

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

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2013

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

For the year ended March 31, 2013

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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 balance sheet of Renaissance Jewelry New York, Inc. as of March 31, 2013, and the related consolidated statements of income and retained earnings and cash flows for the year then ended of Renaissance Jewelry New York, Inc. and Subsidiary. 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 purpose 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 22, 2013

RENAISSANCE JEWELRY NEW YORK, INC.

BALANCE SHEET

March 31, 2013

ASSETS

Current assets

Cash	\$ 4,632,417	
Restricted cash	128,565	
Accounts receivable, net of allowances for doubtful accounts and credits of \$100,000	11,865,149	
Inventories	26,313,708	
Prepaid expenses and taxes	312,114	
Loans receivable	50,756	
Other current assets	164,364	
Deferred income taxes	<u>205,000</u>	
		\$43,672,073

Property and equipment , net of accumulated depreciation of \$295,357	463,505
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Other assets

Intangible assets, net of accumulated amortization of \$699,999	1,300,001	
Deposits	<u>195,584</u>	
		<u>1,495,585</u>
		<u>\$45,631,163</u>

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

RENAISSANCE JEWELRY NEW YORK, INC.

BALANCE SHEET

March 31, 2013

LIABILITIES AND STOCKHOLDER'S EQUITY

Current liabilities

Bank loans payable	\$ 5,000,000	
Accounts payable	25,666,052	
Advance payments from customers	45,004	
Accrued expenses	632,266	
Loans payable	<u>50,000</u>	
		\$31,393,322

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>2,237,841</u>	
		<u>14,237,841</u>
		<u>\$45,631,163</u>

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

**RENAISSANCE JEWELRY NEW YORK, INC.
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CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

For the year ended March 31, 2013

Net sales		\$90,527,880
Cost of sales		<u>83,582,489</u>
Gross profit		6,945,391
Operating expenses		<u>6,243,531</u>
Income from operations		701,860
Other income (expense)		
Interest and other income	\$113,966	
Interest expense	<u>(235,690)</u>	
		<u>(121,724)</u>
Income before provision for income taxes		580,136
Provision for income taxes		<u>227,343</u>
Net income		352,793
Retained earnings – beginning		<u>1,885,048</u>
Retained earnings – end		<u>\$ 2,237,841</u>

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

**RENAISSANCE JEWELRY NEW YORK, INC.
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CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended March 31, 2013

Cash flows from operating activities

Net income		\$ 352,793
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	\$ 185,710	
Loss on disposal of fixed assets	23,343	
Deferred income taxes	9,000	
Changes in assets and liabilities		
Accounts receivable	(4,240,114)	
Inventories	2,629,093	
Advance payments to vendors	253,596	
Prepaid expenses and taxes	(77,109)	
Other current assets	(149,281)	
Accounts payable	8,418,615	
Advance payments from customers	45,004	
Accrued expenses	<u>188,994</u>	
		<u>7,286,851</u>
Net cash provided by operating activities		7,639,644

Cash flows from investing activities

Net increase in restricted cash	(261)	
Capital expenditures	(446,587)	
Net increase in loans receivable	(36,291)	
Net increase in deposits	<u>(185,184)</u>	
Net cash used in investing activities		(668,323)

Cash flows from financing activities

Net decrease in bank loans payable	(5,000,000)	
Net decrease in loans payable	<u>(200,000)</u>	
Net cash in financing activities		<u>(5,200,000)</u>

Net change in cash 1,771,321

Cash at beginning 2,861,096

Cash at end \$4,632,417

Supplemental disclosure of cash flows information

Cash paid for interest	<u>\$ 277,504</u>
Cash paid for income taxes	<u>\$ 240,223</u>

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

**RENAISSANCE JEWELRY NEW YORK, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013

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"), (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. 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.

Effective July 1, 2012, Renaissance entered into an agreement to sell its entire membership interest in Adrienne to an unrelated party. The consolidated financial statements have been presented by reporting the results of operations of Renaissance and Adrienne up to that date.

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.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013

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.

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, 2013, 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'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 by specific identification or by average cost.

**RENAISSANCE JEWELRY NEW YORK, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013

Note 2 Summary of significant accounting policies (continued)

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.

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, 2013, advertising and promotional expenses amounted to \$11,206.

Shipping and handling costs

The Company includes shipping and handling costs associated with outbound freight in operating expenses. For the year ended March 31, 2013, shipping and handling costs amounted to \$187,729.

**RENAISSANCE JEWELRY NEW YORK, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013

Note 2 Summary of significant accounting policies (continued)

Income taxes

The Company provides for income taxes based on differences between the consolidated 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, 2013, the Company does not believe it has any uncertain tax positions that would qualify for either recognition or disclosure in the consolidated financial statements.

Subsequent events

The Company has evaluated subsequent events through April 22, 2013 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, 2013, restricted cash of \$128,565 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, 2013.

**RENAISSANCE JEWELRY NEW YORK, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013

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, 2013, inventories of \$26,313,708 consisted of loose diamonds and finished jewelry.

Note 7 Loans receivable

At March 31, 2013, Renaissance had outstanding loans receivable from various employees, related parties and an unrelated party of \$36,000, \$14,671 and \$85, respectively. 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, 2013, interest on these loans amounted to \$2,030.

Note 8 Property and equipment

At March 31, 2013, property and equipment consisted of the following:

Furniture and equipment	\$516,803
Leasehold improvements	<u>242,059</u>
	758,862
Less: accumulated depreciation	<u>295,357</u>
	<u>\$463,505</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.

**RENAISSANCE JEWELRY NEW YORK, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013

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, 2013, 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 11 Loans payable

At March 31, 2013, Renaissance had outstanding loans payable to an unrelated party of \$50,000. 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, 2013, interest on these loans amounted to \$2,750.

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, 2013, Renaissance did not make any contribution to this Plan.

**RENAISSANCE JEWELRY NEW YORK, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013

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, 2013, the net provision for income taxes of \$227,343 consisted of the following:

	<u>Federal</u>	<u>State and local</u>	<u>Total</u>
Current	\$196,400	\$21,943	\$218,343
Deferred	<u>8,000</u>	<u>1,000</u>	<u>9,000</u>
	<u>\$204,400</u>	<u>\$22,943</u>	<u>\$227,343</u>

At March 31, 2013, 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 bases of property and equipment.

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	\$ 5,341,683
Net purchases	\$62,151,315
Interest income	\$ 984
Accounts receivable	\$ 128,620
Loans receivable	\$ 14,671
Interest receivable	
(included in other current assets)	\$ 984
Accounts payable	\$22,648,109

**RENAISSANCE JEWELRY NEW YORK, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013

Note 15 **Commitments and contingencies**

Leases

The Company has entered into various operating leases for the rental of office premises through February 28, 2023. For the year ended March 31, 2013, rent expense was \$441,947.

At March 31, 2013, the future minimum rental payments were as follows:

March 31, 2014	\$ 312,933
March 31, 2015	391,167
March 31, 2016	469,400
March 31, 2017	469,400
March 31, 2018	469,400
Thereafter	<u>2,307,883</u>
	<u>\$4,420,183</u>

Letter of credit

At March 31, 2013, 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, 2010 and March 31, 2011 are currently under examination. The outcome of this examination cannot be determined at this time.

Note 16 **Major customer and vendors**

For the year ended March 31, 2013, sales to one customer represented approximately 43% of net sales and purchases from two vendors represented approximately 90% of net purchases.

SUPPLEMENTARY INFORMATION

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

CONSOLIDATED STATEMENT OF OPERATING EXPENSES

For the year ended March 31, 2013

Operating expenses

Salaries	\$2,939,969
Employee benefits	208,292
Payroll taxes	217,981
Payroll processing fees	24,270
Commissions	578,358
Rent and utilities	442,869
Telephone	47,274
Travel and entertainment	407,359
Advertising and promotional	11,206
Insurance	211,020
Trade shows	101,519
Office supplies and expenses	30,321
Computer supplies and expenses	94,616
Overseas branch expenses	18,072
Dues and subscriptions	15,831
Printing and stationery	4,331
Professional fees	190,721
Shipping expenses	187,729
Security system expenses	7,314
Charitable contributions	57,854
Repairs and maintenance	7,268
Postage and delivery	10,687
Licenses and permits	1,016
Bank, credit card and other expenses	95,650
Other taxes	111,830
Bad debts	11,121
Depreciation and amortization	185,710
Loss on disposal of fixed assets	<u>23,343</u>
	<u><u>\$6,243,531</u></u>

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