25th February 2020

Hotel Chocolat Group plc
(“Hotel Chocolat”, the "Company” or the "Group”)
Interim Results

Hotel Chocolat Group plc, a premium British chocolatier and omni-channel retailer, today announces its interim results for the 26 weeks ended 29 December 2019. All numbers shown are after adopting IFRS 16 unless otherwise stated.

Financial highlights:

- Revenue up 14% to £91.7m (H1 FY19: £80.7m)
- Underlying EBITDA pre IFRS 16 up 7% to £18.5m (H1 FY19: £17.3m)[1]
- Profit before tax pre IFRS 16 up 7% to £14.9m (H1 FY19: £13.8m)
- Strong balance sheet with net cash at period end of £24.3m (H1 FY19: £21.8m)
- Earnings per share up 20% to 11.5p (H1 FY19: 9.6p)
- Interim dividend of 0.6p per share (H1 FY19: 0.6p)

	Period ended 29 December 2019 £000	**Period ended 30 December 2018 £000**
Revenue	91,716	80,719
Underlying EBITDA[1] (pre IFRS 16)	18,521	17,330
Profit before tax (pre IFRS 16)	14,870	13,847
Basic Earnings per share (pre IFRS 16)	11.3p	9.6p
IFRS 16: benefit to reported Profit before tax	114	
IFRS 16: reduction in Tax expense	25	
Profit before tax	14,984	13,847
Profit after tax	13,076	10,802
Basic Earnings per share	11.5p	9.6p

[1] Underlying EBITDA in H1 FY20 excludes £0.5m of share-based charges (H1 FY19: £0.4m).

Operational highlights:

- Strong sales growth reflecting continued brand appeal and ongoing product innovation
- 9 new UK locations, ending the period with 125 UK locations
- International rollout in line with strategy, 2 new locations in the USA and 3 in Japan
- New UK and International locations contributed 3 percentage points to Group sales growth
- VIP membership grew by +120% to 1.1m active members
- Velvetiser hot chocolate system; sales increased by over 200% year-on-year; refill subscription now launched

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

“This was another strong period for Hotel Chocolat. Our new store openings contributed three percentage points of the growth in the period, with the remaining balance coming from existing locations, digital and wholesale channels. While our new markets in the US and Japan are still in the early stages of development, consumer response to the brand is encouraging, sales are growing, and we believe we have a deliverable plan to achieve attractive returns.

“The Velvetiser in-home hot chocolate system achieved strong growth, with our installed Velvetiser owner base showing great loyalty and enthusiasm for our widening library of flavours, with Tasmanian Mint, Habanero Chilli, and Maple & Pecan hot chocolates becoming instant hits. Our VIP loyalty scheme continued to grow strongly and contributed to double digit EBITDA growth from our physical UK locations.

“Our strong growth came from a wider variety of sales channels than in previous years, which led to some initial challenges in our supply chain. We are now making good progress with investments and upgrades in our supply chain

which will fully address these inefficiencies and increase our international and multi-channel supply capability, ensuring we continue to deliver profitable growth."

For further information:

Hotel Chocolat Group plc	**c/o Citigate**	**+ 44 (0) 20 7638 9571**
Angus Thirlwell, Co-founder and Chief Executive Officer		
Peter Harris, Co-founder and Development Director		
Matt Pritchard, Chief Financial Officer		
Citigate Dewe Rogerson – Financial PR		**+ 44 (0) 20 7638 9571**
Angharad Couch		
Ellen Wilton		
Kieran Farthing		
Liberum Capital Limited – Nominated Advisor and Broker		**+ 44 (0) 20 3100 2222**
Clayton Bush		
James Greenwood		

Notes to Editors:
Hotel Chocolat is a premium British chocolatier with a strong and distinctive 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 locations in the UK and abroad. The Group has a cacao plantation and eco-hotel in Saint Lucia, offering complete cacao immersion through tree-to-bar experiences and wellness treatments. The Group also has a flagship restaurant and cacao roastery in London's Borough Market: Rabot 1745. The Group was admitted to trading on AIM in 2016.

Chief Executive's statement (inclusive of financial review)

RESULTS

	Period ended 29 December 2019 (Pre IFRS16)* £000	Period ended 29 December 2019 IFRS 16 Adj* £000	Period ended 29 December 2019 £000	Period ended 30 December 2018 £000
Revenue	**91,716**		**91,716**	**80,719**
Gross profit	59,633		59,633	53,097
Operating expenses	(41,112)	6,048	(35,064)	(35,767)
Underlying EBITDA	**18,521**	**6,048**	**24,569**	**17,330**
Share-based payments	(527)		(527)	(408)
EBITDA	17,994	6,048	24,042	16,922
Depreciation & amortisation	(2,982)	(5,212)	(8,194)	(2,793)
Loss on disposal of property, plant & equipment	(12)		(12)	(24)
Operating profit	**15,000**	**836**	**15,836**	**14,105**
Finance income	62		62	5
Finance expense	(183)	(722)	(905)	(179)
Share of joint venture results	(9)		(9)	(84)
Profit before tax	**14,870**	**114**	**14,984**	**13,847**
Tax expense	(1,933)	25	(1,908)	(3,045)
Profit for the period	**12,937**	**139**	**13,076**	**10,802**
Earnings per share – Basic	11.3p	0.2p	11.5p	9.6p
Earnings per share – Diluted	11.2p	0.2p	11.4p	9.5p
Dividend per share	0.6p		0.6p	0.6p

*The Group has initially applied IFRS 16 at 1st July 2019 using the modified retrospective approach. Under this approach comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in Retained earnings at the date of initial application. (See Note 2)

CHIEF EXECUTIVE'S STATEMENT

I am pleased to report continued progress for the Hotel Chocolat brand during the 26 weeks to 29 December 2019. Revenue for the period increased by 14% and underlying EBITDA (pre IFRS 16) increased by 7%. Our growth strategy continues to focus on four key themes:

1) UK Physical locations

We opened nine new Hotel Chocolat locations in the UK during the period and generated double-digit increase in EBITDA profitability from our UK estate. Further attractive opportunities remain, which we will continue to evaluate on a site-by-site basis. We are also investing in our existing estate; we re-located in Cardiff and Brighton to larger prime sites with our full offer, and have begun to refit locations, adding our leisure experience with drinks, ices and seating to London Moorgate and Gateshead Metro Centre. Initial results suggest that 'upgrade investment' in existing strong catchments will offer attractive returns as well as nourishing the brand and continuing to add to its appeal.

2) Cautious 'test, learn, grow' approach to new international markets

In the USA, we opened two more locations in the period, bringing the total to four. Consumer reaction is encouraging, and our first location in the USA has now passed its one-year anniversary, generating a modest EBITDA profit in the period. We have a clear and deliverable plan to further improve profitability in the coming years to the point where a rollout model would generate attractive returns.

In Japan, our joint venture partner opened three more locations bringing the total to five. Consumer reaction is similarly encouraging, and our first opening has also now passed its one-year anniversary, generating a modest EBITDA profit in the period. Unlike the UK and the USA, the larger gift-giving seasons are in the second half of our financial year, therefore we anticipate a further improvement in site-level economics in the second half of this coming financial year. Again, we have a clear and deliverable plan to improve profitability in the coming years to the point where a rollout model would generate attractive returns.

3) UK digital proposition

Despite being an early online pioneer, we believe we have under-invested in this part of our model over the last few years. The first half of the financial year saw us make investments to address this, with several new hires and a new suite of tools to make fuller use of the opportunities of our strong brand and burgeoning customer base.

Our new in-sourced CRM system is driving improved customer communication. We launched a new subscription service for Velvetiser refills, and we grew our VIP scheme by over 100 per cent, for which we will shortly be introducing an App.

4) Increase capacity and capture efficiencies from the vertically integrated supply chain

Our gross margin rate declined by 80 basis points due to the increased sales mix of the Velvetiser in-home hot chocolate maker. The initial sale has a lower than average gross margin, but this is offset by the lifetime value of the chocolate refills. We continue to innovate the library of flavours on offer and have now launched a free-delivery subscription service.

In supplying more growth channels, we encountered some inefficiency in our internal supply chain which resulted in overheads increasing by 50 basis points. Having identified the root causes, an investment programme is already underway to prepare our supply chain in advance of the 2020 winter peak.

FINANCIAL REVIEW

Revenue

Group revenue increased by 14% to £91.7m. Nine new locations were opened in the UK during the period contributing three percentage points of the Group's year-on-year growth. Retail, digital and wholesale all delivered sales growth.

Profit Before Tax

Profit before tax (pre IFRS 16) increased by 7% to £14.9m. IFRS 16 has been applied at 1st July using the modified retrospective approach under which comparative information is not restated. Reported Profit before tax increased by 8% to £15.0m.

Gross margin

Gross margin declined by 80 basis points from 65.8% to 65.0% driven by the mix impact of Velvetiser sales. Whilst the initial sale of Velvetisers are at a lower gross margin, the recurring chocolate refills have a higher purchase frequency than our other products.

Operating expense

Operating expenses (pre IFRS 16) grew by 15%, ahead of the rate of sales growth, with additional costs of fulfilment during the winter peak. As a result, operating expenses as a percent of sales increased from 44.3% to 44.8%. The transition to IFRS16 resulted in reported Operating expenses of 38.2% of sales.

Underlying EBITDA

Underlying EBITDA (pre IFRS 16) increased 7% to £18.5m.

Share based payments

Share-based payment expense of £0.5m (H1 FY19: £0.4m) related to the share-based Long-Term Incentive Plan and an all-employee Save As You Earn plan.

Foreign currency

The business manufactures the majority of its products in the UK; however, it does purchase some premium ingredients in foreign currencies, predominantly Euros. The Group hedges its forecast Euro purchases up to 18 months ahead.

Finance income and expense

Finance expense (pre IFRS 16) of £0.2m reflects £0.1m of interest on a working capital overdraft, and £0.1m of realised interest on foreign exchange hedges. Post IFRS 16 Finance Expense is £0.9m. Finance income of £0.1m is driven primarily by unrealised interest on foreign exchange hedges.

Earnings per share

Basic earnings per share in the period (pre IFRS 16) increased 18% to 11.3p (H1 FY19: 9.6p). Post IFRS 16 Earnings per share were 11.5p. The exercise of the 2016 Long Term Incentive Plan and Save-As -You-Earn schemes in the period resulted in corporation tax deductions, giving an effective tax rate of 13.0% (pre IFRS-16) (H1 FY19 22.0%).

Dividend

At the time of the IPO, the Directors stated an intention to implement a progressive dividend policy to reflect the expectation of future cash flow. The Board proposes an interim dividend of 0.6p per share which will be paid on 15th April 2020 to shareholders on the register on 6th March 2020. Mindful of the potential growth opportunities in the USA and Japan, the Board will continue to review the rate of growth in any dividend relative to the potential opportunities for re-investment in service of profitability and growth.

Cash flow and closing cash position

Net cash inflow from operating activities was £30.2m (H1 FY19: £29.5m) an increase of 2 percent.

Net cash (being cash minus borrowings) at the end of the period was £24.3m (H1 FY19: £21.8m). The Group has access to an overdraft facility with Lloyds Bank plc to fund seasonal working capital requirements if required.

Major capital projects in the period included new Hotel Chocolat locations, refits of existing locations, upgrades to the manufacturing facility and Distribution Centre.

OUTLOOK

Since the end of the financial reporting period, trading has continued to be in line with the Board's expectations. The performance of the new locations is encouraging and there is a future pipeline of similar potential locations. The Velvetiser and the VIP Me loyalty card scheme both performed well during their second year and both offer significant future growth potential.

In delivering these results in a context of continued macro-economic uncertainty, the business has demonstrated creativity, resilience and adaptability. Delivery against the four-point strategy will result in top-line growth and improve profitability in the UK, enabling the Group to invest in the growing new markets of USA and Japan. A strongly differentiated brand which offers great products and customer service and that is priced as an affordable luxury, gives the Board confidence in the Group's continued progress.

Adoption of IFRS 16 "Leases"

The Group has initially applied IFRS 16 "Leases" as at 1st July 2019. A right of use asset and a lease liability is included on the balance sheet, and depreciation and interest have been charged to the income statement, replacing rental charges through operating expenses. The change has no impact to cash flow and therefore has no impact to the Board's decision-making.

Discount rates ranging between 2% and 3.5% have been applied using a portfolio approach. The discount rate is based on the Bank of England Base rate, modified to account for credit premium and the remaining lease term. Store leases have been stratified using a number of factors including:

- the remaining lease term at date of adoption
- store contribution and payback

The weighted average incremental borrowing rate applied at the date of transition was 2.5%.
The Group has adopted the modified retrospective approach, under which comparative information is not restated. The cumulative effect of applying IFRS 16 is recognised in Retained earnings at the date of initial application.

A summary of the impact on the Group income statement and balance sheet is as follows:

Impact on the Group income statement	**H1 FY20 £000**	**H1 FY19 £000**
Operating expenses:		
Rent	6,048	-
Depreciation	(5,212)	-
Net reduction in Operating expenses	**836**	**-**
Finance expenses	(722)	-
Net increase to Profit before tax	**114**	**-**
Tax	**25**	**-**
Net increase to profit after tax	**139**	**-**

Impact on the Group balance sheet	**H1 FY20 £000**	**H1 FY19 £000**
Right of use asset	50,728	-
Lease liability	(54,926)	-
Retained earnings	1,289	-

Angus Thirlwell
Co-founder and Chief Executive Officer

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the period ended 29 December 2019

	Notes	*Unaudited** 26 weeks ended 29 December 2019 £'000	*Unaudited* 26 weeks ended 30 December 2018 £'000
Revenue		91,716	80,719
Cost of sales		(32,083)	(27,622)
		59,633	53,097
Operating expenses		(43,797)	(38,993)
	3	15,836	14,104
Finance income	4	62	5
Finance expenses	4	(905)	(179)
Share of joint venture results		(9)	(84)
Profit before tax		14,984	13,846
Profit before tax and IFRS 16		14,870	13,846
IFRS 16 Operating expenses		836	-
IFRS 16 Finance expenses	**4**	(722)	-
Tax expense		(1,908)	(3,045)
Profit for the period		13,076	10,801
Other comprehensive income:			
Derivative financial instruments		(518)	282
Deferred tax charge on derivative financial instruments		42	(26)
Currency translation differences arising from consolidation		(227)	384
Total comprehensive income for the period		12,373	11,441
Basic Earnings per share pre/post IFRS 16	5	11.3p/11.5p	9.6p
Diluted Earnings per share pre/post IFRS 16	5	11.2p/11.4p	9.5p

* The Group has initially applied IFRS 16 at 1 July 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in Retained earnings at the date of initial application. (See note 2)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 29 December 2019

	Notes	*Unaudited* As at 29 December 2019 £'000	*Unaudited* As at 30 December 2018 £'000	*Audited* As at 30 June 2019 £'000
ASSETS				
Non-current assets				
Intangible assets		3,244	2,729	2,912
Property, plant and equipment	6	45,009	39,082	40,115
Right of use asset	2	50,728	-	-
Investment in joint ventures		-	32	9
Loan to joint venture		3,970	706	2,488
Derivative financial assets		12	109	-
Other receivables and prepayments		-	9	18
Deferred tax asset		278	319	623
		103,241	42,986	46,165
Current assets				
Derivative financial assets		-	206	81
Inventories		16,222	9,436	12,810
Trade and other receivables		10,230	9,549	9,360
Cash and cash equivalents		24,299	21,879	5,778
		50,751	41,070	28,029
Total assets		**153,992**	**84,056**	**74,194**
LIABILITIES				
Current liabilities				
Trade and other payables	7	34,758	27,146	19,528
Corporation tax payable		712	3,016	1,607
Derivative financial liabilities		404	-	2
Lease liabilities	2	11,705	-	-
Borrowings		-	118	17
		47,579	30,280	21,154
Non-current liabilities				
Other payables and accruals	7	-	2,861	2,757
Derivative financial liabilities		-	-	9
Lease liabilities	2	43,221	-	-
Provisions		-	936	944
		43,221	3,797	3,710
Total liabilities		**90,800**	**34,077**	**24,864**
NET ASSETS		**63,192**	**49,979**	**49,330**
EQUITY				
Share capital		116	113	113
Share premium		15,825	11,750	11,750
Retained earnings		43,760	33,909	33,359
Translation reserve		1,026	1,264	1,253
Merger reserve		223	223	223
Capital redemption reserve		6	6	6
Other reserves		2,236	2,713	2,626
Total equity attributable to shareholders		**63,192**	**49,979**	**49,330**

* The Group has initially applied IFRS 16 at 1 July 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in Retained earnings at the date of initial application. (See note 2)

CONSOLIDATED STATEMENT OF CASH FLOW
For the period ended 29 December 2019

	Notes	*Unaudited* 26 weeks ended 29 December 2019 £'000	*Unaudited* 26 weeks ended 30 December 2018 £'000
Profit before tax for the period		14,984	13,847
Adjusted by:			
Depreciation of property, plant and equipment	6	2,727	2,482
Depreciation of Right of use asset		5,212	-
Amortisation of intangible assets		255	311
Loss of joint ventures		9	84
Net interest expense		845	173
Share-based payments		527	408
Loss on disposal of property, plant and equipment and intangible assets		12	24
Operating cash flows before movements in working capital		**24,571**	**17,329**
Decrease/(increase) in inventories		(3,412)	3,120
Decrease/(Increase) in trade and other receivables		(3,111)	(2,071)
Increase in trade and other payables and provisions		15,590	12,645
Cash inflow generated from operations		**33,638**	**31,023**
Interest received		6	1
Income tax paid		(2,541)	(1,320)
Interest paid on:			
- interest paid – IFRS leases		(722)	-
- derivative financial instruments		(104)	(100)
- bank loans and overdraft		(45)	(61)
Cash flows from operating activities		**30,232**	**29,543**
Purchase of property, plant and equipment		(7,362)	(5,632)
Proceeds from disposal of property, plant and equipment		79	10
Investment in joint venture			(7)
Loan to joint venture		(1,482)	(779)
Purchase of intangible assets		(480)	(242)
Cash flows used in investing activities		**(9,245)**	**(6,650)**
Proceeds on issue of shares		4,078	1
Capital element of hire purchase and finance leases repaid		(17)	(101)
Payment of IFRS16 lease liabilities		(5,065)	-
Dividends paid		(1,386)	(1,241)
Cash flows used in financing activities		**(2,390)**	**(1,341)**
Net change in cash and cash equivalents		18,597	21,552
Cash and cash equivalents at beginning of period		5,778	236
Foreign currency movements		(76)	91
Cash and cash equivalents at end of period		**24,299**	**21,879**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the period ended 29 December 2019

	Share capital £000s	Share Premium £000s	Retained earnings £000s	Translation reserve £000s	Merger reserve £000s	Capital redemption reserve £000s	Other reserves £000s	**Total £000s**
As at 1 July 2018	**113**	**11,749**	**24,348**	**881**	**223**	**6**	**2,291**	**39,611**
Issue of share capital	-	1	-	-	-	-	-	1
Share-based payments	-	-	-	-	-	-	408	408
Deferred tax charge on share-based payments	-	-	-	-	-	-	(241)	(241)
Profit for the period	-	-	10,802	-	-	-	-	10,802
Dividends paid	-	-	(1,241)	-	-	-	-	(1,241)
Other comprehensive income:								
Derivative financial instruments	-	-	-	-	-	-	281	281
Deferred tax charge on derivative financial instruments	-	-	-	-	-	-	(26)	(26)
Currency translation differences arising from consolidation	-	-	-	384	-	-	-	384
Equity as at 30 December 2018	**113**	**11,750**	**33,909**	**1,265**	**223**	**6**	**2,713**	**49,979**
Share-based payments	-	-	-	-	-	-	(162)	(162)
Deferred tax charge on share-based payments	-	-	-	-	-	-	242	242
Profit for the period	-	-	127	-	-	-	-	127
Dividends paid	-	-	(677)	-	-	-	-	(677)
Other comprehensive income:								
Derivative financial instruments	-	-	-	-	-	-	(210)	(210)
Deferred tax credit on derivative financial instruments	-	-	-	-	-	-	43	43
Currency translation differences arising from consolidation	-	-	-	(12)	-	-		(12)
Equity as at 30 June 2019	**113**	**11,750**	**33,359**	**1,253**	**223**	**6**	**2,626**	**49,330**

	Share capital £000s	Share Premium £000s	Retained earnings £000s	Translation reserve £000s	Merger reserve £000s	Capital redemption reserve £000s	Other reserves £000s	**Total £000s**
Equity as at 30 June 2019	**113**	**11,750**	**33,359**	**1,253**	**223**	**6**	**2,626**	**49,330**
Adjustment on initial application of IFRS 16	-	-	(1,289)	-	-	-	-	(1,289)
Opening Equity as at 1 July 2019	**113**	**11,750**	**32,070**	**1,253**	**223**	**6**	**2,626**	**48,041**
Issue of share capital	3	4,075	-	-	-	-	-	4,078
Share-based payments	-	-	-	-	-	-	466	466
Deferred tax charge on share-based payments	-	-	-	-	-	-	(380)	(380)
Profit for the period	-	-	13,076	-	-	-	-	13,076
Dividends paid	-	-	(1,386)	-	-	-	-	(1,386)
Other comprehensive income:								
Derivative financial instruments	-	-	-	-	-	-	(518)	(518)
Deferred tax charge on derivative financial instruments	-	-	-	-	-	-	42	42
Currency translation differences arising from consolidation	-	-	-	(227)	-	-		(227)
Equity as at 29 December 2019	**116**	**15,825**	**43,760**	**1,026**	**223**	**6**	**2,236**	**63,192**

NOTES TO THE INTERIM FINANCIAL INFORMATION

1. Basis of preparation

The consolidated interim 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 accounts have been prepared in accordance with accounting policies that are consistent with the Group's Annual Report and Accounts for the period ended 30 June 2019 and that are expected to be applied in the Group's Annual Report and Accounts for the period ended 28 June 2020. There are new or revised standards that apply to the period beginning 1 July 2019 but they do not have a material effect on the financial information for the period ended 29 December 2019, with the exception of IFRS 16 detailed below.

The comparative financial information for the period ended 30 June 2019 in this interim report does not constitute statutory accounts for that period under 435 of the Companies Act 2006.

Statutory accounts for the period ended 30 June 2019 have been delivered to the Registrar of Companies.

The auditors' report on the accounts for 30 June 2019 was 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. Significant accounting policies

Directors have taken into account the historic positive cash flows, growth in business and the inherent risks and uncertainties facing the business, and have derived forecast assumptions that are the Directors' best estimate of the future development of the business. The forecasts and projections, which take into account the projected trading performance of companies within the Group's combined bank facilities, show that the Group will be able to operate within the level of its current facilities. On this basis, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis of accounting in preparing the consolidated financial information.

Except for the first time adoption of IFRS 16 detailed below, the interim financial results have been prepared by applying the accounting policies that were applied in the preparation of the 2019 Annual Report and Accounts which are published on the Hotel Chocolat website, www.hotelchocolat.com. The changes to accounting policies outlined below are also expected to be reflected in the Group's consolidated financial statements as at the year ending 28 June 2020.

Other than IFRS 16 there are no new or amended standards effective in the period which has had a material impact on the interim consolidated financial information.

IFRS 16 "Leases"

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. It eliminates the lease classification of leases as either operating leases or financial leases and introduces a single lease accounting model requiring lessees to recognise a lease liability reflecting the future lease payments and a right-of-use asset for lease contracts.

a. Transition method and practical expedients applied

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

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

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

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

At the date of commencement 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 is not likely to be exercised. Leases are regularly reviewed and will be revalued if it becomes likely that a break clause or option to extend will be exercised. The weighted average incremental borrowing rate applied at the date of transition was 2.5%.

b. Right of use assets

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

c. Lease liabilities

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

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

d. Impacts on the financial statements

(i) Balance sheet

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

	1 July 2019 **£000**
Right of use assets	50,603
Lease liabilities	(54,249)
Deferred tax asset	255
Prepayments	(2,258)
Accruals	2,492
Retained Earnings	1,289

d. Impacts on the financial statements (continued)

The table below shows a reconciliation from the total operating lease commitment as disclosed at 30 June 2019 to the total lease liabilities recognised in the accounts immediately after transition:

	1 July 2019 **£000**
Operating lease commitment at 30 June 2019 per the Groups consolidated financial statements	59,859
Discounted using the incremental borrowing rate at 1 July 2019	(6,510)
Recognition exemption for lease of low values assets / short term leases	(1,413)
Finance lease liabilities recognised at 30 June under IAS 17	2,313
Total lease liabilities recognised at 1 July 2019	**54,249**

The Group presents right-of-use assets separately in the consolidated balance sheet. The carrying amounts of right-of-use assets are as below:

	Property, Plant and Equipment **£000**
Balance at 1 July 2019	50,603
Balance at 29 December 2019	50,728

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

(ii) Income statement

The Group has recognised amortisation and interest costs in respect of leases that were previously classified as operating leases in the income statement, rather than rental charges. During the period ended 29 December 2019, the Group recognised £5.2m of additional amortisation charges and £0.7m of additional interest costs in respect of these leases.

(iii) Reserves

The Group has applied IFRS 16 using the modified retrospective approach, whereby the initial right-of-use asset was measured at carrying amount as if the standard had always been applied, but discounted using the incremental borrowing rate at the date of initial application. The lease liability was measured at the present value of the remaining lease payments. The mismatch between the liability and asset value at transition is taken to reserves. The Group has taken £1.3m to reserves at the start of the period.

3. Profit from operations

Profit from operations is arrived at after charging:

	Unaudited **26 weeks ended 29 December 2019** **£000**	***Unaudited*** **26 weeks ended 31 December 2018** **£000**
Staff cost	23,924	17,630
Depreciation of property, plant and equipment	2,727	2,482
Amortisation of intangible assets	255	311
Depreciation of Right of Use asset	5,212	-
Operating leases:		
- Property	-	5,832
- Plant and equipment	-	129
Loss on disposal of property, plant and equipment and intangible assets	12	24
Exchange differences	(88)	35
Bad debt expense	18	20

4. Finance income and expenses

	Unaudited 26 weeks ended 29 December 2019 £000	Unaudited 26 weeks ended 30 December 2018 £000
Interest on bank deposits	6	1
Unrealised interest on derivative financial instruments	56	4
Finance income	**62**	**5**
Interest on bank borrowings	79	78
Realised interest on derivative financial liabilities	104	100
Finance leases and hire purchase contracts	-	1
IFRS 16 Interest charge	722	-
Finance expenses	**905**	**179**

5. Earnings per share

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

	Unaudited 26 weeks ended 29 December 2019 £000	Unaudited 26 weeks ended 30 December 2018 £000
Profit after tax for the period pre IFRS 16	12,937	10,801
IFRS 16 adjustment to profit before tax	114	
IFRS 16 adjustment to tax	25	
Profit after tax for the period	13,076	10,801

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:

	Unaudited 26 weeks ended 29 December 2019	Unaudited 26 weeks ended 30 December 2018
Weighted average number of shares in issue used in the calculation of earnings per share (number) - Basic	114,197,428	112,838,213
Share-based payments – Hotel Chocolat Group plc Save As You Earn Plan	566,898	340,202
LTIP 2016 unexercised options	418,810	
Weighted average number of shares in issue used in the calculation of earnings per share (number) - Diluted	**115,183,136**	**113,178,415**
Basic Earnings per share (pence) – pre/post IFRS 16	11.3/11.5	9.6
Diluted Earnings per share (pence) – pre/post IFRS 16	11.2/11.4	9.5

As at 29 December 2019, the total number of potentially dilutive shares issued under the Hotel Chocolat Group plc Long-Term Incentive Plan was 301,073 (30 December 2018: 3,657,000). Due to the nature of the options granted under this scheme, they are considered contingently issuable shares and therefore have no dilutive effect.

*The Group has initially applied IFRS 16 at 1st July 2019 using the modified retrospective approach. Under this approach comparative information is not restated and the cumulative effect of applying IFRS 16 is recognised in Retained earnings at the date of initial application. (See Note 2)

6. Property, plant and equipment

	Freehold property £000	Leasehold property £000	Furniture & fittings, Equipment, Computer software & hardware £000	Plant & machinery £000	Right of use asset £000	Total £000
26 weeks ended 30 December 2018						
Cost:						
As at 1 July 2018	**12,837**	**735**	**34,890**	**18,896**	**-**	**67,358**
Additions	388	-	3,762	607	-	4,757
Disposals	-	-	(2,701)	(15)	-	(2,716)
Translation differences	411	-	42	-	-	453
As at 30 December 2018	**13,636**	**735**	**35,993**	**19,488**	**-**	**69,852**
Accumulated depreciation:						
As at 1 July 2018	**725**	**734**	**18,752**	**10,739**	**-**	**30,950**
Depreciation charge	98	1	1,714	670	-	2,483
Disposal	-	-	(2,682)	(2)	-	(2,684)
Translation differences	9	-	14	-	-	23
As at 30 December 2018	**832**	**735**	**17,798**	**11,407**	**-**	**30,772**
Net book value						
As at 30 December 2018	**12,804**	**-**	**18,195**	**8,081**	**-**	**39,080**
26 weeks ended 29 December 2019						
Cost:						
As at 30 June 2019	**14,775**	**735**	**36,184**	**21,544**	**-**	**73,238**
IFRS 16 opening adjustment	-	-	(695)	-	50,603	49,907
As at 1 July 2019	**14,775**	**735**	**35,489**	**21,544**	**50,603**	**123,145**
Additions	586	18	3,647	4,178	5,507	13,936
Disposals	-	-	(401)	-	-	(401)
Translation differences	(339)	-	(67)	-	(179)	(585)
As at 29 December 2019	**15,022**	**753**	**38,668**	**25,722**	**55,931**	**136,095**

6. Property, plant and equipment (continued)

	Freehold property £000	Leasehold property £000	Furniture & fittings, Equipment, Computer software & hardware £000	Plant & machinery £000	Right of use asset £000	Total £000
Accumulated depreciation:						
As at 30 June 2019	**816**	**735**	**19,845**	**11,727**	**-**	**33,123**
IFRS 16 opening adjustment	-	-	(353)	-	-	353
As at 1 July 2019	**816**	**735**	**19,492**	**11,727**	**-**	**32,770**
Depreciation charge	80	-	2,059	588	5,212	7,939
Disposal		-	(309)	-	-	(309)
Translation differences	(11)	-	(21)	-	(9)	(41)
As at 29 December 2019	**885**	**735**	**21,221**	**12,315**	**5,203**	**40,359**
Net book value						
As at 29 December 2019	**14,137**	**18**	**17,447**	**13,407**	**50,728**	**95,737**

As at 29 December 2019, the net book value of freehold property includes land of £2,853,955 (31 December 2018: £2,941,238), which is not depreciated.

7. Trade and other payables

	Unaudited **26 weeks ended 29 December 2019 £000**	***Unaudited*** **26 weeks ended 30 December 2018 £000**
Current		
Trade payables	10,504	4,091
Other payables	4,376	3,934
Other taxes payable	9,566	8,317
Accruals	10,312	10,804
	34,758	**27,146**
Non-current		
Other payables	-	2,861
	-	**2,861**