

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

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2016

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

For the year ended March 31, 2016

Contents

	Page
Independent Accountants' Review Report	1
Consolidated Financial Statements	
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 financial statements of Renaissance Jewelry New York, Inc. and Subsidiary (the "Company"), which comprise the balance sheet as of March 31, 2016, and the related consolidated statements of income and retained earnings and cash flows for the year then ended, and the related notes to the consolidated financial statements. 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's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement whether due to fraud or error.

Accountants' Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the consolidated financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our report.

Accountants' Conclusion

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 accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

The information included in the accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. The information is the representation of management. We have performed a compilation engagement of the supplementary information in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We have not audited or reviewed the supplementary information and, accordingly, do not express an opinion, a conclusion, nor provide any form of assurance on such supplementary information.

Prajapati Associates LLP

April 26, 2016

RENAISSANCE JEWELRY NEW YORK, INC.

BALANCE SHEET

March 31, 2016

ASSETS

Current assets

Cash	\$ 665,831	
Accounts receivable, net of allowances for doubtful accounts and credits of \$100,000	10,053,420	
Inventories	39,790,565	
Prepaid expenses and taxes	362,960	
Loans receivable	59,258	
Other current assets	416,072	
Deferred income taxes	<u>300,000</u>	
		\$51,648,106

Property and equipment, net of accumulated
depreciation of \$211,457

346,958

Other assets

Intangible assets, net of accumulated amortization of \$1,099,998	900,002	
Deposits	<u>199,174</u>	
		<u>1,099,176</u>
		<u>\$53,094,240</u>

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

RENAISSANCE JEWELRY NEW YORK, INC.

BALANCE SHEET

March 31, 2016

LIABILITIES AND STOCKHOLDER'S EQUITY

Current liabilities

Bank loans payable	\$11,800,000	
Accounts payable	23,197,613	
Accrued expenses	989,319	
Deferred lease liability	<u>27,382</u>	
		\$36,014,314

Other liabilities

Deferred lease liability		162,008
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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>4,917,918</u>	
		<u>16,917,918</u>
		<u>\$53,094,240</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, 2016

Net sales		\$93,091,915
Cost of sales		<u>83,814,133</u>
Gross profit		9,277,782
Operating expenses		<u>7,400,290</u>
Income from operations		1,877,492
Other income (expense)		
Interest and other income	\$ 31,454	
Interest expense	<u>(414,950)</u>	
		<u>(383,496)</u>
Income before provision for income taxes		1,493,996
Provision for income taxes		<u>593,686</u>
Net income		900,310
Retained earnings – beginning		<u>4,017,608</u>
Retained earnings – end		<u>\$ 4,917,918</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, 2016

Cash flows from operating activities		
Net income		\$ 900,310
Adjustments to reconcile net income to net cash used in operating activities		
Depreciation and amortization	\$ 210,955	
Deferred income taxes	(20,000)	
Deferred lease liability	(27,382)	
Changes in assets and liabilities		
Accounts receivable	1,971,863	
Inventories	(4,434,526)	
Prepaid expenses and taxes	(216,839)	
Other current assets	(277,202)	
Accounts payable	679,392	
Accrued expenses	<u>243,711</u>	
		<u>(1,870,028)</u>
Net cash used in operating activities		(969,718)
Cash flows from investing activities		
Net decrease in loans receivable	49,837	
Capital expenditures	<u>(20,834)</u>	
Net cash provided by investing activities		29,003
Cash flows from financing activities		
Net increase in bank loans payable	<u>300,000</u>	
Net cash provided by financing activities		<u>300,000</u>
Net change in cash		(640,715)
Cash at beginning		<u>1,306,546</u>
Cash at end		<u>\$ 665,831</u>
Supplemental disclosure of cash flows information		
Cash paid for interest		<u>\$ 410,197</u>
Cash paid for income taxes		<u>\$ 833,133</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, 2016

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. Effective March 31, 2016, VGJA has been dissolved. 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.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

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, 2016, 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.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

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 Operations.

Advertising and promotional expenses

Advertising and promotional expenses are expensed during the year in which they are incurred. For the year ended March 31, 2016, advertising and promotional expenses amounted to \$5,002.

Shipping and handling costs

The Company includes shipping and handling costs associated with outbound freight in operating expenses. For the year ended March 31, 2016, shipping and handling costs amounted to \$232,059.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

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, 2016, 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 26, 2016 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, 2016, inventories of \$39,790,565 consisted of loose diamonds and finished jewelry.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

Note 5 Loans receivable

At March 31, 2016, the Company had outstanding loans receivable from a related party of \$59,258. 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, 2016, interest on these loans amounted to \$1,434.

Note 6 Property and equipment

At March 31, 2016, property and equipment consisted of the following:

Furniture and equipment	\$268,082
Leasehold improvements	<u>290,333</u>
	558,415
Less: accumulated depreciation	<u>211,457</u>
	<u>\$346,958</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, 2016, the total outstanding borrowings of \$11,800,000 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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

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, 2016, the Company did not make any contribution to this Plan.

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, 2016, the net provision for income taxes of \$593,686 consisted of the following:

	<u>Federal</u>	<u>State and local</u>	<u>Total</u>
Current	\$549,124	\$64,562	\$613,686
Deferred	<u>(4,000)</u>	<u>(16,000)</u>	<u>(20,000)</u>
	<u>\$545,124</u>	<u>\$48,562</u>	<u>\$593,686</u>

At March 31, 2016, 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.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

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, 2016, the Company made net sales of \$12,664,237 to various affiliates.
- (b) For the year ended March 31, 2016, the Company made net purchases of \$71,515,626 from various affiliates.
- (c) For the year ended March 31, 2016, the Company earned interest income of \$1,434 from an affiliate.
- (d) At March 31, 2016, the Company had accounts receivable of \$1,244,042 from various affiliates.
- (e) At March 31, 2016, the Company had outstanding loans receivable of \$59,258 from an affiliate.
- (f) At March 31, 2016, the Company had made advance payments of \$406,265 to an affiliate.
- (g) At March 31, 2016, the Company had interest receivable of \$2,525 from an affiliate.
- (h) At March 31, 2016, the Company had accounts payable of \$20,157,721 to an affiliate.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

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, 2016, rent expense was \$514,603.

At March 31, 2016, the future minimum rental payments were as follows:

March 31, 2017	\$ 512,480
March 31, 2018	512,480
March 31, 2019	512,480
March 31, 2020	512,480
March 31, 2021	512,480
Thereafter	<u>982,253</u>
	<u>\$3,544,653</u>

Note 13 Major customers and vendor

For the year ended March 31, 2016, sales to three customers represented approximately 55% of net sales and purchases from one vendor represented approximately 80% of net purchases.

SUPPLEMENTARY INFORMATION

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

CONSOLIDATED STATEMENT OF OPERATING EXPENSES

For the year ended March 31, 2016

Operating expenses

Salaries	\$3,627,062
Employee benefits	249,713
Payroll taxes	240,400
Payroll processing fees	17,232
Commissions	187,132
Rent and utilities	556,941
Telephone	57,963
Travel and entertainment	631,273
Advertising and promotional	5,002
Insurance	302,200
Trade shows	152,331
Office supplies and expenses	43,077
Computer supplies and expenses	114,021
Dues and subscriptions	27,473
Professional fees	298,192
Shipping expenses	232,059
Security system expenses	10,718
Charitable contributions	64,750
Bank, credit card and other expenses	53,742
Royalties	225,288
Other taxes	92,766
Depreciation and amortization	<u>210,955</u>
	<u>\$7,400,290</u>

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