

RENAISSANCE JEWELRY NEW YORK, INC.
(A wholly owned subsidiary of Renaissance Jewellery, Ltd.)

AUDITED FINANCIAL STATEMENTS

For the Year Ended March 31, 2018

RENAISSANCE JEWELRY NEW YORK, INC.
(A wholly-owned subsidiary of Renaissance Jewellery Ltd.)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders of Renaissance Jewelry New York, Inc.

We have audited the accompanying financial statements of Renaissance Jewelry New York, Inc. (the "Company"), a wholly-owned subsidiary of Renaissance Jewellery Ltd., which comprise the balance sheet as of March 31, 2018, and the related statements of income and retained earnings, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of these audited 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 financial statements that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

UHY LLP

New York, New York
May 21, 2018

FINANCIAL STATEMENTS

RENAISSANCE JEWELRY NEW YORK, INC.
(A wholly-owned subsidiary of Renaissance Jewellery, Ltd.)
BALANCE SHEET
Year Ended March 31, 2018

ASSETS

CURRENT ASSETS

Cash	\$ 804,818
Accounts receivable, net	10,525,800
Accounts receivable, related party	1,126,816
Inventory, net	43,786,803
Prepaid expenses	105,679
Deferred tax asset	<u>156,000</u>
Total current assets	56,505,916

PROPERTY AND EQUIPMENT, NET 190,640

INTANGIBLE ASSET, NET 633,335

OTHER ASSETS 199,174

Total assets \$ 57,529,065

LIABILITIES AND STOCKHOLDER'S EQUITY

CURRENT LIABILITIES

Accounts payable, trade	\$ 3,173,745
Accounts payable, related party	13,426,253
Accrued expenses	754,369
Short-term debt	21,000,000
Note payable, related party	750,000
Deferred rent - current portion	<u>27,382</u>
Total current liabilities	39,131,749

DEFERRED RENT, NET OF CURRENT PORTION 107,244

DEFERRED TAX LIABILITY 23,000

Total liabilities 39,261,993

COMMITMENTS AND CONTINGENCIES (NOTE 8)

STOCKHOLDER'S EQUITY

Common stock, \$100 par value; authorized 200 shares; issued and outstanding 100 shares	10,000
Additional paid-in capital	11,990,000
Retained earnings	<u>6,267,072</u>
Total stockholder's equity	<u>18,267,072</u>

Total liabilities and stockholder's equity \$ 57,529,065

See notes to financial statements.

RENAISSANCE JEWELRY NEW YORK, INC.
(a wholly-owned subsidiary of Renaissance Jewellery, Ltd.)
STATEMENT OF INCOME AND RETAINED EARNINGS
Year Ended March 31, 2018

Sales, net	\$ 97,858,596
Cost of sales	<u>89,642,577</u>
Gross profit	8,216,019
Operating expenses	
General and administrative expenses	6,474,918
Depreciation and amortization expense	<u>214,133</u>
Total operating expenses	<u>6,689,051</u>
Operating income	<u>1,526,968</u>
Other expense (income)	
Interest expense, net	728,924
Management fees	<u>(7,500)</u>
Total other expenses	721,424
Income before income tax expense	805,544
Income tax expense	<u>332,877</u>
Net income	472,667
Retained earnings, beginning	<u>5,794,405</u>
Retained earnings, ending	<u>\$ 6,267,072</u>

See notes to financial statements.

RENAISSANCE JEWELRY NEW YORK, INC.
(a wholly-owned subsidiary of Renaissance Jewellery, Ltd.)
STATEMENT OF CASH FLOWS
Year Ended March 31, 2018

OPERATING ACTIVITIES

Net income	\$ 472,667
Adjustments to reconcile net income to net cash used in operating activities:	
Depreciation and amortization	214,133
Deferred taxes	83,000
Deferred rent	(27,382)
Changes in:	
Accounts receivable, net	(427,311)
Accounts receivable, related party	(330,124)
Inventory, net	5,060,170
Prepaid expenses and other assets	344,124
Accounts payable, trade	2,047,059
Accounts payable, related party	(11,009,099)
Accrued expenses and other current liabilities	<u>(35,654)</u>
Net cash used in operating activities	<u>(3,608,417)</u>

FINANCING ACTIVITIES

Proceeds from borrowings on bank lines of credit	3,000,000
Cash received from note receivable related party	62,968
Cash received from note payable, related party	<u>750,000</u>
Net cash provided by financing activities	<u>3,812,968</u>

Net increase in cash	204,551
CASH, beginning	<u>600,267</u>
CASH, ending	<u>\$ 804,818</u>

Supplemental Disclosures of Cash Flow Information

Cash paid for interest	<u>\$ 708,049</u>
Cash paid for income tax	<u>\$ 389,903</u>

See notes to financial statements.

RENAISSANCE JEWELRY NEW YORK, INC.
(A wholly-owned subsidiary of Renaissance Jewellery, Ltd.)
NOTES TO FINANCIAL STATEMENTS
Year Ended March 31, 2018

NOTE 1 — NATURE OF BUSINESS

Nature of Business

Renaissance Jewelry New York, Inc. (the "Company") is a wholly-owned subsidiary of Renaissance Jewellery Ltd. ("RJL"), a company based in India. The Company was incorporated on April 23, 2007 under the laws of the State of New York. VGJA, Inc., a wholly owned subsidiary of the Company, was incorporated on November 14, 2013 under the laws of the State of New York and has been fully dissolved effective March 31, 2016.

The Company is an importer and wholesaler of diamonds and jewelry whose customers are located primarily throughout the United States of America. Large retail chains comprise a significant portion of the Company's customer base. Management believes that credit risk resulting from concentrations is limited due to the large number of entities comprising this base and their dispersion across many different geographic regions.

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and accounts receivable. The Company places its cash primarily in checking accounts with high quality financial institutions which from time to time may exceed the Federal Deposit Insurance Corporation ("FDIC") coverage limit, the composition and maturities of which are regularly monitored by management.

The Company extends credit based on an evaluation of the customer's financial condition, generally without requiring collateral. Exposure to losses on accounts receivable is principally dependent on each customer's financial condition. The Company monitors its exposure for credit losses and maintains allowances for anticipated losses when required. Credit losses, when realized, have been within the range of the Company's expectations and, historically, have not been significant.

RENAISSANCE JEWELRY NEW YORK, INC.
(A wholly-owned subsidiary of Renaissance Jewellery, Ltd.)
NOTES TO FINANCIAL STATEMENTS
Year Ended March 31, 2018

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable

Credit sales are made to customers in the normal course of business and are generally stated at the amount management expects to collect from outstanding balances. The Company monitors its exposure for credit losses and maintains allowances for anticipated losses. The Company establishes a reserve for uncollectible accounts based on an evaluation of the status of past due customer invoices and the customer's collection history and financial condition. The receivable is written-off against the reserve only when all efforts to collect the balance have been exhausted. Write-offs of accounts receivable have historically been low and the Company expects collection of the accounts receivable balance within one year. Allowances are determined based on the following factors:

Allowance for Discounts

The Company records a discounts allowance to merchants to cover receipt of early payments based on predetermined rates set with the customers, advertising costs, and subsequent returns.

Allowance for Doubtful Accounts

The Company establishes a reserve for uncollectible accounts based on an evaluation of the customer's collection history and financial condition. Receivables are written-off against the reserve only when all efforts to collect balances have been exhausted. As of December 31, 2017, the Company did not have any receivables that are doubtful of collection. Accounts receivable are expected to be collected during the next fiscal year and are recorded at net realizable value.

Allowance for Sales Returns

Sales returns are reduced from the invoice amount based on items returned.

Accounts receivable are presented net of the following reserves at March 31, 2018:

Accounts Receivable	\$ 12,160,064
Allowance for Discounts	(1,534,264)
Allowance for Doubtful Accounts	(50,000)
Allowance for Sales Returns	<u>(50,000)</u>
Accounts Receivable net of allowances	<u>\$ 10,525,800</u>

Inventories

Inventories are stated at the lower of cost (average cost method) or market (net realizable value).

RENAISSANCE JEWELRY NEW YORK, INC.
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NOTES TO FINANCIAL STATEMENTS
Year Ended March 31, 2018

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Property and equipment are stated at cost and depreciation is calculated using the straight-line method over the estimated useful lives of the related assets which are as follows:

	<u>Years</u>
Furniture and fixtures	7
Machinery and equipment	5
Leasehold improvements (shorter of lease term or the useful life of the related asset)	10

Intangible Assets

Intangible assets, other than goodwill, 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 intangible assets. The Company's policy is to review intangible assets with finite lives for possible impairment whenever events and circumstances indicate that the carrying value may not be recoverable. If forecasted undiscounted cash flows to be generated by the asset are not expected to be adequate to recover the assets carrying value, an impairment charge is recorded for the excess of the asset's carrying value over its estimated fair value. Fair values are determined based on discounted cash flows, quoted market values or external appraiser as applicable. In assessing the recoverability of the Company's intangible asset, the Company must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. These include estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for the Company, the period over which cash flows will occur, and determination of the Company's cost of capital. Changes in these estimates and assumptions could materially affect the determination of fair value and conclusion on impairment. There was no impairment of the Company's intangible assets during the year ended March 31, 2018.

Long-Lived Assets

The Company reviews the carrying values of its long-lived assets including finite-lived intangible assets in accordance with accounting for *Long-Lived Assets*, when events or changes in circumstances would indicate that it is more likely than not that their carrying values may exceed their realizable values, and records impairment charges when considered necessary.

When circumstances indicate that impairment may have occurred, the Company tests such assets for recoverability by comparing the estimated undiscounted future cash flows expected to result from the use of such assets and their eventual disposition to their carrying amounts. In estimating these future cash flows, assets and liabilities are grouped at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows generated by other such groups. If the undiscounted future cash flows are less than the carrying amount of the asset, an impairment loss, measured as the excess of the carrying value of the asset over its estimated fair value, is recognized. Fair values are determined based on discounted cash flows, quoted market values or external appraiser as applicable. There was no impairment of the Company's long-lived assets during the year ended March 31, 2018.

RENAISSANCE JEWELRY NEW YORK, INC.
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NOTES TO FINANCIAL STATEMENTS
Year Ended March 31, 2018

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Sales and related costs are generally recorded by the Company upon shipment of merchandise and transfer of title and risk of loss to customers. Sales are recorded net of estimated discounts, returns and allowances.

Deferred Rent

The Company's operating lease contains predetermined fixed escalations of minimum rent payments during the original lease term. For the lease, the Company recognizes the related rental expense on a straight-line basis over the life of the lease and records the difference between the amounts charged to operations and amounts paid as deferred rent.

Income Taxes

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is required if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Current income taxes are based on the current period taxable income for Federal, state and local income tax reporting purposes.

Uncertain Tax Positions

The Company follows guidance issued by the Financial Accounting Standards Board ("FASB") ASC 740 Accounting for Income Taxes, regarding accounting for uncertainty in income taxes. This guidance clarifies the accounting for income taxes by prescribing the minimum recognition threshold an income tax position is required to meet before being recognized in the consolidated financial statements and applies to all income tax positions. Each income tax position is assessed using a two-step process. A determination is first made as to whether it is more likely than not that the income tax position will be sustained, based upon technical merits, upon examination by the taxing authorities. If the income tax position is expected to meet the more likely than not criteria, the benefit recorded in the consolidated financial statements equals the largest amount that is greater than 50% likely to be realized upon its ultimate settlement.

The Company records income tax related interest and penalties as a component of the provision for income tax expense. As of March 31, 2018, the Company determined there were no uncertain tax positions.

The Company believes that there are no tax positions taken or expected to be taken that would significantly increase or decrease unrecognized tax benefits within 12 months of the reporting date.

RENAISSANCE JEWELRY NEW YORK, INC.
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NOTES TO FINANCIAL STATEMENTS
Year Ended March 31, 2018

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

For purposes of preparing these financial statements, the Company considered events through May 21, 2018, the date these financial statements were available to be issued.

NOTE 3 — INVENTORIES

Inventories consist of the following at March 31, 2018:

Inventory in-house	\$ 16,096,296
Inventory held-by-others	<u>27,690,507</u>
	<u>\$ 43,786,803</u>

NOTE 4 — PROPERTY AND EQUIPMENT

Property and equipment consists of the following at March 31, 2018

Furniture and fixtures	\$ 66,697
Machinery and equipment	206,185
Leasehold improvements	<u>290,333</u>
	563,215
Less: accumulated depreciation	<u>372,575</u>
	<u>\$ 190,640</u>

Depreciation expense for the year ended March 31, 2018 was approximately \$81,000.

NOTE 5 — INTANGIBLE ASSET

The net carrying value of the intangible asset is approximately \$633,000 which consists of \$2,000,000 of gross costs, net of accumulated amortization of approximately \$1,367,000 at March 31, 2018. Intangible asset is amortized using the straight-line method over the estimated useful life of the asset of 180 months.

RENAISSANCE JEWELRY NEW YORK, INC.
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NOTES TO FINANCIAL STATEMENTS
Year Ended March 31, 2018

NOTE 5 — INTANGIBLE ASSET (Continued)

Estimated amortization expense for the next five fiscal years and thereafter is as follows:

Years Ending March 31,	
2019	\$ 133,333
2020	133,333
2021	133,333
2022	133,333
2023	100,003
	<u>\$ 633,335</u>

Amortization expense amounting to approximately \$133,000 for the year ended March 31, 2018.

NOTE 6 — REVOLVING LINE OF CREDIT

On September 26, 2016, the Company entered into an agreement with KeyBank National Association which extended a revolving line of credit up to an aggregate principal amount of \$25,000,000. The line of credit proceeds are utilized for working capital purposes. Borrowings under the line are subject to a borrowing base limitation consisting of specified percentages of eligible accounts receivable and inventories. Interest rate on the borrowings is calculated as a function of the bank's prime rate or LIBOR. The interest rate at March 31, 2018 was 4.08% and the revolving line of credit matures on September 26, 2019.

The total outstanding balance of the revolving line of credit are secured by substantially all the assets of the Company. The revolving line of credit contains various covenants which requires the Company to meet certain financial covenants. At March 31, 2018, the Company was in compliance with all of its covenants.

NOTE 7 — 401(K) PLAN

The Company has established a 401(k) savings plan ("the Plan") which covers substantially all employees that meet certain requirements. At the discretion of the Company, the Plan provides for an employer contribution election which is discretionary and is based on eligible amounts contributed to the Plan by its participants.

RENAISSANCE JEWELRY NEW YORK, INC.
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NOTES TO FINANCIAL STATEMENTS
Year Ended March 31, 2018

NOTE 8 — COMMITMENTS

Operating Leases

The Company is obligated under a non-cancellable operating leases for office space and facilities through February 28, 2023.

Future minimum rental payments are as follows:

Years Ending March 31,	
2019	\$ 512,480
2020	512,480
2021	512,480
2022	512,480
2023	469,773
	<u>\$ 2,519,693</u>

Rent expense is recognized on a straight-line basis over the term of the lease, including free rent periods. Differences between rent expense recognized and contractual amounts due under the lease agreement are recorded as deferred rent liability. Rent expense was approximately \$494,000 for the year ended March 31, 2018

NOTE 9 – RELATED PARTIES TRANSACTIONS

As of March 31, 2018, the Company had notes payable to the president of the Company of approximately \$750,000. The note is payable on demand and has a 2% interest rate applied to any unpaid principal balance. Interest expense related to the note payable incurred for the year ended was \$3,750. This amount was accrued at year-end and reflected in accounts payable, related party on the balance sheet.

The Company has the following transactions with the related parties that are under common ownership:

As of March 31, 2018, the Company had accounts receivable of approximately \$1,127,000 from Renaissance Jewellery Limited.

As of March 31, 2018, the Company had accounts payable of approximately \$13,403,000 to Renaissance Jewellery Limited and approximately \$24,000 to Verigold Jewellery DMCC.

As of March 31, 2018, the Company had sales of approximately \$11,549,000 to Renaissance Jewellery Limited, approximately \$1,000 to Verigold Jewellery (UK) Ltd., and approximately \$332,000 to Renaissance Jewellery Bangladesh Private Limited.

As of March 31, 2018, the Company had purchases of approximately \$69,575,000 from Renaissance Jewellery Limited, approximately \$15,000 from Verigold Jewellery DMCC, and approximately \$200,000 from Renaissance Jewellery Bangladesh Private Limited.

RENAISSANCE JEWELRY NEW YORK, INC.
(a wholly-owned subsidiary of Renaissance Jewellery, Ltd.)
NOTES TO FINANCIAL STATEMENTS
Year Ended March 31, 2018

NOTE 9 – RELATED PARTIES TRANSACTIONS (Continued)

As of March 31, 2018, the Company had interest income of approximately \$1,000 from Housefull International Limited.

NOTE 10 — INCOME TAXES

The components of income tax expense (benefit) for the year ended March 31, 2018, were as follows:

Current:		
Federal	\$	251,455
State		<u>(1,578)</u>
		<u>249,877</u>
Deferred:		
Federal		77,000
State		<u>6,000</u>
		<u>83,000</u>
Income tax expense	\$	<u><u>332,877</u></u>

Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. The tax effects of temporary differences that give rise to significant portions of the net deferred tax asset are presented below:

Current deferred tax assets:		
Allowance for bad debts	\$	11,000
Allowance for returns		11,000
Deferred rent - current portion		31,000
Inventory capitalization		<u>103,000</u>
Total current deferred tax asset	\$	<u><u>156,000</u></u>
Non-current deferred tax assets (liabilities):		
Depreciation		<u>(23,000)</u>
Total non current deferred tax (liabilities)	\$	<u><u>(23,000)</u></u>
Net deferred tax asset	\$	<u><u>133,000</u></u>

RENAISSANCE JEWELRY NEW YORK, INC.
(a wholly-owned subsidiary of Renaissance Jewellery, Ltd.)
NOTES TO FINANCIAL STATEMENTS
Year Ended March 31, 2018

NOTE 10 — INCOME TAXES (Continued)

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cut and Jobs Act (the "Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code that affect 2017. The Tax Act also establishes new tax laws that will affect 2018 and subsequent years, including a reduction in the U.S. federal corporate income tax rate from 35.0% to 21.0%. The expected income tax rate for the year ended March 31, 2018 was 22.7% whereas the actual rate was 41.3%.

NOTE 11 — MAJOR CUSTOMERS AND VENDOR

For the year ended March 31, 2018, sales to three customers represented approximately 62% of net sales. These customers also represented 45% of accounts receivable at March 31, 2018.

For the year ended March 31, 2018, the Company made purchases from one vendor which represented approximately 87% of net purchases. This customer also represented 81% of accounts payable at March 31, 2018.

