

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

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2014

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

For the year ended March 31, 2014

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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, 2014, 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 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

May 1, 2014

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

CONSOLIDATED BALANCE SHEET

March 31, 2014

ASSETS

Current assets

Cash	\$ 6,479,490	
Accounts receivable, net of allowances for doubtful accounts and credits of \$100,000	13,693,621	
Inventories	33,272,347	
Prepaid expenses	141,615	
Loans receivable	270,212	
Other current assets	121,295	
Deferred income taxes	<u>253,500</u>	
		\$54,232,080

Property and equipment, net of accumulated
depreciation of \$58,626

473,387

Other assets

Intangible assets, net of accumulated amortization of \$833,332	1,166,668	
Deposits	<u>199,174</u>	
		<u>1,365,842</u>
		<u>\$56,071,309</u>

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

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

CONSOLIDATED BALANCE SHEET

March 31, 2014

LIABILITIES AND STOCKHOLDER'S EQUITY

Current liabilities

Bank loans payable	\$10,000,000	
Accounts payable	30,295,964	
Accrued expenses and taxes	722,252	
Other current liabilities	<u>2,739</u>	
		\$41,020,955

Other liabilities

Deferred lease liability	165,920
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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	11,990,000	
Retained earnings	<u>2,884,434</u>	
		<u>14,884,434</u>
		<u>\$56,071,309</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, 2014

Net sales		\$96,366,912
Cost of sales		<u>87,815,911</u>
Gross profit		8,551,001
Operating expenses		<u>7,112,062</u>
Income from operations		1,438,939
Other income (expense)		
Interest and other income	\$ 69,612	
Interest expense	<u>(357,103)</u>	
		<u>(287,491)</u>
Income before provision for income taxes		1,151,448
Provision for income taxes		<u>504,855</u>
Net income		646,593
Retained earnings – beginning		<u>2,237,841</u>
Retained earnings – end		<u>\$ 2,884,434</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, 2014

Cash flows from operating activities		
Net income		\$ 646,593
Adjustments to reconcile net income to net cash used in operating activities		
Depreciation and amortization	\$ 196,388	
Loss on disposal of fixed assets	12,489	
Deferred income taxes	(48,500)	
Deferred lease liability	165,920	
Changes in assets and liabilities		
Accounts receivable	(1,828,472)	
Inventories	(6,958,639)	
Prepaid expenses	14,796	
Other current assets	43,069	
Accounts payable	4,629,912	
Advance payments from customers	(45,004)	
Accrued expenses and taxes	245,689	
Other current liabilities	<u>2,739</u>	
		<u>(3,569,613)</u>
Net cash used in operating activities		(2,923,020)
Cash flows from investing activities		
Net decrease in restricted cash	128,565	
Net increase in loans receivable	(219,456)	
Capital expenditures	(85,426)	
Net increase in deposits	<u>(3,590)</u>	
Net cash used in investing activities		(179,907)
Cash flows from financing activities		
Net increase in bank loans payable	5,000,000	
Net decrease in loans payable	<u>(50,000)</u>	
Net cash provided by financing activities		<u>4,950,000</u>
Net change in cash		1,847,073
Cash at beginning		<u>4,632,417</u>
Cash at end		<u>\$6,479,490</u>
Supplemental disclosure of cash flows information		
Cash paid for interest		<u>\$ 352,994</u>
Cash paid for income taxes		<u>\$ 273,710</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, 2014

Note 1 Basis of reporting

The accompanying consolidated financial statements represent the operations of Renaissance Jewelry New York, Inc. ("Renaissance") and VGJA Inc. ("VGJA"), (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. VGJA (a wholly owned subsidiary of Renaissance) was incorporated on November 14, 2013 in New York. 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, 2014

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, 2014, 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.

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.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2014

Note 2 Summary of significant accounting policies (continued)

Intangible assets

Intangible assets consist of various assets which have finite useful lives and are carried at cost less accumulated amortization. Amortization is provided using the straight-line method over the estimated useful lives of the assets.

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, 2014, advertising and promotional expenses amounted to \$4,991.

Shipping and handling costs

The Company includes shipping and handling costs associated with outbound freight in operating expenses. For the year ended March 31, 2014, shipping and handling costs amounted to \$187,072.

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

March 31, 2014

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, 2014, 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 May 1, 2014 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 Accounts receivable

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

Note 4 Inventories

At March 31, 2014, inventories of \$33,272,347 consisted of loose diamonds and finished jewelry.

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

March 31, 2014

Note 5 Loans receivable

At March 31, 2014, Renaissance had outstanding loans receivable from various employees, a related party and an unrelated party of \$54,500, \$109,095 and \$106,617, 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, 2014, interest on these loans amounted to \$4,119.

Note 6 Property and equipment

At March 31, 2014, property and equipment consisted of the following:

Furniture and equipment	\$241,680
Leasehold improvements	<u>290,333</u>
	532,013
Less: accumulated depreciation	<u>58,626</u>
	<u>\$473,387</u>

Note 7 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 8 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, 2014, 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.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2014

Note 9 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, 2014, Renaissance did not make any contribution to this Plan.

Note 10 Income taxes

The Company is filing a consolidated U.S. federal income tax return with its eligible subsidiary.

For the year ended March 31, 2014, the net provision for income taxes of \$504,855 consisted of the following:

	<u>Federal</u>	<u>State and local</u>	<u>Total</u>
Current	\$476,597	\$76,758	\$553,355
Deferred	<u>(42,000)</u>	<u>(6,500)</u>	<u>(48,500)</u>
	<u>\$434,597</u>	<u>\$70,258</u>	<u>\$504,855</u>

At March 31, 2014, the significant components of the net deferred tax assets were the allowances for doubtful accounts and credits, deferred lease liability, inventories capitalization and differences between the book and tax bases of property and equipment.

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

March 31, 2014

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	\$ 4,532,323
Net purchases	\$72,294,054
Interest income	\$ 782
Loans receivable	\$ 109,095
Interest receivable (included in other current assets)	\$ 2,049
Accounts payable	\$28,091,611
Other current liabilities	\$ 2,739

Note 12 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, 2014, rent expense was \$579,670.

At March 31, 2014, the future minimum rental payments were as follows:

March 31, 2015	\$ 423,477
March 31, 2016	512,480
March 31, 2017	512,480
March 31, 2018	512,480
March 31, 2019	512,480
Thereafter	<u>2,007,213</u>
	<u>\$4,480,610</u>

Other contingencies

The Federal corporation income tax returns of Renaissance for the years ended March 31, 2010, March 31, 2011 and March 31, 2012 are currently under examination. The outcome of this examination cannot be determined at this time.

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

March 31, 2014

Note 13 Major customers and vendor

For the year ended March 31, 2014, sales to two customers represented approximately 59% of net sales and purchases from one vendor represented approximately 80% of net purchases.

SUPPLEMENTARY INFORMATION

**RENAISSANCE JEWELRY NEW YORK, INC.
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CONSOLIDATED STATEMENT OF OPERATING EXPENSES

For the year ended March 31, 2014

Operating expenses

Salaries	\$3,496,034
Employee benefits	220,789
Payroll taxes	235,286
Payroll processing fees	17,221
Commissions	805,207
Rent and utilities	591,496
Telephone	48,429
Travel and entertainment	427,602
Advertising and promotional	4,991
Insurance	246,460
Trade shows	81,965
Office supplies and expenses	31,041
Computer supplies and expenses	119,220
Overseas branch expenses	2,057
Dues and subscriptions	6,746
Printing and stationery	1,130
Professional fees	148,451
Shipping expenses	187,072
Security system expenses	8,669
Charitable contributions	21,525
Postage and delivery	7,396
Bank, credit card and other expenses	62,819
Other taxes	131,579
Depreciation and amortization	196,388
Loss on disposal of fixed assets	<u>12,489</u>
	<u>\$7,112,062</u>

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