

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

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2015

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

For the year ended March 31, 2015

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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, 2015, 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 primarily 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 27, 2015

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

CONSOLIDATED BALANCE SHEET

March 31, 2015

ASSETS

Current assets

Cash	\$ 1,306,546	
Accounts receivable, net of allowances for doubtful accounts and credits of \$100,000	12,025,283	
Inventories	35,356,039	
Prepaid expenses	147,876	
Loans receivable	109,095	
Other current assets	138,870	
Deferred income taxes	<u>280,000</u>	
		\$49,363,709

Property and equipment , net of accumulated depreciation of \$133,835	403,746
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Other assets

Intangible assets, net of accumulated amortization of \$966,665	1,033,335	
Deposits	<u>199,174</u>	
		<u>1,232,509</u>
		<u>\$50,999,964</u>

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

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

CONSOLIDATED BALANCE SHEET

March 31, 2015

LIABILITIES AND STOCKHOLDER'S EQUITY

Current liabilities

Bank loans payable	\$11,500,000	
Accounts payable	22,518,221	
Accrued expenses and taxes	<u>747,363</u>	
		\$34,765,584

Other liabilities

Deferred lease liability	216,772
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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>4,017,608</u>	
		<u>16,017,608</u>
		<u>\$50,999,964</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, 2015

Net sales		\$98,592,026
Cost of sales		<u>89,254,916</u>
Gross profit		9,337,110
Operating expenses		<u>7,439,676</u>
Income from operations		1,897,434
Other income (expense)		
Interest and other income	\$ 67,244	
Interest expense	<u>(378,679)</u>	
		<u>(311,435)</u>
Income before provision for income taxes		1,585,999
Provision for income taxes		<u>452,825</u>
Net income		1,133,174
Retained earnings – beginning		<u>2,884,434</u>
Retained earnings – end		<u>\$ 4,017,608</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, 2015

Cash flows from operating activities

Net income		\$1,133,174
Adjustments to reconcile net income to net cash used in operating activities		
Depreciation and amortization	\$ 208,542	
Deferred income taxes	(26,500)	
Deferred lease liability	50,852	
Changes in assets and liabilities		
Accounts receivable	1,668,338	
Inventories	(2,083,692)	
Prepaid expenses	(6,261)	
Other current assets	(17,575)	
Accounts payable	(7,777,743)	
Accrued expenses and taxes	25,111	
Other current liabilities	<u>(2,739)</u>	
		<u>(7,961,667)</u>
Net cash used in operating activities		(6,828,493)

Cash flows from investing activities

Net decrease in loans receivable	161,117	
Capital expenditures	<u>(5,568)</u>	
Net cash provided by investing activities		155,549

Cash flows from financing activities

Net increase in bank loans payable	<u>1,500,000</u>	
Net cash provided by financing activities		<u>1,500,000</u>
Net change in cash		(5,172,944)

Cash at beginning	<u><u>6,479,490</u></u>
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Cash at end	<u><u>\$1,306,546</u></u>
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Supplemental disclosure of cash flows information

Cash paid for interest	<u>\$ 375,470</u>
Cash paid for income taxes	<u>\$ 601,512</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, 2015

Note 1 Basis of reporting

The accompanying consolidated financial statements represent the operations of Renaissance Jewelry New York, Inc. ("Renaissance") and VGJA Inc. ("VGJA"). 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. The Company insures some of its accounts receivable under a non-notification agreement with a financial institution.

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

March 31, 2015

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, 2015, 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 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.

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.

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

March 31, 2015

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.

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, 2015, advertising and promotional expenses amounted to \$44,011.

Shipping and handling costs

The Company includes shipping and handling costs associated with outbound freight in operating expenses. For the year ended March 31, 2015, shipping and handling costs amounted to \$177,129.

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

March 31, 2015

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, 2015, 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 27, 2015 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

The Company has a credit insurance policy covering some of its accounts receivable.

Note 4 Inventories

At March 31, 2015, inventories of \$35,356,039 consisted of loose diamonds and finished jewelry.

Note 5 Loans receivable

At March 31, 2015, the Company had outstanding loans receivable from a related party of \$109,095. 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, 2015, interest on these loans amounted to \$2,182.

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

March 31, 2015

Note 6 Property and equipment

At March 31, 2015, property and equipment consisted of the following:

Furniture and equipment	\$247,248
Leasehold improvements	<u>290,333</u>
	537,581
Less: accumulated depreciation	<u>133,835</u>
	<u>\$403,746</u>

Note 7 Intangible assets

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

Note 8 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 prime rate or LIBOR. At March 31, 2015, the total outstanding borrowings of \$11,500,000 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 9 Retirement plan

The Company has established a 401 (k) savings plan (the "Plan"). At the discretion of the Company, the Plan provides for the Company's contributions based on eligible amounts contributed to the Plan by its participants. For the year ended March 31, 2015, the Company did not make any contribution to this Plan.

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

March 31, 2015

Note 10 Income taxes

The Company files a consolidated U.S. federal income tax return and separate state and local income tax returns on a fiscal year basis ending on March 31. In the ordinary course of business, the Company is subject to examination by federal, state and local jurisdictions, where applicable. For federal income tax purposes, the Company remains open for examination by the tax authorities for fiscal years from March 31, 2013 onwards under the general statute of limitations. Under the similar statute of limitations, the Company remains open for examination by the state and local tax authorities for fiscal years from March 31, 2012 onwards.

For the year ended March 31, 2015, the net provision for income taxes of \$452,825 consisted of the following:

	<u>Federal</u>	<u>State and local</u>	<u>Total</u>
Current	\$459,745	\$19,580	\$479,325
Deferred	<u>(23,000)</u>	<u>(3,500)</u>	<u>(26,500)</u>
	<u>\$436,745</u>	<u>\$16,080</u>	<u>\$452,825</u>

At March 31, 2015, 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.

Note 11 Related party transactions and balances

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

- (a) For the year ended March 31, 2015, the Company made net sales of \$9,891,762 to various affiliates.
- (b) For the year ended March 31, 2015, the Company made net purchases of \$68,012,309 from various affiliates.

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

March 31, 2015

Note 11 Related party transactions and balances (continued)

- (c) For the year ended March 31, 2015, the Company earned interest income of \$2,182 from an affiliate.
- (d) At March 31, 2015, the Company had accounts receivable of \$1,243,039 from various affiliates.
- (e) At March 31, 2015, the Company had outstanding loans receivable of \$109,095 from an affiliate.
- (f) At March 31, 2015, the Company had advance payments of \$133,305 to an affiliate.
- (g) At March 31, 2015, the Company had interest receivable of \$4,231 from an affiliate.
- (h) At March 31, 2015, the Company had accounts payable of \$18,143,823 to an affiliate.

Note 12 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, 2015, rent expense was \$486,001.

At March 31, 2015, the future minimum rental payments were as follows:

March 31, 2016	\$ 512,480
March 31, 2017	512,480
March 31, 2018	512,480
March 31, 2019	512,480
March 31, 2020	512,480
Thereafter	<u>1,494,733</u>
	<u>\$4,057,133</u>

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

March 31, 2015

Note 13 Major customer and vendor

For the year ended March 31, 2015, sales to one customer represented approximately 40% of net sales and purchases from one vendor represented approximately 76% of net purchases.

SUPPLEMENTARY INFORMATION

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

CONSOLIDATED STATEMENT OF OPERATING EXPENSES

For the year ended March 31, 2015

Operating expenses

Salaries	\$3,789,658
Employee benefits	233,084
Payroll taxes	276,105
Payroll processing fees	17,978
Commissions	205,152
Rent and utilities	519,182
Telephone	56,784
Travel and entertainment	433,070
Advertising and promotional	44,011
Insurance	280,240
Trade shows	172,481
Office supplies and expenses	35,359
Computer supplies and expenses	123,555
Dues and subscriptions	19,991
Professional fees	181,120
Shipping expenses	177,129
Security system expenses	12,226
Charitable contributions	45,645
Bank, credit card and other expenses	35,893
Royalties	392,609
Other taxes	116,915
Bad Debts	62,947
Depreciation and amortization	<u>208,542</u>
	<u>\$7,439,676</u>

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