

HOTEL  
*Chocolat.*

Annual Report and Accounts  
**2023**

More Cacao  
Less Sugar

## Our mission

To make people and nature happy  
through reinventing chocolate.

### COMPANY OVERVIEW

2023 highlights  
At a glance

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### FINANCIAL STATEMENTS

## 2023 highlights

## Financial highlights

## REVENUE

£204.5m

↓10%

2023	£204.5m
2022	£226.1m
2021	£164.6m

UNDERLYING EBITDA<sup>1</sup>

£24.1m

↓41%

2023	£24.1m
2022	£40.8m
2021	£28.6m

UNDERLYING (LOSS)/PROFIT BEFORE TAX<sup>1</sup>

£(0.8)m

↓104%

2023	£(0.8)m
2022	£21.7m
2021	£9.6m

## REPORTED LOSS AFTER TAX

£6.2m

↑FY22: £9.4m

## DILUTED LOSS PER SHARE

4.5p

↑FY22: 6.9p

## DIVIDEND

£nil

FY22: £nil

## Operational highlights

## SALES GROWTH

+54%

↑vs FY19 (pre-COVID-19)

## ACTIVE CUSTOMER DATABASE

1.9m

↓6% vs FY22

## UK RETAIL SALES GROWTH

+17%

↑vs FY19 (pre-COVID-19)



STRATEGIC FOCUS ON  
IMPROVING MARGINS FOR  
SCALABLE RETURNS



## MARKET HEADROOM

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

50 new physical retail sites over the next 5 years

## INTERNATIONAL

Rebase in US and Japan with new operating models

## GENTLE FARMING

Second harvest following launch of programme in Ghana

<sup>1</sup> Alternative performance measures (APMs). See page 24 for purpose and definitions of APMs.

\* Management estimate.



## At a glance

FY23 has been a challenging year with ecommerce sales decline and the refocussing of our international business leading to Group sales decline of 10% YoY. However, clear progress against our Business Shaper efficiency initiatives has allowed us to exit the year with a more appropriate cost base and healthy cash position, despite delivering lower levels of revenue YoY.

## 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 and occasions when Hotel Chocolat 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.

**Hotel Chocolat 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 Hotel Chocolat 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.

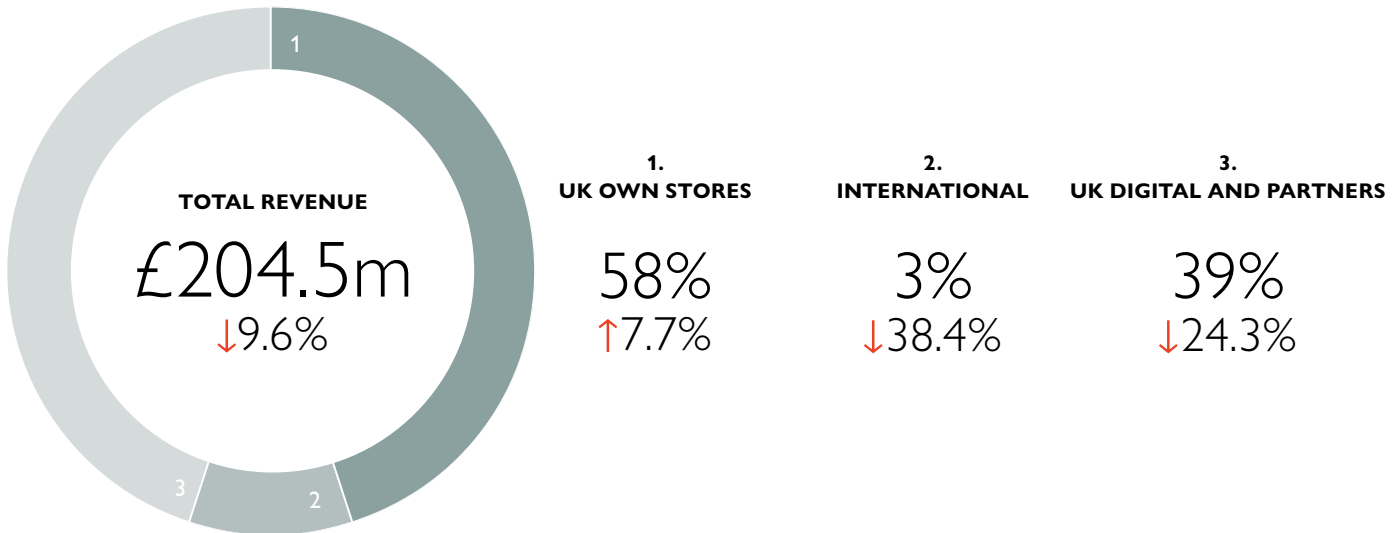
Cafés serving Velvetiser drinking chocolate, Choc Shakes, Ice Cream of the Gods and our own coffee roast.

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.



## At a glance

### Revenue by channel



#### UK

hotelchocolat.com

##### Growth strategy

We continue to believe there is significant opportunity for physical store expansion in the UK. This will be unlocked by our new store rollout programme

##### 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

##### 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

##### Brand licencing with partners providing growth capital

Following the exit of the Group's previous joint venture in Japan, a new brand licensing agreement was entered into in January '23 with a local partner in which the Group holds a minority equity investment but in which all further growth capital comes from the licensee

##### Ecommerce-led US Velvetiser model rollout

We have reentered the US market with a low risk ecommerce drinkable chocolate model, focused on Velvetiser and Velvetised Cream alcohol products. We believe this is a significant growth opportunity for the Group

### Differentiated brand and 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





Our key strengths protect the  
opportunity to drive strong  
return on capital







## Chairperson's statement

Stephen Alexander



“

I joined the Hotel Chocolat Board in the knowledge that Hotel Chocolat is a phenomenal brand with huge potential. Not only is Hotel Chocolat a highly differentiated consumer brand that has a large and loyal customer base who appreciate the unique quality and range of our chocolate, but also the authenticity and values that underpin the brand are reflected in our Gentle Farming Programme and the way the company conducts and develops its business.

”

### Joining the Board

I joined the Board as Chair in May 2023, taking over from Andrew Gerrie. I did so knowing that I was joining a highly respected, founder-led, values driven business known for its innovative, high quality products and strong premium brand.

### Strategy

Hotel Chocolat is first and foremost a strong brand in the eyes of our loyal customers. The strong customer relationship through our multiple direct to consumer channels is driven by our values of authenticity, originality and ethics. Our vertical integration allows us to invest in sustainable farming and supply chain initiatives, whilst our innovation and product range is underpinned by our manufacturing skills, all in service of delighting our customers.

In the short term, the business is focused on driving further growth through innovation and store expansion in the UK and unlocking further efficiencies from our unique vertically integrated model. Alongside this, 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 lower risk approaches.

### Business activity in the year

In FY23 we achieved sales of £205m, a decline of 10% on FY22; however, the business continues to see significant growth on pre-pandemic levels with FY23 delivering an increase of 54% on FY19. FY23 was a transition year with changes in the ecommerce and international channels impacting sales performance, whilst strong progress has been made on reshaping our cost base from which the business will benefit fully in future years. We have refined our operating models for international expansion and have re-entered both the Japanese and US markets with lower risk, capital light operating models to address the previous operating model challenges.

As a result of lower sales and the corresponding impact on operational gearing, the business delivered an underlying loss\* before tax and exceptional items of £0.8m (FY22: profit £21.7m). As part of the cost base reduction, restructuring activities resulted in exceptional costs of £6.1m (FY22: £30.4m) and a statutory reported loss of £6.2m (FY22: £9.4m), as explained in the Financial review on page 20.

### 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 light of internal growth opportunities and the external environment and intends to recommence progressive and sustainable dividend payments when appropriate to do so.

\* Underlying loss is an alternative performance measure, see page 24 for definition and calculation.

“

FY23 has been a critical year for the business in which we have seen a rebalancing of pandemic-driven, ecommerce sales, a reset of our international operations and the initial benefits of the significant work to reshape our cost base.

”

### Board of Directors changes

The Group continues to benefit from a strong founder-led management team and I am delighted to have joined as Chair, replacing Andrew Gerrie, to support the next phase of Hotel Chocolat's expansion.

In May the Group also welcomed our new CFO, Jon Akehurst, who replaces Matt Pritchard. Jon brings strong commercial and operational experience to support the Group's growth and margin expansion strategies.

On behalf of the Board and the wider Hotel Chocolat team, I would like to thank Andrew Gerrie and Matt Pritchard for the leadership they brought to the business and for their significant contribution.

### Outlook

The Board continues to believe that the Hotel Chocolat brand has an exciting future both in the UK and internationally as evidenced by continuing growth of UK stores and proven consumer demand in both the US and Japan. Despite the existence of external macro- economic challenges including inflationary pressures and the cost of living crisis, the Hotel Chocolat team has continually proven the ability to adapt to changing circumstances which is demonstrated through the good progress the business has made in FY23 and early FY24 on the five Business Shapers that support margin expansion and working capital reduction. FY24 and FY25 will see an ambitious store opening programme to capture the increasing demand for in-store experiences, and further progress on our five Business Shapers is expected to deliver pre-IFRS 16 EBITDA<sup>2</sup> margin of 20% by FY26. The Board, therefore, is confident in the ability of the brand and the team to deliver attractive sales growth and returns.

The Board has made a clear strategic choice to maximise the prospects for the Group through focus on the UK, whilst deploying lower risk operating models in the Japanese and US markets with limited capital requirements. The business entered FY24 in a strong position with a healthy cash balance and significant headroom. Since 3 July 23 cash outflows have been significantly better than FY23 due to well controlled working capital management. At the date of publication, the Group is entering its key FY24 Christmas trading season in a strong position with good liquidity due to improved cash balances and lower working capital. With three quarters of the year still to trade, including the five largest gift events, the Board is taking a prudent approach to managing current trading to ensure costs and capital outlay are aligned to sales performance..

**Stephen Alexander**  
Non-executive Chair

<sup>2</sup> Pre-IFRS 16 EBITDA margin is an internal measure that management use to understand the cash health of the Group. The metric is calculated by removing all IFRS 16 impacts thereby treating all leases as operating expenses.

**Business overview**

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

**Our mission**

To make people and nature happy through reinventing chocolate

“

Our growth strategies are based on our three core values that underpin everything we do and who we are.

”

**Originality**

Fresh thinking

To be the most innovative chocolate brand

**Authenticity**

To be the real thing

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

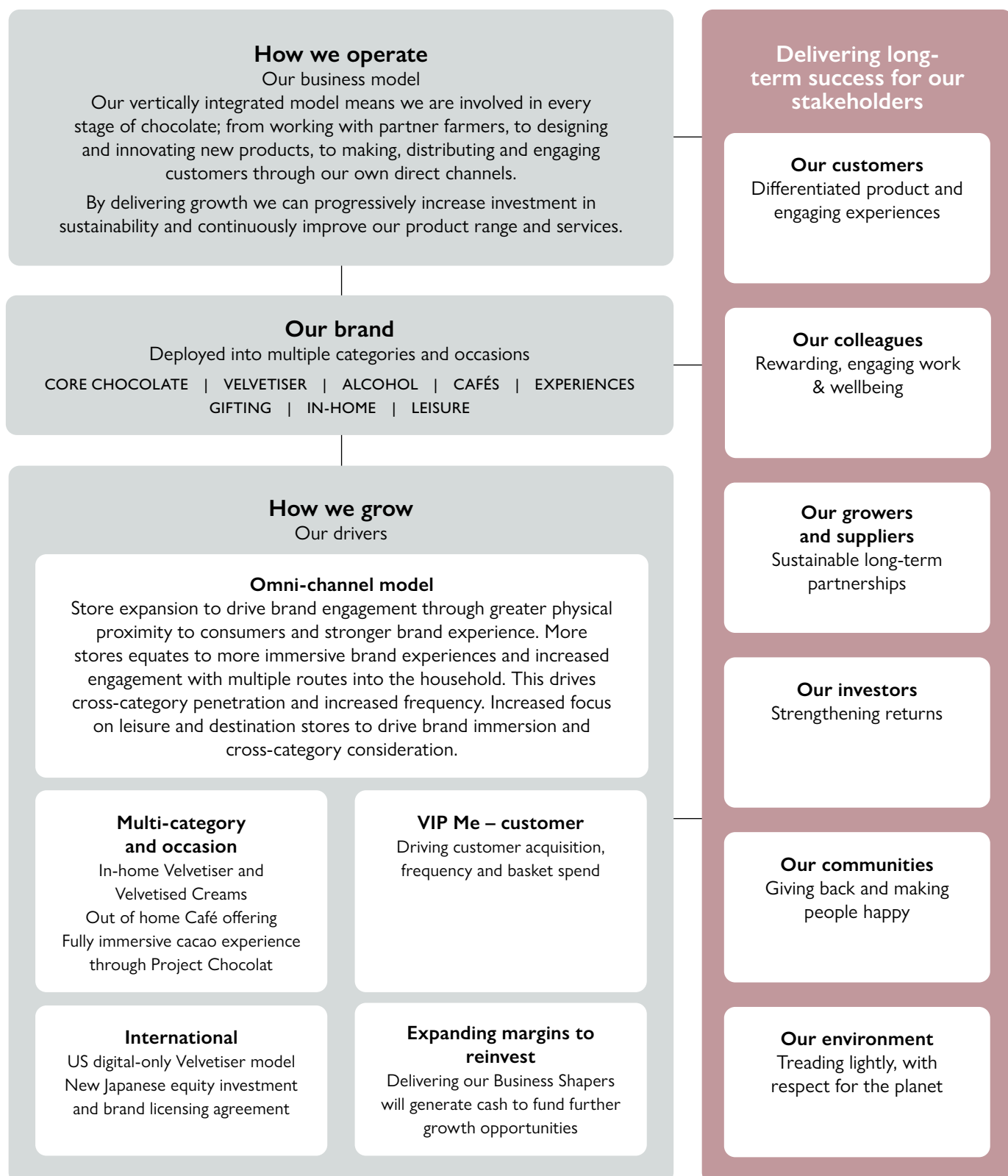
To have the deepest, direct customer connection and a dependably excellent product range

**Ethics**

To be brave and kind

To become the world's most sustainable chocolate brand

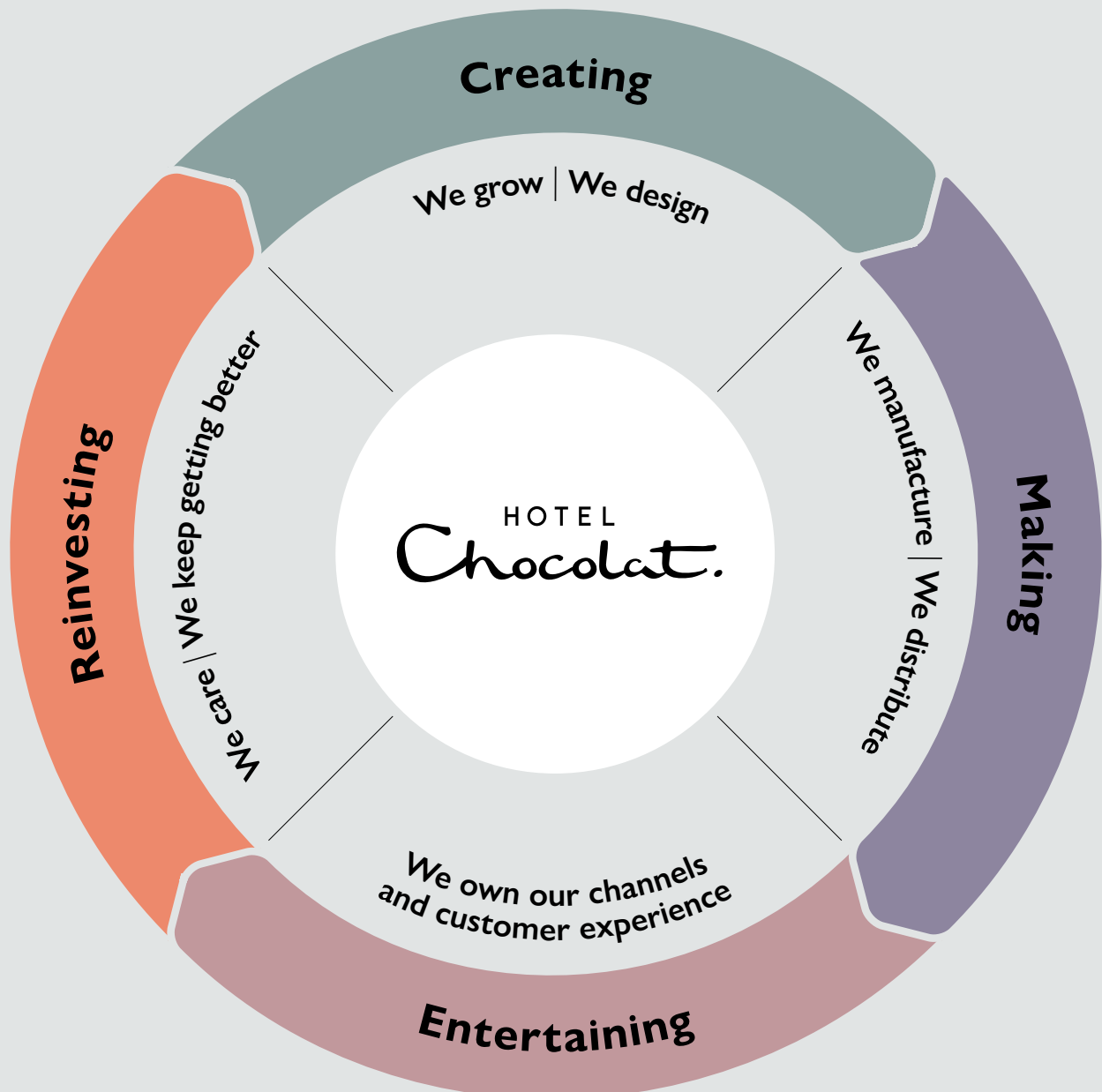






**Our business model**

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 balance prolific new-concept creation with a disciplined range architecture to minimise waste.

## 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	Cacao estate
Physical stores	Hotel & visitor attraction
Premium wholesale partners	

## 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

[READ MORE P50 →](#)

## 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.

## Reinvesting

### 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.

## Chief Executive's statement

Angus Thirlwell



“

FY23 will go down in Hotel Chocolat history as the year we set ourselves up for our next era of strong growth.

”

### The year in summary

FY23 will go down in Hotel Chocolat history as the year we set ourselves up for our next era of forward development. The previous three years, FY20 to FY22, had delivered an impressive 54% revenue growth over FY19, alongside agile COVID-19 adaptations, but had left us out of shape on several fronts, compared to what we know Hotel Chocolat is capable of.

So we took a year, FY23, to put that right. We established the comprehensive 'shape of the future' strategy in H1 and deployed it during H2, with pleasing results so far. Sticking to this strategy will guide us to achieve an ever-stronger brand and 20%+ pre-IFRS 16 EBITDA returns from FY26.

### UK channels

**£197.4m (FY22: £214.5m)**

#### • Stores £117.8m (FY22: £109.4m).

A strong performance from our stores, with +8% sales growth. Space growth was deliberately curtailed with a year-long pause on our store opening programme while we observed the performance of our latest store

format trial sites. FY24 is now benefitting from this with 12 additional UK store openings planned, based mostly on the new format, and new store openings at 50 locations planned over the next 5 years.

The Hotel Chocolat multi-channel model is led by our compelling store format. With 124 locations open at the period end, all format types delivered excellent EBITDA returns. It was reassuring to see a return to form for our railway stations thanks to resurgent passenger numbers.

Our multi-channel approach means that each store has on average c.25,000 VIP.ME members within close proximity, nourishing the high sales densities our brand achieves.

Our multi-category approach means that each store has multiple points of attraction for brand fans spanning gifting, self-gifting and the Velvetiser in-home system.

Our product range architecture by category, genre and pricing means that we genuinely offer accessible luxury. The warm welcome from our team underscores this.

With significant investments made into products, formats and training programmes during FY23, we expect to keep delivering more great things from our physical store experiences.

#### • Digital £58.3m (FY22: £79.1m).

As a significant portion of our customer tilted back to shopping in stores post pandemic, our digital sales declined by 26% in the year. Marketing spend was deliberately curtailed in this channel due to significant online media inflation in this period. Our online ratio of D2C revenues is still comfortably ahead of pre-pandemic levels, 29% FY23 vs 19% FY19 - an increase of +58%.

Digital will continue to be a very important element of our distribution channels. Indeed, it is our ambition to be the online leader in chocolate across major markets. Whilst sales through digital experienced a decline as a proportion of Group sales during FY23, this was against the backdrop of FY22 being positively impacted by the pandemic.

The Hotel Chocolat multi-channel model means that any investment in a particular channel creates a halo effect. We have developed expertise in acquiring new customers across the full breadth of our channels and activities.

We expect the strong new store opening programme (12 expected in FY24) and the brand building media spend (+c.90% over FY23) to underpin performance in our digital channel.

- **Wholesale £21.3m (FY22: £26.0m).** Performance in this channel declined by 18% in the period. Wholesale was adversely impacted by similar trends to that seen in our own digital channel and several non-strategic accounts were closed, with a 'quality over quantity' approach being taken.

Our strategy continues to restrict the product offer to a limited range for reselling partners, with full range present only through Hotel Chocolat owned channels.

Our Velvetised Cream alcohol category was presented at several international trade shows during the year, in furtherance of our distribution plans outside the UK market. Within the UK, the product is currently ranged within several major grocers.

## International channels

**£7.2m (FY22: £11.6m)**

**US** £0.2m (FY22: £2.9m).

### A 100% subsidiary business

We are confident that our brand resonates in the US and, at the time of writing, we are in the early stages of relaunching our offering - testing both customer responses and distribution arrangements for our US Velvetiser-led digital sales channel.

This is the result of applying all learnings acquired so far and adapting our way to a better approach. It includes a new operating model, an adapted customer offer and a more specialist small team. The first stage of our plan is to be focused on our Velvetiser-led digital model with further stages available to be layered in after solid success foundations have been achieved.

Initial performance and customer response is encouraging. Given that the US business was closed for the majority of FY23, whilst an improved operating model and approach was being put together, sales declines £2.7m YoY.

The Instagram feed HotelChocolatUS is a good way to view current brand activity.

**Japan** £0.9m (FY22: £3.8m)

### Equity Investment

#### A brand licence partnership in which Hotel Chocolat owns 20%

Eat Creator are the new partner for Japan since 29 December 2023, with 21 Hotel Chocolat locations across the country at the year end. Eat Creator bring their skills to develop the model and offer local Japanese market expertise, providing the growth capital and the resources to achieve this. Hotel Chocolat brings a strong brand and supplies key products including some for onward assembly and packing within Japan. This has been achieved through a 20% equity investment in HC St Lucia Inc, a company incorporated in Japan (with Eat Creator owning the remaining 80%), and a royalty and distribution agreement on all sales as the business develops.

A key early achievement has been c.10 new 'made in Japan' products designed and introduced by the Eat Creator team in this period.

The Instagram feed Hotelchocolat\_japan\_official is a good way to view current brand activity.

**Saint Lucia** £4.7m (FY22: £3.8m)

### A 100% subsidiary business

Solid progress has been made at our Rabot model farm, Rabot Hotel and the new Project Chocolat with the infrastructure now complete across all three areas of the business. As a key unique immersive brand experience we are now well set to benefit from the expected recovery of visitors to the island over the coming years. The business currently uses the discounted cash flow method when performing its annual valuation for impairment review. As a result of the expected short term impact of slower than anticipated recovery of visitor numbers to the island (which are still below pre-covid levels) we have recorded an impairment to the carrying value of £3.5m in the year. The Group remains fully committed to the exciting developments in St Lucia.

Our vision, conceived 20 years ago, is to connect the worlds of cacao agriculture and chocolate luxury:

- physically, from the experiences and unique propositions we have in St Lucia; and
- spiritually, through the positive impact our brand can bring everywhere, built out from our knowledge and confidence of what we are learning by being a gentle farmer of cacao.

**The Hotel:** award winning, with 25 rooms and an acclaimed restaurant serving cacao-inspired cuisine.

**The Farm:** 140 acres with shade grown, organic cacao, fostering astonishing biodiversity, soil quality and central fermentation activities for the independent island grower within our ethical programme. The principles of gentle farming were first tried and tested here before being adopted by our Ghana programme.

**The Visitor Experience:** known as Project Chocolat, the 6 acre site offers deeply authentic learning, dining and shopping within an expansive space that is already hosting tens of thousands of visitors per annum. The majority are US based and our aim is that, after an immersion in the Project Chocolat experience, they will never look upon chocolate in the same way again.

The Instagram feed ProjectChocolatSaintLucia is a good way to view current brand activity.

## Profit summary

We entered the year over-leveraged on overheads and stock. The excess stock position and corresponding price discounting put downward pressure on product margins and higher absolute overheads led to lower Group operating margins. These factors together with the Group revenue declines, led to a statutory loss for the year. After a year of wrestling the business back into a better shape, we exited the year with reshaped overheads, improved organisational design, lean stock levels and resurgent gross margins. Whilst the overall Group cash position has deteriorated in FY23, cash from operations was strong, driven by the action taken around our business shapers. These actions continue to impact cash from operations since the end of FY23, with favourable working capital movements compared to Q1 FY23.

We are determined that the focus on Business Shapers will deliver excellent improvements in profit returns for years ahead.

## Chief Executive's statement continued

### Our shape of the future

#### The Brand Shapers

Our brand always takes top priority for our resources and long-term focus. I am pleased with the energy we invested during FY23, with a number of initiatives to surface during FY24 across channels, products, team knowledge and ethics. Our everlasting brand values: to be original, authentic and ethical will be progressively strengthened as we follow through our Brand Shaper strategy.



#### Reinventing chocolate

##### - rolling out to an ever-larger audience for ever-greater impact

FY23 was dedicated to putting in the foundational design and test work on our latest store format to enable a rollout of 50 new locations in the UK within the next 5 years. The new format has approximately 100% more trading space than the current estate, with more room for a Velvetiser café and an enhanced layout for gifting and self-gifting ranges. We have used more reusable and long-lasting natural materials and a sharper more distinctive, post-modern look. This format works well out of town as it can draw its own footfall due to the quality of the offer and the customer database depth. Most locations offer parking and are near convenient major road networks, addressing clear 'white-space' store gaps we can see from our database analytics.

For FY24 we have 12 new locations targeted, four of them already opened. Each one will draw a large number of new customers into Hotel Chocolat, with a halo effect for all our channels.

Throughout FY23 we also invested in our customer relationship tools to increase customer lifetime value across channels, as well as our customer database analytical tools. We approach FY24 with a c.90% increase in our brand building media spend value with these enhanced abilities.

#### Velvetising the world

##### - leading and scaling the in-home drinkable chocolate market

UK customer demand for our in-home drinking chocolate system was resilient throughout FY23. We are close to achieving 1m UK households with a Velvetiser and are confident we will surpass that number during FY24. The development of limited edition seasonal recipes continues apace, with stunning results from close matching lifestyle flavours with the weather. An iced drinking chocolate for the Velvetiser with real banana, chocolate and butterscotch sold out within 5 weeks around the time of writing this report. A pipeline of exciting new flavour launches for all palates and lifestyles is planned every quarter for the foreseeable future.

In Saint Lucia, we of course have Velvetisers installed in all our 25 bedrooms and they are on sale from the shopping space at Project Chocolat in US and UK voltage.

Our US Velvetiser website launched in July 2023 and we are pleased with operating model performance as well as customer reactions so far.

In Japan, Velvetisers are on sale through all 21 locations and customers may try the drinks in the cafés hot or iced.

#### Owning the chocolate alcohol category

##### - creating THE chocolate brand for the alcohol market

We are in the early stages of building this model relative to other categories we play in. During FY23, the UK distribution focus included activating the on-trade with several successful collaborations. Significant distribution is in place with key major grocers, supported by 'always on' sampling through our UK store network. International solutions are in the developmental phase, with strong trade demand in several key markets.

#### Driving the nature positive cacao revolution

##### - unlocking customer power to help us make it right for farmer families and for nature

Having established some momentum behind gentle farming in Ghana, we will be increasing the prominence of this dimension of our brand from FY24 and throughout our multi-channel marketing. We know that we have a receptive and large audience who can join with us to make good things happen in cacao agriculture.

#### Building a super-brand

##### - earning pricing and loyalty power by investing behind our 3 brand values

To be Original, Authentic, Ethical are the 3 everlasting values. During FY23, we invested strongly in all 3, with the benefits set to be visible over FY24.

Original: c.28 new products for FY24 Christmas and Easter.

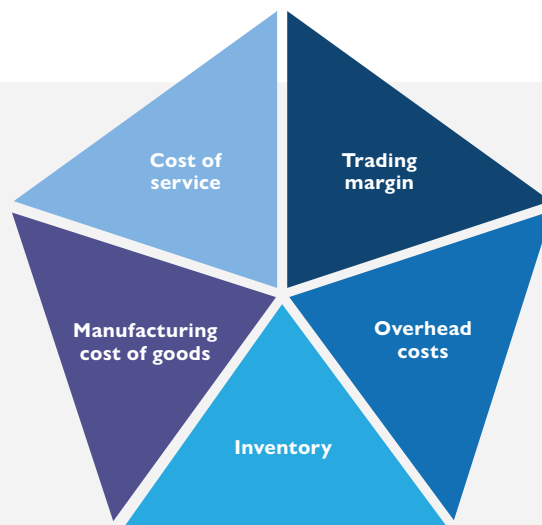
Authentic: a revamp of our internal School of Chocolate launches this Autumn, underpinning our team confidence and knowledge.

Ethical: our Gentle Farming Programme enters its third year in Ghana, supported by a key new product launching in the Autumn which helps fund our ambitious plans by contributing 100% of the sale proceeds.



## The Business Shapers

We established the Business Shaper strategy during FY23 to drive the UK business to a recurring 20%+ pre-IFRS 16 EBITDA margin. Since the deployment of the new Business Shapers, we have seen significant progress and expect to carry this momentum into FY24.



### Trading margin<sup>1</sup>

Improved by 0.7 percentage points in H2 FY23 vs prior year, driven by improved inventory control methods. Short shelf life product levels are now at historical lows resulting in lower levels of discounting. Over the course of FY23, aged finished goods as a proportion of finished good stock has reduced from 13% in calendar year 2022 to 1% at FY23 year end. This means customers are getting the freshest and tastiest stock and the business is reaping the full-price rewards of higher margins and minimal discount from short shelf life. Price increases on selected product ranges also contributed.

Customers have shown strong loyalty - there has been no marked change in volume since the cost-inflation driven price increases.

### Overheads

Organisational restructuring was completed in the closing months of FY23 with the objective of supporting higher performance. A leaner approach for our vertically integrated business structure and methods meant that £5m of ongoing permanent costs (salary related) were removed vs FY22. Several high level appointments were made during the year, with deliberate high investments behind strategic decisions fully costed into this reduced overall overhead base.

### Inventory balances

Have been tightened significantly, with total inventories down 19% vs FY22 closing balances. Finished goods inventories are down over 23% YoY whilst availability is still excellent, in the mid-high 90%.

### Manufacturing cost of goods

Efficiency gains here have been deliberately delayed by 6-9 months as the business re-prioritised the pull forward launch of new products to ensure it can optimise FY24 Christmas and Easter trading seasons by addressing gaps in the product range. However, the detailed workstreams to deliver these gains are fully in place to deliver the goals we have set.

### Cost of service

In FY24 and onwards, this will benefit from reduced distribution centre costs with c.50% of the Northampton DC now generating income through a sub-let.

<sup>1</sup> Trading margin is defined as sales less standard costs less the following price variances:  
 – calculated standard cost of goods to purchase order  
 – purchase order to invoice.

## The People Shapers

At the time of writing, we were delighted to launch our People Shaper strategy, the culmination of work throughout 2023. It is our foundational belief that all three Shapers need to be performing well for the Hotel Chocolat brand to achieve its strategy.



## Chief Executive's statement continued



### Operational Outlook

Our view ahead assumes a low-growth general consumer demand environment and stubborn cost inflation in the UK.

Some of the key trends noted, and the steps taken to address them, are:

**Demand:** We anticipate that competition for household spending will increase in the short-term due to macro factors. In order to help drive demand during our peak period, we have included in the FY24 business plan an enhanced marketing budget with c.£9m brand building media spend from October through to March 2024 - an increase of c90% on FY23. This type of activity has previously proven, in FY22 in particular, to be successful in driving demand in all channels (FY22: c£11m brand building media spend).

**Channel mix:** Partly due to macro-economic factors, we are seeing a shift in consumer preference toward the store channel. Our response to this has been to allocate substantially more capital expenditure to new store space and anticipate a conservative level of digital growth over the next 3 years.

**Customer behaviour:** Whilst purchase frequency remains high, we have seen a slight reduction in the average order value. To fill gaps in our price points resulting from recent increases, we have accelerated the development of c.28 new products to achieve an optimum price architecture for our customers in the upcoming peak periods, commencing Christmas 2023.

We have further invested in CRM activities to ensure we maximise available returns from our existing loyal customer base, including a successful trial of AI software tools - which from FY24 onwards we will fully benefit from.

Additionally, in June '23, we launched 'Love Match', which is a strategic initiative to drive enhanced conversion rates and loyalty by close matching customers' individuality to the perfect match of chocolate from within the extensive breadth of the Hotel Chocolat range. The full benefits of this will be seen from FY24 onwards.

Current trading is encouraging, however with our key Christmas trading period to come the majority of H1 sales will be delivered in Q2 consistent with prior years.

### Angus Thirlwell

Chief Executive



## Financial review

Jon Akehurst



“

FY23 was a challenging year but one that saw significant progress on reshaping the business through the transformation of our cost base to set the business up for further growth and improved returns.

”

### Revenue

Revenue for the 53 weeks ended 2 July 2023 decreased by 10% to £205m (FY22: £226m), driven by lower online and international revenues. UK sales declined by 8% year-on-year, with online sales continuing to decline at 26% as the channel mix rebalances after COVID-19, however, physical retail stores delivered growth of 8% on FY22 as consumers returned to stores. Similarly, performance in resale partners declined driven by the online channel and strategic decisions to withdraw from lower margin resellers.

International revenue decline also weighed on Group performance as the strategic decision to reset the operating model in both the Japanese and US markets materialised.

Lower revenues led to reduction in marketing investments in the second half of FY23 with specific focus on pulling back from the digital and ecommerce channel where return on investment has dropped throughout FY23 due to significant cost inflation.

### Gross margin

Statutory reported gross margin of 58.3% increased by 2.2% compared with FY22. This was primarily driven by the release of prior year stock provisions which were unwound during the year. The high stock levels carried into FY22 were unwound in H1 FY23 through discounted pricing. This has resulted in a substantial decrease in finished goods inventory which has released cash. Gross margin in H2 FY23 has benefited from lower aged finished goods inventories with less price discounting and reduced inventory provisions. This has resulted in H2 FY23 gross margin increasing 10.6% year-on-year.

Excluding exceptional provisions, gross margin of 58.3% represents a decline of 0.2%, with two main causes:

- In response to rapid sales growth forecasts in FY22, the Group produced additional inventories which were then sold at reduced prices throughout H1 FY23 placing downward pressure on gross margin.
- This is offset by inventory provision releases in FY23 due to significant progress that has been made on our Inventory Shaper where, at 2 July 2023, Finished Goods Inventories expiring within three months at the end of FY23 reduced to less than 1% of total Finished Goods Inventories, down from 13% at 26 June 2022.

Revenue £m	FY23	FY22	FY21	FY19
UK channels	197.3m	214.5m	159.4m	127.7m
International	7.2m	11.6m	5.2m	4.7m



With FY23 expected to be a transition year, we are pleased with the strong progress on our objectives to implement cost and capital efficiencies, leaving the Group well placed for the future. There is still significant opportunity for revenue growth in our core UK market and this is supported by strong in-store performance in FY23 despite the rebalancing of ecommerce revenues. Our international operations have been reshaped with a relaunch of the brand in both North America with a lower risk, capital light operating model and Japan, with a new partner in which we have a 20% equity investment and distribution and royalty arrangements in place. This allows us to take advantage of the significant potential demand for the brand in these markets.

	FY23 (53 weeks)			FY22 (52 weeks)		
	Underlying before exceptional and adjusting items	Exceptional items <sup>1</sup>	FY23 reported	Underlying before exceptional items	Exceptional and adjusting items <sup>1</sup>	FY22 reported
<b>Revenue</b>	<b>204.5</b>	–	<b>204.5</b>	226.1	–	226.1
Cost of sales	(85.3)	–	(85.3)	(93.8)	(5.5)	(99.3)
<b>Gross profit</b>	<b>119.2</b>	–	<b>119.2</b>	132.3	(5.5)	126.8
Operating Income	<b>0.3</b>	–	<b>0.3</b>			
Operating expenses	(95.4)	(5.8)	(101.2)	(91.5)	(24.9)	(116.4)
<b>Underlying EBITDA</b>	<b>24.1</b>	–	–	40.8	–	–
Share-based payments	(1.5)	–	(1.5)	(0.5)	–	(0.5)
Depreciation & amortisation	(20.5)	(0.1)	(20.6)	(16.1)	–	(16.1)
Loss on disposal	(0.2)	–	(0.2)	(0.5)	–	(0.5)
<b>Profit/(loss) from operations</b>	<b>1.9</b>	<b>(5.9)</b>	<b>(4.0)</b>	23.8	(30.4)	(6.6)
Finance income*	<b>0.4</b>	<b>0.1</b>	<b>0.5</b>	1.0	–	1.0
Finance expense	(3.2)	–	(3.2)	(1.9)	–	(1.9)
Share of joint venture loss*	–	(0.3)	(0.3)	(1.2)	–	(1.2)
<b>(Loss)/profit before tax</b>	<b>(0.8)</b>	<b>(6.1)</b>	<b>(6.9)</b>	21.7	(30.4)	(8.7)
Tax credit/(expense)	–	–	<b>0.7</b>	–	–	(0.7)
<b>Loss after tax</b>	–	–	<b>(6.2)</b>	–	–	(9.4)
EPS basic	–	–	<b>(4.5p)</b>	–	–	(6.9p)

\* Interest receivable and share of joint venture loss have been classified as exceptional items as the Japanese JV entered Civil Rehabilitation in July 22.

<sup>1</sup> Alternative performance measurements (APMs). See page 24 for purpose and definition of APMs.



## Financial review continued

### Performance indicators agreed and monitored by the Board

REVENUE	UNDERLYING EBITDA <sup>1</sup>	UNDERLYING (LOSS)/ PROFIT BEFORE TAX <sup>1</sup>	REPORTED LOSS BEFORE TAX
£204.5m (2022: £226.1m)	£24.1m (2022: £40.8m)	£(0.8)m (2022: £21.7m)	£6.9m (2022: £8.7m)

### Operating expenses

Before exceptional costs and adjusting items, operating expenses less operating income of £95.4m increased +4.3% year-on-year (FY22: £91.5m). As a transition year, operating expenses were the focus of structural cost reductions to reduce operational gearing and reduce the Group's fixed cost base to deliver more efficiencies. Significant reductions were made to headcount costs across the year with specific focus on central and administrative roles and has removed £5m from the Group's underlying cost base moving forward compared against FY22. This restructure created an exceptional cost as outlined below.

Utility prices were higher YoY with the forward contracts put in place during FY23 rolling into new contracts at lower unit prices in FY24.

A foreign exchange loss of £0.8m was recognised in operating expenses (FY22: £0.4m profit) in relation to stock purchases in EUR & USD.

### Operating income

During the year, the Group received operating income of £0.3m made up of:

- £0.2m rental income from the sub-lease of the Northampton Distribution Centre (FY22: £nil)
- £0.1m research and development credit for FY20 & FY21 HMRC R&D claim (FY22: £nil).

### Underlying EBITDA

Underlying EBITDA of £24.1m or 11.8% of sales compares to £40.8m or 18.1% of sales in FY22. Whilst the Group has seen the expected significant deterioration in Underlying EBITDA in FY23, it is encouraging to see the progress made on our Business Shapers in FY23 that will enable the Group to more readily invest behind future growth opportunities.

Underlying EBITDA is a not a statutory GAAP measure, but is included as an additional performance measure (APM), see page 24 for further information on APMs.

### Exceptional items

The reported result for FY23 includes £5.9m of exceptional items within operating expenses, plus a further £0.2m relating to non-operating expenses. The exceptional costs relate predominantly to the impairment of the estate in St Lucia of £3.5m and strategic choices to restructure the cost base in FY23 of £1.6m. The impairment of the estate in St Lucia is driven by continued Covid-19 disruption where visitor numbers to the island have not recovered to pre-pandemic levels. As a result the short term valuation using the discounted cash flow method has decreased, as the key sensitivity of this valuation method lies in the revenue assumption, which leads to swings in valuation both ways as revenue assumptions change YoY. The Group remains fully committed to its exciting development opportunities in St Lucia as a unique driver of brand value.

Additionally, the remainder of the charge is made up of:

- £0.3m of the operating expenses relating to the Japan JV (Joint Venture) which were written off in the year;
- Store impairment reversal of £0.1m;
- £0.1m loss on disposal of coffee hardware tooling;
- £0.5m FX on LT loan which reverses FX on US loan which was provided for in FY22; and
- Non-operating exceptional expenses relating to the Japan JV of £0.3m for share of JV losses offset by interest receivable of £0.1m.

### Japan Joint Venture – progress update on windup of HCKK

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. The Group does not believe that there will be any further exposure in relation to the Japan JV. At the date of publication the process is ongoing.

### Finance income and expense

Finance income of £0.5m is primarily interest received from the bank.

Finance expense of £3.2m comprises £1.1m of bank RCF interest and £1.9m of interest on leases under IFRS 16, and £0.2m of interest on derivative financial instruments.

### Depreciation

Depreciation and amortisation of £20.5m compares to £16.6m in FY22. 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 1 relocation to larger sites in existing locations.

### Loss/(profit) before tax

Underlying loss before tax of £0.8m (FY22: underlying profit of £21.7m) is before exceptional costs and adjusting items totalling £6.1m which result in a reported statutory loss before tax of £6.9m (FY22: £8.7m loss). A reconciliation of underlying and reported profit is provided on page 25.

<sup>1</sup> Alternative performance measurements (APMs). See page 24 for purpose and definition of APMs.

## Tax

Tax for the period is a credit of £0.7m (FY22: £0.7m charge). In FY22 there was a tax charge despite the statutory loss as the investment related to exceptional items were disallowed for corporate taxes. The current year tax credit is made up of £0.1m current tax credit and a £0.6m deferred tax credit.

## EPS and dividends

The reported loss results in a loss per share of 4.5p which compares to a FY22 loss per share of 6.9p.

## Cash

In the period, the Group generated operating cashflows of £22.3m before movements in working capital. After movement in working capital cash flows are £17.1m which includes £6.4m paid to settle financial guarantee contracts for the Japan JV.

Capital expenditures in the period totalled £10.3m, with £0.5m being a loan to the Japan JV prior to Civil Rehabilitation. A £0.1m investment was made to acquire 20% equity in HC St Lucia Inc in Japan, with the balance invested in working capital.

At 2 July 2023 the Group had cash on hand of £11.2m with all of the £50m RCF facility remaining undrawn. In H1 FY23 the Group utilised the RCF by drawing down £34m; the drawdown was also repaid in this period.

As at 10 October 2023 the Group remains well capitalised with £30m headroom comprising of £8m cash on hand and £22m of unutilised facilities within its £50m RCF, immediately prior to the peak cash-generating trading period.

## Inventory

Closing inventory of £35.0m represents a decrease of £8.0m YoY. The majority of the decrease is due to the Group's intention to materially reduce inventory 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 decreased from £17.5m to £12.9m mainly due to £4.6m of prepaid deposits for goods which transferred into inventory.

Current liabilities decreased from £57.4m to £39.5m primarily as a result of:

- a reduction in capital, inventory and other expenditure reduction having a positive impact on trade payables and accruals; and,

- settlement of £6.7m financial guarantee contracts on behalf of the Japan joint venture.

## 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 based on forecasts drawn up to 31 December 2024, 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, cash flows and profitability. The Financial review on pages 20 to 25 considers in more detail the Group's 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. This was extended by 12 months on 29 September 2023 through the exercise of extension option which takes the agreement out to July 2025.
- The headline covenants remain unchanged: of achieving positive cash in January 2024, of net debt to EBITDA (pre-IFRS 16) of less than 2.5 times, and EBITDA to interest greater than 4 times. These covenants are tested at the end of each financial quarter on a twelve month rolling basis.
- In order to support additional inter-company lending to the Group's St Lucian business to fund further infrastructure investment there is a condition to add the Group's two St Lucian legal entities to the agreement as obligors. To secure this inter-company lending, a share pledge is required to be completed within 60 days of execution of the amended and restated RCF agreement. It is the opinion of the Board, acting upon external legal advice, that this is a straight forward legal process, fully achievable in the required time frame. This opinion underpins the Board's going concern assessment.
- The Groups' current cash position as at 10 October 2023 is £8m, giving £22m headroom within the facility as the business approaches the peak trading period, with around 85% of annual revenues still to achieve 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 review 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 30 on page 129. For each scenario, the Directors have identified relevant actionable mitigating measures that the Group could undertake at its own discretion to adjust future cash flows and continue to operate within their facilities.

In making their assessment, the Directors have reviewed management forecasts based on scenarios reflecting full-year sales in line with FY24 Budget along with scenarios showing declines vs budget of -10% (-2% YoY) and -20% (-13% YoY) which reflect the Directors' view on most probable worst case scenario and a reverse stress test respectively. The full details of the going concern analysis undertaken are set out on page 99.

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 most extreme sales decline scenario reflected in the reverse stress test is of remote probability. As a result, the Directors have concluded that the use of the going concern basis of accounting is appropriate for the period to 31 December 2024.

## Financial review continued

### Alternative performance measures (APMs)

Management believes that Underlying EBITDA, Underlying Operating Profit and Underlying (Loss)/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
Underlying 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 (Loss)/profit before tax	(Loss)/profit before tax	Underlying (Loss)/Profit before tax is defined as (loss)/profit before tax excluding exceptional and adjusting items.

### Reconciliation of additional performance and statutory measures

#### Underlying EBITDA

	53 weeks ended 02 July 2023 £000	52 weeks ended 26 June 2022 £000
<b>(Loss) from operations</b>	<b>(4,013)</b>	(6,596)
<b>Add:</b>		
Exceptional items	<b>5,948</b>	28,779
Adjusting items	–	1,621
Share-based payments	<b>1,525</b>	453
Depreciation & amortisation	<b>20,423</b>	16,059
Loss on disposal of non-current assets	<b>193</b>	516
<b>Underlying EBITDA</b>	<b>24,076</b>	40,832

**Underlying operating profit**

	53 weeks ended 02 July 2023 £000	52 weeks ended 26 June 2022 £000
<b>(Loss) from operations</b>	<b>(4,013)</b>	(6,596)
<b>Add:</b>		
Exceptional items	5,948	28,779
Adjusting items	–	1,621
<b>Underlying operating profit</b>	<b>1,935</b>	23,804

**Underlying (loss)/profit before tax**

	53 weeks ended 02 July 2023 £000	52 weeks ended 26 June 2022 £000
<b>(Loss) before tax</b>	<b>(6,933)</b>	(8,719)
<b>Add:</b>		
Exceptional items - operating	5,948	28,779
Exceptional items - non-operating	211	–
Adjusting items	–	1,621
<b>Underlying (loss)/profit before tax</b>	<b>(774)</b>	21,681

**Jon Akehurst**

Chief Financial Officer

## Risk management

### The Board is responsible for reviewing risks to ensure that the business is not exposed to unnecessary or poorly-managed risks.

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

Risk				
Global or regional pandemic and public health event	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 30 to 48 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.	The Group reentered the Japanese market in FY23 and plans to reenter the US market in FY24 through lower risk operating models in line with the risk-contained, capital light strategy.  In Japan, a new company has been incorporated in which the Group has a 20% equity investment. The entity operates on a self-funded royalty model.  The US model is digital-only direct to consumer with a limited range of product offering.






#### Change in residual risk in FY23

↓	→	→	→	→
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 FY23, the Group made additional investments in its gentle farming sustainability programme, and continued to improve its disclosures of ESG issues.	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 2023, the business retained its AA-grade accreditation from the BRC food standards audit.  In the year, there were no instances of suppliers being delisted due to audit or quality issues.	Limited equity investment in Japanese company with no further funding from the Group required.  US exposure is limited to minimal levels of working capital due to digital model and limited range offered.



Risk				
Foreign exchange	Economic and political factors beyond the Group's direct control	Increased competition and changes in consumer tastes	Key management	Climate change
<b>Potential impact</b>				
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.	Increasing interest rates and a corresponding 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.
<b>Mitigation</b>				
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. As part of this, a full annual bonus scheme has been reimplemented for all levels of employees in FY24.	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.

**Change in residual risk in FY23**

 <p>The Group extends its currency hedges on a quarterly basis and is fully hedged for Euro and US Dollar forecast stock purchases.</p>	 <p>Inflation has persisted as a result of macro-economic factors and interest rates increased materially on prior year. The Group is actively pursuing opportunities to mitigate inflation through business shaper efficiencies.</p>	 <p>The Group has a database of active customers, allowing promotion of the Group's products and services to maintain strong awareness.  The Group are planning to open 50 new stores over the next 5 years in a new format to cater for changes in customers demands.</p>	 <p>Annual bonus scheme reintroduced in FY24 to complement the five-year LTIP which was granted to senior leaders in FY22.</p>	 <p>The Gentle Farming Programme is intended to bring climate-smart practices to our Ghanaian cacao supply.  FY23 is the first year that the Group has reported its Taskforce on Climate-Related Financial Disclosures (TCFD).</p>
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## 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 2021/2022, 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 were found to be relevant and applicable to the Group, we 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 originally organised these into three strategic themes, eight sub-workstreams and 24 specific focus areas. Over the past year, we have reviewed the targets associated with the focus areas and updated them to be more relevant to the current Group's forecast activities. These are set out on the next page.

Our priorities are organised under three key themes:

### 1. RESPECT THE PLANET

Climate change	Recycling and waste	Natural resources
Becoming a net zero carbon business	Sustainable packaging	Biodiversity and land use 
Climate change adaptations	Reduce waste and by-products	Reduce water stress 
Financing the solutions		Land use/palm oil removal

### 2. POWERED BY PEOPLE

Social opportunity	Customers & products	Team members
Incomes for farm families 	Product quality, health & nutrition	Fair treatment, diversity & inclusion
Responsible labour practices 	Product end-of-life use	Career opportunity & engagement
Giving back	Sustainable & transparent supply chain	Wellbeing, health & safety

### 3. CORPORATE RESPONSIBILITY

Sound governance	Corporate behaviour
Board & leadership diversity	Business ethics and values
Executive pay	Anti-bribery and anti-corruption
Reporting & accounting	Tax transparency
Privacy and data security	



## 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 2021, we materially step changed our support and investment for the farming families and the land which both make the chocolate industry possible.

Our gentle farming approach was launched in September 2021 to all our partner Ghanaian cacao farmers, as approximately 96% of our cacao is sourced from Ghana. We developed this approach using learnings from our previous farmer scheme, Engaged Ethics, which focused on offering a guaranteed purchase above market rate.

We have always paid the farmers we work with above market-rate for their cacao, but through our gentle farming approach, we pay an increased price for cacao as well as a premium to support farmers in closing the gap towards a living income in return for their uptake of our practices. This premium allows farmers to make their own investment decisions based on their family and farm needs.

We believe the combination of a meaningful premium, an increased yield and consequently more bags of cacao to sell from the farm is the key to making cacao a serious and sustainable business for all.

A unique aspect of our nature-positive approach is that we have dedicated labour teams that visit farms to perform pruning and train farmers on the practice of pruning and other on-farm activities that increase their yield.

By funding over 300 farm skilled workers to visit farms and train farmers in effective pruning techniques we are equipping farmers with life-long skills that help improve disease resistance and increase yield. Additionally, we invest in regenerative agriculture (last year distributing over 486,158 cacao and shade tree seedlings) to promote biodiversity, carbon sequestration, and land rehabilitation.

The premium we pay, and the investment in labour teams and seedlings, is designed to support farmers in closing the gap towards a living income, improve their farms' productivity and increase biodiversity. In return for receiving this premium, farmers commit to adopting nature positive practices our gentle farming approach outlines:

- Eliminating deforestation and good labour practices (No child or forced labour; we use Child Labour Monitoring and Remediation System (CLMRS) where found);
- Increasing yield and carbon sequestration through effective pruning;
- Regenerative agriculture and rehabilitation; and
- Working towards the use of organic fertilisers.

Farms are surveyed annually, with any non-compliance leading to remediation. The core elements of the program are audited annually by a third party, with results available in January 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 program over time.

#### Sustainable Development Goals:



## Calculating a living income in rural Ghana



Other sources  
of income



Primary cash  
crop income



Secondary  
crop income



Produce  
consumed  
at home

### Cost of a basic, decent standard of living for a household



Food for model diet



Decent housing



Other essential needs



Unexpected needs

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

### Closing the gap to 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.





## 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. Use of CLMRS where found.

#### Biodiversity, land use and climate – target outcomes

- 1 Increase biodiversity & regenerative activities 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<sub>2</sub> per metric tonne of cacao from 1.4T to 1.31T.
- 3 Responsible water use.

#### 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.

#### Measuring results and assurance

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

Annual independent review against agreed upon procedures by PriceWaterhouseCoopers LLP (PwC), in addition to a core metric verified by PwC.

Child Labour Monitoring and Remediation System (CLMRS).

### Key Performance Indicators following year two of the programme:

#### Farmers' Premium

"We have paid farmers a premium of more than 10% above market price for the last two years ... and increased our additional investment per/kg cacao, to drive sustainable productivity techniques on farm".

Last year was a challenging year for many, including farmers in Ghana. The premium we pay directly to farmers, alongside the investment in sustainable productivity techniques, is designed to support farmers in closing the gap towards a living income. Which is why we paid farmers a premium of more than 10% above market price for the last two years.

On top of this, we increased our additional investment into sustainable productivity techniques on farm, per/kg of cacao.

Currency devaluation in Ghana is the cause of significant change when comparing our investments in USD. Market (farmgate) prices are set by the Ghanaian Government.

#### Price per kg in USD

	Open market price		Hotel Chocolat price	
	21/22	22/23	21/22	22/23
Farmgate price paid direct to farmer	\$1.74/kg	\$1.23/kg	\$2.10/kg	\$1.38/kg
Additional investment for sustainable productivity on farm	–	–	\$0.23/kg	\$0.27/kg
Total	\$1.74/kg	\$1.23/kg	\$2.33/kg	\$1.65/kg

#### Productivity and Biodiversity – data reviewed by third party

	21/22	22/23
On farm labourers recruited, trained and employed	298	280*
• Cacao seedlings distributed to farmers	158,187	*report pending
• Shade trees distributed to farmers	327,971	*report pending
Total seedlings distributed	<b>486,158</b>	*report pending



## 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%

On pages 42 to 43, 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.

In 2020, we began the implementation of an Environmental Management System across our manufacturing operations to track resource use and reduce wastage. We have full ISO 14001 accreditation for Hadley Park and the Alpha Distribution Centre.

### UK SECR CARBON INTENSITY

**+3.9% from FY22**

Target: net zero Scope 1&2 by 2030;  
Scope 3 by 2040

We are also making progress on waste, with 96% (FY22: 96%) 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.

Our Gentle Farming Programme (pages 30 to 32) incorporates goals for biodiversity, land preservation and responsible water use. Outside of cacao farming, we are reviewing our impact on land use. We have limited our RSPO certified palm oil consumption and are reviewing third party suppliers' recipes to achieve zero palm oil by the end of 2023.

### PALM OIL USAGE

**0.01% by weight**

Target: zero

## Sustainability continued



## Group non-financial and sustainability information statement

The Group knows that climate change is already happening and that we must understand and prepare ourselves for the challenges created by this, ranging from energy price rises and potential commodity shortages, to supply chain disruption. Understanding these risks is key to ensuring that the Group remain resilient to this uncertain future.

The Group is committed to reporting voluntarily against the recommendations of the Taskforce on Climate-Related Financial Disclosures (TCFD). The disclosures are also consistent with the Companies (Strategic Report) (Climate-related Financial Disclosures) Regulations 2022 which is applicable to the Group for FY23.

During the year a 'gap analysis' has been completed against TCFD recommendations led by the Sustainability Team. While progress

has been made, FY23 has been a transition year for the Group with the Board focus on the recruitment of two key Board positions as well as the development and deployment of the 'Shape of the future' strategy. This has delayed our compliance with the new climate related disclosure. We recognise that it is critical to monitor how our climate related risks evolve and assess the results of our gap analysis so that the required improvements can be made to align with TCFD recommendations.

Our Governance process has been defined in FY23 and the reporting of sustainability targets and progress to the Board and Audit Committee has not been as regularly delivered in FY23 as planned. To address this point a sustainability climate related and TCFD agenda item will be a standing agenda point for the Board, Audit and Executive Committee meetings at regular intervals which are appropriate for each of these governing bodies.

Good progress has been made within the Group on identifying climate related risks and opportunities as well as the processes to mitigate and contain them. In FY24 it is planned that the Board will be undertaking an external review of the Risk Register at which stage climate related risks and opportunities will be incorporated and fully aligned.

We will continue to embed climate considerations into our working practices which will improve our understanding of risk interdependencies and guide mitigation plans.

## TCFD Pillars

<p><b>Governance</b></p> <p>We have an Executive Committee member with accountability for climate change who regularly reports to the Executive Committee</p>	<p>The Managing Director, Manufacturing Operations, is the nominated Executive Committee member with responsibility for overseeing the overall sustainability programme, which includes climate change related topics. The Sustainability Team supports internal stakeholders to deliver on sustainability targets and reports progress to the MD, Manufacturing Operations, who ensures that the sustainability programme is applied consistently across the Company and reported regularly to the Board and Audit Committee. The Audit Committee receives updates from management on Hotel Chocolat's compliance with changing sustainability-related reporting requirements, including our TCFD disclosures.</p> <p>Set up in 2019, the MD, Manufacturing Operations, chairs an Executive Sustainability Committee which meets on a biennial basis to:</p> <ul style="list-style-type: none"> <li>• set targets for further improvement aligned to strategy and materiality;</li> <li>• formulate plans to deliver the targets and mobilise the business to act;</li> <li>• measure current performance to establish the 'baseline' position and report progress;</li> <li>• provide governance and oversight to ensure programmes deliver results; and</li> <li>• increase awareness of how communities can play a part in progress on sustainability.</li> </ul> <p>In the period, two additional Executive-led working groups were created with a specific focus on gentle farming and net zero.</p> <p>As well as Board and Executive members, the Steering Teams also include team members with specialist expertise such as cacao growing, sourcing and environmental management. External specialists are invited to attend both to share knowledge and externally validate activity.</p> <p>ESG KPIs are included within the Executive Annual Incentive Plan which includes annual sales growth plus an improvement in an ESG metric, namely the all-employee Engagement Score, which forms 20% of the award. We also provide monetary rewards through our Employee Recognition Scheme. This quarterly scheme gives all employees the opportunity to nominate someone who consistently demonstrates our values of Originality, Authenticity and Ethics which can include a sustainability element within the nomination.</p>
<p><b>Risk management</b></p> <p>Risk assessment processes and management structures are in place for climate change related issues</p>	<p>The Board is ultimately responsible for the management, governance, controls, risk management, direction and performance of the Group. The Board is responsible for reviewing risks, including new threats, and the processes to mitigate and contain them, to ensure that the business is not exposed to unnecessary or poorly managed risks; however, whilst the Board is responsible for risk, our culture seeks to empower all colleagues to manage risk effectively.</p> <p>Whilst a 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. The Audit Committee assists the Board in this process twice a year by reviewing the risk register as well as the effectiveness of internal controls, including financial controls.</p> <p>Risks and opportunities are factors which are continually considered when the Board is making decisions about the business and strategy.</p>
<p><b>Strategy</b></p> <p>Climate change has been identified within the top ten company risks as reported within the Annual Report</p>	<p>Business continuity plans include exercises for business interruption from extreme weather events, and the gentle farming approach includes specific actions to improve climate resilience in cacao farming.</p> <p>In 2023, we carried out an in-depth assessment of specific climate-related risks and opportunities (see later for the processes used and the key risks and opportunities identified).</p>

## Sustainability continued

### TCFD Pillars continued

<p><b>Strategy:</b></p> <p>Resilience to climate change and climate change impact on strategy and financial planning</p>	<p>We are yet to carry out climate scenario analysis on our key risks and plan to do this within the next financial year, with the aim to develop how we can build the findings into our strategy and financial planning process and, therefore, improve our business resilience further.</p> <p>We consider Hotel Chocolat to be resilient to the key climate-related risks identified in our in-depth analysis. We plan to further our assessments in the next financial year to evolve this analysis further. Whilst we recognise that climate creates some risks and uncertainties for our business, we consider the risk is low as there would be sufficient time to evolve our business model and activities to mitigate any risks.</p>
<p><b>Metrics and targets:</b></p> <p>We have targets in place to manage climate-related risks and performance against targets</p>	<p>We have several targets in place under the planet section of our sustainability programme which focuses on three key areas of impact: Climate Change, Recycling and Waste, and Natural Resources. Progress against these targets is reported within the Annual Report each year, see page 42.</p> <p>These targets are planned to be reviewed to ensure that they are still appropriate based on scenario analysis of our identified key risks and to include targets to derive benefit from opportunities.</p>
<p><b>Metrics and targets:</b></p> <p>UK Scope 1 and 2 intensity emissions are reported to an approved methodology within mainstream financial reports</p>	<p>Streamlined Energy and Carbon Reporting (SECR) Scope 1, 2 and required Scope 3 emission calculations are carried out annually, with absolute and intensity results, and associated narrative, included within the SECR section of the Annual Report.</p>

In FY23, the Group has carried out a detailed assessment of climate-related risks and opportunities in the following areas:

- Operations: Utilities, buildings, equipment, transport, employees, consumables
- Supply chain

The Group plans to carry out a detailed assessment within market/customers in FY24.

This process has identified a number of risks and opportunities that were categorised by the following risk types:

- i) **Transition risks**
  - Policy, regulatory and legal changes
  - Technology shifts
  - Changing market demand
- ii) **Physical risks**
  - Acute: event driven, e.g. flooding, extreme weather events
  - Chronic: longer term changes in climate, e.g. prolonged higher temperatures

Alongside an internally led peer review carried out by the Sustainability Team, working with key stakeholders across our business representing various functions has enabled us to identify a number of key risks and opportunities related to climate change over a short-, medium-, and long-term horizon, with existing and planned mitigating activities being reviewed.

These key outputs are outlined in the risk and opportunity description sections on the next page. The risk analysis process utilised the timescales noted below and the Hotel Chocolat standard risk scoring framework of likelihood versus impact.

We are yet to carry out climate scenario analysis on our key risks and plan to carry this out within the next financial year, with the aim to develop our TCFD disclosure year-on-year, as we build on the granularity of our data and processes in order to fully comply with the recommendations.

This initial process has demonstrated no material concern in the short (0-2 years; aligned to the Group's sales & operation planning process), medium (2-5 years; aligned to the business forecasting strategic view) and long (5-10 year; aligning with longer term investment and financing considerations) terms partly due to the mitigation activities already in place to manage our risks.

There is more uncertainty in longer term risks due to the unknown climate scenario path likely to occur.



## Taskforce on Climate-Related Financial Disclosures

### Climate change related risks – physical risks

Description	Time Horizon	Impact	Potential impact	Business response / Mitigating actions
<b>Extreme weather effects</b>	Short	Minor	Challenges in sourcing goods potentially leading to increased costs or having to source reduced quality alternatives. The main impact to us would be from sourcing agricultural items grown in locations at high risk of: high temperatures, water shortage or large temperature variations leading to a reduction in crop yields and/or reduced quality.	Extended hedging policy & 10 year planning. Gentle Farming Initiative for cocoa. Internal procurement function who challenge costs and ensure continuity of supply.
	Short	Minor	Logistics challenges for transporting goods and services due to transportation being disrupted or cancelled as a result of severe weather events (e.g. flooding, high winds, etc.) leading to increased costs, having to source reduced quality alternatives from elsewhere, or in an extreme event - potentially temporary inability to operate.	Business continuity plan in place for all critical commodities and for manufacturing operations following an event.
	Short	Major	Increase in energy costs, for example, from heating and cooling our retail stores, head offices, manufacturing and fulfilment locations due to changing and/or extreme temperature swings.	Investment in more efficient, thermostatic cooling solutions and infrastructure.
	Long	Minor	Risk of increased cost of public water supply/ reduced water availability due to climate induced water scarcity.	Fulfilment and manufacturing operations being located in "Low" baseline water stress areas according to WRI Aqueduct.
<b>Physical impact on operational sites leading to increased costs</b>	Short	Minor	Physical damage to manufacturing, warehousing and retail buildings, or their respective infrastructure. This could lead to increased maintenance costs, increased insurance premiums, delays in repairs and potentially temporary inability to operate.	Business continuity plan in place for manufacturing & fulfilment following an event, with good insurance coverage in place which would cover exceptional costs.
<b>Physical impact on workers' transport links</b>	Short	Minor	Increased instances of severe weather preventing employees being able to access the workplace due to transport link and road disruption due to severe weather leading to reduced operational output.	Reduced impact on service due to multi-site options. Business continuity plan in place for all sites.

## Sustainability continued

### Taskforce on Climate-Related Financial Disclosures continued

#### Climate change related risks – transition risks

Description	Time Horizon	Impact	Potential impact	Business response / Mitigating actions
<b>More stringent sustainability reporting requirements</b>	Medium	Minor	New and emerging legislation could increase costs for procuring energy and packaging for our manufacturing, fulfilment, retail and head office operations.	Dedicated in-house resource and use of specialist consultants where necessary to support.
<b>Increased cost of moving to low carbon building technology enforced by legislation</b>	Short	Minor	Risk of legislative requirement to procure low-carbon technologies (transportation and equipment) which may cost more or lead to stranded assets and associated write off costs (e.g. green transportation, replacements for gas boilers).	Future fit sustainability considered for all future procured solutions in any investment decisions. Packaging recyclability targets and using increased recycled content in packaging where possible.
<b>Extreme weather effects</b>	Long	Minor	Extreme weather events impacting customers visiting our retail outlets, or changing their purchasing patterns, which may lead to lower sales.	Ability to offer online sales through digital channel.
<b>Increase of remote working leads to less travel to work and less retail footfall</b>	Short	Minor	Less customer business travel from increased remote working, as businesses look to reduce their Scope 3 commuting emissions, leading to less footfall at our retail outlets which may lead to lower sales.	Ability to offer online sales through digital channel.
<b>Changes in customer carbon related consumption preferences</b>	Medium	Moderate	Customer preferences might lead to a negative reputation and loss of sales for HC should we not adapt to requirements (e.g. low carbon, no palm oil, sustainable packaging or locally sourced goods).	Packaging recyclability targets and using increased recycled content in packaging where possible, Gentle Farming Initiative, net zero and palm usage targets.

#### Climate change related opportunities

Description	Time horizon	Impact	Potential impact	Current status
<b>Extreme weather effects</b>	Short	Moderate	Increase in online sales due to inability of customers to get to a retail store due to weather related issues.	Able to offer multiple channels to purchase products.
	Short	Minor	Increased sales of hot and cold options based on acute and chronic weather patterns.	Product offerings include hot and cold options.
<b>Changes in customer carbon related consumption preference</b>	Short	Moderate	Ability to capitalise on trend towards veganism by further expanding options to cater to this growing segment of the market.	Opportunity to source local food and other input materials.
	Short	Minor	Attract more customers who are focussed on climate change - align brand proposition to climate friendly offering to maintain and grow market share.	The gentle farming approach to cacao farming.
<b>Changes in employees sustainable business preferences</b>	Short	Moderate	Attract and retain staff by being seen as a sustainability leader.	Results from employee engagement surveys.





## Sustainability continued

## Energy and Carbon – SECR Requirements

FY23 is the fourth year that we report under the Streamlined Energy & Carbon Reporting (SECR) framework. Our SECR report covers the CO<sub>2</sub>e from our UK Scope 1 (direct) and Scope 2 (indirect) emissions for the periods 1 July 2022 to 30 June 2023 compared to 1 July 2021 to 30 June 2022 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 UK manufacturing and fulfilment operations, retail stores and offices, such as natural gas. It also includes CO<sub>2</sub>e from UK business owned vehicles (which incorporates company vans and distribution vehicles we lease), refrigerant gases and diesel used in generators.

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

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<sub>2</sub>e per £million of sales as the most meaningful intensity metric. Our UK CO<sub>2</sub>e SECR emissions have decreased by 3.5%, whilst sales decreased by 10% resulting in our carbon intensity increasing by 7%.

Whilst our location based emission intensity has this year grown by 7% due to the previous year (FY22) being heavily impacted by temporary store closures, and the expansion of information being included within this year's Scope 1 data - our carbon intensity increased by 7% compared to FY22.

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

UK GHG emissions in tCO <sub>2</sub> e:	FY23	FY22	% change FY23 vs FY22
Scope 1	1,278	1,230	3.9%
Scope 2 (location based)	1,799	2,051	-12.3%
Scope 2 (market based)	142	153	-7.1%
Scope 3 <sup>†</sup>	680	612	11.1%
Total (location based)	3,757	3,893	-3.5%
Group sales/£m	205	226	-10%
Location based intensity (tCO <sub>2</sub> e per £ million sales)	18.4	17.2	7%
kWh usage:			
Natural gas/million kWh	0.44	0.57	-22%
Generator diesel/million kWh	0.012	0.01	15%
Electricity/million kWh	8.69	10.61	-18%
Scope 1 and 3 transportation/million kWh	5.26	4.54	16%
Total kWh usage:	14.41	15.73	-8.4%

<sup>†</sup> Scope 3 CO<sub>2</sub>e reporting relates solely to business mileage, electricity transmission and distribution, plus well to tank for natural gas, gas oil and electricity.

Increases in emissions have arisen from:

- Fuel use (Scope 1) in our own fleet increased in line with an increased demand for deliveries to retail stores throughout the year.
- The increase also aligns with the opening of a new depot in Northampton with new stores and new routes being supplied, and one-off transaction activity.

**Scope 3** relates solely to business travel which has increased in FY23 compared to FY22, as restrictions to travel operated during COVID-19 have been relaxed.

During FY23 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 Hotel Chocolat'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

### Sustainable Development Goals that connect directly with our priorities:





## Sustainability continued

## Progress against respect the planet targets

Subject	FY22 status	Goal	Executive accountable	FY23 progress against target	Comments
<b>A net zero carbon business</b>	3,893 tonnes CO <sub>2</sub> 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.	Net zero Scope 1 & 2 by 2030; Scope 3 by 2040.  Environmental Management System ("EMS") installation to be complete by December 2022.	Matt Margereson MD, Manufacturing Operations	3,757 tonnes CO <sub>2</sub> equivalent in FY23 for UK Scope 1-3 emissions in Scope of SECR reporting.	Intensity per £ of sales increased by 7% vs FY22.
<b>Climate change adaptation</b>	100% of our Ghanaian cacao farmers – estimated at 4,572* for 21/22 crop year – delivering against Gentle Farming Programme, including 2,500 farmers receiving productivity investment.	100% of our Ghanaian cacao farmers are receiving premium.	Matt Margereson MD, Manufacturing Operations	100% of our Ghanaian cacao farmers – estimated at 4,624* for 22/23 crop year – delivering against Gentle Farming Programme, including 2,500 farmers receiving productivity investment.	
<b>Climate change solutions</b>	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.	Present a first draft plan as part of inaugural sustainability report in FY22.	Jon Akehurst CFO	Progress towards TCFD has been made and a voluntary disclosure has been included in FY23 ARA	See pages 35 to 38
<b>Sustainable packaging</b>	96% of Hotel Chocolat's customer facing packaging by weight† is reusable or recyclable.	100% Hotel Chocolat's packaging by weight to be reusable or recyclable by end 2022.	Matt Margereson MD, Manufacturing Operations	96% of Hotel Chocolat's customer facing packaging by weight is reusable or recyclable.	100% target by end of 2022 was not met; work is ongoing for the remaining parts which are harder to transform.
<b>On track for Environment Management System (EMS) accreditation by December 2022</b>	On track for EMS accreditation by December 2022.  No chocolate production waste has gone to landfill during this financial year.	EMS installation to be complete by December 2022.	Matt Margereson MD, Manufacturing Operations	Full ISO 14001 accreditation in Hadley Park and the Alpha DC; due to timing of opening, the Beta DC could not be included in the audit.	Beta DC to be added to the Scope for FY24.

Subject	FY22 status	Goal	Executive accountable	FY23 progress against target	Comments
<b>Biodiversity and land use</b>	<p>100% of Ghana cacao farmers delivering against Gentle Farming Programme and over 500,000 cacao and shade tree seedlings distributed*.</p> <p>Assurance date verified 486,158 with &gt;50,000 additional distributed outside the assurance review.</p>	<p>100% of Ghana cacao farmers supplying Hotel Chocolat to have adopted the Gentle Farming Programme by end of 2022.</p>	Matt Margereson MD, Manufacturing Operations	<p>100% of Ghana cacao farmers supplying Hotel Chocolat to have adopted the Gentle Farming Programme by end of 2023.</p> <p>On track to distribute similar seedling quantities as prior year.</p>	Data pending for FY23.
<b>Reduce water stress</b>	<p>100% of Ghana cacao farmers delivering against Gentle Farming Programme and over 500,000 cacao and shade tree seedlings distributed*.</p> <p>On track for EMS accreditation by December 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.</p>	<p>100% of Ghana cacao farmers on Gentle Farming Programme by December 2022.</p> <p>EMS at factory fully operational by December 2022.</p>	Matt Margereson MD, Manufacturing Operations	<p>100% of Ghana cacao farmers delivering against Gentle Farming Programme.</p> <p>On track to distribute similar seedling quantities as prior year.</p> <p>Full ISO 14001 accreditation in Hadley Park and the Alpha DC; due to timing of opening, the Beta DC could not be included in the audit.</p>	<p>Data pending for FY23.</p> <p>Beta DC to be added to the Scope for FY24.</p>
<b>Land use – palm oil</b>	<p>Last year, we used 0.01% palm oil by weight in our UK finished products.</p> <p>100% of the palm oil used is RSPO certified. We have reformulated all recipes and are on track to achieve zero palm oil by the end of 2023.</p>	<p>Commitment to reformulate recipes and remove palm oil from all Hotel Chocolat products by 2023.</p>	Matt Margereson MD, Manufacturing Operations	Limited palm oil usage in our UK finished products.	Review of palm oil usage in third party recipes continues.

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

† Calculated using 2021 calendar year data.

## Sustainability continued



### Powered by people

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

#### Engaged team

An all-employee survey was conducted in the year and saw an increase in engagement.

#### 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 45 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 45 to 48) 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 a crucial indicator of the health of the overall business.

During a period of developing our future business strategy, alongside extremely challenging market conditions – we have taken various significant steps to ensure that employee morale, wellbeing and overall happiness is the start of every business conversation.

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

An all-employee survey was conducted in the year and saw an increase in engagement. We took a break to evaluate our engagement survey approach and have identified a new engagement survey supplier to run future surveys, as well as regular pulse surveys between the more detailed annual surveys.

A business wide Employee Forum was launched during the year with 25 representatives from across all the business. The group meets monthly with the CEO or a member of the Executive Team and our HR team, to discuss any topic which is relevant to them and the business areas they represent. It is entirely led and governed by the team and has its own internal structure. The objectives of the Forum are to Engage, Champion and Connect.

We are in the process of launching the People Shapers; the third strand to our three part shape of the future business plan which places the importance of our people to our business plans firmly at the heart of our future decisions.

## Giving back

In FY23 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 £23,000 to the charity. We have continued to develop charity initiatives including the Movember campaign in support of men's health and our 'Giving Something Back Day' to be involved in the local community.

## Gender pay

The table below shows the gender composition of our team as of June 2023. We will report the next gender pay gap report ahead of the reporting deadline of April 2024.

Headcount by gender – June 2023	Female	Male
Team member	974	419
Line manager	340	172
Direct reports to Executives	6	10
Executive team	1	3
Non-executive Directors	1	2
Co-founders	–	2

## Powered by people: Stakeholder priorities and materiality

### Social opportunity

#### INCOMES FOR FARM FAMILIES

##### Why it matters

Every cacao farmer should be able to earn a decent income for their family.

##### Stakeholders & priorities

All cacao farmers who supply Hotel Chocolat have the ability to earn a decent income to meet their families' needs.

#### RESPONSIBLE LABOUR PRACTICES

##### Why it matters

The eradication of illegal and unsafe farming practices, including child labour is a priority.

Hotel Chocolat should only work with suppliers that treat employees fairly.

##### Stakeholders & priorities

Suppliers and cacao farmers who supply Hotel Chocolat to be treated fairly.

#### GIVING BACK

##### 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 Hotel Chocolat to consider a wide set of stakeholder needs.

### Customers and products

#### PRODUCT QUALITY, HEALTH & NUTRITION

##### Why it matters

Customers have the right to expect safe products and to receive accurate information to make informed choices on consumption.

##### Stakeholders & priorities

All potential consumers of Hotel Chocolat products to be assured that the product is safe, and to be informed of ingredients.

#### PRODUCT END-OF-LIFE USE

##### Why it matters

Consumers expect packaging to be recyclable or reusable.

#### SUSTAINABLE & TRANSPARENT SUPPLY CHAIN

##### 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

### Team members

#### DIVERSITY, EQUITY & INCLUSION

##### Why it matters

Everyone has the right to fair treatment at work and equality of opportunity.

##### Stakeholders & priorities

Current and potential employees of Hotel Chocolat to be treated fairly, for diversity to be celebrated, and opportunities to improve discussed openly and addressed.

#### CAREER OPPORTUNITY & ENGAGEMENT

##### Why it matters

Engaged employees deliver better results through stronger teamwork and greater clarity and commitment to shared goals.

##### Stakeholders & priorities

Current and potential employees expect clarity of communication, recognition and reward.

#### WELLBEING, HEALTH & SAFETY

##### Why it matters

Hotel Chocolat employees and contractors have the right to work in a safe environment where risks are appropriately managed.

##### Stakeholders & priorities

All Hotel Chocolat employees and contractors.

## UN Sustainable Development Goals directly connected to our people plans:



## Sustainability continued

### Progress against the powered by people targets

Subject	FY22 status	Goal	Executive accountable	FY23 progress against target	Comments
<b>Incomes for farming families</b>	<p>We have paid an increased price for cacao – last year at over 250 USD per MT cacao beans above the published price.*</p> <p>Additional payments made to farmers to support greater productivity on-farm.</p> <p>Started a payment for an environmental services scheme which will also reward farmers in the years to come.</p> <p>Independent assurance of data progress will be available in 2023.</p>	<p>Within three years, all Hotel Chocolat 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.</p>	Matt Margereson MD, Manufacturing Operations		Report is pending.
<b>Responsible labour practices</b>	<p>100% of Ghana cacao farmers delivering against Gentle Farming Programme.*</p> <p>Independent assurance of data progress will be available in 2023.</p> <p>95% of our most material suppliers have been independently audited to ensure compliance with our code of conduct.</p>	<p>100% of Ghana cacao farmers to adopt the Gentle Farming Programme and all key suppliers audited by a third party (December 2022).</p>	Matt Margereson MD, Manufacturing Operations		Report is pending.
<b>Sustainable and transparent supply chain</b>	<p>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.</p> <p>Supplier Code of Conduct updated in December 2021. Third party assurance standard updated and launched with suppliers in January 2022.</p>	<p>Supplement existing audit programme with independent third party assurance of all top suppliers by December 2022.</p>	Matt Margereson MD, Manufacturing Operations	Objectives under review as Procurement Team now in place to consolidate on Supplier Code implementation working in partnership with the Primary Supply Chain Fulfillment Team.	

Subject	FY22 status	Goal	Executive accountable	FY23 progress against target	Comments
<b>Product quality, health and nutrition</b>	The independent BRC Audit, carried out in June 2022, scored us an AA grade.  This is the highest score achievable.	Continue to achieve industry best practice, assured via independent audit.	Matt Margereson MD, Manufacturing Operations	The independent BRC Audit, carried out in June 2023, scored us an AA grade.	
<b>Product end-of-life use</b>	96% of customer facing packaging by weight <sup>†</sup> is reusable or recyclable.	100% Hotel Chocolat's packaging by weight to be reusable or recyclable.	Matt Margereson MD, Manufacturing Operations	96 % of Hotel Chocolat's packaging by weight is reusable or recyclable.	100% target by end of 2022 was not met; work continues for the remaining parts which are harder to transform.
<b>Giving back</b>	£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.	Not set as yet – target to be agreed during the next FY.	Jon Akehurst CFO	£23,000 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.
<b>Diversity, equality and inclusion</b>	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.	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 Margereson MD, Manufacturing Operations	For senior managers and above, we have increased the female population from 52% to 53% over the last year.	We launched a business wide Employee Forum with representation across all business areas. The forum has three objectives:  1. Engage: Build engagement with a voice for everyone across the business  2. Champion: Equality, diversity and inclusion for all  3. Connect: Establish a permanent group that fosters influence, trust and connection with Hotel Chocolat leadership.



## Sustainability continued

## Progress against the powered by people targets continued

Subject	FY22 status	Goal	Executive accountable	FY23 progress against target	Comments
<b>Career opportunity and engagement</b>	<p>We returned to our Best Companies' engagement rating of a two star 'Outstanding' company.</p> <p>We saw a slight step back in our results in September 2021 in two key areas:</p> <ul style="list-style-type: none"> <li>• Wellbeing and Fair Deal, so these were our core focuses.</li> <li>• Rewarding people fairly is important to us, so we delivered two impactful actions:</li> </ul> <p>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.</p> <p>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.</p>	Improve engagement score for the February 2022 survey.	Matt Margereson MD, Manufacturing Operations	<p>During a challenging year when employees have faced cost of living pressures at all levels, we've focused our efforts on maintaining regular pay reviews; focusing on initiatives to create a healthy and diverse workforce, as well as ensuring that our team members are given a voice to feedback and drive improvements.</p> <p>We've also introduced new tools to help people assess their own performance to grow and create meaningful long-term careers with us.</p>	<p>Some of our most impactful actions this year have included:</p> <ul style="list-style-type: none"> <li>• The introduction of the Hotel Chocolat Employee Forum with representatives from all parts of the business</li> <li>• Introduction of My Performance goal setting and ratings</li> <li>• Enhanced maternity pay and support.</li> </ul>
<b>Wellbeing, health and safety</b>	<p>50% reduction in RIDDOR reportable incidents from operations.</p> <p>RIDDOR rate = 0.21 per 100 employees.</p> <p>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.</p>	Reduce RIDDOR reportable incidents from operations by 25% for FY22.	Peter Harris Co-founder	RIDDOR rate for operations was 1.61.	Target for FY24 is to reduce RIDDOR by 40% to reflect structural changes and training staff to cover areas they are not experienced in.

\* 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's values – Originality, Authenticity and Ethics – are central to the key matters our Board steer, such as our culture, strategic pillars and customer proposition.

Our interactions with, and treatment of, our stakeholders are guided by our belief in the importance of fairness and respect.

By behaving responsibly, we protect, enhance and differentiate our brand.

## OUR KEY STAKEHOLDER GROUPS AND HOW WE ENGAGE

CUSTOMERS	THE HOTEL CHOCOLAT FAMILY	SUPPLIERS & FARMERS
<p>Making people happy through chocolate is at the heart of our mission. Every Hotel Chocolat colleague is guided by our 100% guest happiness guarantee.</p> <p>Our customers share our love of premium, ethically-sourced chocolate and it is important that we understand our customers' views. The Board has set out customer KPIs to track progress on delivering the five customer-focused Brand Shapers which will drive growth in our business.</p> <p>Customer views are collated weekly and reported to the Executive Board monthly, and to the Board periodically. Insight comes from our Hotel Chocolat Insiders' customer panel whose members are regularly surveyed on new products, services and customer experience, and our customer-facing colleagues can also report verbatim customer feedback.</p> <p>We use a range of tools, including Love Match and VIPMe, to ensure our customer engagement is targeted and relevant. We reward our VIPMe members for their loyalty and love of our brand by offering them exclusive events and early access to new products.</p>	<p>We nurture the talents of every member of the Hotel Chocolat family and encourage their commitment to our mission to make people and nature happy through the reinvention of chocolate. Sophie Tomkins has a special role as lead for colleague engagement on the Board.</p> <p>The Board has adopted five areas of focus within our People Shapers strategic pillars. These define how we will attract, retain and develop the best people to deliver successful outcomes for the Group.</p> <p>Insight from our colleagues helps steer and lead change initiatives. During the year, our Employee Forum was established with 25 elected colleagues representing all levels and teams within the business, adopting three areas of focus – Engage, Champion and Connect. Its activities have already led to enhancement of our approach to maternity policies and pay.</p> <p>We communicate with all our colleagues through monthly business briefings, a fortnightly update from our CEO ('Angus' 5 good things'), and our intranet site and app, the Pod. The Pod provides access to colleague resources, news and business information plus a facility for colleagues to post their own updates.</p> <p>Our success depends on the efforts and excellence of every one of our colleagues. We have revamped our approach to individual performance assessment; our bonus scheme covers all permanent employees, and colleagues also continue to participate in our Sharesave and Founder Share incentives.</p>	<p>Regular visits to cacao growing regions to meet with farmers, co-operatives and NGOs. Every farmer commits to respect a code of conduct. Independent research being conducted to obtain farmer feedback.</p> <p>Comprehensive supplier assessments are undertaken prior to on-boarding, with an ongoing programme of risk assessments and audits.</p> <p>Strategic collaborative planning meetings are held with key suppliers.</p> <p>Periodic supplier surveys are undertaken covering topics such as Brexit preparedness, Supplier Code of Conduct, compliance and traceability.</p> <p>Dialogue with suppliers is active to achieve goal of increased innovation on products, packaging and digital services.</p> <p>We launched our Gentle Farming Programme for farmers in Ghana in September 2021. The scheme provides training in a different farming approach which has a greater climate resilience and increases productivity and ensures farmers receive a premium supporting closing the gap to a living income.</p>
<p><b>Priorities for stakeholder group</b></p> <p>Innovative and imaginative products whether for gifting or treating themselves.</p> <p>Friendly, knowledgeable service from our passionate team of chocolate lovers.</p> <p>Nature positive products sourced and produced to the highest ethical standards.</p>	<p><b>Priorities for stakeholder group</b></p> <p>Safe, secure and enjoyable employment.</p> <p>Opportunity for learning, development and career progress.</p> <p>Freedom from harassment and equality of treatment.</p> <p>Recognition for their contribution.</p> <p>Regular communication on business progress and giving back to society.</p> <p>Sharing in the Company's ownership and success.</p>	<p><b>Priorities for stakeholder group</b></p> <p>Opportunity to earn a decent living by working with Hotel Chocolat.</p> <p>Ongoing collaborative relationships for mutual benefit.</p> <p>Clear shared objectives and business plans.</p> <p>Prompt payment.</p> <p>Development of sustainable farming techniques and skills to increase productivity and reduce climate-related impacts.</p>

## SHAREHOLDERS

Hotel Chocolat benefits from the capital and support that its shareholders provide. We engage with our investors through our regular market updates, reporting on our financial performance and outlook, and face-to-face meetings. Investor meetings are, as standard practice, led by the Executive Directors but the Chair and Non-executive Directors are also available for discussions if needed.

Hotel Chocolat recognises that all its investors, both large and small, need opportunities to engage with our Board and may wish to participate in any future fundraisings. All shareholders are also, of course, invited to attend the Annual General Meeting and to submit questions to the Directors. An investor relations email makes it simple for shareholders to contact us.

At its last Annual General Meeting, the Company sought specific authority to make a 'follow on' offer to facilitate retail shareholder participation in the event of a future share placing.

### Priorities for stakeholder group

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

A clear roadmap to success leading to increased return on capital.

A cohesive approach to environmental, social and governance matters that provides assurance that Hotel Chocolat is a sustainable and responsible business.

Robust and appropriate controls to mitigate risk.

## COMMUNITIES

With stores up and down the country, we are embedded in local communities, providing rewarding employment opportunities and offering happiness through chocolate to people throughout the UK.

We are also important to the community in St Lucia where we have our award-winning Rabot Hotel, the Project Chocolat centre of excellence for sustainable farming which hosts our tree and bean-to-bar experiences, and our own organic, sustainable 140-acre cacao farm. Our support for local cacao farmers and the responsible tourist dollars we generate on the island, benefit the Saint Lucian economy in a sustainable and ethically-engaged way.

In Ghana, our Gentle Farming Initiative offers improved standards of living and wellbeing for our farmers and their families, as well as vital biodiversity benefits. We are proud of our longstanding commitment and track record of supporting our Ghanaian farmers and the wider community in which they live.

We want to play our part in creating a fair and equal society where kindness and understanding prevails. We have a number of colleague-led groups to reduce discrimination and promote equality of opportunity for all. These include our anti-racism group, LGBTQ+ group, DisABILITY awareness group and mental health awareness group.

Our wonderful colleagues support a number of charitable causes, during our annual Charity Week and beyond. We are proud to back our colleagues who are making a difference to the causes they care about. The charities supported have included the Trussell Trust, Movember and Wear Red for Racism.

### Priorities for stakeholder group

The communities where we operate expect us to behave in a responsible way, showing respect for those around us, making a positive impact to their wellbeing and creating opportunity. Our environmental impact is also an important priority.

## ENVIRONMENT

We are aiming for our own operations to be net zero in relation to by 2030 and to include our supply chain in this by 2040. Current initiatives include procurement, waste, packaging and energy usage.

During the year, we saw an increase in our 'closed loop' recycling, whereby waste from our products is recycled and returned to us; reduced the frequency of store deliveries to support the launch of new stores without increasing our food miles; and introduced a Group-wide waste partnership with a policy of zero waste going to landfill. Our plastic packaging trays are now 100% recyclable and typically made of 70% recycled content, with the minimum being 30%. We achieved a like-for-like 327,000kWh saving across our manufacturing operations.

In our stores, we are introducing single-phase, high-efficiency air conditioning systems and air curtains to retain store temperatures. We use LED low-power lighting supplied by a B Corp certified partner, and have introduced the use of recycled fabrics and café furniture and recyclable steel and timber for joinery manufacture.

Our Gentle Farming Programme, which will have positive benefits for biodiversity and climate change, continues to be rolled out with farmers in Ghana.

### Priorities for stakeholder group

Ensuring the Group is resilient to the risks of climate change on farmers, the supply chain and the business.

Minimising pollution and waste.

Achieving net zero carbon.

## Considering all of our stakeholders (s172) continued

In accordance with section 172 of the Companies Act 2006, the Board regularly considers the likely consequences of our strategy and long-term decisions, taking into account the interests of 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 strategic ambitions and agreed:

Key Board decisions	Considerations
To withdraw from its joint venture in Japan and suspend activities in the US. A new capital light brand licensing and minority equity investment model has been established with a new partner in Japan and online Velvetiser sales in the US have recommenced.	For the benefit of all stakeholders, in particular shareholders and colleagues, this decision was taken to protect the most proven and lowest-risk strategies with the greatest potential for further increased profitability and scaled cash generation.
To establish three strategic pillars as part of the Group's transformation plans – the Business Shapers, Brand Shapers and People Shapers.	FY23 has been a year of transition. The Board took account of the needs of our farmers, staff, customers, investors and the environment in creating the Shapers, which are designed to prioritise actions that will protect the Group's profitability, grow the reputation of the brand for Originality, Authenticity and Ethics, and ensure a working environment in which colleagues can succeed and progress.
To optimise our fulfilment facilities, taking account of our future warehousing, packing and fulfilment capacity requirements in line with our growth strategy.	Decisions to adjust the Group's fulfilment facilities were made, taking account of the need to meet customer service and product quality expectations through appropriate storage and efficient fulfilment, and the desirability of retaining colleagues with the fulfilment skills we need.
To grow the UK retail estate through the addition of new stores.	Expansion of our store estate in the UK is a key element of our business growth strategy which will introduce our brand to new customers, provide valued employment opportunities, and enhance the relevant local communities' retail landscape.

### 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
To approve the People Shapers as a core strategic pillar.	Ensuring that Hotel Chocolat attracts, retains and develops the best people to support our business is a strategic priority. The People Shapers define how we will do this, making sure that we get the basics right, lead and ensure a working environment in which colleagues are fully engaged and invested in to deliver their full potential.
To continue our Gentle Farming Initiative, which supports closing the gap to a living income for our Ghanaian farmers, improves farming techniques and productivity and protects the environment and biodiversity through regenerative activity.	The Gentle Farming Programme is an essential element of Hotel Chocolat's approach to engaged ethics. It was specifically protected when the Board approved the FY24 budget.

### Adjustments to Board governance structure and Executive Committee were agreed as follows:

Key Board decisions	Considerations
To adopt a sales and operations planning (S&OP) model to strengthen governance throughout the Group and support development of a more effective, data-driven governance framework.	Ensuring internal processes are as clear, efficient and robust as possible not only mitigates process risk, but also supports improved job satisfaction for colleagues by removing barriers to efficiency. These efficiencies enabled resources, including people structures, to be streamlined.
To establish a Nomination Committee to lead on matters of Board composition and succession planning.	Having Directors with the right balance of skills, experience and knowledge is critical to delivery of the Group's strategic ambitions for the benefit of all stakeholders, but in particular shareholders, colleagues, suppliers and the environment.
To appoint a Senior Independent Director.	The appointment of a Senior Independent Director is an important governance safeguard for investors and others. Greg Hodder was appointed to this role.
To appoint a new Chair and Chief Financial Officer.	During the year, the Board's composition, which had largely been stable since IPO, was refreshed bringing in the skills and experience needed to lead the business with delivery of our new strategic priorities for the benefit of all stakeholders.
To adjust Board and Executive Committee meeting cadence and focus.	With the development of our new strategic pillars, the cadence of Board meetings was altered to fit more effectively with the Executive Committee's own new schedule and facilitate better information flows to the Board. The Board believes this will help enhance its governance and oversight for the benefit of all stakeholders.

This Strategic report and information herein was approved on behalf of the Board on 11 October 2023.

**Jon Akehurst**

Chief Financial Officer





## Governance

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## Board of Directors

### An experienced founder-led team



**Stephen Alexander**  
Non-executive Chair



**Sophie Tomkins**  
Independent Non-executive Director



**Greg Hodder**  
Senior Independent Director

Appointed 2023

Stephen has held numerous Chair roles of public and private equity-backed companies, predominantly in the consumer sector, for more than 20 years.

Prior to this, Stephen was Chief Executive of Hillsgate Holdings and at Allied Domecq, where he was Chief Executive of both the Food and Retailing Divisions. He has also chaired the charities Look Ahead and Employment Autism.

A R G ● ● N

Appointed 2016

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.

A R G ● ● N

Appointed 2017

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.

A R G ● ● N

My chocolate love match is

**SERIOUS  
DARK FIX**



My chocolate love match is

**EXUBERANTLY  
FRUITY**



My chocolate love match is

**EXQUISITELY  
NUTTY**



#### Committee membership

**A** Audit Committee

**R** Remuneration Committee

**G** Group Board

**●** Chair

**E** Executive Committee

**S** Sustainability Committee

**N** Nominations Committee

**Angus Thirlwell**

Co-founder and Chief Executive Officer

**Peter Harris**

Co-founder and Development Director

**Jon Akehurst**

Chief Financial Officer

Co-founded in 1993

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 Special Advisor to the Academy of Chocolate.



Co-founded in 1993

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.



Appointed 2023

Jon joined Hotel Chocolat as Chief Financial Officer in 2023 and is responsible for the finance function and investor relations.

Jon's career includes management and leadership roles with General Mills, Mars, Aggreko and most recently at Terumo Corporation as CFO of their Aortic division. He has extensive experience across branded goods, manufacturing and international development.

Jon qualified as a Chartered Accountant in 2009.



My chocolate love match is

**EXQUISITELY  
NUTTY**

My chocolate love match is

**EXQUISITELY  
NUTTY**

My chocolate love match is

**EXQUISITELY  
NUTTY**

## The Executive Team



**Lysa Hardy**

Managing Director, Retail

Appointed 2018

Lysa joined Hotel Chocolat in 2018 and is responsible for our retail business unit in the UK, including retail, ecommerce, marketing, category management, customer service, customer insight, merchandising and stock forecasting.

Lysa has over 20 years' experience including Chief Commercial Officer at Holland & Barrett, Chief Customer Officer at Joules, as well as telecoms marketing, general management and a number of international roles.

Lysa is a fellow of The Marketing Academy, Chair of the board of Trustees for a mental health charity, and was appointed Non-Executive Director of Superdry in May 23.



**Matt Margereson**

Managing Director, Manufacturing Operations

Appointed 2006

Matt joined Hotel Chocolat in 2006 and is responsible for product development, manufacturing operations, supply chain, including procurement, warehousing & fulfilment as well as HR, technology and systems.

Matt has over 20 years' experience in operations and supply chain management.

Matt completed a MBA in 2013 and is a member of the Chartered Institute of Logistics and Transport.



My chocolate love match is

**EXQUISITELY  
NUTTY**



My chocolate love match is

**EXUBERANTLY  
FRUITY**



### Committee membership

**A** Audit Committee

**R** Remuneration Committee

**G** Group Board

**Chair**

**E** Executive Committee

**S** Sustainability Committee

**N** Nominations Committee





## Corporate Governance Statement



### Formal committee meetings held

7

### Scheduled Board meetings held

#### Members and attendance

Stephen Alexander (Chair) <sup>1</sup>	1
Andrew Gerrie (Chair) <sup>2</sup>	5
Sophie Tomkins	7
Greg Hodder	7
Angus Thirlwell	7
Peter Harris	7
Jon Akehurst <sup>3</sup>	1
Matt Pritchard <sup>4</sup>	5

A further 11 Board meetings were held in the year in response to current events.

- 1 Stephen Alexander appointed 5 May 2023
- 2 Andrew Gerrie resigned 4 May 2023
- 3 Jon Akehurst appointed 15 May 2023
- 4 Matt Pritchard resigned 31 January 2023

### An introduction from our Chair

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

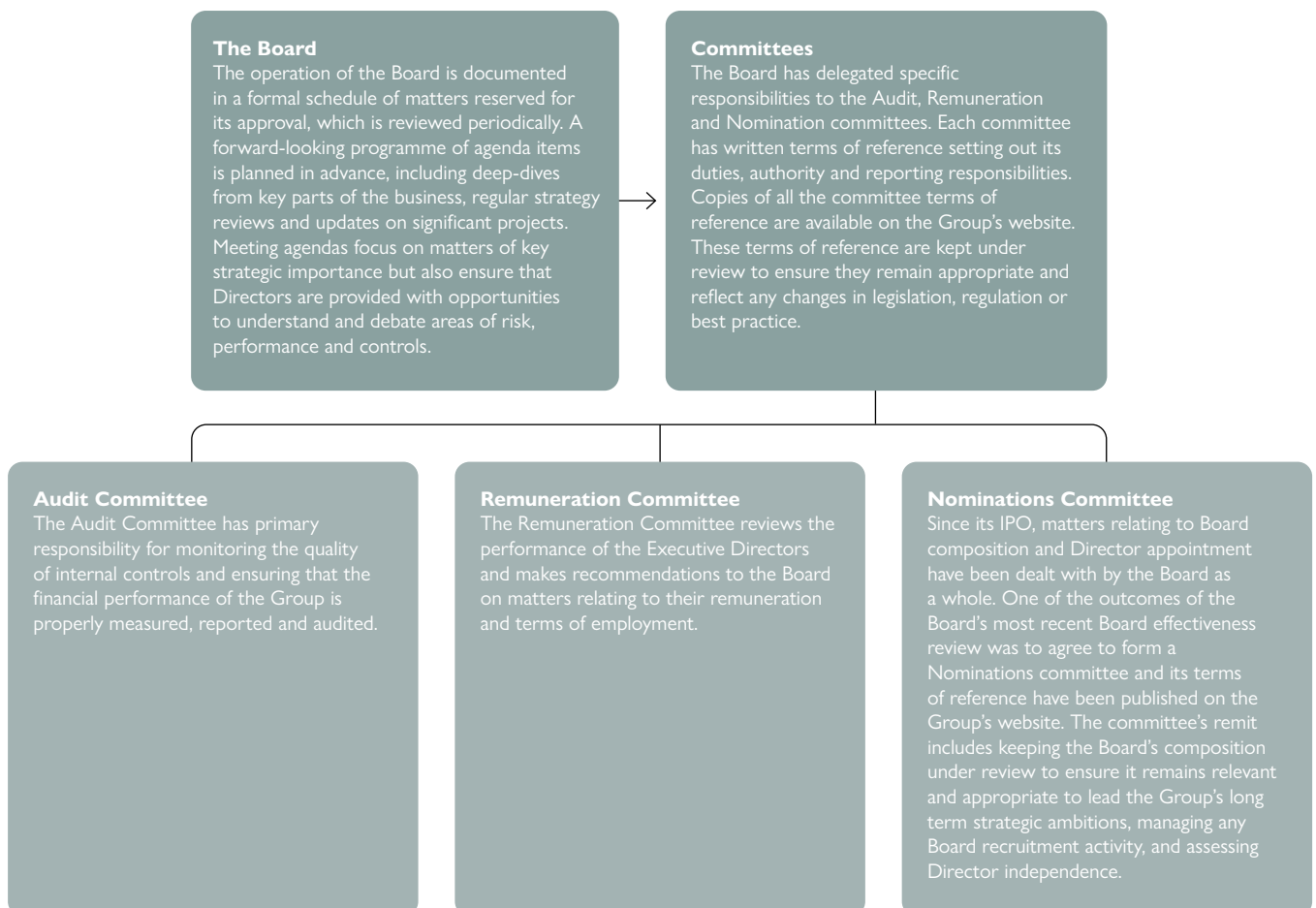
The Board is responsible to the shareholders and sets the Group's strategy for achieving long-term success. It is also ultimately responsible for the management, governance, controls, risk management, direction and performance of the Group. The Board comprises three Non-executive Directors and three Executive Directors, two of whom are the co-founders. The three Non-executive Directors are considered fully independent.

“

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

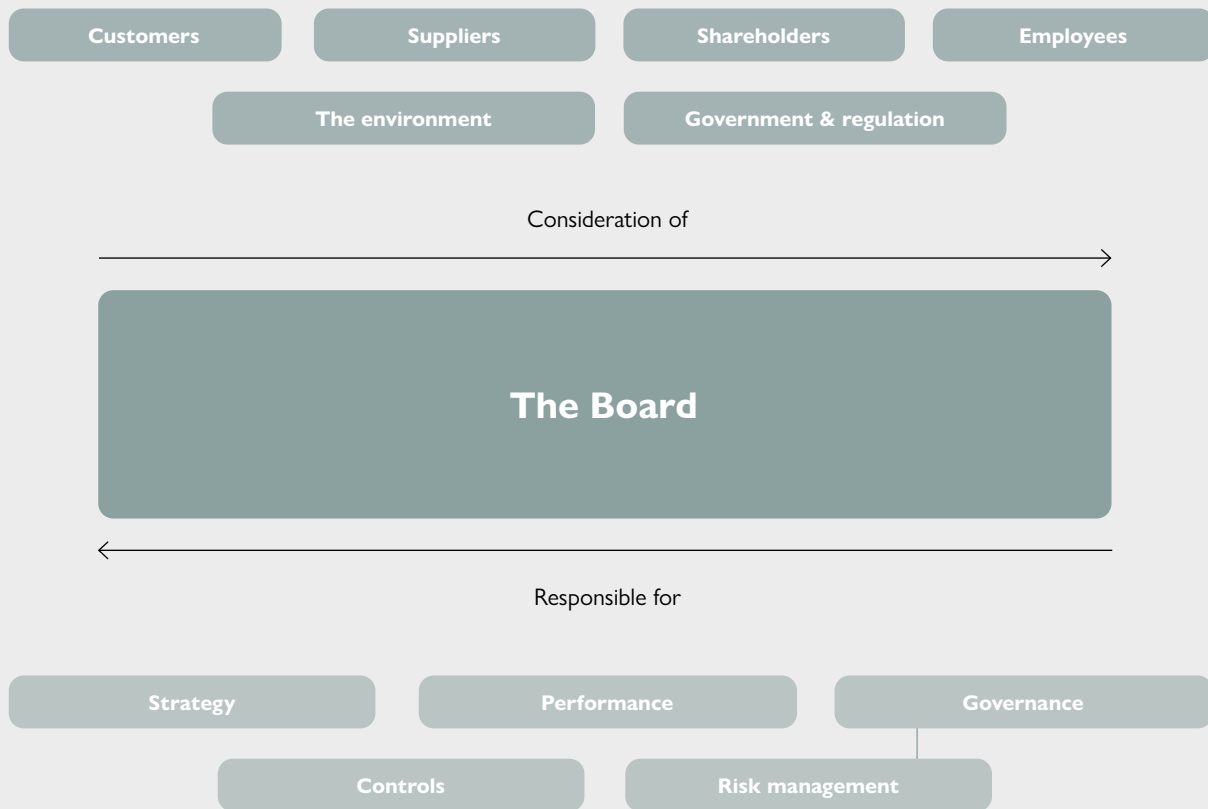
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## The remit of the Board and committees



## Corporate Governance Statement continued

### Governance framework



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 8 to 53 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; and
- 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 50 to 53.

#### Board meetings

The Board held seven scheduled Board meetings during the period, together with another eleven 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	Nomination Committee
Scheduled meetings	7	8	6	6
Andrew Gerrie <sup>1</sup>	5	n/a	3	n/a
Sophie Tomkins	7	8	6	6
Greg Hodder	7	8	5	6
Angus Thirlwell	7	n/a	n/a	n/a
Peter Harris	7	n/a	n/a	n/a
Matt Pritchard <sup>2</sup>	5	n/a	n/a	n/a
Jon Akehurst <sup>3</sup>	1	n/a	n/a	n/a
Stephen Alexander <sup>4</sup>	1	n/a	n/a	n/a

1 Andrew Gerrie resigned 4 May 2023

2 Matt Pritchard resigned 31 January 2023

3 Jon Akehurst appointed 15 May 2023

4 Stephen Alexander appointed 5 May 2023

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:

- Jon Akehurst, Chief Financial Officer;
- Lysa Hardy, Managing Director, Retail; and
- Matt Margereson, Managing Director, Manufacturing Operations.

## 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 20% equity investment in a newly established vehicle with Eat Creator Corporation based in Japan - aligned with strategic changes to the Group's priorities and business model.

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, Remuneration and Nomination committees, details of which are set out below.

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

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

### Audit Committee

The Audit Committee is chaired by Sophie Tomkins and its other members are Andrew Gerrie (until 4 May 2023) and Greg Hodder; Stephen Alexander was appointed to the Audit Committee on 22 June 2023. 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 72 to 74 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 members are Sophie Tomkins and Stephen Alexander (appointed 22 June 2023). Greg Hodder, Stephen Alexander 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 76 to 79 contains more detailed information on the committee's role and the Directors' remuneration and fees.

## Corporate Governance Statement continued

### Nominations Committee

During the year, a Nominations Committee has been established. The Nomination Committee was chaired by Greg Hodder with Stephen Alexander being appointed as Chair on 22 June 2023. Greg remains a member of the committee. Its other member is Sophie Tomkins. Stephen Alexander, Greg Hodder and Sophie Tomkins are considered to be fully independent. The Nomination Committee is responsible for ensuring that the size, composition and collective skills of the Board is aligned to deliver Group strategy.

The Nomination Committee report on pages 80 to 81 contains more detailed information on the committee's role, responsibilities and activities.

### 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 26 and 27.

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

- close management of the day-to-day activities of the Group by the 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 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. The Board has established a comprehensive 'shape of the future' strategy in H1 and deployed it in H2 FY23, see pages 16 and 17. This strategy is reviewed monthly by the Executive Committee and Board meetings. In addition, bank covenants and funding are reviewed in more detail at Board meetings as a result of the learnings.

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 56 to 57.

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 last year was one of transition for the Board, with a new Chair and Chief Financial Officer both being appointed in place of outgoing Directors. Both these new Directors had only just joined the Board at the time when the full Board effectiveness review would ordinarily have been undertaken. Their contribution to the review would, as a result, have been limited.

After discussion and taking account of the significant influence which the new Chair, in particular, was expected to have on Board operations and effectiveness, the Board concluded that the full review should be deferred. Accordingly, the next full review will be carried out during the current financial year.

Although a full Board effectiveness review was not undertaken during the year, the Board did nevertheless discuss its own effectiveness and the progress it had made towards completing the action plan agreed following the prior year's review.

As part of this process, the annual Board meeting schedule was reconsidered and adjusted to better fit with the cadence of Executive Committee meetings and the production of the high level management information needed by the Board. This will ensure that reporting to the Board is always as up-to-date and relevant as possible. Furthermore, the annual Board meeting schedule was reviewed to ensure that strategic level matters are appropriately forward-planned at suitable intervals to provide adequate and timely opportunities for the Board to provide input and guidance to management on those matters which are most critical to the Group's future development.

Outstanding actions agreed as a result of the prior year's Board effectiveness review process were reviewed at each Board meeting until they were satisfactorily completed. They included:

- formation of a Nomination Committee so that matters such as Board succession planning, reviews of Board composition and Director recruitment would no longer be dealt with by the Board as a whole. The committee was established and its report is available on page 80;
- appointment of a Senior Independent Director – Greg Hodder was appointed to, and continues to perform, this role;

### Board experience

	Stephen Alexander	Sophie Tomkins	Greg Hodder	Angus Thirlwell	Peter Harris	Jon Akehurst
Financial management		✓			✓	✓
Global business	✓	✓	✓			✓
Leadership & values	✓	✓	✓	✓	✓	✓
Sales & marketing			✓	✓		✓
Technology & operations		✓	✓	✓		✓
Retail	✓		✓	✓	✓	
Sustainability				✓	✓	



- carrying out a review into the factors leading to the Board's decision to change its international strategy; and
- introduction of changes to Board reporting to ensure that, those actions arising from previous meetings which are most strategic and high priority in nature, are reported on in the early part of each meeting until they have been satisfactorily completed.

During the current financial year, the Board has committed to undertaking a full Board evaluation process. This will provide an opportunity for all Directors to provide feedback on questions such as:

- how the Board determines the Group's strategy, culture and values;
- how effective the Board's risk management oversight and management is;
- if the Board has the appropriate composition and collective skills to lead the business;
- whether the Group's governance framework and Board delegations remain appropriate and fit for purpose;
- how well supported the Board and its committees are;
- the extent to which Board debate is sufficiently open, rigorous and challenging;
- whether decision-making is balanced, objective, well-informed and supported by data;
- the extent to which wider stakeholder and ESG issues are taken into account in decision-making; and
- how communications and relationships with stakeholders are managed.

We look forward to reporting back on the Board's conclusions on these matters in next year's report.

## 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 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.

## 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 that 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.

## 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 50 to 53.

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 continue with 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 enhances farmers' incomes and encourages regenerative activities 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.

## 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.

General information about the Group is available on the Group's website ([www.hotelchocolat.com](http://www.hotelchocolat.com)). The Non-executive Directors are available to discuss any matter shareholders 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 23 November 2023. 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

Hotel Chocolat shareholders, Hotel Chocolat employees. To observe the active steps taken to increase diversity.

#### Executive pay

###### Why it matters

Executive pay should attract and retain talented leaders; it 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 interim and 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 results and state of affairs for the Group.

### Sustainable development Goals: directly connected to the Group's priorities:



### Corporate behaviour

#### Business ethics & values

###### Why it matters

Hotel Chocolat'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 Hotel Chocolat 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 Hotel Chocolat 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. Protection of the business from loss of IT systems and data to enable the business to function effectively.

###### Stakeholders & priorities

Customers and team members.

#### Tax transparency

###### Why it matters

Hotel Chocolat acknowledges that paying tax is making a contribution to society.

###### Stakeholders & priorities

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

Subject	FY22 status	Goal	Executive accountable	FY23 progress against target	Comments
<b>Board and leadership diversity</b>	<p>PLC comprises: 2 male co-founders, 3 other male Directors and 1 other female Director.</p> <p>33% of the Executives reporting to the Board are female.</p> <p>33% of the direct reports to the Executive are female.</p>	Diversity and Inclusion policy applied ongoing to all new Board and senior management hires and promotions.	Stephen Alexander, 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.
<b>Executive pay</b>	<p>Performance related pay is attached to profitability, sales growth, ESG (team engagement) and share price increase.</p> <p>Executive targets for performance related pay were not met.</p>	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.	Annual SAYE scheme in place.
<b>Reporting and accounting</b>	See Audit Committee report (page 72).	Ongoing consideration of internal audit function and appropriate timing.	Jon Akehurst, 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.
<b>Business ethics and values</b>	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.

## Progress against the Corporate Governance targets continued

Subject	FY22 status	Goal	Executive accountable	FY23 progress against target	Comments
<b>Anti-bribery and anti-corruption</b>	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, MD, Manufacturing Operations	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.
<b>Privacy and data security</b>	Programme of security measures and assurance including tests of controls and access restrictions. Compliance with GDPR.	Data council implemented FY22.	Matt Margereson, MD, Manufacturing Operations	We have a Data Governance Board in place which covers IASC, PCI and GDPR compliance.	Confidentiality of personal data is important in ensuring long-term trust, allowing the business to serve its customers effectively.
<b>Tax transparency</b>	Hotel Chocolat does not engage in tax paying structures that move profits to low-tax jurisdictions where it does not trade.		Jon Akehurst, 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
<b>Deliver growth</b>			
Establish a strategy and business model to promote long-term value for shareholders.	✓	The strategy for the Group is decided by the Board and progress towards delivering objectives is actively tracked and debated by the Directors.	See page 10 to find out more about our strategy and business model, and page 20 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 65 for more information on our relations with shareholders. We also publish information relevant to shareholders on our website <a href="http://www.hotelchocolat.com/uk/investor-relations.html">www.hotelchocolat.com/uk/investor-relations.html</a> 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 50 to 53 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. The actions that the Board have taken in response to this feedback have been included on page 65.
Embed effective risk management, considering both opportunities and threats, throughout the organisation.	✓	Both the Board and Audit Committee regularly review risks, including new threats, and the processes to mitigate and contain them. Whilst the Board is responsible for risk, our culture seeks to empower all colleagues to manage risk effectively.	We have summarised the main risks faced by the business and how they are being managed on pages 26 and 27. Further details about our approach to risk management and internal controls are provided in the Audit Committee report on pages 72 to 75.
<b>Build trust</b>			
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 50 to 53 and in our corporate governance statement on pages 60 to 68.  We also publish information relevant to our wider stakeholders on our website <a href="http://www.hotelchocolat.com/uk/investor-relations.html">www.hotelchocolat.com/uk/investor-relations.html</a> including all regulatory news alerts.

Governance principles	Compliant	Explanation	Further reading
<b>Maintain a dynamic management framework</b>			
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 56 and 57.
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 64.
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 64.
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 28 to 48 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 60 to 65 and the reports of the Audit Committee, Remuneration Committee and Nomination Committee on pages 72 to 81.
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 72.
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 56 and 57 and corporate governance statement on pages 60 to 65.

## Audit Committee Report

Sophie Tomkins



### Formal committee meetings held

6

### Members and attendance

Sophie Tomkins (Chair)	6
Greg Hodder	5
Stephen Alexander <sup>1</sup>	0
Andrew Gerrie <sup>2</sup>	3

<sup>1</sup> Stephen Alexander was appointed to Audit Committee on 22 June 2023

<sup>2</sup> Five meetings of the Committee were held in the period prior to Andrew Gerrie's resignation from the Board

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

### Members of the Audit Committee

The committee consists of three independent Non-executive Directors: myself, Sophie Tomkins (as Chair), Greg Hodder and Board Chair, Stephen Alexander. Our former Board Chair, Andrew Gerrie, was also a member of the committee until his resignation from the Board in May 2023. Jon Akehurst, Chief Financial Officer, and other Executive Directors may attend committee meetings by invitation. The committee formally met six times in the period.

The Board is satisfied that I, as Chair of the committee, have recent and relevant financial experience. I am a Chartered Accountant and Chair of the Audit Committees at System1 Group plc, and Virgin Wines UK plc. A Chartered Governance Professional from Indigo Independent Governance acts as Secretary to the committee. I report the committee's deliberations at the next Board meeting and the minutes of each meeting are made available to all members of the Board.

### Duties

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

- review of the FY23 audit plan and audit engagement letter;
- consideration of key audit matters and how they are addressed;
- review of suitability of the external auditor;
- audit partner rotation;
- review of the financial statements, interim and Annual Report;

“

On behalf of the Board, I am pleased to present the Audit Committee report for the period ended 2 July 2023.

”

- 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.

### **Auditor objectivity, independence, and performance**

FY23 is the second reporting year for our relatively newly appointed Auditor, RSM. 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. The breakdown of fees between audit and non-audit services is provided in Note 8 of the Group's financial statements. There were no significant non-audit services provided by RSM during the year.

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, RSM, 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 notes to the consolidated financial statements.

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

- Going concern;
- Impairment of the St Lucia estate;
- Valuation of inventory;
- Japan Joint Venture;
- Equity investment;
- Impairment of investments and property;
- Accounting for leases and right of use assets; and
- Treatment of exceptional items.

Detail on how going concern and the impairment of the St Lucia estate were addressed are contained in RSM's formal audit report.

## Audit Committee Report continued

This is the first year that the Group has reported enhanced climate-related financial disclosures voluntarily under the TCFD framework, detailed in pages 34 to 38. This represents a significant step change in reporting, and the Group welcomes feedback from stakeholders as this continues to evolve.

There was significant work in the prior year on the treatment of the Japan Minority Interest under the detailed provisions of IFRS 9 and IFRS 10. The structure of operations in Japan has changed significantly year-on-year and the involvement of HC Group is now materially lower, but given the complexity of these standards, it has remained an ongoing focus of the audit to ensure that the evolving relationship has been correctly reflected under IFRS.

### 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.

### Risk management and internal controls

As described on pages 60 to 68 of the Corporate Governance statement, 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. An external assessment of risks and the effectiveness of associated controls is planned in FY24 following the implementation of the Group's 'shape of the future' strategy. Presentations from senior management across the business are provided to the Board to further develop information, understanding and debate on risks.

2022 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 involved a significant refocus on the Group's core markets.

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.

### 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 regular 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

Greg Hodder



### Formal committee meetings held

8

### Members and attendance

Greg Hodder (Chair)	8
Sophie Tomkins	8
Stephen Alexander <sup>1</sup>	0

### 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.

### Composition and role

The Remuneration Committee's members are Greg Hodder (as Chair), Sophie Tomkins and Stephen Alexander. 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 8 times during the period and plans to meet at least twice a year going forward.

<sup>1</sup> Stephen Alexander was appointed to Remuneration Committee on 22 June 2023.

“

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

”

### 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. Jon Akehurst'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.

## Remuneration Committee Report continued

### Directors' remuneration

The following table summarises the total gross remuneration of the Directors who served during the period to 2 July 2023.

	FY23					FY22
	Basic salary/fee £	Bonus £	Benefits £	Pension £	Total £	Total £
<b>Executive</b>						
Angus Thirlwell	320,000	–	1,132	16,000	337,132	294,635
Peter Harris	228,000	–	2,006	11,400	241,406	233,014
Jon Akehurst <sup>1</sup>	35,517	124,000	–	–	159,517	–
Matt Pritchard <sup>2</sup>	143,497	–	387	17,500	161,384	258,265
<b>Non-executive</b>						
Stephen Alexander <sup>3</sup>	15,641	–	–	–	15,641	–
Andrew Gerrie <sup>4</sup>	41,667	–	–	–	41,667	50,000
Sophie Tomkins	40,000	–	–	–	40,000	40,000
Greg Hodder	47,282	–	–	–	47,282	40,000

<sup>1</sup> Jon Akehurst was appointed 15 May 2023.

<sup>2</sup> Matt Pritchard resigned 31 January 2023. As part of his compensation for loss of office, Matt Pritchard received a contractual payment of £155,100 and the immediate vesting of 98,000 shares awarded from the 2021 LTIP with a value of £215,502 at the date of resignation.

<sup>3</sup> Stephen Alexander was appointed 5 May 2023.

<sup>4</sup> Andrew Gerrie resigned 4 May 2023.

The Executive remuneration policy for FY24 is set out in the table below:

FY24	Basic salary/fee £	Maximum bonus %	Pension £
<b>Executive</b>			
Angus Thirlwell	320,000	50%	16,000
Peter Harris	228,000	40%	11,400
Jon Akehurst	260,000	50%	13,000

### FY23 Annual Incentive

Annual performance incentive schemes were reinstated for all employees for FY23. For Executives Directors and other senior employees, the Annual Incentive Plan operated as follows:

- Achievement of FY23 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 FY23 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.

### FY24 Annual Incentive

For FY24, the Remuneration Committee has approved a guaranteed bonus for Jon Akehurst of £130,000. For other Executive Directors, any bonus payment in respect of FY24 is subject to the business making continued progress towards delivering its strategically important Brand and Business Shapers. These strategic drivers, which are more fully described on pages 16 to 17, are designed to deliver both sales growth and EBITDA margin improvements. No bonus, other than the CFO's guaranteed bonus, will be payable to the Executive Directors unless profit before tax for FY24 is aligned to, or in excess of, market consensus. It is intended that, conditional upon Remuneration Committee approval, 50% of the forecast FY24 bonus will be paid in January 2024, subject to appropriate malus and clawback arrangements. Any remaining balance due will be paid after the end of the financial year.

## Long-Term Incentive Plan

Awards to Executive Directors were granted in 2021, which are underpinned by financial performance triggers.

Angus Thirlwell and Peter Harris, 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. Jon Akehurst is entitled to participate in the Group's Long-Term Incentive Plan, at year end these options had not been granted.

- 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.

### LTIP vesting conditions are based on Enterprise Value (EV) increase

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

- The 2021 LTIP grant extends to the 29 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.
- 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 <sup>1</sup> –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 <sup>1</sup> –03.08.31

<sup>1</sup> 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 Annual General Meeting.

### Greg Hodder

Chair of the Remuneration Committee



## Nomination Committee Report

Greg Hodder



### Formal committee meetings held

6

### Members and attendance

Stephen Alexander (Chair appointed after period end)	0
Greg Hodder (past Chair and current member)	6
Sophie Tomkins	6

### Nomination strategy

The Nomination Committee was formed in FY23 in response to a priority identified through the Board effectiveness review. Board composition is key to the successful delivery of the Group's strategic objectives, culture and values and, accordingly, the committee's remit focusses, among other things, on Board membership as well as Director succession planning.

This report describes the activities and responsibilities of the committee.

### Composition and role

During the period, the Nomination Committee's members were Greg Hodder (Chair), and Sophie Tomkins. Although Greg Hodder remains a member of the committee, since the last meeting held during the period, Stephen Alexander has been appointed as its Chair. The committee's terms of reference provide that its members must be drawn solely from the Company's Non-executive Directors, a majority of whom must be independent. Both Greg Hodder and Sophie Tomkins, who served on the committee during the period, are considered to be independent.

The committee operates under agreed terms of reference and its remit includes reviewing the Board to ensure that the size, composition and collective skills of the Directors remain relevant and appropriate, managing any Board recruitment activity, leading Director succession planning and making recommendations on proposals for Directors to stand for re-election at the AGM. The Nomination Committee met 6 times during the period and plans to meet at least twice a year going forward.

### Nomination Committee priorities

The overriding priority of the Nomination Committee is to ensure that the Board consists of Directors with the range of skills and qualities to meet its principal responsibilities, in a way which ensures the interests of stakeholders are protected and promoted.

“

I am pleased to present this first nomination report, which sets out the Nomination Committee's role, responsibilities and activities.

”

Specifically the committee's responsibilities include:

- reviewing the composition of the Board and its committees and making recommendations to the Board with regard to changes that are deemed necessary. Skills, knowledge, experience and diversity are taken into account
- managing Board recruitment and appointment activities
- overseeing succession planning for the Board, ensuring skills and expertise align to the current business model and strategy
- assessing feedback from the annual Board and committee performance review insofar as it relates to Board and committee balance, skills, experience and diversity.

#### Activities in year

- Review of Board composition in light of the changes to the Group's strategic priorities
- Appointment of search and selection advisers to assist with the recruitment of a CFO and Chair
- Identification of key skills to prioritise for the new appointments
- Recommendation for the appointment of Jon Akehurst as Chief Financial Officer
- Recommendation for the appointment of Stephen Alexander as Non-executive Chair

If you have any comments or queries on anything contained within this Nomination report, I will be available at the Annual General Meeting.

#### Greg Hodder

Past Chair and current member of the Nomination Committee

## Directors' Report

The Directors present their report together with the audited financial statements for the period ended 2 July 2023.

The corporate governance statement on pages 60 to 68 also forms part of this Directors' report.

### Review of business

The Chairman's statement on page 8 and the Strategic report on pages 6 to 53 provides a review of the business, the Group's trading for the period ended 2 July 2023 and key performance indicators.

### Result and dividend

The Group has reported its Consolidated Financial Statements in accordance with UK international accounting standards in accordance with the Companies Act 2006.

The Group's results for the period are set out in the Consolidated Statement of Comprehensive Income on page 94. The Company financial statements have been prepared under FRS 102 for the period ended 2 July 2023.

The Group's revenue of £204.5m (FY22: £226.1m), gross margin of 58.3% (FY22: 56.1%) and loss after tax of £6.6m (FY22: £9.4m) reflect the impacts of the over-leveraged position of the Group as it entered FY23, which led to the revised strategy.

Period ended	Reported IFRS	
	02 July 2023	26 June 2022
Revenue (£m)	204.5	226.1
Gross margin %	58.3	56.1
Loss after tax (£m)	6.6	9.4

The Board is not recommending a final dividend (FY22: nil).

### Directors

The Directors of the Group during the period were:

Executive	Non-executive
Angus Thirlwell	Andrew Gerrie <i>Resigned 04 May 2023</i>
Peter Harris	Sophie Tomkins
Matt Pritchard <i>Resigned 31 January 2023</i>	Greg Hodder
Jon Akehurst <i>Appointed 15 May 2023</i>	Stephen Alexander <i>Appointed 05 May 2023</i>

The Directors' biographical details, are provided on pages 56 and 57.

### Directors' interests

No Director has any beneficial interest in the share capital of any subsidiary undertaking.

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 (FY22: 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 37 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 02 July 2023, the Company's issued share capital was £137,538 divided into 137,537,673 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 30 June 2023, the Company had been notified of the following substantial shareholders comprising of 3% or more of the issued ordinary share capital:

	% of issued share capital
Angus Thirlwell	27.1%
Peter Harris	27.1%
Phoenix Asset Management Partners	15.4%
Columbia Threadneedle Investments	4.6%

### Share option schemes

Details of employee share schemes are set out in Note 11 to the Consolidated Financial Statements.

## Purchase of own shares

There was no purchase of own shares in the current or prior period.

## Going concern

After making enquiries, the Directors have a reasonable expectation that the Group and company have 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 99.

## Post-balance sheet events

In July 2023, the Group reentered the US market with our Velvetiser-led digital sales channel.

On 29 September 2023, the Group signed a new £50m Revolving Credit Facility. This facility replaces the existing RCF and runs to July 2025. See Note 38 on page 135.

## Future developments

The Board intends to continue to pursue the business strategy as outlined in the Strategic report on pages 6 to 53.

## Stakeholder involvement policies and employee engagement policies

The Directors believe that the involvement of employees, customers and suppliers is an important part of the business culture and contributes to the successes achieved to date (view our Sustainability report on pages 30 to 48 and s172 statement on pages 50 to 53, including how the Board has considered stakeholders in their decision making during FY23).

## Climate-Related Financial Disclosures

Our climate-related financial disclosures can be found as part of our voluntary TCFD disclosures on page 35.

## SECR

Our Streamlined Energy & Carbon Reporting (SECR) framework can be found on page 40.

## Equal opportunities

The Group is committed to eliminating discrimination and encouraging diversity. Its aim is that its people will be truly representative of all sections of society and that each person feels respected and is able to perform to the best of their ability. The Group aims for its people to reflect the business's 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 23 November 2023. The ordinary business comprises receipt of the Directors' report and audited financial statements for the period ended 2 July 2023, 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 11 October 2023.

## Jon Akehurst

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](http://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 11 October 2023.

### Jon Akehurst

Chief Financial Officer











## 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 2 July 2023 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 2 July 2023 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.

Our opinion is consistent with our reporting to the Audit Committee.

### Summary of our audit approach

<b>Key audit matters</b>	<b>Group</b> <ul style="list-style-type: none"> <li>• Going concern</li> <li>• Impairment of St Lucia Estate</li> </ul>
<b>Materiality</b>	<b>Group</b> <ul style="list-style-type: none"> <li>• Overall materiality: £492,000 (2022: £1,000,000)</li> <li>• Performance materiality: £295,000 (2022: £651,000)</li> </ul> <b>Parent Company</b> <ul style="list-style-type: none"> <li>• Overall materiality: £490,000 (2022: £782,000)</li> <li>• Performance materiality: £294,000 (2022: £508,000)</li> </ul>
<b>Scope</b>	Our audit procedures covered 100% (2002: 98%) of revenue, 98% (2002: 100%) of net assets and 99% (2022: 96%) of results 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 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 financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Going concern

<b>Key audit matter description</b>	<p>The Group has recorded a loss for the period of £6.2m (2022: £9.4m). The macro-economic conditions within the retail sector and the economy as a whole remain challenging and in response the Group has sought to implement several operational and cost saving measures during the period, with the expectation that these changes will fully deliver in future periods. 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. In addition, post period-end, the Group has extended its financing arrangements beyond those in place at the period end through to July 2025. These factors give rise to uncertainty which poses forecasting challenges for most businesses and in particular retailers.</p> <p>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 to management's impairment tests on property related assets as set out in the key audit matter below. The Directors have applied several downside sensitivities to their forecasts, including a reverse stress test of the Group's ability to meet its covenants. Their assessment has considered cashflow forecasts and financing and covenants in place for the period to 31 December 2024.</p> <p>The Group's existing Revolving Credit Facility was due to expire in July 2024, and its extension to July 2025 has been agreed upon with the lenders post period-end and was executed on 29 September 2023. The headline covenants remain unchanged. As a part of the extension process, the lenders reviewed their securitisation coverage and concluded the St Lucian entities of the group should accede to become obligors. This process must be completed within 60 days of the execution date.</p> <p>As set out in accounting policy 2, the Directors have assessed the likelihood of completion of these terms within the required 60 day period through consultation with external legal counsel and their lenders. 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.</p>
<b>How the matter was addressed in the audit</b>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>• Understanding management's going concern models, discussing key assumptions with management, such as forecast cost mitigations and revenue decreases, and assessing whether those assumptions were plausible and consistent with those applied elsewhere including management's impairment testing.</li> <li>• Testing the mathematical accuracy of management's cashflow models and agreeing opening balances to 2 July 2023 actual figures.</li> <li>• Testing management's forecast covenant compliance calculations to determine whether there is a risk of breach and assessing whether the assumptions in management's base and sensitised models appear realistic, achievable and consistent with other internal and external evidence.</li> <li>• Comparing forecast sales with recent historical information to consider the accuracy of forecasting and evaluated post period-end sales patterns to determine whether they are consistent with those assumed in the base model.</li> <li>• Comparing actual post period end cash balances against those forecast and evaluated the reasons for differences.</li> <li>• Testing management's sensitivity analysis and reverse stress test and performing our own analysis to assess whether the scenarios take account of reasonably possible outcomes that could arise from the risks identified.</li> <li>• Testing whether the feasibility of mitigating actions available to management, should these be required, if the forecast performance is not achieved.</li> <li>• Reviewing agreements and correspondence relating to the availability of financing arrangements including reviewing the revised RCF.</li> <li>• Understanding the complexity of the RCF accession process for the St Lucian entities and challenging the feasibility of completion within the required 60 day timeline.</li> <li>• Assessing the adequacy of going concern related disclosures in Note 2 to the financial statements, including the degree of sensitivity to changes in assumptions.</li> </ul>
<b>Key observations</b>	<p>From the work performed above and our review of the going concern disclosures within the accounting policies Note 2, we consider the disclosures made by the Directors to be appropriate and reasonable.</p>



## Independent Auditor's Report

### to the members of Hotel Chocolat Group plc continued

#### Impairment of St Lucia Estate

<b>Key audit matter description</b>	<p>Against the backdrop of slower than expected recovery of tourism post COVID, management identified that there were indications of impairment in relation to the St Lucia Estate. As required by IAS36 (Impairment of Assets) the Group has performed an impairment review of the Estate. As a result of this review, an impairment of £3.5m has been recognised in these financial statements.</p> <p>As described in Notes 2 and 3 to the financial statements the impairment review involves management judgements and estimates in relation to the value of the Estate (being the net present value of forecast related cashflows, in lieu of being able to obtain a reliable estimate of fair value less costs to sell). The values are then compared to the book value of the related assets to determine whether impairment is required. In making this assessment management determined there to be two cash generating units (CGU's), being the Hotel &amp; Spa and tourist attraction.</p> <p>The value in use calculations involve significant assumptions regarding future cashflows, the long-term growth rate in like for like sales, an assessment of expected visitor numbers, pressure on margins and determination of an appropriate discount rate. Accordingly, we determined that the valuation of the Estate had a high degree of estimation uncertainty. Due to the factors explained above we have identified impairment of the St Lucia Estate as a key audit matter.</p> <p>Following the impairment of the St Lucia Estate, a further impairment of £0.7m was recorded against the investment in St Lucia within the parent company entity financial statements. This has resulted in this investment being fully impaired to nil.</p>
<b>How the matter was addressed in the audit</b>	<p>Our work included, but was not limited to:</p> <ul style="list-style-type: none"> <li>• Obtaining an understanding of how management performed their impairment testing of 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: <ul style="list-style-type: none"> <li>– Evaluating management's assumptions through consideration of historical and current trading performance and external data points;</li> <li>– Sensitising the assumptions in management's impairment models and reviewing the financial statement disclosures documenting assumptions and the impacts of applied sensitivities; and</li> <li>– 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.</li> </ul> </li> <li>• 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.</li> <li>• Challenging growth assumptions utilised within the impairment models.</li> <li>• Engaging valuations specialists to perform an independent assessment of the discount rate assumption determined by management and benchmark the discount rate against comparable market data.</li> <li>• Assessing the adequacy of disclosures in respect of the impairment and key judgements and estimates utilised.</li> </ul>
<b>Key observations</b>	<p>Following management's reassessment as a result of our challenge, we found the judgements made by management and their approach to the calculation of impairments recorded, together with the associated disclosures, to be reasonable.</p>

#### Changes to key audit matters

In the prior year we reported key audit matters in respect of the assessment of control in Hotel Chocolat KK and accounting for loans and financial guarantees given to the entity. Following the entry into Civil Rehabilitation programme during the financial year Hotel Chocolat KK is no longer a joint venture and loans have been written off and guarantees paid during the financial period. We therefore no longer consider these to be key audit matters.

## 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
<b>Overall materiality</b>	£492,000 (2022: £1,000,000)	£490,000 (2022: £782,000)
<b>Basis for determining overall materiality</b>	5% of the three year average of results before tax, adjusted for exceptional items	1% of net assets (capped at group overall materiality)*
<b>Rationale for benchmark applied</b>	The Group uses adjusted results before tax in its communications with its shareholders, we have determined this to be the most appropriate benchmark as it provides a more stable measure year on year than Group results before tax in a single year, due to the volatility caused by external factors over the past three years.	The parent company does not trade and therefore net assets is considered to be the most appropriate benchmark.
<b>Performance materiality</b>	£295,000 (2022: £651,000)	£294,000 (2022: £308,000)
<b>Basis for determining performance materiality</b>	60% (2022: 65%) of overall materiality	60% (2022: 65%) of overall materiality
<b>Reporting of misstatements to the Audit Committee</b>	Misstatements in excess of £25,000 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.	Misstatements in excess of £39,000 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.

## An overview of the scope of our audit

The Group consists of 5 trading entities, the most significant of which are based in and operate from the United Kingdom, but there are also entities located in the USA and St Lucia.

The coverage achieved by our audit procedures was:	Number of components	Revenue	Net assets	Result before tax
Full scope audit	2	97%	91%	93%
Targeted audit procedures	2	3%	7%	6%
<b>Total</b>	<b>4</b>	<b>100%</b>	<b>98%</b>	<b>99%</b>

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was £351,000 to £386,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

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 the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included 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** to the members of Hotel Chocolat Group plc continued

### **The impact of climate change on the audit**

As part of our audit, we made enquiries of management to understand the Group's progress on their ESG Strategy, and the extent of the potential impact of climate risk on the group's and company's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any material impact as a result of climate risk on the group's and company's financial statements.

### **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 84, 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:
<b>UK-adopted IAS, FRS102 and Companies Act 2006</b>	Review of the financial statement disclosures and testing to supporting documentation; and Completion of disclosure checklists to identify areas of non-compliance.
<b>Tax compliance regulations</b>	Inspection of advice received from internal / external tax advisors; Input from a tax specialist was obtained regarding the audit of the consolidated tax disclosure; and Consideration of whether any matter identified during the audit required reporting to an appropriate authority outside the entity.
<b>Food Safety</b>	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:
<b>Revenue recognition</b>	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.
<b>Management override of controls</b>	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.

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

11 October 2023

# Consolidated Statement of Comprehensive Income

For the period ended 02 July 2023

	Notes	53 weeks ended 02 July 2023 £000	52 weeks ended 26 June 2022 £000
<b>Revenue</b>	4	<b>204,500</b>	226,133
Cost of sales		<b>(85,298)</b>	(93,810)
Cost of sales – exceptional	5	–	(5,501)
Gross profit		<b>119,202</b>	126,822
Other income	6	<b>319</b>	–
Operating expenses		<b>(117,586)</b>	(110,140)
Operating expenses – exceptional	5	<b>(5,948)</b>	(11,849)
Impairment of financial assets – exceptional	5	–	(11,429)
Operating loss	7	<b>(4,013)</b>	(6,596)
Finance income	12	<b>494</b>	1,035
Finance costs	12	<b>(3,153)</b>	(1,910)
Share of joint venture post-tax results	19	<b>(261)</b>	(1,248)
<b>Loss before tax</b>		<b>(6,933)</b>	(8,719)
Tax credit/(expense)	13	<b>702</b>	(720)
<b>Loss for the period</b>		<b>(6,231)</b>	(9,439)
<b>Other comprehensive (expense)/income:</b>			
<i>Items that may be reclassified to the income statement in subsequent years</i>			
Fair value movement on cash flow hedges	21	<b>481</b>	1,451
Ineffectiveness in cash flow hedges transferred to the income statement	21	<b>(355)</b>	–
Deferred tax credit/(charge) on derivative financial instruments	28	<b>197</b>	(385)
Currency translation differences arising from consolidation		<b>(9)</b>	(355)
Currency movement on net investment		<b>237</b>	1,297
Deferred tax charge on net investment currency movement	28	<b>(59)</b>	(324)
Forex reclassified to inventory/cost of sales		<b>(815)</b>	96
<b>Other comprehensive (expense)/income, net of tax</b>		<b>(323)</b>	1,780
<b>Total comprehensive expense for the period</b>		<b>(6,554)</b>	(7,659)
Earnings per share – Basic and diluted	14	<b>(4.5p)</b>	(6.9p)



## Consolidated Statement of Financial Position

As at 02 July 2023

	Notes	As at 02 July 2023 £000	As at 26 June 2022 £000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	15	1,292	1,818
Property, plant and equipment	16	65,612	68,579
Right of use assets	17	45,066	51,560
Equity investments	18	125	–
Investments in Joint Venture (JV)	19	–	–
		<b>112,095</b>	121,957
<b>Current assets</b>			
Derivative financial assets	21	–	668
Inventories	22	35,040	43,062
Trade and other receivables	23	12,945	17,541
Corporation tax receivable		2,354	3,264
Cash and cash equivalents	24	11,196	17,569
		<b>61,535</b>	82,104
<b>Total assets</b>		<b>173,630</b>	204,061
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	25	(28,787)	(39,441)
Lease liabilities	17	(10,622)	(10,390)
Other financial liabilities	26	–	(6,660)
Derivative financial liabilities	21	(115)	(48)
Provisions	27	(23)	(907)
		<b>(39,547)</b>	(57,446)
<b>Non-current liabilities</b>			
Lease liabilities	17	(37,339)	(44,145)
Deferred tax liability	28	(408)	(1,130)
Derivative financial liabilities	21	(17)	(38)
Provisions	27	(2,840)	(2,919)
		<b>(40,604)</b>	(48,232)
<b>Total liabilities</b>		<b>(80,151)</b>	(105,678)
<b>NET ASSETS</b>		<b>93,479</b>	98,383
<b>EQUITY</b>			
Share capital	31	138	137
Share premium	32	78,193	78,014
Retained earnings	32	10,566	13,499
Translation reserve	32	390	399
Merger reserve	32	223	223
Capital redemption reserve	32	6	6
Other reserves	32	3,963	6,105
<b>Total equity attributable to shareholders</b>		<b>93,479</b>	98,383

The financial statements of Hotel Chocolat Group plc, registered number 08612206, were approved by the Board of Directors and authorised for issue on 11 October 2023. They were signed on its behalf by:

**Jon Akehurst**  
Chief Financial Officer  
11 October 2023

## Consolidated Statement of Cash Flow

For the period ended 02 July 2023

	Notes	53 weeks ended 02 July 2023 £000	52 weeks ended 26 June 2022 £000
Loss before tax for the period		(6,933)	(8,719)
<b>Adjusted by:</b>			
Exceptional items	5	4,315	28,779
Share of JV loss	19	261	1,248
Other income from JV	5	(109)	–
Depreciation of property, plant and equipment	16	8,776	6,506
Depreciation of right of use assets	17	11,040	9,545
Amortisation of intangible assets, net of impairment release	15	597	565
Reversal of amortisation (SaaS)		–	(557)
Gain on lease modification	17	(4)	162
Net interest expense	12	2,659	875
Share-based payments	11	1,525	621
Loss on disposal of non-current assets	7	193	516
<b>Operating cash flows before movements in working capital</b>		<b>22,320</b>	<b>39,541</b>
Decrease/(increase) in trade and other receivables		5,096	(3,286)
Decrease/(increase) in inventories		7,678	(20,267)
Decrease in trade and other payables and provisions		(18,003)	(4,217)
<b>Cash inflows generated from operations</b>		<b>17,091</b>	<b>11,771</b>
Interest received		444	28
Corporation tax received/(paid)		1,003	(533)
Income received from JV		109	–
Interest paid		(3,320)	(1,988)
<b>Cash flows from operating activities</b>		<b>15,327</b>	<b>9,278</b>
Purchase of property, plant and equipment		(9,754)	(24,212)
Purchase of intangible assets		(497)	(1,504)
Proceeds from sale of fixed assets		132	–
Loan to joint venture		(500)	(6,300)
Acquisition of equity investment		(125)	–
<b>Cash flows used in investing activities</b>		<b>(10,744)</b>	<b>(32,016)</b>
Issue of ordinary shares		180	40,343
Costs associated to issue of ordinary shares		–	(1,002)
Utilisation of revolving credit facility	30	34,000	–
Repayment of revolving credit facility	30	(34,000)	–
Lease payments	17	(11,073)	(9,650)
<b>Cash flows (used in)/from financing activities</b>		<b>(10,893)</b>	<b>29,691</b>
<b>Net change in cash and cash equivalents</b>		<b>(6,310)</b>	<b>6,953</b>
Cash and cash equivalents at beginning of period	24	17,569	10,046
Foreign currency movements		(63)	570
<b>Cash and cash equivalents at end of period</b>	24	<b>11,196</b>	<b>17,569</b>

## Consolidated Statement of Changes in Equity

For the period ended 02 July 2023

	Share capital £000	Share premium £000	Retained earnings £000	Translation reserve £000	Merger reserve £000	Capital redemption reserve £000	Other reserves* £000	Total £000
<b>Equity as at 27 June 2021</b>	126	38,684	22,938	754	223	6	3,102	65,833
Loss for the period	–	–	(9,439)	–	–	–	–	(9,439)
Fair value movement 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 charge on net investment currency movement	–	–	–	–	–	–	(324)	(324)
Cash flow hedge transferred to inventory/cost of sales	–	–	–	–	–	–	96	96
<b>Total comprehensive (expense)/income for the period:</b>	–	–	(9,439)	(355)	–	–	2,135	(7,659)
<b>Transactions with owners:</b>								
Issues of share capital	11	39,330	–	–	–	–	–	39,341
Share-based payments	–	–	–	–	–	–	629	629
Deferred tax credit on share-based payments	–	–	–	–	–	–	239	239
<b>Equity as at 26 June 2022</b>	137	78,014	13,499	399	223	6	6,105	98,383
Loss for the period	–	–	(6,231)	–	–	–	–	(6,231)
Fair value movement on cash flow hedges	–	–	–	–	–	–	481	481
Ineffectiveness in cashflow hedges transferred to income statement	–	–	–	–	–	–	(355)	(355)
Deferred tax credit on derivative financial instruments	–	–	–	–	–	–	197	197
Currency translation differences arising from consolidation	–	–	–	(9)	–	–	–	(9)
Currency movement on net investment	–	–	–	–	–	–	237	237
Deferred tax charge on net investment currency movement	–	–	–	–	–	–	(59)	(59)
Cash flow hedge transferred to inventory/cost of sales	–	–	–	–	–	–	(815)	(815)
<b>Total comprehensive (expense)/income for the period:</b>	–	–	(6,231)	(9)	–	–	(314)	(6,554)
<b>Transactions with owners:</b>								
Issues of share capital	1	179	–	–	–	–	–	180
Share-based payments	–	–	–	–	–	–	1,525	1,525
Deferred tax charge on share-based payments	–	–	–	–	–	–	(55)	(55)
Transfer un-utilised share-based payments	–	–	3,298	–	–	–	(3,298)	–
<b>Equity as at 02 July 2023</b>	138	78,193	10,566	390	223	6	3,963	93,479

\* Further detail on the nature of these transactions can be found in Note 32.

## Notes to the Financial Statements

### For the period ended 02 July 2023

#### 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 20. 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 11 October 2023.

#### 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 and the equity investment 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 FY23, impacting the Group that have been adopted in the annual financial statements for the year ended 02 July 2023, 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.

- Annual Improvements 2018-2020 Cycle – Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)
- Onerous Contracts - cost of fulfilling a contract (Amendments to IAS 37)
- Reference to the Conceptual Framework (Amendments to IFRS 3)
- Initial Application of IFRS 17 and IFRS 9 – Comparative Information (Amendments to IFRS 17) (issued on 9 December 2021)

New standards, amendments and interpretations which are not yet effective at the reporting date but will be adopted in future reporting are set out below:

- Classification of liabilities as current or non-current (Amendments to IAS 1)
- Lack of exchangeability (Amendments to IAS 21)
- Definition of Accounting Estimate (Amendments to IAS 8)
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)
- Non-current liabilities with covenants (Amendments to IAS 1)
- Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction – Amendments to IAS 12 Income Taxes

##### Basis of consolidation

The consolidated financial information incorporates the financial statements of the Group and all of its subsidiary undertakings. The financial statements of all Group companies are adjusted, where necessary, to ensure the use of consistent accounting policies. Acquisitions are accounted for under the acquisition method from the date control passes to the Group. On acquisition, the assets and liabilities of a subsidiary are measured at their fair values. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. As allowed under IFRS 1, any acquisitions or Group reorganisations which occurred before the transition date to IFRS have not been restated, but instead the previous accounting treatment has been adopted. During the period ended 29 June 2014, Hotel Chocolat Group Limited (now plc) was incorporated and undertook a share for share exchange with the direct subsidiaries listed in Note 20, excluding Hotel Chocolat (St Lucia) Holdings Limited. This has been accounted for under the basis of merger accounting given that the ultimate ownership before and after the transaction remained the same. Merged subsidiaries undertakings are treated as if they had always been a member of the Group. Any difference between the fair value of the shares issued by the Company and the fair value of the shares acquired 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 2024, 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, cash flows and profitability. The Financial review on pages 20 to 25 considers in more detail the Group's 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 2025 through an amended and restated RCF agreement that was entered into on 29 September 2023, where the option to extend the existing agreement by 12 months until July 2025 was exercised.
- The headline covenants remain unchanged: achieving positive cash in January 2024, net debt to EBITDA (pre IFRS16) of less than 2.5x, and EBITDA to interest greater than 4x.
- In order to support additional inter-company lending to the Group's St Lucian business to fund further infrastructure investment there is a condition to add the Group's two St Lucian legal entities to the agreement as obligors. To secure this inter-company lending, a share pledge is required to be completed within 60 days of execution of the amended and restated RCF agreement. It is the opinion of the Board, acting upon external legal advice, that this is a straight forward legal process fully achievable in the required time frame. This opinion underpins the Board's going concern assessment.
- The Group's current cash position as at 10 October is £8m, giving £22m of headroom within the facility as the business approaches the peak trading period, with around 85% of annual revenues still to achieve 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 c.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 30 on page [129]. For each scenario, the Directors have identified relevant actionable mitigating measures that the Group could undertake at its own discretion to adjust future cash flows and continue to operate within their facilities.

In making their assessment the Directors have reviewed management forecasts based on scenarios reflecting full-year sales in line with FY24 Budget along with scenarios showing declines vs budget of -10% (-2% YoY) and -20% (-13% YoY) which reflect the Directors' view on most probable worst case scenario and a reverse stress test respectively.

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 Group and Company to continue as a going concern in the period to 31 December 2024.

## 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 delivery of goods to the customer, which is when the Group has assessed that control passes to the customer.

## Notes to the Financial Statements continued

### For the period ended 02 July 2023

## 2. Accounting policies continued

### Revenue recognition continued

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.

### 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 and 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 recognised.

### Cacao estate, hotel and visitor attraction

Revenue is recognised over the duration of the hotel guest's 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 cash flow. In the prior year, the Group 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 7.
- 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.

### Other income

Other income comprises Research & Development credits, rental and sub-lease income.

### 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, unless otherwise stated.

#### 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.

#### 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.



## 2. Accounting policies continued

### Employee benefits continued

#### (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, including any market performance conditions and the impact of any non-vesting conditions (but excluding the effect of service and non-market performance 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. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

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.

#### 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 remeasured 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 reassesses 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.

## Notes to the Financial Statements continued

### For the period ended 02 July 2023

## 2. Accounting policies continued

### 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.

### Short term / low value exemptions

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight line basis as an expense in the Consolidated Statement of Comprehensive Income. Short-term leases are leases with a lease term of 12 months or less; for the current financial year this includes all property leases with a holding over or tenancy at will status. Where renewal discussions on a lease extension are ongoing with the landlord at the lease expiry date, the expired lease is treated as a disposal and the new lease recognised 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 improvements	– Over the remaining lease term
Plant and machinery	– 5 to 15 years on a straight line basis
Fixtures, fittings, equipment, and hardware	– 5 to 10 years on a straight line basis
Freehold property	– 50 years on a straight line basis

### 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 indefinite 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

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

### Impairment 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 an appropriate discount rate 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.

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. Management exclude items deemed exceptional from headline performance measures, which are considered to be non-trading, in order to understand the underlying performance of the Group and they reconcile these alternative performance measures to the figures in 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.

## Notes to the Financial Statements continued

### For the period ended 02 July 2023

## 2. Accounting policies continued

### Financial assets

Equity investments, cash and cash equivalents, trade and other receivables (excluding prepayments and accrued income) and derivative financial instruments are categorised as financial assets.

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

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.

Derivative financial instruments are initially recognised at fair value on the date that a derivative contract is entered into, and they are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument or not. If hedge accounting is applied, subsequent movements are recognised in other comprehensive income, otherwise gains/(losses) are recognised at fair value through the income statement.

### 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.

### 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 joint 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.

### Investment in equity investments

The Group's investment has been accounted as an equity investment under IFRS 9. The Group has taken the IFRS 9 irrevocable election to present in other comprehensive income subsequent changes in the fair value of the investment.

### Trade and other receivables

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

#### (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, adjusted for forward looking information. There are no expected losses for retail sales as consideration is received at the point of sale.

## 2. Accounting policies continued

### Trade receivables continued

#### (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.

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, 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.

### 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.

## Notes to the Financial Statements continued

### For the period ended 02 July 2023

## 2. Accounting policies continued

### Hedge accounting

Hedge accounting is applied to financial assets and financial liabilities only where all of the following criteria are met:

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

### Cash flow hedges

The effective part of forward contracts (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. Changes in the fair value of the hedging instrument due to the forward points are immediately recognised in Other Comprehensive Income and accumulated in the hedging reserve. 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.

## 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 accounting estimates and judgements made by the Group regarding the future or other key sources of estimation, uncertainty and judgement that may have a significant risk of giving rise to a material adjustment to the carrying values of assets and liabilities within the next financial period are:

### • Japan Joint Venture (critical accounting judgement)

During the year ended 30 June 2019, the Group acquired a 20% interest in the Japan Joint Venture. An assessment was performed at the time under 'IFRS 10 Consolidated Financial Statements'. It was assessed that the Group does not have the unilateral ability to direct the relevant activities of the Japan Joint Venture through either its contractual rights, or through any other substantive matters. As a result, the Group has concluded it does not have control. The carrying value of the loan before expected credit losses at 02 July 2023 is £nil (28 June 2022: £17,816k). As of 26 June 2022, the loan had been fully impaired on the basis that the Japan Joint Venture had entered into Civil Restructuring. The Group obtained Court approval for Civil Rehabilitation restructuring proceedings (Minji Saisei) in July 2022 and the winding up of the organisation is nearing completion. During the period ended 02 July 2023, the investment was written off as detailed in Note 19.

### • Equity Investment (critical accounting judgement)

On 29 December 2022, Hotel Chocolat Group plc signed a new strategic partnership agreement with Kram Inc. Under the partnership agreement a new venture, HC Saint Lucia Inc. ("HC St Lucia KK"), a company incorporated in Japan was established. Hotel Chocolat Limited has acquired a 20% equity investment in this venture. The strategic partnership leverages Kram Inc skills and expertise in the local Japanese market, as well as providing the capital growth and resources. Hotel Chocolat brings a strong brand and supplies key products for onward assembly and packing within Japan and will receive a royalty on all sales as the business develops.



### 3. Summary of critical accounting estimates and judgements continued

#### • Equity investment (critical accounting judgement) continued

In line with IFRS 10, management have reviewed whether Hotel Chocolat Limited has a controlling interest or significant influence in HC Saint Lucia KK.

The Group is not entitled to appoint any members to the HC St Lucia KK board (which is the company's sole decision-making body) and therefore whilst the shares are voting shares, the voting rights would not give the Group power to direct the company's activities. On this basis, the Group is not deemed to have controlling interest in HC St Lucia KK and therefore will not consolidate this investment in the Group's Annual Report.

In line with IAS 28, an investor is deemed to have significant influence where they have the power to participate in decision-making but not control or joint control of the investee. The voting shares of the Group do not give it power to direct the activities in HC St Lucia KK, and therefore the Group does not have the ability to participate in the financial and operating policy decisions of HC St Lucia KK. In addition, the shareholders' agreement specifically states that the Group does not have the right to appoint any Director of the company, nor does it have the right to appoint any observer to the board of HC St Lucia KK and as such the Directors have concluded that it is appropriate that this investment is considered an equity investment under IFRS 9.

The Directors have taken the allowable irrevocable election to present in other comprehensive income subsequent changes in the fair value of the HC St Lucia KK investment.

#### • 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 02 July 2023, £4,393k of stock provisions have been recognised (26 June 2022: £9,133k). In the UK the provision of £1,409k (26 June 2022: £6,591k) is made up of fully impaired stock held in the UK, mainly in relation to slow moving packaging, consumables, podcyclers and other stock items totalling £1,389k, and BBE finished goods provision of £20k. Additionally £2,984k (26 June 2022: £2,542k) has been provided for hardware held in overseas territories. 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. No external data points are currently available for the overseas territories.

Sensitivity analysis	5% increase in provision	5% decrease in provision
Stock held overseas	189	(189)
Impact upon income statement	189	(189)

#### • Impairments (critical accounting judgement)

Impairment tests are performed on retail stores, 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 cash flows and the discount rates applied.

#### • Impairments (critical accounting estimate)

The right of use assets and associated property, plant and equipment are assessed for impairment at each reporting period in line with IAS 36 to review whether the carrying amount exceeds its recoverable amount. For impairment testing purposes, the Group has determined that each site is treated as a separate cash generating unit in determining the recoverability of property, plant and equipment and right of use assets. During the year ended 02 July 2023, the Group reversed previous impairments of £70k (26 June 2022: £5,225k release of which £1,734k related to UK stores) relating to Hotel Chocolat UK retail locations as a result of improved trading performance. Further detail is set out within Note 5. 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 10.79% (26 June 2022: 9.335%). A sensitivity analysis has been performed based on a 10% change in EBITDA which resulted in a £nil impairment change.

The recoverable amount of the net asset at physical retail locations that have incurred an impairment (either in the current period or previously) is £1,399k (26 June 2022: £1,405k). The impairment charge has been recorded within exceptional items as per Note 5.

The Group made an impairment charge of £3,498k during the year ended 02 July 2023 (26 June 2022: £1,200k charge) relating to the freehold property within the Saint Lucia business. The disruption caused by COVID-19 has reduced the short-term valuations and as a result the carrying value has been impaired. The resort and tourist attraction are treated as separate cash generating units. Value in use is determined using internal cash flow forecasts and EBITDA based on a 5-year period into perpetuity with assumed growth rates based on occupancy and visitor numbers with a pre-tax discount rate of 22.62% (26 June 2022: 22.00%). The sensitivity analysis has been performed based on revenue growth rates.

Sensitivity analysis	10% increase in revenue growth rates	10% decrease in revenue growth rates
Saint Lucia impairment	6,042	(9,086)
Impact upon income statement	6,042	(9,086)

The recoverable amount of the St Lucia estate that has not been impaired at the period end is £9,086k (26 June 2022: £14,444k). The impairment charge has been recorded within exceptional items as per Note 5.

## Notes to the Financial Statements continued

### For the period ended 02 July 2023

### 3. Summary of critical accounting estimates and judgements continued

#### • 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 0.93% and 8.9% (26 June 2022: 2.0% and 4.8%) as per Note 17. 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 reassesses 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.

### 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.

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.

The Group has no individual customer which contributes more than 10% of its revenues.

	53 weeks ended 02 July 2023 £000	52 weeks ended 26 June 2022 £000
Sale of goods	200,021	222,354
Sale of services*	4,479	3,779
<b>Total revenue</b>	<b>204,500</b>	226,133

\* Includes revenue recognised over time for hotel stays in Saint Lucia of £1,564k (26 June 2022: £1,540k). All other sales are recognised at a point in time.

	53 weeks ended 02 July 2023 £000	52 weeks ended 26 June 2022 £000
<b>Revenue by channel</b>		
UK		
Physical	117,756	109,364
Digital	58,293	79,130
Partners & B2B	21,282	25,999
International	2,459	7,812
Cacao estate & hotel	4,710	3,828
<b>Total revenue</b>	<b>204,500</b>	226,133

#### 4. Revenue continued

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 US, 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:

	53 weeks ended 02 July 2023 £000	52 weeks ended 26 June 2022 £000
<b>Revenue by destination of sale</b>		
United Kingdom	197,331	214,493
Europe	1,374	1,191
Saint Lucia	4,710	3,828
United States	183	2,861
Japan*	902	3,760
<b>Total revenue</b>	<b>204,500</b>	<b>226,133</b>

\* Group sales made to the new Japan equity investment £343k (26 June 2022: £nil), and the Japan Joint Venture £559k (26 June 2022: £3,760k).

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

	53 weeks ended 02 July 2023 £000	52 weeks ended 26 June 2022 £000
<b>Non-current assets</b>		
United Kingdom	104,090	109,760
Ireland	344	170
United States	–	26
Saint Lucia	7,536	12,001
Japan	125	–
<b>Total non-current assets</b>	<b>112,095</b>	<b>121,957</b>

#### 5. Exceptional items

	53 weeks ended 02 July 2023 £000	52 weeks ended 26 June 2022 £000
Impairment and write off related to Joint Venture investment, net of exceptional credits	258	21,836
Saint Lucia impairment	3,498	1,200
Goodwill impairment	–	425
Store impairment release	(70)	(5,225)
Material non-recurring events: operating costs	2,262	5,042
<b>Total operating expenses – exceptional</b>	<b>5,948</b>	<b>23,278</b>
Material non-recurring costs: margin	–	5,501
<b>Total exceptional items</b>	<b>5,948</b>	<b>28,779</b>

## Notes to the Financial Statements continued

### For the period ended 02 July 2023

#### 5. Exceptional items continued

##### Impairment and write off related to Joint Venture investment

During the year ended 02 July 2023, £nil impairment was provided (26 June 2022: £21,836k) related to the Joint Venture investment.

Exposure of £592k was written off during the year ended 02 July 2023 relating to loans provided to the Japan Joint Venture before the Joint Venture obtained Court approval for Civil Rehabilitation restructuring proceedings (Minji Saisei).

Offsetting these costs is £109k received from the Japan Joint Venture as repatriation of funds, as the restructuring proceedings progress to their conclusion.

During the year ended 02 July 2023, an FX gain of £225k was realised when financial guarantee contract liabilities supporting the Joint Venture were settled.

##### Saint Lucia impairment

There is an impairment of £3,498k during the year ended 02 July 2023 (26 June 2022: £1,200k) relating to the assets of the Saint Lucia business. The charge in 2023 related to the decline in the value of the Rabot Estate, as tourism in Saint Lucia has not fully recovered from the impacts of COVID-19.

##### Goodwill impairment

£nil impairment was provided during the year ended 02 July 2023 (26 June 2022: £425k). The goodwill arose from the acquisition of Rabot 1745 Limited which is no longer supportable as Rabot 1745 Limited is no longer trading.

##### Store impairments

##### US gain on remeasurement of lease liabilities

There was no further release or charge during the year ended 02 July 2023 (26 June 2022: £3,491k release) relating to the release of lease liabilities of the US stores.

##### UK store impairments

There is an impairment release of £70k during the year ended 02 July 2023 (26 June 2022: £1,734k release) relating to fixed assets of stores. The release is primarily due to the improved trading conditions during the period as well as management's assessment of future cash flows over the remaining lease period for each store. The key assumptions used in the future cash flows were sales and EBITDA (based on board approved plans), assumed nil growth rate for 5 years and a discount rate of 10.790% (26 June 2022: 9.670%).

#### Material non-recurring events – operating costs

##### Restructuring costs

An expense of £2,110k was incurred during the year ended 02 July 2023 (26 June 2022: £181k) relating to staff redundancy costs.

This expense is partially offset by a release of the share-based payment forfeited in relation to the restructure of £477k (26 June 2022: £nil).

##### Capital cash deposit impairment

In the prior year, there was a provision of £2,477k for doubtful recovery of a cash deposit made to a manufacturer of capital equipment that went into administration. No provisions have been recognised in the year ended 02 July 2023.

##### Sale and operation planning process

In the prior year, non-recurring professional fees totalled £809k in relation to the implementation of a new sales and operating planning process. No fees have been incurred in the year ended 02 July 2023.

##### US exit costs

In the prior year, there was a provision of £611k incurred in relation to recovery of rent deposits and staff redundancy. No provisions have been recognised in the year ended 02 July 2023.

##### Onerous contracts

In the prior year, 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 had been provided for. No additional provisions have been recognised in the year ended 02 July 2023 for US and Japan markets.

##### Coffee machine tooling

During the year ended 02 July 2023, coffee machine tooling was written off totalling £126k (26 June 2022: £nil) following the exit from this product category.

##### FX on long-term loan

During the year ended 02 July 2023, an FX expense of £503k (26 June 2022: £nil) was recognised in relation to the US intercompany loan that was provided for in the period ended 26 June 2022. £392k relates to the reversal of a FX gain realised during year ended 26 June 2022, and £111k FX loss during the year ended 02 July 2023.

## 5. Exceptional items continued

### Material non-recurring events – margin

During the year ended 02 July 2023, there were no material non-recurring events that impacted margin.

### Discontinued UK stock lines

No additional provision was made during the year ended 02 July 2023 (26 June 2022: £2,959k) relating to the exit certain UK product categories.

### US stock provision

£nil provision made during the year ended 02 July 2023 (26 June 2022: £2,542k) relating to US stock following the decision to exit the US market in FY22.

## 6. Other income

	53 weeks ended 02 July 2023 £000	52 weeks ended 26 June 2022 £000
Rental income and sub-lease income	149	–
Research and development expenditure credit	144	–
Other items	26	–
<b>Total</b>	<b>319</b>	<b>–</b>

## 7. Loss from operations

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

	Notes	53 weeks ended 02 July 2023 £000	52 weeks ended 26 June 2022 £000
Staff costs	9	67,019	60,146
Government grants received <sup>1</sup>		–	(94)
Depreciation of property, plant and equipment	16	8,776	6,506
Depreciation of right of use asset	17	11,040	9,545
Amortisation of intangible assets and impairment	15	597	565
Reversal of amortisation (SaaS)	15	–	(557)
Loss on disposal of non-current assets		193	516
Exceptional items	5	5,948	28,779
Loss/(profit) on exchange differences		849	(346)
(Release of provision)/write down of inventory recognised as a (credit)/expense		(5,927)	9,797
Impairment of trade receivables		22	(2)

<sup>1</sup> Government grants received include the Retail Hospitality Leisure Grant Fund and the Closed Business Lockdown Payment.

## 8. Audit and non-audit fees

An analysis of auditor's remuneration is as follows:

	53 weeks ended 02 July 2023 £000	52 weeks ended 26 June 2022 £000
<b>Audit fee:</b>		
– the Parent Company and Group audits	240	415
– the Group's subsidiaries pursuant to legislation	355	450
<b>Total audit fees</b>	<b>595</b>	<b>865</b>
<b>Non-audit fees</b>	<b>–</b>	<b>–</b>

## Notes to the Financial Statements continued

### For the period ended 02 July 2023

#### 9. Staff costs

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

	53 weeks ended 02 July 2023	52 weeks ended 26 June 2022
Production staff	508	537
Administrative staff	623	637
Retail staff	1,208	1,257
<b>Total</b>	<b>2,339</b>	2,431

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

	53 weeks ended 02 July 2023 £000	52 weeks ended 26 June 2022* £000
Wages and salaries*	59,261	54,290
Share-based payments	1,525	621
Social security costs	4,841	3,948
Pension costs	1,392	1,287
<b>Total</b>	<b>67,019</b>	60,146

\* Wages and salaries during year ended 26 June 2022 has been restated to include additional temporary staff costs of £4,415k, increasing the total to £54,290k from £49,875k. During the period ended 02 July 2023, temporary staff costs of £5,108k (26 June 2022: £8,357k) are included within wages and salaries.

Social security includes a credit of £185k of employer's national insurance for 2016, 2019 and 2021 LTIPs and a charge of £37k on Founder Shares Plan (26 June 2022: £167k charge on 2016 and 2019 LTIP; £7k on Founder Shares Plan).

#### 10. 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 eight (26 June 2022: ten). Emoluments and benefits include:

	53 weeks ended 02 July 2023 £000	52 weeks ended 26 June 2022 £000
Short-term employee benefits	1,965	1,916
Share-based payments	231	116
Social security costs	291	233
Post-employment benefits	78	70
<b>Total</b>	<b>2,565</b>	2,335

Further information about the remuneration of individual Directors, including the highest paid Director, is provided in the Remuneration Report on pages 76 to 79.



## 11. 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 page 79.

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:

	53 weeks ended 02 July 2023		52 weeks ended 26 June 2022	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at beginning of the period	3,843,586	0.08	570,045	0.74
Granted during the period	–	–	3,800,716	0.001
Exercised during the period	(218,540)	0.82	(91,081)	1.48
Forfeited during the period	(1,044,319)	0.003	(436,094)	0.0004
Outstanding at the end of the period	2,580,727	0.04	3,843,586	0.08
<b>Vested and exercisable at the end of the period</b>	<b>73,135</b>	<b>1.48</b>	<b>193,675</b>	<b>1.48</b>

			53 weeks ended 02 July 2023	52 weeks ended 26 June 2022
Exercise price of outstanding options	Grant date	Expiry date	Number of share options	Number of share options
Exercise price 0.001	02/08/2021	02/08/2031	2,220,405	3,113,124
Exercise price 0.001	24/03/2022	02/08/2031	287,187	536,787
Exercise price 1.48 <sup>1</sup>	30/09/2016	30/09/2026	73,135	193,675
			<b>2,580,727</b>	<b>3,843,586</b>

1 Exercisable at the end of the period.

The awards outstanding at the end of 02 July 2023 have a weighted average remaining contractual life of 7.95 years (26 June 2022: 8.86 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 3 January 2023 and 10 February 2023, with an average share price during this period of £2.06.

The Group recognised total expenses related to the above equity-settled share-based payment transactions in the form of options during the period ended 02 July 2023 of £487k (26 June 2022: £83k charge).

There were nil options granted during the period ended 02 July 2023 (26 June 2022: 3,800,716 options). 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.

The aggregate of the fair value of these shares granted during the period ended 02 July 2023 was £nil (26 June 2022: £5,992k). The inputs used for fair valuing awards granted during the period were as follows:

	53 weeks ended 02 July 2023	52 weeks ended 26 June 2022
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%

## Notes to the Financial Statements continued

### For the period ended 02 July 2023

#### 11. Share-based payments continued

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.

Forfeitures prior to vesting due to employees failing to meet the service condition are estimated at 5% per annum of outstanding awards (2022: 0%).

#### 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 cancelled if the employee withdraws from the saving scheme during the period, and 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:

	53 weeks ended 02 July 2023		52 weeks ended 26 June 2022	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at the beginning of the period	1,208,445	3.21	930,978	2.83
Granted during the period	1,665,084	1.68	513,382	3.80
Exercised during the period	(119)	1.68	(70,426)	2.56
Forfeited during the period	(189,242)	2.54	(165,489)	3.15
Cancelled during the period	(1,075,017)	2.88	–	–
Outstanding at the end of the period	1,609,151	1.93	1,208,445	3.21
Vested and exercisable at the end of the period	–	–	–	–

			53 weeks ended 02 July 2023	52 weeks ended 26 June 2022
Exercise price of outstanding options	Grant date	Expiry date	Number of share options	Number of share options
Exercise price 1.68	13/02/2023	01/09/2026	1,359,480	–
Exercise price 2.56	31/10/2018	31/05/2022	–	1,406
Exercise price 2.78	10/11/2020	01/06/2024	125,369	531,241
Exercise price 3.04	25/10/2019	31/05/2023	–	215,829
Exercise price 3.80	05/11/2021	01/06/2025	124,302	459,969
			1,609,151	1,208,445

The awards outstanding at the end of 02 July 2023 have a weighted average remaining contractual life of 2.89 years (26 June 2022: 2.13 years) and a range of exercise prices between £1.68 and £3.80. 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 02 July 2023 of £871k (26 June 2022: £500k).

The aggregate of the fair value of these shares granted during the period ended 02 July 2023 was £498k (26 June 2022: £1,121k). The fair values were calculated using a Black Scholes model less a deduction of 72% (2022: 0%) for estimated cancellations (caused by employees withdrawing from the saving scheme prior to vesting).

## 11. Share-based payments continued

### The Hotel Chocolat Group plc Save As You Earn Plan continued

The inputs used in the Black Scholes model for valuing awards granted during the period were as follows:

	53 weeks ended 02 July 2023	52 weeks ended 26 June 2022
Weighted average share price (£)	2.22	5.25
Exercise price (£)	1.68	3.80
Expected volatility (%)	55.1%	43.11%
Option life (years)	3.5	3.5
Risk free interest rate (%)	3.34%	0.49%
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.

Forfeitures prior to vesting due to employees failing to meet the service condition are estimated at 5% per annum of outstanding awards (2022: 0%).

### 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:

	53 weeks ended 02 July 2023		52 weeks ended 26 June 2022	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at beginning of the period	218,028	0.001	—	—
Granted during the period	—	—	275,372	0.001
Exercised during the period	—	—	—	—
Forfeited during the period	(53,241)	0.001	(57,344)	0.001
Outstanding at the end of the period	164,787	0.001	218,028	0.001
Vested and exercisable at the end of the period	—	—	—	—

			53 weeks ended 02 July 2023	52 weeks ended 26 June 2022
Exercise price of outstanding options	Grant date	Expiry date	Number of share options	Number of share options
Exercise price 0.001	01/05/2022	01/11/2025	164,787	218,028
			164,787	218,028

The awards outstanding at the end of 02 July 2023 have a weighted average remaining contractual life of 2.34 years (26 June 2022: 3.34 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 02 July 2023 of £167k (26 June 2022: £38k).

## Notes to the Financial Statements continued

### For the period ended 02 July 2023

#### 11. Share-based payments continued

##### The Hotel Chocolat Group plc Founder Shares Plan continued

The aggregate of the fair value of these shares granted during the period ended 02 July 2023 was £nil (26 June 2022: £765k). 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:

	53 weeks ended 02 July 2023	52 weeks ended 26 June 2022
Weighted average share price (£)	–	3.50
Exercise price (£)	–	0.001
Expected volatility (%)	–	45.3%
Option life (years)	–	3.0
Risk free interest rate (%)	–	1.97%
Dividend yield (%)	–	0%
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.

Forfeitures prior to vesting due to employees failing to meet the service condition are estimated at 5% per annum of outstanding awards (2022: 0%)

#### 12. Finance income and expenses

	53 weeks ended 02 July 2023 £000	52 weeks ended 26 June 2022 £000
Interest from related party	–	967
Interest from related party - exceptional*	50	–
Interest on bank deposits	444	68
<b>Finance income</b>	<b>494</b>	1,035
Interest on bank borrowings	1,071	552
Unrealised interest on derivative financial instruments	4	12
Realised interest on derivative financial liabilities	207	165
Interest on lease liabilities	1,871	1,181
<b>Finance expenses</b>	<b>3,153</b>	1,910

\* Interest of £50k was calculated in relation to loan made to the Japan Joint Venture during the year ended 02 July 2023 before the Joint Venture obtained Court approval for Civil Rehabilitation restructuring proceedings (Minji Saisei) in July 2022. As the entity has ceased trading the finance income has been categorised as an exceptional item.

#### 13. Taxation

	53 weeks ended 02 July 2023 £000	52 weeks ended 26 June 2022 £000
UK corporation tax	–	132
Adjustment in respect of previous periods	(63)	(734)
Total current tax credit	(63)	(602)
Deferred tax:		
Adjustment in respect of previous periods	198	(42)
Adjust deferred tax in respect of change in future rate of taxation	(168)	305
Origination and reversal of temporary differences	(669)	1,059
<b>Total tax (credit) / expense</b>	<b>(702)</b>	720

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

### 13. Taxation continued

The differences are explained below:

	53 weeks ended 02 July 2023 £000	52 weeks ended 26 June 2022 £000
Loss on ordinary operations before income tax	(6,933)	(8,719)
Standard rate of corporation tax	20.50%	19.00%
Loss for the year multiplied by the standard rate of corporation tax	(1,421)	(1,657)
Effects of:		
Expenses/Income not deductible for tax purposes <sup>1</sup>	1,027	2,302
Permanently allowed depreciation	(274)	(357)
Other tax adjustments	(45)	–
Adjustment in respect of prior years	135	(776)
Adjust deferred tax in respect of change in future rate of taxation	(168)	305
Losses carried back	–	697
Unrecognised losses carried forward	44	206
<b>Total tax (credit) / expense</b>	<b>(702)</b>	<b>720</b>

<sup>1</sup> 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 balances. In the period ended 02 July 2023, expenses not deductible for tax purposes related primarily to the impairment of fixed assets in Saint Lucia.

The Group's effective tax rate for the period ended 02 July 2023 was 10.12% (26 June 2022: -8.25%). The effective rate is an amalgamation of UK, US and European rates for the periods reported. At 02 July 2023, the Group has tax losses to carry forward against future profits of the Irish branch of £nil (26 June 2022: £245k) and Hotel Chocolat Ltd of £13,970k (26 June 2022: £6,345k). There is no expiry on these losses and they are recognised at the rate they expect to be utilised in the future. The US operations have restricted tax losses carried forward of £6,979k (26 June 2022: £7,220k). US losses, which have no expiry date, amount to approximately £3,833k, of which £199k (26 June 2022: £172k) have been recognised at the rate they expect to be utilised in the future.

An increase in the UK corporation tax from 19% to 25% (effective 1 April 2023) was enacted during the financial period ended 27 June 2021.

### 14. Earnings per share

Loss for the period is used in the calculation of the basic and diluted earnings per share. Diluted loss per share is capped at the basic earnings per share as the impact of dilution cannot result in a reduction in the loss per share.

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

	53 weeks ended 02 July 2023	52 weeks ended 26 June 2022
Weighted average number of share in issue for the period – basic	137,428,284	136,313,568
Effect of dilutive potential share:		
Save as You Earn Plan	–	172,020
Long-Term Incentive Plan	7,423	125,380
Founder Shares	–	113,536
Weighted average number of shares in issue used in the calculation of earnings per share (number) – Diluted	137,435,707	136,724,504
Earnings per share – Basic and diluted	(4.5p)	(6.9p)

As at 02 July 2023, the total number of potentially dilutive shares issued under the Hotel Chocolat Group plc 2021 Long-Term Incentive Plan was 2,507,592 (26 June 2022: 3,649,911). Due to the nature of the options granted under this scheme, they are considered contingently issuable shares and therefore have no dilutive effect. For further information on the movements in the share capital, please refer to Note 31.

**Notes to the Financial Statements** continued  
For the period ended 02 July 2023

**15. Intangible assets**

**Computer software and website costs**

	53 weeks ended 02 July 2023 £000	52 weeks ended 26 June 2022 £000
<i>Cost:</i>		
At beginning of period	2,549	6,606
Additions	497	1,504
Disposals	(297)	(2,385)
Reclassification <sup>1</sup>	(239)	–
SaaS reclassification*	–	(3,195)
Exchange difference	3	19
<b>At end of period</b>	<b>2,513</b>	2,549
<i>Amortisation:</i>		
At beginning of period	731	3,055
Amortisation charge	607	565
Disposals	(103)	(2,349)
SaaS reclassification*	–	(557)
Impairment release	(10)	–
Exchange difference	(4)	17
<b>At end of period</b>	<b>1,221</b>	731
<b>Net book value</b>	<b>1,292</b>	1,818

<sup>1</sup> Reclassifications represent assets under construction brought forward balances which were categorised as intangible assets and have now been reclassified within furniture & fittings, equipment & hardware.

\* 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.

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

Strategic data development within computer software and website costs have been capitalised in the year and the carrying amount at the period end is £935k. In the prior year these were categorised as assets under construction (26 June 2022: £1,161k).



## 16. Property, plant and equipment

	Freehold property £000	Leasehold improvements £000	Furniture & fittings, equipment & hardware £000	Plant & machinery £000	Total £000
<b>52 weeks ended 26 June 2022</b>					
Cost:					
As at 27 June 2021	19,947	1,884	41,281	38,834	101,946
Additions	2,715	93	4,481	16,923	24,212
Disposals	(3)	–	(1,154)	(126)	(1,283)
Reclassification <sup>2</sup>	–	–	(1,453)	–	(1,453)
Translation differences	1,588	–	402	3	1,993
<b>As at 26 June 2022</b>	<b>24,247</b>	<b>1,977</b>	<b>43,557</b>	<b>55,634</b>	<b>125,415</b>
Accumulated depreciation & impairments:					
As at 27 June 2021	(3,426)	(842)	(29,858)	(14,324)	(48,450)
Depreciation charge	(253)	(192)	(3,852)	(2,209)	(6,506)
Disposal	–	–	1,082	–	1,082
Reclassification <sup>2</sup>	–	–	610	–	610
Impairment (charge)/release <sup>1</sup>	(1,200)	–	1,130	(2,477)	(2,547)
Translation differences	(371)	–	(654)	–	(1,025)
<b>As at 26 June 2022</b>	<b>(5,250)</b>	<b>(1,034)</b>	<b>(31,542)</b>	<b>(19,010)</b>	<b>(56,836)</b>
Net book value:					
<b>As at 26 June 2022</b>	<b>18,997</b>	<b>943</b>	<b>12,015</b>	<b>36,624</b>	<b>68,579</b>
<b>53 weeks ended 02 July 2023</b>					
Cost:					
As at 26 June 2022	<b>24,247</b>	<b>1,977</b>	<b>43,557</b>	<b>55,634</b>	<b>125,415</b>
Additions	<b>1,065</b>	<b>2</b>	<b>5,559</b>	<b>3,128</b>	<b>9,754</b>
Disposals	–	–	<b>(3,448)</b>	<b>(2,627)</b>	<b>(6,075)</b>
Reclassification <sup>3</sup>	<b>(2,492)</b>	<b>(95)</b>	<b>156</b>	<b>2,670</b>	<b>239</b>
Translation differences	<b>(617)</b>	–	<b>(17)</b>	<b>(1)</b>	<b>(635)</b>
<b>As at 02 July 2023</b>	<b>22,203</b>	<b>1,884</b>	<b>45,807</b>	<b>58,804</b>	<b>128,698</b>
Accumulated depreciation & impairments:					
As at 26 June 2022	<b>(5,250)</b>	<b>(1,034)</b>	<b>(31,542)</b>	<b>(19,010)</b>	<b>(56,836)</b>
Depreciation charge	<b>(305)</b>	<b>(192)</b>	<b>(4,332)</b>	<b>(3,947)</b>	<b>(8,776)</b>
Disposal	–	–	<b>3,312</b>	<b>2,501</b>	<b>5,813</b>
Reclassification <sup>3</sup>	–	–	–	–	–
Impairment (charge)/release <sup>1</sup>	<b>(3,498)</b>	–	<b>70</b>	–	<b>(3,428)</b>
Translation differences	<b>135</b>	–	<b>6</b>	–	<b>141</b>
<b>As at 02 July 2023</b>	<b>(8,918)</b>	<b>(1,226)</b>	<b>(32,486)</b>	<b>(20,456)</b>	<b>(63,086)</b>
Net book value:					
<b>As at 02 July 2023</b>	<b>13,285</b>	<b>658</b>	<b>13,321</b>	<b>38,348</b>	<b>65,612</b>

1 The following impairments were made in the period ended 02 July 2023: Saint Lucia estate impairment charge £3,498k (26 June 2022: £1,200k). Store impairment release £70k (26 June 2022: £1,130k release) and capital cash deposit impairment charge £nil (26 June 2022: £2,477k). The capital cash deposit has been disposed during the period ended 02 July 2023.

2 Reclassifications during year ended 26 June 2022 represent right of use assets previously categorised within furniture & fittings, equipment & hardware.

3 Reclassifications during the year ended 02 July 2023 represent assets under construction brought forward balances from freehold property and intangible assets to categories across PPE.

As at 02 July 2023, the net book value of freehold property includes land of £2,521k (26 June 2022: £4,509k), which is not depreciated. Included in freehold property is £585k of assets under construction (26 June 2022: £2,438k). Included in Furniture & fittings, equipment & hardware is £388k of assets under construction (26 June 2022: £2,005k). Included in Plant & machinery is £198k of assets under construction (26 June 2022: £7,475k).

## Notes to the Financial Statements continued

### For the period ended 02 July 2023

#### 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 0.93% and 8.9% (26 June 2022: 2.0% and 4.8%).

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
<b>As at 27 June 2021</b>	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 release <sup>1</sup>	604	–	604
Foreign exchange	20	–	20
<b>As at 26 June 2022</b>	51,560	–	51,560
Additions to right of use assets	<b>4,060</b>	<b>356</b>	<b>4,416</b>
Amortisation	<b>(11,001)</b>	<b>(39)</b>	<b>(11,040)</b>
Effect of modification of lease	<b>550</b>	–	<b>550</b>
Derecognition	<b>(412)</b>	–	<b>(412)</b>
Foreign exchange	<b>(8)</b>	–	<b>(8)</b>
<b>As at 02 July 2023</b>	<b>44,749</b>	<b>317</b>	<b>45,066</b>

Lease liabilities	Land & buildings £000	Equipment £000	Total £000
<b>As at 27 June 2021</b>	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
<b>As at 26 June 2022</b>	54,535	–	54,535
Additions to lease liabilities	<b>4,015</b>	<b>356</b>	<b>4,371</b>
Interest expense	<b>1,862</b>	<b>9</b>	<b>1,871</b>
Effect of modification of lease	<b>546</b>	–	<b>546</b>
Derecognition	<b>(417)</b>	–	<b>(417)</b>
Lease payments	<b>(12,895)</b>	<b>(49)</b>	<b>(12,944)</b>
Foreign exchange	<b>(1)</b>	–	<b>(1)</b>
<b>As at 02 July 2023</b>	<b>47,645</b>	<b>316</b>	<b>47,961</b>

During the period ended 02 July 2023, all leases entered into are on normal terms. During period ended 26 June 2022, a new lease for a distribution centre in Northampton was entered into and £24,703k was included in the additions of the right of use assets and lease liabilities. The 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.

<sup>1</sup> Land and building impairment was £nil in the period ended 02 July 2023 (26 June 2022: £604k).

**17. Leases** continued

	02 July 2023 £000	26 June 2022 £000
Non-current	37,339	44,145
Current	10,622	10,390
<b>Total lease liabilities</b>	<b>47,961</b>	<b>54,535</b>

**Leases – cash outflow**

	02 July 2023 £000	26 June 2022 £000
Capital element of lease cash outflows	11,073	9,650
Interest element of lease cash outflows	1,871	1,181
Low value lease cash outflows	5	4
Short term lease cash outflows	1,959	892
Variable lease cash outflows	4,204	3,661
<b>Total contractual cash flows</b>	<b>19,112</b>	<b>15,388</b>

**Amounts recognised in the Consolidated Statement of Comprehensive Income**

	Land & buildings £000	Equipment £000	Total £000
<b>52 weeks ended 26 June 2022</b>			
Depreciation charge on right of use assets	9,539	6	9,545
Impairment release	(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 <sup>1</sup>	3,612	49	3,661
<b>As at 26 June 2022</b>	<b>13,844</b>	<b>835</b>	<b>14,679</b>
<b>53 weeks ended 02 July 2023</b>			
Depreciation charge on right of use assets	11,001	39	11,040
Interest on lease liabilities	1,862	9	1,871
Expenses related to low value leases	–	5	5
Expenses related to short term leases	201	1,757	1,958
Expenses related to variable lease payments <sup>1</sup>	4,148	56	4,204
<b>As at 02 July 2023</b>	<b>17,212</b>	<b>1,866</b>	<b>19,078</b>

<sup>1</sup> 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 02 July 2023 is £134k (26 June 2022: £407k).

**Maturity analysis of Lease liabilities**

	02 July 2023 £000	26 June 2022 £000
<b>Lease liabilities</b>		
<b>Maturity analysis – contractual undiscounted cash flows</b>		
Less than one year	12,461	10,610
Between one and two years	10,295	11,023
Between two and five years	18,896	21,993
After five years	13,305	18,062
<b>Total contractual cash flows</b>	<b>54,957</b>	<b>61,688</b>

## Notes to the Financial Statements continued

### For the period ended 02 July 2023

#### 18. Equity Investments

	53 weeks ended 02 July 2023 £000	52 weeks ended 26 June 2022 £000
<b>Investments</b>		
At beginning of period	–	–
Additions	125	–
<b>At end of period</b>	<b>125</b>	–

On 29 December 2022, Hotel Chocolat Group plc signed a new strategic partnership agreement with Kram Inc. Under the partnership agreement a new venture, HC Saint Lucia Inc. ("HC St Lucia KK"), a company incorporated in Japan was established. The Group has acquired a 20% equity stake in this venture (750 ordinary shares at JPY26,660 per share).

Management have taken the allowable irrevocable election to present in other comprehensive income subsequent changes in the fair value of the HC St Lucia KK investment.

#### 19. Investments in Joint Ventures

##### Hotel Chocolat KK

The Group owned a 20% interest in the Japan Joint Venture, a separate company incorporated and operating in Japan. The investment was written off during the year to 02 July 2023 (26 June 2022: impaired to £nil) as a result of the Japan Joint venture entering into a Civil Restructuring in July 2022.

The Group's 20% share of unrecognised losses for the period to 02 July 2023 amount to £261k (26 June 2022: £1,248k). The cumulative unrecognised losses total £3,112k (26 June 2022: £2,851k).

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 29.

	53 weeks ended 02 July 2023 £000	52 weeks ended 26 June 2022 £000
<b>Investment in Joint Ventures</b>		
Cost:		
At beginning of period	7,564	4,020
Increased investment re. FGC	–	316
Increased investment re. loan drawdown	261	3,228
Disposal of investment	(7,825)	–
<b>At end of period</b>	<b>–</b>	7,564
Share of losses / impairment:		
At beginning of period	(7,564)	(1,611)
Share of losses in Joint Ventures	–	(1,248)
Share of losses in Joint Venture - exceptional*	(261)	–
Impairment	–	(4,705)
Disposal of investment	7,825	–
<b>At end of period</b>	<b>–</b>	(7,564)
<b>Carrying value</b>	<b>–</b>	–

\* Share of losses relating to the Japan Joint Venture during the year ended 02 July 2023 have been categorised as an exceptional item as the entity is no longer trading after the Joint Venture obtained Court approval for Civil Rehabilitation restructuring proceedings (Minji Saisei) in July 2022.

## 20. Investment in subsidiaries

The Group's operating subsidiaries as at 02 July 2023 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
<b>Direct Holding</b>				
HOTC Limited*	Holding Company	England & Wales <sup>1</sup>	100%	
Hotel Chocolat Limited	Manufacturer and Distributor of chocolates	England & Wales <sup>1</sup>	100%	
The Chocolate Tasting Club Ltd*	Chocolate Retailer	England & Wales <sup>1</sup>	100%	
Hotel Chocolat UK Holdings Ltd*	Holding Company	England & Wales <sup>1</sup>	100%	
Hotel Chocolat USA Inc*	Holding Company	USA <sup>2</sup>	100%	
Hotel Chocolat (St Lucia) Holdings Limited*	Holding Company	St Lucia <sup>3</sup>	100%	
<b>Indirect Holdings</b>				
Rabot 1745 Limited*	Distributor of skincare products	England & Wales <sup>1</sup>		100%
Hotel Chocolat Retail Limited	Chocolate Retailer and Restaurateur	England & Wales <sup>1</sup>		100%
Hotel Chocolat Stores Limited*	Chocolate Distributor	England & Wales <sup>1</sup>		100%
Rabot Estate UK Limited*	Property Holding Company	England & Wales <sup>1</sup>		100%
Hotel Chocolat Europe Limited*	Chocolate Retailer	England & Wales <sup>1</sup>		100%
Hotel Chocolat EU Retail Limited*	Chocolate Retailer	England & Wales <sup>1</sup>		100%
Hotel Chocolat Corporate Limited*	Dormant	England & Wales <sup>1</sup>		100%
Chocolate Tasting Club Inc*	Chocolate Distributor	USA <sup>2</sup>		100%
HCLEX Inc*	Property Holding Company	USA <sup>2</sup>		100%
HCGSP Inc*	Property Holding Company	USA <sup>2</sup>		100%
HC Union Inc*	Property Holding Company	USA <sup>2</sup>		100%
HC Turnstyle Inc*	Property Holding Company	USA <sup>2</sup>		100%
Hotel Chocolat Inc*	Holding Company	USA <sup>2</sup>		100%
Hotel Chocolat Estates Limited*	Hotel & Cocoa Estate	St Lucia <sup>4</sup>		100%
Applehill Properties Limited*	Property Holding Company	England & Wales <sup>1</sup>		100%
Braeburnhill Properties Limited*	Property Holding Company	England & Wales <sup>1</sup>		100%
Bramleyhill Properties Limited*	Property Holding Company	England & Wales <sup>1</sup>		100%
Cashewhill Properties Limited*	Property Holding Company	England & Wales <sup>1</sup>		100%
Colanuthill Properties Limited*	Property Holding Company	England & Wales <sup>1</sup>		100%
Crispinhill Properties Limited*	Property Holding Company	England & Wales <sup>1</sup>		100%
Gingerhill Properties Limited*	Property Holding Company	England & Wales <sup>1</sup>		100%
Hazelnuthill Properties Limited*	Property Holding Company	England & Wales <sup>1</sup>		100%
Hotel Chocolat DK Limited*	Property Holding Company	England & Wales <sup>1</sup>		100%
Lemonhill Properties Limited*	Property Holding Company	England & Wales <sup>1</sup>		100%
Limehill Properties Limited*	Property Holding Company	England & Wales <sup>1</sup>		100%
Macadamiahill Properties Limited*	Property Holding Company	England & Wales <sup>1</sup>		100%
Melonhill Properties Limited*	Property Holding Company	England & Wales <sup>1</sup>		100%
Orangehill Properties Limited*	Property Holding Company	England & Wales <sup>1</sup>		100%
Papayahill Properties Limited*	Property Holding Company	England & Wales <sup>1</sup>		100%
Peachhill Properties Limited*	Property Holding Company	England & Wales <sup>1</sup>		100%
Peanuthill Properties Limited*	Property Holding Company	England & Wales <sup>1</sup>		100%
Pearmainnhill Properties Limited*	Property Holding Company	England & Wales <sup>1</sup>		100%
Plumhill Properties Limited*	Property Holding Company	England & Wales <sup>1</sup>		100%
Satsumahill Properties Limited*	Property Holding Company	England & Wales <sup>1</sup>		100%

Registered addresses:

1. Mint House, Newark Close, Royston, Hertfordshire, SG8 5HL, United Kingdom.
2. c/o Ruberto, Israel & Weiner, PC, 7th Floor, 255 State Street, Boston, MA 02109, USA.
3. Foster Capital Inc, Robin Kelton Building, Choc Bay, Castries, St Lucia.
4. 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  
For the period ended 02 July 2023

**21. Derivative financial instruments**

	02 July 2023 £000		26 June 2022 £000	
	Fair value	Notional	Fair value	Notional
<b>Derivative financial assets:</b>				
<b>Current</b>				
Foreign currency forward contracts	–	–	668	10,670
	–	–	668	10,670
<b>Non-current</b>				
Foreign currency forward contracts	–	–	–	–
	–	–	–	–
<b>Derivative financial liabilities:</b>				
<b>Current</b>				
Foreign currency forward contracts	115	6,851	48	3,992
	115	6,851	48	3,992
<b>Non-current</b>				
Foreign currency forward contracts	17	3,347	38	5,625
	17	3,347	38	5,625
<b>Total gross contractual cash flows</b>		<b>10,198</b>		<b>20,287</b>

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:

	53 weeks ended 02 July 2023 £000	52 weeks ended 26 June 2022 £000
Other (gain)/loss – hedge ineffectiveness	(355)	79
Other comprehensive income	(481)	(1,451)
	<b>(836)</b>	<b>(1,372)</b>

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

	53 weeks ended 02 July 2023 £000	52 weeks ended 26 June 2022 £000
<b>Euro</b>		
Carry amount	(132)	10
Notional amount (€)	<b>10,198</b>	15,738
Maturity date	July 2023 – December 2024	July 2022 – December 2023
Hedge ratio*	1:1	1:1
Change in discounted spot value of outstanding hedging instruments since inception of the hedge	(12)	51
Change in value of hedged item used to determine hedge ineffectiveness	12	(51)
Weighted average hedged rate for outstanding hedging instruments (including forward points)	<b>1.1328</b>	1.1782



## 21. Derivative financial instruments continued

US Dollar	53 weeks ended 02 July 2023 £000	52 weeks ended 26 June 2022 £000
Carry amount	–	572
Notional amount (\$)	–	8.860
Maturity date	Nil	June 2022 – November 2022
Hedge ratio*	Nil	1:1
Change in discounted spot value of outstanding hedging instruments since inception of the hedge	–	546
Change in value of hedged item used to determine hedge ineffectiveness	–	(546)
Weighted average hedged rate for outstanding hedging instruments (including forward points)	–	1.3410

\* 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 02 July 2023, will be recognised in the Consolidated Statement of Comprehensive Income in the periods during which the hedged forecast transaction occurs.

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the Consolidated Statement of Financial Position.

The movement in the fair value on forward contracts in the period of £481k profit (26 June 2022: £1,451k profit) has been included within other comprehensive income in the Consolidated Statement of Comprehensive Income.

## 22. Inventories

	53 weeks ended 02 July 2023 £000	52 weeks ended 26 June 2022 £000
Raw materials	12,317	13,413
Finished goods	22,723	29,649
	35,040	43,062

Inventories are stated net of provision for obsolete and slow moving inventory of £4,393k (26 June 2022: £9,133k). Total inventory recognised as an expense in the Statement of Comprehensive Income during the period was £84,747k (26 June 2022: £98,385k).

During the period ended 02 July 2023, a total of £4,740k was recognised as a credit, of which £nil is classed as exceptional as per Note 5 (26 June 2022: £8,205k charge, exceptionals: £5,501k) due to the movement in provision of inventory. An additional £1,183k credit (26 June 2022: £7,092k charge) was recognised due to the disposal of inventory.

## 23. 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.

	53 weeks ended 02 July 2023 £000	52 weeks ended 26 June 2022 £000
<b>Current</b>		
Trade receivables	2,459	2,091
Less provision for bad and doubtful debts	(67)	(44)
	2,392	2,047
Other receivables*	2,195	6,634
Prepayments and accrued income	8,358	8,860
	12,945	17,541

\* Other receivables comprises £1,048k (26 June 2022: £979k) relating to cash-in-transit and £945k (26 June 2022: £1,042k) for rental deposits. The remainder relates to sundry debtors. The reduction in other receivables in the period relates to the deposits made for Velvetiser hardware which have now been received and included as finished goods within inventories.

For ageing analysis and credit risk of trade receivables please refer to Note 37.

## Notes to the Financial Statements continued

### For the period ended 02 July 2023

#### 24. Cash and cash equivalents

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

	53 weeks ended 02 July 2023 £000	52 weeks ended 26 June 2022 £000
Cash and cash equivalents	11,196	17,569

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

#### 25. Trade and other payables

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

	53 weeks ended 02 July 2023 £000	52 weeks ended 26 June 2022 £000
<b>Current</b>		
Trade payables	13,496	19,830
Other payables	365	1,471
Other taxes payable	2,656	3,011
Accruals and deferred income	12,270	15,129
	28,787	39,441

#### 26. Other financial liabilities

	53 weeks ended 02 July 2023 £000	52 weeks ended 26 June 2022 £000
<b>Current</b>		
Financial guarantee contract	–	6,660
	–	6,660

#### 27. Provisions

	53 weeks ended 02 July 2023 £000	52 weeks ended 26 June 2022 £000
<b>Non-current</b>		
Lease dilapidations provision	2,840	2,919
<b>Current</b>		
Onerous contract provision	23	907
	2,863	3,826

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

## 27. Provisions continued

The movement in provisions is summarised below:

	Lease dilapidation provision £000	Onerous Contract Provision £000	Total £000
<b>52 weeks ended 26 June 2022</b>			
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
<b>At end of period</b>	<b>2,919</b>	<b>907</b>	<b>3,826</b>
<b>53 weeks ended 02 July 2023</b>			
At beginning of period	<b>2,919</b>	<b>907</b>	<b>3,826</b>
Released through profit and loss	<b>(79)</b>	<b>(907)</b>	<b>(986)</b>
Amounts capitalised during the period	–	–	–
Additional provisions in the year	–	<b>23</b>	<b>23</b>
<b>At end of period</b>	<b>2,840</b>	<b>23</b>	<b>2,863</b>

### 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 represent management's best estimate of the likely outflows to the Group.

### Onerous contract provision

The onerous contract provisions relate to forward contracts to purchase stock items which have been identified as no longer being required. During the year ended 02 July 2023 the provision of £907k was settled and a further £23k has been identified for provision.

## 28. Deferred tax liability

	53 weeks ended 02 July 2023 £000	52 weeks ended 26 June 2022 £000
Deferred taxation liability	<b>(408)</b>	(1,130)

Reconciliation of deferred tax balances:

	53 weeks ended 02 July 2023 £000	52 weeks ended 26 June 2022 £000
Balance at beginning of period	<b>(1,130)</b>	662
Deferred tax credit/(charge) for the period through profit and loss	<b>639</b>	(1,322)
Deferred tax credit/(charge) for the period through Other Comprehensive Income	<b>138</b>	(709)
Deferred tax (charge)/credit for the period through Statement of Changes in Equity	<b>(55)</b>	239
Balance at end of period	<b>(408)</b>	(1,130)

## Notes to the Financial Statements continued

### For the period ended 02 July 2023

#### 28. Deferred tax liability continued

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
<b>As at 27 June 2021</b>	(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)
<b>As at 26 June 2022</b>	(4,141)	1,560	(378)	521	(141)	1,449	(1,130)
(Charge)/credit to the income statement	<b>(894)</b>	<b>(558)</b>	–	<b>6</b>	–	<b>2,085</b>	<b>639</b>
Charge to equity	–	–	–	<b>(55)</b>	–	–	<b>(55)</b>
(Charge)/credit to OCI	–	<b>(79)</b>	<b>276</b>	–	<b>(59)</b>	–	<b>138</b>
Reclassification - OCI	–	–	<b>104</b>	–	<b>(104)</b>	–	–
<b>As at 02 July 2023</b>	<b>(5,035)</b>	<b>923</b>	<b>2</b>	<b>472</b>	<b>(304)</b>	<b>3,534</b>	<b>(408)</b>

At 02 July 2023, the Group had £2,229k unrecognised deferred tax assets relating to the US business (26 June 2022: £2,352k).

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 UK temporary differences expected to reverse in future periods, a rate of 25% has been used (26 June 2022: 19%).

The unused tax losses are UK losses and 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 from operations of £1,935k (26 June 2022: £23,804k) supports that future profits will be generated.

#### 29. Loan to the Japan Joint Venture

Hotel Chocolat had a working capital loan agreement with the Japan Joint Venture, the loan was denominated in sterling and interest was payable on a quarterly basis. The Japan Joint Venture first drew down on the loan of £4.5m in July 2018, and the loan facility had been extended to the Japan Joint Venture from December 2023 until December 2028. During the year to 26 June 2022, the loan of £17,816k was fully impaired. The Group had provided a further £592k to the Japan Joint Venture in July 2022 which was subsequently impaired following the Joint Venture entering into Civil Rehabilitation. During the period to 02 July 2023, the loan balance was written off due to the Japan Joint Venture being in the process of being wound up.

Summary financial information for the Japan Joint Venture:

	53 weeks ended 02 July 2023 £000	52 weeks ended 26 June 2022 £000
Current assets	–	5,330
Non-current assets	–	15,640
Current financial liabilities (excluding trade payables)	–	–
Other current liabilities	–	(2,967)
Non-current financial liabilities (excluding trade payables)	–	(5,697)
Other non-current liabilities	–	(25,046)
<i>The following amounts have been included in the amounts above:</i>		
Cash and cash equivalents	–	1,600
Revenue	<b>11,767</b>	14,504
Total comprehensive loss	<b>(5,959)</b>	(7,044)
<i>The following amounts have been included in the amounts above:</i>		
Depreciation and amortisation	<b>(1,330)</b>	(1,623)
Interest expense	<b>(479)</b>	(663)
Income tax	–	2,092

## 29. Loan to the Japan Joint Venture continued

Composition of loan balance	53 weeks ended 02 July 2023 £000		52 weeks ended 26 June 2022 £000	
	Actual £000	Present value £000	Actual £000	Present value* £000
Cash	14,380	10,278	13,880	9,940
Stock	7,132	4,949	6,788	4,717
Recharges	1,550	1,168	1,592	1,196
Interest	2,013	2,013	1,963	1,963
Total loan to Joint Venture	25,075	18,408	24,223	17,816
Lifetime ECL opening balance		(17,816)		(6,387)
Increase in loss allowance		–		(11,429)
Increase in loan value*		(592)		–
Loan write-off		18,408		–
Lifetime ECL closing balance		–		(17,816)
Loan to Japan Joint Venture		–		–

\* The loan to the Joint Venture provided during the year ended 02 July 2023 has been categorised as an exceptional item as the entity is no longer trading after the Joint Venture obtained Court approval for Civil Rehabilitation restructuring proceedings (Minji Saisei) in July 2022.

## 30. Borrowings

The Group's borrowing facilities are a two-year £30m revolving credit facility ("RCF") with Lloyds Plc, which began on 16 July 2021, and a £20m revolving credit facility ("RCF") with Bank of Ireland, which began on 20 December 2021. On 29 September 2023, an amended and restated RCF agreement was entered into where the option to extend the existing agreement by 12 months until Jul 2025 was exercised. During H1 FY23, the Group withdrew and repaid £34.0m (26 June 2022: £5.0m).

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 cash flow 14 days in January, EBITDA to interest ratio of 4 and net debt to EBITDA of 2.5. 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. In order to support additional inter-company lending to the Group's St Lucian business to fund further infrastructure investment there is a condition to add the Group's two St Lucian legal entities to the agreement as obligors. To secure this inter-company lending, a share pledge is required to be completed within 60 days of execution of the amended and restated RCF agreement.

## 31. Share capital

	As at 02 July 2023		As at 26 June 2022	
	Shares	£000	Shares	£000
<b>Allotted, called up and fully paid:</b>				
Ordinary shares of £0.001 each	137,537,673	138	137,319,014	137
	137,537,673	138	137,319,014	137

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 (26 June 2022: none). There are no authorised shares not yet issued as at the period ended 02 July 2023 (26 June 2022: none).

### Period ended 02 July 2023:

During the period ended 02 July 2023, 119 shares were issued to satisfy shares allotted under the Company's Save as You Earn plan and 218,540 shares under the Company's Long-Term Incentive Plan.

## Notes to the Financial Statements continued

### For the period ended 02 July 2023

### 31. Share capital continued

#### 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.

### 32. 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 02 July 2023 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 £nil (26 June 2022: £1,002k).

The translation reserve represents cumulative foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries and is not distributable by way of dividends.

The merger reserve arose when the Company undertook a share for share exchange with the companies listed in Note 20 and is not distributable by way of dividends.

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

	Share based payment reserve £000	Hedging reserve £000	Long term loan FX reserve £000	Total £000
<b>Equity as at 27 June 2021</b>	4,018	(369)	(547)	3,102
Fair value movement on cash flow hedges	–	1,451	–	1,451
Currency movement on net investment	–	–	1,297	1,297
Forex gain transferred to net investment	–	(416)	416	–
Cash flow hedge transferred to inventory/cost of sales	–	96	–	96
Share-based payments	629	–	–	629
Deferred tax (credit)/charge	239	(385)	(324)	(470)
<b>Equity as at 26 June 2022</b>	4,886	377	842	6,105
Currency movement on net investment	–	–	237	237
Ineffectiveness transferred to income statement	–	(355)	–	(355)
Fair value movement on cash flow hedges	–	481	–	481
Cash flow hedge transferred to inventory/cost of sales	–	(815)	–	(815)
Share-based payments	1,525	–	–	1,525
Transfer un-utilised share-based payments	(3,298)	–	–	(3,298)
Deferred tax reclassification	–	104	(104)	–
Deferred tax (credit)/charge	(55)	197	(59)	83
<b>Equity as at 02 July 2023</b>	<b>3,058</b>	<b>(11)</b>	<b>916</b>	<b>3,963</b>

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.

### 33. Capital commitments

The Group had capital commitments totalling £750k as at 02 July 2023 (26 June 2022: £2,450k).

### 34. Contingent liabilities and guarantees

There were no contingent liabilities as at 02 July 2023 (26 June 2022: £nil).

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



### 35. Related party transactions

The remuneration of the key management personnel of the Group are disclosed in Note 10 Interests and related party transactions are disclosed below.

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.

In the prior period the Group extended long-term loan facilities to the Japan Joint Venture. During the period to 02 July 2023 the loan balance was written off due to the Japan Joint Venture being in the process of being wound up. Please refer to Note 29 for further details.

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 £335k in the period ended 02 July 2023 (26 June 2022: £232k). There was no rent outstanding at the period end (26 June 2022: £nil) and there is a lease liability of £234k (26 June 2022: £413k).

The Group engaged the services of a consultant, Oliver Pearce, who is a related party to Angus Thirlwell. The cost of the consultancy services was £28k in the period to 02 July 2023 (26 June 2022: £nil). There was an outstanding expense of £7k at the period end for services provided (26 June 2022: £nil).

Two Directors are investors in Phoenix Asset Management Fund which has a 15.94% shareholding in Hotel Chocolat Group plc.

No other amounts were due to Directors (26 June 2022: £nil).

### 36. 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).

	53 weeks ended 02 July 2023 £000	52 weeks ended 26 June 2022 £000
<b>Financial assets</b>		
At amortised cost		
Trade and other receivables (excluding prepayments)	4,758	8,681
Cash and cash equivalents	11,196	17,569
	15,954	26,250
<i>At fair value</i>		
Investment in HC St Lucia KK	125	–
Derivative financial assets	–	668
<b>Financial liabilities</b>		
At amortised cost		
Trade and other payables	13,861	20,854
Accruals	12,270	15,129
Lease liabilities	47,961	54,535
Financial guarantee contract	–	6,660
	74,092	97,178
<i>At fair value</i>		
Derivative financial liabilities	132	86

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 21 for further information. There have been no transfers between levels in the period.

## Notes to the Financial Statements continued

### For the period ended 02 July 2023

### 37. 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 02 July 2023 the total was £93,479k (26 June 2022: £98,383k).

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 21 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 02 July 2023	Average contract rate	Nominal currency '000	Contract £000	Fair value £000
<b>US Dollars</b>				
Forward contract to buy USD within 1–6 months	–	–	–	–
<b>Euros</b>				
Forward contract to buy EUR within 1–6 months	1.135	6,941	6,111	(109)
Forward contract to buy EUR within 7–12 months	1.134	1,389	1,225	(6)
Forward contract to buy EUR within 13–18 months	1.125	3,222	2,861	(17)
<hr/>				
Group – as at 26 June 2022	Average contract rate	Nominal currency '000	Contract £000	Fair value £000
<b>US Dollars</b>				
Forward contract to buy USD within 1–6 months	1.341	8,860	6,626	571
<b>Euros</b>				
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)

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.
- Purchases denominated in Swiss Franc are no longer material to the Group and therefore no longer hedged.

### 37. Financial risk management continued

#### 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 through the monitoring of cash and cash equivalents versus future cash flow requirements.

Sensitivity analysis shows that the impact of a 1.25% movement in interest rates on the financial position and performance of the Group is insignificant (FY22: 0.5%).

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

	53 weeks ended 02 July 2023 £000	52 weeks ended 26 June 2022 £000
<b>Bank balances and RCFs</b>		
Sterling	9,602	12,753
Euro	613	1,853
US Dollar	981	2,456
Swiss Franc	–	507
	<b>11,196</b>	<b>17,569</b>

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	
	53 weeks ended 02 July 2023 £000	52 weeks ended 26 June 2022 £000	53 weeks ended 02 July 2023 £000	52 weeks ended 26 June 2022 £000
<i>Sterling strengthens by 10%</i>				
Euro	56	168	(56)	(168)
US Dollar	91	223	(91)	(223)
Swiss Francs	–	46	–	(46)
<i>Sterling weakens by 10%</i>				
Euro	(68)	(206)	68	206
US Dollar	(100)	(273)	100	273
Swiss Francs	–	(56)	–	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 26). The amounts detailed within derivative financial instruments relate to the gross contractual cash flows of the Group's forward contracts.

## Notes to the Financial Statements continued

### For the period ended 02 July 2023

#### 37. 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
<b>52 weeks ended 26 June 2022</b>		
Trade and other payables	21,301	–
Accruals	14,840	–
Derivative financial instruments <sup>1</sup>	14,662	5,625
Financial guarantee contract	6,660	–
	57,463	5,625
<b>53 weeks ended 02 July 2023</b>		
Trade and other payables	<b>13,861</b>	–
Accruals	<b>12,270</b>	–
Derivative financial instruments <sup>1</sup>	<b>6,851</b>	<b>3,347</b>
Financial guarantee contract	–	–
	<b>32,982</b>	<b>3,347</b>

<sup>1</sup> Refer Note 21.

#### 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, and therefore the provision against trade debtors is immaterial.

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 led to concentration risk. The loan to Joint Venture has been written off, and the financial guarantee have been settled. This has been disclosed under Note 29.

#### Ageing analysis:

	Expected loss rates	53 weeks ended 02 July 2023 £000	52 weeks ended 26 June 2022 £000
<b>Cash and cash equivalents</b>			
Up to three months	0%	<b>11,196</b>	17,569
<b>Cash in transit</b>			
Up to three months	0%	<b>1,048</b>	979
<b>Loan to Japan Joint Venture</b>			
Above six months	100%	–	3,269
Financial guarantee contracts	100%	–	(6,660)
Impairment provision		–	(3,269)
<b>Total</b>		–	(6,660)

### 37. Financial risk management continued

	Expected loss rates	53 weeks ended 02 July 2023 £000	52 weeks ended 26 June 2022 £000
<b>Trade receivables</b>			
Up to three months	1.21%	1,878	1,457
Three to six months	1.21%	228	68
Six to twelve months	1.21%	348	277
Above twelve months	100%	5	289
Impairment provision		(67)	(44)
<b>Total</b>		<b>2,392</b>	<b>2,047</b>

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 1.21% (26 June 2022: 0.8%) and the expected loss provision is £14k (26 June 2022: £23k).

The impairment provision of £67k (26 June 2022: £44k) relates to £52k (26 June 2022: £21k) of specifically provided debt and £14k (26 June 2022: £23k) of expected credit losses.

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

	53 weeks ended 02 July 2023 £000	52 weeks ended 26 June 2022 £000
United Kingdom	2,049	1,654
Europe	–	18
Rest of world	343	375
<b>Total</b>	<b>2,392</b>	<b>2,047</b>

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

### 38. Events subsequent to the reporting date – Group and Company

There have been the following events subsequent to the period end and up to 11 October 2023, the date of approval of the financial statements by the Board;

In July 2023, online Velvetiser sales in the USA have recommenced. As at the reporting date, an estimate cannot be made of the financial impact on the FY24 financial statements.

On 29 September 2023, the Group signed a new £50m Revolving Credit Facility with Lloyds Bank. This facility replaces the existing Revolving Credit Facility and runs to July 2025.

### 39. Ultimate controlling party

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

**Notes to the Financial Statements** continued  
For the period ended 02 July 2023

**40. Analysis of net cash/net debt**

	As at 26 June 2022 £000	Cash flow £000	Non-cash changes £000	As at 02 July 2023 £000
Cash and cash equivalents	17,569	(6,815)	442	<b>11,196</b>
<b>Net cash per statement of cash flows</b>	17,569	(6,815)	442	<b>11,196</b>
Borrowings	–	–	–	–
<b>Net cash before lease liabilities</b>	17,569	(6,815)	442	<b>11,196</b>
Lease liabilities	(54,535)	12,944	(6,370)	<b>(47,961)</b>
<b>New debt after lease liabilities</b>	(36,966)	6,129	(5,928)	<b>(36,765)</b>

	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
<b>Net cash per statement of cash flows</b>	10,046	6,953	570	17,569
Borrowings	–	–	–	–
<b>Net cash before lease liabilities</b>	10,046	6,953	570	17,569
Lease liabilities	(39,564)	10,831	(25,802)	(54,535)
<b>New debt after lease liabilities</b>	(29,518)	17,784	(25,232)	(36,966)

In the period ended 26 June 2022 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 02 July 2023 £000	As at 26 June 2022 £000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investments	43	5,139	4,315
Amounts due from related parties	45	74,355	74,219
<b>Current assets</b>			
Trade and other receivables	44	3	52
Cash and cash equivalents		73	1
<b>Total assets</b>		<b>79,570</b>	78,587
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	46	(316)	(329)
<b>Total liabilities</b>			
<b>NET ASSETS</b>		<b>79,254</b>	78,258
<b>EQUITY</b>			
Share capital	47	138	137
Share premium	47	78,193	78,014
Retained earnings	47	(812)	(3,401)
Capital redemption reserve	47	6	6
Share based payment reserve	47	1,729	3,502
<b>Total equity attributable to shareholders</b>		<b>79,254</b>	78,258

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 02 July 2023 is £709k (26 June 2022: loss £8,253k).

The financial statements of Hotel Chocolat Group plc, registered number 08612206 were approved by the Board of Directors and authorised for issue on 11 October 2023. They were signed on its behalf by:

**Jon Akehurst**

Chief Financial Officer

11 October 2023

## 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
<b>Equity as at 27 June 2021</b>	126	38,684	4,852	6	2,873	46,541
Share-based payments	–	–	–	–	629	629
Issue of share capital	11	39,330	–	–	–	39,341
<b>Other comprehensive income:</b>						
Loss for the period	–	–	(8,253)	–	–	(8,253)
<b>Equity as at 26 June 2022</b>	137	78,014	(3,401)	6	3,502	78,258
Share-based payments	–	–	–	–	<b>1,525</b>	<b>1,525</b>
Transfer un-utilised share-based payments	–	–	<b>3,298</b>	–	<b>(3,298)</b>	–
Issue of share capital	<b>1</b>	<b>179</b>	–	–	–	<b>180</b>
<b>Other comprehensive income:</b>						
Loss for the period	–	–	<b>(709)</b>	–	–	<b>(709)</b>
<b>Equity as at 02 July 2023</b>	<b>138</b>	<b>78,193</b>	<b>(812)</b>	<b>6</b>	<b>1,729</b>	<b>79,254</b>

## Notes to the Company Financial Statements

### 41. 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 cash flow has been prepared for the Parent Company;
- disclosures in respect of the Parent Company's share-based payment arrangements have not been presented as equivalent disclosures have been provided in respect of the Group as a whole; 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 Group's 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 11 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 shares the 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.

### 42. 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 accounting estimates and judgements made by the Group regarding the future or other key sources of estimation, uncertainty and judgement that may have a significant risk of giving rise to a material adjustment to the carrying values of assets and liabilities within the next financial period are:

#### Classification of intercompany loan (key judgement)

On considering the FRS102 definition of non-current assets inter-co loans have been assessed as long term despite being repayable on demand as we do not expect to realise these within 12 months from the reporting period.

## Notes to the Company Financial Statements continued

### 43. Investments

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

	53 weeks ended 02 July 2023 £000	52 weeks ended 26 June 2022 £000
<b>Cost</b>		
At beginning of period	4,315	11,937
Share-based payments	1,525	629
Impairment	(701)	(8,251)
At end of period	5,139	4,315
<b>Carrying amount</b>	<b>5,139</b>	4,315

During the period ended 02 July 2023, the investment in Hotel Chocolat (St Lucia) Holdings Limited was impaired by £701k (26 June 2022: £8,251k). 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 10.79% (26 June 2022: 9.67%).

A list of the significant investments in subsidiaries, including the name, proportion of ownership interest, country of operation and country of registration can be found in Note 20.

### 44. Trade and other receivables

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

	53 weeks ended 02 July 2023 £000	52 weeks ended 26 June 2022 £000
Other receivables	3	52
	3	52

### 45. Amounts due from related parties

	53 weeks ended 02 July 2023 £000	52 weeks ended 26 June 2022 £000
Amounts due from related parties*	74,355	74,219
	74,355	74,219

\*Refer to Note 42 for the critical accounting judgement relating to intercompany loans

### 46. Trade and other payables

	53 weeks ended 02 July 2023 £000	52 weeks ended 26 June 2022 £000
Accruals	-	13
Amounts due to related parties	316	316
<b>Total trade and other payables</b>	<b>316</b>	329

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

#### 47. 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 31 and 32 of the Group financial statements.

The Company did not pay a dividend during the period (26 June 2022: none).

#### 48. 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 (26 June 2022: £Nil).

#### 49. Related party transactions

Amounts owed by and to subsidiaries is disclosed in Notes 45 and 46 respectively, of the Company financial statements.

The only employees are Directors who are remunerated through Hotel Chocolat Limited.

The remuneration of the Directors of the Company are disclosed within the Remuneration report on pages 76 to 79.

## Company information

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