

RENAISSANCE JEWELRY NEW YORK, INC.

FINANCIAL STATEMENTS

**For the period from April 23, 2007
(date of inception) to March 31, 2008**

RENAISSANCE JEWELRY NEW YORK, INC.

For the period from April 23, 2007 (date of inception) to March 31, 2008

Contents

	Page
Independent Accountants' Review Report	1
Financial Statements	
Balance Sheet	2
Statement of Income	4
Statement of Stockholder's Equity	5
Statement of Cash Flows	6
Notes to Financial Statements	7
Supplementary Information	
Statement of Operating Expenses	13



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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors and Stockholder of
Renaissance Jewelry New York, Inc.:

We have reviewed the accompanying balance sheet of Renaissance Jewelry New York, Inc. as of March 31, 2008, and the related statements of income, stockholder's equity, and cash flows for the period from April 23, 2007 (date of inception) to March 31, 2008, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of Renaissance Jewelry New York, Inc.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Our review was made for the purpose of expressing limited assurance that there are no material modifications that should be made to the basic financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. The supplementary information included in the accompanying financial statements is presented only for supplementary analysis purposes. Such information has not been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, but was compiled from information that is the representation of management, without audit or review. Accordingly, we do not express an opinion or any other form of assurance on the supplementary information.

Prajapati Associates LLP

May 6, 2008

RENAISSANCE JEWELRY NEW YORK, INC.

BALANCE SHEET

March 31, 2008

ASSETS

Current assets

Cash	\$ 307,495	
Accounts receivable, net of allowances for doubtful accounts and credits of \$50,000	10,389,729	
Inventories	18,375,665	
Advance payments to vendors	229,670	
Prepaid expenses	3,254	
Loans receivable	14,786	
Deferred income taxes	<u>70,000</u>	
		\$29,390,599

Property and equipment, net of accumulated
depreciation of \$14,458 289,789

Other assets

Intangible asset, net of accumulated amortization of \$33,333	<u>1,966,667</u>	
		<u>\$31,647,055</u>

See accountants' review report and notes to financial statements.

RENAISSANCE JEWELRY NEW YORK, INC.

BALANCE SHEET

March 31, 2008

LIABILITIES AND STOCKHOLDER'S EQUITY

Current liabilities

Bank loans payable	\$ 7,500,000	
Accounts payable	12,614,124	
Advance payment from customer	3,811	
Accrued expenses and taxes	370,889	
Loans payable	<u>2,048,361</u>	
		\$22,537,185

Other liabilities

Deferred income taxes		2,500
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Stockholder's equity

Common stock, no par value; 200 shares authorized, 100 shares issued and outstanding	10,000	
Additional paid-in capital	8,990,000	
Retained earnings	<u>107,370</u>	
		<u>9,107,370</u>
		<u>\$31,647,055</u>

See accountants' review report and notes to financial statements.

RENAISSANCE JEWELRY NEW YORK, INC.

STATEMENT OF INCOME

For the period from April 23, 2007 (date of inception) to March 31, 2008

Net sales	\$12,906,926
Cost of sales	<u>11,100,248</u>
Gross profit	1,806,678
Operating expenses	<u>1,577,783</u>
Income from operations	228,895
Interest expense	<u>57,301</u>
Income before provision for income taxes	171,594
Provision for income taxes	<u>64,224</u>
Net income	<u>\$ 107,370</u>

See accountants' review report and notes to financial statements.

RENAISSANCE JEWELRY NEW YORK, INC.

STATEMENT OF STOCKHOLDER'S EQUITY

For the period from April 23, 2007 (date of inception) to March 31, 2008

	<u>Common Stock</u>	<u>Additional paid-in Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance, April 23, 2007	\$ -	\$ -	\$ -	\$ -
Issuance of common stock	10,000	-	-	10,000
Capital contributions	-	8,990,000	-	8,990,000
Net income	<u>-</u>	<u>-</u>	<u>107,370</u>	<u>107,370</u>
Balance, March 31, 2008	<u>\$10,000</u>	<u>\$8,990,000</u>	<u>\$107,370</u>	<u>\$9,107,370</u>

See accountants' review report and notes to financial statements.

RENAISSANCE JEWELRY NEW YORK, INC.

STATEMENT OF CASH FLOWS

For the period from April 23, 2007 (date of inception) to March 31, 2008

Cash flows from operating activities		
Net income		\$ 107,370
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	\$ 47,791	
Allowances for doubtful accounts and credits	50,000	
Deferred income taxes	(67,500)	
Changes in assets and liabilities		
Accounts receivable	13,339,599	
Inventories	(2,881,929)	
Advance payments to vendors	(229,670)	
Prepaid expenses	(3,254)	
Accounts payable	12,614,124	
Advance payment from customer	3,811	
Accrued expenses and taxes	<u>370,889</u>	
		<u>23,243,861</u>
Net cash provided by operating activities		23,351,231
Cash flows from investing activities		
Acquisition of assets	(39,528,498)	
Net increase in loans receivable	(14,786)	
Capital expenditures	<u>(1,228)</u>	
Net cash used in investing activities		(39,544,512)
Cash flows from financing activities		
Net increase in bank loans payable	7,500,000	
Net increase in loans payable	776	
Issuance of common stock	10,000	
Capital contributions	<u>8,990,000</u>	
Net cash provided by financing activities		<u>16,500,776</u>
Net change in cash		307,495
Cash at beginning		<u>-</u>
Cash at end		<u>\$ 307,495</u>
Supplemental disclosure of cash flows information		
Cash paid for interest		<u>\$ 46,687</u>
Cash paid for income taxes		<u>\$ -</u>

See accountants' review report and notes to financial statements.

RENAISSANCE JEWELRY NEW YORK, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2008

Note 1 **Description of company's business**

Renaissance Jewelry New York, Inc. (the "Company") is a wholly owned subsidiary of Renaissance Jewellery Limited (the "Parent"). The Company was incorporated on April 23, 2007 in New York. The Company is an importer and wholesaler of jewelry whose customers are located primarily throughout the United States of America.

Note 2 **Summary of significant accounting policies**

The Company's accounting policies are in accordance with accounting principles generally accepted in the United States of America. Outlined below are those policies considered particularly significant.

Concentration of credit risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, include cash and receivables. The Company holds no collateral for these financial instruments. The Company places its available funds into high creditworthy financial institutions. Concentration of credit risk with respect to receivables is limited to a diversified customer base, which is not concentrated in any one geographical area. The Company insures some of its accounts receivable with a factor.

Revenue recognition

The Company recognizes revenue when merchandise is shipped to its customers and title has passed.

Allowances for doubtful accounts and credits

The Company maintains allowances for doubtful accounts and credits based on past experience and current economic conditions.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market. Market is considered as net realizable value.

RENAISSANCE JEWELRY NEW YORK, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2008

Note 2 **Summary of significant accounting policies (continued)**

Property, equipment and depreciation

Property and equipment are reflected at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets.

Impairment of long-lived assets

The Company records impairment losses on long-lived assets, such as property and equipment and intangible assets with finite lives, used in operations when events and circumstances indicate that assets might be impaired and the undiscounted cash flows estimated to be generated by the related assets are less than the carrying amount of those assets. When any such impairment exists, the related assets will be written down to fair value. At March 31, 2008, there was no impairment of assets.

Advertising

The Company expenses and accrues advertising costs in the period that advertising takes place.

Shipping expenses

The Company includes shipping expenses associated with outbound freight in operating expenses.

Income taxes

The Company recognizes deferred taxes based on the differences between the financial statement and the tax bases of assets and liabilities at enacted rates in effect in the years in which the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

RENAISSANCE JEWELRY NEW YORK, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2008

Note 2 **Summary of significant accounting policies (continued)**

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Note 3 **Assets acquisition**

On January 1, 2008, the Company entered into an agreement to acquire certain assets from a related party for \$41,576,083. The fair value of tangible assets acquired was \$39,576,083. The excess of the purchase price over the fair value of tangible assets acquired of \$2,000,000, which consisted of a customer list, was recorded as an intangible asset.

Note 4 **Accounts receivable**

The Company insures some of its accounts receivable under a non-notification agreement with a factor.

Note 5 **Inventories**

At March 31, 2008, inventories of \$18,375,665 consisted of loose gems, work-in-process and finished jewelry.

Note 6 **Loans receivable**

At March 31, 2008, the Company had outstanding loans receivable from a related party and an employee of \$12,876 and \$1,910, respectively. These loans are due on a demand basis, bearing no interest.

RENAISSANCE JEWELRY NEW YORK, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2008

Note 7 **Property and equipment**

At March 31, 2008, property and equipment consisted of the following:

Furniture and equipment	\$137,638
Leasehold improvements	<u>166,609</u>
	304,247
Less: accumulated depreciation	<u>14,458</u>
	<u>\$289,789</u>

Note 8 **Intangible asset**

Intangible asset, which consisted of a customer list, represent excess of the purchase price over the fair value of tangible assets acquired at the date of acquisition. The customer list is amortized using the straight-line method over the estimated useful life of the asset.

Note 9 **Credit facility**

The Company has a credit facility with a bank, which is utilized for working capital purposes. Borrowings under this facility are subject to a borrowing base limitation consisting of specified percentages of eligible accounts receivable and inventories. Interest on these borrowings is calculated as a function of the bank's reference rate or LIBOR. At March 31, 2008, the total outstanding borrowings of \$7,500,000 were secured by substantially all assets of the Company and various guarantees. The bank is also the loss payee on the jewelers' block policy the Company holds. This facility contains various restrictive covenants.

Note 10 **Loans payable**

At March 31, 2008, the Company had outstanding loans payable to various related parties of \$2,048,361. Of these loans, \$2,047,585 represents the balance due related to the acquisition of assets. These loans are due on a demand basis, bearing no interest.

RENAISSANCE JEWELRY NEW YORK, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2008

Note 11 Income taxes

For the period from April 23, 2007 (date of inception) to March 31, 2008, the net provision for income taxes of \$64,224 consisted of the following:

	<u>Federal</u>	<u>State and local</u>	<u>Total</u>
Current	\$117,269	\$14,455	\$131,724
Deferred	<u>(60,000)</u>	<u>(7,500)</u>	<u>(67,500)</u>
	<u>\$ 57,296</u>	<u>\$ 6,955</u>	<u>\$ 64,224</u>

At March 31, 2008, the significant components of the net deferred tax assets and liabilities were the allowances for doubtful accounts and credits, inventories capitalization and differences between the book and tax basis of fixed assets.

Note 12 Related party transactions and balances

In the ordinary course of business, the Company had the following related party transactions and balances:

Net sales	\$ 320,326
Net purchases (post assets acquisition)	\$7,161,539
Accounts receivable	\$ 37,688
Loans receivable	\$ 12,876
Accounts payable	\$6,556,359
Loans payable	\$2,048,361

Note 13 Commitments and contingencies

Lease

The Company is obligated under a long-term operating lease for the rental of office space, which expires on April 29, 2013. In addition to minimum rental payments, the lease requires payment of various expenses incidental to the use of the property.

RENAISSANCE JEWELRY NEW YORK, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2008

Note 13 **Commitments and contingencies (continued)**

For the period from April 23, 2007 (date of inception) to March 31, 2008, rent expense amounted to \$56,950.

At March 31, 2008, the future minimum rental payments were as follows:

March 31, 2009	\$ 214,149
March 31, 2010	219,502
March 31, 2011	224,990
March 31, 2012	230,615
March 31, 2013	236,380
Thereafter	<u>19,901</u>
	<u>\$1,145,537</u>

Note 14 **Economic dependency**

For the period from April 23, 2007 (date of inception) to March 31, 2008, sales to five customers represented approximately 70% of net sales and purchases from two vendors represented approximately 86% of net purchases.

SUPPLEMENTARY INFORMATION

RENAISSANCE JEWELRY NEW YORK, INC.

STATEMENT OF OPERATING EXPENSES

For the period from April 23, 2007 (date of inception) to March 31, 2008

Operating expenses

Salaries	\$ 773,676
Payroll taxes	62,134
Commissions	235,311
Rent	56,950
Telephone	11,242
Travel and entertainment	101,896
Advertising and promotional	2,665
Insurance	79,301
Trade shows	2,880
Office supplies and expenses	20,912
Computer supplies and expenses	8,964
Professional fees	22,775
Repairs and maintenance	4,492
Shipping expenses	77,885
Security system expenses	1,859
Charitable contributions	25,000
Bank charges	17,050
Bad debts	25,000
Depreciation and amortization	<u>47,791</u>
	<u>\$1,577,783</u>

See accountants' review report and notes to financial statements.