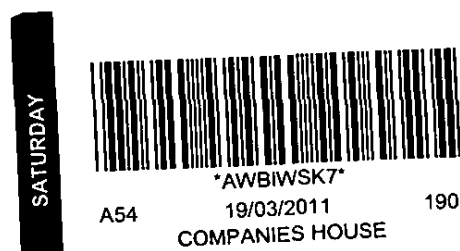


KLG JEWELRY UK LIMITED



Directors' Report And Financial Statements For the year ended 31 December 2010

KLG JEWELRY UK LIMITED

COMPANY INFORMATION

Directors	G Tanne B Hancock	(Appointed 25 January 2010)
Secretary	G Tanne	
Company number	05195582	
Registered office	Devonshire House 60 Goswell Road London EC1M 7AD	
Auditors	Kingston Smith LLP Devonshire House 60 Goswell Road London EC1M 7AD	
Bankers	HSBC Bank Plc 69 Pall Mall London SW1Y 5EY	
	Bank Leumi (UK) Plc 20 Stratford Place London W1C 1BG	

KLG JEWELRY UK LIMITED

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KLG JEWELRY UK LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

The directors present their report and financial statements for the year ended 31 December 2010

Principal activities

The principal activity of the company continued to be that of the operation of a retail store selling fine jewellery

Directors

The following directors have held office since 1 January 2010

G Tanne

T Chanu

B Hancock

(Resigned 25 January 2010)

(Appointed 25 January 2010)

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 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.

KLG JEWELRY UK LIMITED

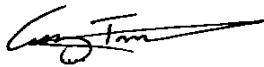
DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2010

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.

This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

On behalf of the board



G Tanne

Director

14/3/11

KLG JEWELRY UK LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KLG JEWELRY UK LIMITED

We have audited the financial statements of KLG Jewelry UK Limited for the year ended 31 December 2010 set out on pages 5 to 11. The financial reporting framework that has been applied in their preparation is applicable law and the Financial Reporting Standard for Smaller Entities (effective April 2008) (United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities).

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 set out on pages 1 - 2, 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 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.

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 2010 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities, 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 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

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, or
- the directors were not entitled to prepare the financial statements and the directors' report in accordance with the small companies regime



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

17/3/11

Chartered Accountants
Statutory Auditor

Devonshire House
60 Goswell Road
London
EC1M 7AD

KLG JEWELRY UK LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	2010 £	2009 £
Turnover	2	814,708	1,907,389
Cost of sales		(571,287)	(1,521,360)
Gross profit		243,421	386,029
Distribution costs		(71,817)	(78,280)
Administrative expenses		(1,691,064)	(1,676,439)
Operating loss	3	(1,519,460)	(1,368,690)
Other interest receivable and similar income	4	374,004	365,836
Interest payable and similar charges		(218,450)	(210,010)
Loss on ordinary activities before taxation		(1,363,906)	(1,212,864)
Tax on loss on ordinary activities	5	-	-
Loss for the year	11	(1,363,906)	(1,212,864)

KLG JEWELRY UK LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2010

	Notes	2010 £	£	2009 £	£
Fixed assets					
Tangible assets	6	1,427,794		1,553,981	
Current assets					
Debtors amounts falling due within one year	7	97,650		115,120	
Debtors amounts falling due after more than one year	7	5,458,322		5,489,318	
Cash at bank and in hand		219,301		49,226	
		<u>5,775,273</u>		<u>5,653,664</u>	
Creditors amounts falling due within one year	8	<u>(6,980,109)</u>		<u>(7,362,764)</u>	
Net current liabilities		<u>(1,204,836)</u>		<u>(1,709,100)</u>	
Total assets less current liabilities		222,958		(155,119)	
Creditors amounts falling due after more than one year	9	<u>(10,141,415)</u>		<u>(8,399,432)</u>	
		<u>(9,918,457)</u>		<u>(8,554,551)</u>	
Capital and reserves					
Called up share capital	10	1		1	
Profit and loss account	11	(9,918,458)		(8,554,552)	
Shareholders' funds		<u>(9,918,457)</u>		<u>(8,554,551)</u>	

These financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies regime within Part 15 of the Companies Act 2006 and with the Financial Reporting Standard for Smaller Entities (effective April 2008)

Approved by the Board for issue on 14/3/11



G Tanne
Director

Company Registration No 05195582

KLG JEWELRY UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

1 Accounting policies

1.1 Accounting convention

The financial statements are prepared under the historical cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (effective April 2008)

The company meets its day to day working capital requirements through a bank loan, which is repayable on demand, and an intercompany loan 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. On the basis of the availability of group support from the parent company 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

The company has taken advantage of the exemption in Financial Reporting Standard No 1 from the requirement to produce a cash flow statement on the grounds that it is a small company

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 Deferred taxation

In accordance with the Financial Reporting Standard for Smaller Entities, 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

1.6 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

2 Turnover

In the year to 31 December 2010 91% (2009 - 71%) of the company's turnover was to markets outside the United Kingdom

KLG JEWELRY UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2010

3	Operating loss	2010	2009
		£	£
	Operating loss is stated after charging		
	Depreciation of tangible assets	157,548	173,891
	Auditors' remuneration	13,000	7,500

4	Investment income	2010	2009
		£	£
	Other interest	374,004	365,836

5 Taxation

The company has estimated losses of £ 9,256,294 (2009 - £ 7,992,695) available for carry forward against future trading profits

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

6 Tangible fixed assets

	Land and buildings	Plant and machinery etc	Total
	£	£	£
Cost			
At 1 January 2010	1,986,796	229,898	2,216,694
Additions	-	31,361	31,361
At 31 December 2010	1,986,796	261,259	2,248,055
Depreciation			
At 1 January 2010	470,479	192,234	662,713
Charge for the year	132,453	25,095	157,548
At 31 December 2010	602,932	217,329	820,261
Net book value			
At 31 December 2010	1,383,864	43,930	1,427,794
At 31 December 2009	1,516,317	37,664	1,553,981

KLG JEWELRY UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2010

7 Debtors	2010	2009
	£	£
Trade debtors	6,365	-
Amounts owed by group undertakings and undertakings in which the company has a participating interest	5,458,322	5,489,318
Other debtors	91,285	115,120
	<u>5,555,972</u>	<u>5,604,438</u>

Debtors include an amount of £5,458,322 (2009 - £5,489,318) which is due after more than one year

8 Creditors: amounts falling due within one year	2010	2009
	£	£
Bank loans and overdrafts	6,875,000	7,245,000
Trade creditors	56,485	67,512
Taxation and social security	5,799	7,562
Other creditors	42,825	42,690
	<u>6,980,109</u>	<u>7,362,764</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.

9 Creditors: amounts falling due after more than one year	2010	2009
	£	£
Amounts owed to group undertakings	<u>10,141,415</u>	<u>8,399,432</u>
Analysis of loans		
Wholly repayable within five years	17,016,415	15,644,432
Included in current liabilities	(6,875,000)	(7,245,000)
	<u>10,141,415</u>	<u>8,399,432</u>

KLG JEWELRY UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2010

10 Share capital	2010	2009
	£	£
Authorised		
1,000 Ordinary shares of £1 each	1,000	1,000
Allotted, called up and fully paid		
1 Ordinary share of £1 each	1	1

11 Statement of movements on profit and loss account

	Profit and loss account £
Balance at 1 January 2010	(8,554,552)
Loss for the year	(1,363,906)
Balance at 31 December 2010	(9,918,458)

12 Financial commitments

At 31 December 2010 the company was committed to making the following payments under non-cancellable operating leases in the year to 31 December 2011

	2010	2009
	£	£
Operating leases which expire		
Within one year	408,000	408,000

13 Control

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

KLG JEWELRY UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2010

14 Related party relationships and transactions

At the year end date the company was owed £5,346,043 (2009 £5,377,039) 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 (2009 £408,000) to, and received interest of £374,004 (2009 £365,836) from, Bravepoint Limited.

At the year end date the company owed £10,141,415 (2009 £8,399,432) to KLG Jewelry, LLC USA, its immediate parent undertaking. This loan is due in more than one year.

At the year end date the company was owed £112,279 (2009 £112,279) by KLG Jewelry, Russia, a fellow subsidiary undertaking.