25 September 2018

Hotel Chocolat Group plc
("Hotel Chocolat", the "Company" or the "Group")
Preliminary Results

Hotel Chocolat Group plc, a premium British chocolatier and multi-channel retailer, today announces its preliminary results for the 52 weeks ended 1 July 2018.

Financial highlights:

- Revenue of £116.3m (2017: £105.2m), growth of +11% year on year
- Underlying EBITDA[1] up 16% to £18.9m (2017: £16.3m)[1]
- Profit before tax up 13% to £12.7m (2017: £11.2m)
- Profit after tax up 14% to £10.0m (2017: £8.8m)
- Earnings per share of 8.8p (2017: 7.8p)
- Final dividend of 1.1p per share. Full year dividend of 1.7p per share (2017: 1.6p)

Operational highlights:

- Opened 15 new UK & ROI stores during the period, contributing 6% to Group sales year-on-year
- 30 Shop+Cafe format stores now open giving customers more reasons to visit
- £6.5m of chocolate bonds repaid in full to customers
- Continuing factory investment and improved gross margin in the period; +50bps year-on-year
- £1.4m project completed to increase molten chocolate handling capacity by 190%
- Launched 3 new international ventures since the period end; Scandinavian franchise, Japan joint venture, and a store in the US
- 2 new UK wholesale accounts for Christmas 2018
- VIP ME rewards card launched September 2018, strengthening relationship with in-store shoppers

[1] Underlying EBITDA in FY18 excludes £0.7m of share-based payment charges (FY17: £ 0.6m).

Angus Thirlwell, Co-founder and Chief Executive Officer of Hotel Chocolat, said:

"I am pleased to report another year of significant progress for the Group. Revenue grew by 11%, underlying EBITDA rose by 16% and profit before tax increased by 13% to £12.7m slightly ahead of expectations. All channels achieved growth and cost efficiency resulted in an improved EBITDA margin. The decline of sterling created pressure on raw material costs, but we have been able to mitigate this by improving productivity and leveraging increased scale.

"The encouraging performance of our UK channels means we remain confident of further growth, with an exciting range of new product innovations for this autumn, including our Chocolat Cream Liqueur and the Velvetiser in-home Hot Chocolat system.

"We are increasingly confident that international expansion presents a growth opportunity, and will be adopting a cautious 'test, learn, grow' approach to our new partnership in Scandinavia and our new ventures in the US and Japan, where we intend to open our first stores this winter. Greg Hodder, Non-executive Director, will be very involved in overseeing our US strategy, leveraging his wealth of experience growing British brands in the US, including Charles Tyrwhitt shirts. The new Japanese joint venture will be led by Chris Horobin, the experienced former CEO of QVC Japan.

"We have also strengthened our executive team, creating a new position of Chief Marketing Officer; Lysa Hardy joins us this September and brings a wealth of multichannel marketing experience having previously held roles as CMO at Holland and Barrett and Joules.

"I would like to thank the whole team for their enthusiasm and passion, without which these results would not have been possible."

This announcement is released by Hotel Chocolat plc and contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) 596/2014 (MAR), and is disclosed in accordance with the Company's obligations under Article 17 of MAR. For the purposes of MAR and Article 2 of Commission Implementing Regulation (EU) 2016/1055, this announcement is being made on behalf of the Company by Matt Pritchard, Chief Financial Officer.

For further information:

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Notes to Editors:
Hotel Chocolat is a premium British chocolatier with a strong and distinct brand. The business was founded in 1993 by Angus Thirlwell and Peter Harris and has traded under the Hotel Chocolat brand since 2003. The Group sells its products online and through a network of 113 stores in the UK and abroad. The Group has 30 Shop+Cafe format stores, one restaurant in the UK and a cocoa plantation and hotel in Saint Lucia. The Group was admitted to trading on AIM in 2016.

Chairman's statement

OVERVIEW

FY18 represented another good year for Hotel Chocolat and the investments in new stores and factory capacity have again driven growth and improved profitability. The Group now has the confidence and resources to test the brand in a number of significant markets including Scandinavia, Japan and the US.

RESULTS

The Group achieved a pleasing result in FY18 with revenue of £116.3m and growth of 11% versus FY17. Strong cost control meant that operating margins improved with profit before tax increasing by 13% to £12.7m.

STRATEGY

The growth strategy remains unchanged and is based on proven and profitable business models; to carefully continue to open more stores, to invest in digital to make it easier for consumers to access our brand and to link with selected partners to extend our reach and accessibility. This growth enables ongoing return-enhancing investment opportunities in our infrastructure whilst we increase capacity and improve efficiency. The growth of the Group and improved profitability means that the business now has the bandwidth and resources to extend its tests of international markets, taking a cautious 'test, learn, grow' approach.

PEOPLE

The Group continues to be led by a strong founder-led executive management team that have built a successful business. I would like to extend my thanks to the whole Hotel Chocolat team for their hard work and commitment which has delivered results to be proud of.

DIVIDENDS

The Board is pleased to propose a final dividend of 1.1 pence per share bringing the full year dividend to 1.7 pence. If approved by shareholders at the AGM on 29 November 2018 it will be paid on 21 December 2018 to shareholders on the register at 23 November 2018.

OUTLOOK

Despite challenges and uncertainties in the wider economy the strength of the brand drives great customer loyalty and we are well positioned for the future, with a strong pipeline of opportunities.

Trading since the end of the financial period is in line with management expectations.

Andrew Gerrie
Non-executive Chairman

Chief Executive's statement

I am pleased to report another year of significant progress for the Group. Revenue grew by 11%, underlying EBITDA[1] increased by 16% to £18.9m and profit before tax increased by 13% to £12.7m. We further refined our business model and all channels achieved growth, whilst a sound grip on cost efficiency resulted in an improved EBITDA margin. The decline of sterling created pressure on raw material costs, but we have been able to mitigate this by improving productivity and leveraging increased scale.

I would like to thank the whole team for their enthusiasm and passion, without which these results would not have been possible. Team empowerment is a key part of the culture within Hotel Chocolat and we intend to keep investing in this as we evolve.

SALES CHANNEL REVIEW

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

Physical

Our physical stores offer a contemporary version of accessible luxury. We innovate and work hard to make our spaces exciting, relevant, friendly, experiential and fully multi-channel. The immediate gratification of self-purchase is a powerful element of our physical space, augmented by carefully selected gifts for a wide spectrum of occasions and budgets. Trading eight gift-giving seasons every year means there is always something exciting happening, with Chocolate Lock-Ins and perpetual sampling generating extra levels of engagement.

Our existing locations performed well over the year and we also opened in a further 15 new locations. The flexibility of our offer means that we can design the appropriate store for each location. Our hot chocolat drinks and Ice Cream of the Gods have now become a core part of the brand proposition.

There has been much media attention regarding the future of physical retail. Whilst macro-economic trends have undoubtedly created headwinds, we obviously continually evaluate the performance of our stores. We remain confident that further new openings can deliver attractive financial returns and improve customers' ease of access to our brand.

All of our established stores are profitable, and the latest vintage of openings are delivering comparable EBITDA per site to that of the earliest stores.

The Board have modelled 3 scenarios, based on various growth rates and cost inflation for our physical store estate:

1) A continuation of the FY18 growth rates for sales and for overhead costs would mean that store estate profitability would rise in future years.

2) A more pessimistic scenario, reflecting a drop to negative sales growth, and with externally driven cost inflation at rates in excess of FY18, would still mean that the retail estate would continue to generate significant EBITDA profit in 5 years' time. (Our average lease length is 5 years).

3) As a Board we are focusing all of our energies on delivering a third, and better, scenario which has the scope to generate a material increase in EBITDA, by:

   - Increasing the rate of sales growth, driven by product innovation, gaining a deeper relationship with our customers via the recently launched VIP ME rewards card, and empowering our store teams to deliver an even better experience for our guests.

   - Mitigating cost pressures using a combination of better buying, further innovation in our processes, and perpetual focus on working smarter whilst never compromising on product quality or service experience.

[1] Underlying EBITDA in FY18 excludes £0.7m of share-based payment charges (FY17: £ 0.6m).

Digital

Being 'born digital', means that it is always at the centre of our strategies, giving Hotel Chocolat an unusually high proportion of digital sales compared to other chocolate brands.

Sales through our own website increased by 14%. Since the end of year, we have developed innovations to make the digital Hotel Chocolat experience as slick as possible:

- The Gift Finder poses 3 quick questions before serving up bespoke solutions.
- The Whoosh Instant Gifts by Text service makes it fun and easy to get a gift to someone's smartphone. It is easier for the sender as there is no postcode searching or delivery angst, whilst the recipient benefits from delivery option control, discreet swapping and quick thanking.

Over the year we deliberately paused new customer recruitment into our subscription model leading to a sales decline of 14%. Over the last 10 years, we have made it progressively easier for customers to access our brand, particularly through physical stores, and this has challenged us to sharpen the appeal of our chocolate subscriptions and to innovate new ways to acquire subscribers. Members of our Tasting Club continue to form the bedrock of our relationship with our customers, they are the most engaged of all our customers and continue to play an active role in developing new products. Since the end of the year, we launched the Velvetiser in-home hot chocolat making system, a major plank of our future subscription plans.

Wholesale

Market research has shown that UK consumers cite "lack of access" as the main barrier to purchasing more from Hotel Chocolat. We acted to reduce this barrier by entering carefully selected wholesale relationships with new partners including Amazon, Ocado and QVC. We have achieved very encouraging growth in the first part-year and are excited to begin tests with two further partners that will launch in time for Christmas 2018. Each partner is selected on a careful balance of attributes and customer demographics, then matched with a specific capsule collection from our product range.

International

Our international aspirations continue to follow our strategy of a careful 'test, learn, grow' approach. Our experience in Hong Kong and Denmark has shown that customers are receptive to the brand and product range. Supply chains are evolving and becoming more cost-effective for the relatively small volumes at start-up scale, allowing us to adopt a competitive price position, mirroring our affordable luxury position in the UK. Since the end of the period we have moved to extend our international tests:

1) In July 2018 we signed a franchise development agreement covering the whole of Scandinavia and transferred our 2 Danish stores to our new partner, who brings deep experience of retail operations in the region and has already opened two new stores in Aarhus and Roskilde in Denmark.

2) In September 2018 Hotel Chocolat Inc. a wholly owned subsidiary of the Group, signed a lease to open a Hotel Chocolat store on Lexington Avenue, New York, which is anticipated to open this winter. Greg Hodder, Non-executive Director will be very involved in overseeing our US strategy, leveraging his wealth of experience growing British brands in the US, including Charles Tyrwhitt shirts.

3) Also in September 2018 we signed a franchise Joint Venture Development Agreement for Japan. Hotel Chocolat initially has a 20% stake with local management holding 80%. Goods will be supplied wholesale with a royalty paid on sales. It is anticipated the first store will open in Tokyo this winter in advance of the peak Japanese gift-giving seasons in February and March. Chris Horobin is CEO of the joint venture. Chris has extensive retail experience and was previously the CEO of QVC Japan.

OPERATIONAL REVIEW

The key seasonal ranges traded strongly and our ability to create imaginative and desirable products continues to be a carefully nurtured asset. Our vertically integrated business infrastructure is well invested and as the business grows we remain focused on controlling overheads which as a result reduced from 52.4% of sales to 52.2%.

Chocolate Bonds

We were delighted to reach a stage as a business where we were able to fully repay the £6.5m of Chocolate Bonds. The bonds were initially raised from our customers in 2010 and 2014 to finance capital expenditure projects and the monthly "interest" was paid in the form of chocolate. I would like to personally thank our amazing bond holders, with their support we were able to invest in ethical cocoa, British manufacturing, create hundreds of jobs, and repay them in full, as planned.

Manufacturing Investment

In January we completed a £1.4m project to increase our molten chocolate handling capacity by 190%. The capital project, combined with improved planning of production and a focus on waste reduction supported a 50 basis points improvement in gross margin and enables the next stage of our expansion plans.

We have identified the opportunity to further increase our factory capacity by adding a fourth chocolate making line within the existing factory roofline. We anticipate completing this project by 2021, increasing our capacity by over 30%. This plan means that the extension of the factory roofline previously planned for 2020 can now take place at a later date, bringing with it the potential to add up to a further three chocolate making lines to synchronise with our future demand growth.

BRAND REVIEW

We continue to invest in our most valuable asset, the Hotel Chocolat brand, at many levels.

Our culture of constant innovation is crucial in ensuring the brand remains fresh and relevant. The pipeline of future excitements is reassuringly healthy. Those that we launch will have made it through our disciplined testing and trialling approach. Recent highlights included our unique take on the patisserie macaron in chocolate form and a sculpted bulldog puppy in 40% milk chocolate.

Key launches for Christmas 2018 include our Chocolat Cream Liqueur and the Velvetiser in-home drinking chocolate maker.

Wellness

Consumers increasingly want delicious and hedonistic chocolate that's also made with responsible amounts of sugar. Hotel Chocolat's 15-year track record of "more cocoa, less sugar" is applied to every grade of chocolate, from our whites, through milks and darks. This makes us virtually unique amongst premium chocolate brands. Flip over and read the ingredients of other milk and white brands and you will find it quite revealing! Sugar will most often be the number one ingredient even with premium pricing. In our view, if cocoa isn't the number one ingredient, it really should not be called chocolate. All our chocolate grades meet this 'cocoa first' requirement, even our whites and milks. When you consider that sugar is about 20 times cheaper than cocoa, the reason why other brands take a different route becomes clear.

Experiences

Experiences are becoming increasingly popular as a new luxury and consumers are seeking to go beyond the purely transactional, but only with brands they love. We are well positioned to grow with this trend. Our 2 Schools of Chocolate and 40 Chocolate Lock-In locations are popular with customers and give our team an opportunity to share their knowledge with like-minded enthusiasts. We see experiences playing a steadily stronger role in our physical spaces as we develop our skills and learning, and the market develops.

Engaged Ethics

Consumers expect brands they love to do the right thing, using their resources and influence to make the world a better place when they can. This has always been a central element of the Hotel Chocolat DNA and we challenge ourselves to progressively strengthen our programmes and initiatives year-on-year. The 3 areas we focus on are cocoa, the planet and people:

1. Cocoa: A real milestone was reached midway through 2018 when for the first time we were able to fully connect our Engaged Ethics scheme to 100% of our cocoa supplies. The additional costs of achieving this is something we are very happy to invest in, with the funds used to pay farmers a premium, encourage sustainable farming practices and support productivity and community projects.

2. The planet: Whilst we have always taken a responsible approach to packaging, we have now decided to explicitly state a target to challenge ourselves to further reduce our impact:
    - 100% of our packaging will be compostable, reusable or recyclable by 2021.
3. People: We know that our team culture is the essential ingredient in making all our plans come true. We have solid plans to increase diversity in our team at all levels, to increase employee representation in the boardroom, to foster more empowered behavior, and to create clear career development opportunities for our teams.

Outlook

Continued innovation and a relentless focus on customer happiness aims to generate sales growth. By combining this with a tight control of costs, we aim to improve returns.

Successful growth channels in large UK markets with significant headroom leaves lots of scope for continued success.

New ventures with wholesale partners and new international market developments offer the potential to create significant new avenues for growth.

The defensive attributes of the business are well-honed and include the strength and integrity of our brand and the agility of vertical integration.

The market and wider economy may not be without challenges, however I remain confident that our plan for the coming year will deliver growth. Our capital investments are prudent, going into proven store formats and digital channels, as well as in known production methods and technology.

Angus Thirlwell

Co-founder and Chief Executive Officer

Financial Review

Strong sales growth coupled with rising margins have resulted in further improvement in profitability.

	52 weeks ended 1 July 2018 £m	53 weeks ended 2 July 2017 £m
Revenue	**116.3**	**105.2**
Gross profit	79.6	71.5
Operating expenses	60.7	55.2
Underlying EBITDA	**18.9**	**16.3**
Share-based payments	0.7	0.6
Depreciation & amortisation	4.8	3.7
Impairment (non-recurring)	0.3	-
(Profit)/loss on disposal	(0.1)	0.1
Operating profit	**13.2**	**11.9**
Finance income	0.0	0.0
Finance expense	0.6	0.7
Profit before tax	**12.7**	**11.2**
Tax expense	2.7	2.4
Profit for the period	**10.0**	**8.8**

REVENUE

Reported revenue for 52 weeks ending 1 July 2018 was £116.3m. Revenue increased by 11% compared to the 53 weeks ending 2 July 2017 and by 12% compared to the comparable 52 week period in constant currency.

GROSS MARGIN

Gross profit as a percent of sales improved from 67.9% to 68.4%, supported by the increased efficiency of production and better buying, partially offset by increased investments in Engaged Ethics cocoa sustainability, and the impact of foreign exchange on the euro-denominated purchase of ingredients.

OPERATING EXPENSES

A focus on efficiency and cost control meant that externally driven cost inflation was mitigated and as a result operating expenses as a percentage of sales fell from 52.4% to 52.2%.

UNDERLYING EBITDA

Whilst EBITDA is not a statutory measure the Board believe it is helpful to investors to include it as an additional metric. Underlying EBITDA as reported excludes non-cash share-based payment expenses of £0.7m. (FY17; £0.6m). On this basis, underlying EBITDA as a percent of sales increased from 15.5% to 16.3%.

FINANCE INCOME AND EXPENSE

Finance expense relates to a working capital overdraft and the interest paid on Chocolate Bonds. All £6.5m of bonds were repaid in full in June 2018.

The Board intends to finance its ongoing working capital requirements using a £20m overdraft facility arranged with Lloyds bank. Capital expenditure projects will be financed from operating cashflow.

DEPRECIATION & AMORTISATION

Depreciation increased as a result of additional capital expenditure. Capital expenditure of £11m comprised investments in 15 new stores, 2 re-sites, a number of IT projects and operational projects including upgrades to factory capacity and capability.

IMPAIRMENT

In July 2018 the Group's Danish operations were transferred to Retail Brands, a Danish franchise operator. The fixed asset values as at the balance sheet date were impaired to reflect the agreed sale price. As such this impairment charge is non-recurring.

PROFIT BEFORE TAX

Profit before tax increased from £11.2m to £12.7m. Excluding the non-recurring impairment charge profit before tax increased from £11.2m to £13.0m.

TAXATION

The effective rate of taxation is 21.5% (FY17: 21.8%). This is higher than the standard rate of 19% mainly due to permanent timing differences between depreciation charges and capital allowances.

EARNINGS PER SHARE (EPS) AND DIVIDENDS

Diluted and undiluted earnings per share were 8.8p (FY17: 7.8p). Profit after tax increased by 14%. The weighted average number of shares in FY18 was 113m (FY17: 113m). The number of shares in issue is unchanged since the IPO in May 2016.

Having delivered a year of strong growth the Board is pleased to propose a final dividend of 1.1 pence per share, bringing the total dividend for the year to 1.7 pence per share (FY17:1.6 pence per share).

CASH POSITION

The Group had £0.2m of cash at period-end, a reduction of £8.2m primarily as a result of the £6.5m repayment to Chocolate Bond holders.

WORKING CAPITAL

Closing inventories increased by £2.7m driven by a change to the frequency of production which improves factory capacity and gross margin, but means stock will be manufactured sooner in advance of each trading season. This change increased stock cover from approximately 12 weeks cover in FY17 to 13 weeks in FY18.

MATT PRITCHARD
Chief Financial Officer

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the period ended 1 July 2018

	Notes	52 weeks ended 1 July 2018 £	53 weeks ended 2 July 2017 £
Revenue		116,331,566	105,240,130
Cost of Sales		(36,740,859)	(33,757,943)
		79,590,707	71,482,187
Administrative expenses	2	(66,360,796)	(59,554,041)
		13,229,911	11,928,146
Finance income	3	22,113	3,230
Finance expenses	3	(578,760)	(725,865)
Share of joint venture profit/(loss)		35,501	(300)
Profit before tax		12,708,765	11,205,211
Tax expense		(2,729,123)	(2,441,362)
Profit for the period		9,979,642	8,763,849
Other comprehensive (loss)/income:			
Derivative financial instruments		(106,001)	(316,658)
Deferred tax charge on derivative financial instruments		20,561	64,039
Currency translation differences arising from consolidation		(168,661)	696,095
Total other comprehensive (loss) / income for the period		(254,101)	443,476
Total comprehensive income for the period		9,725,541	9,207,325
Earnings per share – Basic & Diluted	4	8.8p	7.8p

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 1 July 2018

	Notes	As at 1 July 2018 £	As at 2 July 2017 £
ASSETS			
Non-current assets			
Intangible assets		2,788,152	2,338,041
Property, plant and equipment	5	36,408,775	31,397,582
Deferred tax asset		623,961	213,819
Derivative financial assets		68,721	-
Prepayments		1,643	7,250
Investment in JV		35,501	-
		39,926,753	33,956,692
Current assets			
Derivative financial assets		14,925	306,526
Inventories		12,555,517	9,878,122
Trade and other receivables		7,486,894	6,020,954
Cash and cash equivalents		235,936	8,470,178
		20,293,272	24,675,780
Total assets		**60,220,025**	**58,632,472**
LIABILITIES			
Current liabilities			
Trade and other payables	6	15,545,845	16,632,717
Corporation tax payable		1,328,673	1,104,746
Derivative financial liabilities		54,691	137,480
Borrowings	7	201,732	3,371,444
		17,130,941	21,246,387
Non-current liabilities			
Other payables and accruals	6	2,581,044	1,934,057
Derivative financial liabilities		-	33,970
Borrowings	7	16,811	3,504,544
Provisions		879,808	750,629
		3,477,663	6,223,200
Total liabilities		**20,608,604**	**27,469,587**
NET ASSETS		**39,611,421**	**31,162,885**
EQUITY			
Share capital		112,838	112,838
Share premium		11,749,487	11,749,487
Retained earnings		24,348,409	16,851,199
Translation reserve		880,560	1,049,221
Merger reserve		223,251	223,251
Capital redemption reserve		6,301	6,301
Other reserves		2,290,575	1,170,588
Total equity attributable to shareholders		**39,611,421**	**31,162,885**

CONSOLIDATED STATEMENT OF CASH FLOW
For the period ended 1 July 2018

	Notes	52 weeks ended 1 July 2018 £	53 weeks ended 2 July 2017 £
Profit before tax for the period		12,708,765	11,205,211
Adjusted by:			
Depreciation of property, plant and equipment	5	4,247,550	3,302,776
Impairment loss on fixtures and equipment	5	284,681	-
Amortisation of intangible assets		509,892	442,071
Net interest expense		556,647	722,635
Share-based payments		726,585	562,256
(Profit)/loss on disposal of property, plant and equipment		(88,253)	111,880
Operating cash flows before movements in working capital		**18,945,867**	**16,346,829**
Increase in inventories		(2,931,781)	(3,438,589)
Increase in trade and other receivables		(1,460,333)	(485,906)
Increase in trade and other payables and provisions		277,219	905,022
Cash inflow generated from operations		**14,830,972**	**13,327,356**
Interest received		22,113	3,230
Income tax paid		(2,466,051)	(1,831,913)
Interest paid on:			
- finance leases and hire purchase loans		(1,192)	(14,306)
- bank loans and overdraft		(28,802)	(248,232)
- derivative financial liabilities		(147,747)	(181,134)
Cash flows from operating activities		**12,209,293**	**11,055,001**
Purchase of property, plant and equipment		(10,645,621)	(7,505,141)
Proceeds from disposal of property, plant and equipment		340,737	14,210
Purchase of intangible assets		(949,229)	(893,296)
Cash flows used in investing activities		**(11,254,113)**	**(8,384,227)**
Dividends paid		(2,482,432)	-
Buy back of Chocolate bonds		(6,505,500)	(217,500)
Capital element of hire purchase and finance leases repaid		(237,195)	(610,465)
Cash flows used in financing activities		**(9,225,127)**	**(827,965)**
Net change in cash and cash equivalents		(8,269,946)	1,842,809
Cash and cash equivalents at beginning of period		8,470,178	6,475,446
Foreign currency movements		35,704	151,923
Cash and cash equivalents at end of period		**235,936**	**8,470,178**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the period ended 1 July 2018

	Share capital £	Share Premium £	Retained earnings £	Translation reserve £	Merger reserve £	Capital redemption reserve £	Other reserves £	**Total £**
As at 26 June 2016	112,838	11,749,487	8,087,350	353,126	223,251	6,301	532,155	21,064,508
Profit for the period	-	-	8,763,849	-	-	-	-	8,763,849
Share-based payments	-	-	-	-	-	-	562,256	562,256
Deferred tax charge on share based payments	-	-	-	-	-	-	328,796	328,796
Other comprehensive income:								
Derivative financial instruments	-	-	-	-	-	-	(316,658)	(316,658)
Deferred tax charge on derivative financial instruments	-	-	-	-	-	-	64,039	64,039
Currency translation differences arising from consolidation	-	-	-	696,095	-	-	-	696,095
Equity as at 2 July 2017	**112,838**	**11,749,487**	**16,851,199**	**1,049,221**	**223,251**	**6,301**	**1,170,588**	**31,162,885**
Profit for the period	-	-	9,979,642	-	-	-	-	9,979,642
Dividends	-	-	(2,482,432)	-	-	-	-	(2,482,432)
Share-based payments	-	-	-	-	-	-	726,585	726,585
Deferred tax charge on share based payments	-	-	-	-	-	-	478,842	478,842
Other comprehensive income:								
Derivative financial instruments	-	-	-	-	-	-	(106,001)	(106,001)
Deferred tax charge on derivative financial instruments	-	-	-	-	-	-	20,561	20,561
Currency translation differences arising from consolidation	-	-	-	(168,661)	-	-	-	(168,661)
Equity as at 1 July 2018	**112,838**	**11,749,487**	**24,348,409**	**880,560**	**223,251**	**6,301**	**2,290,575**	**39,611,421**

NOTES TO THE INTERIM FINANCIAL INFORMATION

1. Basis of preparation

The consolidated financial information has been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs), as adopted by the European Union.

The financial information for the period ended 1 July 2018 and the period ended 2 July 2017 does not constitute the Group's statutory accounts for those periods.

Statutory accounts for the period ended 2 July 2017 have been delivered to the Registrar of Companies. The statutory accounts for the period ended 1 July 2018 will be delivered to the Registrar of Companies following the Group's Annual General Meeting.

The auditors' reports on the accounts for 1 July 2018 and 2 July 2017 were unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

2. Profit from operations

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

	52 weeks ended 1 July 2018 £	**53 weeks ended 2 July 2017 £**
Staff cost	30,658,433	28,310,135
Depreciation of property, plant and equipment	4,247,550	3,302,776
Impairment of property, plant and equipment	284,681	-
Amortisation of intangible assets	509,892	442,071
(Profit)/Loss on disposal of property, plant and equipment	(88,253)	111,880
Operating leases:		
- Property	10,582,822	9,260,982
- Plant and equipment	148,949	176,831
Exchange differences	106,760	249,567
Bad debt expense	57,940	58,782

3. Finance income and expenses

	52 weeks ended 1 July 2018 £	53 weeks ended 2 July 2017 £
Interest on bank deposits	22,113	3,230
Finance income	**22,113**	**3,230**
Interest on bank borrowings	92,373	253,430
Unrealised interest on derivative financial instruments	121	130,252
Realised interest on derivative financial instruments	147,747	65,779
Finance leases and hire purchase contracts	1,192	14,306
Finance charges on Chocolate bonds	337,327	262,098
Finance expenses	**578,760**	**725,865**

4. Earnings per share

Profit for the period used in the calculation of the basic and diluted earnings per share:

	52 weeks ended 1 July 2018 £	53 weeks ended 2 July 2017 £
Profit after tax for the period	**9,979,642**	**8,763,849**

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

	52 weeks ended 1 July 2018 £	53 weeks ended 2 July 2017 £
Weighted average number of shares in issue used in the calculation of earnings per share (number) – Basic	112,837,828	112,837,828
Effect of dilutive potential shares:		
Share-based payments – Hotel Chocolat Group plc Save as You Earn Plan	244,987	145,187
Weighted average number of shares in issue used in the calculation of earnings per share (number) – Diluted	**113,082,815**	**112,983,015**
Earnings per share (pence) – Basic	8.8	7.8
Earnings per share (pence) – Diluted	8.8	7.8

As at 1 July 2018, the total number of potentially dilutive shares issued under the Hotel Chocolat Group plc Long-Term Incentive Plan was 3,657,000 (2 July 2017: 3,692,000). Due to the nature of the options granted under this scheme, they are considered contingently issuable shares and therefore have no dilutive effect.

5. Property, plant and equipment

	Freehold property £	Leasehold property £	Furniture & fittings, Equipment & Computer hardware £	Plant & machinery £	Total £
53 weeks ended 2 July 2017					
Cost:					
As at 26 June 2016	11,469,455	734,999	22,899,192	14,662,588	49,766,234
Additions	540,751	-	5,877,065	1,662,108	8,079,924
Disposals	-	-	(447,863)	(5,345)	(453,208)
Translation differences	578,649	-	90,410	-	669,059
As at 2 July 2017	**12,588,855**	**734,999**	**28,418,804**	**16,319,351**	**58,062,009**
Accumulated depreciation:					
As at 26 June 2016	408,612	732,306	14,013,001	8,501,204	23,655,123
Depreciation charge	160,387	950	2,070,722	1,070,717	3,302,776
Disposal	-	-	(322,573)	(4,543)	(327,116)
Translation differences	(1,768)	-	35,412	-	33,644
As at 2 July 2017	**567,231**	**733,256**	**15,796,562**	**9,567,378**	**26,664,427**
Net book value					
As at 2 July 2017	**12,021,624**	**1,743**	**12,622,242**	**6,751,973**	**31,397,582**
52 weeks ended 1 July 2018					
Cost:					
As at 2 July 2017	12,588,855	734,999	28,418,804	16,319,351	58,062,009
Additions	606,892	-	6,735,380	2,576,577	9,918,849
Disposals	(236,084)	-	(259,713)	-	(495,797)
Translation differences	(122,296)	-	(4,029)	-	(126,325)
As at 1 July 2018	**12,837,367**	**734,999**	**34,890,442**	**18,895,928**	**67,358,736**
Accumulated depreciation:					
As at 2 July 2017	567,231	733,256	15,796,562	9,567,378	26,664,427
Depreciation charge	156,847	950	2,918,523	1,171,230	4,247,550
Disposals	-	-	(151,603)	-	(151,603)
Impairment	-	-	284,681	-	284,681
Translation differences	607	-	(95,701)	-	(95,094)
As at 1 July 2018	**724,685**	**734,206**	**18,752,462**	**10,738,608**	**30,949,961**
Net book value					
As at 1 July 2018	**12,112,682**	**793**	**16,137,980**	**8,157,320**	**36,408,775**

As at 1 July 2018, the net book value of freehold property includes land of £2,817,709 (2 July 2017: £2,867,081), which is not depreciated.

Included above are assets held under finance leases and hire purchase agreements. As at 1 July 2018, the net book value of such assets within plant & machinery is £nil (2 July 2017: £359,172) and within computer hardware is £395,586 (2 July 2017: £516,626).

6. Trade and other payables

	52 weeks ended 1 July 2018 £	53 weeks ended 2 July 2017 £
Current		
Trade payables	6,800,747	6,825,958
Other payables	2,574,971	2,988,090
Other taxes payable	761,544	1,303,810
Accruals	5,408,583	5,514,859
	15,545,845	**16,632,717**
Non-current		
Other payables and accruals	2,581,044	1,934,057
	2,581,044	**1,934,057**

7. Borrowings

	52 weeks ended 1 July 2018 £	53 weeks ended 2 July 2017 £
Current		
Finance lease and hire purchase liabilities	201,732	237,194
Chocolate bonds	-	3,208,500
	201,732	3,445,694
Unamortised costs of issue	-	(74,250)
Total current borrowings	**201,732**	**3,371,444**
Non-current		
Finance lease and hire purchase liabilities	16,811	218,544
Chocolate bonds	-	3,286,000
Total non-current borrowings	**16,811**	**3,504,544**
Total borrowings	**218,543**	**6,875,988**

Chocolate Bonds paid a return either in boxes of luxury chocolates or by way of a Hotel Chocolat gift card. For those bonds with a return in the form of chocolate, the coupon was fixed by number of boxes. For bonds where there was a return paid by way of a Hotel Chocolat gift card, there was a fixed rate of interest. The interest as stated on issue of the bonds ranged between 6.7% and 7.3%.

Chocolate Bonds were repayable subject to formal notice given six months prior to a redemption note. In order to redeem the bond, bondholders needed to give notice by January and payment would have been made in July of the same year. For all chocolate bonds, where notice had been given, the amount repayable was shown within current liabilities. The remaining bonds for which notice had not yet been given were shown within non-current liabilities. Both bonds had matured and were unsecured. All bonds were repaid by the Group prior to period end.

On 3 May 2017, the Group converted its bilateral revolving credit facility (RCF) into an overdraft facility. The bank overdraft is secured by a charge over the Group's assets and cross guarantees. The interest rate is charged at 1.25% over base rate.

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