

Company Registration No. 04109554 (England and Wales)

ROTARY WATCHES LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

ROTARY WATCHES LIMITED

COMPANY INFORMATION

Directors	K L Hon T Halim C W Fong L Lam M Lam J Lyu
Company number	04109554
Registered office	8th Floor Elm Yard 13-16 Elm Street London WC1X 0BJ
Auditor	Kingswood LLP 3 Coldbath Square London EC1R 5HL

ROTARY WATCHES LIMITED

CONTENTS

	Page
Strategic report	1 - 2
Directors' report	3 - 4
Independent auditor's report	5 - 6
Statement of comprehensive income	7
Statement of financial position	8
Statement of changes in equity	9
Notes to the financial statements	10 - 23

ROTARY WATCHES LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

The directors present the strategic report for the year ended 31 December 2019.

Business review and key performance indicators

The directors actively monitor the key performance indicators (KPI's) for the entity and feel that turnover and gross margins are important indicators of the performance of the business.

The Statement of Comprehensive Income is set out on page 7 and shows turnover for the year of £8,050,187 (2018 – £9,888,013) and a loss after tax for the year of £1,482,286 (2018 – loss of £2,775,740).

Turnover decreased in comparison to the prior year by 18.6%. This was primarily a result of the decline in the mid-range (£100 - £500 at retail) watch market which fell 18% in value this year, reflecting a continued market shift towards fitness watches, use of personal phones as time pieces and uncertainty in the UK over Brexit.

Gross margins increased to 36.8% from 33.7% in 2018 due to improved purchasing strategies and effective stock control in 2019.

Expenses for the year decreased by 25.6% to £4,316,378 (2018 – £5,802,711) reflecting an ongoing focus on improving operational efficiencies.

Principal risks and uncertainties

The market for wrist watches remains highly competitive and sensitive to the fortunes of the economy. The company seeks to manage the risk of losing customers to key competitors within its chosen sectors of the UK watch market through continued promotion of the brand and further productivity efficiencies to enhance the service levels enjoyed by its customers.

The impact of Brexit on the company will have little effect on sales and supplies in the perspective of key contracts and border crossing costs.

Future developments

2019 proved to be a challenging year, with demand dampened by the impact of Brexit on consumer confidence. In the view of this uncertainty, we continued to cut our costs and improve margin wherever possible.

We continue the implementation of our diversification strategy in terms of a shift in emphasis to developing new markets over the next three years and building our product portfolio to accommodate the demands of this strategy.

In addition, we will continue to rationalise our resources to save costs and to examine sharing resources within the CWJ group to develop further savings and improved operational efficiencies.

ROTARY WATCHES LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

Going concern

In May 2019, the parent company of Rotary Watches Limited, the Dreyfuss Group Limited, paid off the UK group external bank facilities at both the parent and trading subsidiaries level after receiving a loan from the ultimate parent company Citychamp Watch & Jewellery Limited, a company listed on the Hong Kong Stock Exchange.

The company is in a net liability position and reliant on the financial support of its ultimate parent company in the context of non-recall of existing intercompany loans and further ongoing support to fund operations so as to enable the company to meet its obligations as they fall due. As stated in note 2.2, these events or conditions, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern.

Impact of Covid-19

In March 2020, the Covid-19 outbreak was declared a pandemic by the World Health Organization. The directors have considered the effects of this on the trading performance and position of the company subsequent to the year end. The directors are of the opinion that the company can continue to operate as a going concern for the foreseeable future and have adopted the going concern basis in preparing the annual report and financial statements.

On behalf of the board

T Halim
Director
3 May 2021

ROTARY WATCHES LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

The directors present their annual report and financial statements for the year ended 31 December 2019.

Principal activities

The principal activities of the company throughout the year were that of watch importing and selling, and of watch manufacturing and repair. Specifically the company sells the Rotary, Dreyfuss & Co. and Joseph & Thomas Windmills brands.

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

K L Hon

T Halim

C W Fong

L Lam

M Lam

P J McKenna

(Resigned 24 February 2020)

J Lyu

(Appointed 10 June 2019)

Results and dividends

The results for the year are set out on page 7.

No ordinary dividends were paid. The directors do not recommend payment of a final dividend.

Qualifying third party indemnity provisions

The company has arranged qualifying third party indemnity for all of its directors during the year. These provisions remain in force at the reporting date.

Financial risk management

Foreign exchange risk

The company purchases finished watches in Swiss Francs, US Dollars and Chinese Yuan. The company is therefore exposed to movements in the Swiss Franc, US Dollar and Chinese Yuan to Sterling exchange rates. The Board monitors the overall exposure and takes out forward contracts to fix the exchange rate when sufficient funds are available to allow the company to utilise them.

Credit risk

The company's credit risk is primarily attributable to its trade debtors. Credit risk is managed by running credit checks on new customers and by monitoring payments against contractual agreements. As part of an invoice discounting arrangement, the company has also been covered by the bank's credit protection policy which provides cover in the event of UK based customer insolvency. The invoice discounting arrangement was applicable as at the end of 2018 but the arrangement was subsequently terminated on the 30th of June 2019. Future facilities are under review and in the meantime, as discussed in the strategic report, the company benefits from ultimate parent company support.

Liquidity risk

The company monitors cash flow as part of its day to day control procedures. The Board considers cash flow projections on a monthly basis that look forward for a period of not less than twelve months and ensures that appropriate facilities are available to be drawn upon as necessary.

Auditor

Kingswood LLP were appointed as auditor to the company and in accordance with section 485 of the Companies Act 2006, a resolution proposing that they be re-appointed will be put at a General Meeting.

ROTARY WATCHES LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Matters covered in the strategic report

The company has chosen in accordance with Companies Act 2006, s. 414C(11) to set out in the company's strategic report information required by Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, Sch. 7 to be contained in the directors' report. It has done so in respect of future developments and exposure to certain risks.

Statement of disclosure to auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company's auditor is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditor is aware of that information.

On behalf of the board

T Halim
Director
3 May 2021

ROTARY WATCHES LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF ROTARY WATCHES LIMITED

Opinion

We have audited the financial statements of Rotary Watches Limited (the 'company') for the year ended 31 December 2019 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 2.2 to the financial statements which confirms that the company is reliant on the financial support of its ultimate parent company in the context of non-recall of existing inter-company loans and further ongoing support to fund operations so as to enable the company to meet its obligations as they fall due. As stated in note 2.2, these events or conditions, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of our audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

ROTARY WATCHES LIMITED

INDEPENDENT AUDITOR'S REPORT (CONTINUED) TO THE MEMBER OF ROTARY WATCHES LIMITED

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report and the directors' report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's member in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's member those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's member for our audit work, for this report, or for the opinions we have formed.

Stephen Iseman FCA (Senior Statutory Auditor)
for and on behalf of Kingswood LLP

5 May 2021

Chartered Accountants
Statutory Auditor

3 Coldbath Square
London
EC1R 5HL

ROTARY WATCHES LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

		2019	2018
	Notes	£	as restated £
Turnover	4	8,050,187	9,888,013
Cost of sales		(5,086,541)	(6,552,177)
Gross profit		<u>2,963,646</u>	<u>3,335,836</u>
Selling and distribution costs		(1,652,042)	(2,510,173)
Administrative expenses		(2,664,336)	(3,292,538)
Operating loss	5	<u>(1,352,732)</u>	<u>(2,466,875)</u>
Interest payable and similar expenses	8	(129,554)	(308,865)
Loss before taxation		<u>(1,482,286)</u>	<u>(2,775,740)</u>
Tax on loss	9	-	-
Loss for the financial year		<u>(1,482,286)</u>	<u>(2,775,740)</u>
Other comprehensive income			
Revaluation of tangible fixed assets		-	23,000
Total comprehensive income for the year		<u><u>(1,482,286)</u></u>	<u><u>(2,752,740)</u></u>

The income statement has been prepared on the basis that all operations are continuing operations.

The notes on pages 10 - 23 form part of these financial statements

ROTARY WATCHES LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

		2019		2018 as restated	
	Notes	£	£	£	£
Fixed assets					
Tangible assets	10		765,801		746,142
Current assets					
Stocks	12	5,148,684		5,746,223	
Debtors	13	11,593,978		10,416,355	
Cash at bank and in hand		782,873		40,352	
		<u>17,525,535</u>		<u>16,202,930</u>	
Creditors: amounts falling due within one year	14	<u>(29,378,094)</u>		<u>(26,832,398)</u>	
Net current liabilities			<u>(11,852,559)</u>		<u>(10,629,468)</u>
Total assets less current liabilities			<u>(11,086,758)</u>		<u>(9,883,326)</u>
Provisions for liabilities	15		<u>(569,863)</u>		<u>(291,009)</u>
Net liabilities			<u>(11,656,621)</u>		<u>(10,174,335)</u>
Capital and reserves					
Called up share capital	17,18		1,000,000		1,000,000
Revaluation reserve	18		295,500		295,500
Profit and loss reserves	18		<u>(12,952,121)</u>		<u>(11,469,835)</u>
Total equity			<u>(11,656,621)</u>		<u>(10,174,335)</u>

The financial statements were approved by the board of directors and authorised for issue on 3 May 2021 and are signed on its behalf by:

T Halim
Director

Company Registration No. 04109554

The notes on pages 10 - 23 form part of these financial statements

ROTARY WATCHES LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	Share capital £	Revaluation £	Profit and reserves £	Total £
As restated for the period ended 31 December 2018:					
Balance at 1 January 2018		1,000,000	272,500	(8,174,103)	(6,901,603)
Effect of prior year adjustments	23	-	-	(519,992)	(519,992)
As restated		1,000,000	272,500	(8,694,095)	(7,421,595)
Year ended 31 December 2018:					
Loss for the year (as restated)	23	-	-	(2,775,740)	(2,775,740)
Other comprehensive income:					
Revaluation of tangible fixed assets		-	23,000	-	23,000
Total comprehensive income for the year		-	23,000	(2,775,740)	(2,752,740)
Balance at 31 December 2018		1,000,000	295,500	(11,469,835)	(10,174,335)
Year ended 31 December 2019:					
Loss and total comprehensive income for the year		-	-	(1,482,286)	(1,482,286)
Balance at 31 December 2019		1,000,000	295,500	(12,952,121)	(11,656,621)

The notes on pages 10 - 23 form part of these financial statements

ROTARY WATCHES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Company information

Rotary Watches Limited is a private company limited by shares incorporated in England and Wales. The registered office is 8th Floor Elm Yard, 13-16 Elm Street, London, WC1X 0BJ. The principal activities of the company throughout the year were those of watch importing and selling, and of watch manufacturing and repair. Specifically the company sells the Rotary, Dreyfuss & Co. and Joseph & Thomas Windmills brands.

2 Accounting policies

2.1 Accounting convention

These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and financial instruments at fair value 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.

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 preparation of financial statements in accordance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the company's accounting policies (see note 3).

The principal accounting policies adopted are set out below.

This company is a qualifying entity for the purposes of FRS 102, being a member of a group where the parent of that group prepares publicly available consolidated financial statements, including this company, which are intended to give a true and fair view of the assets, liabilities, financial position and profit or loss of the group. The company has therefore taken advantage of exemptions from the following disclosure requirements:

- Section 7 'Statement of Cash Flows' – Presentation of a statement of cash flow and related notes and disclosures;
- Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instrument Issues' – Carrying amounts, interest income/expense and net gains/losses for each category of financial instrument; basis of determining fair values; details of collateral, loan defaults or breaches, details of hedges, hedging fair value changes recognised in profit or loss and in other comprehensive income;
- Section 33 'Related Party Disclosures' – Compensation for key management personnel.

The financial statements of the company are consolidated in the financial statements of Citychamp Watch & Jewellery Group Limited. These consolidated financial statements are available from Hong Kong Stock Exchange through its website www.hkex.com.hk.

ROTARY WATCHES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

2 Accounting policies (Continued)

2.2 Going concern

As at the year-end the company was loss making with net liabilities of £11,656,621 (2018 – £10,174,335). The company relies on the financial support of its ultimate parent company, Citychamp Watch and Jewellery Group Limited.

The company has received written confirmation from its ultimate parent company confirming that it will not recall existing loans and will continue to provide financial support in relation to the company's working capital requirements.

Taking into consideration the impact of Covid-19 and having reviewed cashflow forecasts, for a period of not less than 12 months from the date of approval of these financial statements, and having made appropriate enquiries of the ultimate parent company with regards to their intention and financial means to provide the ongoing financial support, as specified in the written confirmation received, the directors have concluded that it is appropriate to prepare the financial statements on a going concern basis. Notwithstanding this intention, there is no contractual certainty that such support will be made available. This represents a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern.

2.3 Turnover

Turnover comprises revenue recognised by the company in respect of goods and services supplied during the year in the normal course of business and is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes.

2.4 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The company adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the company. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Depreciation is charged so as to allocate the cost of assets, except the "Vintage Watch Collection", less their residual value over their estimated useful lives, using the straight line method.

Depreciation is provided on the following basis:

Improvements to leasehold property	Equal instalments over the period of the lease
Marketing - Display equipment	20% to 40% per annum
Marketing - Exhibition equipment	20% per annum
Fixtures and fittings	10% to 25% per annum
Computer equipment	25% to 50% per annum

ROTARY WATCHES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

2 Accounting policies

(Continued)

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other operating income' in the Statement of Comprehensive Income.

Vintage Watch Collection

The "Vintage Watch Collection", comprising a valuable collection of over 300 Rotary watches dating back some 100 years, is maintained at its fair value. These fixed assets are used to promote the tradition and heritage of the company as Swiss Manufacturers at sales conferences and directly with customers. In accordance with FRS102, all watches in this asset category are valued at fair value at the date of the revaluation, being open market value.

Marketing – Display equipment

Internal costs directly incurred in developing display equipment are capitalised as a tangible fixed asset.

2.5 Impairment of fixed assets

At each reporting date, the company assesses whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is determined, which is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised where the carrying amount exceeds the recoverable amount.

2.6 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Work in progress and finished goods include labour and attributable overheads.

At each reporting date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

2.7 Financial instruments

The company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other accounts receivable and payable, loans from banks, current accounts and loans to and from related parties.

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is an 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.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of Comprehensive Income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate, which is an approximation of the amount that the company would receive for the asset if it were to be sold at the reporting date.

ROTARY WATCHES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

2 Accounting policies

(Continued)

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade payables or receivables, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration, expected to be paid or received. However if the arrangements of a short term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in case of an out right short term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

2.8 Taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income, except that a change attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Statement of Financial Position date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

2.9 Provisions for liabilities

Provisions are made where an event has taken place that gives the company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Statement of Comprehensive Income in the year that the company becomes aware of the obligation, and are measured at the best estimate at the Statement of Financial Position date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Statement of Financial Position.

ROTARY WATCHES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

2 Accounting policies

(Continued)

2.10 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.

2.11 Retirement benefits

Defined contribution pension plan

The company contributes to a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. Once the contributions have been paid the company has no further payments obligations.

The contributions are recognised as an expense in the Statement of Comprehensive Income when they fall due. Amounts not paid are shown in accruals as a liability in the Statement of Financial Position. The assets of the plan are held separately from the company in independently administered funds.

2.12 Leases

Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to profit or loss over the shorter of estimated useful economic life and the term of the lease. Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to profit or loss over the term of the lease and is calculated so that it represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

Rentals payable under operating leases, including any lease incentives received, are charged to profit or loss 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 leases asset are consumed.

2.13 Foreign currency translation

Functional and presentation currency

Items included in the financial statements for the company are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in sterling, which is the company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions. At each period end foreign currency monetary items are translated using the closing rate. Nonmonetary items measured at historical cost are translated using the exchange rate at the date of the transaction and nonmonetary items measured at fair value are measured using the exchange rate when fair value was determined.

ROTARY WATCHES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

3 Judgements and key sources of estimation uncertainty

In preparing these financial statements, the directors have had to make the following judgements:

- Determine whether leases entered into by the company are operating or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.
- Determine whether there are indications of impairment of tangible and intangible assets. Factors taken into consideration in reaching such a decision include the economic viability and expected future performance of the asset.
- Stock provision – stock is carried at the lower of cost and net realisable value. In determining if there is a requirement for a provision and deciding on an appropriate level of provision, management consider the likelihood that any stock held is likely to be sold for less than the cost held in the statement of financial position and provide for any stock accordingly.
- Valuation of vintage watch collection – The collection is valued in accordance with the accounting policy at 2.4 which is the consideration that an independent party feels the company would receive should the decision be made to sell the antique watches in the open market.
- Assess whether any costs require separate presentation, where this presentation is relevant to the understanding of the company's financial performance.
- Assumptions applied in the calculation of warranty provisions. Management have applied their best estimate combined with historical results in order to derive a suitable warranty provision.

Other key sources of estimation uncertainty

- Tangible fixed assets are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.
- Deferred tax assets are recognised to the extent that it is probable that sufficient future taxable profits will be made in order to utilise available tax losses. Management have considered forecasts in order to assess the likelihood and timing of future profits.

4 Turnover and other revenue

	2019	2018
	£	£
Turnover analysed by geographical market		
United Kingdom	8,034,613	9,839,523
Rest of the World	15,574	48,490
	<u>8,050,187</u>	<u>9,888,013</u>

ROTARY WATCHES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

5 Operating loss

	2019	2018
	£	£
Operating loss for the year is stated after charging/(crediting):		
Exchange differences apart from those arising on financial instruments measured at fair value through profit or loss	(889,513)	(17,910)
Fees payable to the company's auditor for the audit of the company's financial statements	88,264	70,895
Depreciation of owned tangible fixed assets	268,810	397,209
Loss on disposal of tangible fixed assets	891	-
Operating lease charges	442,652	557,145
	<u> </u>	<u> </u>

6 Employees

The average monthly number of persons (including directors) employed by the company during the year was:

	2019	2018
	Number	Number
Management and administration	61	61
Sales	7	6
	<u> </u>	<u> </u>
	68	67
	<u> </u>	<u> </u>

Their aggregate remuneration comprised:

	2019	2018
	£	£
Wages and salaries	2,156,754	2,309,056
Social security costs	276,425	326,454
Pension costs	110,541	124,195
	<u> </u>	<u> </u>
	2,543,720	2,759,705
	<u> </u>	<u> </u>

7 Directors' remuneration

	2019	2018
	£	£
Directors' emoluments	181,211	313,673
Payments to defined contribution pension schemes	12,000	20,625
Compensation for loss of office	-	187,021
	<u> </u>	<u> </u>
	193,211	521,319
	<u> </u>	<u> </u>

ROTARY WATCHES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

7 Directors' remuneration (Continued)

The highest paid director received remuneration of £169,511 (2018: £343,596).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £12,000 (2018: £26,135).

The number of directors for whom retirement benefits are accruing under defined contribution schemes amounted to 1 (2018 - 2).

8 Interest payable and similar expenses

	2019	2018
	£	£
		(As restated)
Interest on financial liabilities measured at amortised cost:		
Interest on bank overdrafts and loans	68,354	143,022
Interest on finance leases and hire purchase contracts	60,438	162,605
	<u>128,792</u>	<u>305,627</u>
Other finance costs:		
Other interest	762	3,238
	<u>129,554</u>	<u>308,865</u>

9 Taxation

The actual charge for the year can be reconciled to the expected credit for the year based on the profit or loss and the standard rate of tax as follows:

	2019	2018
	£	£
		(As restated)
Loss before taxation	(1,482,286)	(2,775,740)
	<u>(1,482,286)</u>	<u>(2,775,740)</u>
Expected tax credit based on the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%)	(281,634)	(527,391)
Tax effect of expenses that are not deductible in determining taxable profit	4,628	6,373
Adjustments in respect of prior years	(94,106)	-
Fixed asset differences	-	5,313
Deferred tax not recognised	371,112	515,705
	<u>-</u>	<u>-</u>
Taxation charge for the year	<u>-</u>	<u>-</u>

A deferred tax asset has not been recognised in respect of depreciation in excess of capital allowances £495,882 (2018 - £337,564) and tax losses of £2,715,682 (2018 - £2,234,931).

ROTARY WATCHES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

10 Tangible fixed assets

	Improvements to leasehold property £	Fixtures, fittings and equipment £	Vintage watch collection £	Total £
Cost or valuation				
At 1 January 2019	54,817	1,533,331	318,000	1,906,148
Additions	176,400	112,960	-	289,360
Disposals	(15,030)	-	-	(15,030)
At 31 December 2019	216,187	1,646,291	318,000	2,180,478
Depreciation and impairment				
At 1 January 2019	21,059	1,138,947	-	1,160,006
Depreciation charged in the year	26,463	242,347	-	268,810
Eliminated in respect of disposals	(14,139)	-	-	(14,139)
At 31 December 2019	33,383	1,381,294	-	1,414,677
Carrying amount				
At 31 December 2019	182,804	264,997	318,000	765,801
At 31 December 2018	33,758	394,384	318,000	746,142

A member of the National Association of Goldsmiths carried out an open market valuation of the vintage watch collection on 20 March 2019. The valuation gave rise to a value of £318,000 which was updated as at 31 December 2018. The directors are of the opinion that the valuation as at 31 December 2019 has not materially changed. The historical cost of these assets less depreciation was £22,500.

11 Financial instruments

	2019 £	2018 £
Carrying amount of financial assets		
Debt instruments measured at amortised cost	12,084,110	10,121,459
Carrying amount of financial liabilities		
Measured at amortised cost	28,914,983	26,151,781

Financial assets measured at amortised cost comprise cash and cash equivalents, trade and other debtors and intercompany balances.

Financial liabilities measured at amortised cost comprise trade and other creditors (excluding taxation), accruals, bank loans and overdrafts and intercompany balances.

12 Stocks

	2019 £	2018 £
Finished goods and goods for resale	5,148,684	5,746,223

ROTARY WATCHES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

(Continued)

12 Stocks

The difference between purchase price of stocks and their replacement cost is not material.

13 Debtors

	2019	2018
	£	£
Amounts falling due within one year:		
Trade debtors	1,152,411	1,221,622
Amounts owed by related parties	1,648,339	1,673,650
Amounts owed by group undertakings	8,176,954	6,968,233
Other debtors	323,533	217,602
Prepayments and accrued income	292,741	335,248
	<u>11,593,978</u>	<u>10,416,355</u>

14 Creditors: amounts falling due within one year

	2019	2018
	£	£
		(As restated)
Bank loans and overdrafts	-	2,120,065
Trade creditors	1,807,981	1,771,261
Amounts owed to related parties	15,469,706	8,087,876
Amounts owed to group undertakings	9,189,057	12,180,383
Other taxation and social security	463,111	680,617
Other creditors	854,572	1,058,145
Accruals and deferred income	1,593,667	934,051
	<u>29,378,094</u>	<u>26,832,398</u>

Bank loans and overdrafts includes an amount of £nil (2018 - £633,446) drawn on the company's invoice discounting facility, which was discontinued on 30 June 2019.

The bank loans and overdrafts were secured by a fixed and floating charge over all assets of Rotary Watches Limited and its immediate parent company, The Dreyfuss Group Limited.

15 Provisions for liabilities

	2019	2018
	£	£
Warranty provision	<u>569,863</u>	<u>291,009</u>

ROTARY WATCHES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

15 Provisions for liabilities (Continued)

Movements on provisions:

	Warranty provision £
At 1 January 2019	291,009
Additional provisions in the year	278,854
At 31 December 2019	<u>569,863</u>

16 Retirement benefit schemes

	2019 £	2018 £
Defined contribution schemes		
Charge to profit or loss in respect of defined contribution schemes	110,541	124,195
	<u>110,541</u>	<u>124,195</u>

The company contributes to personal pension plans. The assets of the scheme are held separately from those of the company in an independently administered fund. Contributions totaling £17,330 (2018 - £24,073) were payable to the fund at the Statement of Financial Position date are included in other creditors.

17 Share capital

	2019 £	2018 £
Ordinary share capital Issued and fully paid		
1,000,000 ordinary shares of £1 each	1,000,000	1,000,000
	<u>1,000,000</u>	<u>1,000,000</u>

18 Reserves

The company's reserves are as follows:

- The called up share capital reserve represents the nominal value of the shares issued.
- The revaluation reserve represents the balance of the market value of antique watches less their historic cost. The revaluation reserve is not distributable.
- The profit and loss account represents cumulative profits or losses, net of dividends paid and other adjustments.

ROTARY WATCHES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

19 Operating lease commitments

Lessee

At the reporting end date the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2019	2018
	£	£
Within one year	411,173	407,317
Between two and five years	919,289	892,877
	<u>1,330,462</u>	<u>1,300,194</u>

20 Events after the reporting date

There have been 2 significant events since the year end:

The UK's exit from the European Union

On the 1st January 2021 the UK officially exited the European Union and was no longer a member of the Single Market.

Currently the company does not import products from EU suppliers and so exiting the EU has not impacted our supply chain which is predominantly based outside the EU.

The financial impact has been minimal as almost the entire turnover is derived from UK markets.

Covid-19

The biggest challenge that has affected business this year is the Global Coronavirus Pandemic that began to gather pace at the end of 2019 which continued throughout 2020 and into 2021. During that period, the company has continued to operate effectively by moving head office functions to home working and carefully adapting the working environment and working practices within the warehouse to safeguard the health and wellbeing of colleagues.

The initial economic impact was on the supply chain but as the virus has spread around the globe, this is having a major impact on our customers as markets close, society comes to a virtual standstill and the global economy has fallen into recession.

This biggest issue the company has faced are the National Lockdowns and the impact this has had on the UK's spending habits. This is especially so as the UK market accounts for almost all the company's turnover, the majority of which is through High Street retailers. To reduce the impact of the closure of High Street retailers, some of whom may never reopen, we have increased our online presence through our own Website and that of Amazon and the Amazon Market Place.

Positively the UK is successfully achieving its Vaccine roll out programme with the news that the majority of restrictions in place will be lifted during Q2 2021 and the positivity and hope this offers, does show a light at the end of the tunnel.

Brexit and Covid-19 are considered to be non-adjusting post reporting date events and therefore have not been taken into account in preparing the statement of financial position as at 31 December 2019.

ROTARY WATCHES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

21 Related party transactions

Transactions with related parties

In accordance with FRS 102 paragraph 33.1A, the company has taken the exemption from disclosing related party transactions with entities that are part of The Dreyfuss Group Limited. The company has also taken exemption from disclosing transactions with entities which are wholly owned subsidiaries of Citychamp Watch & Jewellery Group Limited, the ultimate controlling party.

The related party balances are broken down into the following transactions:

The amount owed by Eterna AG Limited, a fellow subsidiary of the Citychamp Watch & Jewellery Group Limited, at the year end was £1,648,339 (2018 - £1,673,628).

The company purchased watches from Fair Future Industrial Ltd which is 25% owned by Citychamp Watch & Jewellery Group Limited, totalling £1,842,798 (2018 - £2,648,302). The amount owed to Fair Future Industrial Ltd at the year end was £3,540,009 (2018 - £2,187,543).

The net amount owed to Citychamp Watch & Jewellery Group Limited at the year end was £11,778,021 (2018 - £5,900,334).

The company purchased watches from Zhuhai Rossini Watch Industry Ltd, a fellow subsidiary of the Citychamp Watch & Jewellery Group Limited, totalling £25,000 (2018 - £nil).

22 Ultimate controlling party

At 31 December 2019 the company's immediate parent company was The Dreyfuss Group Limited which is the parent of the UK based group of which the company is a member.

The ultimate parent company and controlling party is Citychamp Watch & Jewellery Group Limited, a company incorporated in Cayman Islands and listed on the Hong King Stock Exchange, by virtue of its shareholding in The Dreyfuss Group Limited. Citychamp Watch & Jewellery Group Limited is the smallest and the largest group in which the company's results are consolidated. Copies of the consolidated financial statements of Citychamp Watch & Jewellery Group Limited are available from Hong Kong Stock Exchange through its website www.hkex.com.hk.

23 Prior period adjustment

Recently, the company identified that some of the import related costs in respect of a number of previous periods were erroneously omitted from being recorded in the financial statements. Accordingly, prior period figures were adjusted to rectify this error.

Changes to the statement of financial position

	As previously reported	Adjustment	As restated at 31 Dec 2018
	£	£	£
Creditors due within one year			
Other creditors	(23,400,543)	(631,173)	(24,031,716)
	=====	=====	=====
Capital and reserves			
Profit and loss	(10,838,662)	(631,173)	(11,469,835)
	=====	=====	=====

ROTARY WATCHES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

23	Prior period adjustment			(Continued)
	Changes to the income statement			
		As previously reported	Adjustment	As restated
	Period ended 31 December 2018	£	£	£
	Cost of sales	(6,444,234)	(107,943)	(6,552,177)
	Interest payable and similar expenses	(305,627)	(3,238)	(308,865)
	Loss for the financial period	(2,664,559)	(111,181)	(2,775,740)
		<u> </u>	<u> </u>	<u> </u>

This document was delivered using electronic communications and authenticated in accordance with the registrar's rules relating to electronic form, authentication and manner of delivery under section 1072 of the Companies Act 2006.