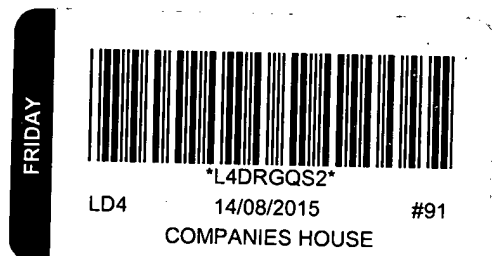


# KLG Jewelry UK Limited

Report

Annual Report

For the year ended 31 December 2014



# KLG Jewelry UK Limited

## Company Information

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<b>Directors</b>	G Tanne B Hancock
<b>Secretary</b>	G Tanne
<b>Company number</b>	05195582
<b>Registered office</b>	Devonshire House 60 Goswell Road London EC1M 7AD
<b>Auditors</b>	Kingston Smith LLP Devonshire House 60 Goswell Road London EC1M 7AD
<b>Bankers</b>	HSBC Bank plc 69 Pall Mall St James's London SW1Y 5EY  Bank Leumi (UK) Plc 20 Stratford Place London W1C 1BG

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# KLG JEWELRY UK LIMITED

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# KLG JEWELRY UK LIMITED

## STRATEGIC REPORT

For the year ended 31 December 2014

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The directors present their report and financial statements for the year ended 31 December 2014.

### Review of the business

KLG Jewelry UK Limited is an international luxury jewelry company and is a wholly owned subsidiary of KLG Jewelry LLC, a US company operating under the Leviev brand name. The brand owns and operates boutiques in New York and London. There is also retail presence of the Leviev brand in other locations through distribution or sales agreements with local partners in Dubai and Singapore.

The brand specializes in 'one of a kind', high value diamond jewelry. The average ticket price for items sold was over £110,000 in 2014. Much of the inventory comes from the US parent, but in recent years a growing number of items have been sourced in the UK. Each item is costed individually and priced based on the current market conditions for the unique stones they contain.

### Risks and uncertainties

Given the unique product and the high value and low transaction volume, the business is susceptible to significant potential swings in revenue in any short term period. The timing of a few high value sales can alter results significantly. Margins are also subject to similar potential swings as the margin is measured against the historical cost of the item and can fluctuate significantly by item.

Although the overall economy is a factor, the demand for our product is rather inelastic as the target clientele are ultra high net worth individuals that are not necessarily influenced by general market conditions. There is still considerable uncertainty in revenue as it is still necessary to find buyers within a small target market for the unique 'one of a kind' offerings.

### Results


KLG UK Jewelry Limited has and still is running at a loss on an annual basis in the UK. However, the overall business for the brand is profitable as the US and other results continue to be very strong. The parent company will continue to fund the UK entity as the London location is considered essential to our international image. Given the high end clientele we serve it is critical to have locations in key high end retail enclaves throughout the world. We often see customers in London that may again visit us in New York, or a Dubai customer that may want to make his purchase in London. We need to have a presence in the international locations where these customers choose to travel.

### Analysis of performance

Sales for 2014 were £8.8m, significantly exceeding our 2013 year sales of £6.7m. There has been sales growth in the past four consecutive years, coinciding with the introduction of new management at the boutique during 2011, which aimed to reinvigorate the fledgling brand that started in 2006. In 2014 gross margin, or profit as a percentage of sales, was 20%, down from prior years due to a few high value pieces going at a lower rate.

Other significant costs to the business are for maintaining and staffing the boutique on Old Bond Street. Staffing consists of predominantly sales staff with one administrative employee. The boutique is currently occupied under a license agreement with Bravepoint Limited, the property owner. KLG Jewelry UK Limited is charged a monthly license fee to occupy the property. Security and significant maintenance are needed given the upscale atmosphere of the boutique. Other expenses include sales and marketing costs to promote the brand and product. The company also recognizes foreign currency translation gains or losses on intercompany balances owed to the US parent in US dollar denomination. Increased staffing and foreign exchange translation costs have pushed up the overall selling, general and administrative costs from 2013.

On behalf of the board



G Tanne

Director

SWR 15 2015

# KLG Jewelry UK Limited

## Directors' Report

For the year ended 31 December 2014

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The directors present their report and financial statements for the year ended 31 December 2014.

### Results and dividends

The results for the year are set out on page 5.

### Directors

The following directors have held office since 1 January 2014:

G Tanne  
B Hancock

### Auditors

The auditors, Kingston Smith LLP, are deemed to be reappointed under section 487(2) of the Companies Act 2006.

### Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

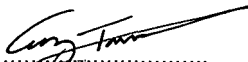
- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Statement of disclosure to auditors

So far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware. Additionally, the directors have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the board



G Tanne

Director

21st Dec 2015

# KLG Jewelry UK Limited

## Independent Auditors' Report

### To the Members of KLG Jewelry UK Limited

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We have audited the financial statements of KLG Jewelry UK Limited for the year ended 31 December 2014 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members', as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members' those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members' as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2014 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

# KLG Jewelry UK Limited

## Independent Auditors' Report (Continued)

To the Members of KLG Jewelry UK Limited

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### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



**Chris Lane (Senior Statutory Auditor)**  
for and on behalf of Kingston Smith LLP

**Chartered Accountants**  
**Statutory Auditor**

6 August 2015

Devonshire House  
60 Goswell Road  
London  
EC1M 7AD

# KLJ Jewelry UK Limited

## Profit and Loss Account

For the year ended 31 December 2014

	Notes	2014 £	2013 £
<b>Turnover</b>	2	8,755,259	6,689,490
Cost of sales		(6,916,485)	(5,067,793)
<b>Gross profit</b>		1,838,774	1,621,697
Distribution costs		(72,888)	(68,255)
Administrative expenses		(3,362,630)	(1,955,935)
<b>Operating loss</b>	3	(1,596,744)	(402,493)
Other interest receivable and similar income	4	380,087	380,087
Interest payable and similar charges	5	(211,286)	(220,709)
<b>Loss on ordinary activities before taxation</b>		(1,427,943)	(243,115)
Tax on loss on ordinary activities	6	-	-
<b>Loss for the year</b>	13	(1,427,943)	(243,115)

The profit and loss account has been prepared on the basis that all operations are continuing operations.

There are no recognised gains and losses other than those passing through the profit and loss account.



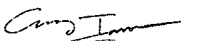
# KLG Jewelry UK Limited

## Balance Sheet

As at 31 December 2014

	Notes	2014 £	£	2013 £	£
<b>Fixed assets</b>					
Tangible assets	7		874,894		1,020,082
<b>Current assets</b>					
Stocks	8	995,561		745,705	
Debtors: amounts falling due within one year	9	858,945		246,838	
Debtors: amounts falling due after more than one year	9	5,567,202		5,357,379	
Cash at bank and in hand		334,634		80,676	
		<u>7,756,342</u>		<u>6,430,598</u>	
<b>Creditors: amounts falling due within one year</b>	10	<u>(4,581,897)</u>		<u>(4,876,565)</u>	
<b>Net current assets</b>			<u>3,174,445</u>		<u>1,554,033</u>
<b>Total assets less current liabilities</b>			<u>4,049,339</u>		<u>2,574,115</u>
<b>Creditors: amounts falling due after more than one year</b>	11		<u>(18,306,949)</u>		<u>(15,403,782)</u>
			<u>(14,257,610)</u>		<u>(12,829,667)</u>
<b>Capital and reserves</b>					
Called up share capital	12		1		1
Profit and loss account	13		<u>(14,257,611)</u>		<u>(12,829,668)</u>
<b>Shareholders' funds</b>	14		<u>(14,257,610)</u>		<u>(12,829,667)</u>

Approved by the Board and authorised for issue on June 15 2015

  
G Tanne  
Director

Company Registration No. 05195582

# KLG JEWELRY UK LIMITED

## CASH FLOW STATEMENT

For the year ended 31 December 2014

	2014	2013
	£	£
<b>Net cash outflow from operating activities</b>	(2,439,170)	(597,969)
<b>Returns on investments and servicing of finance</b>		
Interest received	380,087	380,087
Interest paid	(211,286)	(220,709)
<b>Net cash inflow for returns on investments and servicing of finance</b>	168,801	159,378
<b>Taxation</b>	55,602	(55,232)
<b>Capital expenditure</b>		
Payments to acquire tangible assets	-	(7,028)
<b>Net cash outflow for capital expenditure</b>	-	(7,028)
<b>Net cash outflow before management of liquid resources and financing</b>	(2,214,767)	(500,851)
Increase in borrowings	195,777	208,514
<b>Net cash inflow from financing</b>	195,777	208,514
<b>Increase in cash in the year</b>	(305,074)	69,430

# KLG Jewelry UK Limited

## Notes to the Cash Flow Statement

For the year ended 31 December 2014

1 Reconciliation of operating loss to net cash inflow from operating activities		2014	2013
		£	£
Operating loss	(1,596,744)	(1,596,744)	(402,493)
Depreciation of tangible assets	145,188	145,188	145,141
Increase in stocks	(249,856)	(249,856)	(281,501)
Increase in debtors	(877,532)	(877,532)	(87,518)
Increase in creditors within one year	139,774	139,774	28,402
<b>Net cash outflow from operating activities</b>	<b>(2,439,170)</b>	<b>(2,439,170)</b>	<b>(597,969)</b>

2 Analysis of net debt	1 January 2014	Cash flow	Other non-cash changes	31 December 2014
	£	£	£	£
Net cash:				
Cash at bank and in hand	80,676	253,958	-	334,634
Bank overdrafts	(2,573)	1,442	-	(1,131)
	<u>78,103</u>	<u>255,400</u>	<u>-</u>	<u>333,503</u>
Bank deposits	-	-	-	-
Debt:				
Debts falling due within one year	(4,634,000)	433,000	-	(4,201,000)
Debts falling due after one year	(15,403,782)	(2,903,167)	-	(18,306,949)
	<u>(20,037,782)</u>	<u>(2,470,167)</u>	<u>-</u>	<u>(22,507,949)</u>
<b>Net debt</b>	<b>(19,959,679)</b>	<b>(2,214,767)</b>	<b>-</b>	<b>(22,174,446)</b>

3 Reconciliation of net cash flow to movement in net debt		2014	2013
		£	£
Increase/(decrease) in cash in the year	255,400	255,400	(305,074)
Cash inflow from increase in debt	(2,470,167)	(2,470,167)	(195,777)
<b>Movement in net debt in the year</b>	<b>(2,214,767)</b>	<b>(2,214,767)</b>	<b>(500,851)</b>
Opening net debt	(19,959,679)	(19,959,679)	(19,458,828)
<b>Closing net debt</b>	<b>(22,174,446)</b>	<b>(22,174,446)</b>	<b>(19,959,679)</b>

# KLJ Jewelry UK Limited

## Notes to the Cash Flow Statement (Continued)

For the year ended 31 December 2014

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### 1 Accounting policies

#### 1.1 Accounting convention

The financial statements are prepared under the historical cost convention.

#### Going concern

The company meets its day to day working capital requirements through debt facilities, which includes an intercompany loan from its parent company, which is classified as due in more than one year.

The nature of the company's business results in an unpredictable timing of cash inflows; however on the basis that the parent company has confirmed that it will provide ongoing support, the directors consider that the company will continue to operate within the facilities available.

On this basis, the directors consider it appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments that would result from a withdrawal of these loan facilities.

#### 1.2 Compliance with accounting standards

The financial statements are prepared in accordance with applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), which have been applied consistently (except as otherwise stated).

#### 1.3 Turnover

Turnover represents amounts receivable for goods net of VAT and trade discounts.

#### 1.4 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Leasehold improvements	Over the term of the lease (15 years straight line)
Computer equipment	33% straight line
Fixtures, fittings & equipment	20% straight line

#### 1.5 Leasing

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

#### 1.6 Stock

Stock is valued at the lower of cost and net realisable value.

#### 1.7 Deferred taxation

In accordance with FRS 19, deferred tax is recognised as a liability or asset if transactions or events that give the company the obligation to pay more tax in future or a right to pay less tax in future have occurred by the balance sheet date.

#### 1.8 Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to profit and loss account.

# KLG Jewelry UK Limited

## Notes to the Cash Flow Statement (Continued)

For the year ended 31 December 2014

### 2 Turnover

The total turnover of the company for the year has been derived from its principal activity wholly undertaken in the United Kingdom.

3	Operating loss	2014 £	2013 £
	Operating loss is stated after charging:		
	Depreciation of tangible assets	145,188	145,141
	Loss on foreign exchange transactions	1,087,166	-
	Operating lease rentals		
	- Plant and machinery	413	736
	- Other assets	408,000	408,000
	Auditors' remuneration (including expenses and benefits in kind)	10,000	11,000
	and after crediting:		
	Profit on foreign exchange transactions	-	(303,895)

4	Investment income	2014 £	2013 £
	Other interest	380,087	380,087

5	Interest payable	2014 £	2013 £
	On bank loans and overdrafts	211,286	220,709

# KLG Jewelry UK Limited

## Notes to the Cash Flow Statement (Continued)

For the year ended 31 December 2014

<b>6 Taxation</b>	<b>2014</b>	<b>2013</b>
	<b>£</b>	<b>£</b>
<b>Total current tax</b>	-	-
<b>Factors affecting the tax charge for the year</b>		
Loss on ordinary activities before taxation	(1,427,943)	(243,115)
<i>Loss on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 21.50% (2013 - 23.25%)</i>	(307,008)	(56,524)
Effects of:		
Non deductible expenses	13,765	22,885
Depreciation add back	31,215	33,745
Capital allowances	(2,219)	(3,221)
Tax losses increased / (utilised)	264,247	3,115
	307,008	56,524
<b>Current tax charge for the year</b>	-	-

The company has estimated losses of £ 11,623,776 (2013 - £ 10,884,260) available for carry forward against future trading profits.

Based upon these financial statements no provision has been made for corporation tax.

# KLG Jewelry UK Limited

## Notes to the Cash Flow Statement (Continued)

For the year ended 31 December 2014

### 7 Tangible fixed assets

	Leasehold improvements	Computer equipment	Fixtures, fittings & equipment	Total
	£	£	£	£
<b>Cost</b>				
At 1 January 2014 & at 31 December 2014	1,986,796	76,716	219,088	2,282,600
<b>Depreciation</b>				
At 1 January 2014	1,000,291	75,573	186,654	1,262,518
Charge for the year	132,453	683	12,052	145,188
At 31 December 2014	1,132,744	76,256	198,706	1,407,706
<b>Net book value</b>				
At 31 December 2014	854,052	460	20,382	874,894
At 31 December 2013	986,505	1,142	32,435	1,020,082

### 8 Stocks

	2014	2013
	£	£
Finished goods and goods for resale	995,561	745,705

### 9 Debtors

	2014	2013
	£	£
Trade debtors	591,870	15,000
Amounts owed by group undertakings	5,567,202	5,357,379
Other debtors	267,075	231,838
	6,426,147	5,604,217

Debtors include an amount of £5,567,202 (2013 - £5,357,379) which is due after more than one year.

# KLG Jewelry UK Limited

## Notes to the Cash Flow Statement (Continued)

For the year ended 31 December 2014

<b>10 Creditors: amounts falling due within one year</b>	<b>2014</b>	<b>2013</b>
	<b>£</b>	<b>£</b>
Bank loans and overdrafts	4,202,131	4,636,573
Trade creditors	144,687	121,146
Taxes and social security costs	53,424	40,092
Other creditors	170,655	66,754
Accruals and deferred income	11,000	12,000
	<u>4,581,897</u>	<u>4,876,565</u>

Bank loans are secured on a property owned by Bravepoint Limited, a related company. The company has a rolling loan facility with the bank and although this is regularly renewed, technically these borrowings are repayable within 90 days.

<b>11 Creditors: amounts falling due after more than one year</b>	<b>2014</b>	<b>2013</b>
	<b>£</b>	<b>£</b>
Amounts owed to group undertakings	<u>18,306,949</u>	<u>15,403,782</u>

The above amounts are wholly repayable within five years.

<b>12 Share capital</b>	<b>2014</b>	<b>2013</b>
	<b>£</b>	<b>£</b>
<b>Allotted, called up and fully paid</b>		
1 Ordinary share of £1	<u>1</u>	<u>1</u>

<b>13 Statement of movements on profit and loss account</b>	<b>Profit and loss account</b>
	<b>£</b>
Balance at 1 January 2014	(12,829,668)
Loss for the year	<u>(1,427,943)</u>
Balance at 31 December 2014	<u><u>(14,257,611)</u></u>



# KLG Jewelry UK Limited

## Notes to the Cash Flow Statement (Continued)

For the year ended 31 December 2014

<b>14 Reconciliation of movements in Shareholders' funds</b>	<b>2014 £</b>	<b>2013 £</b>
Loss for the financial year	(1,427,943)	(243,115)
Opening Shareholders' funds	(12,829,667)	(12,586,552)
Closing Shareholders' funds	<u>(14,257,610)</u>	<u>(12,829,667)</u>

## 15 Financial commitments

At 31 December 2014 the company was committed to making the following payments under non-cancellable operating leases in the year to 31 December 2015:

	<b>Land and buildings 2014 £</b>	<b>2013 £</b>
Operating leases which expire:		
Within one year	<u>408,000</u>	<u>408,000</u>

## 16 Employees

### Number of employees

The average monthly number of employees (including directors) during the year was:

	<b>2014 Number</b>	<b>2013 Number</b>
Sales	6	6
Administration	1	1
	<u>7</u>	<u>7</u>

### Employment costs

	<b>2014 £</b>	<b>2013 £</b>
Wages and salaries	848,764	835,468
Social security costs	119,413	111,809
	<u>968,177</u>	<u>947,277</u>

# KLG Jewelry UK Limited

## Notes to the Cash Flow Statement (Continued)

For the year ended 31 December 2014

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### **17 Control**

The immediate and ultimate parent company is KLG Jewelry LLC, a company registered in the U.S.A.

### **18 Related party relationships and transactions**

At the year end date the company was owed £5,567,202 (2013: £5,357,379) by Bravepoint Limited, a fellow subsidiary undertaking in respect of funding given in order to acquire a property. This loan is due in more than one year. During the year the company paid rent of £408,000 (2013: £408,000) to, and received interest of £374,004 (2013: £374,004) from, Bravepoint Limited.

At the year end date the company owed £18,306,949 (2013: £15,403,782) to KLG Jewelry, LLC USA, its immediate parent undertaking. This loan is due in more than one year.

During the financial year ended 31 December 2012, the company loaned R Weinberg £150,000 at an interest rate of 4%. R Weinberg is the Manager of company's retail store. The loan is repayable on demand. A total of £163,017 was due at the year end, which includes £6,083 of interest charged in the year.