

Rotary Watches Limited

Report and Financial Statements

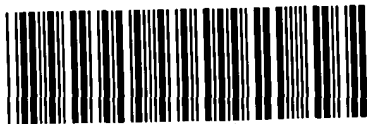
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Year Ended

31 December 2018

Company Number 04109554

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Rotary Watches Limited

Company information

Directors	C W Fong T Halim K L Hon L Lam M Lam J Lyu P McKenna
Registered number	04109554
Registered office	8 th Floor Elm Yard 13-16 Elm Street London WC1X 0BJ
Independent auditors	BDO LLP 55 Baker Street London W1U 7EU

Rotary Watches Limited

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Rotary Watches Limited

Strategic Report For the Year Ended 31 December 2018

Introduction

The directors present their Strategic Report together with the Director's Report and audited financial statements for the year ended 31 December 2018.

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 9 and shows turnover for the year of £9,888,013 (2017 – £10,695,550) and a loss after tax for the year of £2,664,559 (2017 – loss of £5,179,121).

Turnover has fallen in comparison to the prior year decreasing by 7.6%. Overall, the mid-range (£100 - £500 at retail) watch market has declined 16% in value this year, due to a continuation of market shift towards fitness watches, use of personal phones as time pieces and uncertainty in the UK over Brexit.

Gross margins increased during the year to 34.8% from 28.1% due to improved stock management and purchasing practices during the course of 2018.

Expenses for the year decreased by 26.7% to £5,802,711 (2017 – £7,913,880) reflecting an ongoing focus on increasing operational efficiency.

Going concern

During 2015, acting as the parent of the UK group for treasury purposes, the Company's immediate parent company, The Dreyfuss Group Limited (the "Group"), refinanced the UK group external bank facilities at both the parent and trading subsidiaries level. At 31 December 2018 the group was in breach of covenants in respect of these external bank facilities. In response to a formal recall of facilities by the group's bankers, The Dreyfuss Group Limited (the "Group"), paid off the UK group external bank facilities at both the parent and trading subsidiaries level on the 10th of May 2019 after receiving a loan from its parent company ultimate parent company Citychamp Watch & Jewellery Ltd (CWJ), incorporated in Hong Kong. Additional information is provided in note 2.3 to these financial statements. Having received confirmation of CWJ's intention to continue to provide financial support, the directors consider the company to remain a going concern and these financial statements have been prepared on a going concern basis.

Future developments

2018 proved to be a challenging year for the group.

We have reduced our selling and administrative costs by over 25% whilst continuing to negotiate with customers and suppliers to manage our gross and net margins.

However our principal market, the midrange (£100-£500 at retail) watch market has declined by 16% this year in due to a combination of a market shift towards fitness watches, use of personal phones as time pieces and uncertainty in the UK over Brexit. We do not expect this situation to improve in 2019.

When combined with the instability in the value of Sterling vs our major purchasing currencies, this has left the group no choice but to diversify in terms of markets overseas, with a shift in emphasis to developing new markets over the next three years and to develop 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
For the Year Ended 31 December 2018

Future developments *(continued)*

The impact of the UK leaving the European Union on the company will have little effect on sales and supplies in the perspective of key contracts and border crossing costs (duties etc..). However, in the event of any economic downturn arising from a disorderly exit, this could impact on overall consumer wealth and spending and in turn, this could impact on spending on luxury items such as watches.

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 (duties etc..). However, in the event of any economic downturn arising from a disorderly Brexit, this could impact on overall consumer wealth and spending and in turn, this could impact on spending on luxury items such as watches.

This report was approved by the board on

19/12/19

and signed on its behalf by.



P McKenna
Director

Rotary Watches Limited

Directors' Report For the Year Ended 31 December 2018

The directors present their report and the financial statements for the year ended 31 December 2018.

Principal activity

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.

Results and dividends

The results of the company for the year ended 31 December 2018 are set out in the business review. The directors do not recommend the payment of a dividend for the year (2017 - £Nil).

Directors

The directors who served during the year were:

C W Fong
T Halim
K L Hon
L Lam
M Lam
J Lyu (appointed 10th June 2019)
P McKenna (appointed 2nd Jan 2018)
D J Rutherford (resigned 6th December 2018)
L Tao (resigned 23rd January 2018)

Future developments

Information on future developments in the business of the company has been included in the strategic report on page 1.

Financial risk management objectives and policies

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.

Rotary Watches Limited

Directors' Report For the Year Ended 31 December 2018 *(continued)*

Financial risk management objectives and policies *(continued)*

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.

Directors' Responsibilities

The directors are responsible for preparing the Strategic Report, the Directors' 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 judgments 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.

Qualifying third party indemnity provisions

The company has arranged qualifying third party indemnity for all of its directors.

Rotary Watches Limited

Directors' Report For the Year Ended 31 December 2018 (continued)

Disclosure of information to auditors

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

The auditors, BDO LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 19/12/19 and signed on its behalf by.



P McKenna
Director

Rotary Watches Limited

Independent Auditor's report to the members of Rotary Watches Limited

Opinion

We have audited the financial statements of Rotary Watches Limited ("the Company") for the year ended 31 December 2018, which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity and the 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 Financial Reporting Standard 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 2018 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 2.3 to the financial statements which indicates 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 in relation to the company's working capital requirements. As stated in note 2.3, 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.

Rotary Watches Limited

Independent Auditor's report to the members of Rotary Watches Limited (continued)

Other information

The Directors are responsible for the other information. The other information comprises the information included in the report and financial statements, 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 the audit:

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

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 directors' report.

We have nothing to report in respect of the following matters in relation to which 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.

Rotary Watches Limited

Independent Auditor's report to the members of Rotary Watches Limited (continued)

Responsibilities of Directors

As explained more fully in the directors' report, 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: <https://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 members, as a body, 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 members 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 members as a body, for our audit work, for this report, or for the opinions we have formed.

BDO LLP

Ian Clayden (Senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London
United Kingdom

Date 24 December 2019

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Rotary Watches Limited

Statement of comprehensive income For the year ended 31 December 2018

	Note	2018 £	2017 £
Turnover	4	9,888,013	10,695,550
Cost of sales		(6,444,234)	(7,693,378)
Gross profit		3,443,779	3,002,172
Selling and distribution costs		(2,510,173)	(2,275,385)
Administrative expenses		(3,292,538)	(5,638,495)
Operating loss	5	(2,358,932)	(4,911,708)
Interest payable and expenses	8	(305,627)	(267,413)
Loss before tax		(2,664,559)	(5,179,121)
Tax on loss	9	-	-
Loss for the year		(2,664,559)	(5,179,121)
Other comprehensive loss for the year			
Revaluation of antique watches		23,000	-
Total comprehensive loss for the year		(2,641,559)	(5,179,121)

All amounts relate to continuing activities.

The notes on pages 12 to 28 form part of these financial statements.


Rotary Watches Limited

Statement of financial position at 31 December 2018

Registered number: 04109554	Note	2018 £	2018 £	2017 £	2017 £
Fixed assets					
Tangible assets	10		746,142		807,858
			<u>746,142</u>		<u>807,858</u>
Current assets					
Stocks	11	5,746,223		7,310,321	
Debtors: amounts falling due within one year	12	10,416,355		9,436,530	
Cash at bank and in hand		40,352		719,805	
			<u>16,202,930</u>	<u>17,466,656</u>	
Creditors: amounts falling due within one year	13	(26,201,225)		(24,827,730)	
Net current liabilities			(9,998,295)		(7,361,074)
Total assets less current liabilities			(9,252,153)		(6,553,216)
Provisions for liabilities	16		(291,009)		(348,387)
Net liabilities			(9,543,162)		(6,901,603)
Capital and reserves					
Called up share capital	17,18		1,000,000		1,000,000
Revaluation reserve	18		295,500		272,500
Profit and loss account	18		(10,838,662)		(8,174,103)
Shareholders' deficit			(9,543,162)		(6,901,603)

The notes on pages 12 to 28 form part of these financial statements.

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 19-12-19


P McKenna
 Director

Rotary Watches Limited

Statement of changes in equity For the year ended 31 December 2018

	Share capital £	Revaluation Reserve £	Profit and loss account £	Total equity £
At 1 January 2018	1,000,000	272,500	(8,174,103)	(6,901,603)
Comprehensive loss for the year				
Loss for the year	-	-	(2,664,559)	(2,664,559)
Other comprehensive income for the year				
Other comprehensive income for the year	-	23,000	-	23,000
Total comprehensive loss for the year	-	23,000	(2,664,559)	(2,641,559)
At 31 December 2018	1,000,000	295,500	(10,838,662)	(9,543,162)

Statement of changes in equity For the year ended 31 December 2017

	Share capital £	Revaluation Reserve £	Profit and loss account £	Total equity £
At 1 January 2017	1,000,000	272,500	(2,994,982)	(1,722,482)
Comprehensive loss for the year				
Loss for the year	-	-	(5,179,121)	(5,179,121)
Other comprehensive income for the year				
Other comprehensive income for the year	-	-	-	-
Total comprehensive loss for the year	-	-	(5,179,121)	(5,179,121)
At 31 December 2017	1,000,000	272,500	(8,174,103)	(6,901,603)

The notes on pages 12 to 28 form part of these financial statements.

Rotary Watches Limited

Notes to the financial statements For the year ended 31 December 2018

1. General information

Rotary Watches Limited is a private limited company incorporated in England & Wales under the Companies Act. The address of the registered office is given on the Company Information page and the nature of the company's operations and its principal activities are set out in the Directors' Report.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and in accordance with Financial Reporting Standard 102 (FRS 102), the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance 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 following principal accounting policies have been applied:

2.2 Financial reporting standard 102 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of Citychamp Watch & Jewellery Group Ltd. as at 31 December 2018 and these financial statements may be obtained 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 2018 (continued)

2. Accounting policies (continued)

2.3 Going concern

As at the year-end the company was loss making with net operating cash outflows and net liabilities of £9,543,162 (2017 – £6,901,603). The company has relied on a combination of external bank facilities, comprising loans, invoice financing and bank guarantees, and the financial support of its ultimate parent company, Citychamp Watch and Jewellery Group Limited.

Subsequent to year-end, the UK group's bank recalled all loans and other facilities advanced to the company and the group. With the financial support of its ultimate parent company, these facilities totalling £5,200,000 were paid off in May 2019. 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. At the date of approval of these financial statements the amount the company owed to its parent company is £11,648,744 (2017 - £5,617,757 owed).

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.

2.4 Turnover

Turnover comprises revenue recognised by the company in respect of goods and services supplied during the year and is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Sale of goods

- the company has transferred the significant risks and rewards of ownership to the buyer;
- the company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the company will receive the consideration due under the transaction;
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

2.5 Leased assets

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.

Rotary Watches Limited

Notes to the financial statements For the year ended 31 December 2018 *(continued)*

2. Accounting policies *(continued)*

2.6 Operating leases

Rentals paid under operating leases are charged to profit or loss on a straight line basis over the period of the lease. A lease incentive of six months free rent exists for our head office five year rental agreement.

2.7 Pensions

Defined contribution pension plan

The company operates 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.

2.8 Finance costs

Finance costs are charged to the Statement of Comprehensive Income over the term of the related debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.9 Intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed ten years.

The estimated useful lives range as follows:

Trademarks - Equal instalments over the life of the trademark registration

Rotary Watches Limited

Notes to the financial statements
For the year ended 31 December 2018 (continued)

2. Accounting policies (continued)

2.10 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:

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

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.

2.11 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.

Rotary Watches Limited

Notes to the financial statements For the year ended 31 December 2018 (continued)

2. Accounting policies (continued)

2.12 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis. 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.

2.13 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 and other third parties and loans to and from related parties.

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.

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.

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

Derivatives and forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss as other finance costs or income as appropriate. The company does not currently apply hedge accounting for interest rate and foreign exchange derivatives.

Rotary Watches Limited

Notes to the financial statements For the year ended 31 December 2018 (continued)

2. Accounting policies (continued)

2.14 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. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

2.15 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
For the year ended 31 December 2018 (continued)

2. Accounting policies (continued)

2.16 Current and deferred 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.

Rotary Watches Limited

Notes to the financial statements For the year ended 31 December 2018 (continued)

3 Judgements in applying accounting policies 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 2.10 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.

Rotary Watches Limited

Notes to the financial statements For the year ended 31 December 2018 (continued)

4 Turnover

Turnover is wholly attributable to the principal activity of the company and represents the value of goods and services supplied to customers during the year and is net of trade, settlement and retrospective discounts and VAT.

Analysis of turnover by country of destination:

	2018 £	2017 £
United Kingdom	9,839,523	10,660,338
Rest of the World	48,490	35,212
	<u>9,888,013</u>	<u>10,695,550</u>

5 Operating loss

The operating (loss)/profit is stated after charging:

	2018 £	2017 £
Depreciation of tangible fixed assets	397,209	601,801
Amortisation of intangible assets, including goodwill	-	-
Hire of plant and machinery - operating leases	144,568	144,625
Hire of other assets - operating leases	412,577	468,552
Fees payable to the company's auditors for audit services to the company	70,895	89,241
Fees payable to the company's auditors for other taxation services	15,692	19,950
Foreign exchange losses (gains)	(17,910)	(1,893,961)
Defined contribution pension scheme costs	124,195	177,418
Impairment of inventory	426,040	953,063

Rotary Watches Limited

Notes to the financial statements
For the year ended 31 December 2018 (continued)

6 Employees

Staff costs, including directors' remuneration, were as follows:

	2018 £	2017 £
Wages and salaries	2,309,056	3,164,368
Social security costs	326,454	381,869
Cost of defined contribution scheme	124,195	177,418
	2,759,706	3,723,655
	2,759,706	3,723,655

The average monthly number of employees, including the directors, during the year was as follows:

	2018 Number	2017 Number
Management and administration	61	72
Sales	6	8
	67	80
	67	80

7 Directors' remuneration

	2018 £	2017 £
Directors' emoluments	313,673	861,351
Payments to defined contribution pension scheme	20,625	84,361
Compensation for loss of office	187,021	151,646
	521,319	1,097,358
	521,319	1,097,358

The highest paid director received remuneration of £343,596 (2017 - £294,419).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £26,135 (2017 - £Nil).

There were 2 (2017 - 5) directors in the company's defined contribution pension scheme during the year.

Rotary Watches Limited

Notes to the financial statements
For the year ended 31 December 2018 (*continued*)

8 Interest payable and similar charges

	2018 £	2017 £
Bank overdraft and loans	143,022	185,789
Finance leases	162,605	81,624
	<u>305,627</u>	<u>267,413</u>

Rotary Watches Limited

Notes to the financial statements
For the year ended 31 December 2018 *(continued)*

9 Taxation

	2018 £	2017 £
Corporation tax		
Adjustments in respect of previous periods	-	-
	<u> </u>	<u> </u>
Deferred tax		
Origination and reversal of timing differences	-	-
Changes to tax rates	-	-
Adjustment in respect of previous year	-	-
	<u> </u>	<u> </u>
Total deferred tax	-	-
	<u> </u>	<u> </u>
Taxation on profit on ordinary activities	-	-
	<u> </u>	<u> </u>

Factors affecting tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 19.00% (2017 - 19.25%). The differences are explained below:

	2018 £	2017 £
Loss on ordinary activities before tax	(2,664,559)	(5,179,121)
	<u> </u>	<u> </u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.00% (2017 – 19.25%)	(506,266)	(996,981)
Effects of:		
Expenses not deductible for tax purposes	1,640	197
Fixed asset differences	5,313	7,665
Other permanent differences	-	-
Deferred tax - adjustment in respect of previous year	-	-
Deferred tax - adjust closing deferred tax to average rate	-	89,694
Deferred tax - not recognised	499,313	899,425
	<u> </u>	<u> </u>
Total tax charge for the year	-	-
	<u> </u>	<u> </u>

Factors that may affect future tax charges

There were no factors that may affect future tax charges

Rotary Watches Limited

Notes to the financial statements
For the year ended 31 December 2018 (*continued*)

10 Tangible assets

	Improvements to leasehold property £	Motor vehicles £	Fixtures, fittings and Computer equipment £	Vintage watch collection £	Total £
<i>Cost or valuation</i>					
At 1 January 2018	561,176	26,454	5,983,145	295,000	6,865,775
Addition	35,615	-	295,745	-	331,360
Valuation	-	-	-	23,000	23,000
Disposal	(541,974)	(26,454)	(4,745,559)	-	(5,313,987)
	<u>54,817</u>	<u>-</u>	<u>1,533,331</u>	<u>318,000</u>	<u>1,906,148</u>
<i>Depreciation</i>					
At 1 January 2018	549,022	26,454	5,482,441	-	6,057,917
Provided for the year	13,924	-	383,285	-	397,209
Disposal	(541,887)	(26,454)	(4,726,779)	-	(5,295,120)
	<u>21,059</u>	<u>-</u>	<u>1,138,947</u>	<u>-</u>	<u>1,160,006</u>
<i>Net book value</i>					
At 31 December 2018	<u>33,758</u>	<u>-</u>	<u>394,384</u>	<u>318,000</u>	<u>746,142</u>
At 31 December 2017	<u>12,154</u>	<u>-</u>	<u>500,704</u>	<u>295,000</u>	<u>807,858</u>

A member of the National Association of Goldsmiths carried out an open market valuation of the vintage watch collection on 1 December 2015. The valuation gave rise to a value of £295,000 which was updated in the prior year. A member of the National Association of Goldsmiths carried out another 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 the 31 December 2018 and the most recent valuation has not materially changed. The historical cost of these assets less depreciation was £22,500.

11 Stocks

	2018 £	2017 £
Goods held for resale	<u>5,746,223</u>	<u>7,310,321</u>

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

Rotary Watches Limited

Notes to the financial statements
For the year ended 31 December 2018 *(continued)*

12 Debtors

	2018 £	2017 £
<i>Due within one year</i>		
Trade debtors	1,221,622	1,777,238
Amounts owed by related parties	1,673,650	1,684,201
Amounts owed by group undertakings	6,968,233	5,673,256
Other debtors	217,602	5,406
Prepayments and accrued income	335,248	296,429
	10,416,355	9,436,530
	10,416,355	9,436,530

13 Creditors: amounts falling due within one year

	2018 £	2017 £
Bank loans and overdrafts	2,120,065	1,962,884
Trade creditors	1,771,261	1,713,417
Amounts owed to related parties	8,087,876	7,214,462
Amount owed to group undertakings	12,180,383	11,772,034
Taxation and social security	680,617	637,771
Other creditors	426,972	624,101
Corporation tax payable	-	738
Accruals	934,051	902,323
	26,201,225	24,827,730
	26,201,225	24,827,730

Bank loans and overdrafts includes an amount of £633,446 (2017 - £738,030) drawn on the company's invoice discounting facility. A facility which was discontinued on the 30th June 2019.

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

Rotary Watches Limited

Notes to the financial statements
For the year ended 31 December 2018 (continued)

14 Financial instruments

	2018 £	2017 £
Financial assets		
Financial assets that are debt instruments measured at amortised cost	10,121,459	10,156,335
	<u> </u>	<u> </u>
Financial liabilities		
Financial liabilities measured at amortised cost	(25,520,608)	(24,189,221)
	<u> </u>	<u> </u>

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

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

15 Deferred taxation

**Deferred tax
£**

At 1 January 2018 and 31 December 2018

-

The unrecognised deferred tax asset is made up as follows:

	Unrecognised 2018 £	Unrecognised 2017 £
Depreciation in excess of capital allowances	337,564	392,602
Trading losses carried forward	2,234,931	1,759,450
Other short term differences	-	3,996
	<u> </u>	<u> </u>
	2,572,495	2,156,048
	<u> </u>	<u> </u>

16 Provisions

**Warranty
provision
£**

At 1 January 2018
Credited to the income statement

348,387
(57,378)

At 31 December 2018

291,009

Rotary Watches Limited

Notes to the financial statements For the year ended 31 December 2018 (continued)

17 Share capital

	2018 £	2017 £
Allotted, called up and fully paid 1,000,000 ordinary shares of £1 each	<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 profit and loss account represents cumulative profits or losses, net of dividends paid and other adjustments.

19 Pension commitments

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. The pension cost charge represents contributions payable by the company to the fund and amounted to £124,195 (2017 - £177,418). Contributions totalling £24,073 (2017 - £23,511) were payable to the fund at the Statement of Financial Position date and are included in other creditors.

20 Commitments under operating leases

At 31 December 2018 the company had future minimum lease payments under non-cancellable operating leases as follows:

	2018 £	2017 £
Not later than 1 year	407,317	249,201
Later than 1 year and not later than 5 years	892,877	130,373
Total	<u>1,300,194</u>	<u>379,574</u>

Rotary Watches Limited

Notes to the financial statements For the year ended 31 December 2018 (continued)

21 Related party transactions

The directors of the company are deemed to be the key management personnel and disclosure in relation to their remuneration are included in note 7.

In accordance with FRS102 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 the exemption from disclosing transactions with entities which are wholly owned subsidiaries of Citychamp Watch & Jewellery Group Ltd, the company's ultimate controlling party.

The related party balances in note 12 and 13 are broken down into the following transactions:

Eterna AG Limited, a fellow subsidiary of the Citychamp Watch & Jewellery Group. The net trade relationship for 2018 was an excess of purchases over sales of £12,801 (2017 - £Nil). The amount owed by Eterna AG Limited at year end was £1,673,628 (2017 - £1,596,705).

The company purchased watches from Fair Future which is 25% owned by Citychamp Watch & Jewellery Group, totalling £2,648,302 (2017 - £3,090,500). The amount owed to Fair Future at the year end was £2,187,543 (2017 - £1,565,691).

The net amount owed to Citychamp Watch & Jewellery Group at year end was £5,900,334 see note 14 (2017 - £5,614,304, see note 14).

Time Repair is a fellow subsidiary of the Citychamp Watch & Jewellery Group. The amount owed from Time Repair at year end was £22 (2017 - £Nil).

22 Controlling party

At 31 December 2017 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 controlling party is Citychamp Watch & Jewellery Group Ltd, a company incorporated in Hong Kong, by virtue of its shareholding in The Dreyfuss Group Limited. Citychamp Watch & Jewellery Group Ltd is the parent company of the smallest and largest group in which the Company's results are consolidated. Copies of the consolidated financial statements of Citychamp Watch & Jewellery Group Ltd. are available from Hong Kong Stock Exchange through its website www.hkex.com.hk.