilities include fixed payments, variable lease payments that are based on an index or a rate, amounts expected to be paid when the lease ends, and the payment of penalties for terminating the lease if this is expected to be terminated early.

Lease payments which are variable in nature and are not linked to any index or rate are expensed in the period to which they relate.

Lease modifications

When the Group revises its estimate of the term of any lease (because, for example, it reassesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted using an updated discount rate. An equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term. Any difference between these adjustments has been taken to the profit and loss.

Notes to the financial statements *continued*

For the period ended 28 June 2020

2. ACCOUNTING POLICIES CONTINUED

LEASE LIABILITIES CONTINUED

Short term / low value exemptions

Payments associated with short-term leases and all leases of low-value assets are recognised on a straightline basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise storage rents and office equipment.

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.

Freehold land is not depreciated. Depreciation on assets under construction does not commence until they are complete and available for use. Depreciation is provided on all other items of property, plant and equipment so as to write off their carrying value over their expected useful economic lives

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

Leasehold property	– 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 when there are indicators to do so. If the carrying value exceeds the higher of the value in use and fair value less the costs to sell the asset then the asset is impaired and its value reduced by recognising an impairment provision.

INTANGIBLE ASSETS

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

Positive goodwill is capitalised.

Impairment tests on the carrying value of goodwill are undertaken:

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

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

The cost of development and/or implementation of other software utilized 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

2. ACCOUNTING POLICIES CONTINUED

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.

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; and
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) 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 financial assets. To measure expected credit losses on a collective basis, financial assets are grouped based on similar credit risk and ageing.

Expected loss rates for Tasting Club member debt are based on historical credit losses experienced over the 12 months prior to the period end, adjusted for any anticipated future change in expected credit losses. Expected loss rates for the corporate/wholesale business are based on historical credit losses experienced over the last 12 months to the period end, adjusted for any anticipated future change in expected credit losses.

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.

(ii) Impairment of non-financial assets

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

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

Notes to the financial statements *continued*

For the period ended 28 June 2020

2. ACCOUNTING POLICIES CONTINUED

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 Board.

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

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

CASH AND CASH EQUIVALENTS

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

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

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 (e.g. 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.

2. ACCOUNTING POLICIES CONTINUED

FINANCIAL ASSETS CONTINUED

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.

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 where all of the following criteria are met:

- the hedging instrument is measured at fair value through Other comprehensive income/(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; and
- 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.

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.

Notes to the financial statements *continued*

For the period ended 28 June 2020

2. ACCOUNTING POLICIES CONTINUED

HEDGE ACCOUNTING CONTINUED

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

JOINT VENTURE OF HOTEL CHOCOLAT KK (CRITICAL ACCOUNTING ESTIMATE AND JUDGEMENT)

As described in Notes 12 and 22, the Group acquired a 20% interest in joint venture Hotel Chocolat KK during the period ended 30 June 2019. During the period ended 30 June 2019, the Group signed a loan agreement with Hotel Chocolat KK. The total balance of the loan at 28 June 2020 is £5,705k (30 June 2019: £2,488k). In determining the recoverability of the loan, management have made a number of judgemental estimates of anticipated revenues and profits from Hotel Chocolat KK using 5-year forecasts.

3. SUMMARY OF CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS CONTINUED

INVENTORY VALUATION (CRITICAL ACCOUNTING ESTIMATE)

The costs of raw materials, consumables, work in progress and finished goods are measured by means of weighted average cost using standard costing techniques. Management also applies judgement in determining the appropriate stock provisions based on past experience of future sales.

IMPAIRMENTS (CRITICAL ACCOUNTING ESTIMATE AND JUDGEMENT)

Impairment tests are performed at the end of each reporting period, when there are indicators to do so. Management uses judgement to determine future cashflows and the discount rates applied.

During the year ended 28 June 2020, the Group recorded impairment losses of £6,606k relating to Hotel Chocolat retail locations. Each site is treated as separate cash generating units in determining the recoverability of property, plant and equipment and Right of use assets. Value in use is determined using internal cash flow forecasts based on the remaining lease life of the stores.

The Group made an impairment charge of £2,678k during the year ended 28 June 2020 (30 June 2019: £nil) relating to the valuation of goodwill and tangible fixed assets within the St Lucia business. The charge follows a review of the open market value using the support of appropriately qualified external valuation experts. The disruption caused by COVID-19 has reduced the short term open market value and as a result the carrying value has been impaired.

LEASE TERMS AND INCREMENTAL BORROWING RATES:

Under IFRS 16, the Group recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The lease liability is initially measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate (IBR), adjusted to take into account the risk associated with the length of the lease which ranges between 1 and 15 years, expected returns of the asset and the location of the lease. As a result of the significant impact on the balance sheet the transition to IFRS 16 has had, determination of the discount rate is considered to be a significant judgement. The discount rate applied ranged between 2.0% and 3.5%.

At the commencement date of property leases the Group determines the lease term to be the full term of the lease, assuming that any option to break or extend the lease is unlikely to be exercised. The Group monitors actual returns of the asset and re-assesses this assumption; the Group therefore makes a judgement as to whether the option to break or extend the lease will be exercised. As a result of the significant impact on the balance sheet changes to assumed lease terms has had, assessing the likelihood of exercising an option to break or extend a lease is considered to be a significant judgement.

EXCEPTIONAL ITEMS (CRITICAL ACCOUNTING JUDGEMENT)

Exceptional items are those that are deemed to be significant in size and nature and are therefore highlighted on the face of the Income Statement. Exceptional items are excluded from headline performance measures in order to reflect the underlying performance of the Group. Management exercises judgement in determining whether an item is exceptional or not. Further detail is set out within Note 5.

Notes to the financial statements *continued*

For the period ended 28 June 2020

4. REVENUE

	52 weeks ended 28 June 2020 £000	52 weeks ended 30 June 2019 £000
Sale of goods and services	136,290	132,480
Total revenue	136,290	132,480

SEGMENTAL ANALYSIS

The Group has one operating segment which is reviewed monthly by the Group's chief operating decision maker 'The Board'. Revenue per channel is used to evaluate performance as management believes this is most relevant. The accounting policies of the revenue streams are the same as those within Note 2, pages 76 to 88.

UK Physical – Includes revenue attributable to our UK stores, cafés, and restaurant.
UK Digital – Includes revenue attributable to our UK online sales, including the chocolate tasting club and velvetiser refill subscriptions.
UK Partners & B2B – Includes UK wholesale and corporate partners revenue.
International – Includes revenue from our overseas locations including; USA, Ireland and Japan.
Cacao estate & hotel – Includes revenue from our cocoa farm and hotel in St Lucia.

	52 weeks ended 28 June 2020 £000	52 weeks ended 30 June 2019 £000
Revenue by channel		
UK		
– Physical	77,512	89,192
– Digital	32,705	25,434
– Partners & B2B	20,843	13,114
International	3,722	2,711
Cacao estate & hotel	1,508	2,029
Total revenue	136,290	132,480

Revenue for each of the geographical areas is as follows:

	52 weeks ended 28 June 2020 £000	52 weeks ended 30 June 2019 £000
Revenue by destination of sale		
United Kingdom	131,060	127,740
Europe	1,399	1,674
Rest of World	3,831	3,066
Total revenue	136,290	132,480

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 28 June 2020 £000	52 weeks ended 30 June 2019 £000
Non-current assets		
United Kingdom	76,889	33,356
Ireland	883	661
United States	4,172	1,146
St Lucia	9,063	11,001
Total non-current assets	91,007	46,164

5. EXCEPTIONAL ITEMS

	52 weeks ended 28 June 2020 £000	52 weeks ended 30 June 2019 £000
Retail impairments	6,606	–
St Lucia impairment	2,678	–
Corporate goodwill impairment	684	–
Total exceptional items	9,968	–

RETAIL IMPAIRMENTS

There is an impairment charge of £6,606k during the year ended 28 June 2020 (30 June 2019: £nil) relating to fixed assets and right of use assets of stores. Please see Note 16 for the split. The charge is primarily due to the trading conditions during the period as well as management's assessment of future cashflows over the remaining lease period for each store. The key assumptions used in the future cashflows were sales and EBITDA (based on board approved plans), assumed nil growth rate and a discount rate of 10%. A reduction in net sales of 11% would result in an increase to the impairment charge of £1,843k and an increase in net sales of 12% would result in a decrease to the impairment charge of £1,451k.

ST LUCIA IMPAIRMENT

There is an impairment charge of £2,678k during the year ended 28 June 2020 (30 June 2019: £nil) relating to the assets of the St Lucia business. £269k of the impairment relates to goodwill and the remaining impairment relates to land & buildings and furniture & fittings. The charge is due to a decline in the value of the land and property due to the impact of COVID-19.

CORPORATE GOODWILL IMPAIRMENT

There is an impairment charge of £684k during the year ended 28 June 2020 (30 June 2019: £nil) relating to goodwill which arose from the acquisition of the corporate business of Hotel Chocolat Corporate Limited. Following a change to how the business services corporate customers, management have deemed the goodwill no longer supportable.

6. (LOSS)/PROFIT FROM OPERATIONS

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

	52 weeks ended 28 June 2020 £000	52 weeks ended 30 June 2019 £000
Staff cost (see Note 8)	37,641	35,841
RHLGF grant	(650)	–
Depreciation of property, plant and equipment (see Note 16)	5,781	4,941
Depreciation of right of use assets (see Note 16)	10,953	–
Amortisation of intangible assets (see Note 15)	598	513
Loss/(Profit) on disposal of property, plant and equipment and intangible assets	(69)	44
Operating leases:		
– Property	–	11,517
– Plant and equipment	–	225
Loss/(gain) on exchange differences	171	(11)
Bad debt expense	252	48

RHLGF – Retail Hospitality Leisure Grant Fund

Notes to the financial statements *continued*

For the period ended 28 June 2020

7. AUDIT AND NON-AUDIT FEES

An analysis of auditors' remuneration is as follows:

	52 weeks ended 28 June 2020 £000	52 weeks ended 30 June 2019 £000
Audit fees	220	138
Audit related assurance services	22	13
Taxation compliance services	–	20
Other taxation services	9	12
Non-audit fees	31	45

8. STAFF COSTS

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

	52 weeks ended 28 June 2020 £000	52 weeks ended 30 June 2019 £000
Production staff	308	244
Administrative staff	1,113	1,010
Total	1,421	1,254

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

	52 weeks ended 28 June 2020 £000	52 weeks ended 30 June 2019 £000
Wages and salaries	36,389	31,785
Share-based payments	362	871
Social security costs	2,804	2,673
Pension costs	752	512
Government grants received	(2,666)	–
Total	37,641	35,841

Share-based payments includes £nil of employers national insurance for 2016 LTIP (30 June 2019: £626k).

9. 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 is ten (30 June 2019: nine). Emoluments and benefits include:

	52 weeks ended 28 June 2020 £000	52 weeks ended 30 June 2019 £000
Short-term employee benefits	1,585	1,495
Share-based payments	157	544
Social security costs	686	186
Post-employment benefits	39	29
Total	2,467	2,254

Further information about the remuneration of individual Directors, including the highest paid Director, is provided in the Remuneration report on pages 58 to 60.

10. 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 28 June 2020		52 weeks ended 30 June 2019	
	Number of share options	**Weighted average exercise price £**	**Number of share options**	**Weighted average exercise price £**
Outstanding at beginning of the period	3,614,000	1.81	3,657,000	1.82
Granted during the period	301,073	0.0001	–	–
Exercised during the period	(2,419,244)	1.48	–	–
Forfeited during the period	(830,000)	2.92	(43,000)	2.32
Outstanding at the end of the period	665,829	0.82	3,614,000	1.81
Exercisable at the end of the period	364,756	1.48	–	–

The awards outstanding at the end of 28 June 2020 have a weighted average remaining contractual life of 2.3 years (30 June 2019: 0.48 years) and a range of exercise prices between 0.001 and 2.92.

The exercises during the year took place between 26 September 2019 and 27 March 2020, with an average share price of £3.77.

The Group recognised total expenses related to the above equity-settled share-based payment transactions in the form of options during the period ended 28 June 2020 of £254k (30 June 2019: £38k).

The Group recognised a credit to share based payments of £61k in relation to a share-based bonus for an employee accrued in the prior year that was subsequently settled as a cash bonus in FY20.

There were 301,073 options granted during the period ended 28 June 2020 (30 June 2019: aggregate fair value of options granted £nil). The fair value of the share options of £1,162k were determined based on average closing rates of the market value of shares taking into account expected volatility.

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'.

Notes to the financial statements *continued*

For the period ended 28 June 2020

10. SHARE-BASED PAYMENTS CONTINUED

THE HOTEL CHOCOLAT GROUP PLC SAVE AS YOU EARN PLAN CONTINUED

Details of the share awards outstanding are as follows:

	52 weeks ended 28 June 2020		52 weeks ended 30 June 2019	
	Number of share options	**Weighted average exercise price £**	**Number of share options**	**Weighted average exercise price £**
Outstanding at beginning of the period	671,457	1.78	625,137	1.68
Granted during the period	314,534	3.04	102,403	2.56
Exercised during the period	(465,377)	1.49	(385)	1.48
Forfeited during the period	(34,978)	2.23	(55,698)	2.09
Outstanding at the end of the period	485,636	2.84	671,457	1.78
Exercisable at the end of the period	–	–	–	–

The awards outstanding at the end of 28 June 2020 have a weighted average remaining contractual life of 1.77 years (30 June 2019: 0.71 years) and a range of exercise prices between 2.47 and 3.04.

The exercises during the year took place between 30 September 2019 and 28 June 2020, with an average share price during this period of £3.86.

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 28 June 2020 of £169k (30 June 2019: £151k).

The aggregate of the fair value of the shares granted during the period ended 28 June 2020 was £393k (30 June 2019: £84k). 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 28 June 2020	**52 weeks ended 30 June 2019**
Weighted average share price (£)	3.04	2.56
Exercise price (£)	3.04	2.56
Expected volatility (%)	37.0%	38.0%
Option life (years)	3.5	3.5
Risk free interest rate (%)	0.52%	0.95%

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 schemes which vest in 2021 onwards, volatility data was available for Hotel Chocolat Group plc.

11. FINANCE INCOME AND EXPENSES

	52 weeks ended 28 June 2020 £000	52 weeks ended 30 June 2019 £000
Interest from related party	103	28
Interest on bank deposits	29	41
Unrealised interest on derivative financial instruments	27	–
Finance income	159	69
Interest on bank borrowings	66	79
Unrealised interest on derivative financial instruments	–	36
Realised interest on derivative financial liabilities	224	180
IFRS 16 interest charge	1,378	–
Finance expenses	1,668	295

12. 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 28 June 2020	32.0%

The Group recognised a loss from its share in this joint venture of £9k (30 June 2019: loss of £27k). These losses are limited to the value of the investment in Rabot 1745 Limited.

Detail of Rabot 1745 Limited are as follows:

Country of Incorporation:	England.
Registered address:	Unit 7 Westergate Business Centre Westergate Road Brighton BN2 4QN on 25 July 2019.
Principal Activity:	Sale of beauty products.

Summary financial information for Rabot 1745 Limited is as follows:

	52 weeks ended 28 June 2020 £000	52 weeks ended 30 June 2019 £000
Current assets	470	414
Current liabilities	(67)	(379)
The following amounts have been included in the amounts above		
Cash and cash equivalents	39	28
Revenue	540	379
Total comprehensive loss	(363)	(82)

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

Notes to the financial statements *continued*

For the period ended 28 June 2020

12. INVESTMENTS IN JOINT VENTURES CONTINUED

The Group also owns a 20% interest in a joint venture Hotel Chocolat KK, a separate company incorporated and operating in Japan.

The Group recognised a loss from its share in this joint venture of £nil (30 June 2019: loss of £7.2k). These losses are limited to the value of the investment in Hotel Chocolat KK.

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 22.

13. TAXATION

	52 weeks ended 28 June 2020 £000	52 weeks ended 30 June 2019 £000
UK corporation tax	(463)	3,122
Adjustment in respect of previous periods	(119)	(7)
Overseas corporation tax	(4)	(11)
Total current tax (credit)/charge	(586)	3,104
Deferred tax:		
Adjustment in respect of previous periods	119	–
Origination and reversal of timing differences	(606)	18
Total tax (credit)/expense	(1,073)	3,122

Factors affecting current tax charge:

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

	52 weeks ended 28 June 2020 £000	52 weeks ended 30 June 2019 £000
(Loss)/Profit on ordinary operations before income tax	(7,541)	14,051
Weighted average standard rate of corporation tax	19.00%	19.00%
Profit for the year multiplied by the standard rate of corporation tax	(1,433)	2,670
Effects of:		
Expenses not deductible for tax purposes	76	30
Share based payments – permanent differences	(938)	–
Permanent depreciation	638	281
Adjustment in respect of prior years	–	(7)
Adjust closing deferred tax in respect of change in future rate of taxation	–	(32)
Adjust opening deferred tax in respect of change in future rate of taxation	50	18
Movement to deferred tax	(47)	161
Effect of difference in overseas tax rates	581	1
Tax (credit)/expense	(1,073)	3,122

13. TAXATION CONTINUED

The Group's effective tax rate for the period ended 28 June 2020 was -14.2% (30 June 2019: 22.2%). The effective rate is an amalgamation of UK, US and European rates for the periods reported. At 28 June 2020 the Group has tax losses to carry forward against future profits of the Irish branch of £216k (30 June 2019: £297k) and for the US operations of £172k (30 June 2019: nil). The tax value of such losses amounted to approximately £63k (30 June 2019: £37k), have no expiry date and have been recognised as a deferred tax asset.

14. EARNINGS PER SHARE

(Loss)/profit for the period is used in the calculation of the basic and diluted earnings per share.

Diluted loss per share is capped at the basic earnings per share as the impact of dilution cannot result in a reduction in the loss per share.

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 28 June 2020	**52 weeks ended 30 June 2019**
Weighted average number of share in issue for the period – basic	117,507,319	112,838,191
Effect of potentially dilutive share options:		–
Save as You Earn Plan	36,485	271,405
Long-term incentive plan	255,913	1,617,021
Weighted average number of shares in issue used in the calculation of earnings per share (number) – Diluted	117,799,717	114,726,617
Basic earnings per share (pence)	-5.5	9.7
Diluted earnings per share (pence)	-5.5	9.5

As at 28 June 2020, the total number of potentially dilutive share options under the Hotel Chocolat Group plc Long-Term Incentive Plan was 301,073 (30 June 2019: 830,000). Due to the nature of the options granted under this scheme, they are considered contingently issuable shares and therefore have no dilutive effect. On 20 March 2020 the Company announced the completion of an equity placing for a total of 9,777,777 new ordinary shares.

For further information on the movements in the share capital, please refer to Note 28.

15. INTANGIBLE ASSETS

	52 weeks ended 28 June 2020 £000	**52 weeks ended 30 June 2019 £000**
Goodwill arising on consolidation (Note (a))	–	944
Computer software and website costs (Note (b))	2,897	1,967
	2,897	2,911

Notes to the financial statements *continued*

For the period ended 28 June 2020

15. INTANGIBLE ASSETS CONTINUED

(a) Goodwill arising on consolidation

	52 weeks ended 28 June 2020 £000	52 weeks ended 30 June 2019 £000
At beginning of period	944	935
Impairment	(953)	–
Translation differences	9	9
At end of period	–	944

The goodwill figure at the beginning of the period was derived from two separate corporate transactions; the first for £684k, for the corporate business and the second, for £269k, for the acquisition of Hotel Chocolat Estates Limited, St Lucia. There is an impairment charge of £953k in the year relating to the goodwill balances. Please see Note 5 for more information.

(b) Computer software and website costs

	52 weeks ended 28 June 2020 £000	52 weeks ended 30 June 2019 £000
Cost:		
At beginning of period	3,584	2,958
Additions	1,527	625
Exchange difference	1	1
At end of period	5,112	3,584
Amortisation:		
At beginning of period	1,617	1,104
Amortisation charge	598	513
Exchange difference	–	–
At end of period	2,215	1,617
Net book value	2,897	1,967

16. PROPERTY, PLANT AND EQUIPMENT

	Freehold property £000	Leasehold Improvements £000	Furniture & fittings, equipment & hardware £000	Plant & machinery £000	Right of use asset £000	Total £000
52 weeks ended 30 June 2019						
Cost:						
As at 1 July 2018	12,837	735	34,890	18,896	–	67,358
Reclassifications	–	–	(743)	743	–	–
Additions	1,590	–	4,727	1,946	–	8,263
Disposals	(68)	–	(2,728)	(41)	–	(2,837)
Translation differences	416	–	38	–	–	454
As at 30 June 2019	14,775	735	36,184	21,544	–	73,238
Accumulated depreciation:						
As at 1 July 2018	725	734	18,752	10,738	–	30,949
Reclassifications	–	–	160	(160)	–	–
Depreciation charge	158	1	3,626	1,156	–	4,941
Disposal	(68)	–	(2,709)	(6)	–	(2,783)
Translation differences	1	–	15	–	–	16
As at 30 June 2019	816	735	19,844	11,728	–	33,123
Net book value						
As at 30 June 2019	13,959	–	16,340	9,816	–	40,115
52 weeks ended 28 June 2020						
Cost:						
As at 30 June 2019	14,775	735	36,184	21,544	–	73,238
IFRS 16 opening adjustment	–	–	(659)	–	50,603	49,944
As at 1 July 2019	14,775	735	35,525	21,544	50,603	123,182
Additions	1,931	662	4,744	5,253	8,733	21,323
Disposals and lease modifications	–	–	(493)	–	(4,769)	(5,262)
Translation differences	332	–	62	19	263	676
As at 28 June 2020	17,038	1,397	39,838	26,816	54,830	139,919
Accumulated depreciation & impairments						
As at 30 June 2019	816	735	19,844	11,728	–	33,123
IFRS 16 opening adjustment	–	–	(317)	–	–	(317)
As at 1 July 2019	816	735	19,527	11,728	–	32,806
Depreciation charge	163	33	4,300	1,285	10,953	16,734
Disposals and lease modifications	–	–	(401)	–	–	(401)
Impairment	2,277	–	2,710	–	4,029	9,016
Translation differences	11	–	37	–	–	48
As at 28 June 2020	3,267	768	26,173	13,013	14,982	58,203
Net book value						
As at 28 June 2020	13,771	629	13,665	13,803	39,848	81,716

As at 28 June 2020, the net book value of freehold property includes land of £4,029k (30 June 2019: £4,743), which is not depreciated. Included in freehold property is £4,940k of assets under construction (30 June 2019: £3,767k) which primarily relates to the construction of the factory in St Lucia. Included in Furniture & fittings, equipment & hardware is £303k of assets under construction (1 July 2018: £340k). Included in Plant & machinery is £4,942k of assets under construction (1 July 2018: £2,137k).

Notes to the financial statements *continued*

For the period ended 28 June 2020

17. LEASES

All leases where the Group is a lessee are accounted for by recognising a right of use asset and a lease liability except for:

- Leases of low value assets, and
- Leases with a term of 12 months or less.

IFRS 16 'Leases' was adopted on 1 July 2019 without restatement of comparative figures.

AMOUNTS RECOGNISED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Right of Use Assets

	Land & buildings £000	Equipment £000	Total £000
At 1 July 2019	50,034	569	50,603
Additions to right of use assets	8,712	21	8,733
Amortisation	(10,588)	(365)	(10,953)
Effect of modification of leases	(4,769)	–	(4,769)
Impairment	(4,029)	–	(4,029)
Foreign exchange	263	–	263
As at 28 June 2020	39,623	225	39,848

Lease liabilities

	Land & buildings £000	Equipment £000	Total £000
At 1 July 2019	52,614	594	53,208
Additions to lease liabilities	9,160	20	9,180
Interest expense	1,439	11	1,450
Effect of modification of leases	(4,849)	–	(4,849)
Lease payments	(11,843)	(346)	(12,189)
Foreign exchange	153	–	153
As at 28 June 2020	46,674	279	46,953

AMOUNTS RECOGNISED IN THE CONSOLIDATED INCOME STATEMENT

	Land & buildings £000	Equipment £000	Total £000
52 weeks ended 28 June 2020			
Depreciation charge on right of use assets	10,589	365	10,954
Interest on lease liabilities	1,439	11	1,450
Expenses related to low value leases	1	1	2
Expenses related to short term leases	22	–	22
Expenses related to variable leases	1,713	–	1,713
As at 28 June 2020	13,764	377	14,141

At the year end the Group reviewed the property lease portfolio and re-assessed the assumption that the option to terminate would not be exercised. The modifications to right of use asset and lease liability have been calculated for those leases where the Group considers that it is probable that the option to break will be exercised.

17. LEASES CONTINUED

LEASE LIABILITIES

	28 June 2020 £000
Maturity analysis – contractual undiscounted cashflows	
Less than one year	11,433
Between one and two years	10,903
Between two and five years	25,482
After five years	12,279
Total contractual cashflows	60,097

At 30 June 2019, the Group had outstanding commitments under IAS 17 for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

Land and buildings	52 weeks ended 28 June 2020 £000	52 weeks ended 30 June 2019 £000
Operating leases which expire:		
Within one year	–	11,040
In two to five years	–	31,373
In over five years	–	17,021
	–	59,434

Other	52 weeks ended 28 June 2020 £000	52 weeks ended 30 June 2019 £000
Operating leases which expire:		
Within one year	–	259
In two to five years	–	166
	–	425

Notes to the financial statements *continued*

For the period ended 28 June 2020

18. DEFERRED TAX ASSET

	52 weeks ended 28 June 2020 £000	52 weeks ended 30 June 2019 £000
Deferred taxation asset	597	623
	597	623

	52 weeks ended 28 June 2020 £000	52 weeks ended 30 June 2019 £000
Balance at beginning of period	623	624
Statement of Changes in Equity (IFRS 16 opening adjustment)	394	–
Deferred tax credit/(charge) for the period through profit and loss	487	(18)
Deferred tax charge for the period through other comprehensive income	(208)	17
Deferred tax charge for the period through Statement of Changes in Equity	(699)	–
Balance at end of period	597	623

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

	52 weeks ended 28 June 2020 £000	52 weeks ended 30 June 2019 £000
Fixed asset differences	(650)	(742)
Short-term differences	1,226	252
Derivative financial instruments	(221)	(13)
Share-based payments	179	1,089
Unused trade losses	63	37
	597	623

At 28 June 2020, the Group had £2,184k unrecognised deferred tax assets (30 June 2019: £221K).

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 19% has been used. For any remaining temporary differences expected to reverse after 28 June 2020 a rate of 19% has been used.

19. DERIVATIVE FINANCIAL INSTRUMENTS

	52 weeks ended 28 June 2020 £000	52 weeks ended 30 June 2019 £000
Derivative financial assets:		
Current		
Foreign currency forward contracts	1,100	81
	1,100	81
Non-current		
Foreign currency forward contracts	92	–
	92	–
Derivative financial liabilities:		
Current		
Foreign currency forward contracts	27	1
	27	1
Non-current		
Foreign currency forward contracts*	327	9
	327	9

All derivatives noted above 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 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 28 June 2020, 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 28 June 2020 was £27,364k (30 June 2019; £14,310k). The movement in the fair value on forward contracts in the period of £1,276 profit (30 June 2019: £72k profit) has been included within other comprehensive income in the Consolidated Statement of Comprehensive Income.

* The Group also entered into a USD forward contract during the year ending 28 June 2020, which has not been hedge accounted for. The gross contractual cash flows for the forward contracts as at 28 June 2020 was £6,700k. The movement in fair value of the USD forward contract for the period of £327k loss (30 June 2019: £nil) has been included within Profit before tax in the Consolidated Statement of Comprehensive Income. As at 29 June 2020, the USD forward was designated as a net investment hedge.

Notes to the financial statements *continued*

For the period ended 28 June 2020

20. INVENTORIES

	52 weeks ended 28 June 2020 £000	52 weeks ended 30 June 2019 £000
Raw materials	6,915	2,675
Finished goods	7,001	10,135
	13,916	12,810

Total inventory recognised as an expense in the Statement of Comprehensive Income during the period was £53,358k (30 June 2019: £44,574k).

21. TRADE AND OTHER RECEIVABLES

There were no material receivables which were past due but not impaired at the end of any period. The carrying value of trade and other receivables is classified at amortised cost approximates fair value.

	52 weeks ended 28 June 2020 £000	52 weeks ended 30 June 2019 £000
Current		
Trade receivables	1,886	918
Other receivables	2,176	384
Prepayments	2,880	8,058
	6,942	9,360
Non-current		
Prepayments	–	18
	–	18

22. LOAN TO HOTEL CHOCOLAT KK

Hotel Chocolat has an ongoing 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 £5,705k at 28 June 2020 (30 June 2019: £2,488k). 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.

	52 weeks ended 28 June 2020 £000	52 weeks ended 30 June 2019 £000
Current assets	1,817	906
Non-current assets	2,781	963
Current liabilities	(2,580)	(470)
Non-current liabilities	(5,414)	(2,515)
The following amounts have been included in the amounts above:		
Cash and cash equivalents	75	200
Revenue	2,610	1,435
Total comprehensive loss	(2,007)	(1,069)
The following amounts have been included in the amounts above:		
Depreciation and amortisation	–	(98)
Interest income	–	–
Interest expense	(105)	(28)
Income tax	–	–

23. INVESTMENT IN SUBSIDIARIES

The Group's operating subsidiaries as at 28 June 2020 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 Distributor 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 Inc	Holding Company	USA[3]	100%	
Hotel Chocolat (St Lucia) Holdings Limited	Holding Company	St Lucia[6]	100%	
Indirect Holdings				
Hotel Chocolat Retail Limited	Chocolate Retailer and Restauranteur	England & Wales[1]		100%
Hotel Chocolat Stores Limited*	Chocolate Distributor	England & Wales[1]		100%
Rabot Estate UK Limited*	Property Holding Company	England & Wales[1]		100%
Hotel Chocolat Europe Limited	Chocolate Retailer	England & Wales[1]		100%
Hotel Chocolat EU Retail Limited	Chocolate Retailer	England & Wales[1]		100%
Hotel Chocolat Corporate Limited	Dormant	England & Wales[1]		100%
CTC Distribution GmbH	Chocolate Distributor	Switzerland[5]		100%
Chocolate Tasting Club Inc	Chocolate Distributor	USA[3]		100%
Hotel Chocolat Inc	Chocolate Retailer	USA[3]		100%
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%
HC Turnstyle Inc	Property Holding Company	USA[3]		100%
Hotel Chocolat Estates Limited	Hotel & Cocoa Plantation	St Lucia[6]		100%
HCRF Inc	Property Holding Company	USA[3]		100%
Almondhill Properties Limited^	Property Holding Company	England & Wales[1]		100%
Apricothill Properties Limited*	Property Holding Company	England & Wales[1]		100%
Applehill Properties Limited*	Property Holding Company	England & Wales[1]		100%
Bananahill Properties Limited*	Property Holding Company	England & Wales[1]		100%
Braeburnhill Properties Limited*	Property Holding Company	England & Wales[1]		100%
Bramleyhill Properties Limited*	Property Holding Company	England & Wales[1]		100%

Registered addresses:
1. Mint House, Newark Close, Royston, Hertfordshire, SG8 5HL, United Kingdom.
2. Suite 3, Tower Business Centre, Tower Street, Swatar, BKR4013, Malta.
3. c/o Ruberto, Israel & Weiner, PC, 7th Floor, 255 State Street, Boston, MA 02109, 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.

* Hotel Chocolat Group plc has issued 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.

^ Active proposal to strike off as at 28 June 2020.

Notes to the financial statements *continued*

For the period ended 28 June 2020

23. 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.

^ Active proposal to strike off as at 28 June 2020.

24. CASH AND CASH EQUIVALENTS

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

	52 weeks ended 28 June 2020 £000	52 weeks ended 30 June 2019 £000
Cash and cash equivalents	28,053	5,778
	28,053	5,778

25. TRADE AND OTHER PAYABLES

The carrying value of trade and other payables classified as financial liabilities measured at amortised cost approximates fair value.

	52 weeks ended 28 June 2020 £000	52 weeks ended 30 June 2019 £000
Current		
Trade payables	8,154	7,849
Other payables	9,349	5,293
Other taxes payable	2,500	2,082
Accruals	7,248	4,304
	27,251	19,528
Non-current		
Other payables and accruals	31	2,757
	31	2,757

26. BORROWINGS

	52 weeks ended 28 June 2020 £000	52 weeks ended 30 June 2019 £000
Current		
Finance and lease hire purchase liabilities	–	17
		17
Unamortised costs of issue	–	–
Total current borrowings	–	17
Non-current		
Finance and lease hire purchase liabilities	–	–
	–	–
Total non-current borrowings	–	–
Total borrowings	–	17

The Group has two lending facilities that were signed on 1 July 2020, please refer to events subsequent to the reporting date at Note 35 for more information.

Notes to the financial statements *continued*

For the period ended 28 June 2020

27. PROVISIONS

	52 weeks ended 28 June 2020 £000	52 weeks ended 30 June 2019 £000
Non-current		
Lease dilapidations provision	959	944
	959	944

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

The movement in dilapidations provision is summarised below:

	Lease dilapidation provision £000
52 weeks ended 30 June 2019	
At beginning of period	880
Released through profit and loss	(25)
Amounts capitalised during the period	88
Exchange difference	1
At end of period	944
52 weeks ended 28 June 2020	
At beginning of period	944
Released through profit and loss	(15)
Amounts capitalised during the period	30
At end of period	959

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.

28. SHARE CAPITAL

	As at 28 June 2020		As at 30 June 2019	
	Shares	£000	Shares	£000
Allotted, called up and fully paid:				
Ordinary shares of £0.001 each	125,500,611	126	112,838,213	113
	125,500,611	126	112,838,213	113

The Board have agreed not to recommend payment of a final dividend (30 June 2019: 1.2p) and as a result the total for the current year is £nil (30 June 2019: £1,354k). The number of authorised shares, not yet issued, as at the period ended 28 June 2020 was 1,443,206.

PERIOD ENDED 28 JUNE 2020:

465,377 ordinary shares were issued during the period ended 28 June 2020 to satisfy shares allotted under the Company's Save as You Earn plan and 2,419,244 shares under the Company's Long-Term Incentive Plan. During the period ended 28 June 2020, 9,777,777 shares were issued following an equity placement on 20 March 2020.

PERIOD ENDED 30 JUNE 2019:

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

29. 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 28 June 2020 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 1.2p (30 June 2019: 1.7p) per share £1,386k (30 June 2019: £1,918k) out of retained earnings, being a final dividend of 1.2p per share in relation to the period ended 30 June 2019 (1 July 2018: 1.1p) and an interim dividend of £nil per share in relation to the period ended 28 June 2020 (30 June 2019: 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 23 and is not distributable by way of dividends.

Retained earnings are all other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

The capital redemption reserve represents 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 10 and 19 respectively.

Notes to the financial statements *continued*

For the period ended 28 June 2020

30. CAPITAL COMMITMENTS

The Group had capital commitments totalling £255k as at 28 June 2020 (30 June 2019: £nil).

31. CONTINGENT LIABILITIES AND GUARANTEES

There were no contingent liabilities as at 28 June 2020 (30 June 2019: £nil). The Group guarantees the external bank loans of the joint venture in Japan, Hotel Chocolat KK.

The value of loans guaranteed at 28 June 2020 was ¥ 201,000k, of which ¥ 164,347k had been drawn.

A further guarantee of ¥ 113,000k has been provided post year end.

32. RELATED PARTY TRANSACTIONS

The remuneration of the key management personnel of the Group are disclosed in Note 9. 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 28 June 2020	32.0%

Andrew Gerrie held 50% as at 28 June.

During the period, the Group purchased goods from Rabot 1745 Limited with a value of £376k (30 June 2019: £403k). There were no amounts due at the period end (30 June 2019: £28k).

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 period, the Group sold goods to Hotel Chocolat KK with a value of £794k (30 June 2019: £670k). The Group also extended long-term loan facilities to Hotel Chocolat KK and guaranteed its external bank loans (Note 31). At the period end a total of £5,705k (30 June 2019: £2,488k) was outstanding on the loan balance.

Hotel Chocolat Ltd agreed to provide working capital funding to Hotel Chocolat KK. During the period Hotel Chocolat KK borrowed £3,217k (30 June 2019: £2,488k) 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) totalled £151k in the period ended 28 June 2020 (30 June 2019: £202k). At the period end £50k was outstanding (30 June 2019: £nil) and there is a lease liability of £766k (30 June 2019: £nil).

During the period family members of the Directors stayed at the Group's hotel in St Lucia. Total amounts paid equalled $2k (30 June 2019: $9k) and there are no amounts outstanding at the balance sheet date (30 June 2019: £nil).

No other amounts were due from or to Directors (30 June 2019: £nil).

33. CATEGORIES OF FINANCIAL INSTRUMENTS

	52 weeks ended 28 June 2020 £000	52 weeks ended 30 June 2019 £000
Financial assets		
At amortised cost		
Trade and other receivables (excluding prepayments)	2,058	1,303
Loan to Hotel Chocolat KK	5,705	2,488
Cash and cash equivalents	28,053	5,778
	35,816	9,569
At fair value		
Derivative financial assets	1,192	81
Financial liabilities		
At amortised cost		
Trade and other payables	17,502	11,092
Total borrowings	–	17
Accruals	7,249	5,056
Lease liabilities	46,953	–
	71,704	16,165
At fair value		
Derivative financial liabilities	354	11

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.

Notes to the financial statements *continued*

For the period ended 28 June 2020

33. CATEGORIES OF FINANCIAL INSTRUMENTS CONTINUED

FAIR VALUE HIERARCHY CONTINUED

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

- Level 1 fair value measurements are those derived from quoted process (adjusted) in active markets for identical assets and liabilities.
- Level 2 fair value measurements are those derived from inputs other that quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from process).

The Group measures its derivative financial liabilities relating to foreign currency forward contracts at fair value and these are grouped as Level 2 instruments. Movements on the underlying value of financial instruments of foreign exchange contracts have been measured versus market rates and therefore are easily identifiable. Refer to Note 19 for further information.

There have been no transfers between levels in the period.

34. 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 19 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. The Group manages this risk though the monitoring of cash and cash equivalents versus future cashflow requirements.

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.

	52 weeks ended 28 June 2020 £000	52 weeks ended 30 June 2019 £000
Trade receivables		
Up to three months	2,120	926
Three to six months	36	15
Above six months	6	15
Impairment provision	(276)	(38)
Total	1,886	918

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

34. FINANCIAL RISK MANAGEMENT CONTINUED

CREDIT RISK CONTINUED

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 Tasting Club member debt are based on historical credit losses experienced over the 12 months prior to the period end, adjusted for any anticipated future change in expected credit losses. The expected loss rate is 0.05% (30 June 2019: 0.8%) and results in a loss provision of £0k (20 June 2019: £0k).

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, adjusted for any anticipated future change in expected credit losses. The expected loss rate is 2.1% (30 June 2019: 0%) and the expected loss provision is £14k (30 June 2019: £nil).

The impairment provision of £276k (30 June 2019: £38k) relates to £262k (30 June 2019: £37k) of specifically provided debt and £14k (30 June 2019: £0k) 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.

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

	52 weeks ended 28 June 2020 £000	52 weeks ended 30 June 2019 £000
United Kingdom	1,536	715
Europe	–	203
Rest of World	–	–
Total	1,536	918

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 £000	One to two years £000
52 weeks ended 30 June 2019		
Trade and other payables	16,238	–
Derivative financial instruments	12,161	2,149
Borrowings	17	–
	28,416	2,149
52 weeks ended 28 June 2020		
Trade and other payables	24,752	
Derivative financial instruments	18,671	15,393
	43,423	15,393

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

Notes to the financial statements *continued*

For the period ended 28 June 2020

34. FINANCIAL RISK MANAGEMENT CONTINUED

CAPITAL RISK MANAGEMENT

The Group's capital management objectives are:

- to ensure the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing products and services commensurate with the level of risk.

To meet these objectives, the Group reviews the budgets and forecasts on a regular basis to ensure there is sufficient capital to meet the needs of the Group.

The capital structure of the Group consists of shareholders' equity as set out in the Consolidated Statement of Changes in Equity. All working capital requirements are financed from existing cash resources and borrowings.

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

There have been the following events subsequent to the period end and up to 28 September 2020, the date of approval of the financial statements by the Board;

On 15 June 2020, the Group signed a new lease for additional warehouse space within the Alpha distribution site, located in St Neots. This is not included within the ROU asset for the year ending 28 June 2020 because the lease does not start until 2 July 2020.

On 1 July 2020, the Group signed up to Corporate lending facilities as part of the Coronavirus Large Business Interruption Loan Scheme for £25m valid for 18 months and a further £10m valid for six months. The interest rate is charged at base rate plus a margin rate of 1.65% for amounts borrowed.

On 17 September 2020, the Group's holding in Rabot 1745 Limited increased from 32% to 46.99%. On 28 September 2020, the Group entered into a trading protocol agreement with Rabot 1745 Limited to formalise trading arrangements.

36. ULTIMATE CONTROLLING PARTY

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

37. ANALYSIS OF NET CASH/NET DEBT

	At 30 June 2019 £000	Impact of IFRS 16 £000	Cash flow £000	Non-cash changes £000	At 28 June 2020 £000
Cash at bank and in hand	5,778	–	22,326	(51)	28,053
Net cash per statement of cash flows	5,778	–	22,326	(51)	28,053
Borrowings	–	–	–	–	–
Net cash before lease liabilities	5,778	–	22,326	(51)	28,053
Lease liabilities		(53,208)	9,155	(2,900)	(46,953)
Net debt after lease liabilities	5,778	(53,208)	31,481	(2,951)	(18,900)

Non-cash changes relate to the re-translation of foreign currency balances at the end of the period and lease acquisitions, disposals and mortifications

Company statement of financial position

For the period ended 28 June 2020

	Notes	As at 28 June 2020 £000	As at 30 June 2019 £000
ASSETS			
Non-current assets			
Investments	39	11,026	10,664
		11,026	10,664
Current assets			
Trade and other receivables	40	12,176	6,756
Cash and cash equivalents	41	21,665	2,605
		33,841	9,361
Total assets		44,867	20,025
LIABILITIES			
Current liabilities			
Trade and other payables	42	(358)	(316)
		(358)	(316)
Total liabilities		(358)	(316)
NET ASSETS		44,509	19,709
EQUITY			
Share capital	43	126	113
Share premium	43	37,561	11,750
Retained earnings	43	4,854	6,240
Capital redemption reserve	43	6	6
Share based payment reserve	43	1,962	1,600
Total equity attributable to shareholders		44,509	19,709

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 28 June 2020 is £nil (30 June 2019: profit £2.5m).

The financial statements of Hotel Chocolat Group plc, registered number 08612206 were approved by the Board of Directors and authorised for issue on 28 September 2020. They were signed on its behalf by:

MATT PRITCHARD
Chief Financial Officer
28 September 2020

Company statement of changes in equity

For the period ended 28 June 2020

	Share capital £000	Share Premium £000	Retained earnings £000	Capital redemption reserve £000	Share based payment reserve £000	Total £000
As at 1 July 2018	113	11,749	5,658	6	1,354	18,880
Share based payments	–	–	–	–	246	246
Issue of share capital	–	1	–	–	–	1
Dividends paid	–	–	(1,918)	–	–	(1,918)
Profit for the period	–	–	2,500	–	–	2,500
Equity as at 30 June 2019	113	11,750	6,240	6	1,600	19,709
Share based payments	–	–	–	–	362	362
Issue of share capital	13	26,237	–	–	–	26,250
Costs associated to issue of share capital	–	(426)	–	–	–	(426)
Profit for the period	–	–	–	–	–	–
Dividends paid	–	–	(1,386)	–	–	(1,386)
Equity as at 28 June 2020	126	37,561	4,854	6	1,962	44,509

Notes to the Company financial statements

38. 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 10 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 28 June 2020

39. INVESTMENTS

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

	52 weeks ended 28 June 2020 £000	52 weeks ended 30 June 2019 £000
Cost		
At beginning of period	10,664	10,418
Share based payments	362	246
At end of period	11,026	10,664
Carrying amount	11,026	10,664

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 23.

40. 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 28 June 2020 £000	52 weeks ended 30 June 2019 £000
Other receivables	8	–
Amounts due from related parties	12,168	6,756
	12,176	6,756

41. 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.

42. TRADE AND OTHER PAYABLES

	52 weeks ended 28 June 2020 £000	52 weeks ended 30 June 2019 £000
Accruals	42	–
Amounts due to related parties	316	316
Total trade and other payables	358	316

43. SHARE CAPITAL AND RESERVES

The share capital, share premium and the capital redemption reserve are consistent with Hotel Chocolat Group plc financial statements. Refer to Notes 28 and 29 of the Group financial statements.

During the period the Company paid a dividend of 1.2p (30 June 2019: 1.7p) per share £1,386k (30 June 2019: £1,918k) out of retained earnings, being a final dividend of 1.2p per share in relation to the period ended 30 June 2019 (1 July 2018: 1.1p) and an interim dividend of £nil per share in relation to the period ended 28 June 2020 (30 June 2019: 0.6p).

44. CAPITAL COMMITMENTS

There were no amounts contracted for but not provided for as at 28 June 2020 (30 June 2019: £nil).

45. RELATED PARTY TRANSACTIONS

Amounts owed by and to subsidiaries are disclosed in Notes 40 and 42 respectively, of the Company financial statements.

There are no employees during either period. The remuneration of the Directors of the Company are disclosed within the Remuneration Report on pages 58 to 60.

Interests and related party transactions are disclosed in Note 32 of the Group financial statements.

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