

**RENAISSANCE JEWELRY NEW YORK, INC.
AND
SUBSIDIARY**

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2010

**RENAISSANCE JEWELRY NEW YORK, INC.
AND SUBSIDIARY**

For the year ended March 31, 2010

Contents

	Page
Independent Accountants' Review Report	1
Consolidated Financial Statements	
Consolidated Balance Sheet	2
Consolidated Statement of Income and Retained Earnings	4
Consolidated Statement of Cash Flows	5
Notes to Consolidated Financial Statements	6
Supplementary Information	
Consolidated Statement of Operating Expenses	14



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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

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

We have reviewed the accompanying consolidated balance sheet of Renaissance Jewelry New York, Inc. and Subsidiary as of March 31, 2010, and the related consolidated statements of income, retained earnings, and cash flows for the year then ended, 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 consolidated financial statements is the representation of the management of Renaissance Jewelry New York, Inc. and Subsidiary.

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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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

April 20, 2010

**RENAISSANCE JEWELRY NEW YORK, INC.
AND SUBSIDIARY**

CONSOLIDATED BALANCE SHEET

March 31, 2010

ASSETS

Current assets

Cash	\$ 756,301	
Accounts receivable, net of allowance for doubtful accounts and credits of \$50,000	7,209,475	
Inventories	29,230,788	
Advance payments to vendors	145,981	
Prepaid expenses	114,359	
Loans receivable	313,200	
Deferred income taxes	<u>168,000</u>	
		\$37,938,104

Property and equipment, net of accumulated
depreciation of \$134,733

222,686

Other assets

Restricted cash	127,072	
Intangible assets, net of accumulated amortization of \$300,000	1,700,000	
Deposits	<u>10,400</u>	
		<u>1,837,472</u>
		<u>\$39,998,262</u>

See accountants' review report and notes to consolidated financial statements.

**RENAISSANCE JEWELRY NEW YORK, INC.
AND SUBSIDIARY**

CONSOLIDATED BALANCE SHEET

March 31, 2010

LIABILITIES AND STOCKHOLDER'S EQUITY

Current liabilities

Bank loans payable	\$ 5,000,000	
Accounts payable	21,140,024	
Advance payments from customers	22,887	
Accrued expenses and taxes	<u>597,618</u>	
		\$26,760,529

Other liabilities

Deferred income taxes		16,000
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Minority interest

15

Stockholder's equity

Common stock, no par value; 200 shares authorized, 100 shares issued and outstanding	10,000	
Additional paid-in capital	11,990,000	
Retained earnings	<u>1,221,718</u>	
		<u>13,221,718</u>
		<u>\$39,998,262</u>

See accountants' review report and notes to consolidated financial statements.

**RENAISSANCE JEWELRY NEW YORK, INC.
AND SUBSIDIARY**

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

For the year ended March 31, 2010

Net sales		\$91,396,163
Cost of sales		<u>84,307,588</u>
Gross profit		7,088,575
Operating expenses		<u>6,042,974</u>
Income from operations		1,045,601
Other income (expense)		
Interest income	\$ 9,468	
Bad debts recoveries	273,051	
Interest expense	<u>(223,984)</u>	
		<u>58,535</u>
Income before provision for income taxes		1,104,136
Provision for income taxes		<u>439,480</u>
Net income		664,656
Retained earnings – beginning		<u>557,062</u>
Retained earnings – end		<u>\$ 1,221,718</u>

See accountants' review report and notes to consolidated financial statements.

RENAISSANCE JEWELRY NEW YORK, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended March 31, 2010

Cash flows from operating activities	
Net income	\$ 664,656
Adjustments to reconcile net income to net cash used in operating activities	
Depreciation and amortization	\$ 195,118
Deferred income taxes	(128,250)
Changes in assets and liabilities	
Accounts receivable	4,875,952
Inventories	(1,621,858)
Advance payments to vendors	(145,981)
Prepaid expenses	(50,351)
Accounts payable	(4,351,929)
Advance payments from customers	22,887
Accrued expenses	<u>357,688</u>
	<u>(846,724)</u>
Net cash used in operating activities	(182,068)
Cash flows from investing activities	
Net increase in restricted cash	(727)
Net decrease in loans receivable	347,770
Capital expenditures	(48,557)
Net increase in deposits	<u>(10,400)</u>
Net cash provided by investing activities	288,086
Cash flows from financing activities	
Net decrease in bank loans payable	(2,600,000)
Net decrease in loans payable	(1,000,776)
Capital contributions by minority interest	<u>15</u>
Net cash used in financing activities	<u>(3,600,761)</u>
Net change in cash	(3,494,743)
Cash at beginning	<u>4,251,044</u>
Cash at end	<u>\$ 756,301</u>
Supplemental disclosure of cash flows information	
Cash paid for interest	<u>\$ 187,059</u>
Cash paid for income taxes	<u>\$ 162,145</u>

See accountants' review report and notes to consolidated financial statements.

**RENAISSANCE JEWELRY NEW YORK, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2010

Note 1 Basis of reporting

The accompanying consolidated financial statements represent the operations of Renaissance Jewelry New York, Inc. ("Renaissance") and Renaissance Adrienne LLC ("Renaissance Adrienne"), (collectively the "Company"). Renaissance is a wholly owned subsidiary of Renaissance Jewellery Limited, a company based in India. Renaissance was incorporated on April 23, 2007 in New York. Renaissance Adrienne is a limited liability company that was formed on September 17, 2009 in California. The Company is an importer and wholesaler of diamonds and jewelry whose customers are located primarily throughout the United States of America. All material intercompany transactions and balances have been eliminated.

Note 2 Summary of significant accounting policies

Basis of accounting

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.

Use of estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that could affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates.

**RENAISSANCE JEWELRY NEW YORK, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2010

Note 2 Summary of significant accounting policies (continued)

Concentration of credit risk

Financial instruments, which potentially subject the Company to significant concentrations of credit risk, include cash and accounts receivable. The Company holds no collateral for these financial instruments. The Company maintains cash in financial institutions that are insured by the Federal Deposit Insurance Corporation up to a specified amount. Such cash balances at times may exceed these limits. To minimize its credit risk with respect to accounts receivable, management monitors the creditworthiness of the customers and reviews the outstanding receivables at period end, as well as establishes an allowance for doubtful accounts as deemed necessary. Renaissance insures some of its accounts receivable under a non-notification agreement with a financial institution.

Accounts receivable

Accounts receivable are stated at original amount less an allowance for doubtful accounts and credits. The allowance for doubtful accounts and credits are determined through an analysis of the aging of accounts receivable at the date of the financial statements, assessments of collectability based on an evaluation of historic and anticipated trends, the financial condition of the Company's customers, and an evaluation of the impact of economic conditions.

Inventories

Inventories are stated at the lower of cost or market, with cost being determined under the FIFO (First-in, First-out) method.

Property, plant and equipment

Property, plant and equipment are reflected at cost. Depreciation is provided using the straight-line or an accelerated method over the estimated useful lives of the assets. Repairs and maintenance costs are expensed when incurred.

**RENAISSANCE JEWELRY NEW YORK, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2010

Note 2 Summary of significant accounting policies (continued)

Long-lived assets

The Company periodically evaluates the carrying value of long-lived assets to be held and used whenever events and circumstances indicate that the carrying value of the asset may no longer be recoverable. An impairment loss, measured based on the fair value of the asset, is recognized if expected future undiscounted cash flows are less than the carrying value of the assets.

Revenue recognition

Sales are recorded when merchandise is shipped and title and risk of loss are transferred to customers. Sales are recorded net of estimated discounts, returns and allowances which are estimated based on historic trends and an evaluation of current economic conditions.

Advertising and promotional expenses

Advertising and promotional expenses are expensed during the year in which they are incurred. For the year ended March 31, 2010, advertising and promotional expenses amounted to \$3,973.

Shipping and handling costs

The Company includes shipping and handling costs associated with outbound freight in operating expenses. For the year ended March 31, 2010, shipping and handling costs amounted to \$314,643.

Income taxes

The Company provides for income taxes based on differences between the financial statement and 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.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2010

Note 2 Summary of significant accounting policies (continued)

As of April 1, 2009, the Company adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes". The Company does not believe it has any uncertain tax positions that would qualify for either recognition or disclosure in the consolidated financial statements.

New authoritative accounting pronouncements

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events". SFAS 165 establishes general standards of accounting and disclosure of events that occur after the balance sheet date but before the consolidated financial statements are issued or available to be issued. The Company adopted SFAS No. 165 on March 31, 2010.

The Company evaluated the need for disclosure and / or additional adjustments resulting from subsequent events through April 20, 2010, the date the consolidated financial statements were available to be issued. The Company did not identify any further subsequent events that required disclosure and / or adjustments in the consolidated financial statements.

The Company does not anticipate the adoption of other recently issued accounting pronouncements to have a significant impact on the Company's consolidated financial statements.

Note 3 Accounts receivable

Renaissance insures some of its accounts receivable under a non-notification agreement with a financial institution.

Note 4 Inventories

At March 31, 2010, inventories of \$29,230,788 consisted of loose diamonds and finished jewelry.

**RENAISSANCE JEWELRY NEW YORK, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2010

Note 5 Loans receivable

At March 31, 2010, Renaissance had outstanding loans receivable from an employee, various unrelated parties and a related party of \$3,825, \$93,757, and \$215,618, respectively. Of these loans, \$215,618 bears interest at the prevailing market rate, as determined by management. For the year ended March 31, 2010, interest on these loans amounted to \$1,010. The remaining loans bear no interest. All of these loans are due on a demand basis.

Note 6 Property and equipment

At March 31, 2010, property and equipment consisted of the following:

Furniture and equipment	\$190,810
Leasehold improvements	<u>166,609</u>
	357,419
Less: accumulated depreciation	<u>134,733</u>
	<u>\$222,686</u>

Note 7 Restricted cash

Restricted cash consists of a certificate of deposit held by Renaissance with a bank that has issued a letter of credit to the landlord in lieu of a security deposit.

Note 8 Intangible assets

Intangible assets, which consist of various assets acquired by Renaissance, are amortized using the straight-line method over the estimated useful life of the assets.

RENAISSANCE JEWELRY NEW YORK, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2010

Note 9 Credit facility

Renaissance 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, 2010, the total outstanding borrowings of \$5,000,000 were secured by substantially all assets of Renaissance and various guarantees. The bank is also the loss payee on the jewelers' block policy Renaissance holds. This facility contains various restrictive covenants.

Note 10 Income taxes

For income tax purposes, Renaissance Adrienne is treated as a partnership, whereby income is taxed directly to the members. Thus, no provision for federal and state income taxes has been made by Renaissance Adrienne, since such taxes are the responsibilities of the members.

For the year ended March 31, 2010, the net provisions for income taxes of \$439,480 consisted of the following:

	<u>Federal</u>	<u>State and local</u>	<u>Total</u>
Current	\$472,319	\$95,411	\$567,730
Deferred	<u>(110,600)</u>	<u>(17,650)</u>	<u>(128,250)</u>
	<u>\$361,719</u>	<u>\$77,761</u>	<u>\$439,480</u>

At March 31, 2010, the significant components of the net deferred tax assets and liabilities were the allowance for doubtful accounts and credits, inventories capitalization and differences between the book and tax bases of property and equipment.

**RENAISSANCE JEWELRY NEW YORK, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2010

Note 11 Related party transactions and balances

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

Net sales	\$ 6,995,527
Net purchases	\$46,782,245
Interest income	\$ 1,010
Accounts receivable	\$ 263,247
Loans receivable	\$ 215,618
Accounts payable	\$14,654,133

Note 12 Commitments and contingencies

Leases

The Company has entered into various operating leases for the rental of office premises through April 29, 2013. For the year ended March 31, 2010, rent expense was \$229,193.

At March 31, 2010, the future minimum rental payments were as follows:

March 31, 2011	\$243,188
March 31, 2012	249,298
March 31, 2013	236,380
April 29, 2013	<u>19,901</u>
	<u>\$748,767</u>

Letter of credit

At March 31, 2010, Renaissance had an outstanding letter of credit of approximately \$114,333 to the landlord in lieu of a security deposit. This letter of credit is collateralized by a certificate of deposit.

Other contingencies

The Federal corporation income tax returns of Renaissance for the years ended March 31, 2009 and 2008 are currently under examination. The outcome of this examination cannot be determined at this time.

**RENAISSANCE JEWELRY NEW YORK, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2010

Note 13 Major customers and vendors

For the year ended March 31, 2010, sales to two customers represented approximately 54% of net sales.

For the year ended March 31, 2010, purchases from two vendors represented approximately 84% of net purchases.

SUPPLEMENTARY INFORMATION

**RENAISSANCE JEWELRY NEW YORK, INC.
AND SUBSIDIARY**

CONSOLIDATED STATEMENT OF OPERATING EXPENSES

For the year ended March 31, 2010

Operating expenses

Salaries and benefits	\$3,292,053
Payroll taxes	192,308
Commissions	412,045
Rent and utilities	230,086
Telephone	75,433
Travel and entertainment	411,980
Advertising and promotional	3,973
Insurance	282,434
Trade shows	207,484
Office supplies and expenses	62,542
Computer supplies and expenses	86,760
Dues and subscriptions	8,760
Recruiting fees	45,125
Professional fees	178,972
Shipping expenses	314,643
Security system expenses	11,262
Charitable contributions	5,550
Repairs and maintenance	8,469
Printing and reproduction	2,399
Postage and delivery	1,527
Bank charges	12,067
Bad debts	1,984
Depreciation and amortization	<u>195,118</u>
	<u>\$6,042,974</u>

See accountants' review report and notes to consolidated financial statements.