HOTEL
Chocolat.

Making People Happy Through Chocolate

Hotel Chocolat Group plc
Annual Report and Accounts 2021

We have evolved from a UK store-led brand to a globally ambitious digital-led brand

Inside this report

For the latest investor relations
www.hotelchocolat.com/uk/investor-relations

2021 HIGHLIGHTS

FINANCIAL HIGHLIGHTS

REVENUE

£164.6m

2021	£164.6m
2020	£136.3m
2019	£132.5m

+21%

UNDERLYING EBITDA[1, 2]

£28.6m

2021	£28.6m
2020	£21.6m
2019[3]	£20.7m

+33%

PROFIT BEFORE TAX AND EXCEPTIONAL COSTS[2]

£10.1m

2021	£10.1m
2020	£2.4m
2019[3]	£14.1m

+318%

PROFIT/(LOSS) AFTER TAX

£5.7m

2020: (£7.5m)[4]

DILUTED EPS

4.5p

2020: (6.3p)[4]

FINAL DIVIDEND

Nil

Full year: Nil, FY20: Nil

1 Underlying EBITDA is post-IFRS16 and excludes share-based payment charges and related tax.

2 Exceptional costs are non-cash impairment charges, see page 20 for reconciliation to reported figures.

3 FY2019 is pre-IFRS16.

4 Restated 28 June 2020, see Note 14.

OPERATIONAL HIGHLIGHTS

CUSTOMER DATABASE

+31% YoY

1.8m UK active customers

UK DIGITAL, PARTNERS & CONTINUITY SALES[1]

70%

Sales mix

VELVETISER HOME-DRINKS

Now 20 flavours

Launch of coffee

TEAM ENGAGEMENT SURVEY

Highest ever score

UK Top 100 large companies to work for

GENTLE FARMING

Step-change programme launched September 2021

INVESTMENT

+66%

Manufacturing capacity increasing for 2022

PACKAGING PLANET PLEDGE

94% recyclable

Target: 100% by 2022

USA & JAPAN

Achieving strong growth in new markets

STRONG BALANCE SHEET

Further £40m growth capital raised post year end

1 Continuity products includes Velvetiser system sales from UK stores.

AT A GLANCE

Over the last two years, we have evolved from a UK store-led brand to a globally ambitious digital-led brand

Today the Hotel Chocolat brand spans categories, channels and territories increasing growth headroom. Our roots are in the UK, where we started in the 1990's as a digital and subscriptions business, physical stores came later in 2004. We manufacture our chocolates in the UK and work with long-term partners for the supply of complementary product ranges.

OUR KEY PRODUCT RANGES

GIFTING

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

In the UK, USA and Japan the total 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

IN-HOME

A REGULAR TASTE OF HOTEL CHOCOLAT DELIVERED TO YOUR HOME

Greater frequency of purchase than gifts, supporting increased customer lifetime value

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

Rabot Estate coffee, five unique blends available as whole beans or recyclable pods

Chocolate subscription for tasting excitement and discovery

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

LEISURE

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

The deepest level of customer engagement with the brand

Our wall of chocolate. 120 recipes themed by genre, something for everyone

Hot chocolate, Choc Shakes, Ice Cream of the Gods, coffee

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

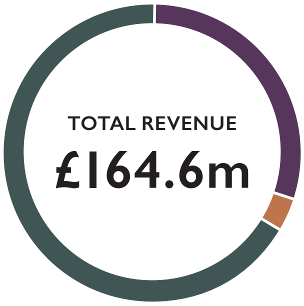
Hotel and restaurant set in a UNESCO world heritage site, where we farm organic cacao and coffee

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

> "Our growth drivers are working, and we are making progress on sustainability across many fronts"

ANGUS THIRLWELL
CHIEF EXECUTIVE OFFICER

REVENUE BY CHANNEL



UK Digital, partners & continuity[1]
70%

UK retail excluding continuity
27%

International
3%

MARKET SIZES FOR GIFTING, LEISURE AND IN-HOME

UK
hotelchocolat.com

126 LOCATIONS

>£30bn

USA & SAINT LUCIA
us.hotelchocolat.com

4 LOCATIONS IN USA
14 room hotel in Saint Lucia and cacao farm visitor attraction

>£100bn

GLOBAL WHOLESALE

14 CAREFULLY SELECTED PARTNERS

>£100bn

JAPAN JV
hotelchocolat.co.jp

22 LOCATIONS

>£100bn

OUR KEY STRENGTHS CREATE THE OPPORTUNITY TO ACCELERATE GROWTH

DIFFERENTIATED BRAND & PRODUCTS

Differentiated taste "More Cacao, Less Sugar"

Many gift occasions throughout the year, across different cultures

Accessible luxury with prices from £5 to £350 spanning self-purchase, in-home and gifting

Founder-led long-term culture, with innovation and sustainability at the heart of the brand values

HEADROOM FOR GROWTH

Multi-channel, multi-territory, with six clear drivers of growth

>£30bn UK markets across gifting, self-purchase & café

US and Japan markets both multiple times larger than UK

SIX FAST-GROWTH OPPORTUNITIES

VIP Me loyalty 1.8m active customers across online & retail

Digital Delivered gifts, self-treats, subscription & continuity

Velvetiser In-home system with high lifetime value

USA Digital-led, capex-light

Japan JV Store-led rollout opportunity in attractive retail landscape

Global Wholesale Capsule collections and exclusive alcohol range with capex-light growth

STRONG, FLEXIBLE AND DIFFERENTIATED PLATFORM

Strong and internal IP generation

Direct relationship with end customers

Vertical integration is responsive and protects intellectual property in products

Third-party production partners for extension categories

Recent investments to increase supply chain and manufacturing capacity with flexibility designed in

1 Continuity products includes Velvetiser system sales from UK stores.

STRATEGIC REPORT

HC Voices:

"I am given the platform to push the boundaries in all areas of ESG to lead, influence and deliver our commitment to becoming the most sustainable chocolate brand.

My team have the business goals at heart, they support each other to achieve this, nothing is too much trouble. I enjoy the HC culture of inclusivity, and I'm treated with respect and feel valued for the work that I do."

SARAH LEVERIDGE
HEAD OF SUSTAINABILITY

CHAIRMAN'S STATEMENT

"I am proud of how the business has continued to evolve during the period. The team have overcome many challenges, further strengthening the brand, and creating multiple long-term sustainable growth engines"

ANDREW GERRIE
NON-EXECUTIVE CHAIRMAN

In my Chairman's statement for FY20, I outlined how the Group had responded impressively to the initial impact of the COVID pandemic, adapting rapidly and ensuring the safety of colleagues and customers, whilst building new opportunities for the brand, underpinned by strong financial health and a clear strategy. The further progress made in the last year has built upon these foundations, as demonstrated by growing sales, new product innovations, and continued investments in people, capital infrastructure and sustainability programmes. As a result I am increasingly confident for the future.

I am proud of how the business has adapted to the testing circumstances over the last 18 months, and I would like to express the Board's continuing gratitude to our team, our customers, and our supply partners. During this period, the Group has evolved rapidly into a digital-led, globally ambitious lifestyle brand. This strategic progress and performance during the year is a great testament to the decisiveness, talent and hard work of our leadership team, and builds on the forward-looking long-term investments made over many years in the Group's people, products, technology and manufacturing capability.

OVERVIEW

Hotel Chocolat is increasingly a digital-led brand, with 70% of FY21 revenues generated from UK digital, partners and continuity products. The Group's strong online proposition continues to be supported and complemented by a portfolio of profitable, well-located stores, as well as relationships with carefully selected wholesale partners both in the UK and internationally.

STRATEGY

The existing long-term strategy of prioritising investment in digital meant the business was well-placed to adapt to the initial closure of all stores during the final quarter of FY20. In FY21, stores were closed or disrupted for approximately six months, including the crucial peak gift-buying period from November to April which includes Christmas, Valentine's Day, Mother's Day and Easter. Despite this, the Group was still able to achieve sales growth via its multichannel platform. When stores reopened, sales growth accelerated further, with each channel continuing to play a complementary role.

The Group has a stated ambition to become the world's most sustainable chocolate brand. Significant progress has been made in the year in defining the most material risks and opportunities, gathering robust data and setting targets, and investing in support of the goals. As a result, the Group intends to publish its inaugural sustainability report during FY22, which will build upon the disclosures in this annual report. The most important new initiative, the Hotel Chocolat Gentle Farming Charter, builds upon the existing Engaged Ethics programme with the objective of ensuring every cacao farming family that supplies Hotel Chocolat has the opportunity to earn a sustainable living income in return for farming in a climate-smart, sustainable way.

FY21 FINANCIAL OVERVIEW

FY21 Group revenue of £165m (FY20: £136m) and PBT before exceptional costs of £10m (FY20: £2m) were ahead of the Board's initial expectations. This pleasing set of results primarily reflects the strong performance of the Group's multichannel proposition and the Group's fast-growing active customer database.

The Group pro-actively shifted its channel mix to achieve strong sales growth, however this did result in additional costs. The costs of digital are largely variable with sales volume, whereas store costs are largely fixed despite extended periods of closure. Costs of production and distribution were also temporarily increased as a result of the impacts of the social distancing and multiple stock relocations in response to changing lockdown restrictions.

The Group has maintained robust financial discipline through the Period with a strong focus on cash, liquidity and cost control, whilst also maintaining investment in the areas that the Board believe will drive growth over the coming years. The strength of the sales performance meant the Board was able to commit to repay the support received from the UK Government's Coronavirus Job Retention Scheme (£3.1m claimed in the Period).

The Group had net cash of £10m at the Period end (FY20: £28m). In July 2021 the Group completed a new £30m working capital RCF with Lloyds Bank, which replaced an existing £25m CLBIL's RCF which was never drawn. Subsequently, the Group raised £40m of new equity via an over-subscribed placing, which will be used to fund investment in growth channels, technology and manufacturing capacity.

DIVIDEND

Given the opportunities to invest for further growth, the Board has determined that it would not be appropriate to declare a dividend for the Period. The Board will continue to review the financial position of the Group within the context of internal growth opportunities and the external environment and intends to recommence dividend payments when it is appropriate to do so.

BOARD OF DIRECTORS

The Group continues to benefit from a strong founder-led management team. 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.

OUTLOOK

The Group has entered FY22 in a strong position, with an increased active customer base, and with multiple clear avenues for further growth, spanning product ranges, channels and territories, all of which are delivering encouraging progress. Since the period end the Group has traded in line with the Board's expectations.

The Hotel Chocolat brand is in good health, as evidenced by rising customer numbers, growing sales and significant progress on sustainability initiatives. As a result, the Board remains confident in the Group's ability to continue to adapt and react swiftly to what will remain dynamic trading conditions over the coming months and to continue to deliver the brand's exciting, long-term growth.

Andrew Gerrie
Non-executive Chairman

BUSINESS OVERVIEW

Our values-led approach creates long-term success for all our stakeholders

OUR PURPOSE

To make people happy through chocolate: customers, colleagues, farmers, suppliers, investors, communities and to respect our shared planet

OUR VISION

To become the leading global direct-to-consumer premium chocolate brand

"Our growth strategies are based on our three everlasting brand values"

ACHIEVED THROUGH OUR VALUES

ORIGINALITY

Fresh thinking.

To be the most innovative chocolate brand, and the most tech-activated.

AUTHENTICITY

To be the real thing.

Our focus on More Cacao, Less Sugar results in a superior taste.

To have the deepest, direct customer connection and a dependably excellent product range.

ETHICS

To be brave and kind.

To become the most sustainable chocolate brand.

HOW WE OPERATE

Our Business Model

Our vertically integrated model means we are involved in every stage of chocolate:

From working with partner farmers, to designing and innovating new products, to making, distributing and engaging customers through our own direct channels.

By delivering growth we can progressively increase investment in sustainability and continuously improve our product range and services.

The strong reputation of the Hotel Chocolat brand and an innovative culture enables extension of our categories and product ranges across multiple categories including:

GIFTING

IN-HOME

LEISURE

HOW WE GROW

Our Six Key Growth Drivers

VELVETISER

In-home drinks system

VIP ME

Customer loyalty & rewards

DIGITAL

Improved customer experience and subscriptions

USA

Digital-led, capex-light

GLOBAL WHOLESALE

Exclusive alcohols and capsule collections

JAPAN

Joint venture

DELIVERING LONG-TERM SUCCESS

For our Stakeholders

OUR CUSTOMERS

Differentiated product and engaging experiences

OUR COLLEAGUES

Rewarding, engaging work & wellbeing

OUR GROWERS AND SUPPLIERS

Sustainable long-term partnerships

OUR INVESTORS

Attractive returns

OUR COMMUNITIES

Giving back and making people happy

OUR ENVIRONMENT

Treading lightly, respect for the planet

OUR BUSINESS MODEL

As well as being a source of competitive advantage, our vertically integrated business model allows us to operate sustainably throughout the value chain

CREATING

WE GROW

The deep understanding of the cacao growing process from our Rabot Estate in Saint Lucia enables us to continuously improve our relationship with all of our cacao growers worldwide as part of our new Gentle Farming Charter.

WE DESIGN

Our in-house team of designers balances prolific new-concept creation with a disciplined range architecture to minimise waste.

MAKING

WE MANUFACTURE

We make 95% of our chocolate products at our manufacturing campus in Cambridgeshire, UK. In-house production allows faster innovation, increases control over quality, protects intellectual property and improves gross margins.

WE DISTRIBUTE

Running our own distribution centre and fleet allows us to deliver high availability to all our channels and maximise the efficiency of routes.

ENTERTAINING

WE OWN OUR CHANNELS AND CUSTOMER EXPERIENCE

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

- DIGITAL & CONTINUITY
- PHYSICAL STORES
- PREMIUM WHOLESALE PARTNERS
- CACAO ESTATE

RE-INVESTING

WE CARE

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

WE KEEP GETTING BETTER

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

WHAT THIS MEANS FOR OUR STAKEHOLDERS

OUR CUSTOMERS

Differentiated products and engaging experiences for our customers

OUR GROWERS AND SUPPLIERS

Sustainable, long-term partnerships with our growers and suppliers

OUR COLLEAGUES

Innovative culture and rewarding careers for our colleagues

OUR COMMUNITIES AND PLANET

Increasing investment in sustainability initiatives to support our communities and planet

OUR INVESTORS

Attractive returns for our investors

CHIEF EXECUTIVE'S STATEMENT

"FY21 was a year where Hotel Chocolat improved on many fronts. Our digital and continuity models surged ahead and our global aspirations racked up more strong growth and progress"

ANGUS THIRLWELL
CO-FOUNDER AND CHIEF EXECUTIVE OFFICER

IN THIS REVIEW I WILL COVER:

- Our sales performance in the period
- How we are developing our brand to deepen customer connections and lifetime value
- How the brand values and strategic progress can be tracked via KPIs
- Our approach to long-term sustainability
- The outlook, including the key drivers of future growth and profit potential

REVENUE

£164.6m

2021	£164.6m
2020	£136.3m
2019	£132.5m

UNDERLYING EBITDA[1]

£28.6m

2021	£28.6m
2020	£21.6m
2019[2]	£20.7m

ACTIVE CUSTOMER DATABASE[3]

1.8m

2021	1.8m
2020	1.5m
2019	1.2m

UK DIGITAL, PARTNERS AND CONTINUITY SALES MIX

70%

2021	70%
2020	41%
2019	30%

OUR NEW AMBITIOUS GENTLE FARMING CHARTER AIMS TO ENABLE ALL OUR CACAO FARMERS TO EARN A LIVING INCOME

1 Underlying EBITDA is post-IFRS16 and excludes share-based payment charges and related tax.

2 FY19 is pre-IFRS16.

3 Customers on database shopping in the last 12 months.

The business has a clear strategy built on the everlasting brand foundations of Originality, Authenticity and Ethics. The last year has seen acceleration, both in multiple drivers of current and future growth, and in terms of our commitments to people and the planet.

By sticking to our plan we intend to deliver further growth, improve profitability and drive forward our sustainability goals.

I am extremely proud of how the Hotel Chocolat team has responded again this year, not only adapting the business in the face of unprecedented challenges, but also strengthening the business on many levels. Digital and subscription-continuity sales grew strongly, we innovated new products, and continued to expand in the US and in Japan with our JV partner. We invested for growth, improving our technology, strengthening our team, and undertaking significant capital investment to expand our UK factory.

However, perhaps the single achievement I am most proud of is the launch of our new Gentle Farming Charter, which aims to prove a new and better model is possible for over 2,500 cacao farmers and their families. Importantly, we believe our programme is both realistic and earth-friendly, drawing directly from our own experiences of growing cacao on our own farm and our support for farmers in Ghana over the last 15 years.

We have a clear business strategy based on our everlasting brand values of Originality, Authenticity and Ethics, in pursuit of our mission to make people happy through chocolate. This means not just our customers and colleagues, but also our farmers and other supply partners, local communities and to respect the environment we all inhabit together.

FINANCIAL OVERVIEW

Revenue grew by 21% to £165m. Profit before tax and exceptional costs increased by £7.7m to £10.1m. Gross margins were impacted by the costs of multiple stock movements as the channel sales mix shifted in response to lockdowns. Operating expenses increased by 19%, due to deliberate growth investments and temporarily due to the blend of fixed costs for stores that were closed or disrupted for almost six months combined with additional variable costs due to strong digital growth. Further detail is provided in the financial review on page 20.

SALES REVIEW

We are increasingly confident that the Hotel Chocolat brand can deliver strong sales growth and attractive returns internationally. Our growth strategy remains focussed on three of the largest gifting markets in the world: the UK, the USA and Japan.

UK

We remain totally committed to achieving ongoing like-for-like growth from stores, which offer the deepest customer experiences, build brand awareness and trade profitably. However, we can achieve faster overall growth and higher customer lifetime value by continuing with our digital-first strategy, with both channels playing a crucial and complementary role.

In FY21, our stores were closed or disrupted for almost six months. Historically stores were the largest channel by sales and profit value, however the investments made in the last three years in skilled people, improved systems and in building our customer database meant that we were able to achieve UK sales growth of 21%, despite the disruption.

Encouragingly, in the period since retail stores began re-opening on 12 April we have seen growth accelerate, validating our belief in a multi-channel model as the best route to maximise customer lifetime value and shareholder returns.

The store portfolio remains highly attractive, from a brand, customer and financial returns perspective. Our stores are a fantastic way for customers to discover our brand and can offer the deepest multi-sensory experience of everything the brand has to offer, including a wide range of gifts and self-treats, café drinks and ices, and the benefit of interacting with our passionate and knowledgeable team to talk about chocolate, a topic that everyone loves.

With stores closed or disrupted for six months our direct-digital and wholesale digital partnerships were well poised to keep the chocolate flowing to our customers. Online gifting sales together with our continuity in-home drinks, including the Velvetiser, grew strongly. When stores re-opened, the return of leisure and impulse sales that are harder to service online meant that the overall sales growth rate accelerated.

The active customer database grew by 31% year-on year to 1.8m, and we are investing in a new store VIP & EPOS platform which will launch in spring 2022, allowing us to further deepen the customer connection and offer new services and benefits.

USA

In FY21, we pivoted our US business to a digital-first strategy in response to the pandemic and opportunity from the new strength of our digital-continuity offer. We achieved overall sales growth of 36%[1], despite store sales falling 41%[1]. The fulfilment partnership with The Hut Group means that we have a scaleable growth model that is capex-light with a cost base that is directly variable with sales volume, whilst we retain direct control of the brand, the customer base and the strategy.

JAPAN

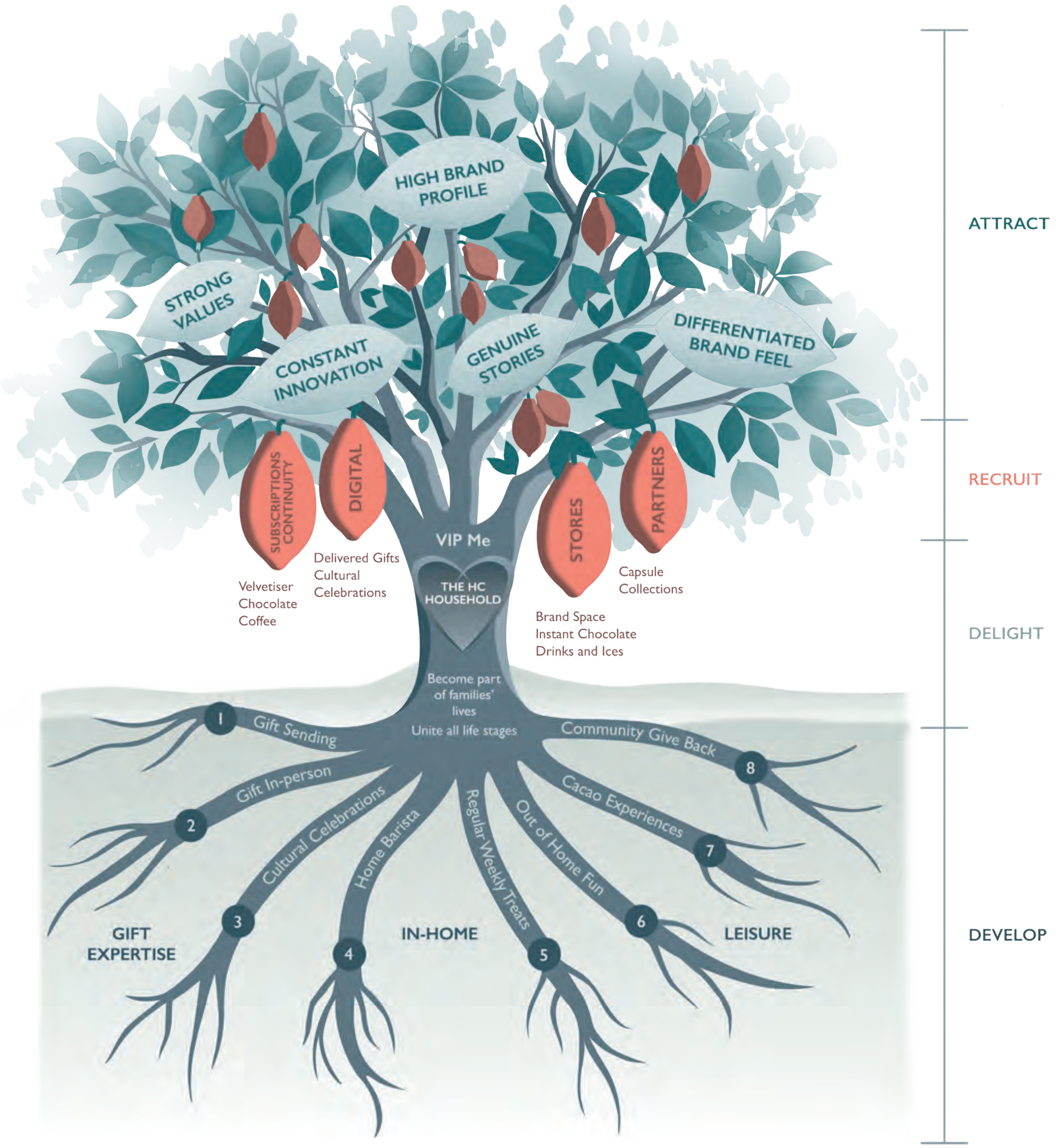
In Japan, our joint venture partner opened a further 16 stores in FY21 bringing the total to 22. In Japan online sales penetration in general remains lower than the UK and USA, and malls remain vibrant as leisure destinations. The variable rent partnership model between tenant and landlord is a blueprint for other markets. Whilst Japan has not experienced mandatory lockdowns, a rolling programme of regional restrictions is ongoing, resulting in temporarily reduced footfall and sales per store. We remain confident in the longer-term prospects because our latest lifestyle store formats and product range are proving successful in carving out a differentiated brand identity in this huge and competitive market. VIP Me loyalty attachment is already approaching 50% of new store customers in Japan, delivering the benefits of a direct conversation that we have seen work so well in the UK.

1 Sales growth at constant exchange rates.

CHIEF EXECUTIVE'S STATEMENT CONTINUED

HOW WE AIM TO SERVE THE HOTEL CHOCOLAT HOUSEHOLD IN EIGHT WAYS – OUR CACAO TREE ANALOGY

Achieving a loved brand status with our customers' families is our goal, by working hard to live up to our values and to bring happiness across the generations through our chocolate



ATTRACT

The Hotel Chocolat brand is our most valuable asset and we continually invest to enhance it. We are led by strong and unchanging values, we strive for continuous innovation and are rooted in being the 'real deal', from tree to table. We are a brand with genuine depth, powered by a team who bring it alive and love making people happy through our chocolate. In combination these factors create a brand that looks and feels very different from the traditional competition.

RECRUIT AND DELIGHT

Our channels to customers are not dependent on FMCG grocers as is the case with most chocolate brands. The ways we attract new customers and sustain a relationship with our households is led by their convenience and how they want to make Hotel Chocolat work for their families.

Subscription-continuity is a simple, hassle-free way to receive regular hot chocolate, coffee or chocolates at home

Our digital channel is perfect for delivered gifts for family occasions or seasonal cultural celebrations

Our stores offer the most immersive experience this side of our hotel and farm in Saint Lucia. Stores offer the full range of gifts, complemented by chocolate leisure in the form of smaller impulse items, café drinks and ices, sampling and machine demos and paid-for tasting experiences, all delivered by our knowledgeable and passionate team

Wholesale partners can offer great reach and convenience for our customers and we carefully curate a capsule range that is specific to the customer needs of each partner. This allows maximum convenience with lowest delivery costs, whilst retaining real reasons to come back to our direct channels from time to time for the full brand experience

Chocolate is an unusual product category, with the capability to excite every generation of a household, family, or extended friendship group. VIP Me is the glue that allows us to connect with our customers across channels and seasons, providing rewards for loyalty and generating excitement as we launch new products and seasons

WE HAVE MULTIPLE WAYS TO SERVE HOUSEHOLDS, ACROSS THE YEAR AND ACROSS GENERATIONS DEVELOPING HIGHER LIFETIME VALUE

GIFTING

We offer a slick and reliable delivered gift service. In the Period every one of our online metrics improved, from consideration and traffic, to conversion, average order value and frequency.

Our store teams can help customers select the perfect gifts to hand over in person, whether for a family event or calendar cultural celebration.

In the year we launched much improved ranges for Valentine's and White Day, the two largest gift events in Japan, which combined are larger gift events than Christmas in the UK. We also further extended our offer for Eid in the UK, thanks to the invaluable input of our team.

IN-HOME

The success of the Velvetiser is supplemented by our cacao-alcohol range and our new range of coffees, available as whole beans or pods that can be recycled at home with our Podcycler device. This winter we will be launching a range of coffee machines in partnership with Dualit that complement the Velvetiser on the counter-top.

We also offer a variety of curated options to receive a regular subscription of your family's favourite chocolates.

LEISURE

Whether an impulsive pop-in visit to one of our stores or a planned trip to a café with friends or family, our stores offer something for everyone. Our self-purchase leisure business historically generated approximately half of our revenues. This part of the business was the most affected by the lengthy closure of stores in the UK. Since re-opening in April, performance has been strong.

Giving back to our communities is important to all our team as evidenced by the commitment to our annual charity week, and the participation in volunteering days.

We are testing and developing product and experience ideas that will extend this further in the years ahead.

CHIEF EXECUTIVE'S STATEMENT CONTINUED

HOW SUSTAINABILITY UNDERPINS OUR GROWTH STRATEGY

Our mission is to make people happy through chocolate, by living up to our brand values of:

ORIGINALITY

AUTHENTICITY

ETHICS

We have embarked on a step-change mission to build a pioneering position on sustainability within the chocolate industry. Our vertical integration, independence and everlasting brand values give us a strong platform to achieve this.

This journey will take some years to achieve in full, but we are 100% committed and making real progress. We have identified the key areas of materiality and focus, and are in the process of ensuring all our data and KPIs are robust and accurate to support disclosure of our baseline, targets, and ongoing progress against the goals. We have committed to publishing our first ever sustainability report before the end of FY22. Each of our focus areas is based on the materiality to the Group's activity and is cross-referenced to the UN Sustainable Development Goals. The material areas of focus are outlined in the table below:

OUR PRIORITIES

RESPECT THE PLANET

CLIMATE CHANGE	RECYCLING & WASTE	NATURAL RESOURCES

POWERED BY PEOPLE

SOCIAL OPPORTUNITY	CUSTOMERS & PRODUCTS	TEAM MEMBERS

CORPORATE RESPONSIBILITY

SOUND GOVERNANCE	CORPORATE BEHAVIOUR

THE SUSTAINABILITY REPORT ON PAGES 26 TO 33
This outlines in more detail our priorities for the first two pillars: Respect the Planet and Powered by People

THE GOVERNANCE REPORTS ON PAGES 45 TO 63
outline our approach to Corporate Responsibility

"A real highlight was developing the new Hotel Chocolat Gentle Farming programme, applying all we have learned by farming ourselves, to ensure all our farming families can earn a living income in return for climate-smart farming"

ANGUS THIRLWELL
CO-FOUNDER AND CHIEF EXECUTIVE OFFICER

THE HOTEL CHOCOLAT GENTLE FARMING CHARTER

Building on our longstanding Engaged Ethics cacao programmes, and the learning from our own organic cacao farm in Saint Lucia, we have developed a plan to enable higher incomes for the farming families that make the chocolate industry possible. This means we will further increase the premium we voluntarily pay for our cacao beans, with the goal of ensuring each farmer can achieve a living income, based on realistic farm output and local costs of living in Ghana. In return for the higher prices we require that farmers commit to sustainable farming practices and zero illegal child labour. We will also invest directly to develop long-term gentle farming techniques to increase yields without harming the planet. A key technique is cacao tree pruning for which we are funding extra labour to help initiate the ongoing practice.

The scheme launches ahead of the next cacao harvest in December, when our target is to be paying the new gentle farming premium to all of the circa 2,500 Ghanaian farming families, who supply 97% of our cacao. In addition to paying a higher price for cacao (approximately 20% higher than Fairtrade) we will provide additional financial support for pre-harvest on-farm activities that improve productivity and climate resilience.

We estimate that the combination of higher prices and the feasible increase in farm output will make it possible for each farming family to earn a living income based on farming revenues, production costs, family size and the cost of living in rural Ghana including food, education and healthcare.

In return for the increased payments, we request that the farmers adhere to the Gentle Farming Charter:

- Prevent deforestation and plant shade trees, which conserve water, reduce ground temperatures and sequester carbon, providing a natural mitigation to climate change risks of higher temperatures and lower rainfall.
- Increase the proportion of farm labour that takes place pre-harvest, primarily pruning and mulching to improve tree health and increase yields without reliance on chemical fertilisers.
- Ensure that all children are able to participate fully in education with zero illegal child labour.

Farm performance will be audited annually from December 2022 to ensure that:

- The combination of higher cacao prices and additional financial support, less costs of living and farming can deliver a living income for the size of family.
- Any farmers not meeting the conditions of the Charter will enter a process of remediation in order to ensure issues are resolved rather than driven underground.

SEE MORE DETAIL ON THE HC GENTLE FARMING CHARTER ON PAGES 28 AND 29

CHIEF EXECUTIVE'S STATEMENT CONTINUED

OUR SIX BUSINESS GROWTH DRIVERS

Two years ago we activated additional growth levers to change the shape of the business. These six drivers are on track

VELVETISER

The Velvetiser makes delicious hot chocolate with no fuss and no mess, with a range of 20 recipes, and more coming this autumn. Supported by subscriptions the continuity model results in very engaged customers, with higher frequency and materially higher lifetime value.

LOYALTY

Customer connection is a key element of our physical retail model. The VIP Me scheme was invaluable during lockdown and will continue to underpin our brand building.

DIGITAL

Our online channel offers the perfect solution for delivered gifts, whether for family celebrations or seasonal cultural events.

OPERATIONAL REVIEW

In March 2020, we raised £23m of new equity to reinforce our financial resilience and to fund investments for future growth, including:

- Investments in people and technology to improve digital customer experience, including improved VIP Me capabilities in-store which will launch next spring.
- Expanding the distribution centre, from 100,000 to 200,000 sq ft to accommodate increased online despatch capacity ahead of the FY21 peak season.
- Extending the UK factory from 45,000 to 80,000+ sq ft in order to install a fourth truffle-making line, a second Velvetiser refill line which more than triples capacity, and a new bean-to-bar facility for super-premium single origin chocolates and vegan Nutmilk chocolate. All of the new capacity will be commissioned this winter.
- Loans to the Japan JV to fund the opening of 16 new stores.

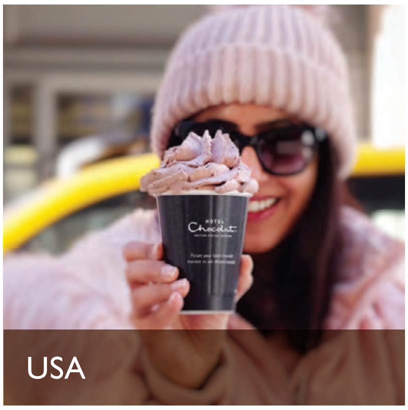
In July 2021, we raised a further £40m in equity to fund the next phase of expansion to provide the capacity to support the six fast-growth drivers:

- Ongoing technology upgrades to support scalable multichannel growth and improved CRM and subscriptions.
- To further extend the factory over the next three years from 80,000 to 160,000 sq ft, creating the opportunity to add a further six lines as and when required, which once installed would be sufficient to support up to £500m in sales revenue.

Further detail on gross margins and operating expenses is included in the financial review on page 21.

> "With multiple growth avenues it is essential we retain a disciplined approach, focusing on execution of the plan, whilst targeting opportunities with high growth potential and anticipated return on capital"

ANGUS THIRLWELL
CO-FOUNDER AND CHIEF EXECUTIVE OFFICER



USA

Digital-led, supported by four stores. The Velvetiser provides the brand introduction with attractive lifetime value, supported by the opportunity to cross-sell the full chocolate seasonal gifting range.

GLOBAL WHOLESALE

Working with carefully selected digital partners to extend brand reach and convenience, each partner has a capsule range tailored to the needs of the customer profile. The Velvetiser and cacao-alcohols are key product categories, supported by supply partnerships they provide attractive returns and capex-light growth.

JAPAN JV

Physical retail predominates in Japan. Due to cultural factors, population density and climate, malls remain vibrant and landlords continue to open new malls. Our lifestyle format is differentiated and proving popular both with customers and landlords.

OUTLOOK

Hotel Chocolat has a clear strategy and a strong brand with everlasting values that are even more relevant today than when I originally wrote them more than 15 years ago. Excitingly, we have all six of our fast-growth drivers performing well, giving us multiple opportunities to accelerate. We are well capitalised, with a strong leadership team committed to a high quality execution of our opportunities and a committed team who bring our values alive every day.

We have been busy building an intelligent and genuine step-up plan for long-term sustainability and are moving from planning to delivery. I am therefore confident we are very well placed to deliver good things for all our stakeholders, whilst continuing to navigate the changing landscape.

I would like to thank every member of the Hotel Chocolat team for how they have collaborated and supported one another to deliver strong results in the unprecedented conditions.

Angus Thirlwell
Co-founder and Chief Executive Officer

FINANCIAL REVIEW

"FY21 was a pleasing financial result, delivering sales growth and improved profitability. This demonstrates the resilience of the business, and the flexibility that multiple growth-drivers provide"

MATT PRITCHARD
CHIEF FINANCIAL OFFICER

Until March 2020, physical stores were the largest sales channel. During FY21 stores were closed or disrupted for almost six months, including the busy Christmas and Easter seasons. Prior investments in digital, loyalty, and the continuity model of home drinks and the Velvetiser meant the Group achieved strong growth. A successful equity placing in July 2021 provides the capital to support ongoing growth.

	FY21	Restated FY20[1]
Revenue	164.6	136.3
Gross profit	101.7	83.0
Operating expenses	73.1	61.5
Underlying EBITDA	28.6	21.6
Share-based payments	0.9	0.4
Depreciation & amortisation	15.8	17.3
(Profit)/Loss on disposal	0.1	(0.1)
Operating profit before exceptional costs	11.8	3.9
Finance income	0.2	0.2
Finance expense	1.6	1.7
Share of JV loss	0.3	–
Profit before Tax and exceptional costs	10.1	2.4
Reconciliation to reported results:		
Operating profit before exceptional costs	11.8	3.9
Exceptional non-cash impairment costs	2.3	10.0
Operating profit/(loss)	9.5	(6.0)
Net finance costs	1.4	1.5
Share of JV loss	0.3	–
Reported Profit/(Loss) before tax	7.8	(7.5)
Tax paid/(credit)	2.1	(0.1)
Profit/(Loss) after tax	5.7	(7.5)

1 Restated FY20, see Note 14.

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:

REVENUE

£164.6m

2021	£164.6m
2020	£136.3m
2019	£132.5m

UNDERLYING EBITDA[1,2]

£28.6m

2021	£28.6m
2020	£21.6m
2019[3]	£20.7m

PROFIT BEFORE TAX AND EXCEPTIONAL COSTS[2]

£10.1m

2021	£10.1m
2020	£2.4m
2019[3]	£14.1m

ACTIVE CUSTOMER DATABASE

1.8m

2021	1.8m
2020	1.5m
2019	1.2m

UK DIGITAL, PARTNERS AND CONTINUITY SALES MIX

70%

2021	70%
2020	41%
2019	30%

REVENUE

Reported revenue for the 52 weeks ended 27 June 2021 was £164.6m. Revenue increased by 21% compared to the 52 weeks ended 28 June 2020. H1 revenue of £101.9m was an increase of 11% and H2 revenue of £62.6m was an increase of 40%. 70% of revenue in the year was generated through UK digital, partners and continuity which compares to 41% in the prior year.

GROSS MARGIN

Gross profit as a percent of sales increased by 90 basis points from 60.9% to 61.8%. In H1 gross margins were 61.0%, which compares to pre-COVID H1 FY2020 of 65.0%. The decline was driven by increased stock handling due to lockdowns and higher sales of third party products. H2 margins of 63.0% were an increase of 10 percentage points compared to H2 FY20. Whilst ongoing lockdowns remained a headwind the impact was much reduced due to the experience gained in the March 2020 lockdown.

OPERATING EXPENSES

Operating expenses grew more slowly than sales, increasing by 19%. Costs as a percent of sales reduced from 45.1% to 44.4%. Whilst COVID-19 continued to drive some additional costs, further investments were made in e-commerce, product innovation and supply chain to support future growth.

On 24 September 2021, the Group repaid the Coronavirus Job Retention Scheme funding received from the UK Government this financial year. At the balance sheet date the £3.1m repayment was accrued.

UNDERLYING EBITDA

Underlying EBITDA is a non-GAAP metric but is included for comparability to prior years. Excluding impairment charges, underlying EBITDA was £28.6m, an increase of £7.7m. Sales volume growth generated an additional £17.2m EBITDA YoY, higher gross margins added £1.4m, and operating expenses increased by 19% or £11.6m.

1 Underlying EBITDA is post-IFRS16 and excludes share based payment charges and related tax.

2 Exceptional costs are non-cash impairment charges, see page 20 for reconciliation to reported figures.

3 FY19 is pre-IFRS16.

FINANCIAL REVIEW CONTINUED

IFRS16 LEASES

Rent charges of £11.1m (FY20: £12.1m) are removed from operating expenses, replaced by additional depreciation charges of £9.3m (FY20: £11.0m), and £1.1m (FY20: £1.4m) increase in lease finance expense. The impact of these adjustments on the reported profit is an increase of £0.7m. Subsequently the right of use assets have been impaired by £1.7m (FY20: £4.0m).

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 JV. Finance expense of £1.7m comprises £0.3m of bank interest, £0.2m of realised derivative interest, and a £1.1m interest charge relating to the application of IFRS16 to leases.

DEPRECIATION AND AMORTISATION

Depreciation and amortisation totalled £15.8m, being £1.5m less than the previous year. Depreciation of the right of use asset generated £9.3m of depreciation compared to £11.0m of depreciation in the prior year. Capital investment additions of £19.3m included investments in the Saint Lucia hotel, UK digital developments as well as expansion of operating capacities at both the UK chocolate factory and UK distribution centre.

PROFIT BEFORE TAX AND EXCEPTIONAL COSTS[1]

Profit before tax and exceptional costs was £10.1m, an increase of £7.7m as a result of the higher sales, an increase in gross margins and operating expenses growing more slowly than sales.

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 excludes share-based payment charges, related tax and non-cash impairment charges.
- Operating profit before tax and exceptional costs excludes non-cash impairment charges.

EXCEPTIONAL COSTS OF ASSET IMPAIRMENT

The Board has 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 £2.3m, comprising two 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 in five locations gives rise to a non-cash net impairment of £2.1m.
2. **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 is 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 a further £0.2m, in addition to the £2.7m impairment recognised in the 52 weeks ended 28 June 2020. The Board is fully committed to continuing investment in Saint Lucia, including extending the hotel and a much enlarged educational ‘tree to bar’ cacao farm visitor attraction, Project Chocolat, which opened in FY21.

PROFIT BEFORE TAX

Profit before tax, after non-cash impairment charges of £2.3m, was £7.8m, an increase of £15.4m YoY.

TAX

The effective tax rate is 27.3%. This is higher than the standard rate of 19% mainly due to permanent timing differences between depreciation charges and capital allowances, and overseas losses that are not deductible against UK corporation tax.

EARNINGS PER SHARE AND DIVIDENDS

The Group reported a diluted profit per share of 4.5p, compared to FY20 restated loss of 6.3p[2]. The weighted average number of shares in issue was 126m (FY20: 118m). The Board will not be proposing a dividend (FY20: Nil). The Board will continue to review dividend policy alongside our investment opportunities for growth.

1 Exceptional costs are non-cash impairment charges (see page 20 for reconciliation to reported figures).

2 Restated – see Note 14.

CASH AND WORKING CAPITAL

The Group had £10m of cash at the period end. Inventories of £32m represent approximately 15 weeks' forward cover. The Group has access to a Revolving Credit Facility (RCF) with Lloyds bank of £30m until June 2023. The RCF will be used to finance working capital. As at 26 September 2021 the Group had cash balances of £15.8m giving headroom of £45.8m including its £30m RCF.

EQUITY PLACING

On 28 July 2021, the Group announced the results of an over-subscribed equity placing, conducted by way of an accelerated bookbuild and Primary Bid Offer, to provide the Group with funding for ongoing capital investments in support of the growth strategy.

A total of 11,267,605 new ordinary shares of 0.1 pence were placed at a price of 355 pence per share raising £40m gross proceeds.

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 period to December 2022.

The Directors have considered the Group's financial position and its committed borrowing facilities as well as alternative sources of 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, as demonstrated by 1.8m active customer database, 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 and the subsequent RCF 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 ongoing growth in FY22 as the Group continues to evolve from a UK-store-led brand to a global digital-led brand. This base-case reflects the shift in sales channel mix and growth achieved in the period since stores re-opened in April, and the higher customer lifetime value that this delivers.

The base case includes the necessary overhead and capital spend required to deliver FY22 growth. The base case then assumes flat year-on-year growth for the period to December 2022.

Post half year, the Directors will review cash flows and capital investments required to deliver the Groups future growth plans for FY23 with the possibility of increasing the Groups RCF using the approved accordion.

Downside scenario

The downside scenario models the effect of a material slowdown in sales growth during FY22, such that the current actual growth rate falls by half for the rest of the year. FY23 sales are then modelled as being broadly flat with FY22.

The Directors have considered the levers available to mitigate the impact on profit and cash flow if performance were to fall to these levels. 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.

The downside scenario is considered prudent given recent performance.

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:

- Alternate sources of funding, including asset financing of factory equipment and mortgaging of freehold property.
- Any new additional Government support or allowances.

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 the 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. Six members of the Executive team sit on the Sustainability Committee which aims to drive constant improvement in environmental and social issues. The Board of Directors considers potential reputational risks as part of its operational framework.	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 is undertaken to ensure appropriate local partners. 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 FY21	The Group's response to the pandemic has resulted in many operational changes to help mitigate the impacts of potential future outbreaks. Vaccines now offer the potential for a progressive easing of restrictions.	The Executive Sustainability Committee formed in 2019 made significant progress on many fronts as covered on pages 26 to 33.	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 2021 the business received A-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 resulted in 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	INCREASED COMPETITION AND CHANGES IN CONSUMER TASTES	KEY MANAGEMENT	CLIMATE CHANGE
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. Supply chains may be subject to disruption, or inflationary pressure.	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.	Climate change may lead to ongoing disruption to the Groups business model and supply chains and/or disruptive short-term events such as local flooding. The actions required to reduce carbon usage and to mitigate the impacts of climate change may be wide-ranging, resulting in an increase in operational costs or capital expenditure.
The Group forecasts its requirement for foreign exchange purchases and hedges these purchases up to 18 months ahead.	The Board seeks to ensure the brand retains its position as an 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 higher input costs and longer supply lead-times.	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 business has committed to net zero CO_2 (scope 1 & 2 for 2030 and scope 3 by 2040.) Business continuity planning includes exercises for business interruption from extreme weather events and climate change. The new Gentle Farming Charter includes specific actions to improve climate resilience in cacao farming.
The Group extends its currency hedges on a quarterly basis and is currently hedged for the whole of FY22 Euro 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 FY21 is in line with temporarily reduced expectations.	The Group has continued a programme of innovation in products and services to strengthen the brand's appeal.	A new 5-year LTIP has been granted to senior leaders and an all-employee restricted stock plan will launch during FY22.	Carbon audits are under way for all UK operational sites to identify investments required. New Gentle Farming Charter is intended to bring climate-smart practices to all cacao supply.

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 achieving a demonstrable market-leader position on sustainable and ethical business practices. In FY19 the Group set up an Executive Sustainability Committee in order to:

- set targets for further improvement aligned to strategy and materiality;
- formulate plans to deliver the targets and mobilise the business to act;
- measure current performance to establish the 'baseline' position and report progress;
- provide governance and oversight to ensure programmes deliver results; and
- increase awareness of how communities can play a part in progress on sustainability.

The Committee met 12 times in FY21.

The committee is chaired by Matt Pritchard (CFO). Angus Thirlwell, Lysa Hardy, Matt Margereson, Peter Harris and Jo Brett are all active Executive 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 growing and 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. We have organised these into three strategic themes, eight workstreams and 23 specific focus areas.

"We have set out a clear framework, prioritised the key goals and are gathering the robust data to report our progress KPIs"

MATT PRITCHARD
CHAIR OF EXECUTIVE SUSTAINABILITY COMMITTEE

RESPECT THE PLANET

CLIMATE CHANGE	RECYCLING AND WASTE	NATURAL RESOURCES
A net zero carbon business	Sustainable packaging	Biodiversity and land use
Climate change adaptation	Reduce waste and by-products	Reduce water stress
Financing the solutions		Land use / palm oil removal

POWERED BY PEOPLE

SOCIAL OPPORTUNITY	CUSTOMERS & PRODUCTS	TEAM MEMBERS
Living incomes for farm families	Product quality, health & nutrition	Fair treatment, diversity & inclusion
Responsible labour practices	Product end-of-life use	Career opportunity & engagement
Sustainable & transparent supply chain	Privacy & data security	Wellbeing, health & safety

CORPORATE RESPONSIBILITY

SOUND GOVERNANCE	CORPORATE BEHAVIOUR
Board & leadership diversity	Business ethics and values
Executive pay	Anti-bribery, anti-corruption
Reporting & accounting	Tax transparency

HC Gentle Farming Charter objectives

CORPORATE RESPONSIBILITY IS COVERED IN THE GOVERNANCE REPORTS ON PAGES 45 TO 63
SEE SECTION 172 DISCLOSURES ON PAGES 34 TO 37

SUSTAINABILITY CONTINUED

HC GENTLE FARMING CHARTER

Since the Hotel Chocolat Engaged Ethics initiative first launched in 2004, we have been progressively investing more in support projects in cacao-growing regions of Ghana. In 2006 we purchased a cacao farm in Saint Lucia, to develop our farming knowledge. As the business has grown in scale and developed stronger relationships in farming regions, we have progressively increased the price we pay for cacao, and have now reached a point where we can step-change our support to the farming families that make the chocolate industry possible.

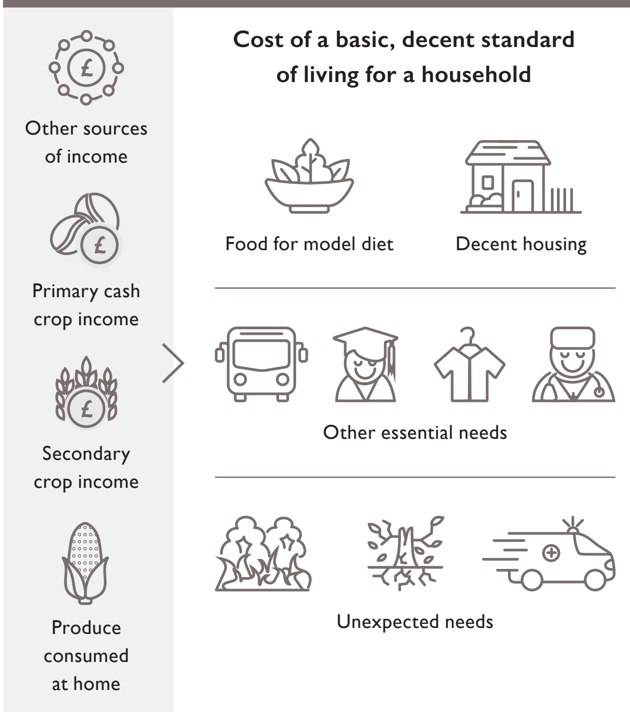
The Gentle Farming Charter launched in September 2021 and is open to all of our approximately 2,500 partner farmers in the Eastern Region of Ghana. We will pay an increased price for cacao and make additional payments to farmers to support productivity work on-farm.

The new prices are calculated to enable a farmer to achieve a living income for their family that covers the local cost of living in rural Ghana. In return we ask the farmers to adhere to our Charter:

- Increase the proportion of on-farm labour pre-harvest to sustainably improve crop health.
- Ensure every child can participate fully in education, with no illegal child labour or modern slavery.
- Prevent deforestation and replant shade trees to improve climate resilience.

Farms will be independently surveyed annually, with any non-compliance leading to remediation. There are many long-term challenges in the cacao supply chain, so the survey results will be used to further develop and refine the scheme with the goal of enabling farmers to reach a sustainable living income within three years of joining.

CALCULATING A LIVING INCOME IN RURAL GHANA:



The living income considers:

- The average size of the farming household
- The local costs of a decent basic standard of living
- The size of an average farm, the volume that can be produced annually and the costs of materials and labour

For a typical cacao farmer in rural Ghana, where the average household size is 4.4 people, the living income is approximately $5,000 per year.

With an average farm size of 1.7 hectares, there are two elements to raising farm incomes:

1. Pay more per kilo of cacao, approximately 20% above open-market farmgate prices.
2. Make payments to support on-farm activity to sustainably increase the productivity of the land, including the costs of additional labour, estimated at 25 days per hectare per year.

Source: Living income Reference Prices for Cocoa | Carla Veldhuyzen | September 2019.

BENCHMARKING PRICE PER KG Effective December 2021	Open Market Price	Hotel Chocolat Gentle Farming
Farmgate price per kg cacao, paid direct to farmer	$1.76/kg*	$2.10/kg
Additional support payments for sustainable productivity improvement on farm	–	$0.23/kg
TOTAL	**$1.76/kg**	**$2.33/kg**

1 Farmers receive the higher price in return for certifying

1 No deforestation

2 Increasing pre-harvest work to drive productivity
- Pruning cacao trees to increase yields and reduce disease
- Planting shade trees to prevent evaporation and conserve water, applying compost/mulch and weeding
- Minimising use of chemical inputs

All financed by the additional support payments

3 Zero illegal child labour (see below) and zero modern slavery

Land use and Climate – target outcomes

1 No deforestation, plant indigenous shade trees

Reduce CO_2 per metric tonne of cacao from 4t to 2.5t

Increase farm resilience to risk of long-term temperature rise and lower rainfall

2 Responsible water use, Hotel Chocolat funds community boreholes for drinking water

3 Increase biodiversity

Child labour prevention by age	< 13	14–15	16–17
Light work not affecting school attendance	✗	✓	✓
Regular work	✗	✗	✓
Hazardous work	✗	✗	✗

Measuring results and assurance

1 Third party audited and annual visits to every farm

2 Survey KPIs on yields, farm incomes, land use and no illegal child labour

3 Results published annually, starting December 2022, including disclosure on remediation program to resolve issues

TARGETS & TIMELINE	2021	2022	2023	2024	2025
Number of farmers receiving premium		2,500	2,500+	2,500++	2,500+++
% of farms achieving target yield		30%	60%	90%	90%
Target % of farms passing site-audit		n/a	100%	100%	100%
Key activity	Scheme launch HC visits to Ghana farms	First harvest Site audit visits commence	Site audit visits: collation and publication	Publish % of non-compliant farms in remediation	Annual updates

* Based on 20/21 guaranteed price.

Future objectives

The beans purchased by Hotel Chocolat are fermented, dried, collected and processed into cacao 'liquor' in Ghana, which is then shipped to the UK where chocolate 'couveture' is created by adding milk and sugar. We are investigating potential capital investments that would allow the beans to be both segregated and traceable throughout the transport supply chain 'from tree-to-bar'. We have chosen to prioritise farm income investments first in order to have the greatest social impact, with an objective of full segregation in place by 2023.

Sustainable Development Goals:

SUSTAINABILITY CONTINUED

RESPECT THE PLANET

Our planet programme focuses on our three key areas of impact: Climate Change, Recycling and Waste, and Natural Resources.

PACKAGING PLEDGE

94% recyclable

100% by 2022

CARBON INTENSITY

-29% YoY

Target net zero scope 1&2 by 2030

PALM OIL USAGE

<0.1%

Target zero by end 2023

On the facing page we set out our 8 key goals to respect the planet. Having committed to net zero carbon* we are currently undertaking carbon audits at all our main sites to understand the investments required.

We are making progress on waste, with 94% of our packaging by weight now recyclable, and are on track to achieve 100% by 2022. In 2020 we began the implementation of an environmental management system across our manufacturing operations to track resource use and reduce wastage.

Our Gentle Farming programme (pages 28 and 29) incorporates goals for biodiversity, land preservation and responsible water use. Outside of cacao farming we are reviewing our impact on land use. Having reduced our RSPO certified palm oil consumption to less than 0.1% of product by weight, we have reformulated all recipes with the goal of achieving zero palm oil by the end of 2023.

ENERGY & CARBON – SECR REQUIREMENT

FY21 is the second year we are required to report under the Streamlined Energy & Carbon Reporting (SECR) framework. Our SECR covers the UK energy consumption and Greenhouse Gas (GHG) emissions for the periods 01 July 2020 to 30 June 2021 compared to 01 July 2019 to 30 June 2020.

With the growth of online sales we have chosen GHG tCO_2e per £ of sales as the most meaningful intensity metric. The Groups GHG emissions reduced by 15% and sales grew by 21% resulting in intensity reducing by 29%.

Efficiency measures contributed to the reduction, as did the closure of stores for 5 months, which meant that fleet energy use reduced by 26%.

GHG emissions in tCO_2e:	FY21	FY20[1]	% change
Scope 1	1,139	1,505	-24%
Scope 2	1,771	1,932	-8%
Scope 3†	192	201	-4%
Total	3,102	3,638	-15%
Group Sales	£165m	£136m	
Intensity (t tCO_2e per £ million sales)	18.9	26.7	-29%
Energy Use in kWh:			
Natural Gas	3.1m	3.8m	-19%
Electricity	8.3m	8.3m	+1%
Fleet	2.6m	3.5m	-26%

* Scope 1 & 2 by 2030, scope 3 by 2040.

† Scope 3 reporting relates solely to business mileage.

1 In FY20 some scope emissions were incorrectly reported. Total emissions are unchanged but the split has been corrected.

CLIMATE CHANGE

A NET ZERO CARBON BUSINESS

Why it matters
Climate change is occurring in every region globally, according to UN IPCC

Stakeholders & priorities
Anyone potentially at risk from adverse impacts of climate change. To understand HC's mitigation plan

Current state
3,102 tonnes CO_2 equivalent in FY21. Intensity per £ of sales reduced 29% vs FY20

Goal and date
Net zero scope 1 & 2 by 2030, scope 3 by 2040. Environmental Management system installation in progress. Complete December 2022

Executive accountable
Matt Margereson COO

CLIMATE CHANGE ADAPTATION

Why it matters
Climate change impact is uncertain and likely to be variable by region but may disrupt business and supply chains, or give rise to increased costs

Stakeholders & priorities
Farmers, customers, suppliers, shareholders. For the business to prepare adaptations and mitigations to increase resilience

Current state
Business continuity exercises. Gentle Farming Charter launched September 2021 to mitigate risks

Goal and date
100% of farmers on Charter by 2022

Executive accountable
Matt Margereson COO

FINANCING THE SOLUTIONS

Why it matters
Decarbonising operations will require significant investment. Mitigating potential climate impacts may also increase costs

Stakeholders & priorities
Shareholders will require clarity on the investments required to achieve net zero. Regulators may begin to mandate specific disclosures for listed companies

Current state
Decarbonisation audit completed for factory (the main source of scope 1 & 2 emissions) and in progress for the fleet, DC and store estate

Goal and date
Present a first draft plan as part of inaugural sustainability report in CY22

Executive accountable
Matt Pritchard CFO

RECYCLING & WASTE

SUSTAINABLE PACKAGING

Why it matters
Packaging protects products and reduces waste, but also consumes resources

Stakeholders & priorities
Consumers want to make informed choices. Suppliers want to understand priorities and collaborative change opportunities

Current state
94% of HC's packaging by weight is reusable or recyclable

Goal and date
100% reusable or recyclable by 2022

Executive accountable
Lysa Hardy CMO

REDUCE WASTE AND BY-PRODUCTS

Why it matters
Waste and by-products consume unnecessary resources

Stakeholders & priorities
Customers, suppliers, local communities, waste processors. Minimise waste

Current state
Zero chocolate production waste to landfill

Goal and date
ISO 14001 Environmental Management system fully accredited by December 2022

Executive accountable
Matt Margereson COO

NATURAL RESOURCES

BIODIVERSITY AND LAND USE

Why it matters
Responsibility to support cacao farming without deforestation and with farming techniques that are low impact and climate smart

Stakeholders & priorities
All cacao farmers who supply Hotel Chocolat. Farming to be a sustainable land use ongoing, minimising use of chemical fertilisers

Current state
Commitment made to increase premium from next harvest in return for farmers agreeing to adopt the HC 'Gentle Farming Charter' including no deforestation, active planting of indigenous shade trees, and minimal use of chemical inputs

Goal and date
100% of farmers supplying HC to have adopted the Gentle Farming Charter by end of 2022

Executive accountable
Matt Margereson COO

REDUCE WATER STRESS

Why it matters
Risk that climate change in Ghana will reduce rainfall in the regions where cacao is grown, impacting agriculture

Stakeholders & priorities
Climate change has the potential to affect everybody

Current state
Gentle Farming Charter requires farmers to adopt interplanting of cacao with indigenous shade trees which reduces evaporation and conserves water

Goal and date
All farmers on Gentle Farming Charter by December 2022. Environmental Management System at Factory fully operational December 2022

Executive accountable
Matt Margereson COO

LAND USE – PALM OIL

Why it matters
Palm oil production is at high risk of deforestation and loss of biodiversity

Stakeholders & priorities
To minimise land degradation and habitat loss

Current state
HC uses less than 0.1% palm oil by weight in its products. 100% of the palm oil is RSPO certified

Goal and date
Commitment to reformulate recipes and remove palm oil from all HC products by 2023

Executive accountable
Matt Margereson COO

Sustainable Development Goals:

1 NO POVERTY · 2 ZERO HUNGER · 3 GOOD HEALTH AND WELL-BEING · 6 CLEAN WATER AND SANITATION · 12 RESPONSIBLE CONSUMPTION AND PRODUCTION · 13 CLIMATE ACTION · 15 LIFE ON LAND

HC Gentle Farming Charter objectives

SUSTAINABILITY CONTINUED

POWERED BY PEOPLE

Everything we do is powered by people, from cacao growing to designing and creating, from planning to making and supplying products and entertaining while we sell. Our customers rightly have high expectations of us which we are proud to live up to.

ENGAGED TEAM

Achieved highest ever engagement score = 'A Top 100 large company to work for'

HEALTH & LOWER SUGAR

Our product range meets Public Health England targets for lower sugar

DIVERSITY & INCLUSION

All hiring managers trained in diversity awareness and inclusive recruitment policies

On the facing page we set out our nine goals for people spanning our supplier base, our customers and our team members.

Our commitment to social opportunity spans our cacao farmers (see pages 28 and 29) along with all those who work within our supplier base. Our goal is to ensure that all of our most material suppliers are independently risk assessed and audited by December 2022 to ensure compliance with our code of conduct.

Our customer initiatives focus on consistent product quality, safety and information, whilst ensuring post-consumption waste can be recycled and ensuring customer data privacy and security is respected.

An engaged team has higher commitment and supports business results, so we were proud to achieve our best ever engagement score in the February survey*, for the first time achieving a 'Top 100 Large Company to Work For' rating. A key focus is increasing diversity and inclusion, recognising that diversity of thought and experience can deliver better business decision-making. In the past 18 months we have set up employee representative groups for anti racism, mental health awareness, LGBTQ+/Pride, and disABILITY awareness. Each Group has an Executive sponsor who attends and the groups are empowered to make suggestions and hold the leadership team to account on diversity.

GIVING BACK

We held our second annual charity week in June. The team voted for the Trussell Trust as our partner of the year. The trust supports a UK-wide network of food banks to provide emergency support to people in need. A programme of company wide fundraising events raised over £40,000. In addition we partnered with other charities in connection with our year-round programme of diversity events, including the Princes Trust for International Women's Day.

GENDER PAY

The table below shows the gender composition of our team as at June 2021. We will report our year on year change in gender pay ahead of the reporting deadline in October. 63% of those with responsibility for hiring decisions are female.

Headcount by gender – June 2021	Female	Male
Team Member	1,127	607
Line Manager	194	105
Direct reports to Executives	7	7
Executive team	2	3
Non-executive Directors	1	2
Co-founders	–	2

* Best Companies survey, February 2021.

SOCIAL OPPORTUNITY

LIVING INCOMES FOR FARM FAMILIES

Why it matters
Every cacao farmer should be able to earn a living income for their family

Stakeholders & priorities
All cacao farmers who supply Hotel Chocolat
Ability to earn a living

Current state
Over 2,500 farmers in Ghana receive a premium payment from Hotel Chocolat above farm-gate price. Commitment made to increase premium from next harvest

Goal and date
Within 3 years all HC farmers can earn a living income from their land based on the cost of production and the price received. As a condition of participation, farmers must commit to zero illegal child labour

Executive accountable
Matt Margereson COO

RESPONSIBLE LABOUR PRACTICES

Why it matters
The eradication of illegal and unsafe farming practices, including child labour is a priority. Hotel Chocolat should only work with suppliers that treat employees fairly

Stakeholders & priorities
Employees of suppliers and all cacao farmers who supply Hotel Chocolat to be treated fairly

Current state
Child Labour Monitoring and Remediation scheme operating in Ghana. Supplier assurance in place

Goal and date
All farmers adopt Gentle Farming Charter and all key suppliers audited by third party (December 2022)

Executive accountable
Matt Margereson COO

SUSTAINABLE & TRANSPARENT SUPPLY CHAIN

Why it matters
Customers expect Hotel Chocolat to work only with responsible suppliers who operate sustainably and treat their team fairly and respect human rights

Stakeholders & priorities
All suppliers and their employees

Current state
Supplier code of conduct supported by risk assessments, internal audits, remediation.

Goal and date
Supplement existing audit programme with independent third party assurance of all top suppliers by December 2022

Executive accountable
Matt Margereson COO

CUSTOMERS AND PRODUCTS

PRODUCT QUALITY, HEALTH & NUTRITION

Why it matters
Customers have the right to expect safe products, and to receive accurate information to make informed choices on consumption

Stakeholders & priorities
All potential consumers of Hotel Chocolat products. To be assured that product is safe and to be informed on ingredients

Current state
The business already complies with Public Health England targets for reduced sugar in chocolate. The factory achieved A rating from BRC independent audit

Goal and date
Continue to achieve industry best practice, assured via independent audit

Executive accountable
Matt Margereson COO

PRODUCT END-OF-LIFE USE

Why it matters
Consumers expect packaging to be recyclable or re-usable

Current state
94% of packaging is recyclable either via local recycling facilities or taken back at HC store locations. New coffee pods are recyclable at home

Goal and date
100% recyclable packaging by 2022

Executive accountable
Lysa Hardy CMO

PRIVACY & DATA SECURITY

Why it matters
Confidentially of personal data is important in ensuring long-term trust, allowing the business to serve its customers effectively

Stakeholders & priorities
Customers and team members

Current state
Programme of security measures, assurance including tests of controls and access restrictions. Compliance with GDPR

Goal and date
Data council implemented FY22

Executive accountable
Matt Pritchard CFO

TEAM MEMBERS

DIVERSITY, EQUITY & INCLUSION

Why it matters
Everyone has the right to fair treatment at work and equality of opportunity

Stakeholders & priorities
Current and potential employees of HC, to be treated fairly, for diversity to be celebrated and opportunities to improve discussed openly and addressed

Current state
Voluntary all-team survey completed to baseline current diversity by role level Diversity training for every manager completed. Team representation groups on race, disability, meet regularly each with an exec sponsor

Goal and date
Track the diversity of new hires and leavers ongoing. Target next 50 senior leadership hires to match national workforce diversity in terms of gender, race, ethnicity, sexuality and disability

Executive accountable
Matt Pritchard CFO

CAREER OPPORTUNITY & ENGAGEMENT

Why it matters
Engaged employees deliver better results as a result of stronger teamwork and greater clarity and commitment to shared goals

Stakeholders & priorities
Current and potential employees expect clarity of communication, recognition and reward

Current state
Highest ever engagement score in February 2021 survey

Goal and date
Improve engagement score, February 2022

Executive accountable
Matt Pritchard CFO

WELLBEING, HEALTH & SAFETY

Why it matters
HC employees and contractors have the right to work in a safe environment where risks are appropriately managed

Current state
4 reported Riddor incidents in FY21. All were 'slips, trips and falls'

Goal and date
Reduce reported incidents by 25% for FY22

Executive accountable
Peter Harris

Sustainable Development Goals:

HC Gentle Farming Charter objectives

CONSIDERING ALL OF OUR STAKEHOLDERS (S172)

The Board 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 decision making, with proactive engagement

HOW WE ENGAGE

CUSTOMERS

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.

THE HOTEL CHOCOLAT FAMILY

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

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

Non-executive Director Sophie Tomkins has a specific accountability to ensure employee concerns are represented in the boardroom.

All-employee briefings held on a weekly and monthly 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.

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, compliance and traceability.

Active dialogue with suppliers to achieve 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.

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 Company's 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

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

Colleague-led groups support the business in making a positive impact to reduce discrimination in society and promote equality of opportunity for all:

- Anti-racism group.
- LGBTQ+ group.
- DisABILITY awareness group.
- Mental health awareness group.

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.

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, sustainable farming, and recyclable packaging.

The Gentle Farming Charter was developed in conjunction with external specialists both in the UK and Ghana.

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.

Achieving net zero carbon.

CONSIDERING ALL OF OUR STAKEHOLDERS (S172)

CONTINUED

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.

THE BOARD REVIEWED THE GROUP'S FINANCIAL FACILITIES IN THE LIGHT OF THE IMPACT OF COVID-19 ON THE BUSINESS AND AGREED:

Key Board Decisions	Considerations
1. Post year-end, a £25m CLBILS RCF was replaced with a new £30m facility with Lloyds Bank. 2. An equity placing was commenced, completing shortly after the year-end, raising £40m of new capital for investment to drive growth. 3. To facilitate retail investor participation in the placing via the Primary Bid platform. 4. Dividends were not re-instated.	To provide liquidity to enable the Group to continue to invest to drive future growth, given the reduced profitability arising from the impact of COVID-19 on the Group's trading and cash flow, and protect the viability of the business during near-term uncertainty. Following the placing, feedback was received from retail investors requesting the opportunity for more time to participate in any future fundraise. The Board has committed to explore other new technology platforms to facilitate this.

IN RESPONSE TO THE CONTINUING IMPACT OF COVID-19 ON THE KEY STAKEHOLDERS OF THE BUSINESS THE BOARD APPROVED THE FOLLOWING ACTIONS:

Key Board Decisions	Considerations
The Board committed to repay the CJRS 'furlough' funding received from the UK Government during the period.	Following improved trading during FY21 and a return to profitability for the year, the Board considered the benefits to the Group's reputation from the perspective of society as a whole, customers, employees and investors and were clear the action could positively impact future success. However, the repayment was not mandatory and so the best interests of all stakeholders would need to be carefully considered. Having taken legal advice to confirm the Director's obligations, in particular in relation to s.172 and whether voluntary return of the funds could be considered as promoting the success of the Company, the Board concluded the socially responsible stance outweighed the financial costs of doing so.

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:

Key Board Decisions	Considerations
A five-year strategy for continued profitable sales growth was presented and approved.	The identification of appropriate growth opportunities, together with the resources required to achieve the growth including people, skills, technology and cash flow for investment. In addition to approving the targets, a framework was set for managing execution of the plan.
A five-year IT and Digital roadmap was presented to the Board and investments were approved to support enhancements to customer experience, scalability and cyber security.	The requirement to continue to develop and enhance customer experience, supply chain capability and maintain cyber-security, whilst phasing investments in the most appropriate sequence.
Review of the activities of the Sustainability Executive committee, and approval of the new HC Gentle Farming Charter, including increased payments for cacao.	The requirement to ensure the Group maintains a commitment to sustainability and select which investments to prioritise, including consideration of farmer incomes, environmental and climate impacts from the Groups operations, and to ensure that the goals of growth and sustainability can operate simultaneously.
A proposal for further loans to the Japan joint venture was presented 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.

ADJUSTMENTS TO BOARD GOVERNANCE STRUCTURE AND EXECUTIVE COMMITTEE:

Key Board Decisions	Considerations
Approving a new KPI framework by which the PLC Board can monitor the progress of the Executive team in implementing the business growth strategy, giving assurance that stakeholder needs are being met.	The requirement to maintain good governance considering the needs of all stakeholders, and appropriate oversight of the 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.

This strategic report and information herein was approved on behalf of the Board on 4 October 2021.

Matt Pritchard
Chief Financial Officer

GOVERNANCE

HC Voices:

"My role is to grow the cacao industry in Saint Lucia. I love to connect and form relationships with people across the island and support them on their cacao farming journey.

My team is exuberant, passionate, and take pride in what we do. We are very proud to have engaged 50 new farmers in our Island Growers' Programme and nearly tripled our cacao purchases."

KERVELL PROSPERE
CACAO OUTREACH MANAGER


CACAO GIN
WORLD GIN AWARDS
CATEGORY BRONZE
great taste
HOTEL
Chocolat.
CACAO GIN
Distilled with
cacao in London.
Serve with a twist
of orange.
500ml ℮ | 40% Vol

BOARD OF DIRECTORS

An experienced founder led team

		
Andrew Gerrie (58) **Non-executive Chairman**	**Sophie Tomkins (52)** **Independent Non-executive Director**	**Greg Hodder (69)** **Independent Non-executive Director**

Appointment Date

2015	**2016**	**2017**

Experience and skills

Andrew joined Hotel Chocolat as Non-executive Chairman in June 2015 and has extensive retail experience, having served as CEO of Lush Cosmetics from 1994 to 2014. During this period Lush grew to over 900 locations across 49 countries, with sales in excess of £450m. Andrew holds a B.Com degree from Auckland University.	Sophie has considerable public markets experience gained through a 17-year career in the City. Sophie is Non-executive Director and Chair of the Audit Committees at CloudCall Group plc, System1 Group PLC, and Virgin Wines UK plc. Sophie qualified as a Chartered Accountant in 1994 and is a fellow of the Chartered Institute for Securities and Investment.	Greg was CEO of Charles Tyrwhitt from 2008 to 2017 and previously CEO of Direct Wines including Laithwaites and The Sunday Times Wine Club. Greg has considerable experience of growth through digital and international retail, including as former Chair of Naked Wines.

Committee membership

A G	A R G	A R G

Committee membership

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



Angus Thirlwell (58)	Peter Harris (66)	Matt Pritchard (47)
Co-founder and Chief Executive Officer	Co-founder and Development Director	Chief Financial Officer

Appointment Date

Co-founded in 1993	Co-founded in 1993	2014

Experience and skills

Angus Thirlwell

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

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

Peter qualified as a Chartered Accountant in 1979.

Matt Pritchard

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

Angus Thirlwell	Peter Harris	Matt Pritchard
G E S	G E S	G E S

THE EXECUTIVE TEAM

The Executive Leadership Team has the breadth of skills to deliver growth and improvement on multiple fronts

Lysa Hardy (51)
Chief Marketing Officer

Matt Margereson (50)
Chief Operating Officer

Jo Brett (47)
CEO Hotel Chocolat Saint 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 Saint Lucia.

Jo 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
E S	E S	E S

Committee membership

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

Brendan Drake (46)

CEO Hotel Chocolat USA

Appointment Date

2018

Experience and skills

Brendan joined Hotel Chocolat in early 2018. Prior to that Brendan worked in senior leadership banking roles in both the UK and Australia.

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

Committee membership

E

Chris Horobin (56)

CEO – Hotel Chocolat KK (Japan joint venture)

JV Formed

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.

VOICES OF HOTEL CHOCOLAT

ANISHA SHAH
DIGITAL UX MANAGER

"As User Experience Manager, my focus is on continuously improving the Hotel Chocolat website, using data and listening to our customers. In the last year, my team has delivered multiple improvements, immersed ourselves in data and insights, and fostered a test and learn culture.

What I love most about working for Hotel Chocolat is the people, the ethical values that the business upholds, and the innovative, entrepreneurial culture which excites and inspires me."

LISA VAUGHAN
USA CORPORATE GIFTING MANAGER

"I love that my role gives me the opportunity to influence change and growth. Not only do I represent diversity, but I feel included in the conversations. During the pandemic we have worked more closely, and learned so much about each other's lives.

Hotel Chocolat is a safe space for me, as a double minority, to be myself and share my personal and professional thoughts without fear of feeling misunderstood or labelled."

LAUREN GREEN
PEOPLE OPERATIONS MANAGER

"In my role I help support an employee's journey through the company. No two days are the same so there is always opportunity to learn something new.

What I enjoy about the company is the genuine desire to be the best we can be. My team and I are proud to have launched business-wide Mental Health Awareness training in September 2021."

SELINA KARUTHASAMI
DIRECT MAIL MANAGER

"The company has a clear identity, values and strong leadership which makes it such a wonderful place to work.

What I enjoy most is being able to communicate directly with our customers and play a pivotal role in the customer journey."

SIMON WOOD
HEAD OF MANUFACTURING PROJECTS

"I lead the engineering projects team, to provide the capacity for our chocolate manufacturing that enables our growth ambitions. What I enjoy most is delivering innovative solutions to new challenges, working in a team with a great work ethic and a can-do attitude."

MONA GOGOL
GENERAL MANAGER RABOT RESTAURANT, BOROUGH MARKET

"I am proud to look after a unique restaurant with blend of St Lucian & British dishes, in one of London's most eclectic market places.

I am so proud of my team for looking after each other during a challenging 18 months.

At HC your opinion matters. Hotel Chocolat ensures that the wellbeing of myself and my team are highest priority."

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

10

SCHEDULED BOARD MEETINGS HELD

MEMBERS AND ATTENDANCE

Andrew Gerrie (Chair) 9

Sophie Tomkins 10

Greg Hodder 9

Angus Thirlwell 9

Peter Harris 10

Matt Pritchard 10

Matt Margereson* 2

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

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

AN INTRODUCTION FROM OUR CHAIRMAN

The Directors recognise the value and importance of good corporate governance and are fully cognisant of their responsibilities 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.

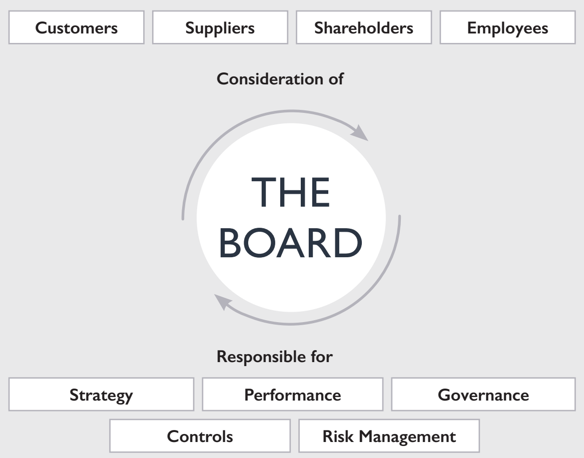
THE COMPOSITION OF THE BOARD

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. The three Non-executive Directors are considered fully independent.

CORPORATE GOVERNANCE STATEMENT CONTINUED

The Group's Chairman, Andrew Gerrie, was considered independent on appointment and the Board has always considered him to bring an independent mindset to board discussions and decision making. His previous shareholding in Rabot 1745 Limited, a joint venture with the Group, was purchased by the Group in June 2021 for a nominal consideration of £1, with an outstanding shareholder loan settled at the same time through the issue of further Group shares to him. This transaction brought to an end a factor which the Board accepts could previously have been perceived as compromising the Chairman's independence. The Board continues to consider Andrew Gerrie as being fully independent.

GOVERNANCE FRAMEWORK



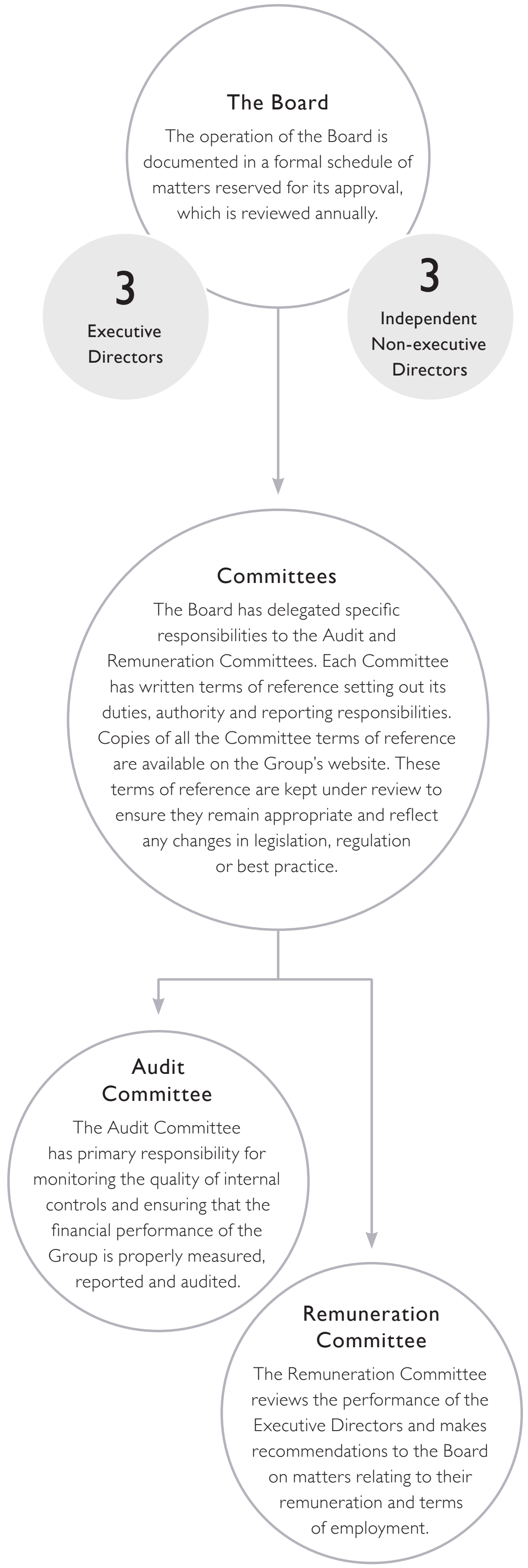
The Chairman is responsible for leading the Board, setting its agenda and monitoring its effectiveness. There is a clear division of responsibility between the Chairman and the Chief Executive Officer.

HOW THE BOARD OPERATES

The Board is responsible for the Group's strategy and for its overall management. The Strategic Report on pages 6 to 37 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 AND COMMITTEE COMPOSITION



BOARD MEETINGS

The Board held ten scheduled Board meetings during the period, together with another six 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	10	7	4
Andrew Gerrie	9		2
Sophie Tomkins	10	7	4
Greg Hodder	9	7	3
Angus Thirlwell	9		
Peter Harris	10		
Matt Margereson*	2		
Matt Pritchard	10		

* 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

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 in the joint venture.

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 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. External advice was sought by the Board or its Committees during the period on S172 and the repayment of CJRS 'furlough' support.

Audit Committee

The Audit Committee is chaired by Sophie Tomkins and its other members are Andrew Gerrie and Greg Hodder. All three members of the Audit Committee are 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.

CORPORATE GOVERNANCE STATEMENT CONTINUED

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 three times 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. Both Greg Hodder and Sophie Tomkins are considered to be fully independent. 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 consults with shareholders as appropriate and 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 56 to 59 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 24 and 25.

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

- close management of the day-to-day activities of the Group by the Executive 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.

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 biennial 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
Financial Management		✓			✓	✓
Global business	✓	✓	✓			
Leadership & Values	✓	✓	✓	✓	✓	✓
Sales and marketing	✓		✓	✓		
Technology & Operations		✓	✓	✓		✓
Retail	✓		✓	✓	✓	✓
Sustainability	✓			✓		✓

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 and took active account of relevant stakeholder and ESG issues;
- that the Board was effective and responsive to new information and events, including the COVID-19 pandemic; and
- that the Board had the appropriate composition and skills to discharge its duties.

As a result of this year's process, a number of actions were agreed including increasing opportunities for Non-executive Directors to visit a range of Group sites and to meet colleagues, making changes to senior management attendance at meetings, revisiting the Board's annual schedule of operational deep dive presentations and giving consideration to the appointment of an additional independent Non-executive Director. The latter will be considered further during the year.

The skills and experience of the Board are set out in their biographical details on pages 40 and 41. 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.

All Directors undertook 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 and in Board decision making. Further details of how the Board has taken account of the needs of the Group's stakeholders are set out on pages 34 to 37.

BUSINESS CULTURE, VALUES AND BEHAVIOURS

The brand and the business have been guided from the beginning by the principles of Originality, Authenticity and Ethics. These principles inform 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 colleagues have the opportunity to have their views represented in the boardroom 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 are reviewed and their personal and professional development needs considered. An annual performance appraisal of Non-executive Directors is undertaken 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 a non-executive position 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.

CORPORATE GOVERNANCE STATEMENT CONTINUED

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. Further details are set out on pages 34 to 37.

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 and were given an opportunity to participate in the Group's recent share placing via the Primary Bid platform.

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, 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 25 November 2021. The Notice of Annual General Meeting accompanying this Annual Report includes the ordinary and special resolutions to be put to the meeting.

CORPORATE RESPONSIBILITY

SOUND GOVERNANCE

BOARD & LEADERSHIP DIVERSITY

Why it matters
Diversity of thought and opinion within leadership teams encourages broader debate and thorough examination of ideas, which delivers better decision-making

Stakeholders & priorities
HC shareholders, HC employees. To observe the active steps taken to increase diversity

Current state
PLC comprises 2 male co-founders
3 other male directors
1 other female director

50% of the Executives reporting to the Board are female

46% of the direct reports to the executive are female

Goal and date
Diversity and inclusion policy applied ongoing to all new Board and senior management hires and promotions

Director accountable
Andrew Gerrie, Chair

EXECUTIVE PAY

Why it matters
Executive pay should attract and retain talented leaders, should be appropriate and tied to business performance

Stakeholders & priorities
Shareholders, employees, executives require a leadership team with the skills and capability to drive the ongoing success of the Group

Current state
See remuneration report (page 56). Performance related pay is attached to profitability, sales growth, ESG (team engagement) and share price increase

Goal and date
Launch an all-employee equity participation scheme during FY22 to share the rewards of ownership with every team member in addition to existing SAYE scheme

Director accountable
Greg Hodder, NED, Remuneration Committee chair

REPORTING & ACCOUNTING

Why it matters
Board of Directors have a duty to prepare the annual report, strategic report and financial statements in accordance with applicable law and regulations

Stakeholders & priorities
Shareholders and other stakeholders expect reports to give a true and fair view of the state of affairs for the Group

Current state
See Audit Committee report (page 54)

Goal and date
Ongoing consideration of internal audit function and appropriate timing

Directors accountable
Matt Pritchard, CFO and Sophie Tomkins, NED, Audit chair

CORPORATE BEHAVIOUR

BUSINESS ETHICS & VALUES

Why it matters
HC's brand values are Originality, Authenticity and Ethics. It is essential that the ethical aspect of the brand is continuously developed and reinforced

Stakeholders & priorities
Customers, employees, shareholders, suppliers, communities. Expectation that HC achieves long-term success by considering a wide set of stakeholder needs

Current state
Supplier code of conduct covering quality, ethical supply, anti-bribery and fair treatment of labour. Whistleblower policy in place

Director accountable
Angus Thirlwell, CEO

ANTI-BRIBERY AND ANTI-CORRUPTION

Why it matters
Bribery and corruption represent the abuse of trust for unfair gain, and are barriers to equality and sustainable development

Stakeholders & priorities
Suppliers and their employees, shareholders, government, colleagues and customers expect Hotel Chocolat to operate honestly, transparently and fairly

Current state
As a UK company the Group adheres to the UK anti-bribery and modern slavery acts, and applies a supplier code of conduct, supported by risk assessments and site audits

Goal and date
Augment internal assurance with third party supplier audits by December 2022

Director accountable
Matt Margereson, COO

TAX TRANSPARENCY

Why it matters
Hotel Chocolat acknowledges that paying tax is making a contribution to society

Stakeholders & priorities
Shareholders, government, local communities. Expect transparency and fair taxation

Current state
Hotel Chocolat does not engage in tax paying structures that move profits to low-tax jurisdictions where it does not trade. FY21 effective tax rate of 27% is higher than the UK corporate rate of 19%

Director accountable
Matt Pritchard, CFO

Sustainable Development Goals:

5 GENDER EQUALITY | 8 DECENT WORK AND ECONOMIC GROWTH | 10 REDUCED INEQUALITIES | 12 RESPONSIBLE CONSUMPTION AND PRODUCTION

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 10 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 annual conference call provides an opportunity for all shareholders to hear from and pose questions to our Directors.	See pages 35 and 50 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 50 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 24 and 25. Further details about our approach to risk management and internal controls are provided in the Audit Committee report on pages 54 and 55.
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 40 and 41.
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.	Further information about how Directors keep their knowledge and skills up-to-date is provided on page 48.
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 and the actions arising from it are summarised on page 49.

Governance principles	Compliant	Explanation	Further reading
Maintain a dynamic management framework continued			
Promote a corporate culture that is based on ethical values and behaviours.	✔	The Hotel Chocolat values of Originality, Authenticity and Ethics have always underpinned, and are evident in, everything we do. Examples include our Gentle Farming Charter, sustainability commitments, workforce engagement and community activities.	Our sustainability report on pages 26 to 33 illustrates some of the ways in which our corporate culture positively influences what we do.
Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board.	✔	Our governance structures are underpinned by the matters which the Board reserves to itself. A scheme of delegation, including established committees, an annual agenda plan, regular business deep-dives and good information flows all contribute to the Board making well-informed and properly debated decisions.	More detailed information about our governance structures and processes can be found in our Corporate Governance Statement on pages 45 to 50 and the reports of the Audit Committee and Remuneration Committee on pages 54 to 59.
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 26 to 33 and in our Corporate Governance Statement on pages 45 to 50. 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 27 June 2021"

SOPHIE TOMKINS
CHAIR OF THE AUDIT COMMITTEE

4

COMMITTEE MEETINGS HELD

MEMBERS AND ATTENDANCE

Sophie Tomkins (Chair) 4

Andrew Gerrie 2

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 three independent Non-executive Directors: myself, Sophie Tomkins (as Chair), Greg Hodder and Andrew Gerrie.

Matt Pritchard, Chief Financial Officer, and other Executive Directors may attend Committee meetings by invitation. The Committee met four times in the period. The Board is satisfied that I, as Chair of the Committee, have recent and relevant financial experience. I am a Chartered Accountant and I am Chair of the Audit Committees at CloudCall Group plc, System1 Group plc and Virgin Wines UK plc. A Chartered Governance Professional from Indigo Independent Governance Limited 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 FY21 audit plan and audit engagement letter;
- consideration of key audit matters and how they are addressed;
- review of suitability of the external auditor; and the need to re-tender audit services;

- audit partner rotation;
- 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;
- review of the need for an internal audit function;
- 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. 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.

INTENTION TO TENDER FOR THE FY22 AUDIT

Noting the tenure of BDO LLP as the Company's auditor since FY12, and corporate governance best practice to tender at least every 10 years, the Board, on the recommendation of the Audit Committee, has decided to put the Group's statutory audit for FY22 out to competitive tender. This process will commence and complete in autumn 2021, in good time for planning of interim procedures.

Significant international growth, and audit fee inflation, are key considerations for this tender process. The Audit Committee will oversee the process to ensure minimal disruption to the business.

The Audit Committee has reviewed the effectiveness of BDO's performance and relationship with Hotel Chocolat and was satisfied that BDO delivered a robust audit for FY21 and remains independent of Hotel Chocolat. There was an additional rotation of audit partner for the FY21 Audit, outside the normal five-year partner rotation, which further supports this view. The Audit Committee has therefore recommended to the Board that BDO LLP be reappointed at the Annual General Meeting in 2021 to continue in the role until, either the appointment of new auditors, or the re-appointment of BDO LLP, depending on the outcome of the tender process.

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 continues to believe 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 48 to 51 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

7

COMMITTEE MEETINGS HELD

MEMBERS AND ATTENDANCE

Greg Hodder (Chair) 7

Sophie Tomkins 7

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 investment. The people within our business are key to successful delivery of these aspirations and our remuneration strategy is designed to incentivise colleagues right across the Group to achieve the goals we have set for ourselves.

Our pay and reward arrangements, both at Executive level and throughout the organisation, are overseen by the Remuneration Committee. This report describes the operations of the Committee and the policies it has adopted as well as specific Directors' remuneration arrangements.

Having previously paused new incentive arrangements in response to the initial impacts of COVID-19, the Group made significant progress during FY21, achieving strong revenue growth, returning to profitability, cancelling its undrawn Government-backed CLBILS revolving credit facility, and committing to repay all Coronavirus Job Retention Scheme 'furlough' support received in the period. Given the strong prospects for the business, the Committee considered it appropriate to re-instate long-term incentives that are aligned to the business objectives and the needs of all the Group's stakeholders.

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 seven 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, comprising financial and sustainability targets;
- 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's 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 27 June 2021. No performance bonus was in operation for FY21.

	FY21					FY20				
	Basic salary/ fee	Additional fees	Performance Bonus	Pension	Total	Basic salary/ fee	Additional fees	Performance Bonus	Pension	Total
Executive										
Angus Thirlwell	237,000	–	Nil	10,110	247,110	235,000	–	Waived – nil	10,095	245,095
Peter Harris	217,000	–	Nil	9,510	226,510	216,500	–	Waived – nil	9,465	225,995
Matt Pritchard	217,000	–	Nil	6,510	223,510	216,500	–	Nil	6,495	222,995
Matt Margereson[1]	54,846	–	Nil	1,645	56,491	216,500	–	Nil	6,495	222,995
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	–	–	–	40,000	40,000	36,400[2]	–	–	76,400

1 Resigned from the PLC Board on 29 September 2020, remains a member of the Group Executive Committee. Figures relate to 29 June 2020 to 29 September 2020.

2 Additional consulting services whilst mentoring the CEO of the US business.

REMUNERATION COMMITTEE REPORT CONTINUED

DIRECTORS' REMUNERATION CONTINUED

The Executive remuneration policy FY22 is set out in the table below. The remuneration policy for FY22 will operate as follows:

FY22	Basic salary/fee	Maximum bonus	Pension
Executive			
Angus Thirlwell	£237,000	100%	10,110
Peter Harris	£217,000	100%	9,510
Matt Pritchard	£217,000	100%	6,510

Given the prospects for improved business performance, annual performance incentives have been reinstated for all employees for FY22. For Executives and other senior employees, the Annual Incentive Plan operates as follows:

- Budgeted profit margin acts as the gateway to ensure the plan self-funds.
- The quantum paid is determined by annual sales growth (80% of award) and improvement in an ESG metric, namely the all-employee Engagement Score (20% of award).

The Remuneration Committee retains the option to pay half of any award in the form of deferred equity, with vesting 12 months following the satisfaction of the three performance conditions.

LONG-TERM INCENTIVE PLAN

Awards to Executive Directors were granted in 2016, 2017, 2019 and 2021, each underpinned by financial performance triggers.

Angus Thirlwell, Peter Harris and Matt Pritchard, along with other senior management, have been granted options under the Group's Long-Term Incentive Plan. The Group also operates an all-employee Save As You Earn programme and, in addition, intends to launch a new all-employee equity participation scheme in the form of restricted-stock options during FY22, to foster a culture of employee ownership.

- The 2017 LTIP performance condition was not met and accordingly all options from the 2017 awards lapsed in the period.
- The 2019 LTIP starts to vest if the Group achieves a threshold FY22 profit after tax of £14m, rising on a straight-line basis to 100% vesting at £17m.
- The 2021 LTIP will be tested at the end of FY24, FY25 and FY26. Vesting is triggered by ambitious share price growth targets, with maximum award at a more than tripling of share price from the recent placing price of £3.55 to £12.00.

LTIP vesting conditions are based on Enterprise value increase

Share price	**£3.55** As at grant	**£4.72** Minimum threshold	**£8.00**	**£12.00** >Treble EV Full vesting
Percentage vesting	Nil	20%	56%	100%

- The 2021 LTIP grant extends to the 35 most senior employees in the Group, with the maximum dilution under full vesting of this LTIP award is 2.4% dilution;
- Executive Directors will be subject to a minimum holding period of two years post-vesting;
- Vesting will be subject to a performance underpin, where the Remuneration Committee regards overall company performance, and subject to achieving a minimum sales CAGR of 10% from FY21 to each test date;
- No further LTIP grants will take place until these awards have vested, i.e. the single grant is intended to span multiple years, rather than be one of a series of rolling annual grants;
- Malus and clawback will apply to all awards and incentives for two years post-vesting; and
- Directors in receipt of vested LTIP awards are required to maintain a shareholding of 100% of salary.

Director	Date of Grant	Performance condition	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
Angus Thirlwell	03.08.21	FY24, FY25, FY26 Group share price, subject to performance underpin	525,000	n/a	n/a	n/a	0.1p	02.07.24[1]–03.08.31
Peter Harris	03.08.21	FY24, FY25, FY26 Group share price, subject to performance underpin	166,667	n/a	n/a	n/a	0.1p	02.07.24[1]–03.08.31
Matt Pritchard	03.08.21	FY24, FY25, FY26 Group share price, subject to performance underpin	416,667	n/a	n/a	n/a	0.1p	02.07.24[1]–03.08.31
	25.09.19	FY22 profit after tax	n/a	£217,000	n/a		0.1p	27.09.22[2]–24.09.29
	16.03.17	FY20 profit after tax	200,000		Nil: performance condition not met		292p	n/a lapsed
	04.05.16	FY19 profit after tax	800,000	n/a	800,000	779,730 on 24/09/19	148p	24.09.19–03.05.26

1 Anticipated first test event, subject to satisfaction of performance underpin.

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

If you have any comments or queries on anything contained within this Remuneration Report, I will be available on the shareholder conference call on 25 November 2021.

Greg Hodder
Chair of the Remuneration Committee

DIRECTORS' REPORT

The Directors present their report together with the audited financial statements for the period ended 27 June 2021.

The corporate governance statement on pages 45 to 50 also forms part of this Directors' report.

REVIEW OF BUSINESS

The Chairman's statement on page 6 and the strategic report on pages 8 to 37 provides a review of the business, the Group's trading for the period ended 27 June 2021, 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, up until the end of the transition period of the UK leaving the EU. For financial years beginning after 31 December 2020, Hotel Chocolat Group plc has prepared consolidated information in line with IFRS, as adopted by UK international accounting standards.

The Group's results for the period are set out in the Consolidated Statement of Comprehensive Income on page 76. The Company financial statements have been prepared under FRS 102 for the period ended 27 June 2021.

The Group's revenue of £164.6m (FY20: £136.3m), gross margin of 61.8% (FY20: 60.9%) and profit after tax of £5.7m (FY20: loss £7.5m) represent an encouraging period for the business given the challenging circumstances relating to COVID-19.

	Reported IFRS	
Period ended	**27 June 2021**	**Restated* 28 June 2020**
Revenue (£m)	164.6	136.3
Gross margin %	61.8	60.9
Profit/(Loss) after tax (£m)	5.7	(7.5)

The Board is not recommending a final dividend (FY20: nil).

* Restated FY20, see note 14.

DIRECTORS

The Directors of the Group during the period were:

Executive	Non-executive
Angus Thirlwell	Andrew Gerrie (Independent)
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 team.

The names of the Directors, along with their brief biographical details are given on pages 40 and 41.

DIRECTORS' INTERESTS

No Director has any beneficial interest in the share capital of any subsidiary undertaking. On 17 June 2021, the Group acquired the remaining issued share capital of a joint venture, Rabot 1745 Limited ('Rabot') which it did not already hold. Prior to the acquisition, the Group and Andrew Gerrie held 47% and 45% respectively of the issued share capital, with the balance held by non-related parties. Andrew transferred his shareholdings to the Group for a consideration of £1, and does not retain any beneficial interest in the venture. The Group acquired Rabot's inventories and other assets, as well as liabilities which included an outstanding loan amount owed to Andrew Gerrie totalling £744,249 which the Group settled through the issue of 203,903 new ordinary shares of 0.1 pence each.

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 35 to the Consolidated Financial Statements on pages 114 to 116.

EXISTENCE OF BRANCHES

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

SHARE CAPITAL STRUCTURE

At 27 June 2021, the Company's issued share capital was £125,880 divided into 125,880,158 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.

SUBSTANTIAL SHAREHOLDERS

At 27 June 2021, the Company had been notified of the following substantial shareholders comprising of 10% or more of the issued ordinary share capital:

	% of issued share capital
Angus Thirlwell	29.6%
Peter Harris	29.6%

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 81.

POST BALANCE SHEET EVENTS

On 22 July 2021, Hotel Chocolat Group plc raised gross proceeds of £40m via a placing of new ordinary shares of 0.1 pence each at a price of 355 pence per share. On the same day, the Group also announced a new £30m two-year Revolving Credit Facility with Lloyds Bank.

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 37.

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 26 to 33).

SECR

Our Streamlined Energy & Carbon Reporting (SECR) framework can be found on page 30.

EQUAL OPPORTUNITIES

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

DIRECTORS' REPORT CONTINUED

AUDITOR REAPPOINTMENT

BDO LLP has expressed its willingness to continue in office as auditor.

INTENTION TO TENDER FOR THE FY22 AUDIT

Noting the tenure of BDO LLP as the Company's auditor since FY12, and corporate governance best practice to tender at least every 10 years, the Board, on the recommendation of the Audit Committee, has decided to put the Group's statutory audit for FY22 out to competitive tender. This process will commence and complete in autumn 2021, in good time for planning of Interim procedures.

Significant international growth, and audit fee inflation are key considerations for this tender process. The Audit Committee will oversee the process to ensure minimal disruption to the business.

The Audit Committee has reviewed the effectiveness of BDO's performance and relationship with Hotel Chocolat and was satisfied that BDO delivered a robust audit for FY21 and remains independent of Hotel Chocolat. There was an additional rotation of Audit partner for the FY21 Audit, outside the normal five-year partner rotation, which further supports this view. The Audit Committee has therefore recommended to the Board that BDO LLP be reappointed at the Annual General Meeting in 2021 to continue in the role until, either the appointment of new auditors, or the re-appointment of BDO LLP, depending on the outcome of the tender process.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on 25 November 2021. The ordinary business comprises receipt of the Directors' report and audited financial statements for the period ended 27 June 2021, 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.

Given the ongoing pandemic, the Board encourages all shareholders to refrain from attending the formal AGM at which there will be no management presentation.

Instead shareholders are offered the opportunity to hear from the Executive and to post questions to the Directors during a conference call to be held on 25 November 2021.

Further details including how shares can be voted in advance of the AGM are provided in the notice of meeting.

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 international accounting standards in conformity with the requirements of the Companies Act 2006. For financial years beginning after 31 December 2020, Hotel Chocolat Group plc will prepare consolidated information in line with IFRS, as adopted by UK international accounting standards. The Directors have elected to prepare 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.

APPROVAL

This Directors' report was approved on behalf of the Board on 4 October 2021.

Matt Pritchard
Chief Financial Officer

FINANCIAL STATEMENTS

HC Voices:

"It felt like a breath of fresh air when I joined HC a year ago, with a positive, entrepreneurial culture that allows people to work openly and collaboratively.

I am very proud that, in a short space of time, my new team has been able to deliver margin gains by helping to refine the global supply-chain processes and improving forecasting accuracy."

LEWIS WOOD
GLOBAL MERCHANDISE MANAGER


HOTEL
Chocolat
The Wreath Box
78 festive filled chocolates. Six solid chocolate wreaths.

INDEPENDENT AUDITOR'S REPORT

To the members of Hotel Chocolat Group plc

OPINION ON THE FINANCIAL STATEMENTS

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 27 June 2021 and of the Group's profit for 52 week period then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- 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.

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 27 June 2021 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flow, the consolidated statement of changes in equity, the Company statement of financial position, notes to the financial statements, the Company statement of changes in equity and notes to the company 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 accounting standards in conformity with the requirements of the Companies Act 2006. 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 in the United Kingdom and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remain 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.

CONCLUSIONS RELATING TO GOING CONCERN

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting included:

- Assessment of assumptions within the projected cash flows: we evaluated the reasonableness of the assumptions and future plans modelled within the Board approved going concern forecasts, covering the period to December 2022 and including the impact of strategic initiatives (including store closures and planned investments in financial year 2022) as well as the ongoing and uncertain impact of COVID. We considered whether the forecasts aligned with how the Group and Parent had traded through the pandemic and post year end.
- Financing: confirmed the Group and Parent had financing facilities in place throughout the period of the going concern review as modelled in its forecasts. We also checked the calculations supporting covenant compliance and headroom throughout the going concern period.
- Sensitivity analysis: evaluation of sensitivities of the Group's and Parent's cash flow forecasts with reference to the financial covenants in place over the existing financing facilities. The analysis considered reasonably possible adverse effects that could arise from a significant revenue reduction.
- Post year end trading performance: comparison of the post year end trading results to the 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 risks posed and scenarios the Group and Parent Company has considered in reaching their going concern assessment.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and the Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

OVERVIEW

Coverage[1]	*90% (2019: 94%) of Group profit before tax* *97% (2019: 98%) of Group revenue* *91% (2019: 89%) of Group total assets*

Key audit matters		**2021**	**2020**
	Recognition of leases under IFRS16 Leases	✓	✓
	Impact of Covid – Going concern	✗	✓
	Impact of Covid – Impairment of goodwill and tangible assets	✗	✓
	Valuation of inventory	✓	✓
	Impairment of tangible assets in stores	✓	✗
	Recoverability of loan to joint venture	✓	✗

The 2020 audit included key audit matters in relation to going concern and goodwill and tangible asset impairment principally owing to the increased management judgement and higher estimation uncertainty required as a result of the onset of the Covid pandemic. However, owing to the Group's performance in 2021 and financial position, whilst there remains audit risk in these areas, they are no longer considered key audit matters.

Materiality	*Group financial statements as a whole* £472k (2020: £495k) based on 5% of normalised profit before tax and exceptional items. (2020: 5% of the 3 year average of loss or profit before tax and exceptional items.)

1 These are areas which have been subject to a full scope audit by the group engagement team

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

The scope of our audit was influenced by our application of materiality. We set the above quantitative threshold 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 six trading entities, and we assessed two of these to be significant components, which are both incorporated in the UK. We completed full scope audits for the Parent company and these two significant components achieving a coverage of 91% of group assets, 97% of group revenue and 90% of Group profit. Non-significant components were subject to either specified audit procedures or desktop review procedures. The Group audit team completed all audit work across the Group.

INDEPENDENT AUDITOR'S REPORT CONTINUED

To the members of Hotel Chocolat Group plc

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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) that 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 the scope of our audit addressed the key audit matter
Recognition of leases under IFRS 16 Leases **Note 2, Property, Plant & Equipment sets out the accounting policy.** **Note 17 and Note 18 set out the right of use asset and the leases.**	The Group has a large portfolio of retail sites which are all leased. The ongoing impact to the financial statements of IFRS 16 is therefore significant. The calculation of right of use assets and lease liabilities involves adjustments relating to changes in lease arrangements and assumptions over the lease term and the incremental borrowing rate. Small changes to lease arrangements and management applied assumptions across a number of leases could lead to a material change in the valuation of right-of-use assets and lease liabilities. Owing to the magnitude of the right of use assets and lease liability balances and the estimation and judgement required in accurately assessing these balances, we consider this to be a key audit matter.	Our audit procedures included: ***Determination of incremental borrowing rate*** • Corroborated the inputs applied within the incremental borrowing rate calculation to confirm it is 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. • Agreeing leases entered into in the year to lease agreements. • Agreeing a sample to supporting documentation for the 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. • Assessed the independence of the 3rd party used by management. ***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 for a sample of leases. • Assessment of the lease modifications for which the rent concession expedient could be applied. ***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 calculation and application of IFRS 16 to be appropriate.

Key audit matter		How the scope of our audit addressed the key audit matter
Valuation of inventory **The accounting policy is set out in Note 2.** **Note 21 Inventory sets out the components of inventory and the amount recognised as an expense.**	As part of calculating inventory at cost, management include labour, packaging and overhead absorption based on a standard costing model. Management is 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 considered to be a key audit matter.	Our audit procedures included: We obtained an understanding of the systems and considered the methodology applied by the Directors in determining the costs of inventory. ***Raw materials procedures*** • Selected a sample of raw materials and obtained support in the form of supplier documentation for the unit cost. We compared the unit cost per invoice to the standard cost per the period end listing to ensure accuracy and challenged management on any discrepancies. ***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 including sampling to labour costs and supplier invoices 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*** • Evaluated management's ability to calculate the provision by comparing the prior year provision with the current year write off. • Recalculation of the provision using the methodology adopted by the Directors. Testing the inputs to the calculation using data analytics on information from the system. • Evaluated the provision comparing to the post year end write offs for the one month following the year end and slow moving stock in period 13. ***Key observations*** Nothing came to our attention through our audit testing to suggest that the judgements and estimates made by management in the valuation of inventory were not appropriate.

INDEPENDENT AUDITOR'S REPORT CONTINUED

To the members of Hotel Chocolat Group plc

Key audit matter		How the scope of our audit addressed the key audit matter
Impairment of tangible assets in stores **Note 2 sets out the accounting policy.** **Note 17 sets out the tangible assets.**	Due to the ongoing impact of covid, the stores were closed for a significant period of the year which provides an indicator for impairment. Any resulting impairment review requires the group to estimate the recoverable amount of the 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 on future cashflows of the cash generating units. The impairment review of tangible fixed assets for stores has therefore been raised as a key audit matter.	Our audit procedures included: ***Accuracy of the impairment model*** • We assessed the mechanical accuracy of the impairment models and methodology applied by management, ensuring consistency with the requirements of accounting standards. • We confirmed the net book value of the tangible assets agreed to the fixed asset register and the IFRS 16 workings for the right of use assets. ***Completeness of the impairment model*** • We 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 cashflows*** • We challenged the appropriateness of management's EBITDA growth rates through the analysis of historical forecasting accuracy and post year end trading results with particular focus on the impact of Covid on those forecasts. • We confirmed consistency of the forecasts with those used in the going concern assessment. • We assessed whether the lease terms taken into account in the cash flow forecasts were reasonable. ***Discount rate assumptions*** • We assessed the appropriateness of the discount rate applied reperforming the client calculation and confirming the method adopted was appropriate using our valuation experts. ***Disclosures*** • We assessed the completeness and accuracy of disclosures with the financial statements in accordance with accounting standards. ***Key observations*** • We are satisfied that the judgements applied, impairments recorded and disclosures within the financial statements are appropriate.

Key audit matter		How the scope of our audit addressed the key audit matter
Recoverability of loan to Hotel Chocolat KK **Note 2 sets out the accounting policy.** **Note 3 sets out the critical estimate and judgements.** **Note 23 sets out the loan and the unaudited financial information for the joint venture.**	During the financial period, Hotel Chocolat advanced a further £6,448k to its joint venture, Hotel Chocolat KK. The covid pandemic has impacted the performance of the entity, The recoverability of the loan to the joint venture is reliant on the future cash flows of Hotel Chocolat KK and the directors have accordingly prepared a value in use assessment and determined that no impairment needs to be recognised. Due to the degree of estimation uncertainty inherent in this assessment this was considered to be a key audit matter.	We assessed the forecast model used to determine anticipated future cash flows in the directors' recoverability assessment. To do this: • We confirmed the cashflows from Hotel Chocolat included in this forecast were consistent with the base case forecasts used to support the Group's going concern assessment. • We evaluated the assumptions used within the forecast models including the growth rates and whether such plans align with the expectation of the retail industry in Japan, as adjusted for Hotel Chocolat KK specific circumstances. • We reviewed the loan agreement signed post year end and confirmed it was consistent with the forecasts for the Joint venture and with those used in Hotel Chocolat. • We assessed whether the disclosures in the financial statements detail the key judgements within the recoverability assessment and sources of estimation uncertainty. • We considered management's assessment of the risk of default and probability of default by review of the current trading of Hotel Chocolates KK and the strategic plans for the business in Japan. ***Key observations*** As a result of performing the procedures above we consider the estimates included in the value in use assessment to be reasonable.

INDEPENDENT AUDITOR'S REPORT CONTINUED

To the members of Hotel Chocolat Group plc

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take 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. Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Group financial statements		Parent company financial statements	
	2021 £	2020 £	2021 £	2020 £
Materiality	472,000	495,000	354,000	396,000
Basis for determining materiality	5% of profit before tax and exceptional items.	5% of normalised (3 year average) profit before tax and exceptional items	75% of Group materiality	2% of total assets
Rationale for the benchmark applied	We consider profit before tax and exceptional items to be the most appropriate benchmark as it provides a more stable measure year on year than group profit before tax.	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 financial year.	Calculated as a percentage of Group materiality given the assessment of aggregation risk.	Total assets is considered to be the most appropriate measure as the Company is a holding company that does not trade.
Performance materiality	354,000	371,000	265,000	297,000
Basis for determining performance materiality	75% of overall materiality. In reaching our conclusion on the level of performance materiality to be applied we considered a number of factors including the expected total value of known and likely misstatements (based on past experience), our knowledge of the group's internal controls and management's attitude towards proposed adjustments			

Component materiality

We set materiality for each component of the Group based on a percentage of between 53% and 95% of Group materiality dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality ranged from £250,000 to £450,000. In the audit of each component, we further applied performance materiality levels of 75% of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £23,000 (2020: £24,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

OTHER COMPANIES ACT 2006 REPORTING

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report	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. In the light of the knowledge and understanding of the Group and 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.
Matters on which we are required to report by exception	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 by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or • the Parent Company financial statements are not in agreement with the accounting records and returns; or • certain disclosures of Directors' remuneration specified by law are not made; or • we have not received all the information and explanations we require for our audit.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the Statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, 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.

INDEPENDENT AUDITOR'S REPORT CONTINUED

To the members of Hotel Chocolat Group plc

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.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud, we considered the following:

- the nature of the control environment and business performance;
- the results of our enquiries with management and the directors about their own identification of the risk of irregularities;
- any matters we identified through the review of their policies and procedures; and
- the matters discussed amongst the audit engagement team regarding how and where fraud might occur in the financial statements.

We gained an understanding of the legal and regulatory framework in which the Group operates along with the industry through the enquires with management and review of relevant documentation and considered the risk of fraud and non-compliance with applicable laws and regulations. These included the Companies Act 2006, employment law, pensions and tax legislation.

There were no matters or non-compliance or fraud that were communicated to the audit engagement team. The engagement team was deemed to collectively have the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations. We communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our procedures included but were not limited to assessing the susceptibility of the company's financial statements to material misstatement, including how fraud might occur, by meeting with management to understand where it is considered there was a susceptibility of fraud. We also considered potential fraud drivers: including financial or other pressures, opportunity, and personal or corporate motivations. We considered the programmes and controls that the company has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls.

Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk, including in relation to revenue recognition and management override of controls. These procedures included;

- Identifying and testing journal entries, in particular journal entries posted to revenue, unusual account combinations and journals posted by unexpected users;
- Enquiries with management and those charged with governance;
- Review of board minutes throughout the year and subsequent to the year-end;
- Review of correspondence between the group and regulatory bodies;
- Review of tax compliance and involvement of our tax experts in the audit; and
- Challenging assumptions and judgement made by management in their significant accounting estimates and judgements.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

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

USE OF OUR REPORT

This report is made solely to the 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.

Samantha Russell (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, UK

4 October 2021

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 27 June 2021

	Notes	52 weeks ended 27 June 2021 £000	Restated* 52 weeks ended 28 June 2020 £000
Revenue	4	164,551	136,290
Cost of sales		(62,877)	(53,256)
Gross profit		101,674	83,034
Operating expenses		(89,873)	(79,089)
Exceptional items	5	(2,311)	(9,968)
Profit/(Loss) from operations	6	9,490	(6,023)
Finance income	11	238	159
Finance expenses	11	(1,650)	(1,668)
Share of joint venture post-tax results (loss)	12	(254)	(9)
Profit/(Loss) before tax		7,824	(7,541)
Tax (expense)/credit*	14	(2,139)	84
Profit/(Loss) for the period*		5,685	(7,457)
Other comprehensive (loss)/income:			
Items that may be subsequently reclassified to profit or loss:			
Derivative financial instruments	20	(1,897)	1,276
Deferred tax credit/(charge) on derivative financial instruments	19	308	(221)
Currency translation differences arising from consolidation		(825)	326
Other comprehensive (loss)/income, net of tax		(2,414)	1,381
Total comprehensive income/(loss) for the period*		3,271	(6,076)
Earning/(loss) per share – Basic*	15	4.5p	(6.3p)
Earning/(loss) per share – Diluted*	15	4.5p	(6.3p)

* Restated 52 weeks ended 28 June 2020 – see Note 14.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 27 June 2021

	Notes	As at 27 June 2021 £000	Restated* As at 28 June 2020 £000
ASSETS			
Non-current assets			
Intangible assets	16	3,976	2,897
Property, plant and equipment	17	53,496	41,868
Right of use asset	18	30,357	39,848
Deferred tax asset	19	479	597
Derivative financial assets	20	–	92
Loan to Hotel Chocolat KK	23	12,153	5,705
		100,461	91,007
Current assets			
Derivative financial assets	20	–	1,100
Inventories	21	32,038	13,916
Trade and other receivables*	22	12,421	7,492
Corporation tax receivable		1,049	1,520
Cash and cash equivalents*	25	10,046	27,503
		55,554	51,531
Total assets		156,015	142,538
LIABILITIES			
Current liabilities			
Trade and other payables	26	(42,223)	(27,251)
Lease liabilities	18	(9,061)	(10,993)
Derivative financial liabilities	20	(925)	(27)
		(52,209)	(38,271)
Non-current liabilities			
Other payables and accruals	26	(2)	(31)
Lease liabilities	18	(30,503)	(35,960)
Derivative financial liabilities	20	(28)	(327)
Provisions	28	(1,585)	(959)
		(32,118)	(37,277)
Total liabilities		(84,327)	(75,548)
NET ASSETS		71,688	66,990
EQUITY			
Share capital	29	126	126
Share premium	30	38,684	37,627
Retained earnings*	30	28,976	23,290
Translation reserve	30	754	1,579
Merger reserve	30	223	223
Capital redemption reserve	30	6	6
Other reserves*	30	2,919	4,139
Total equity attributable to shareholders		71,688	66,990

* Restated 52 weeks ended 28 June 2020 – see Note 14 and Note 25.

The financial statements of Hotel Chocolat Group plc, registered number 08612206 were approved by the Board of Directors and authorised for issue on 4 October 2021. They were signed on its behalf by:

Matt Pritchard
Chief Financial Officer
4 October 2021

CONSOLIDATED STATEMENT OF CASH FLOW

For the period ended 27 June 2021

	Notes	52 weeks ended 27 June 2021 £000	Restated* 52 weeks ended 28 June 2020 £000
Profit/(Loss) before tax for the period		7,824	(7,541)
Adjusted by:			
Depreciation of property, plant and equipment	17	5,543	5,781
Depreciation of right of use asset	17	9,287	10,953
Impairment loss	17	2,311	9,968
Amortisation of intangible assets	16	965	598
Gain on lease modification		(25)	(80)
Net interest expense	11	1,412	1,509
Share-based payments	10	911	362
Share of joint venture loss	12	254	9
Loss/(profit) on disposal of property, plant and equipment	6	112	(69)
Loss on fair value adjustment to joint venture	6	46	–
Operating cash flows before movements in working capital		28,640	21,490
(Increase)/decrease in trade and other receivables*		(4,718)	1,352
Increase in inventories		(19,673)	(1,106)
Increase in trade and other payables and provisions		13,819	5,589
Cash inflow generated from operations*		18,068	27,325
Interest received		–	29
Income tax paid		(1,152)	(2,541)
Interest paid on:			
– bank loans and overdraft		(328)	(108)
– derivative financial liabilities		(198)	(223)
– IFRS 16		(1,121)	(1,378)
Cash flows from operating activities*		15,269	23,104
Purchase of property, plant and equipment		(18,632)	(12,740)
Proceeds from disposal of property, plant and equipment		–	79
Purchase of intangible assets		(1,551)	(1,473)
Loan to joint venture		(3,607)	(3,114)
Acquisition of joint venture		(300)	–
Cash flows used in investing activities		(24,090)	(17,248)
Dividends paid		–	(1,386)
Issue of ordinary shares		347	26,316
Costs associated to issue of ordinary shares		–	(426)
Capital element of leases		(8,773)	(7,777)
Cash flows (used in)/generated from financing activities		(8,426)	16,727
Net change in cash and cash equivalents*		(17,247)	22,583
Cash and cash equivalents at beginning of period*	25	27,503	4,971
Foreign currency movements		(210)	(51)
Cash and cash equivalents at end of period*	25	10,046	27,503

* Restated 52 weeks ended 28 June 2020 – see Note 25.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 27 June 2021

	Share capital £000	Share premium £000	Retained earnings* £000	Translation reserve £000	Merger reserve £000	Capital redemption reserve £000	Other reserves* £000	Total £000
Equity as at 1 July 2019	113	11,750	32,133	1,253	223	6	2,626	48,104
Loss for the period*	–	–	(7,457)	–	–	–	–	(7,457)
Fair value movement on hedges	–	–	–	–	–	–	1,276	1,276
Deferred tax charge on hedges	–	–	–	–	–	–	(221)	(221)
Currency translation differences arising from consolidation	–	–	–	326	–	–	–	326
Total comprehensive income for the period:	–	–	(7,457)	326	–	–	1,055	(6,076)
Issue of share capital	13	26,303	–	–	–	–	–	26,316
Dividends	–	–	(1,386)	–	–	–	–	(1,386)
Costs associated to issue of share capital	–	(426)	–	–	–	–	–	(426)
Share-based payments	–	–	–	–	–	–	362	362
Deferred tax charge on share-based payments	–	–	–	–	–	–	(699)	(699)
Current tax of share-based payments – Restatement*	–	–	–	–	–	–	989	989
Forex reclassified to cost of sales and inventory	–	–	–	–	–	–	(194)	(194)
Restated* Equity as at 28 June 2020	126	37,627	23,290	1,579	223	6	4,139	66,990
Profit for the period	–	–	5,685	–	–	–	–	5,685
Fair value movement on hedges	–	–	–	–	–	–	(1,897)	(1,897)
Deferred tax charge on hedges	–	–	–	–	–	–	308	308
Currency translation differences arising from consolidation	–	–	–	(825)	–	–	–	(825)
Total comprehensive income for the period:	–	–	5,685	(825)	–	–	(1,589)	3,271
Issue of share capital	–	1,058	–	–	–	–	–	1,058
Share-based payments	–	–	–	–	–	–	911	911
Deferred tax charge on share-based payments	–	–	–	–	–	–	(11)	(11)
Current tax of share-based payments	–	–	–	–	–	–	56	56
Forex reclassified to cost of sales and inventory	–	–	–	–	–	–	143	143
Long-term loan reserve	–	–	–	–	–	–	(730)	(730)
Equity as at 27 June 2021	126	38,685	28,975	754	223	6	2,919	71,688

* Restated 52 weeks ended 28 June 2020 – see Note 14.

NOTES TO THE FINANCIAL STATEMENTS

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 24. 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 accounting standards in conformity with the requirements of the Companies Act 2006. For financial years beginning after 31 December 2020, Hotel Chocolat Group plc will prepare consolidated information in line with IFRS, as adopted by UK international accounting standards. 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.

New standards impacting the Group that have been adopted in the annual financial statements for the year ended 27 June 2021, and which have given rise to changes in the Group's accounting policies are:

- Amendment to IFRS 16, 'Leases' – COVID-19 related rent concessions
- 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

There are a number of new standards issued but not yet effective that the Group has decided not to adopt early, including Annual Improvements to IFRS Standards 2018-2020 and Amendments to IAS 37. The Group is currently assessing the impact of these new accounting standards.

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.

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 24 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.

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. The Board consider a range of potential scenarios in determining the viability of the Group, however for going concern purposes have assessed two scenarios:

a) Base case:

The base plan assumes ongoing growth in FY22 as the Group continues to evolve from a UK-store-led brand to a global digital-led brand. This base case reflects the shift in sales channel mix and growth achieved in the period since stores re-opened in April, and the higher customer lifetime value that this delivers.

The base case includes the necessary overhead and capital spend required to deliver FY22 growth. The base case then assumes flat year-on-year growth for the period to December 2022.

Post half year, the Directors will review the cash flows & capital investments required to deliver the Groups future growth plans for FY23 with the possibility of increasing the Groups RCF using approved accordion.

b) Downside scenario:

The downside scenario models the effect of a material slowdown in sales growth during FY22, such that the current growth rate falls by half for the rest of the year. FY23 sales are modelled as being broadly flat with FY22.

The Directors have considered the levers available to mitigate the impact on profit and cash flow if performance were to fall to these levels. 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.

The downside scenario is considered prudent given recent performance.

Based on both the scenarios modelled, the Group will be able to operate within the level of its current facilities and associated covenants which include Debt to EBITDA ratios and Interest cover.

The Directors have also considered but not included as mitigations:

- Alternate sources of funding, including asset financing of factory equipment and mortgaging of freehold property.
- Any new additional Government support or allowances.

The Group has recently raised £40m through a successful equity placing and has a £30m Revolving Credit facility in place with Lloyds to June 2023. The Board will continue to review the business plan and associated funding requirements over this period, including the opportunity to increase banking facilities as supported by the uncapped accordion now in place.

On this basis, the Board has a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the period to December 2022 which is 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. ACCOUNTING POLICIES CONTINUED

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 delivery 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 agreement, 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 cash flow. The Group has received financial assistance in the following areas.

a) Retail, Hospitality and Leisure Grant ('RHLGF') – the business grants have been recognised in the Consolidated Statement of Comprehensive Income 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) The Closed Business Lockdown Payment – restart grants, national lockdown grants and local restrictions support grants have been recognised in the Consolidated Statement of Comprehensive Income over the period which the Group recognises costs for which the grants are intended to compensate, within operating expenses. The Closed Business Lockdown payments have been treated the same way as the RHLGF.

c) 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 the Consolidated Statement of Comprehensive Income and the Group has elected to offset the grants received against the relevant payroll expense within operating expenses.

Operating profit

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

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

a) Transactions and balances

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

2. ACCOUNTING POLICIES CONTINUED

Foreign currency translation

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.

Leases

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. ACCOUNTING POLICIES CONTINUED

Lease liabilities

The lease liabilities are measured at the present value of the remaining lease payments, discounted using an incremental borrowing rate as at lease commencement date. The 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 LIBOR adjusted by an indicative credit premium and lease specific adjustments linked to store performance, store type and location.

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

The Group has taken advantage of the IASB Practical Expedient allowing rent concessions, relating to the COVID-19 pandemic, to be treated as variable lease payments and recognised directly in the Statement of Comprehensive Income. The concessions received by Hotel Chocolat relate to the same type of lease, i.e. property rental leases, and therefore the Group has chosen to apply the practical expedient across all leases where permitted by the IASB. Not all lease modifications qualified for the practical expedient and those that didn't were treated in one of the following two ways:

1. *Where the consideration of the lease changed*

Lease liabilities were remeasured based on the revised payment amounts and frequency. The difference between the revised liability and the original liability at the effective date (the date the change came into force) was then applied as a matching adjustment to the right of use asset.

2. *Where the scope of the lease changed (specifically where break options were triggered within property leases)*

Remeasurements involved the recalculation of right of use assets on a proportionate basis. This meant taking the length of time from the effective date to the revised lease end date and dividing by the length of time from the effective date to the original lease end date to calculate a percentage reduction for the asset value. The lease liability was remeasured based on the net present value of revised lease payments up to the break date, using a revised IBR. Any difference between the remeasured asset and liability was taken as a gain or a loss to the Consolidated Statement of Comprehensive Income.

Under both of the previous two remeasurement methods, lease payments are discounted using an updated discount rate and the revised right of use asset is amortised on a straight line basis to the revised lease end date.

Short-term / low value exemptions

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight line basis as an expense in the Consolidated Statement of Comprehensive Income. Short-term leases are leases with a lease term of 12 months or less; for the current financial year this includes all property leases with a holding over or tenancy-at-will status. Where renewal discussions on a lease extension are ongoing with the landlord at the lease expiry date, the expired lease is treated as a disposal and the new lease recognised after the agreement is finalised as an addition. Low-value assets comprise storage rents and office equipment.

2. ACCOUNTING POLICIES CONTINUED

Property, plant and equipment

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

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

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 the Consolidated Statement of Comprehensive Income as incurred.

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

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. ACCOUNTING POLICIES CONTINUED

Loan to joint venture

The loan to the 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. The Group therefore considers the change in credit risk by reference to the performance of the joint venture. 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.

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.

Business combinations

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.

If a business combination occurs in stages, the accounting treatment of an entity's pre-combination interest in an acquiree is consistent with the view that obtaining control is triggered by a significant economic event. The acquirer remeasures any previously held interest at fair value and takes this amount into account in the determination of goodwill. Any resultant gain or loss is recognised in the Consolidated Statement of Comprehensive Income as appropriate.

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

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.

(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.

2. ACCOUNTING POLICIES CONTINUED

Impairment (continued)

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.

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. During the period ended 27 June 2021, the Group changed its accounting policy in relation to 'cash in transit' to recognise this as cash and cash equivalents only when received, as a result the comparative amounts for other debtors and cash and cash equivalents have been restated.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. ACCOUNTING POLICIES CONTINUED

Financial instruments

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

Financial assets

On initial recognition, financial assets are classified as either fair value through profit or loss, amortised cost or fair value through Other Comprehensive Income. The classification depends on the purpose for which the financial assets were acquired.

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

Amortised cost assets are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They arise principally through the provision of services to customers (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.

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 arise 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 Consolidated Statement of Comprehensive Income.

2. ACCOUNTING POLICIES CONTINUED

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. 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 the Consolidated Statement of Comprehensive Income in accordance with the policy set out in the paragraph above. Subsequent changes in the fair value of the derivative are recognised in the Consolidated Statement of Comprehensive Income. 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 the Consolidated Statement of Comprehensive Income 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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. 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 23, the Group acquired a 20% interest in joint venture Hotel Chocolat KK during the period ended 30 June 2019. Management uses judgement in determining that the 20% interest in Hotel Chocolat KK does not result in control of the entity and therefore the entity is not consolidated within the Group. The entity is recognised as a joint venture as the parties to the joint arrangement have joint rights to the net assets of the arrangement.

  The total balance of the loan at 27 June 2021 is £12,153k (28 June 2020: £5,705k). Management made a number of judgemental estimates of anticipated revenues and profits from Hotel Chocolat KK using the forecasts for the period of the loan. The loan was being renegotiated at the year end increasing both the value and the loan repayment date to December 2028. The revised loan agreement was signed in September 2021. Refer to note 23.

- 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 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 cash flows (growth rates & profit margins) and the discount rates applied.

  During the year ended 27 June 2021, the Group recorded impairment losses of £2,095k (28 June 2020 - £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 a the remaining lease life of the stores, up to a maximum of 5 years. A discount rate of 9.335% has been used, which is the WACC for the Group.

  The Group made an impairment charge of £216k during the year ended 27 June 2021 (28 June 2020: £2,678k) relating to the valuation of tangible fixed assets within the Saint 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.

- IFRS 16 leases (Critical accounting judgement)

  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 of recognising leases under IFRS 16, determination of the discount rate is considered to be a significant judgement. The discount rate applied is between 2.0% and 3.5%.

3. SUMMARY OF CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS CONTINUED

- **IFRS 16 leases (Critical accounting judgement) continued**

  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 making 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 Consolidated Statement of Comprehensive Income. 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.

- **Acquisition of Rabot 1745 Limited (Critical accounting judgement & estimate)**

  On 17 June 2021, the Group increased its share in its joint venture, Rabot 1745 Limited, from 46.99% to 100%. Management made judgements and estimates in determining the fair value of the assets and liabilities acquired and in assessing the recoverability of the goodwill acquired.

4. REVENUE

	52 weeks ended 27 June 2021 £000	52 weeks ended 28 June 2020 £000
Sale of goods and services	164,551	136,290
Total revenue	164,551	136,290

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 80 to 89.

UK Physical – Includes revenue attributable to our UK stores, cafes, and restaurant.

UK Digital – Includes revenue attributable to our UK online sales, including subscriptions. In the 52 weeks ended 27 June 2021, Corporate trade was transferred to Digital. In previous years, this was reported under 'UK Partners & B2B'.

UK Partners & B2B – Includes UK wholesale and partners.

International – Includes revenue from our overseas locations including USA and Ireland, as well as sales to our JV in Japan.

Cacao estate & hotel – Includes revenue from our cacao farm and hotel in Saint Lucia.

	52 weeks ended 27 June 2021 £000	Reclassified* 52 weeks ended 28 June 2020 £000
Revenue by channel		
UK		
Physical	48,797	77,512
Digital	91,027	37,056
Partners & B2B*	19,574	16,492
International	4,547	3,722
Cacao estate & hotel	606	1,508
Total revenue	164,551	136,290

* Reclassification – In the 52 weeks ended 28 June 2020, subscription revenue of £4,351k relating to The Chocolate Tasting Club Limited was mapped to Partners & B2B rather than UK Digital. This is due to the trade of The Chocolat Tasting Club Limited moving online during the year ended 27 June 2021.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

4. REVENUE CONTINUED

Revenue for each of the geographical areas is as follows:

	52 weeks ended 27 June 2021 £000	52 weeks ended 28 June 2020 £000
Revenue by destination of sale		
United Kingdom	159,399	131,060
Europe	504	1,399
Saint Lucia	606	1,507
United States	1,947	1,529
Japan*	2,095	795
Total revenue	164,551	136,290

* Sales made to the Japan JV.

Non-current assets are held in the United Kingdom, Ireland, the United States and Saint Lucia. Non-current assets for each of the countries is as follows:

	52 weeks ended 27 June 2021 £000	52 weeks ended 28 June 2020 £000
Non-current assets		
United Kingdom	89,747	76,889
Ireland	264	883
United States	339	4,172
Saint Lucia	10,111	9,063
Total non-current assets	100,461	91,007

5. EXCEPTIONAL ITEMS

	52 weeks ended 27 June 2021 £000	52 weeks ended 28 June 2020 £000
Retail impairments	2,095	6,606
Saint Lucia impairment	216	2,678
Corporate goodwill impairment	–	684
Total exceptional items	2,311	9,968

Store impairments

There is an impairment charge of £2,095k during the year ended 27 June 2021 (28 June 2020: £6,606k) relating to fixed assets and right of use assets of stores which predominantly relates to the US. Please see Note 17 for the split. The charge is primarily due to the trading conditions during the period as well as management's assessment of future cash flows over the remaining lease period for each store. The key assumptions used in the future cash flows were sales and EBITDA (based on board approved plans), assumed nil growth rate and a discount rate of 9.335%.

Saint Lucia impairment

There is an impairment charge of £216k during the year ended 27 June 2021 (28 June 2020: £2,678k) relating to the assets of the Saint Lucia business. The charge is due to a decline in the value of the land due to the impact of COVID-19.

Corporate goodwill impairment

In the prior year, there was an impairment charge of £684k relating to goodwill which arose from the acquisition of Hotel Chocolat Corporate Limited. There are no goodwill impairments in the 52 weeks ended 27 June 2021.

6. PROFIT/(LOSS) FROM OPERATIONS

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

	52 weeks ended 27 June 2021 £000	52 weeks ended 28 June 2020 £000
Staff cost (see Note 8)	51,591	37,641
Government grants received[1]	(553)	(650)
Depreciation of property, plant and equipment (see Note 17)	5,543	5,781
Depreciation of right of use asset (see Note 17)	9,287	10,953
Amortisation of intangible assets (see Note 16)	965	598
Loss/(profit) on disposal of property, plant and equipment and intangible assets	112	(69)
Loss/(gain) upon remeasurement of joint venture fair value	46	–
Loss/(gain) on exchange differences	(55)	171
Research & expenditure tax credit	44	–
Write off of inventory recognised as an expense	3,267	3,026
Bad debt (credit)/expense	(6)	252

1 Government grants received include the Retail Hospitality Leisure Grant Fund and The Closed Business Lockdown Payment.

7. AUDIT AND NON-AUDIT FEES

An analysis of auditors' remuneration is as follows:

	52 weeks ended 27 June 2021 £000	52 weeks ended 28 June 2020 £000
Audit fees	260	220
Audit related assurance services	28	22
Other taxation advisory services	–	9
Non-audit fees	28	31

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

8. STAFF COSTS

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

	52 weeks ended 27 June 2021	52 weeks ended 28 June 2020
Production staff	430	308
Administrative staff	474	407
Retail staff	595	706
Total	1,499	1,421

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

	52 weeks ended 27 June 2021 £000	52 weeks ended 28 June 2020 £000
Wages and salaries	45,772	36,389
Share-based payments	911	362
Social security costs	3,992	2,804
Pension costs	916	752
Government grants received	–	(2,666)
Total	51,591	37,641

Social security includes £253k of employer's national insurance for 2016 and 2019 LTIPs (28 June 2020: £nil).

On 10 May 2021, the Group announced a commitment to repay the Coronavirus Job Retention Scheme (furlough) grants received from the UK Government this financial year and an accrual of £3,104k has been recognised as at 27 June 2021. On 24 September 2021, the furlough grants were repaid. For more information on Government grant accounting policies, see Note 2.

9. REMUNERATION OF KEY MANAGEMENT PERSONNEL

Key management personnel includes all members of the Executive Committee of the Group. The number of key management personnel is ten (28 June 2020: ten). Emoluments and benefits include:

	52 weeks ended 27 June 2021 £000	52 weeks ended 28 June 2020 £000
Short-term employee benefits	1,811	1,585
Share-based payments	169	157
Social security costs	172	686
Post-employment benefits	44	39
Total	2,196	2,467

Further information about the remuneration of individual Directors, including the highest paid Director, is provided in the Remuneration report on pages 56 to 59.

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 27 June 2021		52 weeks ended 28 June 2020	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at beginning of the period	665,829	0.82	3,614,000	1.81
Granted during the period	–	–	301,073	0.0001
Exercised during the period	(80,000)	1.48	(2,419,244)	1.48
Forfeited during the period	(15,784)	0.0001	(830,000)	2.92
Outstanding at the end of the period	570,045	0.74	665,829	0.82
Exercisable at the end of the period	284,756	1.48	364,756	1.48

The awards outstanding at the end of 27 June 2021 have a weighted average remaining contractual life of 0.63 years (28 June 2020: 2.3 years) and a range of exercise prices between 0.001 and 1.48.

The exercise during the year took place on 26 June 2021, at a share price of £3.66.

The Group recognised total expenses related to the above equity-settled share-based payment transactions in the form of options during the period ended 27 June 2021 of £640k (28 June 2020: £254k).

There were no options granted during the period ended 27 June 2021 (28 June 2020: 301,073). The fair value of the share options granted in the period ended 28 June 2020 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

10. SHARE-BASED PAYMENTS CONTINUED

Details of the share awards outstanding are as follows:

	52 weeks ended 27 June 2021		52 weeks ended 28 June 2020	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at beginning of the period	485,636	2.84	671,457	1.78
Granted during the period	631,246	2.78	314,534	3.04
Exercised during the period	(92,308)	2.71	(465,377)	1.49
Forfeited during the period	(93,596)	2.91	(34,978)	2.23
Outstanding at the end of the period	930,978	2.83	485,636	2.84
Exercisable at the end of the period	–	–	–	–

The awards outstanding at the end of 27 June 2021 have a weighted average remaining contractual life of 1.93 years (28 June 2020: 1.77 years) and a range of exercise prices between 2.47 and 3.04.

The exercises during the year took place between 18 September 2020 and 15 June 2021, with an average share price of £3.84.

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 27 June 2021 of £271k (28 June 2020: £169k).

The aggregate of the fair value of these shares granted during the period ended 27 June 2021 was £744k (28 June 2020: £393k). 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 27 June 2021	52 weeks ended 28 June 2020
Weighted average share price (£)	2.78	3.04
Exercise price (£)	2.78	3.04
Expected volatility (%)	39.75%	37.0%
Option life (years)	3.5	3.5
Risk free interest rate (%)	-0.01%	0.52%
Dividend yield (%)	0%	0.49%

For the schemes that vested in 2019 and 2020, there was an absence of any historical volatility data for the 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 the Hotel Chocolat Group plc.

11. FINANCE INCOME AND EXPENSES

	52 weeks ended 27 June 2021 £000	52 weeks ended 28 June 2020 £000
Interest from related party	183	103
Interest on bank deposits	3	29
Unrealised interest on derivative financial instruments	52	27
Finance income	238	159
Interest on bank borrowings	328	66
Realised interest on derivative financial liabilities	201	224
IFRS 16 interest charge	1,121	1,378
Finance expenses	1,650	1,668

12. INVESTMENTS IN JOINT VENTURES

Rabot 1745 Limited

The Group had an interest in a joint venture Rabot 1745 Limited, a separate company incorporated and operating in the United Kingdom. During the year the Group increased its interest to 100%.

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%
17 September 2020 to 17 June 2021	46.99%
17 June 2021	100%

The Group recognised a loss from its share in this joint venture of £254k up until acquisition on 17 June 2021 (28 June 2020: loss of £9k). The Group recognised a fair value adjustment to the Consolidated Statement of Comprehensive Income of £46k during the period (28 June 2020: £nil). These losses are limited to the value of the investment in Rabot 1745 Limited.

	£000
29 June 2020	–
£300k investment on 17th September 2020	300
Fair value adjustment	(46)
Losses recognised during period ended 27 June 2021	(254)
27 June 2021	–

Detail of Rabot 1745 Limited are as follows:

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

Hotel Chocolat KK

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

The Group did not recognise any losses from its share in this joint venture during the year ended 27 June 2021 (28 June 2020: loss of £nil).

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 23.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

13. ACQUISITION OF RABOT 1745

During the year, the Group acquired a further 68%, and now owns 100%, in Rabot 1745 Limited. Rabot 1745 Limited is a separate company incorporated and operating in the United Kingdom and has become a consolidated subsidiary in the 52 weeks ended 27 June 2021. The primary activity of Rabot 1745 Limited is the manufacture and sale of beauty products.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are set out in the table below:

	As at 17 June 2021	
	Rabot 1745 £000	**Fair value £000**
Cash and cash equivalents	14	14
Trade and other receivables	206	204
Stock	563	544
Total assets	783	762
Loans	839	839
Trade and other creditors	329	348
Total liabilities	1,168	1,187
Goodwill		425

Consideration of £300k cash was transferred in return for 14.99% of Rabot 1745 Limited on 17 September 2020. On 17 June 2021, consideration of £4 cash was transferred in return for the remaining 53.01% of shares in Rabot 1745 Limited. The consideration was not contingent. There were no other acquisition costs.

Rabot 1745 Limited contributed £2k Revenue and £10k loss to the Group's profit for the period between the date of acquisition and the Balance Sheet date.

14. TAXATION

	52 weeks ended 27 June 2021 £000	**Restated* 52 weeks ended 28 June 2020 £000**	**52 weeks ended 28 June 2020 £000**
UK corporation tax	1,867	526	(463)
Adjustment in respect of previous periods	(144)	(119)	(119)
Overseas corporation tax	–	(4)	(4)
Total current tax charge/(credit)	1,723	403	(586)
Deferred tax:			
Adjustment in respect of previous periods	(37)	119	119
Change in tax rate	185	–	–
Origination and reversal of temporary differences	268	(606)	(606)
Total tax expense/(credit)	2,139	(84)	(1,073)
Current tax on share based payments to equity	(56)	(989)	–
Total	2,083	(1,073)	(1,073)

14. TAXATION CONTINUED

Factors affecting current tax charge:

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

	52 weeks ended 27 June 2021 £000	Restated* 52 weeks ended 28 June 2020 £000	52 weeks ended 28 June 2020 £000
Profit/(loss) on ordinary operations before income tax	7,824	(7,541)	(7,541)
Standard rate of corporation tax	19.00%	19.00%	19.00%
Profit for the year multiplied by the standard rate of corporation tax	1,487	(1,433)	(1,433)
Effects of:			
Expenses not deductible for tax purposes	93	76	76
Share based payments – permanent differences	–	51	(938)
Permanently allowed depreciation	267	638	638
Permanent difference	(44)	–	–
Adjustment in respect of prior years	(181)	–	–
Adjust deferred tax in respect of change in future rate of taxation	183	50	50
Movement to deferred tax	(26)	(47)	(47)
Overseas tax	360	581	581
Tax expense/(credit)	2,139	(84)	(1,073)
Current tax on share based payments to equity	(56)	(989)	–
Total	2,083	(1,073)	(1,073)

The Group's effective tax rate for the period ended 27 June 2021 was 27.3% (28 June 2020 Restated: -11.1%). The effective rate is an amalgamation of UK, US, Saint Lucia and European rates for the periods reported. At 27 June 2021 the Group has tax losses to carry forward against future profits of the Irish branch of £206k (28 June 2020: £216k) and for the US operations of £172k (28 June 2020: £172k). The tax value of such losses amounted to approximately £62k (28 June 2020: £63k), have no expiry date and have been recognised as a deferred tax asset.

An increase in the UK corporation rate from 19% to 25% (effective 1 April 2023) was enacted on 10 June 2021. This will increase the group's future current tax charge.

*Restatement:

The tax credit for the 52 weeks ended 28 June 2020 has been restated from £1,073k to £84k. This is due to a tax deduction of £989k relating to share option exercises that should have been allocated to equity rather than the Statement of Comprehensive Income, in line with IFRS 2 Share-based payments. The disclosures impacted have been identified throughout. The effect on specific financial statement line items within the Consolidated Statement of Comprehensive Income and Consolidated Statement of Financial Position is as follows:

Consolidated Statement of Comprehensive Income

	Reported in 52 weeks ended 28 June 2020 £000	Restatement £000	Restated 52 weeks ended 28 June 2020 £000
Tax credit	1,073	(989)	84
Loss for the period	(6,468)	(989)	(7,457)
Total comprehensive loss for the period	(5,087)	(989)	(6,076)
Loss per share – Basic	(5.5p)	–	(6.3p)
Loss per share – Diluted	(5.5p)	–	(6.3p)

Consolidated Statement of Financial Position

	Reported in 52 weeks ended 28 June 2020 £000	Restatement £000	Restated 52 weeks ended 28 June 2020 £000
Retained earnings	24,279	(989)	23,290
Other reserves	3,150	989	4,139

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

15. EARNINGS PER SHARE

Profit/(loss) 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 27 June 2021	Restated* 52 weeks ended 28 June 2020
Weighted average number of share in issue for the period – basic	125,573,623	117,507,319
Effect of dilutive potential share:		
Save as You Earn Plan	29,711	36,485
Long-term incentive plan	169,669	255,913
Weighted average number of shares in issue used in the calculation of earnings per share (number) – Diluted	125,773,003	117,799,717
Basic earnings per share (pence)	4.5	(6.3)*
Diluted earnings per share (pence)	4.5	(6.3)*

* Restated 52 weeks ended 28 June 2020 – see Note 14.

As at 27 June 2021, the total number of potentially dilutive shares issued under the Hotel Chocolat Group plc Long-Term Incentive Plan was 285,289 (28 June 2020: 301,073). 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. On 28 July 2021, the Company announced the completion of a further equity placing for a total of 11,112,913 new ordinary shares. For further information on the movements in the share capital, please refer to Note 29.

16. INTANGIBLE ASSETS

	52 weeks ended 27 June 2021 £000	52 weeks ended 28 June 2020 £000
Goodwill arising on consolidation (Note (a))	425	–
Computer software and website costs (Note (b))	3,551	2,897
	3,976	2,897

a) Goodwill arising on consolidation

	52 weeks ended 27 June 2021 £000	53 weeks ended 28 June 2020 £000
At beginning of period	–	944
Rabot acquisition	425	–
Impairment	–	(953)
Translation differences	–	9
At end of period	425	–

The goodwill figure of £425k is as a result of the Group acquiring further interest in Rabot 1745 Limited on 18 June 2021. See Note 13.

16. INTANGIBLE ASSETS CONTINUED

Computer software and website costs

	52 weeks ended 27 June 2021 £000	52 weeks ended 28 June 2020 £000
Cost:		
At beginning of period	5,112	3,584
Additions	1,627	1,527
Disposals	(118)	–
Exchange difference	(15)	1
At end of period	6,606	5,112
Amortisation:		
At beginning of period	2,215	1,617
Amortisation charge	965	598
Disposals	(118)	–
Exchange difference	(7)	–
At end of period	3,055	2,215
Net book value	3,551	2,897

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

17. 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 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	–	–	(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)
Disposal	–	–	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
52 weeks ended 27 June 2021						
Cost:						
As at 28 June 2020	17,038	1,397	39,838	26,816	54,830	139,919
Additions	4,523	567	2,066	12,176	5,468	24,800
Disposals	(5)	(80)	(280)	(157)	(5,872)	(6,394)
Translation differences	(1,609)	–	(343)	(1)	(555)	(2,508)
As at 27 June 2021	19,947	1,884	41,281	38,834	53,871	155,817
Accumulated depreciation & impairments:						
As at 28 June 2020	(3,267)	(768)	(26,173)	(13,013)	(14,982)	(58,203)
Depreciation charge	(168)	(142)	(3,789)	(1,444)	(9,287)	(14,830)
Disposal	–	–	275	133	2,431	2,839
Impairment	(216)	–	(419)	–	(1,676)	(2,311)
Translation differences	225	68	248	–	–	541
As at 27 June 2021	(3,426)	(842)	(29,858)	(14,324)	(23,514)	(71,964)
Net book value:						
As at 27 June 2021	16,521	1,042	11,423	24,510	30,357	83,853

As at 27 June 2021, the net book value of freehold property includes land of £3,860k (28 June 2020: £4,029k) which is not depreciated.

Included in freehold property is £2,997k of assets under construction (28 June 2020: £4,940k). Included in Furniture & fittings, equipment & hardware is £448k of assets under construction (28 June 2020: £303k). Included in Plant & machinery is £14,610k of assets under construction (28 June 2020: £4,942k).

18. 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 lease	(4,769)	–	(4,769)
Derecognition	–	–	–
Impairment	(4,029)	–	(4,029)
Foreign exchange	263	–	263
As at 28 June 2020	39,623	225	39,848
Additions to right of use assets	5,468	–	5,468
Amortisation	(9,068)	(219)	(9,287)
Effect of modification of lease	(1,693)	–	(1,693)
Derecognition	(1,748)	–	(1,748)
Impairment	(1,676)	–	(1,676)
Foreign exchange	(555)	–	(555)
As at 27 June 2021	30,351	6	30,357

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 lease	(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
Additions to lease liabilities	5,534	–	5,534
Interest expense	1,117	4	1,121
Effect of modification of lease	(1,717)	–	(1,717)
Derecognition	(1,790)	(9)	(1,799)
Lease payments	(9,697)	(207)	(9,904)
Foreign exchange	(624)	–	(624)
As at 27 June 2021	39,497	67	39,564

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

18. LEASES CONTINUED

Amounts recognised in the Consolidated Statement of Comprehensive Income

	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 lease payments	1,713	–	1,713
As at 28 June 2020	13,764	377	14,141
52 weeks ended 27 June 2021			
Depreciation charge on right of use assets	9,069	218	9,287
Interest on lease liabilities	1,117	4	1,121
Expenses related to low value leases	–	1	1
Expenses related to short-term leases	386	151	537
Expenses related to variable lease payments	1,667	–	1,667
As at 27 June 2021	12,239	374	12,613

Lease liabilities	27 June 2021 £000	28 June 2020 £000
Maturity analysis – contractual undiscounted cash flows		
Less than one year	10,237	11,433
Between one and two years	9,470	10,903
Between two and five years	20,377	25,482
After five years	7,481	12,279
Total contractual cash flows	47,565	60,097

19. DEFERRED TAX ASSET

	52 weeks ended 27 June 2021 £000	52 weeks ended 28 June 2020 £000
Deferred taxation asset	479	597
	479	597

Reconciliation of deferred tax balances:

	52 weeks ended 27 June 2021 £000	52 weeks ended 28 June 2020 £000
Balance at beginning of period	597	623
Statement of Changes in Equity (IFRS 16)	–	394
Deferred tax (credit)/charge for the period through profit and loss	(416)	487
Deferred tax charge/(credit) for the period through Other Comprehensive Income	308	(208)
Deferred tax charge for the period through Statement of Changes in Equity	(10)	(699)
Balance at end of period	479	597

19. DEFERRED TAX ASSET CONTINUED

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

	52 weeks ended 27 June 2021 £000	52 weeks ended 28 June 2020 £000
Fixed asset differences	(1,603)	(650)
Short-term differences	1,601	1,226
Derivative financial instruments	87	(221)
Share-based payments	332	179
Unused trade losses	62	63
	479	597

At 27 June 2021, the Group had £2,184k unrecognised deferred tax assets relating to the US business (28 June 2020: £2,184k).

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 26 June 2022 a rate of 19% has been used.

For any remaining temporary differences expected to reverse after 27 June 2021 a rate of 20.5%-25% has been used, in line with the prevailing tax rate.

20. DERIVATIVE FINANCIAL INSTRUMENTS

	52 weeks ended 27 June 2021 £000	52 weeks ended 28 June 2020 £000
Derivative financial assets:		
Current		
Foreign currency forward contracts	–	1,100
	–	1,100
Non-current		
Foreign currency forward contracts	–	92
	–	92
Derivative financial liabilities:		
Current		
Foreign currency forward contracts	925	27
	925	27
Non-current		
Foreign currency forward contracts	28	327
	28	327

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

20. DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

The fair value of foreign currency forward contracts are based on observable information using 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 27 June 2021, 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 27 June 2021 was £30,780k (28 June 2020: £27,364k). The movement in the fair value on forward contracts in the period of £1,897k loss (28 June 2020: £1,276k profit) has been included within Other Comprehensive Income in the Consolidated Statement of Comprehensive Income.

21. INVENTORIES

	52 weeks ended 27 June 2021 £000	52 weeks ended 28 June 2020 £000
Raw materials	9,499	6,915
Work in progress	241	–
Finished goods	22,298	7,001
	32,038	13,916

Total inventory recognised as an expense in the Statement of Comprehensive Income during the period was £62,558k (28 June 2020: £53,358k).

22. 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 27 June 2021 £000	Restated* 52 weeks ended 28 June 2020 £000
Current		
Trade receivables	2,650	1,886
Other receivables	7,122	2,726
Prepayments	2,649	2,880
	12,421	7,492
Non-current		
Prepayments	–	–
	–	–

* Restated 52 weeks ended 28 June 2020 – see Note 25.

23. 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 £12,153k at 27 June 2021 (28 June 2020: £5,705k). The loan facility has been extended to Hotel Chocolat KK from December 2023 until December 2028. The credit risk of the loan was assessed in line with IFRS 9 and the Directors believe there is no change to the risk of default and the probability of default has been determined as nil. Whilst the date of repayment has been pushed out, the directors do not deem the loan to be impaired and therefore no expected credit loss is recognised. This decision was made using the forecasts for the period of the loan, discounted at an appropriate WACC of 9.335%, and review of current performance against the forecasts and trading information pre-COVID.

Interest is charged on a commercial basis at 2% plus base rate, and accrues quarterly. Summarised financial information for Hotel Chocolat KK is set out below:

	Unaudited 52 weeks ended 27 June 2021 £000	**Unaudited 52 weeks ended 28 June 2020 £000**
Current assets	3,655	1,817
Non-current assets	9,193	2,781
Current liabilities	(3,601)	(2,580)
Non-current liabilities	(16,879)	(5,414)
The following amounts have been included in the amounts above:		
Cash and cash equivalents	318	75
Revenue	8,844	2,610
Total comprehensive loss	(4,988)	(2,007)
The following amounts have been included in the amounts above:		
Depreciation and amortisation	(1,147)	–
Interest income	2	–
Interest expense	(272)	(105)
Income tax	(294)	–

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

24. INVESTMENT IN SUBSIDIARIES

The Group's operating subsidiaries as at 27 June 2021 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 Ltd*	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	Saint Lucia[4]	100%	
Indirect Holdings – exempt from audit*				
Rabot 1745 Limited*	Distributer of skincare products	England & Wales[1]		100%
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%
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	Saint Lucia[5]		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, Saint Lucia.

5 #20 Micoud Street, Castries, Saint 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.

24. INVESTMENT IN SUBSIDIARIES CONTINUED

Name	Principal activities	Country of business / incorporation	Proportion of ordinary shares directly held by parent	Proportion of ordinary shares held by the Group
Indirect Holdings – exempt from audit*				
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%
Gingerhill Properties Limited*	Property Holding Company	England & Wales[1]	06932089	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%
Melonhill Properties Limited*	Property Holding Company	England & Wales[1]	07649613	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%
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%

Registered addresses:

1 Mint House, Newark Close, Royston, Hertfordshire, SG8 5HL, United Kingdom.

* 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.

^ Dissolved on 13 July 2021.

25. CASH AND CASH EQUIVALENTS

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

	52 weeks ended 27 June 2021 £000	*Restated 52 weeks ended 28 June 2020 £000
Cash and cash equivalents	10,046	27,503
	10,046	27,503

* Restatement:

During the period ended 27 June 2021, the Group changed its accounting policy in relation to 'cash in transit' to recognise this as cash and cash equivalents only when received, as a result the comparative amounts for other debtors and cash and cash equivalents have been restated. The effect on specific financial statement line items within the Consolidated Statement of Financial Position and Consolidated Statement of Cash flow is as described on the following page.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

25. CASH AND CASH EQUIVALENTS CONTINUED

Consolidated Statement of Financial Position

	Reported in 52 weeks ended 28 June 2020 £000	Restatement £000	Restated 52 weeks ended 28 June 2020 £000
Cash and cash equivalents	28,053	(550)	27,503
Trade and other receivables	6,942	550	7,492

Consolidated Statement of Cash flow

	Reported in 52 weeks ended 28 June 2020 £000	Restatement £000	Restated 52 weeks ended 28 June 2020 £000
Increase in trade and other receivables	1,095	257	1,352
Cash inflow generated from operations	27,068	257	27,325
Cash flows from operating activities	22,847	257	23,104
Net change in cash and cash equivalents	22,326	257	22,583
Cash and cash equivalents at beginning of period	5,778	(807)	4,971
Cash and cash equivalents at end of period	28,053	(550)	27,503

26. 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 27 June 2021 £000	52 weeks ended 28 June 2020 £000
Current		
Trade payables	13,962	8,154
Other payables	11,250	9,349
Other taxes payable	330	2,500
Accruals	16,681	7,248
	42,223	27,251
Non-current		
Other payables and accruals	2	31
	2	31

27. BORROWINGS

As at 28 June 2020, the Group had a £25m Government Coronavirus Large Business Interruption Loan that was signed on 1 July 2020, and had not been drawn. On 22 July 2021, a new Lloyds revolving credit facility was signed to replace this. Please refer to events subsequent to the reporting date, see Note 36 for more information.

28. PROVISIONS

	52 weeks ended 27 June 2021 £000	52 weeks ended 28 June 2020 £000
Non-current		
Lease dilapidations provision	1,585	959
	1,585	959

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 28 June 2020	
At beginning of period	944
Released through profit and loss	(15)
Amounts capitalised during the period	30
Exchange difference	
At end of period	959
52 weeks ended 27 June 2021	
At beginning of period	959
Released through profit and loss	–
Amounts capitalised during the period	630
Exchange difference	(4)
At end of period	1,585

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.

29. SHARE CAPITAL

	As at 27 June 2021 Shares	As at 27 June 2021 £000	As at 28 June 2020 Shares	As at 28 June 2020 £000
Allotted, called up and fully paid:				
Ordinary shares of £0.001 each	125,880,158	126	125,500,611	126
	125,880,158	126	125,500,611	126

The Board have agreed not to recommend payment of a final dividend (28 June 2020: £nil). There were no authorised shares not yet issued as at 27 June 2021 (28 June 2020: 1,443,206).

Period ended 27 June 2021:

95,644 ordinary shares were issued during the period ended 27 June 2021 to satisfy shares allotted under the Company's Save as You Earn Plan and 80,000 shares under the Company's Long-Term Incentive Plan. During the period ended 27 June 2021, 203,903 shares were issued following the acquisition of Rabot 1745 Limited.

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

30. 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 27 June 2021 are presented in the Consolidated Statement of Changes in Equity.

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

The Group did not pay a dividend during the period (28 June 2020: 1.2p - £1,386k out of retained earnings being a final dividend of 1.2p per share in relation to the period ended 30 June 2019).

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 24 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 represented the aggregate nominal value of all the ordinary shares repurchased and cancelled by the Group.

Other reserves includes the movements in share-based payments and derivative financial instruments. For further details, refer to Notes 10 and 20 respectively. For details on the prior year restatement of the share-based payments reserve, refer to Note 14.

31. CAPITAL COMMITMENTS

The Group had capital commitments totalling £3,190k as at 27 June 2021 (28 June 2020: £255k).

32. CONTINGENT LIABILITIES AND GUARANTEES

There were no contingent liabilities or Group guarantees at 27 June 2021 (28 June 2020: £nil). The Group guarantees the external bank loans of the joint venture in Japan, Hotel Chocolat KK, totalling 600m Japanese YEN.

33. 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.

On 17 June 2021, the Group increased its shareholding to 100%, in Rabot 1745 Limited (see note 12). Andrew Gerrie previously held 50%. The primary activity of Rabot 1745 Limited is the manufacture and sale of beauty products. During the period, the Group settled debt owed to Andrew Gerrie of £744,249 through the issue of 203,903 new ordinary shares of 0.1 pence each.

During the period and up until acquisition, the Group purchased goods from Rabot 1745 Limited with a value of £270k (28 June 2020: £376k). There were no amounts due at the period end (28 June 2020: £nil). See Note 13.

During the period, the Group sold goods to Hotel Chocolat KK with a value of £2,095k (28 June 2020: £794k) and recharged costs of £563k (28 June 2020: £90k). The Group also extended long-term loan facilities to Hotel Chocolat KK. Hotel Chocolat Ltd agreed to provide working capital funding to Hotel Chocolat KK. During the period Hotel Chocolat KK borrowed £3,607k (28 June 2020: £3,217k) all of which is outstanding at the period end. At the period end a total of £12,153k (28 June 2020: £5,705k) was outstanding. See Note 23.

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.

33. RELATED PARTY TRANSACTIONS CONTINUED

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 £232k in the period ended 27 June 2021 (28 June 2020: £151k). There was no rent outstanding at the period end (28 June 2020: £34k) and there is a lease liability of £591k (28 June 2020: £766k).

During the period family members of the Directors stayed at the Group's hotel in Saint Lucia. Total amounts paid equalled $2k (28 June 2020: $2k) and there are no amounts outstanding at the balance sheet date (28 June 2020: £nil).

No other amounts were due to Directors (28 June 2020: £nil).

34. CATEGORIES OF FINANCIAL INSTRUMENTS

	52 weeks ended 27 June 2021 £000	52 weeks ended 28 June 2020 £000
Financial assets		
At amortised cost		
Trade and other receivables (excluding prepayments)	8,682	2,058
Loan to Hotel Chocolat KK	12,153	5,705
Cash and cash equivalents	11,136	28,053
	31,971	35,816
At fair value		
Derivative financial assets	–	1,192
Financial liabilities		
At amortised cost		
Trade and other payables	24,831	17,502
Accruals	16,681	7,249
Lease liabilities	39,564	46,953
	81,076	71,704
At fair value		
Derivative financial liabilities	953	354

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

34. CATEGORIES OF FINANCIAL INSTRUMENTS CONTINUED

Fair value hierarchy

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

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

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

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

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 20 for further information.

There have been no transfers between Levels in the period.

35. 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 20 for further information about the Group's foreign currency forward contracts.

Interest Risk

The Group is exposed to interest rate risk on its revolving credit facility, which carries interest at variable rates on amounts which are overdrawn. The revolving credit 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 cash flow 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. Management do not consider that there is any concentration of risk within trade receivables.

35. FINANCIAL RISK MANAGEMENT CONTINUED

Ageing analysis:

	52 weeks ended 27 June 2021 £000	52 weeks ended 28 June 2020 £000
Trade receivables		
Up to three months	2,365	2,120
Three to six months	(19)	36
Above six months	516	6
Impairment provision	(212)	(276)
Total	2,650	1,886

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

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

Expected loss rates for 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 0.8% (28 June 2020: 2.1%) and the expected loss provision is £15k (28 June 2020: £14k).

The impairment provision of £212k (28 June 2020: £276k) relates to £197k (28 June 2020: £262k) of specifically provided debt and £15k (28 June 2020: £14k) 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 27 June 2021 £000	52 weeks ended 28 June 2020 £000
United Kingdom	2,516	1,536
Europe	6	–
Rest of World	128	–
Total	2,650	1,536

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 28 June 2020		
Trade and other payables	24,752	–
Derivative financial instruments	18,671	15,393
	43,423	15,393
52 weeks ended 27 June 2021		
Trade and other payables	41,893	–
Derivative financial instruments	26,788	3,992
	68,681	3,992

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

35. 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.

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

There have been the following events subsequent to the period end and up to 4 October 2021, the date of approval of the financial statements by the Board;

On 22 July 2021, Hotel Chocolat Group plc raised gross proceeds of up to £40m via a placing of new ordinary shares of 0.1 pence each at a price of 355 pence per share. On this day, the Group also announced a new £30m two-year Revolving Credit Facility with Lloyds Bank. The RCF has an uncapped accordion facility and replaces a £25m Government Coronavirus Large Business Interruption loan scheme which was never drawn down.

On 28 September 2021, a new loan agreement was signed with Hotel Chocolat KK and the repayment date was extended from December 2023 until December 2028.

37. ULTIMATE CONTROLLING PARTY

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

38. ANALYSIS OF NET CASH/NET DEBT

	*Restated As at 28 June 2020 £000	Cash flow £000	Non-cash changes £000	As at 27 June 2021 £000
Cash at bank and in hand	27,503	(17,247)	(210)	10,046
Net cash per statement of cash flows	27,503	(17,247)	(210)	10,046
Borrowings	–	–	–	–
Net cash before lease liabilities	27,503	(17,247)	(210)	10,046
Lease liabilities	(46,953)	9,894[1]	2,505	(34,554)
New debt after lease liabilities	(19,450)	(7,353)	2,295	(24,508)

	As at 30 June 2019 £000	Impact of IFRS 16 £000	Cash flow £000	Non-cash changes £000	*Restated As at 28 June 2020 £000
Cash at bank and in hand	4,971	–	22,583	(51)	27,503
Net cash per statement of cash flows	4,971	–	22,583	(51)	27,503
Borrowings	–	–	–	–	–
Net cash before lease liabilities	4,971	–	22,583	(51)	27,503
Lease liabilities	–	(53,208)	9,155[1]	(2,900)	(46,953)
New debt after lease liabilities	4,971	(53,208)	31,738	(2,951)	(19,450)

* Restated 52 weeks ended 28 June 2020 – see Note 25.

1 Includes capital element and interest paid on lease liabilities.

COMPANY STATEMENT OF FINANCIAL POSITION

	Notes	As at 27 June 2021 £000	As at 28 June 2020 £000
ASSETS			
Non-current assets			
Investments	40	11,937	11,026
Amounts due from related parties	41	34,885	12,168
		46,822	23,194
Current assets			
Trade and other receivables	41	8	8
Cash and cash equivalents	42	45	21,665
		53	21,673
Total assets		46,875	44,867
LIABILITIES			
Current liabilities			
Trade and other payables	43	(334)	(358)
		(334)	(358)
Total liabilities			(358)
NET ASSETS		46,541	44,509
EQUITY			
Share capital	44	126	126
Share premium	44	38,684	37,561
Retained earnings	44	4,852	4,854
Capital redemption reserve	44	6	6
Share based payment reserve	44	2,873	1,962
Total equity attributable to shareholders		46,541	44,509

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 loss for the period ended 27 June 2021 is £2k (28 June 2020: profit £nil).

The financial statements of Hotel Chocolat Group plc, registered number 08612206 were approved by the Board of Directors and authorised for issue on 4 October 2021. They were signed on its behalf by:

Matt Pritchard
Chief Financial Officer
4 October 2021

COMPANY STATEMENT OF CHANGES IN EQUITY

	Share capital £000	Share premium £000	Retained earnings £000	Capital redemption reserve £000	Share based payment reserve £000	Total £000
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)
Dividends paid	–	–	(1,386)	–	–	(1,386)
Other comprehensive income:						
Profit for the period	–	–	–	–	–	–
Equity as at 28 June 2020	126	37,561	4,854	6	1,962	44,509
Share based payments	–	–	–	–	911	911
Issue of share capital	–	1,123	–	–	–	1,123
Other comprehensive income:						
Loss for the period	–	–	(2)	–	–	(2)
Equity as at 27 June 2021	126	38,684	4,852	6	2,873	46,541

NOTES TO THE COMPANY FINANCIAL STATEMENTS

39. 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 cash flow 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;
- 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;
- financial instruments;
- capital management;
- standards not yet effective; and
- certain related parties transactions.

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 measured at amortised 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 amortised cost.

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 increase in 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

40. INVESTMENTS

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

	52 weeks ended 27 June 2021 £000	52 weeks ended 28 June 2020 £000
Cost		
At beginning of period	11,026	10,664
Share based payments	911	362
At end of period	11,937	11,026
Carrying amount	11,937	11,026

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 24.

41. 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 27 June 2021 £000	52 weeks ended 28 June 2020 £000
Non-current assets		
Amounts due from related parties	34,885	12,168
Current assets		
Other receivables	8	8
	34,893	12,176

42. 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.

43. TRADE AND OTHER PAYABLES

	52 weeks ended 27 June 2021 £000	52 weeks ended 28 June 2020 £000
Accruals	18	42
Amounts due to related parties	316	316
Total trade and other payables	334	358

44. 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 29 and 30 of the Group financial statements.

The Company did not pay a dividend during the period (28 June 2020: 1.2p – £1,386k out of retained earnings being a final dividend of 1.2p per share in relation to the period ended 30 June 2019).

45. CAPITAL COMMITMENTS

There were no amounts contracted for but not provided for as at 27 June 2021 (28 June 2020: £nil).

46. RELATED PARTY TRANSACTIONS

Amounts owed by and to subsidiaries are disclosed in Notes 41 and 43 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 57 and 58.

Interests and related party transactions are disclosed in Note 33 of the Group financial statements.

COMPANY INFORMATION

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