24 September 2019

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 30 June 2019.

Financial highlights:

- Revenue up 14% to £132.5m (2018: £116.3m)
- Underlying EBITDA[1] up 9% to £20.7m (2018: £18.9m)[1], up 14% excluding USA
- Profit before tax up 11% to £14.1m (2018: £12.7m), up 19% excluding USA
- Profit after tax up 10% to £10.9m (2018: £10m)
- Diluted earnings per share of 9.5p (2018: 8.8p)
- Final dividend of 1.2p per share (2018: 1.1p). Full year dividend of 1.8p per share (2018: 1.7p)

Operational highlights:

- Opened 14 new UK & ROI stores, invested in two refits and three relocations to larger sites
- Over 900,000 members signed-up to new VIP ME loyalty scheme
- Launch of Velvetiser to 5-star reviews
- Drinks, Ices & experiences rollout to more locations
- Two new locations opened in the USA
- Japan joint venture commenced trading, opening two locations

[1] Underlying EBITDA in FY19 excludes £0.9m of share-based payment charges and related tax. (FY18: £0.7m)

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 with profits growing slightly ahead of expectations. In the UK, our physical locations performed well, reflecting their allure and relevance. Growth was underpinned by the combination of leisure, gifts and experiences including Chocolate Lock-in tastings, as well as new ranges of drinks and chocolate-dipped ice lollies. The launch of the innovative Velvetiser, our in-home hot chocolate system, supported strong sales growth and received fantastic customer reviews. Our new VIP ME loyalty scheme attracted over 900,000 active members during the period and we continued to bring new and exciting products to market.

"Profit from existing Group operations increased faster than sales growth, enabling us to invest in new markets. We are confident that our international expansion will continue to develop well. Our focus on USA and Japan, two of the three largest economies in the world, led to four locations opening, with a further five opening over the next six months. The brand, what it stands for, and our "More Cacao Less Sugar" taste have proven attractive in Tokyo and New York, as well as our refreshing price versus quality ratio.

"Key imminent product launches include exciting new Velvetiser chocolate flavours, including Maple & Pecan and Gingerbread, and Dark Mint Chocolate Cream Liqueur, followed by new variants of a product the Japanese in particular have fallen in love with, the all-Chocolate Macaron.

"I would like to thank the whole team for their fantastic work, delivering a strong set of results for the year, while at the same time opening up multiple avenues for future growth."

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 130 locations in the UK and abroad. The Group has one restaurant in the UK and a cacao estate and hotel in Saint Lucia. The Group was admitted to trading on AIM in 2016.

CHAIRMAN'S STATEMENT

OVERVIEW

In FY19 the Group's existing operations continued to grow and improve profitability. In addition, the new test locations in the USA and a JV partner in Japan are showing encouraging early results. The Group continues to have many opportunities and is taking a disciplined approach to deliver long-term growth and returns.

RESULTS

The Group achieved a pleasing result in FY19 with revenue of £132.5m and growth of 14% versus FY18. Profit before tax grew by 11% to £14.1m. The Group results included £0.5m of sales and £1.2m of losses relating to new investments in locations in the USA, which performed in line with our business plan. Excluding the USA, Group sales grew by 13% and profit before tax grew by 19%.

STRATEGY

The growth strategy remains unchanged. We will carefully continue to open more locations, to invest in digital to make it increasingly easier for consumers to access our brand, and work with selected partners to extend our reach and accessibility. The profit generation from these activities supports investment in additional manufacturing capacity and improved efficiency, and the continued trials in two large international markets taking a cautious 'test, learn, grow' approach.

PEOPLE

The Group continues to be led by a strong founder-led executive management team who have built a strong brand and successful business. I would like to extend my thanks to the whole Hotel Chocolat team for their energy and creativity which has delivered another year of results to be proud of. Following three successful years of growth, the Remuneration Committee has approved the full vesting of the 2016 LTIP award for senior management, reflecting the outperformance of the existing operations, and the impact of new investments in the USA. In total 2.8m share options will immediately vest and become exercisable.

DIVIDENDS

The Board is pleased to propose a final dividend of 1.2 pence per share bringing the full year dividend to 1.8 pence per share. If approved by shareholders at the AGM on 21 November 2019, it will be paid on 20 December 2019 to shareholders on the register at 22 November 2019.

OUTLOOK

Despite the challenges and uncertainties facing the wider economy, the strength of the brand drives great customer loyalty and we are well positioned for future growth, 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 14% to £132.5m, underlying EBITDA[1] increased by 9% to £20.7m and profit before tax increased by 11% to £14.1m. The UK continues to deliver sales growth with profits improving faster than sales due to increasing efficiency and the benefits of scale. Our new test locations in the US and with our Joint Venture partner in Japan are both delivering encouraging sales and costs are tracking in line with expectations.

SALES CHANNEL REVIEW

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

UK
Physical

Hotel Chocolat locations are a doorway into instant escapist happiness. We relentlessly innovate to make our spaces exciting, relevant, friendly and experiential. The immediate gratification of leisure-driven self-purchase is augmented by carefully selected gifts for a wide spectrum of occasions and budgets. Launching multiple seasonal gift ranges every year means there is something exciting happening all the time. We have always understood the need for our spaces to deliver for our guests on the leisure and experience level, and I'm delighted that our work here is gaining such strong traction; Drinks + Ices and Chocolate Lock-in tasting experiences have performed extremely well this year, with further huge potential also shown by the prolific customer-generated social sharing.

Our existing locations performed very well over the year; therefore we opened a further 14 new locations in the UK and Ireland. We have also seen encouraging results from investments in upgrades in existing catchments; Westfield London (FY19), and Cardiff and Brighton (Q1 FY20) all moved to better locations, adding Drinks + Ices with seating. Gateshead Metro Centre, where we have built a great customer base since 2007, received a Drinks + Ices and seating upgrade as part of a refit.

Whilst macro-economic trends have created headwinds, we remain confident that further new openings can deliver attractive financial returns and improve customers' ease of access to our brand, based on our multi-channel leisure and gift format.

We observed an acceleration in same-store sales growth in H2 following the launches of our Velvetiser in-home hot chocolate system and VIP ME scheme. This strong trading performance further improved the collective EBITDA profitability of our established sites (open more than 12 months). In addition, our new locations made a positive contribution to EBITDA in their maiden part-year.

As you may expect, we constantly evaluate the potential return on capital of our different growth investment options. In assessing physical locations, the Board modelled three scenarios, based on various growth rates and cost inflation for our physical store estate:

1) A continuation of the FY19 growth rates for sales and for overhead costs – which would mean that store estate EBITDA profitability would continue to 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 FY19 – this would still mean that the retail estate would continue to generate significant EBITDA profit in five years' time. Our average lease length is 5.5 years and our average time to break-clause is 3.5 years, giving us a good degree of agility to adapt in a timely manner.

3) However, we continue to focus all 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 VIP ME, adding more leisure experiences, and empowering our store teams to deliver an ever-better experience for our guests, tasting and demonstrating more of our exciting new products.
   - 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 FY19 excludes £0.9m of share-based payment charges and related tax. (FY18: £0.7m)

Digital

Being born digital means that it is always at the centre of our strategy, giving Hotel Chocolat an unusually high proportion of digital sales compared to other chocolate brands, at 19%. In the year we welcomed Lysa Hardy, our first ever Chief Marketing Officer who brings a breadth of experience in brand communication, omni-channel marketing, digital engagement and subscriptions.

- Sales through our own website increased by 22%. In the year we focussed on assembling the elements necessary to drive stronger growth: investing in a more skilled and experienced team supporting the new CMO role and instigating certain tech upgrades we have been developing for a while. During FY20 we are insourcing all CRM and email activity to give greater control and improved personalisation, digitising the successful VIP ME loyalty scheme, launching a gift-sending app, launching new app-based subscription models, and improving e-commerce navigation and conversion. We anticipate each of these improvements benefitting the autumn/winter peak for FY20.
- Subscription sales reduced by 26%. We are not perturbed by this as it is part of our remodelling plan and reflects our pause in acquisition marketing for this part of our model. A new subscription app is scheduled for launch in H1 bringing with it new offers, intended to create a sustainable subscription growth platform for the future. As a result of the temporary pause in acquisition marketing, profitability increased year on year.

Wholesale Partners

We have achieved very encouraging growth in the year with UK B2B sales growing by 19%. Each partner is selected on a careful balance of attributes and customer demographics, then matched with a specific capsule collection from our product range. As these partnerships have become established, we have been able to curate capsule ranges that are specific to the needs of each partners' customers. Each partner typically has less than 10 percent of our total range, meaning we retain many reasons to visit our own locations and website, where we can offer the deepest brand experience and service, nourishing the brand for the long term.

INTERNATIONAL

FY19 was a significant year for our global aspirations, opening Hotel Chocolats in two of the three largest economies in the world. In both markets the brand has been well received by customers, with our approach seen as refreshing and attractive and our prices perceived as fair value. With only a part-year of data, our initial site-level sales are tracking in line with our expectations, a level at which we believe we can deliver EBITDA profitability once supply chain costs are normalised. We are making continuous improvements to our sea-freight supply chains driving higher availability and higher gross margins. Both our 100% owned business in the US and the JV in Japan remain sub-scale in this test phase but we have invested in high calibre local teams to ensure the brand is well presented and the foundations are being laid for potential roll-out, with a clear success criteria for our 'test, learn, grow' approach.

USA

- Opened two locations, both featured the full Hotel Chocolat offer with Drinks + Ices and seating
- Lexington Avenue, New York opened Nov 2018
- Garden State Plaza Mall, New Jersey opened Feb 2019
- Union Station, Washington DC and Columbus Circle, a mass transit location in New York will both be opening in H1 FY20
- We are upgrading our US transactional website and exploring the potential for wholesale partnerships

Japan JV

- Laketown Mall, Tokyo opened Nov 2018. Japan's largest mall
- Narita Mall, Tokyo opened Feb 2019
- Both locations feature the full Hotel Chocolat offer with Drinks + Ices and prominent seating
- Three further locations are planned to open ahead of the Spring '20 peak
- The website is live and social outreach is being invested in
- The gifting seasons are different in Japan, where Valentine's and White Day in February and March generate a sales peak similar to Christmas in the UK

Scandinavia Franchise

- Four Danish locations now open
- New central Copenhagen location opening H1 FY20

- Our partner continues to explore opportunities for growth in the market including B2B wholesale, concessions and opening more locations

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 by 180bps from 52.2% of sales to 50.3%.

In FY19 gross margin reduced by 250bps. The decline was primarily driven by the growth of the Velvetiser and Wholesale, both of which have lower gross margins but also have lower overhead costs as a percent of sales. We made 40bps of margin gains from operational improvements which were re-invested in sales-driving activity with VIP me. Further detail is provided in the Financial review below.

Manufacturing Investment

Having invested over £4m in production capex in the previous two years, in FY19 we focussed on; optimising and fine-tuning the performance of these new assets and building detailed capacity plans for 5-year and 15-year horizons. We acquired land adjacent to our freehold factory campus in Huntingdon, Cambridgeshire and have obtained outline planning permission that would ultimately enable us to increase our site output capacity by more than 200% as and when required. We focus on maximising return on capital employed by improving existing asset utilisation, only investing in additional productive assets as and when the capacity is clearly required. We are well advanced with plans for a fourth production line, a capital project of approximately £4m due to enter service in 2021, the project will also enable the addition of up to two further lines by 2024.

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. We have always invested heavily in innovation and creativity, and as a result we now have many years of new innovations in the pipeline. Those that we launch will have made it through our disciplined testing and trialling approach. Recent highlights included the Velvetiser, our in-home hot chocolate system, which launched to the best customer reviews we have ever received. Our amazing chocolate-dipped Ice Lollies were tested this spring and proved so popular we immediately began a rollout to more locations.

Key launches for FY20 include Biscuits of the Gods, aiming to offer the best chocolate biscuit on the planet, exciting new Velvetiser chocolate flavours, Dark Chocolate Mint Cream Liqueur and new variants of a product the Japanese in particular have fallen in love with, the all Chocolate Macaron.

Experiences

Leisure experiences are ever-increasing as the new luxury, with consumers seeking to go beyond the purely transactional, but only with the brands they love. We are well positioned as an early pioneer and a brand that enjoys a good degree of consumer love. It’s an area of strong focus for us. We are determined to step-up further the multi-sensory elements at all our Hotel Chocolat locations. We are extending the range of experiences we offer, starting with increased in-store demonstration and perpetual product sampling, adding Drinks + Ices for immediate gratification, all the way up to our most immersive experiences, the Chocolate Lock-Ins, as featured in our hit documentary Inside Hotel Chocolat and now featuring over twenty different themes including season-specific evenings and in-depth tastings of a single chocolate genre.

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 cacao, less sugar” is applied to every single grade of our chocolate, from whites, through milks and darks, and our pipeline of product innovation continues to focus on ways to reduce sugar further. In August we refreshed our super-premium Rare & Vintage range, made from the top 10% of the world’s cacao harvest and showcasing our expertise in tree-to-bar chocolate-making know-how, making us the most authentic player in premium chocolate.

Engaged Ethics

Consumers expect brands they love to do the right thing, using their resources and influence to make the world a better place whenever and wherever 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 three areas we focus on are cacao, the planet and people:

1) **Cacao:** All of our cacao is sourced under our Engaged Ethics scheme. We pay more for our cacao to ensure that farmers receive a premium, sustainable farming practices are encouraged, and to fund productivity and community projects.

2) **The planet:** whilst we have always taken a responsible approach to packaging, we now explicitly state a target to further reduce our impact: 100% of our packaging will be compostable, reusable or recyclable by 2021. We have already begun to replace plastics with alternatives that meet these goals, offer recycling through our locations for *any* chocolate brand's plastic packaging, and will continue to look for innovative ways to be reduce our impact on our planet.

3) **People:** We know that culture is the essential ingredient in building winning teams. Ensuring that our colleagues are happy at work and feel they can maximise their potential are key to engagement. We listen continuously to employee feedback and are strengthening our investments in team development. We are building an ever-stronger team united by common goals and behaviours that reflect our unchanging brand values of Originality, Authenticity and Ethics, as underpinned by the mantra 'be brave and be kind'.

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.

Our growth is in large UK markets with significant headroom, which gives lots of scope for continued success through both brand-owned channels and carefully selected wholesale partners. The defensive attributes of the business are well-honed and include the strength and integrity of our brand and the agility of vertical integration. We have reviewed the potential impacts from a 'hard Brexit' and have contingency plans in place to mitigate potential short-term supply disruptions. We are focussing our international growth efforts in the US and Japan, two of the world's largest and most attractive markets.

The market and wider economy may not be without challenges; however, I remain confident that our plans for the coming year and well beyond will deliver sustainable growth and we have a strong brand and an exciting pipeline of future opportunities. Our aim of eventually becoming the global leader in direct-to-consumer chocolate is firmly in our sights.

Angus Thirlwell
Co-founder and Chief Executive Officer

FINANCIAL REVIEW

	FY19 £m	*FY19 ex–USA £m*	FY18 £m
Revenue	**132.5**	***132.0***	**116.3**
Gross profit	87.3	*87.0*	79.6
Operating expenses	66.7	*65.3*	60.7
Underlying EBITDA	**20.7**	***21.7***	**18.9**
Share-based payments	0.9	*0.8*	0.7
Depreciation & amortisation	5.5	*5.4*	4.8
Impairment (non-recurring)	0	*0*	0.3
(Profit)/loss on disposal	0	*0*	(0.1)
Operating profit	**14.3**	***15.4***	**13.2**
Finance income	0.1	*0.1*	0.0
Finance expense	0.3	*0.3*	0.6
Profit before tax	**14.1**	***15.2***	**12.7**
Tax	3.1	*3.1*	2.7
Profit for the period	**10.9**	***12.1***	**10.0**

REVENUE

Reported revenue for 52 weeks ending 30 June 2019 was £132.5m. Revenue increased by 14% compared to the 52 weeks ending 1 July 2018. The new locations in the US generated £0.5m sales in their first part-year, having opened too late in the year to fully capitalise on the seasonal peak. The US contributed 0.5% percentage points to Group year on year sales growth with the rest of the Group growing by 13.5%.

GROSS MARGIN

Gross profit as a percent of sales reduced 250 basis points from 68.4% to 65.9%. Increased efficiency of production and better buying generated gains of +40bps. Foreign exchange impacted the sterling cost of imported raw materials, which reduced margin by -20bps. The launch of VIP Me, which is intended to drive visit frequency and sales volume growth, resulted in -60bps of costs for sign-up incentives associated with the initial launch phase. The balance of the gross margin decline was due to the growth of Velvetiser and Wholesale, both of which generate lower gross margins, but which also have lower overhead operating expenses as a percent of sales when compared to higher gross margin areas.

OPERATING EXPENSES

A focus on efficiency and cost control meant that externally driven cost inflation was mitigated, this combined with the favourable mix effect of the lower overhead Wholesale and Velvetiser channels meant that overheads as a percentage of sales fell by 180bps from 52.2% to 50.3%.

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 charges and related tax of £0.9m. (FY18: £0.7m). On this basis, underlying EBITDA increased by £1.8m on the prior year, and as a percent of sales reduced from 16.3% to 15.6%. Within this figure the US generated an EBITDA loss of £1m on sales of £0.5m. The rest of the Group generated underlying EBITDA growth of 14% with EBITDA margin rising from 16.3% to 16.4%.

IFRS16 LEASES

Effective from FY20 onward, IFRS16 requires lessees to recognise a lease liability and right of use asset. Rent expenses will be removed from operating expenses and depreciation and interest will increase. Operational cash flows and business decision-making will be completely unaffected. The modelled impact to FY20 operating profit is not expected to be material. Further detail on the forecast impact to the financial statement presentation is provided in note 2.

FINANCE INCOME AND EXPENSE

Finance expense relates to a working capital overdraft. The Board intends to finance its ongoing working capital requirements using a £22m overdraft facility with Lloyds bank. Capital expenditure projects will be financed from operating cashflow. Finance income relates to interest received on bank deposits and the £2.5m of loans made to the Japan JV. The loans to Japan are made on commercial terms at market rates of interest and are being used to fund capital investments and start-up costs.

DEPRECIATION & AMORTISATION

Depreciation increased as a result of additional capital expenditure. Capital expenditure of £8.9m comprised investments in 16 new locations, re-sites and refits, a number of IT projects and operational projects including work-in-progress upgrades to factory capacity and capability including a fourth production line which is due to enter use in 2021.

PROFIT BEFORE TAX

Profit before tax increased 11% from £12.7m to £14.1m. Excluding the reported losses of the US entity Hotel Chocolat Inc, profit from the rest of the Group increased by 19%.

TAXATION

The effective rate of taxation is 22.2% (FY18: 21.5%). This is higher than the standard rate of 19% mainly due to permanent timing differences between depreciation charges and capital allowances, and overseas losses that are not deductible against UK corporation tax.

EARNINGS PER SHARE (EPS) AND DIVIDENDS

Diluted earnings per share were 9.5p (FY18: 8.8p). Profit after tax increased by 10%. The weighted average number of shares in FY19 was 113m (FY18: 113m). Having delivered a year of strong growth the Board is pleased to propose a final dividend of 1.2 pence per share, bringing the total dividend for the year to 1.8 pence per share (FY18: 1.7 pence per share).

CASH POSITION

The Group had £5.8m of cash at period-end, an increase of £5.5m as a result of increased EBITDA generation and working capital management.

WORKING CAPITAL

Closing inventories increased by 2% to £12.8m, growing more slowly than sales growth of 14%, this as a result of improved working capital management. This change reduced stock cover from approximately 13 weeks in FY18 to 10 weeks in FY19.

Matt Pritchard
Chief Financial Officer

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the period ended 30 June 2019

	Notes	52 weeks ended 30 June 2019 £	52 weeks ended 1 July 2018 £
Revenue		132,479,543	116,331,566
Cost of Sales		(45,139,983)	(36,740,859)
		87,339,560	79,590,707
Administrative expenses	3	(73,028,333)	(66,360,796)
		14,311,227	13,229,911
Finance income	4	68,967	22,113
Finance expenses	4	(294,966)	(578,760)
Share of joint venture (loss)/profit		(33,969)	35,501
Profit before tax		14,051,259	12,708,765
Tax expense		(3,122,486)	(2,729,123)
Profit for the period		10,928,773	9,979,642
Other comprehensive income/(loss):			
Derivative financial instruments		71,931	(106,001)
Deferred tax charge on derivative financial instruments		16,667	20,561
Currency translation differences arising from consolidation		372,795	(168,661)
Total other comprehensive income/(loss) for the period		461,393	(254,101)
Total comprehensive income for the period		11,390,166	9,725,541
Earnings per share – Basic	5	9.7p	8.8p
Earnings per share – Diluted	5	9.5p	8.8p

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2019

	Notes	As at 30 June 2019 £	As at 1 July 2018 £
ASSETS			
Non-current assets			
Intangible assets		2,911,586	2,788,152
Property, plant and equipment	6	40,115,095	36,408,775
Deferred tax asset		622,649	623,961
Derivative financial assets		-	68,721
Prepayments		18,000	1,643
Loan to Hotel Chocolat KK		2,488,041	-
Investment in JV		8,731	35,501
		46,164,102	39,926,753
Current assets			
Derivative financial assets		81,299	14,925
Inventories		12,810,049	12,555,517
Trade and other receivables		9,359,766	7,486,894
Cash and cash equivalents		5,778,205	235,936
		28,029,319	20,293,272
Total assets		**74,193,421**	**60,220,025**
LIABILITIES			
Current liabilities			
Trade and other payables	7	19,527,743	15,545,845
Corporation tax payable		1,607,069	1,328,673
Derivative financial liabilities		1,671	54,691
Borrowings	8	16,811	201,732
		21,153,294	17,130,941
Non-current liabilities			
Other payables and accruals	7	2,757,158	2,581,044
Derivative financial liabilities		9,106	-
Borrowings	8	-	16,811
Provisions		943,627	879,808
		3,709,891	3,477,663
Total liabilities		**24,863,185**	**20,608,604**
NET ASSETS		**49,330,236**	**39,611,421**
EQUITY			
Share capital		112,838	112,838
Share premium		11,750,056	11,749,487
Retained earnings		33,358,932	24,348,409
Translation reserve		1,253,355	880,560
Merger reserve		223,251	223,251
Capital redemption reserve		6,301	6,301
Other reserves		2,625,503	2,290,575
Total equity attributable to shareholders		**49,330,236**	**39,611,421**

The financial statements of Hotel Chocolat Group plc, registered number 08612206 were approved by the Board of Directors and authorised for issue on 24 September 2019. They were signed on its behalf by:

Matt Pritchard
Chief Financial Officer
24 September 2019

CONSOLIDATED STATEMENT OF CASH FLOW
For the period ended 30 June 2019

	52 weeks ended 30 June 2019 £	52 weeks ended 1 July 2018 £
Profit before tax for the period	14,051,259	12,708,765
Adjusted by:		
Depreciation of property, plant and equipment	4,939,982	4,247,550
Impairment loss on fixtures and equipment	–	284,681
Amortisation of intangible assets	512,862	509,892
Net interest expense	225,999	556,647
Share-based payments	246,262	726,585
Share of Joint Venture Loss	33,969	–
(Profit)/loss on disposal of property, plant and equipment and intangible assets	44,100	(88,253)
Operating cash flows before movements in working capital	20,054,433	18,945,867
Increase in inventories	(259,442)	(2,931,781)
Increase in trade and other receivables	(1,890,866)	(1,460,333)
Increase in trade and other payables and provisions	4,076,600	277,219
Cash inflow generated from operations	21,980,725	14,830,972
Interest received	40,935	22,113
Income tax paid	(2,820,395)	(2,466,051)
Interest paid on:		
– finance leases and hire purchase loans	–	(1,192)
– bank loans and overdraft	(110,282)	(28,802)
– derivative financial liabilities	(180,083)	(147,747)
Cash flows from operating activities	**18,910,900**	**12,209,293**
Purchase of property, plant and equipment	(8,295,817)	(10,645,621)
Proceeds from disposal of property, plant and equipment	9,500	340,737
Purchase of intangible assets	(580,795)	(949,229)
Loan to joint venture	(2,460,009)	–
Acquisition of joint venture	(7,200)	–
Cash flows used in investing activities	**(11,334,321)**	**(11,254,113)**
Dividends paid	(1,918,250)	(2,482,432)
Buy back of Chocolate bonds	–	(6,505,500)
Sale of shares	570	–
Capital element of hire purchase and finance leases repaid	(201,732)	(237,195)
Cash flows (used in)/from financing activities	**(2,119,412)**	**(9,225,127)**
Net change in cash and cash equivalents	5,457,167	(8,269,946)
Cash and cash equivalents at beginning of period	235,936	8,470,178
Foreign currency movements	85,102	35,704
Cash and cash equivalents at end of period	**5,778,205**	**235,936**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the period ended 30 June 2019

	Share capital £	Share Premium £	Retained earnings £	Translation reserve £	Merger reserve £	Capital redemption reserve £	Other reserve £	Total £
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**
Issue of share capital	–	569	–	–	–	–	–	569
Profit for the period	–	–	10,928,773	–	–	–	–	10,928,773
Dividends	–	–	(1,918,250)	–	–	–	–	(1,918,250)
Share-based payments	–	–	–	–	–	–	246,262	246,262
Deferred tax charge on share-based payments	–	–	–	–	–	–	68	68
Other comprehensive income:								
Derivative financial instruments	–	–	–	–	–	–	71,931	71,931
Deferred tax charge on derivative financial instruments	–	–	–	–	–	–	16,667	16,667
Currency translation differences arising from consolidation	–	–	–	372,795	–	–	–	372,795
Equity as at 30 June 2019	**112,838**	**11,750,056**	**33,358,932**	**1,253,355**	**223,251**	**6,301**	**2,625,503**	**49,330,236**

Notes to the preliminary 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 30 June 2019 and the period ended 1 July 2018 does not constitute the company's statutory accounts for those years.

Statutory accounts for the period ended 1 July 2018 have been delivered to the Registrar of Companies. The statutory accounts for the period ended 30 June 2019 will be delivered to the Registrar of Companies following the Company's Annual General Meeting.

The auditors' reports on the accounts for 30 June 2019 and 1 July 2018 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.

The financial statements have been prepared on the historical cost basis, except for the revaluation of derivative financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

At the date of authorisation of this financial information, certain new standards, amendments and interpretations to existing standards applicable to the Group have been published but are not yet effective, and have not been adopted early by the Group.

2. IFRS 16 Leases

IFRS 16 "Leases" is a replacement for IAS 17 "Leases" and will be effective for the year ending 28 June 2020 onwards. 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 future lease payments and a right-of-use asset for lease contracts.

Relevant leased assets which will be impacted by this new standard include retail property.

The preparations for this standard are substantially complete. The Group intends to adopt the 'modified retrospective' approach whereby for leases previously classified as operating leases the right of use asset will be 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. In the period ended 28 June 2020 comparative information relating to prior years will not be restated.

Impact on the Financial Statements

Statement of Financial Position: Operating leases capitalised at a relevant discount rate to create a 'Right of Use' asset of approximately £53m. A corresponding lease liability of approximately £57m will be recognised. The impact of these changes will be a reduction in retained earnings of approximately £3m. The balance represents amounts already recognized in the financial statements in respect of lease incentives, prepaid rent and dilapidations.

Statement of Comprehensive Income: Administrative expenses will reduce as rent costs are removed. Depreciation will increase as the leased assets are depreciated over their useful economic lives. Finance expenses will increase with an interest charge on the lease liability. The expense in the Income Statement will be the same over the life of the lease, but the finance charge will be front-loaded as it is recognised using the effective interest rate method.

Statement of Cash Flow: The presentation of cashflows will be changed, however the total cashflows reported will not. The operating cash outflows will reduce in line with the reduction of administrative expenses. Cash flows from financing activities will see a corresponding increase.

There will be no impact to business decisions or operational cash.

3. Profit from operations

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

	52 weeks ended 30 June 2019 £	52 weeks ended 1 July 2018 £
Staff cost	35,840,518	30,658,433
Depreciation of property, plant and equipment (see Note 6)	4,939,982	4,247,550
Impairment of property, plant and equipment (see Note 6)	–	284,681
Amortisation of intangible assets	512,862	509,892
Loss/(profit) on disposal of property, plant and equipment and intangible assets	44,100	(88,253)
Operating leases:		
– Property	11,516,556	10,582,822
– Plant and equipment	225,337	148,949
Exchange differences	(10,507)	106,760
Bad debt expense	47,527	57,940

4. Finance income and expenses

	52 weeks ended 30 June 2019 £	52 weeks ended 1 July 2018 £
Interest from related party	28,032	–
Interest on bank deposits	40,935	22,113
Finance income	**68,967**	**22,113**
Interest on bank borrowings	78,947	92,373
Unrealised interest on derivative financial instruments	35,828	121
Realised interest on derivative financial liabilities	180,083	147,747
Finance leases and hire purchase contracts	108	1,192
Finance charges on Chocolate bonds	–	337,327
Finance expenses	**294,966**	**578,760**

5. Earnings per share

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

	52 weeks ended 30 June 2019 £	52 weeks ended 1 July 2018 £
Profit after tax for the period	**10,928,773**	**9,979,642**

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 30 June 2019	52 weeks ended 1 July 2018
Weighted average number of share in issue for the period – basic	112,838,191	112,837,828
Effect of dilutive potential share:		
Share-based payments – Hotel Chocolat Group plc Save as You Earn Plan	271,405	244,987
Share-based payments – Long Term Incentive Plan 2016	1,617,021	–
Weighted average number of shares in issue used in the calculation of earnings per share (number) – Diluted	**114,726,617**	**113,082,815**
Earnings per share (pence) – Basic	9.7	8.8
Earnings per share (pence) – Diluted	9.5	8.8

As at 30 June 2019, the total number of potentially dilutive shares issued under the Hotel Chocolat Group plc Long-Term Incentive Plan was 830,000 (1 July 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.

6. Property, plant and equipment

	Freehold property £	Leasehold improvements £	Furniture & fittings, equipment & hardware £	Plant & machinery £	Total £
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
Disposal	–	–	(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**
52 weeks ended 30 June 2019					
Cost:					
As at 1 July 2018	12,837,367	734,999	34,890,442	18,895,928	67,358,736
Reclassifications	–	–	(743,041)	743,041	–
Additions	1,589,584	–	4,726,534	1,946,508	8,262,626
Disposals	(68,193)	–	(2,727,832)	(41,292)	(2,837,317)
Translation differences	416,127	–	38,309	–	454,436
As at 30 June 2019	**14,774,885**	**734,999**	**36,184,412**	**21,544,185**	**73,238,481**
Accumulated depreciation:					
As at 1 July 2018	724,685	734,206	18,752,462	10,738,608	30,949,961
Reclassifications	–	–	160,159	(160,159)	–
Depreciation charge	157,518	793	3,625,732	1,155,939	4,939,982
Disposal	(68,193)	–	(2,709,079)	(6,445)	(2,783,717)
Impairment	–	–	–	–	–
Translation differences	1,632	–	15,528	–	17,160
As at 30 June 2019	**815,642**	**734,999**	**19,844,802**	**11,727,943**	**33,123,386**
Net book value					
As at 30 June 2019	**13,959,243**	**–**	**16,339,610**	**9,816,242**	**40,115,095**

As at 30 June 2019, the net book value of freehold property includes land of £2,930,823 (1 July 2018: £2,817,709), which is not depreciated.

Included within fixed assets are assets held under finance leases and hire purchase agreements. As at 30 June 2019, the net book value of such assets within computer software and hardware is £274,547 (1 July 2018: £395,586).

During the period, assets were re-classified to more accurately represent their asset class.

Included in Freehold Property is £3,767,475 of assets under construction (1 July 2018: £2,302,203).

Included in in Furniture & fittings, equipment & hardware is £340,120 of assets under construction (1 July 2018: £1,129,774).

Included in Plant & machinery is £2,137,056 of assets under construction (1 July 2018: £2,294,675).

7. Trade and other payables

	52 weeks ended 30 June 2019 £	52 weeks ended 1 July 2018 £
Current		
Trade payables	7,848,496	6,800,747
Other payables	5,292,888	2,574,971
Other taxes payable	2,082,303	761,544
Accruals	4,304,056	5,408,583
	19,527,743	**15,545,845**
Non-current		
Other payables and accruals	2,757,158	2,581,044
	2,757,158	**2,581,044**

8. Borrowings

	52 weeks ended 30 June 2019 £	52 weeks ended 1 July 2018 £
Current		
Finance and lease hire purchase liabilities	16,811	201,732
	16,811	**201,732**
Unamortised costs of issue	–	–
Total current borrowings	**16,811**	**201,732**
Non-current		
Finance and lease hire purchase liabilities	–	16,811
Total non-current borrowings	–	16,811
Total borrowings	16,811	218,543

During the prior period, the Group repaid in full all outstanding "chocolate bonds" which had been issued in 2010 and 2014.