

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

**CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended March 31, 2012**

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

**For the year ended March 31, 2012**

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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 (the "Company") as of March 31, 2012, and the related consolidated statements of income and retained earnings and cash flows for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the consolidated financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the consolidated financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

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 a conclusion 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 information included in the accompanying supplementary information is presented only for purposes of additional analysis and 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 18, 2012

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

**CONSOLIDATED BALANCE SHEET**

**March 31, 2012**

**ASSETS**

**Current assets**

Cash	\$ 2,861,096	
Restricted cash	128,304	
Accounts receivable, net of allowances for doubtful accounts and credits of \$100,000	7,625,035	
Inventories	28,942,801	
Advance payments to vendors	253,596	
Prepaid expenses and taxes	235,005	
Loans receivable	14,465	
Other current assets	25,483	
Deferred income taxes	<u>214,000</u>	
		\$40,299,785

<b>Property and equipment</b> , net of accumulated depreciation of \$264,781	92,638
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**Other assets**

Intangible assets, net of accumulated amortization of \$566,666	<u>1,433,334</u>
	<u>\$41,825,757</u>

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

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

**CONSOLIDATED BALANCE SHEET**

**March 31, 2012**

**LIABILITIES AND STOCKHOLDER'S EQUITY**

**Current liabilities**

Bank loans payable	\$10,000,000	
Accounts payable	17,247,437	
Accrued expenses	443,272	
Loans payable	<u>250,000</u>	
		\$27,940,709

**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>1,885,048</u>	
		<u>13,885,048</u>
		<u>\$41,825,757</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, 2012**

<b>Net sales</b>		<b>\$99,183,924</b>
<b>Cost of sales</b>		<b><u>91,863,915</u></b>
<b>Gross profit</b>		<b>7,320,009</b>
<b>Operating expenses</b>		<b><u>6,237,216</u></b>
<b>Income from operations</b>		<b>1,082,793</b>
<b>Other income (expense)</b>		
Interest and other income	<b>\$ 8,343</b>	
Interest expense	<b><u>(345,148)</u></b>	
		<b><u>(336,805)</u></b>
<b>Income before provision for income taxes</b>		<b>745,988</b>
<b>Provision for income taxes</b>		<b><u>304,336</u></b>
<b>Net income</b>		<b>441,652</b>
<b>Retained earnings – beginning</b>		<b><u>1,443,396</u></b>
<b>Retained earnings – end</b>		<b><u>\$ 1,885,048</u></b>

*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, 2012**

**Cash flows from operating activities**

Net income		\$ 441,652
Adjustments to reconcile net income to net cash used in operating activities		
Depreciation and amortization	\$ 196,246	
Allowances for doubtful accounts and credits	50,000	
Deferred income taxes	(32,000)	
Changes in assets and liabilities		
Accounts receivable	11,018,275	
Inventories	(1,197,805)	
Advance payments to vendors	1,671,225	
Prepaid expenses and taxes	299,362	
Other current assets	(6,695)	
Accounts payable	(13,570,666)	
Accrued expenses	(381,608)	
Other current liabilities	<u>(15,128)</u>	
		<u>(1,968,794)</u>
Net cash used in operating activities		(1,527,142)

**Cash flows from investing activities**

Net increase in restricted cash	(519)	
Net decrease in loans receivable	<u>704,355</u>	
Net cash provided by investing activities		703,836

**Cash flows from financing activities**

Net decrease in loans payable	<u>(300,000)</u>	
Net cash used in financing activities		<u>(300,000)</u>

**Net change in cash** (1,123,306)

**Cash at beginning** 3,984,402

**Cash at end** \$2,861,096

**Supplemental disclosure of cash flows information**

Cash paid for interest	<u>\$ 364,964</u>
Cash paid for income taxes	<u>\$ 23,981</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, 2012**

**Note 1           Basis of reporting**

The accompanying consolidated financial statements represent the operations of Renaissance Jewelry New York, Inc. ("Renaissance") and Renaissance Adrienne LLC ("Adrienne"). 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. Adrienne (a majority owned subsidiary of Renaissance) 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.

**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.



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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 2012**

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

**Foreign currency exchange risk**

The Company has operations outside the United States of America with foreign currency denominated assets and liabilities, primarily denominated in Hong Kong dollars. Because the Company has foreign currency denominated assets and liabilities, financial exposure may result, primarily from the timing of transactions and the movement of exchange rates. The foreign currency balance sheet exposures as of March 31, 2012, are not expected to result in a significant impact on future earnings or cash flows.

**Accounts receivable**

Accounts receivable are stated at original amount less allowances for doubtful accounts and credits. The allowances for doubtful accounts and credits are determined through an analysis of the aging of accounts receivable at the date of the consolidated financial statements, assessments of collectability based on an evaluation of historic and anticipated trends, the financial condition of the Company' 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 by specific identification or by average cost.

**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.

**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.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 2012**

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

**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.

**Derivatives and hedging**

The Company enters into future contracts to hedge the risk of raw material price volatility caused by unpredictable factors. These contracts generally are designated as fair value hedges. Gain or loss resulting from these contracts is included in the consolidated statement of income.

**Advertising and promotional expenses**

Advertising and promotional expenses are expensed during the year in which they are incurred. For the year ended March 31, 2012, advertising and promotional expenses amounted to \$61,815.

**Shipping and handling costs**

The Company includes shipping and handling costs associated with outbound freight in operating expenses. For the year ended March 31, 2012, shipping and handling costs amounted to \$227,779.

**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.

The Company evaluates all significant tax positions. As of March 31, 2012, the Company does not believe it has any uncertain tax positions that would qualify for either recognition or disclosure in the consolidated financial statements.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 2012**

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

**Subsequent events**

The Company has evaluated subsequent events through April 18, 2012 which is the date the consolidated financial statements were available to be issued.

**New authoritative accounting pronouncements**

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            Operating agreement**

The operating agreement of Adrienne provides that all items of income, loss, expenses and charges for each year shall be allocated to the members in proportion to their relative membership interests, as defined.

**Note 4            Restricted cash**

At March 31, 2012, restricted cash of \$128,304 consisted 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. This certificate of deposit matures on July 12, 2012.

**Note 5            Accounts receivable**

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

**Note 6            Inventories**

At March 31, 2012, inventories of \$28,942,801 consisted of loose diamonds and finished jewelry.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 2012**

**Note 7            Loans receivable**

At March 31, 2012, Renaissance had outstanding loans receivable from various employees of \$14,465. These loans are due on a demand basis and bear interest at the prevailing market rate, as determined by management. For the year ended March 31, 2012, interest on these loans amounted to \$254.

**Note 8            Property and equipment**

At March 31, 2012, property and equipment consisted of the following:

Furniture and equipment	\$190,810
Leasehold improvements	<u>166,609</u>
	357,419
Less: accumulated depreciation	<u>264,781</u>
	<u>\$ 92,638</u>

**Note 9            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.

**Note 10          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 prime rate or LIBOR. At March 31, 2012, the total outstanding borrowings of \$10,000,000 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.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 2012**

**Note 11      Loans payable**

At March 31, 2012, Renaissance had outstanding loans payable to an unrelated party of \$250,000. These loans are due on a demand basis and bear interest at the prevailing market rate, as determined by management. During the year ended March 31, 2012, at times the Company either had loans receivable or loans payable to this unrelated party. For the year ended March 31, 2012, interest income on these loans amounted to \$3,124.

**Note 12      Retirement plan**

Renaissance has established a 401 (k) savings plan (the "Plan"). At the discretion of Renaissance, the Plan provides for Renaissance's contributions based on eligible amounts contributed to the Plan by its participants. For the year ended March 31, 2012, Renaissance did not make any contributions to this Plan.

**Note 13      Income taxes**

For income tax purposes, 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 Adrienne, since such taxes are the responsibilities of the members.

For the year ended March 31, 2012, the net provision for income taxes of \$304,336 consisted of the following:

	<u>Federal</u>	<u>State and local</u>	<u>Total</u>
Current	\$272,339	\$63,997	\$336,336
Deferred	<u>(27,000)</u>	<u>(5,000)</u>	<u>(32,000)</u>
	<u>\$245,339</u>	<u>\$58,997</u>	<u>\$304,336</u>

At March 31, 2012, the significant components of the net deferred tax assets were the allowances for doubtful accounts and credits, inventories capitalization and differences between the book and tax basis of property and equipment.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 2012**

**Note 14      Related party transactions and balances**

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

Net sales	\$ 4,802,652
Net purchases	\$64,482,386
Accounts receivable	\$        565
Accounts payable	\$15,691,581

**Note 15      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, 2012, rent expense was \$238,139.

At March 31, 2012, the future minimum rental payments were as follows:

March 31, 2013	\$236,380
April 29, 2013	<u>19,901</u>
	<u><u>\$256,281</u></u>

**Letter of credit**

At March 31, 2012, Renaissance was contingently liable for 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, 2010 and March 31, 2011 are currently under examination. The outcome of this examination cannot be determined at this time.

**Note 16      Major customers and vendor**

For the year ended March 31, 2012, sales to two customers represented approximately 48% of net sales and purchases from one vendor represented approximately 73% of net purchases.

## **SUPPLEMENTARY INFORMATION**

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

**CONSOLIDATING BALANCE SHEET**

**March 31, 2012**

**ASSETS**

	<u>Renaissance</u>	<u>Adrienne</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>Current assets</b>				
Cash	\$ 2,769,169	\$ 91,927	\$ -	\$ 2,861,096
Restricted cash	128,304	-	-	128,304
Accounts receivable, net	6,796,784	828,280	(29)	7,625,035
Inventories	27,952,173	990,628	-	28,942,801
Advance payments to vendors	253,596	-	-	253,596
Prepaid expenses and taxes	235,005	-	-	235,005
Loans receivable	1,195,564	-	(1,181,099)	14,465
Other current assets	79,122	10,400	(64,039)	25,483
Deferred income taxes	<u>214,000</u>	<u>-</u>	<u>-</u>	<u>214,000</u>
	39,623,717	1,921,235	(1,245,167)	40,299,785
<b>Property and equipment, net</b>	67,115	25,523	-	92,638
<b>Other assets</b>				
Intangible assets, net	<u>1,433,334</u>	<u>-</u>	<u>-</u>	<u>1,433,334</u>
	1,433,334	-	-	1,433,334
	<u>\$41,124,166</u>	<u>\$1,946,758</u>	<u>\$(1,245,167)</u>	<u>\$41,825,757</u>

**LIABILITIES AND STOCKHOLDER'S / MEMBERS' EQUITY**

<b>Current liabilities</b>				
Bank loans payable	\$10,000,000	\$ -	\$ -	\$10,000,000
Accounts payable	16,571,407	676,059	(29)	17,247,437
Accrued expenses	417,711	89,600	(64,039)	443,272
Loans payable	<u>250,000</u>	<u>1,181,099</u>	<u>(1,181,099)</u>	<u>250,000</u>
	27,239,118	1,946,758	(1,245,167)	27,940,709
<b>Stockholder's / members' equity</b>				
Common stock	10,000	-	-	10,000
Additional paid-in capital	11,990,000	-	-	11,990,000
Retained earnings	1,885,048	-	-	1,885,048
Members' equity	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	13,885,048	-	-	13,885,048
	<u>\$41,124,166</u>	<u>\$1,946,758</u>	<u>\$(1,245,167)</u>	<u>\$41,825,757</u>

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



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

**CONSOLIDATING STATEMENT OF INCOME**

**For the year ended March 31, 2012**

	<u>Renaissance</u>	<u>Adrienne</u>	<u>Eliminations</u>	<u>Consolidated</u>
Net sales	\$89,803,385	\$10,125,745	\$(745,206)	\$99,183,924
Cost of sales	<u>83,230,026</u>	<u>9,379,095</u>	<u>(745,206)</u>	<u>91,863,915</u>
Gross profit	6,573,359	746,650	-	7,320,009
Operating expenses	<u>5,613,059</u>	<u>624,157</u>	<u>-</u>	<u>6,237,216</u>
Income from operations	960,300	122,493	-	1,082,793
Other income (expense)				
Equity in subsidiary's net income	90,564	-	(90,564)	-
Interest and other income	40,272	-	(31,929)	8,343
Interest expense	<u>(345,148)</u>	<u>(31,929)</u>	<u>31,929</u>	<u>(345,148)</u>
	(214,312)	(31,929)	(90,564)	(336,805)
Income before provision for income taxes	745,988	90,564	(90,564)	745,988
Provision for income taxes	<u>304,336</u>	<u>-</u>	<u>-</u>	<u>304,336</u>
Net income	<u>\$ 441,652</u>	<u>\$ 90,564</u>	<u>\$ (90,564)</u>	<u>\$ 441,652</u>

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

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

**CONSOLIDATING STATEMENT OF OPERATING EXPENSES**

**For the year ended March 31, 2012**

	<u>Renaissance</u>	<u>Adrienne</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>Operating expenses</b>				
Salaries and benefits	\$2,804,975	\$338,275	\$ -	\$3,143,250
Payroll taxes	190,921	25,352	-	216,273
Payroll processing fees	25,629	3,321	-	28,950
Commissions	600,440	7,015	-	607,455
Rent and utilities	218,000	24,476	-	242,476
Telephone	38,300	6,295	-	44,595
Travel and entertainment	389,511	9,699	-	399,210
Advertising and promotional	59,125	2,690	-	61,815
Insurance	317,950	17,190	-	335,140
Trade shows	50,141	41,988	-	92,129
Computer supplies and expenses	68,313	5,481	-	73,794
Overseas branch expenses	158,436	-	-	158,436
Dues and subscriptions	9,693	2,920	-	12,613
Printing and stationery	1,142	12,255	-	13,397
Professional fees	156,444	6,287	-	162,731
Shipping expenses	172,693	55,086	-	227,779
Security system expenses	11,848	720	-	12,568
Charitable contributions	22,500	-	-	22,500
Repairs and maintenance	3,255	-	-	3,255
Postage and delivery	6,880	5,994	-	12,874
Licenses and permits	-	20,663	-	20,663
Bank, credit card and other expenses	3,961	29,729	-	33,690
Other taxes	90,377	-	-	90,377
Bad debts	25,000	-	-	25,000
Depreciation and amortization	<u>187,525</u>	<u>8,721</u>	<u>-</u>	<u>196,246</u>
	<u>\$5,613,059</u>	<u>\$624,157</u>	<u>\$ -</u>	<u>\$6,237,216</u>

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