HOTEL Chocolat.

Making People Happy Through Chocolate

Hotel Chocolat Group plc

Annual Report and Accounts 2022

"A rollercoaster year, with everything: exceptional growth; significant growing pains, and a determined new focus."

Angus Thirlwell
Co-founder and Chief Executive Officer

Inside this report

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

2022 HIGHLIGHTS

FINANCIAL HIGHLIGHTS

REVENUE

£226.1m

2022	£226.1m
2021	£164.6m
2020	£136.3m

+37%

UNDERLYING EBITDA[1]

£40.8m

2022	£40.8m
2021	£28.6m
2020	£21.6m

+43%

UNDERLYING PROFIT BEFORE TAX[1,2]

£21.7m

2022	£21.7m
2021	£9.6m
2020	£2.4m

+126%

REPORTED (LOSS)/PROFIT AFTER TAX[2]

(£9.4m)

2021: £3.7m

DILUTED Earnings/(Loss) per share[2]

(6.9)p

2021: 2.9p

DIVIDEND

Nil

FY21: Nil

1 Alternative performance measures (APMs). See page 22 for purpose and definition of APMs.

2 Restated 52 weeks ended 27 June 2021, see Note 13.

OPERATIONAL HIGHLIGHTS

SALES GROWTH

+37%

vs FY21, +71% vs FY19 (pre COVID)

ACTIVE CUSTOMER DATABASE

2m

+15% vs FY21

UK RETAIL SALES GROWTH

+23%

vs FY19 (pre COVID)

STRATEGIC FOCUS ON IMPROVING MARGINS FOR SCALABLE RETURNS

DEPLOYMENT OF PLACING PROCEEDS

Production capacity increased 80% vs FY19

MARKET HEADROOM

Larger UK addressable market* from new categories and channels (younger families interested in sustainability)

INTERNATIONAL

Rebase and focus on capex-light risk-contained growth propositions

GENTLE FARMING

First harvest following launch of programme in Ghana

TEAM ENGAGEMENT

#7 best large UK company

(Best Companies Q3 '22)

* Management estimate.

AT A GLANCE

We have delivered exceptional sales growth, with a clear strategy to continue to strengthen the brand and improve profitability.

Today the Hotel Chocolat brand spans categories and channels. We started in the 1990s as a digital and subscriptions business. Physical stores came later in 2004 and then in 2009 we began to manufacture our chocolates in the UK. Our own cacao farm in Saint Lucia has been the genesis of our ethical Gentle Farming Programme in Ghana.

OUR KEY PRODUCT RANGES

GIFTING

ONLINE GIFT DELIVERY DIRECT TO YOUR RECIPIENT, OR MAKE YOUR SELECTION IN-STORE

The total gifting market is larger than FMCG chocolate markets in the UK and in many other developed economies

Compelling brand-led gifts with prices from £5 to £350

Specialise in ranges for the largest cultural events with strong loyalty: occasions when HC products can be a focal point of family togetherness and celebration

Exclusive alcohol range – led by Velvetised Cream

IN-HOME

A REGULAR TASTE OF HOTEL CHOCOLAT WITHIN YOUR FAMILY

HC has cross-generation brand appeal driven by product attributes, brand values and category breadth

Drinkable and edible chocolate categories now address multiple family requirements/occasions

The Velvetiser system for hot chocolate, iced chocolate and lattes, with an extensive range of flavours

Simple no-hassle recurring delivery of your HC favourites on subscription

LEISURE

THE JOY OF STROLLING INTO A PHYSICAL STORE FOR SELF-TREAT OR EXPERIENCE

The most accessible way into Hotel Chocolat. A powerful and profitable way to recruit new customers and retain existing

Our Wall of Chocolate featuring recipes with something for every taste tribe

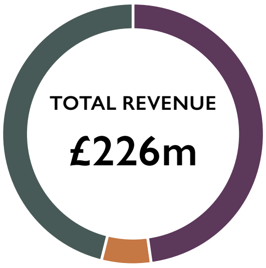
Cafés serving Velvetiser drinking chocolate, Choc Shakes, Ice Cream of the Gods and our own coffee roast

And for the ultimate leisure immersion: Our Rabot Hotel and Project Chocolat, a six-acre cacao and chocolate visitor attraction, both set in a UNESCO world heritage site in Saint Lucia

"A rollercoaster year, with everything: exceptional growth, significant growing pains and a determined new focus."

ANGUS THIRLWELL
CHIEF EXECUTIVE OFFICER

REVENUE BY CHANNEL



UK digital, partners & continuity
46.5%

UK own stores
48.4%

International
5.1%

MARKETS

UK

hotelchocolat.com

122 store locations

GROWTH STRATEGY

1) Management estimate that the UK total addressable market size is materially larger than previously assumed.

- **Through newer categories**

Success of newer categories has proven that we can sell more to existing customer families

- **Through the brand appeal**

New market research has identified significant newly addressable UK audience segments who respond well to the brand focus on Gentle Farming and sustainability, and the More Cacao Less Sugar approach to recipes

2) Focus on profitability
Production efficiencies and increase ratio of full-price sales

INTERNATIONAL

Capital light, risk-contained approach to potential opportunities

GROWTH STRATEGY

Exploring future potential for capex-light risk contained approaches:

1) Brand licencing with partners providing growth capital

2) Selective wholesale into established distribution channels:

- Long-life transit resilient products
- Credible standalone ranges in specific channels with large addressable markets
- Capex light (3rd party production)
- Stringent ROCE targets for new accounts

OUR KEY STRENGTHS PROTECT THE OPPORTUNITY TO DRIVE STRONGER RETURN ON CAPITAL

DIFFERENTIATED BRAND & PRODUCT

Differentiated brand ethical, luxury, contemporary

Differentiated taste 'More Cacao, Less Sugar'

Differentiated product with strong IP protection and a distinctive take on chocolate

Differentiated culture founder-led with innovation and sustainability at heart

Differentiated approach to cacao ethics using the knowledge from 15 years of cacao farming on our own land to create a practical programme

STRONG, FLEXIBLE MANUFACTURING PLATFORM

Strong internal IP generation

Vertical integration benefits

Recent investments in manufacturing capacity and capability create headroom for growth

World-class product quality with unique techniques

Potential scale economies to reduce unit cost and further improve quality

STRATEGIC REPORT


HOTEL Chocolat
HOTEL Chocolat
Net Wt. 18.87 oz. (535g)
PATISSERIE

CHAIRMAN'S STATEMENT

"We have grown strongly this year. Many parts of our plan have worked well, strengthening the brand and acquiring new customers, giving us a clear roadmap for future success."

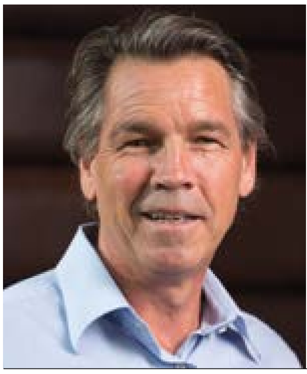
ANDREW GERRIE
NON-EXECUTIVE CHAIRMAN

In FY22 we achieved sales of £226m, an increase of 37% on FY21 and 71% on FY19. During this period we have achieved a great deal; investing in growth, developing new categories, acquiring new customers and improving our sustainability. We can now clearly see which elements of the fast-growth plan are working the best. As a result we have an adapted, simple plan to leverage our core strengths.

Underlying profit before tax of £21.7m remains strong. Stopping some activities resulted in exceptional costs and a statutory reported loss, as explained in the Financial Review on page 16.

OVERVIEW

In FY22, for the second consecutive year, we grew strongly in the UK across channels and categories, acquiring new customers and reacting to a changing external landscape. The easing of pandemic restrictions saw physical retail sales and profitability rebound, bolstered by new categories and an increase in the active customer database. This was supported by online and partnerships which continue to play a major role in delivering the brand to consumers at their convenience. The breadth of activity and the pace of growth was the fastest in the Group's history, and on behalf of the Board I would like to thank the whole HC team for working so hard to achieve this. The fast pace of growth included many successful elements and some initiatives that didn't deliver the returns we had targeted. We have therefore made the tough but compelling decision to focus our efforts on those growth drivers that can deliver the highest returns relative to risks, over the short to medium term. We have excellent products, a skilled and committed team and a well invested vertically integrated platform which combine to make Hotel Chocolat a strong brand with great prospects.



STRATEGY

Hotel Chocolat is first and foremost a strong brand in the eyes of our loyal customers. The strong customer relationship through our multiple channels is driven by our values of authenticity, originality and ethics. What is perhaps often overlooked is the degree to which the brand strength is underpinned by our manufacturing skills. We have a well-invested and high-quality production facility in the UK which designs and makes our amazing range of products. A greater focus on leveraging these strengths can unlock scale economies, reduce unit costs and further improve the customer experience and product quality.

The Group continues to retain its long-term international growth ambitions but near-term, will adopt a more focused approach by backing capex light and risk light approaches.

FY22 FINANCIAL OVERVIEW

FY22 Group revenue of £226m (FY21: £165m) was driven by a combination of stronger UK retail sales, and robust growth in customer numbers supported by investment in new categories and increased acquisition marketing. Underlying profit before tax increased 126% to £21.7m.

Our statutory reported loss in FY22 contains a number of material items arising from our strategic decision to prioritise only the best prospects for financial returns. This includes the decision to exit from a number of smaller product categories, and from direct-to-consumer operations in the USA, along with impairment of our loans to the Japan Joint Venture. The statutory loss for the period of £9.4m reflects multiple non-recurring costs relating to the cessation of these activities. The underlying profit before tax of £21.7m represents a pleasing result, evidencing the ongoing success of the core business. A full reconciliation between the statutory reported profit and the alternate or underlying performance measure is included in the Financial review on page 16.

DIVIDEND

Given the opportunities to invest for further growth and returns, 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 in the light of internal growth opportunities and the external environment and intends to recommence progressive dividend payments when appropriate to do so.

BOARD OF DIRECTORS CHANGES

The Group continues to benefit from a strong founder-led management team. As we look towards the next phase of evolution for Hotel Chocolat, I have agreed with the Board that it is the right time to seek a new Board Chair due to my growing business commitments with new ventures.

I will be offering myself for re-election at the coming 2022 AGM in order to provide continuity during the succession process. I would like to thank everyone at HC for a rewarding seven years, and all our stakeholders for their loyalty and commitment. Hotel Chocolat is a great business and it has been a privilege to play a small role in the story so far.

Matt Pritchard CFO will also be leaving in 2023 after almost nine years at Hotel Chocolat. On behalf of the Board and the whole HC team I would like to thank Matt for his energetic support and commitment through the Group's significant evolution and growth. Matt continues to be actively involved in all parts of the business and will be offering himself for re-election at the AGM in order to support the succession plan and a smooth transition.

OUTLOOK

The Hotel Chocolat Brand is in good health as evidenced by growing sales and progress on sustainability initiatives. Whilst there continues to be external macro-economic challenges including inflationary pressures, the Hotel Chocolat team have continually proven the ability to adapt to changing circumstances whether arising from pandemic, economic factors or from the acceleration in growth across multiple fronts. I therefore remain confident in the ability of the brand and the team to deliver attractive returns.

Our focused strategy has led to the cessation of some activities resulting in transitional costs in FY23 with the goal of higher profit margin thereafter.

The Board have made clear strategic choices to maximise the prospects for the Group, and the business entered FY23 in a strong position. At the date of publication we have two thirds of the year still to trade, including the five largest gift events, and the Board is taking a prudent approach to manage current trading.

Andrew Gerrie
Non-executive Chairman

BUSINESS OVERVIEW

OUR VALUES-LED APPROACH CREATES LONG-TERM SUCCESS FOR ALL OUR STAKEHOLDERS

OUR MISSION

To make people happy through chocolate

OUR VISION

To become a highly profitable direct to consumer premium brand, and to develop the capabilities for global wholesale growth

"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 Drivers

VELVETISER
In-home drinks system

VIP ME
Customer loyalty & rewards

UK RETAIL AND DIGITAL
Improved customer experience and subscriptions

GLOBAL WHOLESALE
Exclusive alcohols and capsule collections

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
Striving for higher returns

OUR COMMUNITIES
Giving back and making people happy

OUR ENVIRONMENT
Treading lightly, with 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 Programme.

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

HOTEL & VISITOR ATTRACTION

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 focus on improving our efficiency and the customer experience.

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

"A rollercoaster year, with everything: exceptional growth, severe growing pains and a determined new focus."

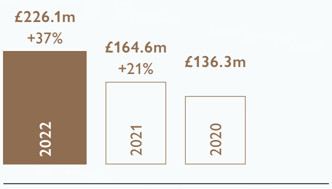
ANGUS THIRLWELL
CO-FOUNDER AND CHIEF EXECUTIVE OFFICER

IN THIS REVIEW I WILL COVER:

- How we continue to invest in our brand, supported by our approach to sustainability and how this plays a key role in our strategy
- Our sales and profit for the period and how this has informed our strategic choices
- The performance of our operations and channels, and the outlook for the business

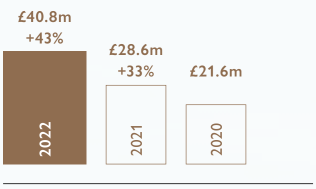
REVENUE

£226m



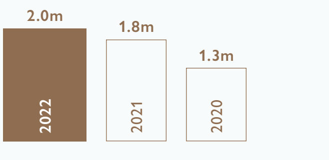
UNDERLYING EBITDA[1]

£40.8m



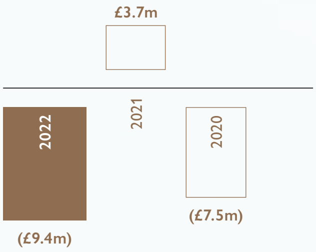
ACTIVE CUSTOMER DATABASE[2]

2.0m



STATUTORY (LOSS)/PROFIT AFTER TAX

(£9.4m)



1 Alternative performance measurements (APMs). See page 22 for purpose and definition of APMs.

2 Online and VIP Customers on database purchasing in the last 12 months.

FY22 was another intense growth year, driven by our six strategic initiatives. This pace created new challenges, which led to a re-ranking of our growth drivers, doubling down on those giving the best returns and pulling back on those delivering less. FY23 will mark the start of a new phase for Hotel Chocolat with a more determined focus on our operating model and the returns it can generate.

The business achieved another acceleration in sales growth in FY22. Sales of £226m were 37% higher than FY21, and 71% higher than FY19, the last full year before the COVID pandemic disruption. Our compound annual growth rate ("CAGR") over the last two years of 29% compares to a CAGR of 12% in the four years up to FY19 inclusive.

The higher growth rate is testament to a strong brand powering forward on many fronts, driven by the efforts of the whole team. We have also learned that faster growth brings new pressures, challenges and opportunities and have therefore moved swiftly to ensure we have the best prospects for future success with a clear and simple adapted strategy.

In 2019 we added six new growth levers to our existing strategy:

- The Velvetiser Hot Chocolate system
- VIP loyalty
- Digital growth focus
- Global wholesale
- USA D2C
- Japan joint venture

In half two of 2022, we re-rated the growth drivers:

- VIP loyalty and digital growth focus became part of business as usual, having succeeded in their goals.
- The Velvetiser Hot Chocolate System and Global Wholesale were prioritised for more focus.
- USA D2C and Japan D2C were de-prioritised whilst the Group explored alternative, lower risk, ways to capitalise on the brand appeal in these major markets.

In 2020 the business adapted effectively to the COVID pandemic threat and by 2021 we saw Group sales accelerate rapidly due to the performance of our six growth drivers alongside the re-opening of the economy following the end of lockdowns. In July 2021 we raised £40m from a new equity placing to fund capex and working capital investments to support sales growth whilst profit generation remained COVID-impaired. These funds were deployed and as a result sales growth accelerated further in FY22.

BRAND HEALTH

Our planned investments in the brand delivered measurable improvements for customers, colleagues and farmers.

Our Brand tracker uses market research to assess UK consumer awareness of Hotel Chocolat and the degree of consideration as a business with ethics at its heart. This research shows that we have significant customer growth opportunity, particularly with slightly younger age groups including families with children at home, and especially those who have a personal interest in ethics and sustainability.

- In 2021 we launched our Gentle Farming Programme, investing approximately 100 basis points of margin to pay increased prices to farmers in exchange for undertaking a farming approach that encourages a focus on cacao tree pruning to improve plant health and increase yields, and the planting of shade trees to encourage biodiversity and help mitigate the impact of climate change. I visited Ghana with the team to meet with farmers and community leaders, the initiative was well received. We will receive our first assurance data shortly which will inform our next phase.
- We continued to adhere to our More Cacao Less Sugar approach, with our range meeting Public Health England's targets for sugar.
- We launched Founder Shares in the period, giving every UK employee options for free shares in Hotel Chocolat to encourage teamwork and provide colleagues the opportunity to share in future success.
- We were delighted to achieve an 'outstanding' score in our all-employee engagement survey.

FINANCIAL OVERVIEW

Sales

Sales grew by 37% to £226m (FY21: £165m). Sales in the UK increased by 35% and the growth of international grew by 126%.

The performance of our UK channels, and of both our new and existing categories, indicates that the total addressable market for the Hotel Chocolat brand in the UK is greater than we had previously estimated. This is also supported by market research that shows significant potential to appeal to more UK households.

Profit

We reported a statutory loss before tax for the period of (£8.7m), which is clearly disappointing. The loss is reflective of the significant impacts of discontinuing activities in the year that had lower prospects for future returns, relative to the ongoing, proven new successes. Whilst temporarily painful to make these decisions, making choices like this has always been part of Hotel Chocolat's entrepreneurial history.

An analysis of the components of the reported loss and the reconciliation to the alternative performance metric of underlying profit before tax of £21.7m (FY21: £9.6m restated) is provided in the Financial review on page 16.

Faster growth brought with it significant internal growing pains. Our pre-pandemic sales CAGR of 12% shaped a business that doubled revenues every seven years, whereas the latest three-year CAGR of 29% doubles the business size in less than three years. This means decisions on future investments in people, technology, inventory levels and plant and equipment capex need to be made at a much faster pace, with many of these costs needing to be committed in advance of the future sales generation, bringing greater inherent risk. The adjustments to correct for elements of this are very much self-help, being directly controllable by us. Aligning our operating costs and structures to the new shape of the business is the key to the level of future margins and return on capital that I expect from Hotel Chocolat.

CHIEF EXECUTIVE'S STATEMENT CONTINUED

We have set an internal objective of 20% EBITDA margin by FY25 (pre IFRS 16). It is clear that some of the growing pains were, in retrospect, avoidable and we are enhancing governance and adopting a more risk-contained strategy that prioritises brand health and profitability over higher rates of revenue growth. An additional factor during H2 of FY22 was the fast deterioration in global consumer outlook, coming so soon after an ebullient H1 sales and profit performance. Although I believe we have reacted speedily, there will be an overhang of some costs into FY23 before we have fully adjusted.

OPERATIONAL REVIEW

Our UK manufacturing operations are a key competitive strength and differentiator. Our ability to manufacture a wide range of unique products is a key source of competitive value. Our skilled team, bespoke factory capabilities and in-house IP all combine to create long term brand strength. In addition, we see significant opportunities to reduce unit costs of production given the recent scaling and future range optimisation.

Throughout the business we intend to increase the focus on the role of manufacturing within our value creation plan. This, we believe, will unlock more of the benefits of our vertical integration and improve margins.

In March we signed a ten-year lease on a 430,000sq ft second DC near Northampton. For peak FY22 we operated with 200,000 sq ft in our own DC with significant inventory held off-site in third-party storage. Bringing all inventory into our own locations supports smoother operation and improved service. In the initial years of the new lease the dual-running costs on our revised sales CAGR projection will temporarily represent a cost headwind of 300bps, with the expectation that this will dilute by FY25.

UK SALES CHANNEL REVIEW

Our multichannel sales model achieved UK sales growth of 35% year-on-year. The mix of sales shifted back towards retail stores and encouragingly we are now seeing higher sales densities in our stores than before the pandemic, with lower property costs. In the period we upsized 4 locations, moving into larger nearby sites, adding more elements to our offer in these towns, which we forecast will drive improved profit per catchment. We anticipate that in future more space growth will come from upsizes than from openings in new catchments.

Digital and partners continue to complement our retail estate by offering convenient delivery. The combination of all three channels, underpinned by our VIP loyalty programme drives brand awareness and loyalty. Active customers increased by 15% to over 2 million, with frequency also rising by 14%.

INTERNATIONAL REVIEW

The Group intends to utilise risk-contained techniques to capitalise on the brand appeal in major international markets. These will include:

- brand licensing arrangements (with partners deploying their capital)
- selective wholesale (into established distribution channels)

USA

Having previously pivoted our D2C model from a retail rollout strategy to an online-led approach in response to the pandemic and market learnings, we saw some encouraging sales performance in the period with sales growing by 145% in the first half of the year. However, we remained dissatisfied with the margins we were achieving due to the complexity of the supply chain and the forecasting inaccuracies for a new business, and with the ongoing heavy demands on senior team bandwidth. We therefore decided near-term, to prioritise development of wholesale routes to market, led by, but not exclusive to, the Velvetised Cream alcohol category, which benefits from long shelf-life and a long-established wholesale distribution infrastructure to connect into with contained risk. In the medium term we see opportunities to progressively build the Hotel Chocolat brand behind this spearhead, utilising the valuable customer, product category, channel and operating model insights we have acquired so far. Provisions and costs relating to the exit from direct-to-consumer channels of £3.5m (further detail can be found in the Financial Review on page 16).

The response to the brand, the new and unique products for the American market have been terrific. Our message to our American customers and brand fans is please be patient as we take a few steps back in order to be able to take more steps forward in the medium term.

Japan Joint Venture

We were first approached by a prospective joint venture partner in 2017 and the Japanese JV began trading in 2018. The first two store openings performed encouragingly in FY19. The Group manufactured the majority of products for the JV, and also provided loans for working capital purposes.

By FY20 the partner had opened eight locations and signed leases for further openings with key mall landlords. The COVID pandemic severely disrupted sales during the critical spring 2020 peak for chocolate gifting resulting in lower than forecast sales per store and considerably lower margins. In 2021 the continuation of movement restrictions had a greater impact than in the UK where the online channel was more developed. It was assumed that for 2022, as happened in the UK, that

COVID would not be a major impediment to sales, however the Japanese government reinstated movement restriction guidance again. This was the third year in succession of reduced sales and reduced profitability, the latter steeply increasing as the estate size and consequent scale of impact grew. When the JV partner presented their revised loan-funding proposal for FY23 it was clear that the continued working capital needs would exceed a level that would be appropriate for the Group over the next two to three years, given the real possibility that peak 2023 could again be impacted by movement restrictions. The Directors of the JV began civil restructuring proceedings in July 2022 in order to seek alternative sources of growth capital. At the time of publication this process is ongoing.

As a result of the JV insolvency process the Group has cumulatively fully impaired its loans and equity investment of £23m and recognised guarantees of £6.7m in relation to loans for shopfit capex borrowed by the JV from Japanese banks, subsequently paid in September 2022. See Notes 13, 22 and 23 for further details of the impact of impairments on financial periods.

As can be imagined we have asked ourselves many questions as to how we could have done this differently. The size of the prize in Japan* certainly sustained our risk appetite through the three increasingly difficult years of COVID, alongside the loyal enthusiasm of our Japanese fans for all things Hotel Chocolat. In the period the brand achieved recognition of 24% amongst buyers of premium chocolate in Japan, a credible outcome alongside many long-established European brands.

Whilst recognising the above, it is clear that shortcomings in downside risk evaluation, and the challenges of assessing the JV's management capability to execute their plan during the two year period when visits to Japan were prohibited did contribute to the outcome. These learnings will be taken forwards into all other current and future HC growth activities.

GROUP OPERATING MODEL

Hotel Chocolat owes its unique brand and market position to a fast-paced evolutionary history. This brings many positive attributes to the model which will always be protected.

We have initiated a 'once in a decade' simplification plan to sharpen our operating model, in furtherance of enhanced returns, our target being 20%+ EBITDA (pre IFRS 16) by FY25, by:

- providing for costs to exit underperforming activities,
- range rationalisation and focus on unit cost of goods reduction,
- increasing our focus on full price mix and tighter inventory levels,
- operating efficiency and scale economics.

OUTLOOK

Inflation is currently at elevated levels and we are taking a resolute approach to cost reduction to mitigate this, by simplifying our business model and leveraging the opportunities for greater efficiency within our vertically integrated business model.

In previous periods of low consumer confidence, including FY08, Hotel Chocolat grew and earned strong customer loyalty. Our management focus will be skewed towards existing customer retention over new customer acquisition for FY23. Hence our outlook is for a steadier sales profile with ongoing work at pace to reshape the operating cost base.

One thing is for sure, we will never compromise on the brand standards and values which have built our following to this point.

Angus Thirlwell
Co-founder and Chief Executive Officer

* Japan addressable market size for chocolate gifting estimated by management to be greater than 2x UK for Hotel Chocolat.

FINANCIAL REVIEW

"We have chosen to focus our business plan on activities with proven scale and the greatest potential to strengthen the business and deliver improved returns in the years ahead."

MATT PRITCHARD
CHIEF FINANCIAL OFFICER

In FY22 the Group achieved its fastest ever revenue growth, driven by the UK, where newer categories and strong retail performance resulted in UK sales growth of +35% year on year. The decision to minimise further cash exposure to higher risk international markets and exit from underperforming categories has resulted in significant impairment charges, however underlying Group profit performance was solid.

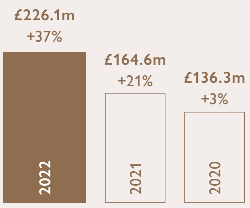
	FY22			FY21		
	Underlying before exceptional and adjusting items	Exceptional and adjusting items[1]	FY22 Reported	Underlying before exceptional items	Exceptional items[2]	FY21 Restated[2]
Revenue	226.1		226.1	164.6		164.6
Cost of sales	(93.8)	(5.5)	(99.3)	(62.9)		(62.9)
Gross profit	132.3		126.8	101.7		101.7
Operating expenses	(91.5)	(24.9)	(116.4)	(73.1)	(4.1)	(77.2)
Underlying EBITDA	40.8			28.6		
Share based payments	(0.5)		(0.5)	(0.9)		(0.9)
Depreciation & amortisation	(16.1)		(16.1)	(15.8)		(15.8)
Loss on disposal	(0.5)		(0.5)	(0.1)		(0.1)
Profit/(Loss) from operations	23.8	(30.4)	(6.6)	11.8	(4.1)	7.7
Finance income	1.0		1.0	0.7		0.7
Finance expense	(1.9)		(1.9)	(1.7)		(1.7)
Share of joint venture loss	(1.2)		(1.2)	(1.2)		(1.2)
Profit/(Loss) before tax	21.7	(30.4)	(8.7)	9.6	(4.1)	5.5
Tax expense/(credit)			(0.7)			(1.9)
Profit/(Loss) after tax			(9.4)			3.7
EPS basic			(6.9p)			2.9p
EPS diluted			(6.9p)			2.9p

1 Alternative performance measurements (APMs). See page 22 for purpose and definition of APMs.
2 Restated 27 June 2021, see note 13.

PERFORMANCE INDICATORS AGREED AND MONITORED BY THE BOARD

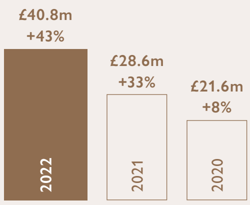
REVENUE

£226.1m



UNDERLYING EBITDA[1]

£40.8m



UNDERLYING PROFIT BEFORE TAX

£21.7m[1]

(2021: £9.6m[1,2])

REPORTED (LOSS)/PROFIT BEFORE TAX

(£8.7m)

(2021: £5.5m[2])

REVENUE

Revenue for the 52 weeks ended 26 June 2022 increased by 37% to £226m, driven by the strength of the groups multi-channel approach. UK sales grew by +35% year on year, driven by physical retail, which grew strongly following the ending of pandemic-related restrictions, significantly more than offsetting a -13% decline in online sales. The overall strength and flexibility of the UK multichannel model is illustrated by UK growth of +64% compared to FY19, the last full year before the pandemic:

Revenues £m	FY22	FY21	FY19
UK channels	214.5m	159.4m	127.7m
International	11.6m	5.2m	4.7m

Whilst international sales grew by +126%, profitability was below expectations, predominantly due to challenges with supply chains. As a result, the Board decided to pause further investments in international direct-to-consumer operations, both in directly controlled operations in the USA, and in the form of any further loans to the Japan joint venture.

GROSS MARGIN

Reported gross margin of 56.1% declined by 570 basis points compared with FY21. 243 basis points or £5.5m of the decline is a result of exceptional provisions relating to inventory; both for underperforming categories in the UK that will be exited during FY23, and provisions for all remaining inventories held in the USA.

Excluding exceptional provisions, gross margin of 58.5% represents a decline of 330 basis points, with two main causes:

- In response to rapid sales growth forecasts, and supply-chain disruption, the Group produced additional inventories which were then sold at reduced prices. In future, the Group will focus on tighter forward inventory cover with the objective of increasing the sales mix of 'full price' items.
- Increased mix of Velvetiser hot chocolate machines and alcohols manufactured by third parties, which have lower gross margins than in-house production, but also have lower operating expenses as a percent of sales.

OPERATING EXPENSES

Before exceptional costs and adjusting items, operating expenses of £91.5m increased +25% year on year, a slower rate than sales growth of 37%, the majority of the increase was due to increased central costs including marketing and salaried staff in support of the initiatives to drive faster sales growth.

1 Alternative performance measurements (APMs). See page 22 for purpose and definition of APMs.

2 Restated 27 June 2021, see note 13.

FINANCIAL REVIEW CONTINUED

Higher utility prices from April 2022 will remain at the fixed contract rates until May 2023.

Within operating expenses, exceptional costs and adjusting items comprise:

- £23.3m of exceptional operating expenses which relate to the exit from less profitable elements of the business plan, which are covered in more detail below.
- A further £1.6m of adjusting items:
  - The costs of the new lease on a second DC from April 2022, which did not become operational until FY23
  - The change of accounting policy for Software as a Service (SaaS) which is now charged as an operating expense rather than capitalised and amortised. This changes the P&L timing of the expense but not the cashflows or absolute cost over the life of the services.

UNDERLYING EBITDA

Underlying EBITDA of £40.8m or 18.1% of sales compares to £28.6m or 17.4% of sales in FY21. Whilst this is a solid result, in future the Group intends to focus on the most profitable elements of the existing business model, with the objective of delivering improved EBITDA margins in subsequent years.

It is anticipated that FY23 will include costs of transition to the more tightly focused strategy, resulting in temporarily lower EBITDA margins, with the objective of improving margins for FY24 and beyond. Underlying EBITDA is a not a statutory GAAP measure, but is included as an additional performance measure (APM), see page 22 for further information on APMs.

EXCEPTIONAL AND ADJUSTING ITEMS

The reported result for FY22 includes £28.8m of exceptional items and £1.6m of adjusting items. The exceptional costs relate to the strategic choices to focus on more profitable channels and categories, resulting in provisions, impairments and one off costs of £5.5m within gross margin, and £23.3m within operating expenses. Impairment reversals arise from a combination of improved retail trading conditions and the release of impairments on closed stores. The £1.6m of adjusting items relate to changes in accounting treatment of software, and the expenses for the new DC which did not become operational until the following period. Further details on exceptional costs and adjusting items are provided in the table below:

	Exceptional Items						
FY22 £m	**Japan[1]**	**US[2]**	**St Lucia[3]**	**UK/Group[4]**	**Sub-total**	**Adjusting Items[5]**	**Total**
FY22 Impairment provisions	21.8		1.2	0.4	23.4		23.4
Reversal of prior impairment provisions		(3.5)		(1.7)	(5.2)		(5.2)
Material non-recurring costs	0.6	3.5		6.5	10.6	1.6	12.2
Total	22.4	-	1.2	5.2	28.8	1.6	30.4

Exceptional items

1) Japan

£21.8m provision for expected credit loss on loans, investments and financial guarantee contracts in connection with Japan joint venture (see page 19)
£0.6m relating to onerous contracts

2) US			
Reversal of prior impairments of store leases	(3.5)		
Provision for stock, onerous contracts, lost deposits and exit costs	3.5		
3) St Lucia			
£1.2m Impairment of net present value (NPV) of forecast cashflows			
4) UK/Group			
FY22 Impairment of goodwill on Rabot 1745 Limited		0.4	
Reversal of prior impairments of store leases made in FY20		(1.7)	
Provision for inventories of discontinued categories		3.0	
Organisational design and implementation of new operating model processes		1.0	
Write-off of deposit paid to insolvent supplier of capital equipment		2.5	
5) Adjusting Items (Operating expenses)			
SAAS increase in operational expense and reduction in amortisation			0.6
In-year costs for new DC, not operational until FY23			1.0

JAPAN JOINT VENTURE

Having previously provided financial support to the JV in the form of investments, loans and guarantees, the Directors of the Group concluded that it was inappropriate to continue to advance further working capital to the venture. In July 2022 the JV entered Civil Rehabilitation "Minji Saisei" under the supervision of the Tokyo court. At the date of publication the process is ongoing.

RESTATEMENT OF FY21 FINANCIAL STATEMENTS

Following a helpful and constructive review of the FY21 Annual Report and Accounts conducted by the Financial Review Council's Corporate Reporting Review team, the Directors have revisited a number of items in the FY21 Annual Report and Accounts in relation to the application of IAS 21 and IFRS 9, resulting in prior year restatements of the comparative amounts in the FY21 and FY20 income statement, balance sheet and statement of comprehensive income as set our below. Further information on the scope and limitations of the FRC's engagement can be found in Note 13 on page 110.

1) Between FY19 and FY22 the Group undertook a series of investments in, and loans to, the Japan Joint Venture and also undertook financial guarantee contracts in respect of loans made by Japanese banks to the Joint Venture. In July 2022 the Group announced the possibility of full impairment of the loans, investments and guarantees, and subsequently full impairment has been reflected in the FY22 Financial Statements. The value of loans, investments and guarantees totalled £29.7m.

In accordance with IFRS 9, £4.5m of the total expected credit losses and impairments should have been charged in FY20, £1.7m in FY21, with the remaining balance of £21.8m recognised in FY22. The restatement does not give rise to any change in Group cashflows, with the exception of a change in the timing of tax (relief/credits) as a result of losses being recognised in earlier periods.

2) In prior periods foreign exchange gains and losses on long-term intercompany loans were posted to the long-term loan reserve. This has now been restated with the retranslation loss of £0.7m shown as Other Comprehensive Income in FY21 in accordance with IAS 21. This adjustment has no impact on cashflows or operating performance and an immaterial impact on corporation tax payable.

The combined effect of the above restatements is as follows:

Group Financial Statement	FY21 as previously reported	FY21 Restated
FY21 opening balance sheet net assets	£67.0m	£63.0m
FY21 closing balance sheet net assets	£71.7m	£65.8m
Profit for the period	£5.7m	£3.7m
Total Comprehensive Income	£3.3m	£0.7m
EPS	4.5p	2.9p

Further details on the restatements are provided in Note 13 on page 110. No dividends were paid in the periods affected by restatement, no annual Executive performance incentives were paid, nor were any LTIPs vested.

RENT EXPENSES

In accordance with IFRS 16, rent expense of £11m (FY21: £11.1m) are not reported in operating expenses, being replaced by depreciation of £9.5m (FY21: £9.3m) and interest of £1.2m (FY21: £1.1m).

FINANCE INCOME AND EXPENSE

Finance income of £1.0m is primarily accrued interest owed by the Japan JV, which has been separately impaired within exceptional items.

Finance expense of £1.9m comprises £0.5m of bank RCF interest and £1.2m of interest on leases under IFRS 16, and £0.2m of realised interest on derivative financial instruments.

DEPRECIATION

Depreciation and amortisation of £16.1m compares to £15.8m in FY21. Key capital investments in the period included upgrades to the manufacturing facility, internal fit-out of a newly leased second distribution centre, with 1 new store and 4 relocations to larger sites in existing locations.

LOSS/(PROFIT) BEFORE TAX

Underlying profit before tax of £21.7m (FY21 £9.6m[1]) is before exceptional costs and adjusting items totalling (£30.4m) which result in a reported statutory loss before tax of £8.7m (FY21 £5.5m profit). A reconciliation of underlying and reported profit is provided on page 23.

FINANCIAL REVIEW CONTINUED

TAX

Tax for the period is a charge of £0.7m (FY21: £1.9m[1]) which has arisen despite the statutory loss as the investment related to restated exceptional items are disallowed for corporate taxes. The tax charge is made up of £0.6m current tax credit offset by £1.3m deferred tax charge.

EPS AND DIVIDENDS

The reported loss results in a loss per share of (6.9p) which compares to a restated FY21 EPS of 2.9p. See Note 13 on page 110 for details of the restatement.

CASH

In the period the Group generated operating cashflows of £39.5m before movements in working capital.

In July 2021 the Group raised £39.3m (net of costs) from a new equity placing to support investments for growth. Capital expenditures in the period totalled £25.7m, and £6.3m was loaned to the Japan JV, with the balance invested in working capital.

At 26 June 2022 the Group had cash on hand of £17.6m with all of the £50m RCF facility remaining undrawn.

As at 29 November 2022 the Group remains well capitalised with £41m of headroom comprising £9m cash on hand and £32m of unutilised facilities within its £50m RCF facility, immediately prior to the peak cash-generating trading period.

INVENTORY

Closing inventory of £43.1m represents an increase of £11m year on year. The majority of the increase is due to increased stock-holding of Velvetiser hot chocolate machines. The Group intends to materially reduce inventory levels in future periods, reducing forward cover to a level reflective of prudent sales forecasts with a modest buffer to allow sales outperformance to forecast.

OTHER WORKING CAPITAL

Trade and other receivables increased from £12.4m to £17.5m due to:

- £2.4m of rates prepayments following the full reinstatement of property rates,
- £2.9m of prepayment relating to software as a service following the change in accounting policy (previously treated as an intangible asset).

Current liabilities increased from £52.2m to £57.4m primarily as a result of the recognition of £6.7m of liability in connection with Financial Guarantee contracts with the Japan joint venture. These contracts were subsequently settled in full.

1 Restated 27 June 2021, see note 13.

GOING CONCERN

The Directors have undertaken a comprehensive assessment in order to conclude that the Group has the ability to trade as a going concern using forecasts drawn up to 31 December 2023, considering the current macro-economic environment and the potential impact of relevant uncertainties facing all businesses, together with the Group's ability to influence its activities and hence the financial position, cashflows and profitability. The Financial review on pages 16 to 23 considers in more detail the groups trading performance and financial position.

In reaching their conclusion the Directors' considerations have included the following factors:

- That the group continues to operate within its facilities, which are used to fund day to day working capital requirements.
- The availability of funding in the form of a £50m RCF, committed until July 2024, with the opportunity to extend by a further year to June 2025. Subject to three covenants: of achieving positive cash in January 2023, of net debt to EBITDA (pre IFRS16) of less than 2.5x, and EBITDA to interest greater than 4x.
- The Group's current cash position as at 29 November 2022, giving £40.7m of headroom within the facility as the business approaches the peak trading period, with two thirds of annual revenues still to achieve and with the five largest seasonal gifting seasons still to come.
- The ability to progressively reduce working capital levels by leveraging the vertical integration from manufacture to end-consumer, including the ability to use prices to influence demand.
- The ability to communicate with a database of two million active customers at modest cost in order to stimulate sales demand.
- Multiple levers of mitigation in the form of discretionary spend-reduction opportunities.
- Having made significant capital investments to increase capacity in recent years, the Group has sufficient operational headroom to support several years of volume growth and can therefore exercise discretion over the timing of further capex.
- Consideration of specific factors impacting current and estimated future consumer demand, including channel and category sales performance.
- Current elevated levels of consumer price inflation, which may create pressure on consumer discretionary spend, leading the Group to prepare a number of possible scenarios for sales demand during the going concern period.

The Directors have modelled a number of scenarios, including a reverse stress test. In the scenarios sales are flexed, along with the impact on related expenses, working capital changes and other mitigations such as cost reduction and timing of capital expenditures. These scenarios are used to evaluate the implications for gross margins, operating expenses, profitability, working capital, capital expenditure and the consequent financial position, including operating within financial covenants attaching to the RCF, which are outlined in more detail in note 27 on page 127. For each scenario the Directors have identified relevant actionable mitigating measures that the Group could undertake at its own discretion to adjust future cashflows.

In making their assessment the Directors have reviewed management forecasts based on scenarios reflecting full-year sales growth/(decline) of +5%, (-9%), (-15%), (-20%) and (-30%).

The Directors have considered the impact of mitigations and the Group's ability to implement these changes at its own discretion. The Directors have also considered the probability of each sales scenario, concluding that the more extreme sales decline scenarios are of remote probability. As a result, the Directors have concluded that the use of the going concern basis of accounting is appropriate because there are no material uncertainties related to events or conditions that may cast significant doubt about the ability of the company to continue as a going concern in the period to 31 December 2023.

FINANCIAL REVIEW CONTINUED

ALTERNATIVE PERFORMANCE MEASURES (APMS)

Management believes that Underlying EBITDA, Underlying Operating Profit and Underlying Profit before tax are useful measures for investors because these are measures closely tracked by management to evaluate the Group's operating performance and to make financial, strategic and operating decisions. These may help investors to understand and evaluate, in the same manner as management, the underlying trends in operational performance on a comparable basis, period on period.

Alternative Performance Measure	Closest equivalent IFRS measure	Definition/reconciling items
Underling EBITDA	Profit/(Loss) from operations	Underlying EBITDA is defined as earnings before net finance costs, depreciation and amortisation, profit/loss on disposal of assets, share-based payment charges (and related taxes), share of profit/loss of JV, tax and exceptional and adjusting items.
Underlying Operating Profit	Profit/(Loss) from operations	Underlying Operating Profit is defined as profit/loss from operations before net finance costs, share of profit/loss of JV and exceptional and adjusting items.
Underlying Profit before tax	Profit before tax	Underlying Profit before tax is defined as profit/loss before tax excluding exceptional and adjusting items.

RECONCILIATION OF ADDITIONAL PERFORMANCE AND STATUTORY MEASURES

Underlying EBITDA

	52 weeks ended 26 June 2022 £000	52 weeks ended* 27 June 2021 £000
Profit/(Loss) from operations	(6,596)	7,726
Less:		
Exceptional items	28,779	4,075
Adjusting items	1,621	–
Share based payments	453	911
Depreciation & amortisation	16,059	15,796
Loss on disposal of non-current assets	516	112
Underlying EBITDA	40,832	28,620

Underlying operating profit

	52 weeks ended 26 June 2022 £000	52 weeks ended* 27 June 2021 £000
Profit/(Loss) from operations	(6,596)	7,726
Less:		
Exceptional items	28,779	4,075
Adjusting items	1,621	–
Underlying operating profit	23,804	11,801

Underlying profit before tax

	52 weeks ended 26 June 2022 £000	52 weeks ended* 27 June 2021 £000
Profit/(Loss) before tax	(8,719)	5,535
Less:		
Exceptional items	28,779	4,075
Adjusting items	1,621	–
Underlying profit before tax	21,681	9,610

* Restated for the period ended 27 June 2021 – see note 13.

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	A future resurgence of 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 during previous disruption.	The business adheres to core values of Originality, Authenticity and Ethics which result in a strong brand. The sustainability report on pages 26 to 39 covers the approach to brand protection in more detail. 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.	Following a review of the performance of multiple growth drivers, the Directors concluded that it was in the Group's interest to focus on the more profitable opportunities relative to the capital investments required. As a result the Group has exited from direct to consumer sales in the USA and stopped offering financial support to the Japan JV. Any future international opportunities will be pursued on a risk-contained capital-light basis, such as wholesale and licensing
CHANGE IN RESIDUAL RISK IN FY22	The Group's response to the pandemic resulted in many operational changes to help mitigate the impacts of potential future movement restrictions. Vaccines have reduced likelihood of impacts with the severity of prior years.	In FY22 the Group made additional investments in its Gentle Farming sustainability programme, and continued to improve its disclosures of ESG issues. The Group achieved a top ten employee engagement score in the period.	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 risk of disruption.	In 2022 the business received a AA-grade accreditation from the BRC food standards audit, improving from A-grade in FY21. In the year there were no instances of suppliers being delisted due to audit or quality issues.	Cessation of funding of US direct to consumer operations and Japan JV. Future international sales will be pursued via wholesale and licensing. New Japan partner will not receive funding from the Group.

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 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 inflation and/or changes to government policy, including tax changes or other legislation. Supply chains may be subject to disruption or sustained 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 Group's business model and supply chains and/or disruptive short-term events such as localised flooding. The actions required to reduce carbon emissions 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 continued periods of high inflation 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 previously committed to net zero carbon (scope 1 & 2 by 2030 and scope 3 by 2040). As part of the preparations for TCFD the feasibility of these timelines will be considered in further detail. Business continuity planning includes exercises for business interruption from extreme weather events and climate change. The Gentle Farming Programme includes specific actions to improve climate resilience in cacao farming.
The Group extends its currency hedges on a quarterly basis and is currently fully hedged for FY23 Euro and US Dollar forecast stock purchases. However lower sterling FX rates create a potential risk thereafter with mitigation from self-help efficiency programmes.	Inflation has increased as a result of macroeconomic factors. The Group is actively pursuing opportunities to mitigate inflation using self-help measures. Trading since the end of FY22 is in line with expectations.	The Group has grown its database of active customers, giving the opportunity to promote the Group's products and services to maintain strong awareness.	A five-year LTIP has been granted to senior leaders and an all-employee restricted stock plan was launched during FY22.	The Gentle Farming Programme is intended to bring climate-smart practices to our Ghanian cacao supply. Planning is underway for TCFD.

SUSTAINABILITY

The Group strives to ensure that its activities positively benefit all of our stakeholders: our customers, growers, suppliers, shareholders, communities, the environment and Hotel Chocolat colleagues

The Group set up an Executive Sustainability Committee in FY18 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.

In the period two additional executive-led working groups were created with a specific focus on gentle farming and net zero.

The Executive Sustainability 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:

- the most material risks, or
- the most material opportunities for positive impact

We have organised these into three strategic themes, eight sub-workstreams and 24 specific focus areas which are set out on the facing page.

Our priorities are organised under three key themes

1) RESPECT THE PLANET

CLIMATE CHANGE
- Becoming a net zero carbon business
- Climate change adaptations
- Financing the solutions

RECYCLING AND WASTE
- Sustainable packaging
- Reduce waste and by-products

NATURAL RESOURCES
- Biodiversity and land use
- Reduce water stress
- Land use/palm oil removal

2) POWERED BY PEOPLE

SOCIAL OPPORTUNITY
- Living incomes for farm families
- Responsible labour practices
- Giving back

CUSTOMERS & PRODUCTS
- Product quality, health & nutrition
- Product end-of-life use
- Sustainable & transparent supply chain

TEAM MEMBERS
- Fair treatment, diversity & inclusion
- Career opportunity & engagement
- Wellbeing, health & safety

3) CORPORATE RESPONSIBILITY

SOUND GOVERNANCE
- Board & leadership diversity
- Executive pay
- Reporting & accounting

CORPORATE BEHAVIOUR
- Business ethics and values
- Anti-bribery and anti-corruption
- Tax transparency

Privacy and data security

HC Gentle Farming Programme objectives

CORPORATE RESPONSIBILITY IS COVERED IN THE GOVERNANCE REPORTS ON PAGES 46 TO 69

SEE SECTION 172 DISCLOSURES ON PAGES 40 TO 43

SUSTAINABILITY CONTINUED

HOTEL CHOCOLAT GENTLE FARMING PROGRAMME

Since we first launched our Engaged Ethics cacao initiative in 2004, we have been progressively investing more into cacao projects, in particular in the 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 sought to improve our programme and have increased the price we pay for cacao. In September 2021, we materially step changed our support and investment for the farming families and the land which both make the chocolate industry possible.

The Gentle Farming Programme, is open to all of our partner cacao farmers – in the Eastern Region of Ghana where the majority of our cacao is sourced. In developing our programme, we took a holistic approach that considers the long-term environmental and social impacts of cacao farming. We pay a price for cacao above the published market price for cacao beans.

We also make additional payments to farmers to support greater productivity on-farm – including funding over 300* farm skilled workers to prune cacao trees which helps improve disease resistance and increases yield. Additionally, we invest in reforestation activity (last year distributing over 500,000* cacao and shade tree seedlings) to promote biodiversity and carbon sequestration.

The premium we pay, and the investment in shade trees, is designed to support farmers in closing the gap towards a living income, improve productivity and stimulate biodiversity. In return for receiving this premium, farmers commit to:

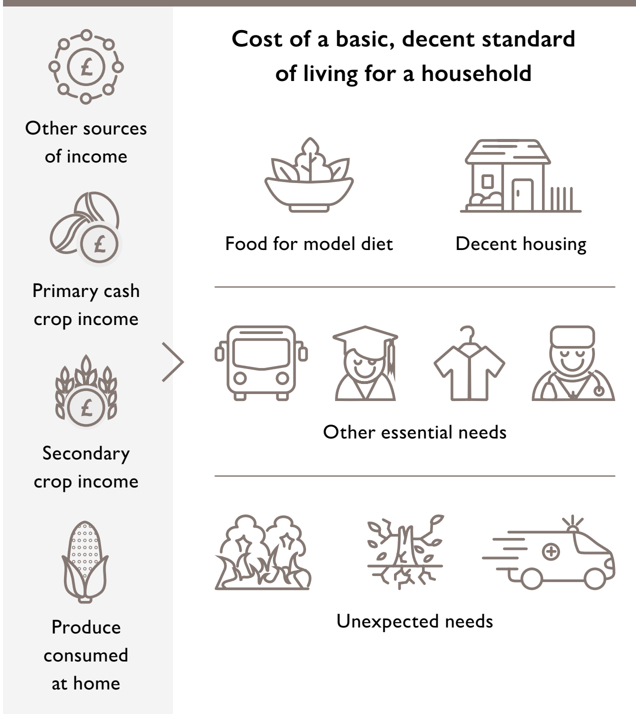
- Actively engage with their coaches and trained local labour teams to enhance productivity without the use of unapproved/unsafe chemicals.
- Eradication of child labour and forced labour.
- Where appropriate, to plant cacao and shade trees on their farms, whilst protecting nature on and near their farms.
- Not undertaking any illegal chain saw activities, illegal mining activities, forest encroachment, use of unapproved/ unsafe chemicals.

Farms are surveyed annually, with any non-compliance leading to remediation. The Gentle Farming Programme will be audited annually by a third party, with results available in January 2023 for the preceding crop year. Our ambition is to create a meaningful impact to the environment, farmers and their families. There are many long-term challenges in the cacao supply chain, so we will continue to learn what creates an impact and use these learnings to further develop and refine the programme over time.

Sustainable Development Goals:

* Data provided is pre third-party assurance and therefore may be subject to change.

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 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.

"In the past, I was not able to effectively prune my farm so there was a lot of overgrowth. I spent a lot of money hiring young men to help me out and that drained my resources. But the immense support I have received from Gentle Farming through their pruning teams has helped put my farm in shape. In fact, when you walk through my farm, you can clearly tell it is receiving the right amount of sunlight and I have no doubt, my yields will see an increase."

OBENEWANA AUGUSTINA EKAWSO

SUSTAINABILITY CONTINUED

PROGRAMME OVERVIEW

Farmers receive the higher price in return for agreement to:

1 No deforestation or forest encroachment

2 Increasing pre-harvest work to drive productivity
- Pruning cacao trees to increase yields and reduce disease
- Minimising the use of chemical inputs & no usage of unapproved/unsafe chemicals

3 No illegal child labour and no forced labour

Child labour prevention by age	<13	13–14	15–17
Light irregular work not affecting school attendance (according to national legislation)	✗	✓*	✓*
Hazardous work	✗	✗	✗
Forced labour	✗	✗	✗

* Allowed within the allocated time span according to national legislation.

Biodiversity, land use and climate – target outcomes

1 Increase biodiversity & reforestation by:
- planting shade trees to prevent evaporation and conserve water
- applying compost/mulch and weeding
- increasing farm resilience to the risk of long-term temperature rise and lower rainfall

2 Reduce CO_2 per metric tonne of cacao from 1.4T to 1.31T

3 Responsible water use

Measuring results and assurance

Annual visits to farm and detailed household surveys completed on risk assessed basis.

Child Labour Monitoring and Remediation System (CLMRS) in place with results published annually, starting December 2022, including cases identified and remediation in progress.

KEY PERFORMANCE INDICATORS FOLLOWING YEAR ONE OF THE PROGRAMME*:

Farmer Premium

Our premium is paid directly to the farmer.

BENCHMARKING PRICE PER KG 21/22 crop year (data to be third-party audited in Sep '22)	Open Market Price	Hotel Chocolat Gentle Farming Price
Farmgate price per kg cacao paid direct to farmer	$1.74/kg	$2.10/kg
Additional support payments for sustainable productivity improvement on farm	–	$0.23/kg
TOTAL	**$1.74/kg**	**$2.33/kg**

Productivity and Biodiversity

	21/22 Crop Year Estimate (data to be third- party audited in Sep '22)*
On farm labourers recruited, trained and employed	>300
• Cacao seedlings distributed to farmers	207,187
• Shade trees distributed to farmers	327,971
Yield per farm	Data due Dec '22

* Data provided is pre third-party assurance and therefore may be subject to change.

RESPECT THE PLANET

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

PACKAGING PLEDGE

96% recyclable

Target 100% by end 2022

UK SECR CARBON INTENSITY

+4.5% from FY21, -25% from FY20

Target net zero scope 1&2 by 2030, scope 3 by 2040

PALM OIL USAGE

0.01% by weight

Target zero by end 2023

On pages 33 to 34, we set out our eight key goals to respect the planet.

Having committed to net zero carbon we have undertaken carbon audits at all our main sites to understand the investments required and have begun to implement improvements.

We are also making progress on waste, with 96% (FY21: 94%) of our consumer packaging by weight now recyclable (specialist or kerbside) and we have plans in place to reach 100%. However we recognise that we must ensure that any packaging changes do not affect the shelf life of our products because food waste can have a greater carbon impact than packaging materials.

In 2020 we began the implementation of an Environmental Management System across our manufacturing operations to track resource use and reduce wastage. We are on track to be fully accredited by December 2022, under ISO14001.

Our Gentle Farming Programme (pages 28 to 30) 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 further to 0.01% of product by weight, we have reformulated all recipes and are on track to achieve zero palm oil by the end of 2023.

ENERGY & CARBON – SECR REQUIREMENT

FY22 is the third year that we report under the Streamlined Energy & Carbon Reporting (SECR) framework. Our SECR report covers the CO_2e from our UK scope 1 (direct) and scope 2 (indirect) emissions for the periods 1 July 2021 to 30 June 2022 compared to 1 July 2020 to 30 June 2021 using the 2022 version 2.0 GHG Protocol Corporate Accounting and Reporting Standard methodology to calculate our emissions.

Scope 1 includes emissions from the fuels we use in our manufacturing and fulfilment operations, retail stores and offices, such as natural gas. It also includes CO_2e from business owned vehicles which incorporates company vans and distribution vehicles we lease. This year we have expanded our scope 1 reporting to also include refrigerant gases and also diesel used in generators.

Scope 2 relates to the indirect emissions associated with the electricity consumed on our sites.

SUSTAINABILITY CONTINUED

ENERGY & CARBON – SECR REQUIREMENT CONTINUED

Where possible we have reported billed Automated Meter Readings (AMRs). Where there is incomplete data, extrapolation has been carried out. For those operations where the electricity usage is currently beyond our reporting capabilities, we have used an estimation model based on the average from comparable stores, scaled to floor area.

With the changing mix of online sales, we have chosen tCO_2e per £million of sales as the most meaningful intensity metric. Our UK CO_2e SECR emissions have increased by 43%, whilst sales grew by 37% resulting in our carbon intensity increasing by 4.5%.

UK GHG emissions in tCO_2e:	FY22	FY21	% change FY 22 vs FY21
Scope 1*	1,230	756	62.7%
Scope 2 (location based)	2,051	1,771	15.8%
Scope 2 (market based)	153	2,671	-94.3%
Scope 3†	612	192	218.5%
Total (location based)	3,893	2,719	43.2%
Group Sales/£m	226	165	37.0%
Location based intensity (tCO_2e per £ million sales)	17.2	16.5	4.5%
kWh usage:			
Natural Gas/million kWh	0.57	0.98	-42.0%
Generator diesel/million kWh	0.01	–	N/A
Electricity/million kWh	10.61	8.34	27.2%
Scope 1 and 3 transportation/million kWh	4.54	2.60	74.7%
Total kWh usage:	15.73	11.92	32%

† Scope 3 CO_2e reporting relates solely to business mileage, electricity transmission and distribution, plus well to tank for natural gas, gas oil and electricity.
* FY 20 and 21 scope 1 figures revised due to misidentification of natural gas consumption data on one site as kilowatt hours instead of cubic feet.

Whilst our location-based emission intensity has this year grown by 4.5% due to the previous year (FY21) being heavily impacted by temporary store closures, and the expansion of information being included within this year's scope 1 data, we have reduced our carbon intensity by 25% compared to FY20.

Our market-based emissions have reduced due to purchasing renewable electricity, backed by Renewable Energy Guarantees of Origin.

Increases in emissions have arisen from:

- The inclusion of additional items including refrigerant gas and diesel used in generators
- The store estate fully reopening after lengthy COVID-related closures in FY21

During FY22 we have:

- Mitigated some transport emissions by:
  - reducing the frequency of our store deliveries during off-peak seasons
  - using new transport planning software to optimise our delivery routes
- Significantly reduced our gas usage, partly due to replacement of machinery
- Reduced our electricity consumption by scheduling operations cooling and heating systems to be off where possible
- Invested in a heat recovery vessel which has reduced our electricity consumption in the factory

RESPECT FOR THE PLANET: STAKEHOLDER PRIORITIES AND MATERIALITY

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

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

FINANCING THE SOLUTIONS

Why it matters
Decarbonising our 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

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

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

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

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

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

HC Gentle Farming Programme objectives

Sustainable Development Goals that connect directly with our priorities

PROGRESS AGAINST RESPECT THE PLANET TARGETS

SUBJECT	FY 21 STATUS	GOAL	EXECUTIVE ACCOUNTABLE	FY 22 PROGRESS AGAINST TARGET	COMMENTS
A net zero carbon business	2,719 tonnes CO_2 equivalent in FY21 for UK scope 1-3 emissions in scope of SECR reporting. Intensity per £ of sales reduced 28% vs FY20	Net zero scope 1 & 2 by 2030, scope 3 by 2040 Environmental Management system ("EMS") installation to be complete by December 2022	Matt Margereson COO	3,893 tonnes CO_2 equivalent in FY22 for UK scope 1-3 emissions in scope of SECR reporting	Intensity per £ of sales increased by 4.5% vs FY21, however has decreased by 25% from FY20 EMS on track for December 2022
Climate change adaptation	Business continuity exercises. Gentle Farming Programme launched September 2021 to mitigate risks	100% of our Ghanaian cacao farmers on the programme by 2022	Matt Margereson COO	100% of our Ghanaian cacao farmers – estimated at 4,572* for 21/22 crop year – delivering against Gentle Farming Programme	

* Data provided is pre third-party assurance and therefore may be subject to change

SUSTAINABILITY CONTINUED

PROGRESS AGAINST RESPECT THE PLANET TARGETS CONTINUED

SUBJECT	FY 21 STATUS	GOAL	EXECUTIVE ACCOUNTABLE	FY 22 PROGRESS AGAINST TARGET	COMMENTS
Financing the climate change solutions	Decarbonisation audit completed for factory (the main source of scope 1 & 2 emissions) and in progress for the fleet, DC and store estate	Present a first draft plan as part of inaugural sustainability report in FY22	Matt Pritchard CFO	During FY22, we have completed a 'gap analysis' against the TCFD recommendations and created a plan to take us towards a full TCFD disclosure	The initial gap analysis highlighted that we fulfil some of the TCFD's recommendations already, however, there is more to do to ensure that we are fully TCFD compliant with the new disclosure requirements which are mandatory for our FY23 year end
Sustainable packaging	94% of HC's packaging by weight is reusable or recyclable	100% HC's packaging by weight to be reusable or recyclable by end 2022	Lysa Hardy CMO	96% of HC's customer facing packaging by weight† is reusable or recyclable	Revised target of 100% by December 2023
Reduce waste and by-products	Zero chocolate production waste to landfill	EMS installation to be complete by December 2022	Matt Margereson COO	On track for EMS accreditation by December 2022	No chocolate production waste has gone to landfill during this financial year At the time of writing, we were in the process of tendering for a waste business partner to assist with streamlining waste management and driving further improvements throughout operations
Biodiversity and land use	Commitment made to increase the premium from the next harvest in return for farmers agreeing to adopt the HC Gentle Farming Programme, including no deforestation, active planting of indigenous shade trees, and minimal use of chemical inputs	100% of Ghana Cacao farmers supplying HC to have adopted the Gentle Farming Programme by end of 2022	Matt Margereson COO	100% of Ghana cacao farmers delivering against Gentle Farming Programme and over 500,000 cacao and shade tree seedlings distributed*	Initial gentle farming assurance data will be available in 2023
Reduce water stress	Gentle Farming Programme requires farmers to adopt interplanting of cacao with indigenous shade trees which reduces evaporation and conserves water	100% of Ghana Cacao farmers on Gentle Farming Programme by December 2022 EMS at Factory fully operational by December 2022	Matt Margereson COO	100% of Ghana cacao farmers delivering against Gentle Farming Programme and over 500,000 cacao and shade tree seedlings distributed* On track for EMS accreditation by December 2022	We are currently working towards our ISO accreditation for 45001 and 14001 as an integrated management system throughout operations. Stage 1 of the accreditation, which focuses on intent, was successfully achieved in May 2022. At the time of writing, the third party auditors have completed stage 2 and have recommended that we receive full accreditation, which we expect to have by end December 2022
Land use – palm oil	HC uses less than 0.1% palm oil by weight in its products. 100% of the palm oil is RSPO certified	Commitment to reformulate recipes and remove palm oil from all HC products by 2023	Matt Margereson COO	We have reformulated all recipes and are on track to achieve zero palm oil by the end of 2023	Last year, we used 0.01% palm oil by weight in our UK finished products 100% of the palm oil used is RSPO certified

* Data provided is pre third-party assurance and therefore may be subject to change.

† Calculated using 2021 calender year data.

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

Best Companies Engagement rating of a two star 'Outstanding' company

MORE CACAO, LESS SUGAR

Our product range average meets the Public Health England's targets for reduced sugar

DIVERSITY & INCLUSION

Equality, Diversity and Inclusion employee groups active across the business

On page 36 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 36 to 39) along with all those who work within our supplier base. All of our key suppliers have been risk assessed, and 95% of our most material suppliers have been independently audited 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.

Colleagues' engagement at Hotel Chocolat is an important indicator of the health of the overall business.

We have continued to refine our weekly and monthly colleague briefings to provide employees systematically with information on matters of concern to them, and informing them of the financial and economic factors affecting the performance of the Group and provide the opportunity to ask questions of the Executive Team.

We conducted two all employee surveys in the year and saw a dip in engagement followed by a recovery to 'Outstanding' in May 2022. This makes HC a top 10 large company as measured by Best Companies.

Having considered the survey results we launched our new Founder Shares scheme which allows everybody in the business to become an owner of Hotel Chocolat, creating an aligned sense of purpose and a deeper connection to the business.

SUSTAINABILITY CONTINUED

Equality, Diversity and Inclusion is echoed in our company values of Originality, Authenticity and Ethics, that's why we're really pleased to have taken steps forward on this agenda.

Our Anti-Racism Group (ARG), which was established in 2020, inspired the creation of the following colleague networks:

- Disability Awareness
- Mental Health awareness
- Women's Network
- LGBT+ Group

Each group has an executive sponsor who attends and the groups are empowered to make suggestions and hold the leadership team to account. Having observed many common themes across these groups we will be creating a new employee forum to further support the activities business-wide.

GIVING BACK

In FY22 our charity, chosen by team members, was the Trussell Trust, who support a nationwide network of food banks, provide emergency food and support to people locked in poverty, and campaign for change to end the need for food banks in the UK. Over the year we donated over £26,000 for the charity.

POWERED BY PEOPLE: STAKEHOLDER PRIORITIES AND MATERIALITY

SOCIAL OPPORTUNITY	CUSTOMERS AND PRODUCTS	TEAM MEMBERS
LIVING INCOMES FOR FARM FAMILIES	**PRODUCT QUALITY, HEALTH & NUTRITION**	**DIVERSITY, EQUITY & INCLUSION**
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 to have the ability to earn a living income to meet their families needs	**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 the product is safe and to be informed of ingredients	**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
RESPONSIBLE LABOUR PRACTICES	**PRODUCT END-OF-LIFE USE**	**CAREER OPPORTUNITY & ENGAGEMENT**
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** Suppliers and cacao farmers who supply Hotel Chocolat to be treated fairly	**Why it matters** Consumers expect packaging to be recyclable or re-usable	**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
GIVING BACK	**SUSTAINABLE & TRANSPARENT SUPPLY CHAIN**	**WELLBEING, HEALTH & SAFETY**
Why it matters Customers and team members expect Hotel Chocolat to support charities. This improves team morale and demonstrates our ethical culture to future and current team members **Stakeholders & priorities** Customers and employees expect HC to consider a wide set of stakeholder needs	**Why it matters** Customers expect Hotel Chocolat to only work with responsible suppliers who operate sustainably, treat their team fairly and respect human rights **Stakeholders & priorities** All suppliers and their employees	**Why it matters** HC employees and contractors have the right to work in a safe environment where risks are appropriately managed **Stakeholders & priorities** All HC employees and contractors

HC Gentle Farming Programme objectives see pages 28 to 30

GENDER PAY

The table below shows the gender composition of our team as of June 2022. We will report the next gender pay gap report ahead of the reporting deadline of April 2023.

Headcount by gender – June 2022	Female	Male
Team Member	1,323	688
Line Manager	223	116
Direct reports to Executives	11	17
Executive team	1	4
Non-executive Directors	1	2
Co-founders	–	2

UN Sustainable Development Goals directly connected to our people plans

PROGRESS AGAINST THE POWERED BY PEOPLE TARGETS

SUBJECT	FY 21 STATUS	GOAL	EXECUTIVE ACCOUNTABLE	FY22 PROGRESS AGAINST TARGET	COMMENTS
Living incomes for farming families	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.	Within three years, all HC farmers in Ghana are supported to close the gap towards a living income. As a condition of participation, farmers must commit to zero illegal child labour.	Matt Margereson COO	We have paid an increased price for cacao – last year at over 250 USD per MT cacao beans above the published price.* Additional payments made to farmers to support greater productivity on-farm. Started a payment for an Environmental Services scheme which will also reward farmers in the years to come.	Independent assurance of data progress will be available in 2023.
Responsible labour practices	Child Labour Monitoring and Remediation scheme operating in Ghana. Supplier assurance in place.	100% of Ghana Cacao farmers to adopt the Gentle Farming Programme and all key suppliers audited by a third party (December 2022).	Matt Margereson COO	100% of Ghana cacao farmers delivering against Gentle Farming Programme.* 95% of our most material suppliers have been independently audited to ensure compliance with our code of conduct.	Independent assurance of data progress will be available in 2023.

SUSTAINABILITY CONTINUED

SUBJECT	FY 21 STATUS	GOAL	EXECUTIVE ACCOUNTABLE	FY22 PROGRESS AGAINST TARGET	COMMENTS
Sustainable and transparent supply chain	Supplier code of conduct supported by risk assessments, internal audits, remediation.	Supplement existing audit programme with independent third-party assurance of all top suppliers by December 2022.	Matt Margereson COO	All of our key suppliers have been risk assessed, and 95% of our most material suppliers have been independently audited to ensure compliance with our code of conduct.	Supplier Code of Conduct updated in December 2021. Third party assurance standard updated and launched with suppliers in January 2022.
Product quality, health and nutrition	The business already complies with Public Health England targets for reduced sugar in chocolate. The factory achieved an A rating from BRC independent audit.	Continue to achieve industry best practice, assured via independent audit.	Matt Margereson COO	Continued to achieve or exceed previous targets.	The independent BRC Audit, carried out in June 2022, scored us an AA grade. This is the highest score achievable.
Product end- of-life use	94% of packaging is recyclable either via local recycling facilities or taken back at HC store locations. New coffee pods are recyclable at home.	100% HC's packaging by weight to be reusable or recyclable by end 2022.	Lysa Hardy CMO	96% of customer facing packaging by weight† is reusable or recyclable.	Target revised to 100% by December 2023.
Giving back	A programme of company-wide fundraising events raised over £40,000 for the Trussell Trust. In addition, we partnered with other charities in connection with our year-round programme of diversity events, including the Prince's Trust for International Women's Day.	Not set as yet – target to be agreed during the next FY.	Matt Pritchard CFO	£26,000 was donated to Trussell Trust from our team charity fundraising.	In addition, colleagues can take one paid day a year to volunteer for a charity or good cause of their choice. In FY22, 436 hours were gifted.
Diversity, equality and inclusion	Voluntary all-team survey completed to baseline current diversity by role level. Diversity training for every manager completed. Team representation groups on race and disability, meet regularly, each with an executive sponsor.	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.	Matt Pritchard CFO	For senior managers and above, we have increased the female population from 48% to 52% over the last year.	We have launched our inclusive guide to recruitment supporting equal opportunities to all applicants, enabling a more diverse workforce. In addition, we have introduced consistent interview question templates, transparent scoring, and a principle of having two interviewers present,to ensure objectivity.

SUBJECT	FY 21 STATUS	GOAL	EXECUTIVE ACCOUNTABLE	FY22 PROGRESS AGAINST TARGET	COMMENTS
Career opportunity and engagement	Highest ever engagement score achieved from the February 2021 survey.	Improve engagement score for the February 2022 survey.	Matt Pritchard CFO	We returned to our Best Companies Engagement rating of a two star 'Outstanding' company.	We saw a slight step back in our results in September 2021 in two key areas; Wellbeing and Fair Deal, so these were our core focuses. Rewarding people fairly is important to us, so we delivered two impactful actions: • We launched our new Founder Shares scheme which allows everybody in the business to become an owner in Hotel Chocolat, creating an aligned sense of purpose and a deeper connection to the business. • We implemented a business-wide pay review in April 2022 at a time where the cost of living was becoming more of a concern for many people.
Wellbeing, health and safety	Four reported RIDDOR incidents in FY21. All were 'slips, trips and falls'.	Reduce RIDDOR reportable incidents from operations by 25% for FY22.	Peter Harris Co-founder	50% reduction in RIDDOR reportable incidents from operations.	RIDDOR rate = 0.21 per 100 employees. We have achieved this reduction by focusing on hazard identification and elimination/ control. Next year we will focus on additional further campaigns to achieve a reduction.

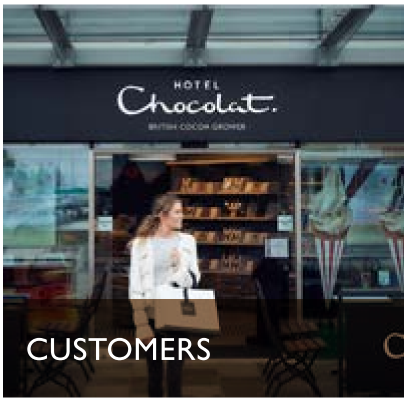
* Data provided is pre third-party assurance and therefore may be subject to change.

† Calculated using 2021 calendar year data.

CONSIDERING ALL OF OUR STAKEHOLDERS (S172)

Hotel Chocolat has always remained true to its core values of Originality, Authenticity and Ethics. These principles require us to treat all stakeholders fairly and with respect. By behaving responsibly, we protect and continue to strengthen our valuable brand.

OUR KEY STAKEHOLDER GROUPS AND HOW WE ENGAGE



CUSTOMERS

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

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 has the opportunity for ongoing e-learning on personal development.

All employee briefings are held on a weekly and monthly basis.

We undertake regular all-employee engagement surveys and conduct small-group ‘listening sessions’ to explore issues.

Sophie Tomkins has a specific accountability to ensure employee views are represented in the boardroom.

Our Founder Share scheme was introduced in the year giving all eligible colleagues free shares in the Company so that they can participate in ownership of the Group. This complements our existing all-employee Save As You Earn scheme.

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.

Sharing in the Company’s ownership and success.

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 conducted to obtain farmer feedback.

Comprehensive supplier assessments are undertaken prior to on-boarding, with an ongoing programme of risk assessments and audits.

Strategic collaborative planning meetings are held with key suppliers.

Periodic supplier surveys are undertaken covering topics such as supplier code of conduct, compliance and traceability.

We launched our Gentle Farming Programme for farmers in Ghana in FY22. The scheme provides training in a different farming approach which has a greater climate resilience and increases productivity and helps farmers towards a living income.

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.

Development of sustainable farming techniques and skills to increase productivity and reduce climate risks.

SHAREHOLDERS

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

Shareholders are invited to submit questions to the Board at the Annual General Meeting. The Investor Meet Company platform has been used to reach a wider audience of retail investors.

Investor information including the annual report and accounts is published on the Company's website.

An investor relations email address is maintained to make contact from shareholders simple.

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.
- Women's network.

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

Commitment to carbon net zero. Phase 1 is currently being implemented.

Our new distribution centre has solar power capabilities and other efficiencies to support more sustainable working practices and reduce our impact on the environment.

External subject-matter experts present to the Executive on topics such as CO_2 reduction, sustainable farming and recyclable packaging.

The Gentle Farming Programme which will have positive benefits for biodiversity and climate change, was developed in conjunction with external specialists both in the UK and Ghana.

Over 96% of our packaging is now recyclable or reusable

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 colleagues, suppliers, customers, communities and the environment. The table below outlines some of the considerations in relation to wider stakeholders and the environment which the Board took account of in making key decisions.

THE BOARD REVIEWED THE GROUP'S FINANCIAL FACILITIES AND ITS STRATEGIC AMBITIONS AND AGREED:

Key Board Decisions	Considerations
1. A £25m CLBILS RCF was replaced with a new £30m facility with Lloyds Bank. This was subsequently also supplemented with an additional £20m facility with Bank of Ireland. 2. An equity placing was undertaken during the year, 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 for the benefit of investors and colleagues. To address feedback from retail investors, received following the placing, 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.
Initiated a strategic review of growth drivers (concluded shortly after period end).	In the context of challenging macro-economic conditions and uncertainties, to ensure the Group's efforts are focused on its most proven and lowest-risk strategies with the greatest potential for further increased profitability and scaled cash generation to protect the outlook for colleagues, investors and other stakeholders.
Acquisition of a ten-year lease on a second distribution centre.	To provide additional distribution capacity via a facility that was constructed in an environmentally responsible way and would offer more efficient ways of working for the future.

TO SUPPORT KEY STAKEHOLDERS IN THE BUSINESS AND TO RECOGNISE THEIR IMPORTANT CONTRIBUTION TO THE SUCCESS OF THE COMPANY, THE BOARD APPROVED THE FOLLOWING ACTIONS:

Key Board Decisions	Considerations
Launch of Founder Share all-employee plan.	To provide an opportunity for all members of the Hotel Chocolat family to participate in, and be rewarded for their contribution to, the success of the business as shareholders.
Introduction of the Gentle Farming Programme.	To ensure Ghanaian growers supplying cacao to the Group to close the gap towards a living income, to improve farming techniques and productivity and protect the environment through reforestation.

ADJUSTMENTS TO BOARD GOVERNANCE STRUCTURE AND EXECUTIVE COMMITTEE WERE AGREED AS FOLLOWS:

Key Board Decisions	Considerations
Adoption of industry best-practice Sales and Operational Planning process (S&OP).	To ensure internal processes are as clear, efficient and robust as possible to support improved job satisfaction for colleagues and mitigate process risks.
Actions agreed from the annual board effectiveness review, including establishment of a Nominations Committee.	To optimise Board effectiveness and ensure its arrangements remain appropriate in the context of the continuing evolution of the business and investor governance practice expectations.

This strategic report and information herein was approved on behalf of the Board on 30 November 2022.

Matt Pritchard
Chief Financial Officer

GOVERNANCE

BOARD OF DIRECTORS

An experienced founder led team

		
Andrew Gerrie (59)	**Sophie Tomkins (53)**	**Greg Hodder (70)**
Non-executive Chairman	**Independent Non-executive Director**	**Independent Non Executive Senior Independent 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 System1 Group PLC, and Virgin Wines UK plc. Sophie qualified as a Chartered Accountant in 1994.	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 (59) **Co-founder and Chief Executive Officer**	**Peter Harris (67)** **Co-founder and Development Director**	**Matt Pritchard (48)** **Chief Financial Officer**

Appointment Date

Angus Thirlwell	Peter Harris	Matt Pritchard
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.

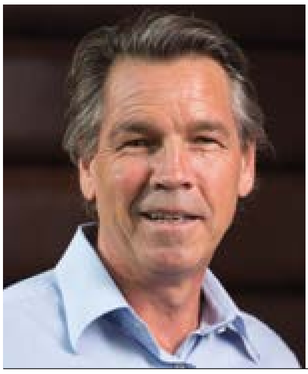
He has over 20 years of experience of finance gained in blue chip retail organisations.

Matt qualified as a Certified Accountant in 1998.

Committee membership

Angus Thirlwell	Peter Harris	Matt Pritchard
G E (Chair) S	G S	G E S (Chair)

CORPORATE GOVERNANCE STATEMENT



"The board's role is to determine Hotel Chocolat's long term strategic ambitions and to steer the business safely towards them."

ANDREW GERRIE
NON-EXECUTIVE CHAIRMAN

10

SCHEDULED BOARD MEETINGS HELD

MEMBERS AND ATTENDANCE

Andrew Gerrie (Chair) 10

Sophie Tomkins 10

Greg Hodder 9

Angus Thirlwell 10

Peter Harris 10

Matt Pritchard 10

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

AN INTRODUCTION FROM OUR CHAIRMAN

The Hotel Chocolat Board is fully committed to strong governance of the business within a culture that recognises and delivers on our responsibilities to all the Group's stakeholders, including shareholders, customers, suppliers, colleagues and the wider community. 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 has adopted, and 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. Our governance framework continues to evolve as the business and its operations and ambitions develop.

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. The Board has a Non-executive Chair and has recently appointed Greg Hodder to undertake the role of Senior Independent Director.

THE REMIT OF THE BOARD AND COMMITTEES

The Board

The operation of the Board is documented in a formal schedule of matters reserved for its approval, which is reviewed periodically. A forward-looking programme of agenda items is planned in advance, including deep dives from key parts of the business, regular strategy reviews and updates on significant projects. Meeting agendas focus on matters of key strategic importance but also ensure that Directors are provided with opportunities to understand and debate areas of risk, performance and controls.

Committees

The Board has delegated specific responsibilities to the Audit, Remuneration and Nomination Committees. Each Committee has written terms of reference setting out its duties, authority and reporting responsibilities. Copies of all the Committee terms of reference are available on the Group's website. These terms of reference are kept under review to ensure they remain appropriate and reflect any changes in legislation, regulation or best practice.

Audit Committee

The Audit Committee has primary responsibility for monitoring the quality of internal controls and ensuring that the financial performance of the Group is properly measured, reported and audited.

Remuneration Committee

The Remuneration Committee reviews the performance of the Executive Directors and makes recommendations to the Board on matters relating to their remuneration and terms of employment.

Nominations Committee

Since its IPO, matters relating to Board composition and Director appointment have been dealt with by the Board as a whole. One of the outcomes of the Board's most recent board effectiveness review was to agree to form a Nominations Committee and its terms of reference have been published on the Group's website. The Committee's remit includes keeping the Board's composition under review to ensure it remains relevant and appropriate to lead the Group's long term strategic ambitions, managing any Board recruitment activity, and assessing Director independence.

CORPORATE GOVERNANCE STATEMENT CONTINUED

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

HOW THE BOARD OPERATES

The Board is responsible for the Group's strategy and for its overall management and performance. The strategic report on pages 6 to 43 summarises the Group's strategy to promote sustainable long-term growth and value for shareholders. The role of the Board is documented in a formal schedule of matters reserved for its approval. 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.

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 40 to 43.

BOARD MEETINGS

The Board held ten scheduled Board meetings during the period, together with another nine meetings held between full Boards in order to discuss specific issues or matters of an urgent nature. 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	4	3
Andrew Gerrie	10		2
Sophie Tomkins	10	4	3
Greg Hodder	9	4	2
Angus Thirlwell	10		
Peter Harris	10		
Matt Pritchard	10		

Directors are expected to, and consistently do, attend all meetings of the Board, and of the Committees on which they sit. Outside of formal meetings, they also devote significant time to the Group's affairs, for example in reviewing Board papers before meetings. If, by exception, Directors are unable to attend a meeting, their comments on papers to be considered at the meeting may be discussed in advance with the Chair so that their contribution can be included in the wider meeting discussion.

OVERSIGHT OF THE EXECUTIVE COMMITTEE

The Executive Committee's activities, priorities, proposals and concerns are regularly reported to the Board. The Executive Committee has an agreed ongoing programme of performance monitoring and reviews of key strategic matters which then feed into the reports and updates provided to the Board. The Executive Committee is led by Angus Thirlwell, CEO. Its other members are:

- Matt Pritchard, Chief Financial Officer.
- Lysa Hardy, Chief Marketing Officer.
- Matt Margereson, Chief Operating Officer.

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 Chair, 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.

To support the Directors in keeping up-to-date with changes to the regulatory landscape and best practice thinking on matters of corporate governance, the Company Secretary provides regular updates on these matters. The Board also reviews its AIM obligations with its Nominated Advisor annually.

The Company Secretary provides and prepares minutes and action lists after each meeting. Every Director is aware of the right to have any concerns specifically minuted and of the process to seek independent advice at the Group's expense where appropriate.

During the period, the Board considered and approved a number of significant issues including a successful equity placing, the addition of a new bank facility, the audit tender and appointment of new auditors for the Group, acquisition of an additional distribution centre and production facility expansion plans, the introduction of the Founder Shares all-employee free share awards, and strategic changes to the Group's priorities and business model including the exit from some activities.

In addition, the Board received a number of deep dive presentations from management, covering matters such as procurement strategy, customer strategy and insight, category strategy, technology transformation plans and broader transformation plans, including the introduction of sales and operational planning processes (S&OP) to improve Group governance.

BOARD COMMITTEES

The Board has delegated specific responsibilities to the Audit and Remuneration Committees, details of which are set out below. Since the period end, the Board has also established a Nominations Committee and a separate report on its work will be provided in future report and accounts from the Group.

Each Committee has written terms of reference setting out its duties, authority and reporting responsibilities. Copies of all the Committee terms of reference are available on the Group's website.

These terms of reference are kept under review to ensure they remain appropriate and reflect any changes in legislation, regulation or best practice. Each Committee comprises Non-executive Directors of the Group.

Audit Committee

The Audit Committee is chaired by Sophie Tomkins and its other members are Andrew Gerrie and Greg Hodder. 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 the external auditor relating to the annual accounts and the accounting and internal control systems in use throughout the Group. It reviews the risk register to ensure that it is comprehensive and that appropriate mitigations are in place. It also advises the Board on the appointment of the external auditor, reviews their fees and discusses the nature, scope and results of the audit with the external auditor. The Audit Committee generally meets three times a year and has unrestricted access to the Group's auditor. The Chief Financial Officer attends the Committee meetings by invitation.

The Audit Committee report on pages 60 to 62 contains more detailed information on the Committee's role and how it discharged its responsibilities during the period.

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 63 to 66 contains more detailed information on the Committee's role and the Directors' remuneration and fees.

CORPORATE GOVERNANCE STATEMENT CONTINUED

Nominations Committee

Following its most recent Board review, a Nominations Committee has been established. It will report to shareholders in the Group's next Annual Report and Accounts.

As reported below, as part of the annual Board evaluation, 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 Committee;
- an organisational structure with defined levels of responsibility, which promotes entrepreneurial decision making and agile implementation whilst mitigating risks. These structures are currently being enhanced through the introduction of S&OP processes;
- 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 continues to keep the introduction of an internal audit function under review.

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

The Board has reviewed the lessons learnt in connection with prior period restatements and exceptional items.

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	✓			✓		✓

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 Group's Nominated Adviser, to ensure that Directors remain abreast of developments and current best practice. The skills and experience of the Directors are set out in their biographical details on pages 46 and 47.

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

BOARD EFFECTIVENESS

The purpose of a Board effectiveness review is to establish objectives which will help drive continual improvement in Board practice and outcomes. The Board has undertaken an evaluation of its effectiveness, both looking back at what has changed since the prior year's exercise and what more can be done to improve even further.

Input was obtained from every Board member on a number of key topics including:

- the effectiveness of the Board in setting strategy;
- the appropriateness of the Group's governance framework and Board delegations;
- the support provided to the Board and its Committees;
- confirmation that rigorous and wide ranging debate of issues takes place;
- whether decision making is balanced, objective, well-informed and supported by rigorous debate;
- the extent to which wider stakeholder and ESG issues are taken account of in decision making and how communication and relationships with stakeholders are managed;
- how effective the Board's risk management oversight and management is; and
- if the Board has the appropriate composition and collective skills to lead the business.

The implementation of actions agreed from the previous year's process was reviewed. Progress had been made against most of the actions, with Board reporting redefined during the year and Board site visits and management deep dives providing greater opportunities for Non-executive Directors to meet with senior colleagues during the year. The action to consider recruitment of an additional Non-executive Director had been deferred but, going forwards, such matters will now be dealt with by the newly-established Nominations Committee.

The actions agreed as a result of this year's process included:

- formation of a Nominations Committee so that matters such as Board succession planning, reviews of Board composition and Director recruitment will no longer be dealt with by the Board as a whole. The Committee has been established and will report back to shareholders in next year's Annual Report and Accounts;
- appointment of a Senior Independent Director – Greg Hodder has now been appointed to this role;
- implementation of a review process to consider lessons that might be learned from the recent change in strategy towards the Group's joint venture in Japan; and
- introduction of a change to Board reporting to ensure that, those actions arising from previous meetings which are most strategic and high priority in nature, are more readily identifiable when the Board reviews progress on them.

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 and to speak up in confidence if they suspect any wrongdoing. Sophie Tomkins has taken the lead on ensuring that all colleagues have the opportunity to have their views represented in the boardroom.

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 Chair and Non-executive Directors devote sufficient time to the Group's business. The Chair is stepping down in 2023 due to an anticipated increase in other commitments.

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, and regulatory updates are a regular feature of Board meeting agendas. New external advice was sought by the Board and Committees from appropriately qualified third parties. Executive Directors are subject to the Group's performance review process through which their performance against predetermined objectives is reviewed and their personal and professional development needs considered. An annual performance appraisal of Non-executive Directors is undertaken as part of the Board evaluation process, at which time any training or development needs can be identified and addressed.

CORPORATE GOVERNANCE STATEMENT CONTINUED

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 Chair and to any actual or potential conflicts of interest being declared and, where appropriate, authorised.

CONFLICTS OF INTEREST

At each meeting, the Board considers Directors' interests and notifications are made of any changes. 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 40 to 43.

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 have introduced our Gentle Farming Programme to support our community of growers in Ghana and St. Lucia and to promote mutual learning and understanding of best practice agricultural methods. As well as seeking to eradicate child labour and deforestation, the programme will enhance farmers' incomes and encourage reforestation to improve biodiversity and help combat climate change.

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. During the period, the Board agreed the introduction of a new all-employee free share plan – named Founder Shares – to enable all members of the Hotel Chocolat family to participate as owners of the business.

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 offered the opportunity to attend an online meeting at which the Group's activities are discussed and were given an opportunity to participate in the Group's 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 Chair and independent Non-executive Directors will attend meetings with investors and analysts as required. Investor relations activity, shareholder feedback and a review of the share register are regular items on the Board's agenda.

ANNUAL GENERAL MEETING (AGM)

The Annual General Meeting of the Group will take place on 29 December 2022. The Notice of Annual General Meeting and the ordinary and special resolutions to be put to the meeting are included in the Notice of AGM accompanying this Annual Report.

PROGRESS AGAINST THE CORPORATE GOVERNANCE TARGETS:

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

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

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

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

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 HC to operate honestly, transparently and fairly

PRIVACY & DATA SECURITY

WHY IT MATTERS

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

STAKEHOLDERS & PRIORITIES

Customers and team members

TAX TRANSPARENCY

WHY IT MATTERS

HC acknowledges that paying tax is making a contribution to society

STAKEHOLDERS & PRIORITIES

Shareholders, government, local communities who expect transparency and fair taxation

Sustainable Development Goals: directly connected to the Group's priorities

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

PROGRESS AGAINST THE CORPORATE GOVERNANCE TARGETS: CONTINUED

SUBJECT	FY 21 STATUS	GOAL	EXECUTIVE ACCOUNTABLE	FY 22 PROGRESS AGAINST TARGET	COMMENTS
BOARD AND LEADERSHIP DIVERSITY	PLC comprises: 2 male co-founders, 3 other male Directors and 1 other female Director. 33% of the Executives reporting to the Board are female. 46% of the direct reports to the executive are female.	Diversity and inclusion policy applied ongoing to all new Board and senior management hires and promotions.	Andrew Gerrie, Chair	PLC comprises: 2 male co-founders, 3 other male Directors and 1 other female Director.	Our Equality, Diversity & Inclusion Policy covers all levels of our Hotel Chocolat family, including the Board. A new Nominations committee was constituted to oversee succession planning and ensure the Board is composed of individuals with the necessary skills and diversity.
EXECUTIVE PAY	Performance related pay is attached to profitability, sales growth, ESG (team engagement) and share price increase.	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.	Greg Hodder, SID, Remuneration Committee chair	Executive targets for performance related pay were not met.	In May 2022, we were delighted to be able to share in our success and reward our Hotel Chocolat family by launching an all-employee equity participation scheme to share the rewards of ownership with every team member in addition to existing SAYE scheme.
REPORTING AND ACCOUNTING	See Audit Committee report (page 60).	Ongoing consideration of internal audit function and appropriate timing.	Matt Pritchard, CFO and Sophie Tomkins, NED, Audit Chair	Reviewed.	At present, we do not have an internal audit function, however the Audit 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. This position will continue to be reviewed as to its adequacy.
BUSINESS ETHICS AND VALUES	Supplier code of conduct covering quality, ethical supply, anti-bribery and fair treatment of labour. Whistleblower policy in place.	Assurance over supplier base including compliance with Group policies.	Angus Thirlwell, CEO	All of our key suppliers have been risk assessed, and 95% of our most material suppliers have been independently audited to ensure compliance with our code of conduct.	We have in place relevant codes of conduct and expected behaviour for our team members which includes our approach to ethical behaviour and whistleblowing so we can ensure that things are done in the right way. We also have a supplier code of conduct covering quality, ethical supply, anti-bribery and fair treatment of labour.
ANTI- BRIBERY AND ANTI-CORRUPTION	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.	Augment internal assurance with third party supplier audits by December 2022.	Matt Margereson, COO	All of our key suppliers have been risk assessed, and 95% of our most material suppliers have been independently audited to ensure compliance with our code of conduct.	We have an anti-bribery and anti-corruption policy which sets out our zero-tolerance position and provides information and guidance to those working for us and our suppliers on how to recognise and deal with bribery and corruption issues.

SUBJECT	FY 21 STATUS	GOAL	EXECUTIVE ACCOUNTABLE	FY 22 PROGRESS AGAINST TARGET	COMMENTS
PRIVACY AND DATA SECURITY	Programme of security measures, assurance including tests of controls and access restrictions. Compliance with GDPR.	Data council implemented FY22	Matt Margereson COO	We have an Information Assurance, Security and Compliance (IASC) Group in place that incorporates GDPR compliance and acts as a proxy Data Council. Data Protection Officer in place.	Confidentiality of personal data is important in ensuring long-term trust, allowing the business to serve its customers effectively.
TAX TRANSPARENCY	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%.		Matt Pritchard, CFO	Our tax strategy is available to view online.	We see tax as a vital part of our society, paying tax is part of our contribution. The money we pay in tax goes back into our communities; allowing things such as education, health services and government infrastructure to grow and develop alongside us as we grow as a business.

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 8 to find out more about our strategy and business model, and page 16 for review of the business performance against the strategy set.
Seek to understand and meet shareholder needs and expectations.	✔	Regular meetings are held with investors and analysts and the Board regularly considers how decisions could impact, and be received by, shareholders. Our AGM provides an opportunity for all shareholders to hear from and meet with our Directors and we have extended opportunities for dialogue with retail shareholders through arrangement of a separate management presentation of the full year results aimed at private investors.	See page 54 for more information on our relations with shareholders. We also publish information relevant to shareholders on our website www.hotelchocolat.com/uk/investor-relations.html including all regulatory news alerts.
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, others in the community and the environment 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 pages 40 to 43 to learn more about how we collate feedback from our stakeholders and take account of their needs and priorities and our responsibility to the environment. These actions that the Board have taken in response to this feedback have been included on page 54.
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 60 to 63.
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, as an independent Non-executive Director, 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 39 and in our corporate governance statement on pages 48 to 54. We also publish information relevant to our wider stakeholders on our website www.hotelchocolat.com/uk/investor-relations.html including all regulatory news alerts.

Governance principles	Compliant	Explanation	Further reading
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 46 and 47.
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 effectiveness review. Directors' individual development needs are discussed annually with the Chair.	Further information about how Directors keep their knowledge and skills up-to-date is provided on page 52.
Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement.	✔	An annual Board review is undertaken to consider 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 outcomes of that process are summarised on page 53.
Promote a corporate culture that is based on ethical values and behaviours.	✔	The Hotel Chocolat values of authenticity, originality and ethics have always underpinned, and are evident in, everything we do. Examples include our Gentle Farming Programme, Engaged Ethics Programme, sustainability commitments, workforce engagement and community activities.	Our sustainability report on pages 26 to 39 illustrates some of the ways in which our corporate culture positively influences what we do.
Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board.	✔	Our governance structures are underpinned by the matters which the Board reserves to itself. A scheme of delegation, including established committees, an annual agenda plan, regular business deep-dives and good information flows all contribute to the Board making well-informed and properly debated decisions.	More detailed information about our governance structures and processes can be found in our corporate governance statement on pages 48 to 54 and the reports of the Audit Committee and Remuneration Committee on pages 60 to 66.
Ensure the Audit Committee obtains assurance on effective risk management and related controls.	✔	The Audit committee reviews the risk register and liaises with the Board, management and the Group's auditor to devise a programme of assurance, including the scheduling of key matters for 'deep-dive' reviews by the Board.	See the Audit Committee report on page 60.
Ensure Director skillsets are kept up to date.	✔	Directors are expected to undertake necessary personal development and appropriate external network, with additional support and input from the company secretary and Nomad.	See Director biographies on pages 46 and 47 and corporate governance statement on pages 48 to 54.

AUDIT COMMITTEE REPORT

"On behalf of the Board, I am pleased to present the Audit Committee report for the period ended 26 June 2022."

SOPHIE TOMKINS
CHAIR OF THE AUDIT COMMITTEE

3

FORMAL COMMITTEE MEETINGS HELD

MEMBERS AND ATTENDANCE

Sophie Tomkins (Chair) 3

Andrew Gerrie 2

Greg Hodder 2

The Audit Committee is responsible for ensuring that the financial performance of the Group is properly reported and reviewed. Its role includes monitoring the integrity of the financial statements (including annual and interim accounts and results announcements), reviewing internal control and risk management systems, reviewing any changes to accounting policies, reviewing and monitoring the extent of the non-audit services undertaken by external auditors and advising on the appointment of external auditors.

MEMBERS OF THE AUDIT COMMITTEE

The Committee consists of two independent Non-executive Directors: myself, Sophie Tomkins (as Chair), Greg Hodder and Board Chair Andrew Gerrie. Matt Pritchard, Chief Financial Officer, and other Executive Directors may attend Committee meetings by invitation. The Committee formally met three times in the period, with several additional meetings relating to the audit tender and to facilitate effective transition to a new auditor for FY22.

The Board is satisfied that I, as Chair of the Committee, have recent and relevant financial experience. 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 FY22 audit plan and audit engagement letter;
- consideration of key audit matters and how they are addressed;
- review of the Group's response to the FRC inquiry during FY22 and subsequent to the FY22 year end;
- review of suitability of the external auditor;
- 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.

RESULT OF TENDER AND CHANGE OF AUDITOR

The Group's previous auditor, BDO LLP, had been Group Auditor since FY12, and the Audit Committee, in accordance with best practice on audit tenders, recommended to the Board that an external tender take place for the FY22 audit. A rigorous tender process took place following the publication of the Group's FY21 Accounts, and the Audit Committee recommended a change of auditor for FY22 to RSM UK Audit LLP (RSM). This transition took effect after the interim agreed upon procedures which were completed by BDO. Significant time has been committed by management, the Audit Committee, and RSM, to effect a smooth transition in time for this audit cycle. Change is an opportunity for fresh insight, and the Audit Committee welcomes the change of auditor as part of its aim for continual improvement.

AUDITOR OBJECTIVITY, INDEPENDENCE AND PERFORMANCE

The Audit Committee monitors the relationship with the external auditor, RSM, 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. There were no non-audit fees arising during FY22.

The external auditors are required to rotate audit partners responsible for the Group audit every five years and the current lead audit partner, Catherine Hackney, was appointed in 2022, on appointment of RSM.

The Audit Committee also assesses the auditor's performance. During the year, the Committee reviewed performance and met with the external auditors regularly without management present. The Committee has adopted a broad framework to review the effectiveness of the Group's external audit process and audit quality which includes: assessment of the audit partner and team with particular focus on the lead audit engagement partner; planning and scope of the audit, with identification of particular areas of audit risk; the planned approach and execution of the audit; management of an effective audit process; communications by the auditors with the Committee; how the audit contributes insights and adds value; a review of independence and objectivity of the audit firm; and the quality of the formal audit report to shareholders.

Having reviewed the auditor's independence and performance, the Audit Committee recommends that RSM be re-appointed as the Group's auditor at the next AGM.

AREAS OF KEY SIGNIFICANCE IN THE PREPARATION OF THE FINANCIAL STATEMENTS

Prior to publication of this Annual Report and Accounts, the Committee reviewed the accounting policies and significant judgements and estimates underpinning the financial statements as disclosed in the notes to the consolidated financial statements.

Significant focus is placed on key accounting judgements and estimates, which underpin the financial statements, namely:

- Accounting and the impairment of the Japan Joint Venture
- Impairment of investments and property, plant and equipment
- Inventory provisions
- Accounting for leases and right of use assets
- Exceptional items

AUDIT COMMITTEE REPORT CONTINUED

FRC CORPORATE REPORTING REVIEW

The FRC selected the FY21 Accounts of Hotel Chocolat Group PLC for review as part of its standard Audit Quality Review and Corporate Reporting process. The resulting correspondence with the FRC following this review has resulted in a specific review of the prior year treatment of the Japan Joint Venture under the detailed provisions of IFRS 9 and IFRS 10. These are complex accounting standards and this exercise has been a very useful additional review. The Group has additionally sought advice and technical input from appropriately qualified third party specialists to further understand latest guidance on the implementation of these standards. Management have engaged comprehensively to address these points, and the overall accounting treatment of the Japan joint venture is summarised on page 98. The Committee thanks the FRC for its co-operation, and its contribution towards our continual efforts to improve the quality of our Annual Report and Accounts.

INTERNAL AUDIT

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

RISK MANAGEMENT AND INTERNAL CONTROLS

As described on pages 52 to 54 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. The Committee supports the Board in its overall responsibility for risk management activities and implementing policies to ensure that all risks are evaluated, measured and kept under review by way of appropriate KPIs. The Group regularly conducts a thorough external assessment of risks and the effectiveness of associated controls. Presentations from senior management across the business are provided to the Board to further develop information, understanding and debate on risks.

The Group will continue to improve and evolve its risk management framework by developing and embedding the necessary capabilities within the organisation to support informed risk taking by the business. Management, together with the Board, periodically review and revise risk appetites setting out risks that should be avoided and those that can offer sustainable and positive returns.

The second half of the financial year saw a significant change in the Group's risk assessments as a result of fast changing macro-economic factors combined with the resourcing requirements of numerous expansion opportunities, principally overseas. The resulting strategic change involves a significant re-focus on the Group's core markets.

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

4

COMMITTEE MEETINGS HELD

MEMBERS AND ATTENDANCE

Greg Hodder (Chair) 4

Sophie Tomkins 4

REMUNERATION STRATEGY

As you will see elsewhere in this Annual Report and Accounts, the Board of Hotel Chocolat is pursuing a strategy to drive improved financial profitability and deliver a great customer experience. 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, in August 2021 the Group introduced a new five-year Long-Term Incentive Plan (LTIP) for senior leadership, and in April 2022 launched Founder Shares an all-employee share participation scheme.

REMUNERATION COMMITTEE REPORT CONTINUED

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 4 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 incentive, based on achieving 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 26 June 2022.

	FY22					FY21				
	Basic salary/fee	Additional fees	Performance Bonus	Pension	Total	Basic salary/fee	Additional fees	Performance Bonus	Pension	Total
Executive										
Angus Thirlwell	278,500		Nil	16,135	294,635	237,000	–	Nil	10,110	247,110
Peter Harris	219,750		Nil	13,264	233,014	217,000	–	Nil	9,510	226,510
Matt Pritchard	233,500		Nil	24,765	258,265	217,000	–	Nil	6,510	223,510
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	–	–	–	40,000

DIRECTORS' REMUNERATION CONTINUED

The Executive remuneration policy for FY23 is set out in the table below:

FY23	Basic salary/fee	Maximum bonus	Pension
Executive			
Angus Thirlwell	320,000	No scheme in place	16,000
Peter Harris	228,000	No scheme in place	14,400
Matt Pritchard	250,000	No scheme in place	15,000

FY22 ANNUAL INCENTIVE

Annual performance incentive schemes were reinstated for all employees for FY22. For Executives Directors and other senior employees, the Annual Incentive Plan operated as follows:

- Achievement of FY22 budgeted profit margin acts as the gateway to ensure the plan self-funds. The statutory/reported profit margin target was not met and therefore no payments will be made in respect of the FY22 incentive scheme.
- The quantum paid was to be determined by annual sales growth (80% of award) and improvement in an ESG metric, namely the all-employee Engagement Score (20% of award), however no payment will be made because the profit margin gateway was not met.

FY23 ANNUAL INCENTIVE

For FY23, the Remuneration Committee has delayed the confirmation of any annual performance incentives, and will review the merits of introducing any such personal incentive arrangements during the second half of the financial year. It is anticipated that any such incentive would have measurable performance targets and be funded from improvements above plan.

The Remuneration Committee retains the option to pay half of any annual incentive award in the form of deferred equity, with vesting 12 months following the satisfaction of the 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, a new all-employee equity participation scheme (Founder Shares) in the form of restricted stock options was launched during FY22, to foster a culture of employee ownership.

- The 2019 LTIP performance condition was not met and accordingly all options from the 2019 awards lapsed in the period.
- The 2021 LTIP will be tested at the end of FY24, FY25 and FY26. Vesting is triggered by ambitious share price growth targets, with the minimum threshold at a share price of £4.72 with full vesting at a share price of £12.00.

REMUNERATION COMMITTEE REPORT CONTINUED

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 41 most senior employees in the Group, with the maximum dilution under full vesting of this LTIP award is 2.7% 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

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

If you have any comments or queries on anything contained within this Remuneration Report, I will be available at the investor presentation meeting to be scheduled around the time of the FY23 interim results.

Greg Hodder
Chair of the Remuneration Committee

DIRECTORS' REPORT

The Directors present their report together with the audited financial statements for the period ended 26 June 2022.

The corporate governance statement on pages 48 to 54 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 43 provides a review of the business, the Group's trading for the period ended 26 June 2022 and key performance indicators.

RESULT AND DIVIDEND

The Group has reported its Consolidated Financial Statements in accordance 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 82. The Company financial statements have been prepared under FRS 102 for the period ended 26 June 2022.

The Group's revenue of £226.1m (FY21: £164.6m), gross margin of 56.1% (FY21: 61.8%) and (loss)/profit after tax of £(9.4)m (FY21: profit £3.7m (restated)) represent a challenging period for the business reflecting the impacts of a sustained acceleration in growth rates, and which has led to a revised strategy.

	Reported IFRS	
Period ended	**26 June 2022**	**27 June 2021**
Revenue (£m)	226.1	164.6
Gross margin %	56.1	61.8
(Loss)/Profit after tax (£m)	(9.4)	3.7[1]

1 Restated see Note 13 on page 110

The Board is not recommending a final dividend (FY21: nil).

DIRECTORS

The Directors of the Group during the period were:

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

The names of the Directors, along with their brief biographical details are given on pages 46 and 47.

DIRECTORS' INTERESTS

No Director has any beneficial interest in the share capital of any subsidiary undertaking. On 21 June 2021, the Group acquired the entire 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. (FY21: nil)

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 36 to the Consolidated Financial Statements on page 132.

EXISTENCE OF BRANCHES

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

SHARE CAPITAL STRUCTURE

At 26 June 2022, the Company's issued share capital was £137,319 divided into 137,319,014 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 18 November 2022, the Company had been notified of the following substantial shareholders comprising of 3% or more of the issued ordinary share capital:

DIRECTORS' REPORT CONTINUED

	% of issued share capital
Angus Thirlwell	27.1%
Peter Harris	27.1%
Phoenix Asset Management	13.1%
Odey Asset Management	3.2%

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 21.

POST BALANCE SHEET EVENTS

The Japan joint venture entered civil rehabilitation in July 2022 (FY23). The Group had impaired its loans to the Japan Joint Venture in FY22 and provided for payments under Financial Guarantee Contracts, which were settled in full after the period end.

FUTURE DEVELOPMENTS

The Board intends to continue to pursue the business strategy as outlined in the strategic report on pages 8 to 43.

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 39 and s172 statement on pages 40 to 43, including how the Board has considered stakeholders in their decision making during FY22).

SECR

Our Streamlined Energy & Carbon Reporting (SECR) framework can be found on page 31.

EQUAL OPPORTUNITIES

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

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

AUDITOR

RSM UK Audit LLP has expressed its willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on 29 December 2022. The ordinary business comprises receipt of the Directors' report and audited financial statements for the period ended 26 June 2022, the re-election of Directors, the reappointment of RSM UK Audit LLP as auditor and authorisation of the Directors to determine the auditor's remuneration, and to authorise the Directors to allot new shares. Special resolutions are also proposed to authorise the Directors, to a limited extent consistent with Pre-Emption Group guidelines, to disapply statutory pre-emption rights, and to make market purchases of the Company's shares. The Notice of Annual General Meeting sets out the ordinary and special resolutions to be put to the meeting.

APPROVAL

This Directors' report was approved on behalf of the Board on 30 November 2022.

Matt Pritchard
Chief Financial Officer

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Company financial statements for each financial year. The Directors have elected under company law and are required by the AIM Rules of the London Stock Exchange to prepare Group financial statements in accordance with UK-adopted International Accounting Standards and have elected under company law to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

The Group financial statements are required by law and UK-adopted International Accounting Standards to present fairly the financial position and performance of the Group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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 the Company and of the profit or loss of the Group for that period.

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;
- for the Group financial statements, state whether they have been prepared in accordance with UK-adopted International Accounting Standards;
- for the Company financial statements state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Company 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 (www.hotelchocolat.com/uk/investor-relations.html). 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 30 November 2022.

Matt Pritchard
Chief Financial Officer

FINANCIAL STATEMENTS


HOTEL
Chocolat
The Wreath Box

INDEPENDENT AUDITOR'S REPORT

To the members of Hotel Chocolat Group plc

OPINION

We have audited the financial statements of Hotel Chocolat Group plc (the 'parent company') and its subsidiaries (the 'group') for the period ended 26 June 2022 which comprise the Consolidated Statement of Comprehensive Income, Consolidated and Company Statements of Financial Position, Consolidated Statement of Cash Flow, Consolidated and Company Statements of Changes in Equity and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and UK-adopted International Accounting Standards. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 26 June 2022 and of the group's loss for the period then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted International Accounting Standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

BASIS FOR OPINION

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

SUMMARY OF OUR AUDIT APPROACH

Key audit matters	**Group** • Accounting for joint venture – Hotel Chocolat KK • Assessment of control in joint venture – Hotel Chocolat KK • Impairment of assets • Going concern
Materiality	**Group** • Overall materiality: £1,000,000 (2021: £472,000) • Performance materiality: £651,000 (2021: 354,000) **Parent Company** • Overall materiality: £782,000 (2021: £354,000) • Performance materiality: £508,000 (2021: 265,000)
Scope	Our audit procedures covered 98% of revenue, 100% of net assets and 96% of result before tax.

KEY AUDIT MATTERS

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

ACCOUNTING FOR JOINT VENTURE – HOTEL CHOCOLAT KK

Key audit matter description	As of 26 June 2022, the total amount loaned by Hotel Chocolat Limited to Hotel Chocolat KK stood at £23.0m (£12.2m at 27 June 2021) before any accounting adjustments. The recoverability of this joint venture ("JV") loan is reliant on the future cash flows of Hotel Chocolat KK, a relatively young company, building its brand within Japan. As a result, there is a risk that the loan cannot be recovered in full. No provisions for expected credit losses were recorded within the 2021 financial statements. In addition, between 2019 and 2022, Hotel Chocolat Group plc guaranteed debt arrangements on behalf of Hotel Chocolat KK, which meet the definition of Financial Guarantee Contracts. Under the requirements of IFRS9 (Financial Instruments), the fair value of the potential liability should be assessed and recorded within the financial statements as appropriate. In the prior period, no amounts were recorded within the financial statements in respect of these contracts. Post year end, Hotel Chocolat KK entered into Civil Rehabilitation proceedings in Japan, as it sought new sources of funding. Having re-considered the fair value of the loan under IFRS9, the Group have made material expected credit loss ("ECL") provisions in the current period and in prior periods by way of a prior period adjustment. In addition, the Group have re-assessed the fair value of the guarantee. As of 26 June 2022 the guarantee has been valued at £6.7m and a liability recognised for this amount. A prior period adjustment has been recorded for £0.6m at 27 June 2021. Due to the judgements and estimates involved in applying IFRS9 to the loan and financial guarantee contracts, and the material prior period adjustments made, it is considered a key audit matter.
How the matter was addressed in the audit	Our work included, but was not limited to: • Reviewing the papers prepared by management and considering them in the context of the relevant accounting standard requirements • Reviewing and challenging the estimates and assumptions utilised in the underlying calculations • Considering whether the interest rate applied in the facility agreement reflects an off-market rate or market rate and hence whether the draw down amount equates to fair value • Reperformance of the calculation of the fair value of the guarantees on initial recognition of each loan advanced • Reviewing and challenging the forecasts utilised in the ECL calculations and assumptions utilised by management. As a result of our findings from challenging management's model, we independently developed an alternative model, that included our view on an appropriate credit rating and average credit spread. Our alternative model allowed us to develop an estimate of the amounts to be recorded for ECLs within each period, that we considered appropriate and supportable against which we were able to assess management's estimates. • Assessment of the adequacy of disclosures in respect of the accounting for Hotel Chocolat KK in respect of the both the expected credit losses and the fair value of the guarantees • Assessment of the adequacy of the prior period adjustment disclosures
Key observations	The impact of the key judgements and estimates applied in respect of the accounting for the Japanese Joint Venture, is disclosed in note 3 to the financial statements. Based on the results of the audit procedures outlined above, we have no observations to report.

INDEPENDENT AUDITOR'S REPORT CONTINUED

To the members of Hotel Chocolat Group plc

ASSESSMENT OF CONTROL IN JOINT VENTURE – HOTEL CHOCOLAT KK

Key audit matter description	As at 26 June 2022, Hotel Chocolat Group plc, held a 20% interest in Hotel Chocolat KK. In previous periods, this interest has been recorded within the financial statements as a Joint Venture. The Group also operates as Franchisor to Hotel Chocolat KK. Under this arrangement, the Group supplies inventory, formal loan funding and cash advances. As noted above, at 26 June 2022, the Group was owed £23.0m (2021: £12.2m) by Hotel Chocolat KK. The Group has performed an assessment of the Group's ability to control Hotel Chocolat KK in line with the requirements of IFRS10 (Consolidated Financial Statements). In concluding whether control exists it is noted that there is significant judgement involved in assessing the various rights under the agreements, further complicated by the existence and the interaction of both franchise and shareholders agreements. At 26 June 2022, there are potential indicators that the Group has control over the Japanese joint venture. These include the size of the loan to the entity and the fact that the Group is a principal supplier. Therefore, there is a risk that the joint venture is inappropriately accounted for.
How the matter was addressed in the audit	Our work included, but was not limited to: • Challenging management's assessment of IFRS10 and the ability to control the relevant activities of the joint venture • Reviewing the agreements in place with the joint venture, including the shareholder agreement, franchise agreement, development agreement and loan agreement • Consideration of the clauses and relevant matters included within the agreements to assess the Group's ability to control the relevant activities of Hotel Chocolat KK • Assessment of the implication of the amounts loaned to Hotel Chocolat KK under the terms of the Franchise Agreement. In considering whether the lending of such significant sums represented control, we reviewed minutes and held discussions with management to understand the rationale for the quantum of the loans • Assessment of the adequacy of the disclosures in respect of the Group's assessment of control and the key judgements applied to reach its conclusion.
Key observations	The impact of the key judgements applied in respect of the control assessment of Hotel Chocolat KK is disclosed in note 3 to the financial statements. Based on the results of the audit procedures outlined above, we have no observations to report.

IMPAIRMENT OF ASSETS

Key audit matter description	As a result of the changing patterns to retail consumer behaviour, the Group identified that there were indications of impairment in relation to right of use assets and related PPE ("property related assets"). In addition, against the backdrop of post year-end performance at the St Lucia Estate, the Group identified that there were indications of impairment in relation to the carrying value of the Estate. As required by IAS 36 (Impairment of Assets) the Group has performed an impairment review of all such assets. As a result of this review, impairments in relation to right of use assets (£(0.6m) reversal), PPE (£1.4m) and the carrying value of the St Lucia Estate (£1.2m) have been recognised in these financial statements. In addition, an impairment of £8.3m has been recorded in the Company only financial statements in respect of the investment in its subsidiary undertaking (St Lucia Holdings), reflecting the impact of the broader macro environment on the ability to recover the underlying assets within the subsidiaries. As described in notes 2 and 3 to the financial statements, the impairment review involves management judgements and estimates in relation to the value in use of the property related assets (being the net present value of the forecast related cashflows). The values derived are then compared to the book value of the related assets to determine whether impairment is required. In making this assessment management determined each property or store to be a cash generating unit (CGU). The value in use calculations involve significant assumptions regarding future cashflows, the long-term growth rate in like for like sales, an assessment of customer demand in light of the broader macro environment, pressure on margins and determination of an appropriate discount rate. Accordingly, we determined that the valuation of property related assets had a high degree of estimation uncertainty. Due to the factors explained above we have identified impairment of assets as a key audit matter.

How the matter was addressed in the audit	Our work included, but was not limited to:
	• Obtaining an understanding of how management performed their impairment testing of property related assets, the St Lucia estate and their approach to valuation. We critically assessed the methodology applied by management with reference to the requirements of IAS 36 and tested the integrity of the value in use calculations and the calculated impairments by CGU. In particular we challenged the significant assumptions within management's models through:
	  ◦ Evaluating management's assumptions through consideration of historical and current trading performance and external data points
	  ◦ Sensitising the assumptions in management's impairment models and reviewed the financial statement disclosures documenting assumptions and the impacts of applied sensitivities
	  ◦ Testing the reconciliation between the cashflows used in the value in use calculations with those used to assess going concern to ensure they were consistent
	• Testing prior impairments that had been reversed in the period to determine that the updated carrying value is not higher than the historical depreciated carrying value
	• Performing sensitivity analysis of the discount rates and growth rates used in the forecast performance and the impact on the discounted cash flow calculation to assess the margin for error in forecasting.
	• Challenging growth assumptions utilised within the impairment models, leading management to complete an exercise to re-forecast the future cash flows and revise downwards their value in use assessments.
	• Engaging valuations specialists to perform and independent assessment of the discount rate assumption determined by management and benchmark the discount rate against comparable market data.
	• Assessing the adequacy of disclosures in respect of impairment and key judgements and estimates utilised.

Key observations	Following managements reassessment as a result of our challenge we found the judgements being made by management and their approach to the calculation of impairments recorded reasonable.

INDEPENDENT AUDITOR'S REPORT CONTINUED

To the members of Hotel Chocolat Group plc

GOING CONCERN

Key audit matter description	Significant judgements are always required around the assumptions underpinning future cashflow projections. These judgements are heightened in the current retail environment, given the uncertainties surrounding the impact of cost of living pressures, and forecast drop in consumer confidence and suppression in disposable incomes. This, and other external factors give rise to uncertainty which poses forecasting challenges for most businesses and in particular retailers. The Directors have concluded that the Group has sufficient resources available to meet its liabilities as and when they fall due and that therefore there are no material uncertainties that cast significant doubt on the Group's ability to continue as a going concern. In undertaking their assessment of going concern, the Directors have reviewed forecast future performance and anticipated cashflows for the Group. These forecasts have also been applied in determining the need to impair property related assets as set out in the key audit matter above. Their assessment has considered cashflow forecasts and financing and covenants in place for the period to 31 December 2023. The Group's current Revolving Credit Facility expires on 16 July 2024. As part of the assessment the Directors have determined appropriate sensitivities to the forecasts, including a reverse stress test of the Group's ability to meet its covenants. We have identified a key audit matter related to going concern as a result of the judgement required in undertaking a going concern assessment in the current uncertain trading environment, the adequacy and accuracy of disclosures and the conclusion that there is not a material uncertainty related to going concern.
How the matter was addressed in the audit	Our procedures included: • Understanding management's going concern models, discussing key assumptions with management and assessing whether those assumptions were consistent with those applied elsewhere, such as forecast cost mitigations and revenue decreases • Testing the mathematical accuracy of management's cashflow models and agreeing opening balances to 26 June 2022 actual figures • Testing management's covenant compliance calculations to determine whether there is a risk of breach and assessing whether the assumptions in management's base model appear realistic, achievable and consistent with other internal and external evidence • Comparing forecast sales with recent historical information to consider the accuracy of forecasting and consider post year-end sales patterns to assess whether they are consistent with those assumed in the base model • Testing management's sensitivity analysis and reverse stress test and perform our own analysis based on further sensitising of the models to take account of reasonably possible scenarios that could arise from the risks identified • Reviewing agreements and correspondence relating to the availability of financing arrangements. • Assessing the adequacy of going concern related disclosures in note 2 to the financial statements, including the degree of sensitivity to changes in assumptions.
Key observations	Our audit work in respect of going concern concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate and we did not identify any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's or the Parent company's ability to continue as a going concern and that the associated disclosures are in accordance with accounting standards. However, the impact of cost of living pressures on future performance is difficult to predict with any certainty and no audit can be relied upon to identify all possible scenarios that may have future implications for the Group.

OUR APPLICATION OF MATERIALITY

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures. When evaluating whether the effects of misstatements, both individually and on the financial statements as a whole, could reasonably influence the economic decisions of the users we take into account the qualitative nature and the size of the misstatements. Based on our professional judgement, we determined materiality as follows:

	Group	Parent company
Overall materiality	£1,000,000 (2021: £472,000)	£822,000 (2021: £354,000)
Basis for determining overall materiality	5% of loss before tax, adjusted for exceptional items*	1% of net assets*
Rationale for benchmark applied	Since the Group utilises adjusted results before tax in its communications with its shareholders, we have determined this to be the most appropriate benchmark	The parent company does not trade and therefore net assets is considered to be the most appropriate benchmark.
Performance materiality	£651,000 (2021: £354,000)*	£534,000 (2021: £265,000)*
Basis for determining performance materiality	65% of overall materiality	65% of overall materiality
Reporting of misstatements to the Audit Committee	Misstatements in excess of £50,000 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.	Misstatements in excess of £41,000 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.

* The approach adopted to determining overall and performance materiality are consistent with that adopted in the prior year.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

The group consists of 6 trading entities, the most significant of which are based and operate from the United Kingdom, but there are also entities located in the USA and Saint Lucia.

The coverage achieved by our audit procedures was:

	Number of components	Revenue	Net assets	Result before tax
Full scope audit	2	96%	90%	88%
Targeted audit procedures	2	2%	10%	8%
Total	4	98%	100%	96%

In addition to performing work at a component level our audit procedures included testing of the consolidation and areas of significant judgement, including impairment of assets and accounting for right of use assets and lease liabilities. All full scope and targeted audit procedures were performed by the group engagement team.

Analytical procedures at group level were performed for the rest of the components.

The parent company, Hotel Chocolat Group PLC was subject to a full scope audit for Parent Company financial statements only.

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. For an explanation of how we evaluated management's assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting and our key observations arising in respect to that evaluation, please see the going concern key audit matter.

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's or 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.

INDEPENDENT AUDITOR'S REPORT CONTINUED

To the members of Hotel Chocolat Group plc

OTHER INFORMATION

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. 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.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

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

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

- adequate accounting records have not been kept 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 directors' responsibilities statement set out on page 69, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

THE EXTENT TO WHICH THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

Irregularities are instances of non-compliance with laws and regulations. The objectives of our audit are to obtain sufficient appropriate audit evidence regarding compliance with laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements, to perform audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements, and to respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit.

In relation to fraud, the objectives of our audit are to identify and assess the risk of material misstatement of the financial statements due to fraud, to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud through designing and implementing appropriate responses and to respond appropriately to fraud or suspected fraud identified during the audit.

However, it is the primary responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations and for the prevention and detection of fraud.

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud, the group audit engagement team:

- obtained an understanding of the nature of the industry and sector, including the legal and regulatory frameworks that the group and parent company operate in and how the group and parent company are complying with the legal and regulatory frameworks;
- inquired of management, and those charged with governance, about their own identification and assessment of the risks of irregularities, including any known actual, suspected or alleged instances of fraud;
- discussed matters about non-compliance with laws and regulations and how fraud might occur including assessment of how and where the financial statements may be susceptible to fraud.

The most significant laws and regulations were determined as follows:

Legislation / Regulation	Additional audit procedures performed by the Group audit engagement team included:
UK-adopted IAS, FRS102 and Companies Act 2006	Review of the financial statement disclosures and testing to supporting documentation; Completion of disclosure checklists to identify areas of non-compliance.
Tax compliance regulations	Inspection of advice received from external tax advisors Inspection of correspondence with local tax authorities Input from a tax specialist was obtained regarding the audit of the consolidated tax disclosures Consideration of whether any matter identified during the audit required reporting to an appropriate authority outside the entity.
Food Safety	ISAs limit the required audit procedures to identify non-compliance with these laws and regulations to inquiry of management and where appropriate, those charged with governance (as noted above) and inspection of legal and regulatory correspondence, if any.

The areas that we identified as being susceptible to material misstatement due to fraud were:

Risk	Audit procedures performed by the audit engagement team:
Revenue recognition	Testing recognition of sales on a sample basis pre and post period end to dispatch of stock; Testing key wholesale contracts for rebate agreement and application of them at the period end; and Review of journals for appropriateness using financial data analytics software.
Management override of controls	Testing the appropriateness of journal entries and other adjustments; Assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and Evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

INDEPENDENT AUDITOR'S REPORT CONTINUED

To the members of Hotel Chocolat Group plc

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

USE OF OUR REPORT

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Catherine Hackney (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor

Chartered Accountants
25 Farringdon Street,
London,
EC4A 4AB

Date: 30 November 2022


HOTEL Chocol

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended 26 June 2022

	Notes	52 weeks ended 26 June 2022 £000	Restated* 52 weeks ended 27 June 2021 £000
Revenue	4	226,133	164,551
Cost of Sales		(93,810)	(62,877)
Cost of Sales – Exceptional	5	(5,501)	–
Gross profit		126,822	101,674
Operating expenses*		(110,140)	(89,873)
Operating expenses – Exceptional*	5	(11,849)	(2,119)
Impairment of financial assets– Exceptional*	5	(11,429)	(1,956)
(Loss)/Profit from operations	6	(6,596)	7,726
Finance income*	11	1,035	711
Finance expenses	11	(1,910)	(1,650)
Share of joint venture post-tax results (loss)*	23	(1,248)	(1,252)
(Loss)/Profit before tax*		(8,719)	5,535
Tax expense*	12	(720)	(1,857)
(Loss)/Profit for the period*		(9,439)	3,678
Other comprehensive (loss)/income:			
Items that may be subsequently reclassified to profit or loss:			
Gains / (losses) on cashflow hedges	19	1,451	(1,897)
Deferred tax (credit)/charge on derivative financial instruments	18	(385)	308
Currency translation differences arising from consolidation		(355)	(825)
Currency movement on net investment*		1,297	(730)
Deferred tax charge on net investment currency movement*		(324)	183
Forex reclassified to inventory*		96	143
Other comprehensive income/(loss), net of tax*		1,780	(2,818)
Total comprehensive (loss)/income for the period*		(7,659)	860
Earnings per share – Basic*	14	(6.9p)	2.9p
Earnings per share – Diluted*	14	(6.9p)	2.9p

* Restated 52 weeks ended 27 June 2021 – see note 13.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 26 June 2022

	Notes	As at 26 June 2022 £000	Restated* As at 27 June 2021 £000	Restated* As at 28 June 2020 £000
ASSETS				
Non-current assets				
Intangible assets	15	1,818	3,976	2,897
Property, plant and equipment	16	68,579	53,496	41,868
Right of use asset	17	51,560	30,357	39,848
Deferred tax asset	18	–	662	1,395
Derivative financial assets	19	–	–	92
Loan to Joint Venture*	22	–	3,269	336
Investments in Joint Venture*	23	–	2,409	757
		121,957	94,169	87,193
Current assets				
Derivative financial assets	19	668	–	1,100
Inventories	20	43,062	32,038	13,916
Trade and other receivables	21	17,541	12,421	7,492
Corporation tax receivable		3,264	2,128	1,520
Cash and cash equivalents	25	17,569	10,046	27,503
		82,104	56,633	51,531
Total assets		204,061	150,802	138,724
LIABILITIES				
Current liabilities				
Trade and other payables	26	(39,441)	(42,223)	(27,251)
Lease liabilities	17	(10,390)	(9,061)	(10,993)
Other financial liabilities	28	(6,660)	–	–
Derivative financial liabilities	19	(48)	(925)	(27)
Provisions	29	(907)	–	–
		(57,446)	(52,209)	(38,271)
Non-current liabilities				
Other payables and accruals	26	–	(2)	(31)
Lease liabilities	17	(44,145)	(30,503)	(35,960)
Other financial liabilities*	28	–	(642)	(216)
Deferred tax liability	18	(1,130)	–	–
Derivative financial liabilities	19	(38)	(28)	(327)
Provisions	29	(2,919)	(1,585)	(959)
		(48,232)	(32,760)	(37,493)
Total liabilities		(105.678)	(84,969)	(75,764)
NET ASSETS		98,383	65,833	62,960
EQUITY				
Share capital	30	137	126	126
Share premium	31	78,014	38,684	37,627
Retained earnings*	31	13,499	22,938	19,260
Translation reserve	31	399	754	1,579
Merger reserve	31	223	223	223
Capital redemption reserve	31	6	6	6
Other reserves*	31	6,105	3,102	4,139
Total equity attributable to shareholders		98,383	65,833	62,960

* See note 13 for explanation of restatements as at 28 June 2020 and 27 June 2021.

The financial statements of Hotel Chocolat Group plc, registered number 08612206 were approved by the Board of Directors and authorised for issue on 30 November 2022. They were signed on its behalf by:

Matt Pritchard

Chief Financial Officer

30 November 2022

CONSOLIDATED STATEMENT OF CASH FLOW

For the period ended 26 June 2022

	Notes	52 weeks ended 26 June 2022 £000	Restated* 52 weeks ended 27 June 2021 £000
(Loss)/Profit before tax for the period*		(8,719)	5,535
Adjusted by:			
Exceptional items*	5	28,779	4,075
Share of JV loss*		1,248	1,252
Depreciation of property, plant and equipment	16	6,506	5,543
Depreciation of right of use assets	16	9,545	9,287
Amortisation of intangible assets	15	565	965
Reversal of amortisation (SaaS)	15	(557)	–
Gain on lease modification		162	(25)
Net interest expense*	11	875	939
Share-based payments	10	621	911
Loss on disposal of non-current assets	6	516	112
Loss on fair value adjustment to joint venture*	6	–	46
Operating cash flows before movements in working capital		39,541	28,640
Increase in trade and other receivables		(3,286)	(4,718)
Increase in inventories		(20,267)	(19,673)
(Decrease)/ increase in trade and other payables and provisions		(4,217)	13,819
Cash inflows generated from operations		11,771	18,068
Interest received		28	–
Income tax paid		(533)	(1,152)
Interest paid on:			
– bank loans and overdraft		(642)	(328)
– derivative financial liabilities		(165)	(198)
– lease liabilities		(1,181)	(1,121)
Cash flows from operating activities		9,278	15,269
Purchase of property, plant and equipment		(24,212)	(18,632)
Purchase of intangible assets		(1,504)	(1,551)
Loan to joint venture		(6,300)	(3,607)
Acquisition of joint venture		–	(300)
Cash flows used in investing activities		(32,016)	(24,090)
Issue of ordinary shares		40,343	347
Costs associated to issue of ordinary shares		(1,002)	–
Capital element of leases		(9,650)	(8,773)
Cash flows from/(used in) financing activities		29,691	(8,426)
Net change in cash and cash equivalents		6,953	(17,247)
Cash and cash equivalents at beginning of period	25	10,046	27,503
Foreign currency movements		570	(210)
Cash and cash equivalents at end of period	25	17,569	10,046

* Restated 52 weeks ended 27 June 2021 – see note 13.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 26 June 2022

	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 29 June 2020	126	37,627	23,290	1,579	223	6	4,139	66,990
Prior period adjustments	–	–	(4,030)	–	–	–	–	(4,030)
Restated* Equity as at 29 June 2020	126	37,627	19,260	1,579	223	6	4,139	62,960
Profit for the period*	–	–	3,678	–	–	–	–	3,678
Loss on cash flow hedges	–	–	–	–	–	–	(1,897)	(1,897)
Deferred tax charge on derivative financial instruments	–	–	–	–	–	–	308	308
Currency translation differences arising from consolidation	–	–	–	(825)	–	–	–	(825)
Currency movement on net investment*	–	–	–	–	–	–	(730)	(730)
Deferred tax on net investment currency movement*	–	–	–	–	–	–	183	183
Cash flow hedge transferred to inventory*	–	–	–	–	–	–	143	143
Total comprehensive income for the period:	–	–	3,678	(825)	–	–	(1,993)	860
Transactions with owners:								
Issues of share capital	–	1,057	–	–	–	–	–	1,057
Share-based payments	–	–	–	–	–	–	911	911
Deferred tax charge on share-based payments	–	–	–	–	–	–	(11)	(11)
Current tax of share-based payments	–	–	–	–	–	–	56	56
Restated* Equity as at 27 June 2021	126	38,684	22,938	754	223	6	3,102	65,833
Loss for the period	–	–	(9,439)	–	–	–	–	(9,439)
Gain on cash flow hedges	–	–	–	–	–	–	1,451	1,451
Deferred tax charge on derivative financial instruments	–	–	–	–	–	–	(385)	(385)
Currency translation differences arising from consolidation	–	–	–	(355)	–	–	–	(355)
Currency movement on net investment	–	–	–	–	–	–	1,297	1,297
Deferred tax on net investment currency movement	–	–	–	–	–	–	(324)	(324)
Cash flow hedge transferred to inventory	–	–	–	–	–	–	96	96
Total comprehensive income for the period:	–	–	(9,439)	(355)	–	–	2,135	(7,659)
Transactions with owners:								
Issues of share capital	11	39,330	–	–	–	–	–	39,341
Share-based payments	–	–	–	–	–	–	629	629
Deferred tax charge on share-based payments	–	–	–	–	–	–	239	239
Current tax of share-based payments	–	–	–	–	–	–	–	–
Equity as at 26 June 2022	137	78,014	13,499	399	223	6	6,105	98,383

* Restated 52 weeks ended 27 June 2021 – see note 13.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Hotel Chocolat Group plc (the Company, and together with its subsidiaries, the Group) is a UK based chocolate manufacturer and retailer incorporated and domiciled 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. The Group consolidated financial statements were authorised for issuance by the Board of Directors on 30 November 2022.

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 UK-adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006 ("IFRS"). The financial statements have been prepared on the historical cost basis, except for the revaluation of derivative financial instruments, JV loan and financial guarantee contracts that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

New standards, amendments and interpretations, that were effective in FY22, impacting the Group that have been adopted in the annual financial statements for the year ended 26 June 2022, and which have given rise to changes in the Group's accounting policies are set out below. None of these changes had a material impact upon the financial statements.

- Amendment to IFRS 16, 'Leases' – COVID-19 related rent concessions
- Interest rate benchmark reform impacting:
  - IFRS 7 'Financial Instrument Disclosure',
  - IFRS 9 'Financial Instruments',
  - IFRS 16 'Leases' and
  - IAS 39 'Financial Instruments'
- IFRIC: Configuration or customisation costs in a Cloud Computing Arrangement (IAS38 Intangible Assets)

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.

New standards, amendments and interpretations which are not yet effective at the reporting date are set out below:

- Amendments to IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and Annual Improvements 2018-2020 (All issued 14 May 2020)
- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (issued on 12 February 2021) – not endorsed by the UKEB
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021) – not endorsed by the UKEB

2. ACCOUNTING POLICIES CONTINUED

Basis of consolidation

The consolidated financial information incorporates the financial statements of the Group and all of its subsidiary undertakings. The financial statements of all Group companies are adjusted, where necessary, to ensure the use of consistent accounting policies. Acquisitions are accounted for under the acquisition method from the date control passes to the Group. On acquisition, the assets and liabilities of a subsidiary are measured at their fair values. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. As allowed under IFRS 1, any acquisitions or group reorganisations which occurred before the transition date to IFRS have not been restated but instead the previous accounting treatment has been adopted. During the period ended 29 June 2014, Hotel Chocolat Group Limited (now plc) was incorporated and undertook a share for share exchange with the direct subsidiaries listed in Note 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.

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(ii) Interest in other entities

Joint ventures are entities which the Group has significant influence over but not control. Significant influence is the power to participate in the financial and operating policy decisions, but is not control of these. The investment in the joint venture is accounted for using equity method whereby the initial investment is recognised at cost and the carrying amount is increased or decreased to recognise the Group's share of the change in the assets after the acquisition date.

Going concern

The Board has concluded that it is appropriate to adopt the Going Concern basis.

The Directors have undertaken a comprehensive assessment in order to conclude that the Group has the ability to trade as a going concern using forecasts drawn up to 31 December 2023, considering the current macro-economic environment and the potential impact of relevant uncertainties facing all businesses, together with the Group's ability to influence its activities and hence the financial position, cashflows and profitability. The Financial review on pages 16 to 23 considers in more detail the groups trading performance and financial position.

In reaching their conclusion the Directors' considerations have included the following factors:

- That the group continues to operate within its facilities, which are used to fund day to day working capital requirements.
- The availability of funding in the form of a £50m RCF, committed until July 2024, with the opportunity to extend by a further year to June 2025. Subject to three covenants: of achieving positive cash in January 2023, of net debt to EBITDA (pre IFRS16) of less than 2.5x, and EBITDA to interest greater than 4x.
- The Group's current cash position as at 29 November 2022, giving £40.7m of headroom within the facility as the business approaches the peak trading period, with two thirds of annual revenues still to achieve and with the five largest seasonal gifting seasons still to come.
- The ability to progressively reduce working capital levels by leveraging the vertical integration from manufacture to end-consumer, including the ability to use prices to influence demand.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. ACCOUNTING POLICIES CONTINUED

Going Concern (continued)

- The ability to communicate with a database of two million active customers at modest cost in order to stimulate sales demand.
- Multiple levers of mitigation in the form of discretionary spend-reduction opportunities.
- Having made significant capital investments to increase capacity in recent years, the Group has sufficient operational headroom to support several years of volume growth and can therefore exercise discretion over the timing of further capex.
- Consideration of specific factors impacting current and estimated future consumer demand, including channel and category sales performance.
- Current elevated levels of consumer price inflation, which may create pressure on consumer discretionary spend, leading the Group to prepare a number of possible scenarios for sales demand during the going concern period.

The Directors have modelled a number of scenarios, including a reverse stress test. In the scenarios sales are flexed, along with the impact on related expenses, working capital changes and other mitigations such as cost reduction and timing of capital expenditures. These scenarios are used to evaluate the implications for gross margins, operating expenses, profitability, working capital, capital expenditure and the consequent financial position, including operating within financial covenants attaching to the RCF, which are outlined in more detail in note 27 on page 127. For each scenario the Directors have identified relevant actionable mitigating measures that the Group could undertake at its own discretion to adjust future cashflows.

In making their assessment the Directors have reviewed management forecasts based on scenarios reflecting full-year sales growth/(decline) of +5%, (-9%), (-15%), (-20%) and (-30%).

The directors have considered the impact of mitigations and the Group's ability to implement these changes at its own discretion. The Directors have also considered the probability of each sales scenario, concluding that the more extreme sales decline scenarios are of remote probability. As a result, the Directors have concluded that the use of the going concern basis of accounting is appropriate because there are no material uncertainties related to events or conditions that may cast significant doubt about the ability of the company to continue as a going concern in the period to 31 December 2023.

Revenue recognition

Revenue is measured by reference to the fair value of consideration receivable for goods provided, excluding taxes, rebates and trade discounts. There are four categories of income:

- Physical
- Digital
- Partners and business to business (B2B)
- Cacao estate, hotel and visitor attraction

Physical

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.

Digital

Revenue for online transactions revenue is recognised on despatch of goods to the customer.

Where sales of gift cards are made physically and digitally, the income is deferred until the card is used. An estimate, based on historic redemption rates, is made to release revenue from those cards not expected to be used.

Where products are sold within a bundle and a discount is offered on the recommended retail price, the discount offered is recognised over all products within the bundle. Where the bundle includes a subscription of product, subsequent deliveries (up to a maximum of the next 12 months) will be recognised at the discounted value.

2. ACCOUNTING POLICIES CONTINUED

Revenue recognition (continued)

Partners and B2B

Revenue is recognised on despatch or delivery of goods dependent on the terms of the relationship and when control has transferred to the Partners and B2B. There are a number of volume, rebate & discount agreements, which are assessed on a case by case basis as to whether they are distinct goods or services. Volume rebates are earned based on sales volume triggers set over specific periods and rebates consist of promotional or marketing support provided to customers. If the rebate is not distinct or is judged to represent a discount, this is accounted for as a reduction in the underlying revenue.

Cacao estate, hotel and visitor attraction

Revenue is recognised over the duration of the hotel guests stay. Visitor attraction revenue is recognised on the date of visit. 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.

Exceptional and adjusting items

Exceptional items are items of income or expense which because of their nature or size, management believe separate presentation is required to allow shareholders to better understand the financial performance of the year and allow comparison with prior periods. Adjusting items are one-off income/expenditure items that are excluded from underlying performance measures.

Government Grants

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

a) Retail, Hospitality and Leisure Grant ("RHLGF") – the business grant has 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.

Foreign currency translation

The Group's consolidated financial information is presented in sterling, which is also the parent company's functional currency. The financial information has been rounded and presented in £000.

a) Transactions and balances

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. ACCOUNTING POLICIES CONTINUED

Foreign currency translation (continued)

b) Group companies

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

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

Employee benefits

(i) Short-term benefits

Wages, salaries, paid annual leave and sick leave, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group.

(ii) Defined contribution plans

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

Share-based payments

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

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

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

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

The Company has discretion to recover the employer's National Insurance liability from the employee.

Leases

Right of use assets

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.

2. ACCOUNTING POLICIES CONTINUED

Lease liabilities

The lease liabilities are measured at the present value of the remaining lease payments, discounted using a rate implicit to the lease unless this is not readily determinable as at lease commencement date. In practice the incremental borrowing rate is used. 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 Group's borrowing facilities and SONIA 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.

When the Group revises its estimate of the term of any lease (because for example it re-assesses the probability of a break option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at a revised discount rate. An equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being depreciated over the remaining (revised) lease term.

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 dilapidations

The Group recognises obligations arising from lease contracts where it is required to restore leased properties to their pre-lease condition upon the expiry of the lease. In line with IFRS 16, each lease dilapidation provision is capitalised within the right of use asset of each lease and depreciated over the life of the lease where any dilapidation costs could be reasonably estimated at the commencement date.

For retail stores, the dilapidations provision is estimated based on historical dilapidation costs incurred on stores of a similar type (i.e. café or shop), size and location. Management review historic dilapidation costs and will amend the provision if remeasurement is indicated. For non-retail leases dilapidations are based on management's accumulated historical knowledge of buildings of similar size and purpose.

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. In practical terms, this meant calculating a percentage reduction for the asset value using 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. 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 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. ACCOUNTING POLICIES CONTINUED

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 on-going with the landlord at the lease expiry date, the expired lease is treated as a disposal and the new lease recognised as an addition after the heads of terms have been agreed. Low-value assets comprise storage rents and office equipment.

Property, plant and equipment

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

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

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

Leasehold property	– Over the remaining lease term
Plant and machinery	– 5 to 15 years on a straight line basis
Fixtures, fittings, equipment, and hardware	– 5 to 10 years on a straight line basis
Freehold property	– 50 years on a straight line basis

Intangible assets

Goodwill

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. Goodwill is deemed to have an infinite useful economic life, however 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 and software

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 internally generated intangible asset. Expenditure incurred on maintaining websites and expenditure incurred on developing websites used only for advertising and promotional purposes is expensed through profit and loss as incurred.

The cost of development and/or implementation of other software 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

Software as a Service

Software as a Service (SaaS) arrangements are in place with software vendors who provide Hotel Chocolat as a user access to utilise software which is run on a cloud infrastructure during the period of the agreements. All expenditure associated with accessing and developing the software for specific use is prepaid over the term of the agreement on a straight line basis. Previously these assets were capitalised as intangible software and amortised over their useful economic life. During FY22 the Group reviewed and revised its accounting policy relating to IAS 38 Intangible Assets, the impact historically is not material (£211k) therefore no prior year adjustment has been made.

2. ACCOUNTING POLICIES CONTINUED

Inventories

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

Net realisable value is calculated based on the revenue from sale in the normal course of business less any costs to sell.

Provision is made against specific inventory lines considering factors including age and condition of inventories as well as due allowance made for obsolete and slow-moving items.

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 or the identifiable net assets required is recognised as goodwill.

If a business combination occurs in stages, the accounting treatment of an entities 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 of non-financial assets

Impairment tests on goodwill are undertaken at each reporting period. The carrying values of both tangible (including right of use assets) 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. An impairment loss is recognised in the Consolidated Statement of Comprehensive Income. 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. Cash flows are discounted using a weighted average cost of capital applicable to the relevant cash generating units.

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. Impairment of stores is assessed on a store-by-store basis as each is a distinct cash generating unit.

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. ACCOUNTING POLICIES CONTINUED

Deferred taxation

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 (loss)/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.

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 and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets

Cash and cash equivalents, Loan to joint venture and Trade and other receivables (excluding prepayments and accrued income) are categorised as financial assets. The Loan to the joint venture has been assessed as a credit-impaired financial asset.

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 and their contractual cashflows.

Fair value through profit or loss assets comprises of hedge accounted 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 debt instruments that meet the following conditions:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. For financial assets other than purchased or originated credit-impaired financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

Interest income is recognised in profit or loss and is included in the "finance income – interest income" line item.

2. ACCOUNTING POLICIES CONTINUED

Cash and cash equivalents

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

Loans to joint venture

Loans to the joint venture are initially measured at fair value upon recognition. Where the fair value is not equivalent to the transaction price, the fair value is calculated using the market rate of interest for the loan. The loan is subsequently classified under IFRS 9 as an amortised cost asset. This is because the loan to join venture is a debt instrument that meets the following conditions:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The effective interest method has been applied to calculate the amortised cost of the loan to joint venture and allocate interest income over the relevant period. The effective interest rate is the market rate of interest for the loan and is the rate that exactly discounts estimated future cash receipts, through the expected life of the loan, to its gross carrying amount on initial recognition.

The amortised cost of the loan to joint venture is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance.

Interest income is recognised in profit or loss and is included in the "finance income" line item.

Trade and other receivables

Trade and other receivables include trade receivables, other receivables, prepayment and accrued income.

Impairment of financial assets

(i) Impairment of trade receivables

The Group applies the IFRS 9 simplified approach to measure expected credit losses using a lifetime expected credit loss (ECL) 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.

(ii) Impairment of other financial instruments

For all financial instruments other than trade receivables, the general approach under IFRS 9 for measuring ECL is applied. This means the Group recognises 12 months ECL unless there has been a significant increase in credit risk.

The ECL is estimated using a probability of default based on credit spreads observed on comparable indexes and internally estimated loss given defaults. Forward looking information is incorporated into calculation of the expected credit loss. The probability of default is implied making use of comparable credit spreads.

As described in note 13, following the FRC enquiries the Group has reperformed its analysis in relation to the expected credit loss calculation of the loan to the joint venture, and has determined that an expected credit loss should have been recognised. As a result, the fair value of the loan to HCKK at initial recognition and the carrying amount at each subsequent reporting date have been recalculated which has resulted in a restatement. See note 13 for further details.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. ACCOUNTING POLICIES CONTINUED

(ii) Impairment of other financial instruments (continued)

The Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition which is determined by;

- Review of existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant change in the operating results of the debtor; and
- significant increases in credit risk on other financial instruments of the same debtor;

For those balances that are beyond 30 days past due it is presumed to be an indicator of a significant increase in credit risk.

The Group considers that an event of default has occurred when a financial asset is more than 90 days past due. The Group will write off a financial asset where there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings.

Financial liabilities

Trade and other payables, Accruals, Lease liabilities and Financial guarantee contracts are categorised as 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 from hedge accounted 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.

Financial guarantee contracts

Financial guarantee contracts are measured initially at their fair values. Subsequent to initial recognition, these are measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9 (see financial assets above); and
- the amount recognised initially less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies set out above.

In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contract, the Group considers the changes in the risk that the specified debtor will default on the contract. The exposure includes the amount of guaranteed debt that has been drawn down as at the reporting date.

For a financial guarantee contract, where the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for any credit loss that it incurs.

2. ACCOUNTING POLICIES CONTINUED

Provisions

Provisions are recognised where the Group has a present obligation (legal or constructive) as a result of past events and it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

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 (spot component) 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 the fair value of the hedging instrument due to the forward points are immediately recognised in the Consolidated Statement of 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. Gains and losses relating to ineffectiveness is recognised immediately in profit or loss.

If a forecast transaction is no longer considered highly probable but the forecast transaction is still expected to occur, the cumulative gain or loss recognised in other comprehensive income is frozen and recognised in profit or loss in accordance with the policy set out in the paragraph above. Subsequent changes in the fair value of the derivative are recognised in profit or loss. If the Group closes out its position before the transaction takes place (even though it is still expected to take place) the cumulative gain or loss on changes in fair value of the derivative is similarly recognised in accordance with the policy set out in the paragraph above. If, at any point, the hedged transaction is no longer expected to occur, the cumulative gain or loss is reclassified from the hedging reserve to 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 which are detailed above. These judgements are continually evaluated by the Directors and management and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The key estimates and underlying assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

- Japan Joint Venture (Critical accounting judgement)

  As described in notes 22 and 23, the Group acquired a 20% interest in the Japan joint venture during the period ended 30 June 2019.

  The Group performs an assessment under 'IFRS 10 Consolidated Financial Statements' on an ongoing basis . It is concluded that the Group does not have the unilateral ability to direct the relevant activities of the Japan joint venture ("JV") through either its contractual rights, or through any other substantive matters, on the basis that:

  – The Group does not control the strategy or direct the operations of the JV,
  – Where the Group has rights that might be considered substantive, the Group has assessed that it does not have ability to exercise such rights,
  – Consideration is given to the Group's working capital loans to the JV which are used by the JV in the normal course of its business in service of achieving its business plan. The Group does not have any substantive rights to direct or control the allocation of loaned funds and does not have the ability to withdraw funds. There are covenants attached to loan agreements which give protective rights to the Group rather than control over relevant activities of the borrower,
  – The Group has exposure to variable returns, commensurate with its level of equity investment and default risk on the working capital loans,
  – Guarantees provided by the Group over finance lease contacts made between third parties and the JV do not confer any rights of control for the Group.

  Therefore, the Group has concluded that it does not have control.

- Japan Joint Venture (Critical accounting estimate)

  The carrying value of the loan before expected credit losses at 28 June 2022 is £17,816k (27 June 2021: £9,656k restated). Management made a number of judgemental estimates of anticipated revenues and profits from the joint venture using the forecasts provided for the period of the loan. Factors considered are:

  a) The assessed market rate of interest being driven from an estimated credit rating impacting the fair value on inception and ECL in relation to the Financial credit guarantee ("FCG") and also the loan receivable;

  b) The use of GBP yield data on the basis this provides the best observable data; and

  c) Assigned probabilities of different outcomes for the ECL calculation in respect of the loan receivable.

  Management have recognised a restatement with respect to the Loan (see note 13). As of 26 June 2022, the loan has been fully impaired on the basis that the Japan Joint Venture has entered into Civil Restructuring (27 June 2021: impaired to £3,269k restated). Refer to note 22.

3. SUMMARY OF CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS CONTINUED

- ### Inventory Provisions (Critical accounting estimate)

  Management applies judgement in determining the appropriate stock provisions based on past experience of future sales, considering factors including age and condition of inventories as well as due allowance for obsolete and slow-moving items.

  At 26 June 2022, £5,501k of exceptional stock provisions have been recognised. A £2,959k provision has been made for UK product categories that the Group has decided to exit. A further £2,542k was provided for in relation to US stock following the decision to exit this market. An estimate of the net realisable value of these items has been made using management's experience and knowledge of potential exit routes for the stock.

Sensitivity analysis	5% increase in provision	5% decrease in provision
US provision	148	(148)
UK provision	174	(174)
Impact upon income statement	322	(322)

- ### Impairments (Critical accounting judgement)

  Impairment tests are performed on retail stores, goodwill, property, plant and equipment (including right of use assets) and loan assets at the end of each reporting period, when there are indicators to do so. Management uses judgement to determine future cashflows and the discount rates applied.

- ### Impairments (Critical accounting estimate)

  During the year ended 26 June 2022, the Group reversed previous impairments of £5,225k (27 June 2021: £2,095k charge) relating to Hotel Chocolat UK retail locations as a result of improved trading performance and the closure of US retail locations. Each site is treated as a separate cash generating unit in determining the recoverability of property, plant and equipment and Right of use assets. Value in use is determined using internal cash flow forecasts and EBITDA based on a 5-year period or the remaining lease life of the stores, assumed nil growth rate and a discount rate of 9.335%.

  The Group made an impairment charge of £1,200k during the year ended 26 June 2022 (27 June 2021: £216k charge) 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.

- ### Accounting for leases and right of use assets (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. Given the significant impact on the balance sheet following the transition to IFRS 16, determination of the discount rate is considered to be a significant judgement. The discount rate applied ranged between 2.0% and 4.8% (27 June 2021: 2.0% to 3.5%). At the commencement date of property leases the Group determines the lease term to be the full term of the lease, assuming that any option to break or extend the lease is unlikely to be exercised. The Group monitors actual returns of the asset and re-assesses this assumption; the Group therefore makes a judgement as to whether the option to break or extend the lease will be exercised. As a result of the significant impact on the balance sheet changes to assumed lease terms has had, assessing the likelihood of exercising an option to break or extend a lease is considered to be a significant judgement.

- ### Exceptional items (Critical accounting judgement)

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

4. REVENUE

Segmental analysis

Revenue arising from the sale of goods and services is recognised when the goods have been despatched or services delivered. As permitted under IFRS 15, as all revenue contracts are for periods of one year or less, the transaction price allocated to the unsatisfied contracts are not disclosed. For the period ended 26 June 2022, the Group had no major customers that contributed in excess of 10% of revenue (27 June 2021: none).

The Group has one operating segment which is reviewed monthly by the Group's chief operating decision maker 'The Board'. IFRS 8 requires operating segments to be identified on the basis of internal financial information reported to the Chief Operating Decision Maker ("CODM"). The Group's CODM has been identified as the Board of Directors who are primarily responsible for the allocation of resources to the segments and for assessing their performance. The disclosure in the Group accounts of segmental information is consistent with the information used by the CODM in order to assess profit performance from the Group's operations.

	52 weeks ended 26 June 2022 £000	52 weeks ended 27 June 2021 £000
Sale of goods	222,354	163,821
Sale of services*	3,779	730
Total revenue	226,133	164,551

* Includes sales recognised over time for hotel stays in Saint Lucia of £1,540k (27 June 2021: £273k)

	52 weeks ended 26 June 2022 £000	52 weeks ended 27 June 2021 £000
Revenue by channel		
UK		
Physical	109,364	48,797
Digital	79,130	91,027
Partners & B2B	25,999	19,574
International	7,812	4,547
Cacao estate & hotel	3,828	606
Total revenue	226,133	164,551

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

UK Digital – Includes revenue attributable to our UK online sales, including subscriptions.

UK Partners & B2B – Includes UK wholesale and partners.

International – Includes revenue from our overseas locations including USA, Ireland as well as sales to the joint venture in Japan.

Cacao estate, hotel and visitor attraction – Includes revenue from our cacao farm and hotel in Saint Lucia.

Revenue for each of the geographical areas is as follows:

	52 weeks ended 26 June 2022 £000	52 weeks ended 27 June 2021 £000
Revenue by destination of sale		
United Kingdom	214,493	159,399
Europe	1,191	504
Saint Lucia	3,828	606
United States	2,861	1,947
Japan*	3,760	2,095
Total revenue	226,133	164,551

* Group sales made to the Japan joint venture

4. REVENUE CONTINUED

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 26 June 2022 £000	52 weeks ended 27 June 2021 £000
Non-current assets		
United Kingdom	109,760	83,272
Ireland	170	264
United States	26	339
Saint Lucia	12,001	10,111
Total non-current assets	121,957	93,986

5. EXCEPTIONAL ITEMS

	52 weeks ended 26 June 2022 £000	Restated* 52 weeks ended 27 June 2021 £000
Impairment related to joint venture investment*	21,836	1,764
Saint Lucia impairment	1,200	216
Goodwill impairment	425	–
Store impairment (release)/charge	(5,225)	2,095
Material non-recurring events: operating costs	5,042	–
Total operating expenses – exceptional	23,278	4,075
Material non-recurring costs: margin	5,501	–
Total exceptional items	28,779	4,075

* Restated 52 weeks ended 27 June 2021 – see note 13

Impairment related to joint venture investment

Credit loss on loans

There is an impairment charge of £11,429k during the year ended 26 June 2022 (27 June 2021: restated £1,956k) related to the revised assessment of probability of recovery of loans made to the Japan joint venture over the period 2018 to 2022.

Credit loss on guarantees

There is an impairment charge of £5,936k during the year ended 26 June 2022 (27 June 2021: restated -£192k) related to guarantees provided by the Group in respect of external finance leases of the Japan joint venture which were called when the Japan joint venture obtained Court approval for Civil Rehabilitation restructuring proceedings (Minji Saisei).

Impairment on equity investment

There is an impairment charge of £4,471k during the year ended 26 June 2022 (27 June 2021: £nil) related to the recognition of losses in the joint venture in Japan.

Saint Lucia impairment

There is an impairment of £1,200k during the year ended 26 June 2022 (27 June 2021: £216k) relating to the assets of the Saint Lucia business. The charge in 2022 related to the decline in the value of the Project Chocolat visitor attraction due to the continuing impact of COVID-19 on tourism in Saint Lucia in FY21. The charge in 2021 was due to a decline in the value of the land and property and also due to the impact of COVID-19.

Goodwill impairment

There is an impairment charge of £425k during the year ended 26 June 2022 (27 June 2021: £nil) related to goodwill which arose from the acquisition of Rabot 1745 Limited. The goodwill related to the Rabot 1745 range of beauty products which is no longer supportable as Rabot 1745 Limited is no longer trading.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

5. EXCEPTIONAL ITEMS CONTINUED

Store Impairments

US Gain on remeasurement of lease liabilities

There is an impairment release of £3,491k during the year ended 26 June 2022 (27 June 2021: £2,069k charge) relating to the release of lease liabilities of the closed US stores. The prior year charge increased the impairment to 100% of the value of remaining plant & equipment and right of use assets under IFRS 16, in recognition of poor trading conditions and the decision to close the US stores.

UK Store impairments

There is an impairment release of £1,734k during the year ended 26 June 2022 (27 June 2021: £26k charge) relating to fixed assets and right of use assets of stores. The release is primarily due to the improved trading conditions during the period as well as management's assessment of future cashflows over the remaining lease period for each store. The key assumptions used in the future cashflows were sales and EBITDA (based on board approved plans), assumed nil growth rate for 5 years and a discount rate of 9.670% (27 June 2021: 9.335%).

Material non-recurring events – Operating costs

Capital cash deposit impairment

There is a provision of £2,477k during the year ended 26 June 2022 (27 June 2021: £nil) for doubtful recovery of a cash deposit made to a manufacturer of capital equipment that went into administration.

New sale and operation planning process

Non-recurring professional fees of £809k have been incurred during the year ended 26 June 2022 (27 June 2021: £nil) in relation to the implementation of a new sales and operation planning process.

US exit costs

There are exit costs of £611k during the year ended 26 June 2022 (27 June 2021: £nil) which relate to the doubtful recovery of rent deposits and staff redundancy costs.

Restructuring costs

There is an expense of £181k during the year ended 26 June 2022 (27 June 2021: £nil) related to staff redundancy costs.

Onerous contracts

Forward contracts for items of stock had been entered into to support activities in the US and Japan markets. Following management's decision to exit these markets, £964k has been provided for (27 June 2021: £nil).

Material non-recurring events – Margin

Discontinued UK stock lines

There is a provision of £2,959k during the year ended 26 June 2022 (27 June 2021: £nil) related to the decision to exit certain UK product categories.

US stock provision

There is a provision of £2,542k during the year ended 26 June 2022 (27 June 2021: £nil) related to the reduced value of US stock following the decision to exit the US market.

6. (LOSS)/PROFIT FROM OPERATIONS

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

	Notes	52 weeks ended 26 June 2022 £000	Restated* 52 weeks ended 27 June 2021 £000
Staff costs	8	55,731	51,591
Government grants received[1]		(94)	(553)
Depreciation of property, plant and equipment	16	6,506	5,543
Depreciation of right of use asset	16	9,545	9,287
Amortisation of intangible assets	15	565	965
Reversal of amortisation (SaaS)	15	(557)	–
Loss on disposal of non-current assets		516	112
Loss on fair value adjustment to joint venture		–	46
Exceptional items[2]		28,779	4,075
Loss/(profit) on exchange differences		(346)	(55)
Research & expenditure credit		–	44
Write down of inventory recognised as an expense		9,797	3,098
Bad debt expense		(2)	(6)

1 Government grants received include the Retail Hospitality Leisure Grant Fund and the Closed Business Lockdown Payment.
2 See note 5 – Exceptional items

* Restated 52 weeks ended 27 June 2021 – see note 13

7. AUDIT AND NON-AUDIT FEES

An analysis of auditors' remuneration is as follows:

	52 weeks ended 26 June 2022 £000	52 weeks ended 27 June 2021 £000
Audit fee:		
– the parent company and group audits	415	260
– the groups' subsidiaries pursuant to legislation	450	–
Total audit fees	865	260
Non-audit fees	–	28

8. STAFF COSTS

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

	52 weeks ended 26 June 2022	52 weeks ended 27 June 2021
Production staff	537	416
Administrative staff	637	494
Retail Staff	1,257	1,105
Total	2,431	2,015

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

8. STAFF COSTS CONTINUED

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

	52 weeks ended 26 June 2022 £000	52 weeks ended 27 June 2021 £000
Wages and salaries	49,875	45,772
Share-based payments	621	911
Social security costs	3,948	3,992
Pension costs	1,287	916
Total	55,731	51,591

Social Security includes a credit of £167k of employer's national insurance for 2016 and 2019 LTIPs and a charge of £7k on Founder Shares Plan (27 June 2021: £253k charge on 2016 and 2019 LTIP only).

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 (27 June 2021: ten). Emoluments and benefits include:

	52 weeks ended 26 June 2022 £000	52 weeks ended 27 June 2021 £000
Short-term employee benefits	1,916	1,811
Share-based payments	116	219
Social security costs	233	172
Post-employment benefits	70	44
Total	2,335	2,246

Further information about the remuneration of individual Directors, including the highest paid Director, is provided in the Remuneration report on pages 63 to 66.

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 pre-agreed performance conditions. These shares vest after the delivery of the audited annual report for the relevant financial year. For further details on vesting conditions, please refer to the Remuneration Committee Report on pages 65 and 66.

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 26 June 2022		52 weeks ended 27 June 2021	
	Number of share options	**Weighted average exercise price £**	**Number of share options**	**Weighted average exercise price £**
Outstanding at beginning of the period	570,045	0.74	665,829	0.82
Granted during the period	3,800,716	0.001	–	–
Exercised during the period	(91,081)	1.48	(80,000)	1.48
Forfeited during the period	(436,094)	0.0004	(15,784)	0.0001
Outstanding at the end of the period	3,843,586	0.08	570,045	0.74
Vested and exercisable at the end of the period	193,675	1.48	284,756	1.48

			52 weeks ended 26 June 2022	52 weeks ended 27 June 2021
Exercise price of outstanding options	Grant date	Expiry date	**Number of share options**	**Number of share options**
Exercise price 0.001	31/10/2019	N/A[1]	–	285,289
Exercise price 0.001	02/08/2021	02/08/2031	3,649,911	–
Exercise price 1.48[2]	30/09/2016	30/09/2026	193,675	284,756
			3,843,586	570,045

1 2019 LTIP lapsed in the period ended 26 June 2022
2 Exercisable at the end of the period

The awards outstanding at the end of 26 June 2022 have a weighted average remaining contractual life of 1.71 years (27 June 2021: 0.63 years) and a range of exercise prices between 0.0001 and 1.48. No options expired during the periods covered by the tables above.

The exercises during the year took place between 6 October 2021 and 14 March 2022, with an average share price during this period of £4.84.

The Group recognised total expenses related to the above equity-settled share-based payment transactions in the form of options during the period ended 26 June 2022 of £83k (27 June 2021: £640k).

There were 3,800,716 options granted during the period ended 26 June 2022 (27 June 2021: £nil). The fair value of the share options granted in the period ended 26 June 2022 were determined using a stochastic model to value awards with market-based conditions in order to incorporate a discount factor into the fair value for the probability of achieving the relevant targets.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

10. SHARE-BASED PAYMENTS CONTINUED

The aggregate of the fair value of these shares granted during the period ended 26 June 2022 was £5,992k (27 June 2021: £nil). The fair values were calculated using a stochastic model. The inputs used for fair valuing awards granted during the period were as follows:

	52 weeks ended 26 June 2022	52 weeks ended 27 June 2021
Weighted average share price (£)	3.75	–
Exercise price (£)	0.0001	–
Expected volatility (%)	41.53%	–
Term to vesting (years)	4.07	–
Holding period (years)	1.50	–
Risk free interest rate (%)	0.19%	–
Dividend yield (%)	0%	–

The expected price volatility is based on the historical volatility (based on the remaining life of the options) adjusted for any expected changes to future volatility due to publicly available information.

The Hotel Chocolat Group plc Save As You Earn Plan

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

The option to purchase shares is forfeited if the employee leaves the Group before the awards vest, except under circumstances where the employee is considered a 'Good Leaver'.

Details of the share awards outstanding are as follows:

	52 weeks ended 26 June 2022		52 weeks ended 27 June 2021	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at beginning of the period	930,978	2.83	485,636	2.84
Granted during the period	513,382	3.80	631,246	2.78
Exercised during the period	(70,426)	2.56	(92,308)	2.71
Forfeited during the period	(165,489)	3.15	(93,596)	2.91
Outstanding at the end of the period	1,208,445	3.21	930,978	2.83
Vested and exercisable at the end of the period	–	–	–	–

			52 weeks ended 26 June 2022	52 weeks ended 27 June 2021
Exercise price of outstanding options	Grant date	Expiry date	Number of share options	Number of share options
Exercise price 2.47	31/10/2017	31/03/2021	–	2,185
Exercise price 2.56	31/10/2018	31/03/2022	1,406	76,119
Exercise price 2.78	01/12/2020	01/06/2024	531,241	606,456
Exercise price 3.04	31/10/2019	31/03/2023	215,829	246,218
Exercise price 3.80	05/11/2021	05/05/2025	459,969	–
			1,208,445	930,978

10. SHARE-BASED PAYMENTS CONTINUED

The awards outstanding at the end of 26 June 2022 have a weighted average remaining contractual life of 1.59 years (27 June 2021: 1.93 years) and a range of exercise prices between 2.47 and 3.80. No options expired during the periods covered by the tables above.

The exercises during the year took place between 1 December 2021 and 8 June 2022, with an average share price of £4.32.

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 26 June 2022 of £500k (27 June 2021: £271k).

The aggregate of the fair value of these shares granted during the period ended 26 June 2022 was £1,121k (27 June 2021: £744k). 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 26 June 2022	52 weeks ended 27 June 2021
Weighted average share price (£)	3.80	2.78
Exercise price (£)	3.80	2.78
Expected volatility (%)	43.11%	39.75%
Option life (years)	3.5	3.5
Risk free interest rate (%)	0.49%	–0.01%
Dividend yield (%)	0%	0%

The expected price volatility is based on the historical volatility (based on the remaining life of the options) adjusted for any expected changes to future volatility due to publicly available information.

The Hotel Chocolat Group plc Founder Shares Plan

Under the Hotel Chocolat Group plc Founder Shares Plan, employees of the Group who have been employed for a minimum period set by the Remuneration Committee are eligible to join, excluding those employees already included in a LTIP scheme.

The option to purchase shares is forfeited if the employee leaves the Group before the awards vest, except under circumstances where the employee is considered a 'Good Leaver'.

Details of the share awards outstanding are as follows:

	52 weeks ended 26 June 2022		52 weeks ended 27 June 2021	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at beginning of the period	–	–	–	–
Granted during the period	275,372	0.001	–	–
Exercised during the period	–	–	–	–
Forfeited during the period	(57,344)	0.001	–	–
Outstanding at the end of the period	218,028	0.001	–	–
Vested and exercisable at the end of the period	–	–	–	–

Exercise price of outstanding options	Grant date	Expiry date	52 weeks ended 26 June 2022 Number of share options	52 weeks ended 27 June 2021 Number of share options
Exercise price 0.001	01/05/2022	01/11/2025	218,028	-
			218,028	-

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

10. SHARE-BASED PAYMENTS CONTINUED

The awards outstanding at the end of 26 June 2022 have a weighted average remaining contractual life of 2.85 years (27 June 2021: nil years) and an exercise price of £0.001. No options expired during the periods covered by the tables above.

There were no exercises during the year.

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 26 June 2022 of £38k (27 June 2021: £nil).

The aggregate of the fair value of these shares granted during the period ended 26 June 2022 was £765k (27 June 2021: £nil). The fair values were calculated using a Monte Carlo Simulation model. The inputs used for fair valuing awards granted during the period were as follows:

	52 weeks ended 26 June 2022	52 weeks ended 27 June 2021
Weighted average share price (£)	0.001	–
Exercise price (£)	0.001	–
Expected volatility (%)	45.3%	–
Option life (years)	3.0	–
Risk free interest rate (%)	1.97%	–
Dividend yield (%)	0%	–

The expected price volatility is based on the historical volatility (based on the remaining life of the options) adjusted for any expected changes to future volatility due to publicly available information.

11. FINANCE INCOME AND EXPENSES

	52 weeks ended 26 June 2022 £000	Restated* 52 weeks ended 27 June 2021 £000
Interest from related party*	967	656
Interest on bank deposits	68	3
Unrealised interest on derivative financial instruments	–	52
Finance income	1,035	711
Interest on bank borrowings	552	328
Unrealised interest on derivative financial instruments	12	–
Realised interest on derivative financial liabilities	165	201
Interest on lease liabilities	1,181	1,121
Finance expenses	1,910	1,650

* Restated 52 weeks ended 27 June 2021 – see note 13.

12. TAXATION

	52 weeks ended 26 June 2022 £000	Restated* 52 weeks ended 27 June 2021 £000
UK corporation tax	132	788
Adjustment in respect of previous periods	(734)	(144)
Overseas corporation tax	–	–
Total current tax (credit)/charge	(602)	644
Deferred tax:		
Adjustment in respect of previous periods	(42)	(37)
Change in tax rate	–	185
Origination and reversal of temporary differences	1,364	1,065
Total tax expense	720	1,857
Current tax on share based payments to equity	–	(56)
Total	720	1,801

* Restated 52 weeks ended 27 June 2021 – see note 13.

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

	52 weeks ended 26 June 2022 £000	Restated* 52 weeks ended 27 June 2021 £000
(Loss)/Profit on ordinary operations before income tax	(8,719)	5,535
Standard rate of corporation tax	19.00%	19.00%
(Loss)/Profit for the year multiplied by the standard rate of corporation tax	(1,657)	1,052
Effects of:		
Expenses/Income not deductible for tax purposes[1]	2,302	57
Permanently allowed depreciation	(357)	267
Permanent difference	–	145
Adjustment in respect of prior years	(776)	(181)
Adjust deferred tax in respect of change in future rate of taxation	305	183
Losses carried back	697	–
Movement to deferred tax	–	(26)
Overseas tax	206	360
Total tax expense	720	1,857
Current tax on share based payments to equity	–	(56)
Total	720	1,801

* Restated 52 weeks ended 27 June 2021 – see note 13.

1 In the period ended 26 June 2022, expenses not deductible related primarily to the impairment of financial guarantees, the impairment of the investment in the Japan joint venture and write off of intercompany loans and investments.

The Group's effective tax rate for the period ended 26 June 2022 was -8.25% (27 June 2021: restated 33.5%). The effective rate is an amalgamation of UK, US and European rates for the periods reported. At 26 June 2022 the Group has tax losses to carry forward against future profits of the Irish branch of £245k (27 June 2021: £206k) and Hotel Chocolat Limited of £6,345k (27 June 2021: £nil). The US operations have tax losses carried forward of £7,220k (27 June 2021: £6,339k) as the US is currently not actively trading there is no plan to utilise these tax losses. The value of losses, which have no expiry date, amount to approximately £3,801k, of which £1,449k (27 June 2021: £62k) have been recognised as a deferred tax asset. An increase in the UK corporation rate from 19% and 25% (effective 1 April 2023) was enacted on 10 June 2021. This will increase the group's future current tax charge.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

13. PRIOR YEAR RESTATEMENT

Following a helpful and constructive review of the FY21 Annual Report and Accounts conducted by the Financial Reporting Council's Corporate Reporting Review team, the Directors have revisited a number of items in the FY21 Annual Report and Accounts in relation to IAS21 ("The Effects of Changes in Foreign Exchange Rates") and IFRS9 ("Financial Instruments"), resulting in restatements of the comparative amounts in the FY21 balance sheet and statement of comprehensive income and position at 28 June 2020 as set out overleaf.

The restatements arose in response to specific enquiries made by the FRC, and the Directors have liaised with both the FRC and its auditors during the process of formulating the restatements which are the responsibility of the Directors.

The FRC's review is based solely on the contents of the FY21 Annual Report and Accounts and does not benefit from detailed or other knowledge of the business. The FRC's remit is to consider compliance with reporting requirements, not to verify accounts or provide assurance that accounts are correct in all material respects. As such the FRC's enquiry should not be relied upon by the company or any third party, including but not limited to investors and shareholders.

Fair valuation of loan to Japan joint venture and assessment of the expected credit loss

As described in Note 22, on 13 July 2018 the Group and the Japan joint venture entered into a loan facility of £4.5 million.

The Loan Facility Agreement has historically been classified and measured at amortised cost. At the initial recognition date, the Group concluded that the agreed interest rate represented a market rate of interest based on simple analysis. Therefore, at initial recognition the fair value of the Loan Facility Agreement was determined to be equivalent to the transaction price. The Loan Facility Agreement was subsequently measured at amortised cost using the effective interest rate ("EIR method"). On the initial recognition date and subsequent reporting periods, the Group did not determine an expected credit loss ("ECL") as the Directors believed there was no change in credit risk and the probability of default had been determined as nil. The Group has reperformed its analysis in relation to the market rate of interest and the expected credit loss.

The Group has concluded that the agreed interest rate did not represent a market rate of interest at initial recognition and at subsequent drawdowns above the agreed facility amount. The difference between the agreed interest rate and the market rate of interest gives rise to a difference between the fair value at initial recognition and the transaction price. For each draw down, this difference has been recognised as an adjustment to the investment in joint venture.

Additionally, the Group has reperformed the expected credit loss calculation and has determined that an expected credit loss should have been recognised following an assessment that the financial asset was credit-impaired. As a result, the fair value of the loans to the joint venture at initial recognition and the carrying amount at each subsequent reporting date have been recalculated and revised.

The impact on the restatement was to impair the Loan to Joint Venture by £5,369k as at 28 June 2020 and by a further £3,515k during the period ended 27 June 2021. Additionally, the Investment in Joint Venture was increased by £757k as at 28 June 2020 and by a further £1,652k during period ended 27 June 2021.

Classification and measurement of Financial Guarantee Contracts ("FGCs")

Financial guarantee contracts were issued by the Group to Sumitomo Mitsui Finance and Leasing Company Limited (or "Sumitomo") in relation to 22 leases entered into between Sumitomo and the Japan joint venture from 1 October 2019 to 27 June 2021. The Group has not previously accounted for the guarantees as financial guarantee contracts in accordance with the requirements of IFRS 9 and no amounts were previously recognised within the financial statements with respect to these contracts, other than the disclosure of the existence of and the total value of the guarantees. The Group reassessed the accounting treatment.

Following a review of the accounting treatment, the Group has concluded that the guarantees meet the definition of a financial guarantee contract as per IFRS 9. At initial recognition, the guarantees should be measured at fair value. Subsequent to initial recognition, the guarantees should be measured at the higher of the following values:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

13. PRIOR YEAR RESTATEMENT CONTINUED

The guarantees were issued by Hotel Chocolat Group Plc for nil consideration, i.e., no premium was paid or received. The Group has concluded that the fair value of the guarantees at initial recognition is equivalent to the benefit received by the Japan joint venture in obtaining an agreed rate of interest on the lease contracts that is below the market rate of interest. Therefore, the fair value of guarantees is considered to be the difference between the present value of the lease cashflows discounted using a market rate of interest and the agreed rate of interest. In addition, an expected credit loss ("ECL") is calculated in accordance with the requirements of IFRS 9 and is compared to the fair value at each subsequent reporting date.

The impact of the restatement to recognise FGC was £216k for 28 June 2020 and increased by a further £426k for 27 June 2021. The corresponding entries were recorded as an increase to the Group's investment in the Japan joint venture.

Consequential amendments

During the period ended 28 June 2020 the deferred tax asset was restated to £1,395k from £597k due to an increase in tax losses carried forward following the above restatements. The deferred tax asset unwound in the year ended 27 June 2021 as tax losses were used. In addition, for the period ended 27 June 2021, an additional tax credit was recognised of £282k in respect of the above restatements.

Following increases in the carrying value of the investments in joint venture as a result of the above restatement, the Group has recognised its share of the joint venture losses for the period 27 June 2021 of £998k (26 June 2020: £606k).

Currency movement on net investment reclassification to Other Comprehensive Income

In response to the FRC review, the currency loss arising on the retranslation of the net investment in foreign subsidiaries of £730k has been restated to be shown as part of other comprehensive income in line with IAS 21 rather than being taken directly to equity. A deferred tax credit of £183k has been recognised at a rate of 25% .

Cash flow hedges transferred to inventory

In addition to the adjustments from the FRC enquiries, management have considered other adjustments taken directly to equity for the period ended 27 June 2021 and note that the cash flow hedges transferred to inventory should also be recognised in other comprehensive income.

Impact on prior periods

Each affected financial statement line item has been restated for the comparative period, including the opening statement of financial position as at 28 June 2020. As a result of the changes to the income statement for the period ended 27 June 2021, basic and diluted EPS reduced by 1.6p.

The following tables summarise the impacts on the Group's consolidated financial statements:

Consolidated Statement of Financial Position (extract)	As at 28 June 2020 (as previously reported) £000	Total adjustments £000	As at 28 June 2020 (restated) £000
Investment in joint venture	–	757	757
Loan to joint venture	5,705	(5,369)	336
Corporation tax receivable	1,520	–	1,520
Deferred tax asset	597	798	1,395
Other assets	134,716	–	134,716
Total assets	142,538	(3,814)	138,724
Financial guarantee contract	–	(216)	(216)
Other liabilities	(75,548)	–	(75,548)
Total liabilities	(75,548)	(216)	(75,764)
Net assets	66,990	(4,030)	62,960

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

13. PRIOR YEAR RESTATEMENT CONTINUED

Consolidated Statement of Financial Position (extract)	As at 28 June 2020 (as previously reported) £000	Total adjustments £000	As at 28 June 2020 (restated) £000
Retained earnings	23,290	(4,030)	19,260
Other equity	43,700	–	43,700
Total equity	66,990	(4,030)	62,960

Consolidated Statement of Financial Position (extract)	As at 27 June 2021 (as previously reported) £000	Total adjustments £000	As at 27 June 2021 (restated) £000
Investment in joint venture	–	2,409	2,409
Loan to joint venture	12,153	(8,884)	3,269
Corporation tax receivable	1,049	1,079	2,128
Deferred tax asset	479	183	662
Other assets	142,334	–	142,334
Total assets	156,015	(5,213)	150,802
Financial guarantee contract	–	(642)	(642)
Other liabilities	(84,327)	–	(84,327)
Total liabilities	(84,327)	(642)	(84,969)
Net assets	71,688	(5,855)	65,833
Retained earnings	28,976	(6,038)	22,938
Other equity	42,712	183	42,895
Total equity	71,688	(5,855)	65,833

Consolidated Statement of Comprehensive Income (extract)	As at 27 June 2021 (as previously reported) £000	Total adjustments £000	As at 27 June 2021 (restated) £000
Gross Profit	101,674	–	101,674
Operating expenses	(89,873)	-	(89,873)
Exceptional items	(2,311)	(1,764)	(4,075)
Profit from Operations	9,490	(1,764)	7,726
Finance income	238	473	711
Finance expenses	(1,650)	–	(1,650)
Share of joint venture post-tax results	(254)	(998)	(1,252)
Profit before tax	7,824	(2,289)	5,535
Tax expense	(2,139)	282	(1,857)
Profit for the period	5,685	(2,007)	3,678
Other comprehensive (loss)/income	(2,414)	–	(2,414)
Currency movement on net investment	–	(730)	(730)
Deferred tax charge on net investment currency movement	–	183	183
Cash flow hedges transferred to inventory	–	143	143
Total comprehensive income for the period	3,271	(2,411)	860

14. EARNINGS PER SHARE

(Loss)/profit for the period used in the calculation of the basic and diluted earnings per share. Diluted (loss)/profit 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 26 June 2022	Restated* 52 weeks ended 27 June 2021
Weighted average number of share in issue for the period – basic	136,313,568	125,573,623
Effect of dilutive potential share:		
Save as You Earn Plan	172,020	29,711
Long-term incentive plan	125,380	169,669
Founder Shares	113,536	–
Weighted average number of shares in issue used in the calculation of earnings per share (number) – Diluted	136,724,504	125,773,003
Basic earnings per share (pence)	(6.9p)	2.9p*
Diluted earnings per share (pence)	(6.9p)	2.9p*

* Restated 52 weeks ended 27 June 2021 – see note 13.

As at 26 June 2022, the total number of potentially dilutive shares issued under the Hotel Chocolat Group plc Long-Term Incentive Plan was 3,649,911 (27 June 2021: 285,289). Due to the nature of the options granted under this scheme, they are considered contingently issuable shares and therefore have no dilutive effect. On 23 July 2021, the Company announced the completion of an 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 30.

15. INTANGIBLE ASSETS

	52 weeks ended 26 June 2022 £000	52 weeks ended 27 June 2021 £000
Goodwill arising on consolidation (Note (a))	–	425
Computer software and website costs (Note (b))	1,818	3,551
	1,818	3,976

(a) Goodwill arising on consolidation

	52 weeks ended 26 June 2022 £000	52 weeks ended 27 June 2021 £000
At beginning of period	425	–
Rabot acquisition	–	425
Impairment	(425)	–
At end of period	–	425

The goodwill figure of £425k is a result of the Group acquiring further interest in Rabot 1745 Ltd on 17 June 2021. This has been fully impaired as at 26 June 2022 because Rabot 1745 Ltd is no longer trading.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

15. INTANGIBLE ASSETS CONTINUED

(b) Computer software and website costs

	52 weeks ended 26 June 2022 £000	52 weeks ended 27 June 2021 £000
Cost:		
At beginning of period	6,606	5,112
Additions	1,504	1,627
Disposals	(2,385)	(118)
SaaS reclassification*	(3,195)	–
Exchange difference	19	(15)
At end of period	2,549	6,606
Amortisation:		
At beginning of period	3,055	2,215
Amortisation charge	565	965
Disposals	(2,349)	(118)
SaaS reclassification*	(557)	–
Exchange difference	17	(7)
At end of period	731	3,055
Net book value	1,818	3,551

Amortisation is included within Operating expenses in the Consolidated Statement of Comprehensive Income.

Strategic Data Development costs within computer software and website costs assets under construction are individually material to the financial statements. The carrying amount of website development costs at year end are £1,161k (27 June 2021: £161k) and the remaining amortisation period is 3.0 years (27 June 2021: 3.0 years).

During the year, a number of intangible assets, which had been fully written down to nil NBV, were disposed of as were no longer in use.

* In April 2021 the IFRS Interpretations Committee clarified the position that configuration and customisation expenditure that is distinct from access to the cloud software can only be capitalised to the extent it gives rise to an asset for a SaaS customer, i.e., they have the power to obtain the future economic benefits and can restrict others' access to those benefits, otherwise such expenditure should be expensed. During FY22 the Group reviewed and revised its accounting policy relating to IAS38 Intangible Assets resulting in the derecognition of £3,195K of costs of previously capitalised intangible assets and £557k reversal of amortisation. The impact historically is not material (£211k) therefore no prior year adjustment has been made.

16. PROPERTY, PLANT AND EQUIPMENT

	Freehold property £000	Leasehold improvements £000	Furniture & fittings, equipment & hardware £000	Plant & machinery £000	Right of use asset £000	Total £000
52 weeks ended 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
52 weeks ended 26 June 2022						
Cost:						
As at 27 June 2021	19,947	1,884	41,281	38,834	53,871	155,817
Additions	2,715	93	4,481	16,923	31,159	55,371
Disposals	(3)	–	(1,154)	(126)	(4,122)	(5,405)
Reclassification[2]	–	–	(1,453)	–	1,453	–
Translation differences	1,588	–	402	3	20	2,013
As at 26 June 2022	24,247	1,977	43,557	55,634	82,381	207,796
Accumulated depreciation & impairments:						
As at 27 June 2021	(3,426)	(842)	(29,858)	(14,324)	(23,514)	(71,964)
Depreciation charge	(253)	(192)	(3,852)	(2,209)	(9,545)	(16,051)
Disposal	–	–	1,082	–	2,244	3,326
Reclassification[2]	–	–	610	–	(610)	–
Impairment[1]	(1,200)	–	1,130	(2,477)	604	(1,943)
Translation differences	(371)	–	(654)	–	–	(1,025)
As at 26 June 2022	(5,250)	(1,034)	(31,542)	(19,010)	(30,821)	(87,657)
Net book value:						
As at 26 June 2022	18,997	943	12,015	36,624	51,560	120,139

1 The following impairments were made in the period ended 26 June 2022: Saint Lucia estate impairment charge £1,200k (27 June 2021: £216k), Store impairment release £1,734k (27 June 2021: £2,095k charge) and capital cash deposit impairment charge £2,477k (27 June 2021: £nil).

2 Reclassifications represent right of use assets previously categorised within furniture & fittings, equipment & hardware.

As at 26 June 2022, the net book value of freehold property includes land of £4,509k (27 June 2021: £3,806k), which is not depreciated. Included in freehold property is £2,438k of assets under construction (27 June 2021: £2,997k). Included in Furniture & fittings, equipment & hardware is £2,005k of assets under construction (27 June 2021: £448k). Included in Plant & machinery is £7,475k of assets under construction (27 June 2021: £14,610k).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

17. LEASES

The lease liability is initially measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate (IBR). The determination of the discount rate is considered to be a significant judgement. The discount rate applied ranged between 2.0% and 4.8% (27 June 2021: 2.0% and 3.5%).

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.

Amounts recognised in the consolidated statement of financial position

Right of Use Assets	Land & buildings £000	Equipment £000	Total £000
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
Additions to right of use assets	31,159	–	31,159
Amortisation	(9,539)	(6)	(9,545)
Reclassification	843	–	843
Effect of modification of lease	(1,281)	–	(1,281)
Derecognition	(597)	–	(597)
Impairment	604	–	604
Foreign exchange	20	–	20
As at 26 June 2022	51,560	–	51,560

17. LEASES CONTINUED

Lease liabilities	Land & buildings £000	Equipment £000	Total £000
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
Additions to lease liabilities	29,604	–	29,604
Interest expense	1,181	–	1,181
Effect of modification of lease	(4,331)	–	(4,331)
Derecognition	(989)	–	(989)
Lease payments	(10,764)	(67)	(10,831)
Foreign exchange	337	–	337
As at 26 June 2022	54,535	–	54,535

During period ended 26 June 2022, a new lease for a distribution centre in Northampton was entered into and £24,703k is included in the additions of the right of use assets and lease liabilities. This lease term is 10 years, the Group has no right to extend or terminate the lease and there are no variable lease payments associated with the lease arrangement.

	26 June 2022 £000	27 June 2021 £000
Non-current	44,145	30,503
Current	10,390	9,061
Total lease liabilities	54,535	39,564

Leases – cash outflow

	26 June 2022 £000	27 June 2021 £000
Capital element of lease cash outflows	9,650	8,773
Interest element of lease cash outflows	1,181	1,121
Low value lease cash outflows	4	1
Short term lease cash outflows	892	537
Variable lease cash outflows	3,661	1,667
Total contractual cashflows	15,388	12,099

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

17. LEASES CONTINUED

Amounts recognised in the consolidated statement of comprehensive income

	Land & buildings £000	Equipment £000	Total £000
52 weeks ended 27 June 2021			
Depreciation charge on right of use assets	9,069	218	9,287
Impairment	1,676	–	1,676
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]	1,667	–	1,667
As at 27 June 2021	13,915	374	14,289
52 weeks ended 26 June 2022			
Depreciation charge on right of use assets	9,539	6	9,545
Impairment	(604)	–	(604)
Interest on lease liabilities	1,181	–	1,181
Expenses related to low value leases	–	4	4
Expenses related to short term leases	116	776	892
Expenses related to variable lease payments[1]	3,612	49	3,661
As at 26 June 2022	13,844	835	14,679

1 The amount recognised in the income statement that arises from rent concessions to which the Group has applied the practical expedient under IFRS 16 for the period ended 26 June 2022 is £407k (27 June 2021: £726k).

Maturity analysis of Lease Liabilities

Lease liabilities	26 June 2022 £000	27 June 2021 £000
Maturity analysis – contractual undiscounted cashflows		
Less than one year	10,610	10,237
Between one and two years	11,023	9,470
Between two and five years	21,993	20,377
After five years	18,062	7,481
Total contractual cashflows	61,688	47,565

18. DEFERRED TAX (LIABILITY)/ASSET

	52 weeks ended 26 June 2022 £000	Restated* 52 weeks ended 27 June 2021 £000
Deferred taxation (liability)/asset	(1,130)	662

Reconciliation of deferred tax balances:

	52 weeks ended 26 June 2022 £000	Restated* 52 weeks ended 27 June 2021 £000
Balance at beginning of period	662	1,395
Deferred tax credit for the period through profit and loss	(1,322)	(1,213)
Deferred tax (credit)/charge for the period through Other Comprehensive Income	(709)	491
Deferred tax charge/(credit) for the period through Statement of Changes in Equity	239	(11)
Balance at end of period	(1,130)	662

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

	Fixed assets £000	Short term differences £000	Derivative financial instruments £000	Share-based payments £000	Currency movement on net investment £000	Unused trade losses £000	Total £000
Restated* At 28 June 2020	(650)	1,226	(221)	179	–	861	1,395
(Charge)/credit to the income statement	(953)	375	–	164	–	(799)	(1,213)
(Charge)/credit to equity	–	–	–	(11)	–	–	(11)
(Charge)/credit to OCI	–	–	308	–	183	–	491
Restated* As at 27 June 2021	(1,603)	1,601	87	332	183	62	662
(Charge)/credit to the income statement	(2,538)	(121)	–	(50)	–	1,387	(1,322)
(Charge)/credit to equity	–	–	–	239	–	–	239
(Charge)/credit to OCI	–	80	(465)	–	(324)	–	(709)
As at 26 June 2022	(4,141)	1,560	(378)	521	(141)	1,449	(1,130)

At 26 June 2022, the Group had £2,352k unrecognised deferred tax assets relating to the US business (27 June 2021: £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 53 week period ended 2 July 2023 a rate of 19% has been used.

For any remaining temporary differences expected to reverse after 26 June 2022 a rate of 18%–25% has been used, in line with the prevailing tax rate. The unused trade losses are expected to be utilised against future profits. As set out in the Strategic Report, the current year loss contained a number of non-recurring material items and therefore underlying profit of £21.7m supports that future profits will be generated.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

19. DERIVATIVE FINANCIAL INSTRUMENTS

	26 June 2022 £000		27 June 2021 £000	
	Fair value	**Notional**	**Fair value**	**Notional**
Derivative financial assets:				
Current				
Foreign currency forward contracts	668	10,670	–	–
	668	10,670	–	–
Non-current				
Foreign currency forward contracts	–	–	–	–
	–	–	–	–
Derivative financial liabilities:				
Current				
Foreign currency forward contracts	48	3,992	925	26,788
	48	3,992	925	26,788
Non-current				
Foreign currency forward contracts	38	5,625	28	3,992
	38	5,625	28	3,992
Total gross contractual cashflows		20,287		30,780

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.

Hedge ineffectiveness can arise from:

- Differences in the timing of the cash flows of the hedged items and the hedging instruments
- Changes to the forecasted cash flows of the hedged items

The loss/(gain) recognised in the Group statement of comprehensive income, within operating expenses, on cash flow hedges of foreign currency receipts during the year, is as follows:

	52 weeks ended 26 June 2022 £000	**52 weeks ended 27 June 2021 £000**
Other loss/(gain) – hedge ineffectiveness	79	-
Other comprehensive income	(1,451)	1,897
	(1,372)	1,897

19. DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

The effects of the foreign currency-related hedging instruments on the Group's financial position and performance are as follows:

Euro	52 weeks ended 26 June 2022 £000	52 weeks ended 27 June 2021 £000
Carry amount	10	(629)
Notional amount (€)	15,738	26,311
Maturity date	July 2022 – December 2023	June 2021 – December 2022
Hedge ratio*	1:1	1:1
Change in discounted spot value of outstanding hedging instruments since inception of the hedge	51	(659)
Change in value of hedged item used to determine hedge ineffectiveness	(51)	659
Weighted average hedged rate for outstanding hedging instruments (including forward points)	1.1782	1.1401

US Dollar	52 weeks ended 26 June 2022 £000	52 weeks ended 27 June 2021 £000
Carry amount	572	(303)
Notional amount ($)	8.860	9,264
Maturity date	June 2022 – November 2022	June 2021 – November 2021
Hedge ratio*	1:1	1:1
Change in discounted spot value of outstanding hedging instruments since inception of the hedge	546	(149)
Change in value of hedged item used to determine hedge ineffectiveness	(546)	149
Weighted average hedged rate for outstanding hedging instruments (including forward points)	1.3410	1.3293

Swiss Francs	52 weeks ended 26 June 2022 £000	52 weeks ended 27 June 2021 £000
Carry amount	–	(24)
Notional amount (CHF)	–	590
Maturity date	Nil	June 2021
Hedge ratio*	Nil	1:1
Change in discounted spot value of outstanding hedging instruments since inception of the hedge	–	(5)
Change in value of hedged item used to determine hedge ineffectiveness	–	5
Weighted average hedged rate for outstanding hedging instruments (including forward points)	–	1.2113

* The fair value of the derivative financial liabilities are split between current and non-current depending on the remaining maturity of the derivative contract and its contractual cash flows.

The fair value of foreign currency forward contracts are based on observable information on exchange and interest rates. The hedged forecast transactions denominated in foreign currency are expected to occur at various dates within the next 18 months. Gains and losses on foreign currency forward contracts which have been recognised in the hedging reserve, within other reserves in equity as at 26 June 2022, will be recognised in the Consolidated Statement of Comprehensive Income in the periods during which the hedged forecast transaction occurs.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

19. DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

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 movement in the fair value on forward contracts in the period of £1,451k profit (27 June 2021: £1,897k loss) has been included within other comprehensive income in the Consolidated Statement of Comprehensive Income.

The reconciliation of the hedging reserve included in other reserves within the statement of changes in equity is as follows:

	Hedging reserve £000
At 28 June 2020	(1,077)
Fair value movement on cash flow hedges	1,897
Cash flow hedge transferred to inventory	(143)
Taxation on cash flow hedges	(308)
As at 27 June 2021	369
Fair value movement on cash flow hedges	(1,451)
Cash flow hedge transferred to inventory	(96)
Taxation on cash flow hedges	385
Forex gain transferred to net investment	416
As at 26 June 2022	(377)

20. INVENTORIES

	52 weeks ended 26 June 2022 £000	52 weeks ended 27 June 2021 £000
Raw materials	13,413	9,499
Work in progress	–	241
Finished goods	29,649	22,298
	43,062	32,038

Total inventory recognised as an expense in the Statement of Comprehensive Income during the period was £98,385k (27 June 2021: £62,558k).

During the period ended 26 June 2022, a total of £8,205k, of which £5,501k is classed as exceptional as per note 5 (27 June 2021: £169k release, exceptionals: £nil) was recognised as an expense due to the increase in provision of inventory. An additional £7,092k (27 June 2021: £3,267k) was recognised as an expense due to the disposal of inventory.

21. TRADE AND OTHER RECEIVABLES

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

	52 weeks ended 26 June 2022 £000	52 weeks ended 27 June 2021 £000
Current		
Trade receivables	2,047	2,650
Other receivables	6,634	7,122
Prepayments and accrued income	8,860	2,649
	17,541	12,421

For ageing analysis and credit risk of trade receivables please refer to note 36.

22. LOAN TO THE JAPAN JOINT VENTURE

Hotel Chocolat has a working capital loan agreement with the Japan joint venture, the loan is denominated in sterling and interest is payable on a quarterly basis. The Japan joint venture first drew down on the loan of £4.5m in July 2018 and during the period made further drawdowns bringing the total loan balance including interest to £17,816k at 26 June 2022 (27 June 2021: £9,656k restated). The loan facility has been extended to the Japan joint venture from December 2023 until December 2028. Historically, the credit risk of the loan was assessed and the Directors concluded there was no change to the risk of default and the probability of default had been determined as nil. Management have assessed that ECL provisions should have been recognised following an assessment that this financial asset was credit-impaired and a restatement was made with respect to the Loan (see note 13). As of 26 June 2022, the loan to has been fully impaired (27 June 2021: £3,269k restated). Interest is charged at 2% plus base rate and accrues quarterly.

Summary financial information for the Japan joint venture:

	52 weeks ended 26 June 2022 £000	**52 weeks ended 27 June 2021 £000**
Current assets	5,330	3,655
Non-current assets	15,640	9,193
Current Financial liabilities (excluding trade payables)	–	–
Other Current liabilities	(2,967)	(3,601)
Non-current Financial liabilities (excluding trade payables)	(5,697)	(3,903)
Other Non-current liabilities	(25,046)	(12,976)
The following amounts have been included in the amounts above:		
Cash and cash equivalents	1,600	318
Revenue	14,504	8,844
Total comprehensive loss	(7,044)	(4,988)
The following amounts have been included in the amounts above:		
Depreciation and amortisation	(1,623)	(1,147)
Interest income	–	2
Interest expense	(663)	(272)
Income tax	2,092	(294)

Composition of loan balance	52 weeks ended 26 June 2022 £000		Restated* 52 weeks ended 27 June 2021 £000	
	Actual £000	**Present Value £000**	**Actual £000**	**Present Value* £000**
Cash	13,880	9,940	7,580	5,591
Stock	6,788	4,717	3,028	2,122
Recharges	1,592	1,196	1,231	947
Interest*	1,963	1,963	996	996
Total loan to Joint Venture	24,223	17,816	12,835	9,656
Lifetime ECL opening balance*		(6,387)		(4,431)
Increase in loss allowance*		(11,429)		(1,956)
Lifetime ECL closing balance*		(17,816)		(6,387)
Loan to Japan Joint Venture*		–		3,269

* Restated 52 weeks ended 27 June 2021 – see Note 13

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

23. 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. As at 17th June 2021, the Group increased its interest to 100%.

As at 17 June 2021, the Group acquired 100% shareholding in Rabot 1745 Limited. Prior to this acquisition, share of Joint venture losses of £254k were recognised during the period ended 27 June 2021.

The Group recognised a loss from its share in this joint venture of £254k up until acquisition on 17 June 2021. The Group recognised a fair value adjustment to the Consolidated Statement of Comprehensive Income of £46k during period ended 27 June 2021.

Hotel Chocolat KK

The Group owns a 20% interest in the Japan joint venture, a separate company incorporated and operating in Japan. The investment was impaired during the year to 26 June 2022 to £nil as a result of the Japan Joint venture entering into a Civil Restructuring (27 June 2021: £2,409k restated). Further details can be found in note 13.

The Group's 20% share of unrecognised losses for the period to 26 June 2022 amount to £1,248k (27 June 2021: £998k restated). The cumulative unrecognised losses total £2,851k (27 June 2021: £1,853k restated).

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 the Japan joint venture can be found in Note 22.

Investment in Joint Ventures	**52 weeks ended 26 June 2022 £000**	**Restated 52 weeks ended 27 June 2021* £000**	**52 weeks ended 27 June 2021 £000**
Cost			
At beginning of period	4,020	1,416	53
Increased investment re: FGC	316	618	–
Increased investment re: loan drawdown	3,228	2,032	–
Increase investment in Rabot 1745	–	300	300
Disposal of investment	–	(346)	(346)
At end of period	7,564	4,020	7
Share of losses / impairment			
At beginning of period	(1,611)	(659)	(53)
Share of losses in Joint Ventures*	(1,248)	(1,252)	(254)
Impairment	(4,705)	–	–
Disposal of investment	–	300	300
At end of period	(7,564)	(1,611)	(7)
Carrying value	–	2,409	–

* Restated 52 weeks ended 27 June 2021 – see Note 13

24. INVESTMENT IN SUBSIDIARIES

The Group's operating subsidiaries as at 26 June 2022 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	St Lucia[4]	100%	
Indirect Holdings – exempt from audit*				
Rabot 1745 Limited*	Distributor of skincare products	England & Wales[1]		100%
Hotel Chocolat Retail Limited	Chocolate Retailer and Restaurateur	England & Wales[1]		100%
Hotel Chocolat Stores Limited*	Chocolate Distributor	England & Wales[1]		100%
Rabot Estate UK Limited*	Property Holding Company	England & Wales[1]		100%
Hotel Chocolat Europe Limited*	Chocolate Retailer	England & Wales[1]		100%
Hotel Chocolat EU Retail Limited*	Chocolate Retailer	England & Wales[1]		100%
Hotel Chocolat Corporate Limited*	Dormant	England & Wales[1]		100%
Chocolate Tasting Club Inc	Chocolate Distributor	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 Estate	St Lucia[5]		100%
Applehill Properties Limited*	Property Holding Company	England & Wales[1]		100%
Braeburnhill Properties Limited*	Property Holding Company	England & Wales[1]		100%
Bramleyhill Properties Limited*	Property Holding Company	England & Wales[1]		100%

Registered addresses:

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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*				
Cashewhill Properties Limited*	Property Holding Company	England & Wales[1]		100%
Colanuthill Properties Limited*	Property Holding Company	England & Wales[1]		100%
Crispinhill Properties Limited*	Property Holding Company	England & Wales[1]		100%
Gingerhill Properties Limited*	Property Holding Company	England & Wales[1]		100%
Hazelnuthill Properties Limited*	Property Holding Company	England & Wales[1]		100%
Hotel Chocolat DK Limited*	Property Holding Company	England & Wales[1]		100%
Lemonhill Properties Limited*	Property Holding Company	England & Wales[1]		100%
Limehill Properties Limited*	Property Holding Company	England & Wales[1]		100%
Macadamiahill Properties Limited*	Property Holding Company	England & Wales[1]		100%
Melonhill Properties Limited*	Property Holding Company	England & Wales[1]		100%
Orangehill Properties Limited*	Property Holding Company	England & Wales[1]		100%
Papayahill Properties Limited*	Property Holding Company	England & Wales[1]		100%
Peachhill Properties Limited*	Property Holding Company	England & Wales[1]		100%
Peanuthill Properties Limited*	Property Holding Company	England & Wales[1]		100%
Pearhill Properties Limited[+]	Property Holding Company	England & Wales[1]		100%
Pearmainhill Properties Limited*	Property Holding Company	England & Wales[1]		100%
Pecanhill Properties Limited[+]	Property Holding Company	England & Wales[1]		100%
Plumhill Properties Limited*	Property Holding Company	England & Wales[1]		100%
Satsumahill Properties Limited*	Property Holding Company	England & Wales[1]		100%

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

^ Struck off Malta business register 30 June 2022

\+ Dissolved on 28 June 2022

25. CASH AND CASH EQUIVALENTS

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

	52 weeks ended 26 June 2022 £000	52 weeks ended 27 June 2021 £000
Cash and cash equivalents	17,569	10,046

Significant balances are held with the Groups main banking provider, Lloyds Bank plc. As per the Standard and Poor's credit rating on 12 September 2022, Lloyds Bank plc has a credit rating of A+ long term and A-1 short term.

26. TRADE AND OTHER PAYABLES

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

	52 weeks ended 26 June 2022 £000	52 weeks ended 27 June 2021 £000
Current		
Trade payables	19,830	13,962
Other payables	1,471	11,250
Other taxes payable	3,011	330
Accruals and deferred income	15,129	16,681
	39,441	42,223
Non-current		
Other payables and accruals	–	2
	–	2

27. BORROWINGS

The Group's borrowing facilities are a two-year £30m revolving credit facility ("RCF") with Lloyds Plc, which began on 16 July 2021, with two options to extend by a further year, and a £20m revolving credit facility ("RCF") with Bank of Ireland, which began on 20 December 2021, with two options to extend by a further year.

During the current period, the RCF was extended with the expiry date now 16 July 2024. The facility carries an interest rate of SONIA plus a margin. Both utilisation and non-utilisation fees are also applicable, being charged when utilisation rises above a set percentage, with non-utilisation based on a set percentage of the applicable margin. These charges are based on market rates as are the commitment fees.

The Group's financial covenants to be reported for the RCF are as follows: positive cashflow 14 days in January, EBITDA to interest ratio of 4, net debt to EBITDA of 2.5 and Japan loan not to exceed £40m These are calculated on a pre-IFRS 16 basis. The RCF is secured by a first fixed and first floating charge over all assets of Hotel Chocolat Group plc, Hotel Chocolat UK Holdings Ltd, HOTC Ltd, The Chocolate Tasting Club Ltd, Hotel Chocolat Ltd, Hotel Chocolat Europe Ltd, Rabot Estate UK Ltd, Hotel Chocolat EU Retail Ltd, Hotel Chocolat Stores Ltd, Hotel Chocolat Retail Ltd and Hazelnuthill Properties Ltd.

28. OTHER FINANCIAL LIABILITIES

	52 weeks ended 26 June 2022 £000	52 weeks ended 27 June 2021* £000	52 weeks ended 27 June 2021 £000
Current			
Financial guarantee contract[1]	6,660	–	–
	6,660	–	–
Non-current			
Financial guarantee contract*	–	642	–
	–	642	–

* Restated 52 weeks ended 27 June 2021 – see note 13.

1 Refer note 37.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

29. PROVISIONS

	52 weeks ended 26 June 2022 £000	52 weeks ended 27 June 2021 £000
Non-current		
Lease dilapidations provision	2,919	1,585
Current		
Onerous contract provision	907	–
	3,826	1,585

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

The movement in provisions is summarised below:

	Lease dilapidation provision £000	Onerous Contract Provision £000	Total £000
52 weeks ended 27 June 2021			
At beginning of period	959	–	959
Released through profit and loss	–	–	–
Amounts capitalised during the period	630	–	630
Exchange difference	(4)	–	(4)
At end of period	1,585	–	1,585
52 weeks ended 26 June 2022			
At beginning of period	1,585	–	1,585
Released through profit and loss	–	–	–
Amounts capitalised during the period	1,334	–	1,334
Additional provisions in the year	–	907	907
Exchange difference	–	–	–
At end of period	2,919	907	3,826

Lease dilapidation provision

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

Onerous contract provision

Forward contracts had been entered into to support activities in US and Japan markets. Following managements decision to exit these markets, these contracts have now been provided for. The provision will be utilised within one year.

30. SHARE CAPITAL

	As at 26 June 2022		As at 27 June 2021	
	Shares	**£000**	**Shares**	**£000**
Allotted, called up and fully paid:				
Ordinary shares of £0.001 each	137,319,014	137	125,880,158	126
	137,319,014	137	125,880,158	126

The issued share capital of Hotel Chocolat Group plc comprises ordinary shares of 0.1p each. Pursuant to the Company's articles of association, the ordinary shares carry full voting, dividend and capital rights and are not subject to any restrictions.

The Board have agreed not to recommend payment of a final dividend (27 June 2021: none). There are no authorised shares not yet issued as at the period ended 26 June 2022 (27 June 2021: none).

Period ended 26 June 2022:

During the period ended 26 June 2022, 11,267,605 shares were issued following an equity placement on 27 July 2021. 80,170 ordinary shares were issued during the period ended 26 June 2022 to satisfy shares allotted under the Company's Save as You Earn plan and 91,081 shares under the Company's Long Term Incentive Plan.

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.

31. 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 26 June 2022 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. This includes transaction costs of £1,002k (27 June 2021: £nil).

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 and the long-term loan reserve which represents the foreign exchange gains and losses arising on the retranslation of the long term portion of a series of intercompany loans. For further details, refer to Notes 10 and 19 respectively.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

32. CAPITAL COMMITMENTS

The Group had capital commitments totalling £2,450k as at 26 June 2022 (27 June 2021: £3,190k).

33. CONTINGENT LIABILITIES AND GUARANTEES

There were no contingent liabilities as 26 June 2022 (27 June 2021: £nil).

The Group guarantees the external finance leases of the joint venture in Japan, these have been disclosed in note 28.

The Group provides a duty deferment guarantee of £300,000 to HMRC.

34. 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.

During the period ended 27 June 2021, the Group increased its shareholding to 100% in Rabot 1745 Limited. Andrew Gerrie previously held 50% of the shares for which 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.

On 2 August 2021, under the terms of the Group's 2016 Long Term Incentive Plan, the Group granted 3,263,977 options over ordinary shares of 0.1p in the Company. Of these options granted 525,000 were granted to Angus Thirlwell, 416,667 to Matt Pritchard and 166,667 to Peter Harris.

The Group extended long-term loan facilities to the Japan joint venture. Hotel Chocolat Ltd agreed to provide working capital funding to the Japan joint venture of which additions during the period related to goods sold to the Japan joint venture with a value of £3,760k (27 June 2021: £2,095k) and recharged costs of £361k (27 June 2021: £536k). As part of this facility, the Japan joint venture borrowed £6,300k (27 June 2021: £3,607k) all of which is outstanding at the period end. Interest of £967k (27 June 2021: £656k) has been calculated on this balance and added to the long-term loan facility. Please also refer to note 22.

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 £192k in the period ended 26 June 2022 (27 June 2021: £232k). There was no rent outstanding at the period end (27 June 2021: £nil) and there is a lease liability of £413k (27 June 2021: £591k).

During the period, a Director was accompanied by a family member to the Group's hotel in Saint Lucia. The package value was £2.5k (27 June 2021: £nil). There are no amounts outstanding at the balance sheet date (27 June 2021: £nil).

No other amounts were due to Directors (27 June 2021: £nil).

35. CATEGORIES OF FINANCIAL INSTRUMENTS

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.

In the following table those financial instruments which are measured subsequent to initial recognition at fair value 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).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	52 weeks ended 26 June 2022 £000	Restated* 52 weeks ended 27 June 2021 £000
Financial assets		
At amortised cost		
Trade and other receivables (excluding prepayments)	8,681	8,682
Loan to Japan joint venture*	–	3,269
Cash and cash equivalents	17,569	11,136
	26,250	23,087
At fair value		
Derivative financial assets	668	–
Financial liabilities		
At amortised cost		
Trade and other payables	20,854	24,831
Accruals	15,129	16,681
Lease liabilities	54,535	39,564
Financial guarantee contract	6,660	642
	97,178	81,718
At fair value		
Derivative financial liabilities	86	953

* Restated 52 weeks ended 27 June 2021 – see note 13.

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

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

There have been no transfers between levels in the period.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

36. 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), liquidity risk and credit risk.

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;
- to provide an adequate return to shareholders by pricing products and services commensurate with the level of risk; and
- to maintain at least £50k of capital as required by the AIM listing rules. There are no other externally imposed capital requirements on the group.

The Group defines capital as total equity attributable to shareholders. For the period ended 26 June 2022 the total was £98,383k (27 June 2021: £65,833k restated).

The Group has met these objectives for the year and the Directors' believe that these objectives will continue to be met for the period of 12 months from the date of approval of the accounts.

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.

Market risk

Cash flow risk

The Group's primary cash flow risk is the exposure through the Group's activities to changes in foreign currency exchange rates. The Group enters into foreign currency forward contracts in order to manage the exposure to foreign exchange risk which arises on transactions denominated in foreign currencies. Refer to Note 19 for further information about the Group's foreign currency forward contracts.

Foreign currency contract assets and liabilities are shown under the heading of 'derivative financial assets and derivative financial liabilities within the Group balance sheet. The following table details the forward currency contracts outstanding at the year end:

Group – as at 26 June 2022	Average contract rate	Nominal currency '000	Contract £000	Fair value £000
US Dollars				
Forward contract to buy USD within 1–6 months	1.341	8,860	6,626	571
Euros				
Forward contract to buy EUR within 1–6 months	1.173	6,400	5,533	(10)
Forward contract to buy EUR within 7–12 months	1.200	2,943	2,503	59
Forward contract to buy EUR within 13–18 months	1.165	6,395	5,626	(38)

36. FINANCIAL RISK MANAGEMENT CONTINUED

Group – as at 27 June 2021	Average contract rate	Nominal currency '000	Contract £000	Fair value £000
US Dollars				
Forward contract to buy USD within 1–6 months	1.329	9,264	6,960	(303)
Euros				
Forward contract to buy EUR within 1–6 months	1.128	11,441	10,328	(484)
Forward contract to buy EUR within 7–12 months	1.142	10,300	9,013	(117)
Forward contract to buy EUR within 13–18 months	1.159	4,570	3,992	(28)
Swiss Francs				
Forward contracts to buy CHF within 1-6 months	1.211	590	487	(24)

The derivative financial instruments for the foreign currency contracts described above are all held as cash flow hedges and are classified as level 2. The fair value of the foreign currency contracts at the year end equate to the mark-to-market valuation of the contracts provided by Lloyds and Bank of Ireland. These represent the amounts the Group would expect to pay or receive in order to close out the contracts at the balance sheet date.

The Group's treasury risk management policy to address its exposure to currency movements is as follows:

- Hedge 80% of Euro denominated forecast spend for a period up to and including 18 months; due to the inherent uncertainty around forecasting the remaining 20% of forecasted costs are purchased at spot rate in the month in which they occur.
- Hedge 100% of all future contracted US dollar costs up to and including 18 months forward.
- Hedge 100% of significant forecast capital expenditure in Swiss Francs.

Interest Rate Risk

The Group is exposed to interest rate risk on its short-term revolving credit facility with Lloyds Bank and Bank of Ireland, which carries interest at variable rates, as they linked to Bank of England base rate, on amounts which are drawn down. 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 cashflow requirements.

Sensitivity analysis shows that the impact of a 0.5% movement in interest rates on the financial position and performance of the Group is insignificant (FY21: insignificant).

The Group's cash/(debt) position by currency at year end, is as follows:

	52 weeks ended 26 June 2022 £000	52 weeks ended 27 June 2021 £000
Bank balances and RCFs		
Sterling	12,753	8,516
Euro	1,853	1,062
US Dollar	2,456	463
Swiss Franc	507	5
	17,569	10,046

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

36. FINANCIAL RISK MANAGEMENT CONTINUED

A currency sensitivity analysis has been performed on the financial assets and liabilities to sensitivity of a 10% increase/decrease in the Sterling to Euro, Sterling to US Dollar exchange and Sterling to Swiss Francs exchange rate. A 10% strengthening has been used, comprising management's assessment of reasonably possible changes in exchange rates. The impact on (loss)/ profit for the year in the income statement and impact on net assets are as follows:

	Income Statement		Net assets	
	52 weeks ended 26 June 2022 £000	**52 weeks ended 27 June 2021 £000**	**52 weeks ended 26 June 2022 £000**	**52 weeks ended 27 June 2021 £000**
Sterling strengthens by 10%				
Euro	168	96	(168)	(96)
US Dollar	223	42	(223)	(42)
Swiss Francs	46	–	(46)	–
Sterling weakens by 10%				
Euro	(206)	(118)	206	118
US Dollar	(273)	(51)	273	51
Swiss Francs	(56)	(1)	56	

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.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for management of the Group's short, medium, and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining 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.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

The amounts included in the following table for financial guarantee contracts are the maximum amount the Group could be forced to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee (see note 28). The amounts detailed within derivative financial instruments relate to the gross contractual cash flows of the Group's forward contracts.

36. FINANCIAL RISK MANAGEMENT CONTINUED

Borrowings and other liabilities mature according to the following schedule, lease liabilities have been excluded from the table below, for maturity analysis on lease liabilities refer to note 17.

	Within one year £000	One to two years £000
52 weeks ended 27 June 2021		
Trade and other payables	25,212	–
Accruals	16,681	–
Derivative financial instruments[1]	26,788	3,992
Financial guarantee contract*	–	642
	68,681	4,634
52 weeks ended 26 June 2022		
Trade and other payables	21,301	–
Accruals	14,840	–
Derivative financial instruments[1]	14,662	5,625
Financial guarantee contract	6,660	–
	57.463	5,625

1 Refer note 19

* Restated for 52 weeks 27 June 2021 – see note 13

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 carrying value of the outstanding amount of trade receivables, loan to joint venture and financial guarantee contracts issued. The loan to joint venture forms part of the RCF covenants which monitors an upper limit not to be exceeded.

The Group was exposed to credit risk on the Japan joint venture in the form of loan to joint venture and the financial guarantee contract over external leases issued to the joint venture. Both exposures lead to concentration risk. Management assessed the Japan joint venture to be credit-impaired and used 'Moody's Default-Trends-Global-08Feb22' to inform the CCC credit rating. The loan to joint venture has been written off, and the financial guarantee has been fully called upon. This has been disclosed under notes 22 and 23.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

36. FINANCIAL RISK MANAGEMENT CONTINUED

Ageing analysis:

	Expected loss rates	52 weeks ended 26 June 2022 £000	Restated* 52 weeks ended 27 June 2021 £000
Cash and cash equivalents			
Up to three months	0%	17,569	10,046
Cash in transit			
Up to three months	0%	979	550
Loan to Japan joint venture			
Above six months	100%	3,269	9,656
Financial guarantee contracts	100%	(6,660)	(642)
Impairment provision		(3,269)	(6,386)
Total		(6,660)	2,628

	Expected loss rates	52 weeks ended 26 June 2022 £000	52 weeks ended 27 June 2021 £000
Trade receivables			
Up to three months	0.8%	1,457	2,365
Three to six months	0.8%	68	(19)
Six to twelve months	0.8%	277	118
Above twelve months	100%	289	398
Impairment provision		(44)	(212)
Total		2,047	2,650

* Restated for 52 weeks 27 June 2021 – see note 13

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 wholesale partners and business to 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% (27 June 2021: 0.8%) and the expected loss provision is £23k (27 June 2021: £15k).

The impairment provision of £44k (27 June 2021: £212k) relates to £21k (27 June 2021: £197k) of specifically provided debt and £23k (27 June 2021: £15k) of expected credit losses.

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

	52 weeks ended 26 June 2022 £000	52 weeks ended 27 June 2021 £000
United Kingdom	1,654	2,516
Europe	18	6
Rest of World	375	128
Total	2,047	2,650

Trade receivables are written off when there is no reasonable expectation of recovery.

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

There have been the following events subsequent to the period end and up to 30 November 2022, the date of approval of the financial statements by the Board;

Japan Joint Venture

Hotel Chocolat KK, a Japanese joint venture in which the Group holds a 20% shareholding, obtained Court approval for Civil Rehabilitation restructuring proceedings (Minji Saisei) in July 2022. The Group understands that the Japan joint venture has entered Civil rehabilitation in order to pursue options for a restructuring, pursuant to seeking new sources of capital. As disclosed in Note 5 the loan to the Japan joint venture of £23m has been provided in full at the year end. Additional exposure post year end of £0.9m will also need to be provided in full in year ended 2 July 2023.

As a result of the restructuring procedures the guarantees provided by the Group in respect of external finance leases of the Japan joint venture were called. The Group paid a total of £6.4m to settle those obligations, these costs were recognised as financial liabilities in the balance sheet as at 26 June 2022.

US Operations closure

Following the decision to close all retail stores in the US, the Group also decided to close online trading in the US. As at the reporting date, no such estimate can be made on the financial impact for FY23 of the closure.

38. ULTIMATE CONTROLLING PARTY

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

39. ANALYSIS OF NET CASH/NET DEBT

	As at 27 June 2021 £000	Cash flow £000	Non-cash changes £000	As at 26 June 2022 £000
Cash and cash equivalents	10,046	6,953	570	17,569
Net cash per statement of cashflows	10,046	6,953	570	17,569
Borrowings	–	–	–	–
Net cash before lease liabilities	10,046	6,953	570	17,569
Lease liabilities	(39,564)	10,831	(25,802)	(54,535)
New debt after lease liabilities	(29,518)	17,784	(25,232)	(36,966)

	As at 26 June 2020 £000	Cash flow £000	Non-cash changes £000	As at 27 June 2021 £000
Cash and cash equivalents	27,503	(17,247)	(210)	10,046
Net cash per statement of cashflows	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	(2,505)	(39,564)
New debt after lease liabilities	(19,450)	(7,353)	(2,715)	(29,518)

Non-cash charges primarily equate to new lease liabilities including £25m for the new Northampton Distribution Centre and foreign exchange movements.

COMPANY STATEMENT OF FINANCIAL POSITION

	Notes	As at 26 June 2022 £000	As at 27 June 2021 £000
ASSETS			
Non-current assets			
Investments	41	4,315	11,937
Amounts due from related parties	42	74,219	34,885
		78,534	46,822
Current assets			
Trade and other receivables	42	52	8
Cash and cash equivalents		1	45
		53	53
Total assets		78,587	46,875
LIABILITIES			
Current liabilities			
Trade and other payables	43	(329)	(334)
		(329)	(334)
Total liabilities			
NET ASSETS		78,258	46,541
EQUITY			
Share capital	44	137	126
Share premium	44	78,014	38,684
Retained earnings	44	(3,401)	4,852
Capital redemption reserve	44	6	6
Share based payment reserve	44	3,502	2,873
Total equity attributable to shareholders		78,258	46,541

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 26 June 2022 is £8,253k (27 June 2021: loss £2k).

The financial statements of Hotel Chocolat Group plc, registered number 08612206 were approved by the Board of Directors and authorised for issue on 30 November 2022. They were signed on its behalf by:

Matt Pritchard
Chief Financial Officer
30 November 2022

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 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
Dividends paid	–	–	–	–	–	–
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
Share based payments	–	–	–	–	629	629
Issue of share capital	11	39,330	–	–	–	39,341
Other comprehensive income:						
Loss for the period	–	–	(8,253)	–	–	(8,253)
Equity as at 26 June 2022	137	78,014	(3,401)	6	3,502	78,258

NOTES TO THE COMPANY FINANCIAL STATEMENTS

40. ACCOUNTING POLICIES

To the extent that an accounting policy is relevant to both the Hotel Chocolat Group and the 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:

- no statement of cashflow has been prepared for the parent company;
- disclosures in respect of the parent company's share-based payment arrangements have not been presented as equivalent disclosures have been provided in respect of the Group as a whole; and
- no disclosure has been given for the aggregate remuneration of the key management personnel of the parent company as their remuneration is included in the totals for the Group as a whole.

Investments

Fixed asset investments comprise investments by the Company in the shares of subsidiary undertakings. The carrying value of is reviewed for indicators of impairment on an annual basis. Where such indicators are present, a quantified impairment test is required and the value in use calculated based upon a discounted cash flow methodology using the most recent forecasts prepared by management.

The key assumptions for the value in use calculation are assumed market conditions, cost assumptions, discount rates and foreign exchange. Management estimates discount rates that reflect current market assessments of the time value of money, the rate used to discount the forecast cash flows reflects the Groups weighted average cost of capital ("WACC"). As a result of this analysis, management determine whether impairment is required. Investments are stated at cost less provisions for diminution in value.

Financial assets

Financial assets, other than investments and share based payments, are initially measured at transaction price (including transaction costs) and subsequently held at cost, less any impairment. Impairments are calculated on an incurred loss basis. The Company's assets at amortised cost comprise trade and other receivables, and cash and cash equivalents including cash held at bank.

Financial liabilities

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

Share-based payments

Details of the Group's share option schemes are provided in Note 10 to the consolidated financial statements. The Company grants share options under the share-based schemes directly to employees of its subsidiaries. In accordance with the provisions of the plan, the cost of the share-based payments will be recorded by each subsidiary as an 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.

41. INVESTMENTS

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

	52 weeks ended 26 June 2022 £000	52 weeks ended 27 June 2021 £000
Cost		
At beginning of period	11,937	11,026
Share based payments	629	911
Impairment	(8,251)	–
At end of period	4,315	11,937
Carrying amount	4,315	11,937

During the period ended 26 June 2022, the investment in Hotel Chocolat (St Lucia) Holdings Limited was impaired by £8,251k (27 June 2021: £nil). The value in use was calculated based upon discounted cash flow methodology using the most recent forecasts prepared by management using the Group's pre-tax weighted average cost of capital ("WACC") of 9.67% (27 June 2021: 9.34%).

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.

42. 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 26 June 2022 £000	52 weeks ended 27 June 2021 £000
Other receivables	52	8
Amounts due from related parties	74,219	34,885
	74,271	34,893

No interest is charged on amounts due from related parties and they are not repayable on demand.

43. TRADE AND OTHER PAYABLES

	52 weeks ended 26 June 2022 £000	52 weeks ended 27 June 2021 £000
Accruals	13	18
Amounts due to related parties	316	316
Total trade and other payables	329	334

Amounts due to related parties are non interest bearing and are payable on demand.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

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 30 and 31 of the Group financial statements.

The Company did not pay a dividend during the period (27 June 2021: none).

45. CONTINGENT LIABILITIES

The company forms part of the Group guarantee in respect of the Lloyds RCF. At the year end, the potential liability of this security is £Nil (27 June 2021: £Nil).

46. RELATED PARTY TRANSACTIONS

Amounts owed by and to subsidiaries are disclosed in Notes 42 and 43 respectively, of the Company financial statements.

There are no employees (including directors) during either period. The remuneration of the Directors of the Company are disclosed within the Remuneration Report on pages 63 to 66.

On 2 August 2021, under the terms of the Group's 2016 Long Term Incentive Plan, the Group granted 3,263,977 options over ordinary shares of 0.1p in the Company. Of these options granted 525,000 were granted to Angus Thirlwell, 416,667 to Matt Pritchard and 166,667 to Peter Harris.

COMPANY INFORMATION

REGISTERED OFFICE

Mint House
Newark Close
Royston
Hertfordshire SG8 5HL

COMPANY WEBSITE

www.hotelchocolat.com

COMPANY SECRETARY

Indigo Corporate Secretary Limited

ADVISERS

Nominated Adviser and Broker

Liberum Capital Limited
Ropemaker Place
25 Ropemaker Street
London EC2Y 9LY

Legal Advisers to the Company

Stephenson Harwood LLP
1 Finsbury Circus
London EC2M 7SH

AUDITORS

RSM UK Audit LLP
25 Farringdon Street
London EC4A 4AB

REGISTRARS

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

FSC
www.fsc.org
MIX
From responsible sources
FSC® C020659

21089900755
Printed on Carbon Captured paper

This product is made using recycled materials limiting the impact on our precious forest resources, helping reduce the need to harvest more trees.

This publication was printed by an FSC®-certified printer that holds an ISO 14001 certification and has been manufactured using 100% renewable energy.

100% of the inks used are HP Indigo ElectroInk which complies with RoHS legislation and meets the chemical requirements of the Nordic Ecolabel (Nordic Swan) for printing companies, 95% of press chemicals are recycled for further use and, on average 99% of any waste associated with this production will be recycled and the remaining 1% used to generate energy.

In partnership with the paper supplier, the carbon emissions are calculated & captured by the planting of trees in new native woodland here in the UK, through the Woodland Trust's Government backed Woodland Carbon Scheme.

Designed and produced by emperor
Visit us at emperor.works

HOTEL Chocolat.

REGISTERED OFFICE

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