

Company Registration No. 09534899 (England and Wales)

HOCHANDA LIMITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017
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HOCHANDA LIMITED

COMPANY INFORMATION

Directors	A Hart V Kaye P Wright
Company number	09534899
Registered office	Nene House Nene Valley Business Park Oundle Peterborough PE8 4HN
Auditor	Hazlems Fenton LLP Chartered Accountants Palladium House 1-4 Argyll Street London W1F 7LD
Business address	Nene House Nene Valley Business Park Oundle Peterborough PE8 4HN

HOCHANDA LIMITED

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HOCHANDA LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

The directors present the strategic report for the year ended 31 December 2017.

Hochanda Limited's principal business activity is the retailing of crafts, hobbies and art supplies by distance selling direct to consumer. The core route to market is through our Hochanda.com portal which is supported by a presence on traditional television platforms including Digital Terrestrial Freeview, SKY TV and Freesat. Since the inception in 2015, the company has developed a loyal and growing customer base who follow Hochanda not only for new innovative products but for community, innovation and inspiration. Hochanda has formed supply partnerships with a number of the leading suppliers in the crafts and art industries throughout the UK, Europe and the USA.

Fair review of the business

For the second consecutive year, Hochanda achieved strong trading results and growth in 2017, with a 45% increase in sales from the previous 18 month financial period to £18.9m (2016: £13.0m). Direct costs, specifically carriage agreements were renegotiated in the year which delivered an increased Gross Profit of £8.7m, an increase of 77% (2016: £4.9m).

The business encountered a number of non-recurring costs in the year which totalled in excess of £160,000. These included the move to our new purpose-built studios and headquarters in March 2017, international market and technology trials in Europe, and the severance package relating to the departure of our CEO. With these non-recurring costs excluded, a true EBITDA loss of £940,000 would be a fair reflection of our trading performance.

The business concluded the year with an underlying EBITDA loss of £1.1m, down 83% (2016: £6.9m). 2017 trading results closed positively with an EBITDA profit in the 4th quarter, with this continued positive growth being carried into the first quarter of 2018.

The business performance and accelerated growth has been achieved with the support from working capital loans. As at December 2017, a total of £5.3m has been drawn down against facilities of £6.0m. With the business now trading in a profitable EBITDA position, we do not expect to have any further working capital borrowing requirement in 2018. The aim is to repay or refinance the existing borrowing at the earliest opportunity.

HOCHANDA LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

Principal risks and uncertainties

The principal risks and uncertainties which could affect the business include the following:

Market

The craft industry and specifically craft retail is a highly competitive market where consumers are increasingly focussed on the best value products.

We work closely with our supply base to ensure that we are offering consumers the best value for money and attractive promotional events to retain a high level of engagement. We attend many of the craft industry events in the UK and overseas to ensure that we are at the forefront of changes within the craft market. Our dynamic team and in-house software developers allow us to react quickly to changes in the market and to constantly innovate the Hochanda offering.

Route to market

Hochanda has seen strong growth since we launched in August 2015. This growth has been achieved primarily through our Hochanda.com portal which is supported by Sky TV, Freesat and the Digital Terrestrial television network, Freeview which we rely upon as marketing tools for new customer generation.

We have long term agreements for each of these support platforms which ensure our presence for the future and for as long as it is believed economic to do so. Alongside these platforms, we continue to develop our IPTV (internet protocol television) playout solutions and partnerships to ensure that we are best placed for the changing demands in television and unique content consumption.

IT

Our business is heavily reliant on our IT systems and the ability to improve and update these systems in order to support and aid the development of our online presence.

We have employed a highly skilled and qualified department of both software and ecommerce developers who continuously work to ensure that our software and IT systems are at the forefront within our marketplace. System innovation and enhancement is ongoing which in turn allows us to bring a fun and exciting shopping experience to our viewers and customers.

Key performance indicators

The business and future strategy continues to trade on a fixed overhead cost base, allowing all sales growth and increase in gross margin to exponentially accelerate our profitability. This model allows the board of directors to monitor and the following KPIs on a regular basis in addition to the EBITDA:

	2017	2016
Turnover	£18,918,317	13,000,026
Gross Margin	45.9%	37.6%
Gross Profit	£8,677,452	£4,888,101

HOCHANDA LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

Future Developments

The business moves into 2018 with a number of positive prospects and opportunities to deliver further growth and in turn, greater trading profits.

Following a successful trial in 2017, we have allocated more airtime and resource to our Craft Price Drop, falling auction show format for 2018. This format has proved to deliver promising show productivity and has generated a large amount of interest engagement from our supply base who are looking to increase their sales potential on the channel.

The USA craft market has been identified as another potential large area of growth for Hochanda. With early testing having achieved strong sales, we look to further expand in the USA market throughout 2018 through use of ecommerce, IPTV and social media platforms. The benefit of taking this approach means we can steadily and strategically grow in this market without the requirement for any substantial increase to administrative expense.

On behalf of the board

.....
P Wright
Director
.....



12.4.2018

HOCHANDA LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 2017

	Notes	2017 £	£	2016 £	£
Fixed assets					
Tangible assets	3		991,257		540,493
Current assets					
Stocks		46,042		18,304	
Debtors	4	1,486,813		1,306,889	
Cash at bank and in hand		372,211		751,158	
		<u>1,905,066</u>		<u>2,076,351</u>	
Creditors: amounts falling due within one year	5	<u>(2,926,976)</u>		<u>(2,363,545)</u>	
Net current liabilities			<u>(1,021,910)</u>		<u>(287,194)</u>
Total assets less current liabilities			<u>(30,653)</u>		<u>253,299</u>
Creditors: amounts falling due after more than one year	6		<u>(7,530,692)</u>		<u>(5,601,033)</u>
Net liabilities			<u><u>(7,561,345)</u></u>		<u><u>(5,347,734)</u></u>
Capital and reserves					
Called up share capital	7		1,770		1,761
Share premium account			3,454,340		3,234,049
Profit and loss reserves			<u>(11,017,455)</u>		<u>(8,583,544)</u>
Total equity			<u><u>(7,561,345)</u></u>		<u><u>(5,347,734)</u></u>

The directors of the company have elected not to include a copy of the profit and loss account within the financial statements.

These financial statements have been prepared and delivered in accordance with the provisions applicable to companies subject to the small companies' regime.

The financial statements were approved by the board of directors and authorised for issue on 12.4.2018 and are signed on its behalf by:

.....
P Wright
Director

Company Registration No. 09534899

HOCHANDA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1 Accounting policies

Company information

Hochanda Limited is a private company limited by shares incorporated in England and Wales. The registered office is Nene House, Nene Valley Business Park, Oundle, Peterborough, PE8 4HN.

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006 as applicable to companies subject to the small companies regime. The disclosure requirements of section 1A of FRS 102 have been applied other than where additional disclosure is required to show a true and fair view.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £.

The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are set out below.

These financial statements for the year ended 31 December 2017 are the first financial statements of Hochanda Limited prepared in accordance with FRS 102. The date of transition to FRS 102 was 1 July 2015. The reported financial position and financial performance for the previous period are not affected by the transition to FRS 102.

1.2 Going concern

The financial statements have been prepared on a going concern basis which is dependent on the continued financial support of two of Hochanda Limited's directors who have provided loans and loan facilities to the company. One of these directors has signed a letter of support acknowledging their intent to continue financially supporting the company for a period of no less than twelve months from the date these financial statements are formally approved.

1.3 Turnover

Turnover is recognised at the fair value of the consideration received or receivable for goods provided in the normal course of business, and is shown net of VAT and other sales related taxes. The fair value of consideration takes into account trade discounts, settlement discounts and volume rebates.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

1.4 Tangible fixed assets

Tangible fixed assets are initially measured at cost and subsequently measured at cost, net of depreciation and any impairment losses.

Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives on the following bases:

Land and buildings leasehold	over 5 years straight line
Plant and machinery	over 5 years straight line
Fixtures, fittings & equipment	over 1-5 years straight line
Computer equipment	over 3 years straight line

HOCHANDA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

1 Accounting policies

(Continued)

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is credited or charged to profit or loss.

1.5 Impairment of fixed assets

At each reporting period end date, the company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

1.6 Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the stocks to their present location and condition.

At each reporting date, an assessment is made for impairment. Any excess of the carrying amount of stocks over its estimated selling price less costs to complete and sell is recognised as an impairment loss in profit or loss. Reversals of impairment losses are also recognised in profit or loss.

1.7 Cash at bank and in hand

Cash at bank and in hand are basic financial assets and include cash in hand and deposits held at call with banks.

1.8 Financial instruments

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the company's balance sheet when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

HOCHANDA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

1 Accounting policies

(Continued)

Basic financial assets

Basic financial assets, which include debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

Classification of financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Basic financial liabilities

Basic financial liabilities, including creditors, loans and obligations under hire purchase contracts that are classified as debt, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

1.9 Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

1.10 Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

1.11 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessees. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets at the lower of the assets fair value at the date of inception and the present value of the minimum lease payments. The related liability is included in the balance sheet as a finance lease obligation. Lease payments are treated as consisting of capital and interest elements. The interest is charged to the profit and loss account so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Rentals payable under operating leases, including any lease incentives received, are charged to income on a straight line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

HOCHANDA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

1 Accounting policies (Continued)

1.12 Foreign exchange

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting end date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting end date. Gains and losses arising on translation are included in the profit and loss account for the period.

2 Employees

The average monthly number of persons (including directors) employed by the company during the year was 110.(2016 - 84).

3 Tangible fixed assets

	Land and buildings	Plant and machinery etc	Total
	£	£	£
Cost			
At 1 January 2017	278,625	816,557	1,095,182
Additions	233,894	508,804	742,698
Disposals	(278,625)	(7,979)	(286,604)
At 31 December 2017	233,894	1,317,382	1,551,276
Depreciation and impairment			
At 1 January 2017	278,625	276,064	554,689
Depreciation charged in the year	29,559	259,575	289,134
Eliminated in respect of disposals	(278,625)	(5,179)	(283,804)
At 31 December 2017	29,559	530,460	560,019
Carrying amount			
At 31 December 2017	204,335	786,922	991,257
At 31 December 2016	-	540,493	540,493

4 Debtors

	2017 £	2016 £
Amounts falling due within one year:		
Trade debtors	9,350	-
Other debtors	1,477,463	1,306,889
	1,486,813	1,306,889

HOCHANDA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

5 Creditors: amounts falling due within one year

	2017 £	2016 £
Trade creditors	2,263,638	2,081,528
Other taxation and social security	110,153	54,574
Other creditors	553,185	227,443
	<u>2,926,976</u>	<u>2,363,545</u>

6 Creditors: amounts falling due after more than one year

	2017 £	2016 £
Other creditors	<u>7,530,692</u>	<u>5,601,033</u>

7 Called up share capital

	2017 £	2016 £
Ordinary share capital		
Issued and fully paid		
10,000,000 Ordinary A shares of 0.01p each	1,000	1,000
60,000,000 Ordinary B shares of 0.001p each	600	600
14,954,967 Ordinary C shares of 0.001p each	150	141
2,000,000 Ordinary D shares of 0.001p each	20	20
	<u>1,770</u>	<u>1,761</u>

8 Audit report information

As the income statement has been omitted from the filing copy of the financial statements the following information in relation to the audit report on the statutory financial statements is provided in accordance with s444(5B) of the Companies Act 2006:

The auditor's report was unqualified.
The senior statutory auditor was Leonard Siskind FCA.
The auditor was Hazlems Fenton LLP.

9 Operating lease commitments

Lessee

At 31 December 2017 the company had future minimum lease payments under non-cancellable operating leases totalling £142,169 (2016 - £64,848).

HOCHANDA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) **FOR THE YEAR ENDED 31 DECEMBER 2017**

10 Related party transactions

During the year, the company incurred rent and premises costs totalling £152,195 (2016 - £nil) payable to a company under the control of two of Hochanda Limited's directors. Included in other creditors falling due within one year is an amount of £18,000 (2016 - £nil) payable to this company.

During the year, the company made purchases totalling £37,854 (2016 - £17,547) payable to a company under the control of two of Hochanda Limited's directors. Included in trade creditors is an amount of £37,854 (2016 - £nil) payable to this company.

Included in trade creditors is an amount of £150,000 (2016 - £150,000) due to a company under the control of two of Hochanda Limited's directors in relation to prior period licence fee expenditure totalling £508,435.

Two of Hochanda Limited's directors have provided loan facilities to the company. During the year, interest totalling £689,143 (2016 - £597,135), a facility fee of £200,000 (2016 - £400,000) and monitoring fees totalling £95,623 (2016 - £81,833) were charged on these loan facilities. Included in creditors falling due after more than one year is an amount of £7,363,735 (2016 - £5,201,260) payable to these directors.

The directors P Wright and V Kaye have provided a personal guarantee on behalf of the company, in favour of the hire purchase finance lessor.

11 Prior period adjustment

A prior period adjustment arose following a change in accounting policy to classify facility and monitoring fees as 'Interest payable and similar charges'. Previously, such expenses were recognised in 'Administrative expenses'.