

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

**CONSOLIDATED FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION**

YEARS ENDED MARCH 31, 2019 AND 2018

AND

INDEPENDENT AUDITORS' REPORT

FRIEDMAN LLP[®]
ACCOUNTANTS AND ADVISORS

RENAISSANCE JEWELRY NEW YORK, INC. AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

To the Stockholders
Renaissance Jewelry New York, Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of Renaissance Jewelry New York, Inc. and Subsidiaries, which comprise the consolidated balance sheet as of March 31, 2019, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated 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 Company'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 consolidated financial statements.

(Continued)

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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Renaissance Jewelry New York, Inc. and Subsidiaries as of March 31, 2019, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information shown on pages 22 and 23 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying consolidated supplementary information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Prior Period Financial Statements

The financial statements of Renaissance Jewelry New York, Inc. as of March 31, 2018 were audited by other auditors, whose report dated May 21, 2018 expressed an unmodified opinion on those statements.

A handwritten signature in black ink that reads "Freedman LLP". The signature is written in a cursive, flowing style.

May 24, 2019

RENAISSANCE JEWELRY NEW YORK, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	March 31,	
	2019	2018
ASSETS		
Current assets		
Cash	\$ 1,394,823	\$ 804,818
Accounts receivable, less allowance for doubtful accounts of approximately \$330,000 and \$100,000	38,957,613	11,652,616
Inventories	98,915,828	43,786,803
Loans receivable, related parties	101,797	-
Prepaid expenses and other current assets	89,780	105,679
Total current assets	139,459,841	56,349,916
Property and equipment - at cost, less accumulated depreciation of approximately \$1,244,000 and \$373,000	580,967	190,640
Intangible assets - at cost, less accumulated amortization of approximately \$2,359,000 and \$1,367,000	4,039,472	633,335
Deferred tax assets, net	544,000	133,000
Security deposits	397,343	199,174
	\$ 145,021,623	\$ 57,506,065
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Short-term borrowings	\$ 44,932,034	\$ 21,000,000
Accounts payable	39,166,458	16,599,998
Accrued expenses and other payables	3,736,823	754,369
Loans payable, related parties	3,964,443	750,000
Current portion of notes payable, net of unamortized discounts	322,647	-
Lease at below-market rate, current portion	94,577	-
Total current liabilities	92,216,982	39,104,367
Notes payable, net of unamortized discounts, less current portion	13,182,634	-
Deferred rent	128,575	134,626
Lease at below-market rate, less current portion	361,847	-
Loans payable, related parties	1,373,446	-
	107,263,484	39,238,993
Commitments		
Stockholders' equity		
Common stock - no par value; 200 shares authorized	27,397,180	12,000,000
Retained earnings	10,360,959	6,267,072
	37,758,139	18,267,072
	\$ 145,021,623	\$ 57,506,065

See notes to consolidated financial statements.

RENAISSANCE JEWELRY NEW YORK, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended March 31,	
	2019	2018
Net sales	\$ 191,379,399	\$ 97,858,596
Cost of sales	166,255,335	89,642,577
Gross profit	25,124,064	8,216,019
Operating expenses	18,183,256	6,689,051
Income from operations	6,940,808	1,526,968
Other income (expense)		
Interest expense	(2,180,068)	(728,924)
Gain on bargain purchase	1,330,104	-
Other income (expense)	(904,179)	7,500
	(1,754,143)	(721,424)
Income before provision for income taxes	5,186,665	805,544
Provision for income taxes	1,092,778	332,877
Net income	\$ 4,093,887	\$ 472,667

See notes to consolidated financial statements.

RENAISSANCE JEWELRY NEW YORK, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock		Retained Earnings	Total
	Issued and Outstanding	Amount		
Balance, April 1, 2017	100	\$ 12,000,000	\$ 5,794,405	\$ 17,794,405
Net income	-	-	472,667	472,667
Balance, March 31, 2018	100	12,000,000	6,267,072	18,267,072
Issuance of share capital	80	15,397,180	-	15,397,180
Net income	-	-	4,093,887	4,093,887
Balance, March 31, 2019	180	\$ 27,397,180	\$ 10,360,959	\$ 37,758,139

See notes to consolidated financial statements.

RENAISSANCE JEWELRY NEW YORK, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended March 31,	
	2019	2018
Cash flows from operating activities		
Net income	\$ 4,093,887	\$ 472,667
Adjustments to reconcile net income to net cash used in operating activities		
Gain from bargain purchase in business combination	(1,330,104)	-
Depreciation and amortization	1,166,569	214,133
Accreted interest	347,490	-
Deferred tax benefit	107,001	83,000
Deferred rent	(6,051)	(27,382)
Lease at below-market rate	(60,067)	-
Changes in assets and liabilities		
Accounts receivable	(7,638,743)	(757,435)
Inventories	(9,858,887)	5,060,170
Prepaid expenses and other current assets	391,469	344,124
Security deposits	(87,641)	-
Accounts payable	4,346,424	(8,962,040)
Accrued expenses and other payables	(410,596)	(35,654)
Net cash used in operating activities	(8,939,249)	(3,608,417)
Cash flows from investing activities		
Cash received from business acquired	67,264	-
Repayments, loans receivable	493,693	62,968
Advances, loans receivable	(4,099)	-
Acquisition of property and equipment	(7,020)	-
Net cash provided by investing activities	549,838	62,968
Cash flows from financing activities		
Advances (repayments) under credit facility, net	(512,966)	3,000,000
Repayments, loans payable	(6,289,798)	-
Advances, loans payable	385,000	750,000
Issuance of share capital	15,397,180	-
Net cash provided by financing activities	8,979,416	3,750,000
Net increase in cash	590,005	204,551
Cash, beginning of year	804,818	600,267
Cash, end of year	\$ 1,394,823	\$ 804,818
Supplemental cash flow disclosures		
Interest paid	\$ 1,764,908	\$ 708,049
Income taxes paid	251,714	389,903

See notes to consolidated financial statements.

RENAISSANCE JEWELRY NEW YORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 - NATURE OF BUSINESS

Renaissance Jewelry New York, Inc. and Subsidiaries (the “Company”) consist of Renaissance Jewelry New York, Inc. (“Renaissance”), Jay Gems Inc. (“Jay Gems”), a wholly owned subsidiary, and Jay Gems’ wholly owned subsidiary, Essar Capital LLC (“Essar”).

Renaissance was incorporated on April 23, 2007 in New York. On August 2, 2018, pursuant to a Stock Purchase Agreement (“SPA”) outlined in Note 3, Renaissance acquired 100% of the shares in Jay Gems. Jay Gems was incorporated on November 22, 2000 in New York. Essar is a limited liability company that was formed on March 13, 2014 for the purpose of acquiring the business of M.A. Reich & Co., Inc. (“M.A. Reich”).

The Company is an importer and wholesaler of diamonds and jewelry and sells to retail and department stores whose customers are primarily located throughout the United States of America.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements include the accounts of Jay Gems and Essar (together, “Jay Gems Inc. and Subsidiary”) and Renaissance. Jay Gems Inc. and Subsidiary were acquired by Renaissance on August 2, 2018. Accordingly, the statement of income for the year ended March 31, 2019 includes the operations of Jay Gems Inc. and Subsidiary from August 3, 2018 to March 31, 2019. The financial statements for the year ended March 31, 2018 include only Renaissance. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

Management uses estimates and assumptions in preparing consolidated financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash balances in banks are insured by the Federal Deposit Insurance Corporation subject to certain limitations. The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

RENAISSANCE JEWELRY NEW YORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable

Accounts receivable are stated at their original amount less allowances for doubtful accounts and credits. The allowances 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. Account balances are written off against the allowance for doubtful accounts after all means of collection have been exhausted and the potential for recovery is considered remote.

Inventories

Inventories, which consist primarily of finished goods, are stated at the lower of cost and net realizable value, with cost for significant items being determined by specific identification and cost for other items being determined by the first-in, first-out method.

Intangible Assets

Intangible assets consist of trademarks, customer lists, covenants not to compete, and a license agreement. These assets have finite useful lives and are carried at cost less accumulated amortization. The cost of intangible assets acquired as part of a business acquisition are based on their acquisition date fair value. Amortization is recorded using the straight-line method over the estimated useful lives of the assets, ranging from 5 to 15 years. Intangible assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. There was no impairment of intangible assets at March 31, 2019.

Lease at Below-Market Rate

A lease at below-market rate was acquired in the August 2018 business combination, representing the difference between the contract in place and market value contracts available at the time of acquisition. The liability was recorded at the present value of the future cash flows, utilizing an imputed interest rate of 3.57%. Amortization is recorded using the straight-line method over the life of the lease. The balance at March 31, 2019 includes \$94,577 in current liabilities and \$361,847 in long-term liabilities.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over estimated useful asset lives, ranging from 3 to 7 years. Leasehold improvements are amortized over the shorter of the estimated useful asset lives or the term of the related lease.

RENAISSANCE JEWELRY NEW YORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

Renaissance and Jay Gems are C Corporations for federal and state income tax purposes. The Company applies the provisions of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification Topic 740, “Income Taxes” (“Topic 740”).

Management does not believe it has any uncertain tax positions. As a result, there are no unrecognized tax benefits in the accompanying consolidated balance sheets. If the Company were to incur any interest and penalties in connection with income tax deficiencies, the Company would classify interest in the “interest expense” category and classify penalties in the “non-interest expense” category within the consolidated statements of income.

Essar is a disregarded entity for income tax purposes. Essar’s taxable income or loss is included in the Company’s consolidated tax return.

Deferred Income Taxes

The Company uses the asset and liability method of accounting for income taxes in accordance with Topic 740. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to the differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Accounting principles generally accepted in the United States of America (“U.S. GAAP”) establish a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company’s assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

U.S. GAAP defines fair value, provides guidance for measuring fair value and requires certain disclosures utilizing a fair value hierarchy which is categorized into three levels based on the inputs to the valuation techniques used to measure fair value.

RENAISSANCE JEWELRY NEW YORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

The following is a brief description of those three levels:

- Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs that reflect management's own assumptions.

Revenue Recognition

Revenue is recognized when risks and rewards of ownership have been transferred, the buyer has control of the goods, revenues can be reliably measured, and it is probable that economic benefits will flow to the Company. Sales are shown net of discounts, returns and other charges allowed to customers.

Advertising and Promotional Expenses

Advertising and promotional expenses are expensed during the year in which they are incurred. For the years ended March 31, 2019 and 2018, advertising and promotional expenses were approximately \$763,000 and \$5,000, respectively.

Shipping and Handling Costs

The Company includes shipping and handling costs associated with outbound freight in operating expenses. For the years ended March 31, 2019 and 2018, shipping and handling costs were approximately \$682,000 and \$225,000, respectively.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation, which had no effect on previously reported net income.

Recent Authoritative Guidance

In January 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-01, "Financial Instruments - Overall: Subtopic 825-10." This ASU reconsiders the recognition and measurement of financial assets and financial liabilities. One of the provisions eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost.

RENAISSANCE JEWELRY NEW YORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Authoritative Guidance (Continued)

This ASU is effective for nonpublic companies for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The provision for the discontinuation of fair value disclosures for financial instruments measured at amortized cost by nonpublic entities was permitted to be early adopted for financial statements ready for issuance as early as January 5, 2016. Aside from this provision and another provision regarding the presentation of financial liabilities for which the fair value option is elected, early adoption of the other amendments in this ASU is not permitted for nonpublic companies. The Company has elected to early adopt ASU 2016-01 for the year ended March 31, 2019.

Further, in November 2015, the FASB issued ASU No. 2015-17, “Balance Sheet Classification of Deferred Taxes.” ASU No. 2015-17 requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. The change to the noncurrent classification is not expected to have a significant impact on working capital. ASU No. 2015-17 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016 and may be applied either prospectively or retrospectively. As a result of the adoption, \$133,000 of current deferred tax assets, net at March 31, 2018 were reclassified as long-term deferred tax assets.

Subsequent Events

These consolidated financial statements were approved by management and available for issuance on May 24, 2019. Management has evaluated subsequent events through this date.

3 - BUSINESS COMBINATION

On August 2, 2018, Renaissance entered into a SPA to acquire 100% of the shares in Jay Gems in order to increase Renaissance’s visibility in the marketplace and allow for synergies between Jay Gems and Renaissance in order to expand overall sales.

RENAISSANCE JEWELRY NEW YORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 - BUSINESS COMBINATION (Continued)

The total purchase price of \$12,923,545, which is recorded at the present value of the future cash flows utilizing an imputed interest rate of 3.57%, is payable through August 2023 (see Note 8). The notes payable to the former stockholders, net of unamortized discounts at March 31, 2019, total \$13,114,156, which includes short-term and long-term balances of \$170,735 and \$12,943,421, respectively. From August 2, 2018 to March 31, 2019, the notes payable had the following activity:

Present value of future cash flows	\$	12,923,545
Accreted interest		332,909
Cash paid		(142,298)
Total	\$	13,114,156

The following table summarizes the fair values of the assets acquired and liabilities assumed at the acquisition date:

Cash	\$	67,264
Accounts receivable		19,666,254
Inventory		45,270,138
Loans receivable		590,196
Other current assets		375,570
License agreement		4,000,000
Non-compete covenant		360,000
Property and equipment		592,385
Other assets		632,157
Total assets acquired		71,553,964
Accounts payable		18,219,743
Short-term debt		24,699,069
Accrued expenses and other current liabilities		3,833,488
Long-term debt		10,548,015
Total liabilities assumed		57,300,315
Total identifiable net assets acquired	\$	14,253,649

RENAISSANCE JEWELRY NEW YORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 - BUSINESS COMBINATION (Continued)

The estimates of fair values recorded use Level 3 inputs determined by management based on various market and income analyses. The purchase includes the assumption of customer accounts receivable at their gross contractual amounts, which approximate fair value based on Jay Gems' historical records of accounts receivable collections.

The fair value of the identifiable assets acquired and liabilities assumed of \$14,253,649 exceeded the purchase price of the business of \$12,923,545. As a result, the Company recognized a gain of \$1,330,104 associated with the acquisition, which is recorded as part of other income (expense) at March 31, 2019 in the accompanying consolidated statements of income.

4 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	March 31,	
	2019	2018
Displays, furniture and fixtures	\$ 704,477	\$ 161,897
Equipment and other	387,103	110,985
Leasehold improvements	732,957	290,333
	<u>1,824,537</u>	<u>563,215</u>
Less - Accumulated depreciation and amortization	1,243,570	372,575
	<u>\$ 580,967</u>	<u>\$ 190,640</u>

Depreciation and amortization expense for the years ended March 31, 2019 and 2018 was \$209,078 and \$80,800, respectively.

RENAISSANCE JEWELRY NEW YORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5 - INTANGIBLE ASSETS

Intangible assets consist of:

	March 31,	
	2019	2018
License agreement	\$ 4,000,000	\$ -
Customer list	2,000,000	2,000,000
Non-compete covenants	365,000	-
Trademarks	33,500	-
	<u>6,398,500</u>	<u>2,000,000</u>
Less - Accumulated amortization	2,359,028	1,366,665
	<u>\$ 4,039,472</u>	<u>\$ 633,335</u>

Amortization expense for the years ended March 31, 2019 and 2018 was approximately \$957,000 and \$133,000, respectively.

Future amortization expense is approximately as follows:

Year Ending March 31,	
2020	\$ 1,376,000
2021	1,376,000
2022	1,091,000
2023	172,000
2024	24,000
	<u>\$ 4,039,000</u>

6 - INCOME TAXES

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

RENAISSANCE JEWELRY NEW YORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6 - INCOME TAXES (Continued)

The composition of the Company's income tax provision (benefit) is approximately as follows:

	Year Ended March 31,	
	2019	2018
Current		
Federal	\$ 903,000	\$ 252,000
State	83,000	(2,000)
	986,000	250,000
Deferred		
Federal	128,000	77,000
State	(21,000)	6,000
	107,000	83,000
Total	\$ 1,093,000	\$ 333,000

Components of deferred tax assets (liabilities) are approximately as follows:

	March 31,	
	2019	2018
Allowance for accounts receivable	\$ 74,000	\$ 22,000
Accumulated depreciation and amortization	98,000	(23,000)
Costs capitalized to inventory	242,000	103,000
Accrued liabilities	130,000	31,000
Total	\$ 544,000	\$ 133,000

7 - SHORT-TERM BORROWINGS

The Company has credit facilities with two banks allowing for total maximum borrowings of \$50,000,000 (\$25,000,000 each for Jay Gems and Renaissance as described below) for working capital purposes.

Renaissance has a credit facility with a bank for a committed demand line of credit, which expires on September 26, 2019. Maximum borrowings under this line of credit are \$25,000,000. Borrowings bear interest at either the bank's prime rate (5.50% at March 31, 2019) or LIBOR (2.50% at March 31, 2019) plus 2.2%.

RENAISSANCE JEWELRY NEW YORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7 - SHORT-TERM BORROWINGS (Continued)

Borrowings under the Renaissance credit facility are subject to a borrowing base limitation consisting of specified percentages of eligible accounts receivable and inventories. Borrowings are secured by substantially all assets of Renaissance and various guarantees. The facility contains various covenants, such as maintaining certain minimum balances for tangible net worth and minimum ratios for fixed charge coverage and leverage.

Jay Gems has a credit facility with a bank for an uncommitted discretionary demand line of credit, including a facility for the issuance of letters of credit, which expires on July 31, 2020. Maximum borrowings under this line of credit are \$25,000,000. Borrowings bear interest at either the bank's prime rate (5.50% at March 31, 2019) plus 0.25% or LIBOR (2.49% at March 31, 2019) plus 3.0%.

Borrowings under the Jay Gems credit facility are subject to a borrowing base limitation consisting of specified percentages of eligible accounts receivable and inventories. Borrowings are due on demand and are secured by substantially all assets of Jay Gems, various guarantees and subordinations. The facility contains various covenants, such as maintaining certain minimum balances for capital funds, working capital, subordinated debt and accounts payable, as defined, in addition to a maximum debt to equity ratio not to exceed 2.5 to 1.

At March 31, 2019, Jay Gems was contingently liable for outstanding letters of credit totaling \$296,000.

At March 31, 2019, total outstanding borrowings under the facilities were \$44,932,034. Interest expense for the year ended March 31, 2019 was \$1,782,273.

8 - NOTES PAYABLE

At March 31, 2019, notes payable to former stockholders of Jay Gems (who are related parties as officers of Jay Gems) consist of \$13,114,156 related to the business combination outlined in Note 3 and \$391,125 related to a business acquisition with non-related parties from 2014, totaling \$13,505,281. The loans are recorded at the present value of the future cash flows, utilizing imputed interest rates of 3.57% and 3.75%, respectively.

RENAISSANCE JEWELRY NEW YORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 - NOTES PAYABLE (Continued)

At March 31, 2019, the future principal payments required under these notes are as follows:

Year Ending March 31,	Total	Related Parties	Non-related Parties
2020	\$ 362,500	\$ 200,000	\$ 162,500
2021	1,143,400	1,078,400	65,000
2022	2,865,228	2,800,228	65,000
2023	10,386,609	10,321,609	65,000
2024	149,019	84,019	65,000
	14,906,756	14,484,256	422,500
Less - Unamortized discount	(1,401,475)	(1,370,100)	(31,375)
Total	13,505,281	13,114,156	391,125
Less - Current portion	(322,647)	(170,735)	(151,912)
Long-term portion	\$ 13,182,634	\$ 12,943,421	\$ 239,213

Interest expense associated with these notes for the year ended March 31, 2019 was \$347,490.

9 - RELATED PARTY TRANSACTIONS

Loans Receivable, Related Parties

At March 31, 2019, the Company had outstanding loans receivable from various related parties, including an officer of Jay Gems for \$47,364 and a company owned by one of the officers of Jay Gems for \$54,433, which bear interest at 2% and are due on demand.

Loans Payable, Related Parties

The Company has outstanding loans payable to various related parties. Current loans payable of \$3,964,443 at March 31, 2019 consist of:

- (a) \$335,000 due to an officer of Renaissance which bears interest at 2% and is due on demand.
- (b) \$750,000 due to the trust of the same officer of Renaissance which bears interest at 2% and is due on demand. Amount also represents the balance of current loans payable at March 31, 2018.
- (c) \$500,000 due to an officer of Jay Gems which is noninterest-bearing and due on demand. This balance is subordinated to the Jay Gems credit facility.
- (d) \$2,379,443 due to a company owned by one of the officers of Jay Gems which is noninterest-bearing and represents the short-term portion of a loan totaling \$2,588,511. This balance is subordinated to the Jay Gems credit facility.

RENAISSANCE JEWELRY NEW YORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 - RELATED PARTY TRANSACTIONS (Continued)

Loans Payable, Related Parties (Continued)

Long-term loans payable of \$1,373,446 at March 31, 2019 consist of:

- (a) \$1,164,378 due to an officer of Jay Gems which bears interest at 2%. Of this, \$361,345 is due August 2, 2020 and \$803,033 is due December 31, 2020. The total balance is subordinated to the Jay Gems credit facility.
- (b) \$209,068 due to a company owned by one of the officers of Jay Gems which bears interest at 2% and represents the long-term portion of a loan totaling \$2,588,511. The balance is due August 2, 2020 and is subordinated to the Jay Gems credit facility.

Accounts Payable, Related Parties

The Company had purchases from related parties in the amount of \$121,375,723 and \$72,840,246 for the years ended March 31, 2019 and 2018, respectively. These amounts represent 74% and 85%, respectively, of purchases for the years ended March 31, 2019 and 2018. Included in accounts payable is \$31,229,524 and \$15,430,602 due to related parties for purchases at March 31, 2019 and 2018, respectively. These amounts represent 80% and 93%, respectively, of accounts payable at March 31, 2019 and 2018.

Accounts Receivable, Related Parties

The Company had sales to related parties in the amount of \$11,119,266 and \$12,468,883 for the years ended March 31, 2019 and 2018, respectively. These amounts represent 6% and 13%, respectively, of sales for the years ended March 31, 2019 and 2018. Included in accounts receivable is \$4,108,441 and \$1,126,816 due from related parties for sales at March 31, 2019 and 2018, respectively. These amounts represent 11% and 10%, respectively, of accounts receivable at March 31, 2019 and 2018.

10 - COMMITMENTS

Royalties

The Company has license agreements with various licensors in connection with the marketing, advertising, promotion and distribution of certain jewelry. The licensors require the Company to make royalty payments based on percentages of sales, as defined. The agreements expire on varying dates and require the Company to pay royalty fees at various rates of net licensed sales.

RENAISSANCE JEWELRY NEW YORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 - COMMITMENTS (Continued)

Royalties (Continued)

Future minimum commitments under these licenses, inclusive of common marketing fund costs, are approximately as follows:

Year Ending March 31,	
2020	\$ 1,409,000
2021	1,364,000
2022	916,000
	<u>\$ 3,689,000</u>

Leases

The Company has operating leases for the rental of its New York office spaces expiring through September 2023. The leases include scheduled rent increases and rent concessions, which the Company recognizes on a straight-line basis over the lease term.

Future minimum rental payments for all leases, exclusive of required payments for increases in real estate taxes and operating expenses over base period amounts, are approximately as follows:

Year Ending March 31,	
2020	\$ 1,176,000
2021	1,154,000
2022	1,161,000
2023	1,098,000
2024	183,000
	<u>\$ 4,772,000</u>

RENAISSANCE JEWELRY NEW YORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 - COMMITMENTS (Continued)

Leases (Continued)

The Company has a sublease agreement for one of its office spaces which expires in September 2023. Future minimum rental income from this sublease is approximately as follows:

Year Ending March 31,	
2020	\$ 282,000
2021	282,000
2022	282,000
2023	282,000
2024	141,000
	<u>\$ 1,269,000</u>

Rent expense for the Company for the year ended March 31, 2019 was \$778,943, which is net of \$60,631 of rental income from a related party. Rent expense for the year ended March 31, 2018 was \$494,407.

11 - CONCENTRATIONS

Major Customers

For the year ended March 31, 2019, net sales to two customers accounted for approximately 44% and 12% of total net sales. At March 31, 2019, approximately 39% and 11% of accounts receivable was due from these customers, respectively.

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

12 - DEFINED CONTRIBUTION PLAN

Employees of Renaissance are covered under a defined contribution plan which qualifies under Section 401(k) of the Internal Revenue Code (the "Code"). The plan permits employees to voluntarily contribute up to the maximum allowed under the Code. For the years ended March 31, 2019 and 2018, Renaissance did not make a discretionary contribution to the plan.

RENAISSANCE JEWELRY NEW YORK, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13 - OTHER EXPENSE

A salesman for Jay Gems was the victim of a theft of inventory whose cost was \$904,179 in March 2019. This loss is included as other expense in the consolidated statements of income.

CONSOLIDATING SUPPLEMENTARY INFORMATION

RENAISSANCE JEWELRY NEW YORK, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

March 31, 2019

	Renaissance Jewelry New York, Inc.	Jay Gems Inc. and Subsidiary	Eliminations	Consolidated
ASSETS				
Current assets				
Cash	\$ 990,788	\$ 404,035	\$ -	\$ 1,394,823
Accounts receivable, less allowance for doubtful accounts	10,986,240	29,976,668	(2,005,295)	38,957,613
Inventories	43,521,032	55,394,796	-	98,915,828
Loans receivable, related parties	-	244,095	(142,298)	101,797
Due from subsidiary	13,920,000	-	(13,920,000)	-
Prepaid expenses and other current assets	41,070	48,710	-	89,780
Total current assets	69,459,130	86,068,304	(16,067,593)	139,459,841
Property and equipment - at cost, less accumulated depreciation	137,362	443,605	-	580,967
Intangible assets - at cost, less accumulated amortization	500,002	3,539,470	-	4,039,472
Deferred tax assets, net	164,000	380,000	-	544,000
Security deposits	286,815	110,528	-	397,343
Investment in subsidiaries	15,700,139	-	(15,700,139)	-
	\$ 86,247,448	\$ 90,541,907	\$ (31,767,732)	\$ 145,021,623
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities				
Short-term borrowings	\$ 20,250,000	\$ 24,682,034	\$ -	\$ 44,932,034
Accounts payable	12,102,437	29,069,316	(2,005,295)	39,166,458
Accrued expenses and other payables	1,666,843	2,069,980	-	3,736,823
Loans payable, related parties	1,227,298	2,879,443	(142,298)	3,964,443
Current portion of notes payable, net of unamortized discounts	170,735	151,912	-	322,647
Due to parent	-	13,920,000	(13,920,000)	-
Lease at below-market rate, current portion	-	94,577	-	94,577
Total current liabilities	35,417,313	72,867,262	(16,067,593)	92,216,982
Notes payable, net of unamortized discounts, less current portion	12,943,421	239,213	-	13,182,634
Deferred rent	128,575	-	-	128,575
Lease at below-market rate, less current portion	-	361,847	-	361,847
Loans payable, related parties	-	1,373,446	-	1,373,446
	48,489,309	74,841,768	(16,067,593)	107,263,484
Commitments				
Stockholders' equity				
Common stock	27,397,180	6,747,111	(6,747,111)	27,397,180
Retained earnings	10,360,959	8,953,028	(8,953,028)	10,360,959
	37,758,139	15,700,139	(15,700,139)	37,758,139
	\$ 86,247,448	\$ 90,541,907	\$ (31,767,732)	\$ 145,021,623

See Independent Auditors' Report.

RENAISSANCE JEWELRY NEW YORK, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF INCOME

	Year Ended March 31, 2019			
	Renaissance Jewelry New York, Inc.	Jay Gems Inc. and Subsidiary	Eliminations	Consolidated
Net sales	\$ 101,137,589	\$ 93,590,952	\$ (3,349,142)	\$ 191,379,399
Cost of sales	90,336,131	79,268,346	(3,349,142)	166,255,335
Gross profit	10,801,458	14,322,606	-	25,124,064
Operating expenses	7,620,822	10,562,434	-	18,183,256
Income from operations	3,180,636	3,760,172	-	6,940,808
Other income (expense)				
Equity in income of subsidiaries	1,446,488	-	(1,446,488)	-
Interest expense	(1,281,039)	(899,029)	-	(2,180,068)
Gain on bargain purchase	1,330,104	-	-	1,330,104
Other expense	-	(904,179)	-	(904,179)
	1,495,553	(1,803,208)	(1,446,488)	(1,754,143)
Income before provision for income taxes	4,676,189	1,956,964	(1,446,488)	5,186,665
Provision for income taxes	582,302	510,476	-	1,092,778
Net income	\$ 4,093,887	\$ 1,446,488	\$ (1,446,488)	\$ 4,093,887

See Independent Auditors' Report.