LJ INTERNATIONAL INC
Form 424B3
August 27, 2003

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Filed pursuant to Rule 424(b)(3)
Registration No. 333-07912

PROSPECTUS

LJ INTERNATIONAL INC.

1,679,000 Warrants to Purchase Shares of Common Stock
and
1,679,000 Shares of Common Stock upon Exercise of the Warrants

In our April 1998 initial public offering, we sold 1,679,000 shares of common stock and 1,679,000 warrants to purchase 1,679,000 shares of our common stock. Each warrant entitled the holder to purchase one share of our common stock at $5.75 per share through April 15, 2003. On December 5, 2002, we elected to extend the exercise term of the Warrants through April 15, 2005.

In addition to these 1,679,000 warrants and 1,679,000 underlying shares of common stock, this prospectus covers the sale of 292,000 shares of common stock underlying the following securities that we sold to the underwriter and/or persons related to the underwriter:

- stock purchase options to purchase 146,000 shares of common stock; and

- warrant purchase options to purchase 146,000 warrants to purchase shares of common stock.

No minimum number of warrants must be exercised, and all funds that we receive upon exercise of the warrants and the underwriter warrants will be used for general corporate purposes. As of July 15, 2003, all 1,679,000 warrants and all of the underwriter warrants were outstanding. The common stock covered by this prospectus which is issuable upon exercise of the underwriter warrants is to be sold from time to time by or for the account of certain selling shareholders. We will not receive any of the proceeds from the sale of the underwriter warrants and underlying common stock.

See Risk Factors beginning on page 5 to read about factors you should consider before buying our common stock and warrants.

Our common stock and warrants are traded on The Nasdaq National Market under the symbols JADE and JADEW. On July 15, 2003, the last sale prices for the common stock and the warrants were $4.78 per share of common stock and $0.87 per warrant.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of the prospectus. Any representation to the contrary is a criminal offense.

	Price to Public	Underwriting Discounts and Commissions	Gross Proceeds to Us
Per share of common stock on exercise of warrant	US$5.75	US$0.00	US$5.75
Total	US$9,654,250	US$0.00	US$9,654,250

This information excludes estimated total expenses of this offering of approximately US$32,000 payable by us. It also does not include 292,000 shares of common stock registered for the account of selling shareholders to be offered from time to time in the market.

The date of this prospectus is August 22, 2003

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You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in this prospectus is accurate as of any date other than the date on the front of this prospectus.

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PROSPECTUS SUMMARY

This summary is not complete and does not contain all of the information that you should consider before investing in our common stock. You should read the entire prospectus carefully, including the more detailed information regarding our company, the risks of purchasing our common stock discussed under Risk Factors, and our financial statements and the accompanying notes. Unless otherwise indicated, information in this prospectus assumes that there has been no exercise of the 1,679,000 warrants or any of the underwriter warrants.

The Company

We are a totally vertically integrated producer of finished semi-precious gemstones and fine quality gemstone jewelry. We primarily cut and polish semi-precious gemstones and design, manufacture, market and distribute gem set jewelry to fine jewelers, department stores, national jewelry chains and electronic and specialty retailers throughout North America and Western Europe. Our product line includes all major categories that are sought by major retailers, including earrings, necklaces, pendants, rings and bracelets. Our jewelry is crafted in gold, platinum and sterling silver and is set with semi-precious and precious stones, including diamonds.

We believe that our vertically integrated structure provides significant advantages over our competitors. All profits from value added processes are captured internally, rather than shared with third party manufacturers. This results in very competitive pricing for the retailer and enhanced profits for us. Innovative processes in stone cutting and manufacturing further enhance our competitive position.

Our principal executive offices are located at Unit #12, 12/F, Block A, Focal Industrial Center, 21 Man Lok Street, Hung Hom, Kowloon, Hong Kong, telephone 011 (852) 2764-3622.

The Offering

Securities offered by us	1,679,000 warrants and 1,679,000 shares of common stock underlying the warrants. Each warrant entitles the holder to purchase one share of common stock at $5.75 per share until April 15, 2005. The warrants are not exercisable unless, at the time of exercise, we have a current prospectus under the Securities Act covering the shares of common stock issuable upon exercise of the warrants and such shares have been registered, qualified or deemed to be exempt under the securities laws of the states of residence of the exercising holders of the warrants. The warrants are subject to redemption by us.

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Securities offered by selling shareholders	292,000 shares of common stock underlying the underwriter warrants.
Use of Proceeds	We will not receive any proceeds from the sale of the underwriter warrants or the underlying common stock. All funds that we receive upon the exercise of the warrants and the underwriter warrants will be used for general corporate purposes.
Risk Factors	Please read the Risk Factors section of this prospectus since an investment in our common stock or warrants involves a high degree of risk and could result in a loss of your entire investment.
Nasdaq National Market symbols	
Common Stock	JADE
Purchase Warrants	JADEW

Advisers and Auditors

Legal Adviser	Andrew N. Bernstein, Esq. Andrew N. Bernstein, P.C. 5445 DTC Parkway, Suite 520 Greenwood Village, Colorado 80111 303-770-7131
Auditors	Moores Rowland 34th Floor, The Lee Gardens 33 Hysan Avenue Causeway Bay, Hong Kong 011-852-2909-5555 Member, Hong Kong Society of Accountants

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RISK FACTORS

This offering involves a high degree of risk. You should carefully consider the risks and uncertainties described below and the other information in this prospectus before deciding whether to invest in shares of our common stock. If any of these risks occur, our business, results of operations and financial condition could be adversely affected. This could cause the trading price of our common stock to decline, and you might lose part or all of your investment.

We depend upon QVC, Inc. for a large portion of our sales and we cannot be certain that these sales will continue. If they do not, our revenues will likely decline.

Although we sell to a large number of customers in a variety of markets, a substantial portion of our sales involves offerings to one volume customer, QVC, Inc. For the fiscal years ended April 30, 2002 and December 31, 2002, QVC, Inc. accounted for approximately 28% and 25% of our sales. Although we have maintained a good and longstanding relationship with this customer, we do not have any long-term contracts with QVC, Inc., who orders only on a purchase order basis. The loss of QVC, Inc. as a customer or a significant reduction in its orders would have a materially adverse effect.

We are controlled by one of our existing shareholders, whose interests may differ from other shareholders.

Our largest shareholder beneficially owns or controls approximately 36.5% of our outstanding shares as of December 31, 2002. Accordingly, he has controlling influence in determining the outcome of any corporate transaction or other matter submitted to the shareholders for approval, including mergers, consolidations and the sale of all, or substantially all, of our assets, election of directors, and other significant corporate actions. He also has the power to prevent or cause a change in control. In addition, without the consent of this shareholder, we could be prevented from entering into transactions that could be beneficial to us. The interests of this shareholder may differ from the interests of the other shareholders.

We face significant competition from larger competitors.

The making and distribution of jewelry is a highly competitive industry characterized by the diversity and sophistication of the product. We compete with major domestic and international companies with substantially greater financial, technical and marketing resources and personnel than us. There can be no assurance other jewelry makers will not similarly develop low-cost, high-volume production capability or an even better process, providing greater competition for us and materially affecting our business prospects.

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There are numerous factors relating to the operations of our business that could adversely affect our success and results.

As a maker and merchandiser of low-cost, high-quality gem-set jewelry, our existing and future operations are and will be influenced by several factors, including:

- technological developments in the mass production of jewelry;
- our ability to meet the design and production requirements of our customers efficiently;
- the market acceptance of our customers jewelry;
- increases in expenses associated with continued sales growth;
- our ability to control costs;
- our management s ability to evaluate the public s taste and new orders to target satisfactory profit margins;
- our capacity to develop and manage the introduction of new designed products; and
- our ability to compete.

Quality control is also essential to our operations since customers demand compliance with design and product specifications and consistency of production. We cannot assure that revenue growth will occur on a quarterly or annual basis.

Our sales and marketing operations are performed principally at our executive offices which are located in Hong Kong. This means our results of operations and financial condition may be influenced by the political situation in Hong Kong and by the general state of the Hong Kong economy.

On July 1, 1997, sovereignty over Hong Kong was transferred from the United Kingdom to China, and Hong Kong became a Special Administrative Region of China, an SAR. As provided in the Sino-British Joint Declaration on the Question of Hong Kong, referred to as the Joint Declaration, and the Basic Law of the Hong Kong SAR of China, referred to as the Basic Law, the Hong Kong SAR is to have a high degree of autonomy except in foreign and defense affairs. Under the Basic Law, the Hong Kong SAR is to have its own legislature, legal and judicial system and full economic autonomy for 50 years. We cannot assure, however, that changes in political or other conditions will not result in an adverse impact on our financial and operating condition.

Our production facilities are located in China. Our results of operations and financial condition may, therefore, be influenced by the economic, political, legal and social conditions in China.

Since 1978, the Chinese government has been reforming, and is expected to continue to reform, China s economic and political systems. Such reforms have resulted in significant social progress. Other political, economic and social factors could also lead to further readjustment of the

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reform measures. This refinement and readjustment process may not always have a positive effect on our operations in China. At times, we may also be adversely affected by changes in policies of the Chinese government such as changes in laws and regulations or their interpretation, the introduction of additional measures to control inflation, changes in the rate or method of taxation and imposition of additional restrictions on currency conversion and remittances abroad.

Our products are currently made at our production facility located in Shenzhen, China. However, our insurance may not adequately cover any losses due to fire, casualty or theft.

We have obtained fire, casualty and theft insurance aggregating approximately $12.0 million, covering several of our stock in trade, goods and merchandise, furniture and equipment and production facility in China. The proceeds of such insurance may not be sufficient to cover material damage to, or the loss of, our production facility due to fire, severe weather, flood or other cause, and such damage or loss would have a material adverse effect on our financial condition, business and prospects. Consistent with the customary practice among enterprises in China and due to the cost in relation to the benefit, we do not carry any business interruption insurance in China.

Sales of our jewelry to retailers are generally stronger during the quarter ending December 31 of each year due to the importance of the holiday selling season.

The approximately 25% of our sales during the fiscal year ended December 31, 2002 to our largest customer, QVC, Inc., was not seasonal in nature. It has been our management s experience that the remaining 75% of our total sales is seasonally sensitive.

Our holding company structure creates restrictions on the payment of dividends.

We have no direct business operations, other than the ownership of our subsidiaries. While we have no current intention of paying dividends, should we, as a holding company, decide in the future to do so, our ability to pay dividends and meet other obligations depends upon the receipt of dividends or other payments from our operating subsidiaries and other holdings and investments. In addition, our operating subsidiaries are subject to restrictions on their ability to make distributions to us, including as a result of restrictive covenants and minimum net worth requirements in loan agreements, restrictions on the conversion of local currency into U.S. dollars or other hard currency and other regulatory restrictions.

It may be difficult to serve us with legal process or enforce judgments against us or our management.

We are a British Virgin Islands holding company, and all or a substantial portion of our assets are located in China and Hong Kong. In addition, all but one of our directors and officers are non-residents of the United States, and all or substantial portions of the assets of such

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non-residents are located outside the United States. As a result, it may not be possible to effect service of process within the United States upon such persons. Moreover, there is doubt as to whether the courts of the British Virgin Islands, China or Hong Kong would enforce:

- judgments of United States courts against us, our directors or our officers based on the civil liability provisions of the securities laws of the United States or any state; or

- in original actions brought in the British Virgin Islands, China or Hong Kong, liabilities against us or non-residents based upon the securities laws of the United States or any state.

Some information about us may be unavailable due to exemptions under the Exchange Act for a foreign private issuer.

We are a foreign private issuer within the meaning of the rules under the Exchange Act. As such, we are exempt from certain provisions applicable to United States public companies, including:

- the rules under the Exchange Act requiring the filing with the Securities and Exchange Commission of quarterly reports on Form 10-Q or current reports on Form 8-K;

- the provisions of Regulation FD aimed at preventing issuers from making selective disclosures of material information;

- the sections of the Exchange Act regulating the solicitation of proxies, consents or authorizations in respect of a security registered under the Exchange Act; and

- the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and establishing insider liability for profits realized from any short-swing trading transaction.

Because of these exemptions, investors are not provided with the same information which is generally available about public companies organized in the United States.

Since we are a British Virgin Islands company, the rights of our shareholders may be more limited than those of shareholders of a company organized in the United States.

Under the laws of most jurisdictions in the United States, majority and controlling shareholders generally have certain fiduciary responsibilities to the minority shareholders. Shareholder action must be taken in good faith and actions by controlling shareholders which are obviously unreasonable may be declared null and void. British Virgin Island law protecting the interests of minority shareholders may not be as protective in all circumstances as the law protecting minority shareholders in U.S. jurisdictions. In addition, the circumstances in which a shareholder of a BVI company may sue the company derivatively, and the procedures and defenses that may be available to the company, may result in the rights of shareholders of a BVI company

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being more limited than those of shareholders of a company organized in the U.S. Furthermore, our directors have the power to take certain actions without shareholder approval which would require shareholder approval under the laws of most U.S. jurisdictions. The directors of a BVI corporation, subject in certain cases to court approval but without shareholder approval, may implement a reorganization, merger or consolidation, the sale of any assets, property, part of the business, or securities of the corporation. Our ability to amend our Memorandum of Association and Articles of Association without shareholder approval could have the effect of delaying, deterring or preventing a change in our control without any further action by the shareholders, including a tender offer to purchase our common stock at a premium over then current market prices.

Non-registration of our IPO warrants and the underlying common stock in certain jurisdictions may make them worthless.

Our IPO warrants are not exercisable unless, at the time of the exercise, we have a current prospectus covering the shares of common stock issuable upon exercise of the warrants, and such shares are registered, qualified or deemed to be exempt under the securities laws of the states of residence of the exercising holders of the warrants. For the life of the warrants, we will attempt to maintain a current effective registration statement relating to the shares of common stock issuable upon exercise of the warrants. If we are unable to maintain a current registration statement because the costs render it uneconomical, or because the value of the shares of common stock underlying the warrants is less than the exercise price, or any number of other reasons, the warrant holders will be unable to exercise the warrants and the warrants may become valueless.

Although the warrants will not knowingly be sold to purchasers in jurisdictions in which the securities are not registered or otherwise qualified for sale, purchasers may buy warrants in the after-market or may move to jurisdictions in which the shares underlying the warrants are not registered or qualified during the period that the warrants are exercisable. In this event, we would be unable to issue shares of common stock to those persons desiring to exercise their warrants, whether in response to a redemption notice or otherwise, unless and until the shares could be qualified for sale in the jurisdictions in which such purchasers reside, or exemptions exist in such jurisdictions from such qualification. Warrant holders would have no choice but to attempt to sell the warrants or allow them to expire unexercised.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that involve risks and uncertainties. These include statements about our expectations, plans, objectives, assumptions or future events. In some cases, you can identify forward-looking statements by terminology such as anticipate,

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estimate, plans, potential, projects, continuing, ongoing, expects, management believes, we believe, we intend and similar exp statements involve estimates, assumptions and uncertainties that could cause actual results to differ materially from those expressed for the reasons described in this prospectus. You should not place undue reliance on these forward-looking statements.

You should be aware that our actual results could differ materially from those contained in the forward-looking statements due to a number of factors:

- dependence upon certain customers
- control by principal shareholder
- competitive factors
- the operation of our business
- general economic conditions

You should also consider carefully the statements under Risk Factors and other sections of this prospectus, which address additional factors that could cause our actual results to differ from those set forth in the forward-looking statements and could materially and adversely affect our business, operating results and financial condition. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the applicable cautionary statements.

The forward-looking statements speak only as of the date on which they are made, and, except to the extent required by federal securities laws, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

We use data and industry forecasts throughout this prospectus, which we have obtained from internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information they provide has been obtained from sources believed to be reliable but that the accuracy and completeness of such information is not guaranteed. Similarly, we believe that the surveys and market research we or others have performed are reliable, but we have not independently verified this information.

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USE OF PROCEEDS

We presently anticipate that the proceeds from the exercise of the warrants and the underwriter warrants will be applied and allocated to our working capital for general corporate purposes. If the proceeds are not used immediately, they may be invested in short-term interest bearing, investment grade securities.

The estimated expenses to be incurred by us in connection with the issuance and distribution of the warrants include:

- US$5,000 for printing and engraving expenses;
- US$25,000 for legal fees and expenses; and
- US$2,000 for accounting fees and expenses.

We will not be paying any discounts or commissions to any underwriters or other placement or selling agents.

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NATURE OF TRADING MARKET

Our common stock is listed and quoted for trading on The Nasdaq National Market under the symbol JADE. The following table sets forth, during the periods indicated, the high and low last sale prices for the common stock as reported by Nasdaq:

Period	High	Low
Year ended April 30, 1999	$9.81	$4.00
Year ended April 30, 2000	$6.69	$3.00
Year ended April 30, 2001	$3.88	$1.63
Year ended April 30, 2002	$2.79	$1.18
Year ended December 31, 2002	$1.56	$1.11
Quarter ended July 31, 2000	$3.53	$2.44
Quarter ended October 31, 2000	$3.88	$2.16
Quarter ended January 31, 2001	$2.50	$1.63
Quarter ended April 30, 2001	$2.31	$1.66
Quarter ended July 31, 2001	$2.79	$2.00
Quarter ended October 31, 2001	$2.11	$1.48
Quarter ended January 31, 2002	$1.56	$1.22
Quarter ended April 30, 2002	$1.74	$1.18
Quarter ended July 31, 2002	$1.56	$1.11
Quarter ended October 31, 2002	$1.37	$1.12
Quarter ended December 31, 2002	$1.33	$1.15
Quarter ended March 31, 2003	$1.30	$1.14
Month ended November 30, 2002	$1.30	$1.15
Month ended December 31, 2002	$1.33	$1.23
Month ended January 31, 2003	$1.29	$1.19
Month ended February 28, 2003	$1.30	$1.15
Month ended March 31, 2003	$1.22	$1.14
Month ended April 30, 2003	$1.29	$1.17

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Our warrants are listed and quoted for trading on The Nasdaq National Market under the symbol JADEW. The following table sets forth, during the periods indicated, the high and low last sale prices for the warrants as reported by Nasdaq:

Period	High	Low
Year ended April 30, 1999	$5.38	$0.63
Year ended April 30, 2000	$3.25	$1.00
Year ended April 30, 2001	$1.38	$0.22
Year ended April 30, 2002	$0.55	$0.02
Year ended December 31, 2002	$0.15	$0.01
Quarter ended July 31, 2000	$1.38	$0.75
Quarter ended October 31, 2000	$1.25	$0.50
Quarter ended January 31, 2001	$0.69	$0.28
Quarter ended April 30, 2001	$0.63	$0.22
Quarter ended July 31, 2001	$0.55	$0.30
Quarter ended October 31, 2001	$0.44	$0.06
Quarter ended January 31, 2002	$0.22	$0.02
Quarter ended April 30, 2002	$0.20	$0.06
Quarter ended July 31, 2002	$0.13	$0.04
Quarter ended October 31, 2002	$0.10	$0.01
Quarter ended December 31, 2002	$0.15	$0.03
Quarter ended March 31, 2003	$0.12	$0.04
Month ended November 30, 2002	$0.07	$0.03
Month ended December 31, 2002	$0.15	$0.07
Month ended January 31, 2003	$0.12	$0.06
Month ended February 28, 2003	$0.08	$0.06
Month ended March 31, 2003	$0.06	$0.04
Month ended April 30, 2003	$0.03	$0.02

We do not believe that there is any principal non-United States trading market for the common stock or the warrants. We believe that Cede & Co. holds a substantial majority of the outstanding common stock and warrants in the United States as record holder.

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DIVIDEND POLICY

We do not intend to pay dividends on our common stock in the foreseeable future. Instead, we will retain our earnings to support our growth strategy and for general corporate purposes. As a holding company, our ability to pay dividends depends upon our receipt of dividends or other payments from our subsidiaries and other holdings and investments. In addition, our operating subsidiaries are subject to restrictions on their ability to make distributions to us, including as a result of restrictive covenants and minimum net worth requirements in loan agreements, restrictions on the conversion of local currency into U.S. dollars or other currency and other regulatory restrictions. Any determination to pay dividends in the future will be at the discretion of our board of directors and will depend upon our results of operations, financial condition, contractual restrictions and other factors. Any dividends paid in the future on the common stock may be paid in either U.S. dollars or Hong Kong dollars.

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CAPITALIZATION

The following table sets forth our capitalization as of May 31, 2003 as reflected in our audited consolidated financial statements and as adjusted to reflect the exercise of 1,679,000 warrants at an exercise price of $5.75 per warrant, and the receipt and application of the net proceeds.

You should read this information in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations, our financial statements and the accompanying notes, and the other financial information appearing elsewhere in this prospectus. All data in the following table is unaudited.

	May 31, 2003	
	(in thousands, except share data) (unaudited)	
	Actual	As Adjusted
Long-term debt, net of current maturities		
Shareholders Equity:		
Common Stock, $.01 par value per share:		
100,000,000 shares authorized, 8,671,615 shares issued and outstanding actual, and 8,671,615 shares issued and outstanding as adjusted(1)	$ 87	$ 87
Additional paid-in capital	17,410	17,410
Retained earnings	7,094	7,094
Treasury stock	(391)	(391)
Exchange translation reserve	(151)	(151)
Total shareholders equity	24,049	24,049
Total Capitalization	24,049	24,049

(1) No adjustment is made to the shareholders equity as it is currently unlikely that the outstanding warrants would be exercised.

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DILUTION

Our net tangible book value as of May 31, 2003 was $22,327,000, or approximately $2.57 per share. Net tangible book value per share represents the amount of our total assets (other than intangible assets) less total liabilities, divided by the number of shares of common stock outstanding.

Dilution per share to new investors represents the difference between the amount paid by purchasers of common stock in this offering and the net tangible book value per share of common stock immediately after this offering. After giving effect to the issuance of 1,679,000 shares of common stock upon the exercise of all 1,679,000 warrants, and the receipt of the net proceeds, our net tangible book value as of May 31, 2003 would have been approximately $31,981,000 or $3.09 per share. This represents an immediate increase in net tangible book value of approximately $0.52 per share to existing shareholders and an immediate dilution in net tangible book value of $2.66 per share to purchasers of common stock in this offering, as illustrated in the following table:

	$	$
Exercise price per Share(1)		5.75
Net tangible book value per share as of May 31, 2003(2)	2.57	
Increase in net tangible book value per share attributable to new investors(1)(3)	0.52	
Pro forma net tangible book value per share after this offering		3.09
Dilution per share to new investors		2.66

(1) Before deducting estimated expenses payable by us.

(2) Calculated based on shares outstanding as of May 31, 2003.

(3) No account has been taken of the Underwriter Warrants.

The following table summarizes as of May 31, 2003 the differences between our existing shareholders and new investors in this offering with respect to the number and percentage of shares of common stock purchased from us, the amount and percentage of consideration paid and the average price per share.

	Shares Purchased		Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
Existing Shareholders	8,671,615	84%	$12,934,637	57%	$1.49
New Investors	1,679,000	16%	$ 9,654,250	43%	$5.75
Total	10,350,615	100%	$22,588,887	100%	

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SELECTED CONSOLIDATED FINANCIAL DATA

(Dollars in thousands, except per share amounts)

The following selected consolidated financial data with respect to each of the years in the five-year period ended April 30, 2002 and the eight months ended December 31, 2002 have been derived from our audited consolidated financial statements. The following selected consolidated financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and Notes included elsewhere in this annual report.

Selected Financial Data

	Years ended April 30,					Eight-month period ended December 31, 2002
	1998	1999	2000	2001	2002	
Statement of Operations Data:						
Revenues	$16,067	$25,255	$38,926	$ 46,285	$ 39,240	$ 31,809
Cost of Goods sold	8,188	12,854	24,030	29,575	33,283	21,531
Gross profit	7,879	12,401	14,896	16,710	5,957	10,278
Operating expenses						
Selling, general and administrative	(5,190)	(7,080)	(8,872)	(11,363)	(11,411)	(7,722)
Unrealized (Loss) gain on gold loan	135	81	44	44	(660)	(435)
Depreciation	(245)	(643)	(705)	(808)	(1,031)	(863)
Impairment on property, plant and equipment					(345)	(108)
Amortization and impairment loss on goodwill				(27)	(242)	(400)
Income (loss) from operations	2,579	4,759	5,363	4,556	(7,732)	750
Other revenues	202	280	458	570	352	205
Interest expenses	(928)	(890)	(1,446)	(1,780)	(652)	(441)
Issuance costs for convertible debentures			(585)			
Impairment loss on investment security						(200)
Operating income (loss) before income taxes and minority interests	1,853	4,149	3,790	3,346	(8,032)	314
Incomes taxes (expense) credit	(274)	(49)	(3)	(211)	101	(101)
Income (Loss) before minority interests	1,579	4,100	3,787	3,135	(7,931)	213
Minority interests in consolidated subsidiaries		35	52		30	120
Net income (loss)	$ 1,579	$ 4,135	$ 3,839	$ 3,135	$ (7,901)	$ 333
Net income (loss) per share:						
Basic	$ 0.34	$ 0.65	$ 0.58	$ 0.37	$ (0.91)	$ 0.04
Diluted	$ 0.34	$ 0.65	$ 0.56	$ 0.37	$ (0.91)	$ 0.04
Pro forma basic	$ 0.34	$ 0.22	$ 0.57	$ 0.13	$ (0.91)	$ 0.04
Pro forma diluted	$ 0.34	$ 0.22	$ 0.54	$ 0.13	$ (0.91)	$ 0.04
Weighted average number of shares						
Basic	4,601	6,347	6,589	8,567	8,672	8,493

Diluted	4,606	6,348	6,944	8,617	8,779	8,493
Pro forma basic	4,601	6,347	6,589	8,567	8,672	8,493
Pro forma diluted	4,606	6,348	6,944	8,617	8,779	8,493
Balance Sheet Data:						
Working capital	5,057	9,786	20,561	20,153	12,115	11,896
Total assets	18,410	27,558	39,700	47,300	42,961	46,085
Long-term obligation	1,364	1,168	2,943	287	8	
Total stockholders equity	10,084	15,339	24,739	31,161	23,557	23,294

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our financial statements and notes to the financial statements appearing elsewhere in this prospectus. See Special Note Regarding Forward-looking Statements.

In December 2002, we changed our fiscal year, which used to end on April 30, to the calendar year. The move was to enable us to continue our trend of filing financial results in line with the majority of US reporting companies. During our short fiscal year from May 1, 2002, to December 31, 2002, amid a very gradual and, at times, uncertain recovery in retail markets worldwide, we successfully implemented several measures to maintain our position as market leader in the design, marketing and distribution of a full range of fine jewelry.

Our concerted marketing efforts paid off and we attracted new, major blue chip customers and also saw significant increases in orders from existing clients. There was also a highly positive response to our new diamond line, which resulted in higher revenue.

The measures we introduced in the corporate reengineering exercise undertaken after the terrorist attacks in the US on September 11, 2001, bore fruit during this period and led to significant cost savings as well as administrative, sales and operational efficiencies. This is reflected in the decline of costs in 2002, compared with those in 2000.

In January 2003, we consolidated all operations under one roof in our expanded, 86,000 square-foot Shenzhen facility to improve efficiencies, eliminate duplication and raise profit margins. Employees from our former Shantou plant now work together with their colleagues in the Shenzhen facility, which occupies five floors in a 10-storey building. We have purchased two floors of this facility while leasing the rest of the space.

As our diamond line has been showing great promise since its introduction a year ago, we established a high tech facility for diamond and precious stone jewelry in June 2002. Fitted out with CAD/CAM model making equipment and a wide range of wax set molding equipment, the facility allows us to fashion up to 60,000 pieces of jewelry per month at full capacity. The less labour-intensive CAD/CAM equipment also afford us more flexibility, perfect repeatability, higher precision and enhance standardization.

In all, we have more than 2,000 gemstone cutters and other personnel, who style and fashion over two million carats of cut stones and one million pieces of finished jewelry each year. A team of 30 people in Shenzhen manages the operations while executives based in Hong Kong ensure regular communication with them.

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Our experience in fiscal 2001 taught us to reduce our reliance on a key customer whose orders fell well short of our anticipation in the previous fiscal year. Instead we decided to focus on increasing our market share and to this end, in the eight-month period ended December 31, 2002, we continued to step up our marketing efforts with the Top40 jewelry retailers, many of whom we were already selling to. The Top40 jewelry retailers represent the largest U.S. retail sellers of jewelry in terms of sales revenue. This category consists primarily of retail fine jewelers (such as Zale Corp., Sterling and Helzberg Diamond Shops, Inc.), department stores (such as J.C. Penney, Macy s, Mervyn s and Fortunoff), discount stores (such as Wal-Mart and Fred Meyer Jewelers) and TV shopping programmers (such as QVC and Home Shopping Network). Sales to our customers within the Top40 category comprise approximately 70% of our sales revenue.

Another important practice we have been adopting since the previous fiscal year is giving guidance on our quarterly results. Although we are a foreign company technically exempt from some key U.S. reporting requirements, we wish to bring our reporting and accounting as close in line as possible with U.S. GAAP reporting and U.S. investor expectations. Taking this step is part of our strategy to maintain our position as one of the world s largest publicly traded designer, marketer and distributor of a full range of fine jewelry. It is also a reflection of our unwavering commitment to shareholders, clients and staff alike.

As cautious optimism returns gradually to markets worldwide with the end of the war in Iraq, we feel confident that the decisions and investments made, as well as the initiatives and measures taken, in the eight months ended December 31, 2002, will stand us in good stead in the next fiscal year and we are ready to capitalize on the opportunities ahead in the jewelry industry. We have already seen an encouraging increase in the number of our new customers and in the reception of our diamond line and we fully intend to pursue further success in these and other areas.

A. OPERATING RESULTS.

Revenues

	Years ended April 30,			Eight-month period ended December 31,		% change		
						Year		Eight-month period
(in thousands)	2000	2001	2002	2001	2002	2000-2001	2001-2002	2001-2002
				Unaudited				
Revenues	$38,926	$46,285	$39,240	$25,042	$31,809	19%	-15%	27%

The increase in revenue for the eight-month period ended December 31, 2002, compared with the same period in 2001,was due to our successful marketing efforts in winning new, major blue chip customers, as well as the positive reception of our new diamond line.

The global economic fallout from the September 11 attacks in the US accounted largely for the decrease in revenue for the year ended April 30, 2002, compared with the year ended April 30, 2001. Additionally, a significant decline in orders from a major client also contributed to this decrease.

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Cost of Sales and Gross Profit

(in thousands)	Years ended April 30, 2000	Years ended April 30, 2001	Years ended April 30, 2002	Eight-month period ended December 31, 2001	Eight-month period ended December 31, 2002	% change Year 2000-2001	% change Year 2001-2002	% change Eight-month period 2001-2002
				Unaudited				
Cost of sales	$24,030	$29,575	$27,573	$16,908	$21,531	23%	-7%	27%
% of revenues	62%	64%	70%	68%	68%			
Cost of sales write down of inventory	$ 0	$ 0	$ 5,710	$ 0	$ 0	N/A	N/A	N/A
% of revenues	0%	0%	15%	0%	0%			
Gross profit	$14,896	$16,710	$ 5,957	$ 8,134	$10,278	12%	-64%	26%
% of revenues	38%	36%	15%	32%	32%			

The gross profit margin remained at 32% for the eight-month periods ended December 31, 2002 and December 31, 2001.

The gross profit margin dropped from 36% for the year ended April 30, 2001 to 15% for the year ended April 30, 2002. The decrease was due to various adjustments on inventory as shown below.

$5,394,000 for the write-down of cut stones for orders in relation to special programs that were later postponed or cancelled;

$316,000 for the write-down of fine jewelry cost.

Excluding the above special charge on inventory, the gross profit margin was 30% for the year ended April 30, 2002.

The gross profit margin dropped from 38% in 2000 to 36% in 2001 due to:

A change in the product mix. Increasingly more sales are made with precious stones and diamonds and diamonds alone. Diamond jewelry generally has a higher sales value but a much lower profit margin;

Additional model-making charges were incurred and expensed to build up the European jewelry sample lines; and

Discounts were given on certain volume sale programs for existing customers and also given to new customers to induce businesses.

Selling, General and Administrative Expenses

(in thousands)	Years ended April 30, 2000	Years ended April 30, 2001	Years ended April 30, 2002	Eight-month period ended December 31, 2001	Eight-month period ended December 31, 2002	% change Year 2000-2001	% change Year 2001-2002	% change Eight-month period 2001-2002
				Unaudited				
Selling, general and administrative expenses	$8,872	$11,363	$11,411	$7,599	$7,722	28%	0%	2%
% of revenues	23%	25%	29%	30%	24%			

Selling, general and administrative (SG&A) expenses decreased by 6% of revenue for the eight-month period ended December 31, 2002 compared with the same period ended December 31, 2001. Between 2001 and 2002, our SG&A expenses fell as a direct result of the corporate reengineering exercise we undertook right after the 9/11 terrorist attacks in the US. The measures we instituted led to substantial cost savings and administrative, sales and operational efficiencies.

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Unrealized loss (gain) on gold loan

(in thousands)	Years ended April 30, 2000	2001	2002	Eight-month period ended December 31, 2001	2002	% change Year 2000-2001	2001-2002	Eight-month period 2001-2002
				Unaudited				
Unrealized Loss (gain) on gold loan	$(44)	$(44)	$660	$ 119	$ 435	0%	-1600%	266%
% of revenues	0%	0%	2%	0%	1%			

We have also secured gold loan facilities with various banks in Hong Kong, which typically bear a below-market interest rate. Under the gold loan arrangements, we may defer the purchase until such time as we decide appropriate, the price to be paid being the current market price at time of payment. The gold loan, however, does expose us to certain market risks associated with potential future increases in the price of gold. In the past, we did not hedge against such risks and at the close of each reporting period, the gold loan was marked to market with changes reflected on the income statement. However, the volatility of prices in the lead-up to the war in Iraq prompted us to make a provision of $435,000 in December 2002 to cover possible losses resulting from price fluctuations. Since the beginning of 2003, we have put in place mechanisms to hedge against future risks.

Depreciation

(in thousands)	Years ended April 30, 2000	2001	2002	Eight-month period ended December 31, 2001	2002	% change Year 2000-2001	2001-2002	Eight-month period 2001-2002
				Unaudited				
Depreciation	$705	$808	$1,031	$ 565	$ 863	15%	28%	53%
% of revenues	2%	2%	3%	2%	3%			

The increase in depreciation costs primarily represents the impact of on-going capital expenditures and assets acquired for the year ended April 30, 2002. It also incorporates a provision of $158,000 for the depreciation on leasehold improvements to production facilities we ceased to use before the expiry of their leases.

Impairment on property, plant and equipment

(in thousands)	Years ended April 30, 2000	2001	2002	Eight-month period ended December 31, 2001	2002	% change Year 2000-2001	2001-2002	Eight-month period 2001-2002
				Unaudited				
Impairment on property, plant and equipment	$0	$0	$345	$ 0	$ 108	N/A	N/A	N/A

% of revenues	0%	0%	1%	0%	0%

The impairment loss represents the write-off of property, plant and equipment as a result of the consolidation of production facilities.

Amortization and impairment loss on goodwill

	Years ended April 30,			Eight-month period ended December 31,		% change		
						Year		Eight-month period
(in thousands)	2000	2001	2002	2001	2002	2000-2001	2001-2002	2001-2002
				Unaudited				
Amortization and impairment loss on goodwill	$0	$27	$242	$ 18	$ 400	N/A	796%	2122%
% of revenues	0%	0%	1%	0%	1%			

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Amortization of goodwill was related to the acquisition of a jewelry company in the year ended April 30, 2000.

In July 2001, Financial Accounting Standards Board issued SFAS No. 142, Goodwill and Other Intangible Assets , which provides that goodwill and intangible assets with indefinite useful lives will not be amortized but rather will be tested at least annually for impairment. As a result, we stopped amortizing but fully expended the balancing goodwill of $215,000 in the year ended April 30, 2002.

Impairment loss of goodwill for the eight-month period ended December 31, 2002 was related to the goodwill arising from the acquisition of the jewelry retail company in March 2002.

Interest cost

	Years ended April 30,			Eight-month period ended December 31,		% change		
						Year		Eight-month period
(in thousands)	2000	2001	2002	2001	2002	2000-2001	2001-2002	2001-2002
				Unaudited				
Interest expenses	$731	$868	$652	$ 424	$ 441	19%	-25%	4%
% of revenues	2%	2%	2%	2%	1%			
Interest expenses arising from beneficial conversion features of convertible debentures	$684	$874	$ 0	$ 0	$ 0	28%	-100%	N/A
% of revenues	2%	2%	0%	0%	0%			
Amortization of discount on convertible debentures	$ 31	$ 38	$ 0	$ 0	$ 0	23%	-100%	N/A
% of revenues	0%	0%	0%	0%	0%			

Interest expenses

The decrease in interest expenses for the year ended April 30, 2002 and eight-month period ended December 31, 2002 was due to consecutive cuts of interest rates from early 2001 to early 2002.

Interest expenses increased for the year ended April 30, 2001 because of a higher utilization rate of credit line facilities.

Beneficial Conversion Features of Convertible Debentures

The embedded beneficial conversion feature associated with the issue of a convertible debt security was recognized and measured by an amount equal to the intrinsic value of that feature reflected as a discount from the convertible debentures with a corresponding credit to additional paid-in capital. That amount is calculated at the commitment date (i.e. issue date of the convertible debentures in this case) as the difference between the conversion price and the fair value of the common stock into which the security is convertible, multiplied by the number of shares into which the security is convertible. The intrinsic value of the beneficial conversion feature is amortized to the statement of operations over the life of the convertible debentures. The beneficial conversion feature charged to income as interest expense amounted to $684,000 and $874,000 for the year ended April 30, 2000 and 2001 respectively.

Amortization of discount on convertible debentures

In connection with the convertible debentures issued with detachable warrants to debenture holders, the proceeds from the issuance was allocated between the warrant and the

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convertible debenture based on their fair values at time of issuance. The difference between the proceeds allocated to the debentures and the face value of the debentures was recorded as discount or premium. The discount or premium was amortized over the life of the debentures.

Impairment loss on investment

	Years ended April 30,			Eight-month period ended December 31,		% change		
						Year		Eight-month period
(in thousands)	2000	2001	2002	2001	2002	2000-2001	2001-2002	2001-2002
				Unaudited				
Impairment loss on investment securities	$0	$0	$0	$0	$ 200	N/A	N/A	N/A
% of revenues	0%	0%	0%	0%	1%			

Impairment loss on investment for the eight-month period ended December 31, 2002 was related to the acquisition in April 2001 of 20% equity interests in a company whose principal activities are the manufacturing and trading of rough and pre-formed gemstones.

Issuing cost of convertible debentures

	Years ended April 30,			Eight-month period ended December 31,		% change		
						Year		Eight-month period
(in thousands)	2000	2001	2002	2001	2002	2000-2001	2001-2002	2001-2002
				Unaudited				
Issuing cost of convertible debentures	$585	$0	$0	$0	$0	-100%	N/A	N/A
% of revenues	2%	0%	0%	0%	0%			

During 2000, we issued convertible debentures with gross proceeds of $6,500,000 and incurred $585,000 issuing expenses.

Other Revenues

	Years ended April 30,			Eight-month period ended December 31,		% change		
						Year		Eight-month period
(in thousands)	2000	2001	2002	2001	2002	2000-2001	2001-2002	2001-2002
				Unaudited				
Interest incomes	$345	$508	$217	$ 172	$ 47	47%	-57%	-73%
% of revenues	1%	1%	1%	1%	0%			
Rental incomes	$113	$ 62	$135	$ 93	$ 158	-45%	118%	70%

% of revenues	0%	0%	0%	0%	0%

Interest income decreased from $508,000 in fiscal 2001 to $217,000 in fiscal 2002. The decrease was mainly due to consecutive cuts of interest rates from early 2001 to early 2002.

Interest income increased from $345,000 in fiscal 2000 to $508,000 in fiscal 2001. The increase was mainly due to the increase in restricted cash as security deposit for banking facilities.

Rental income increased 118% from $62,000 in fiscal 2001 to $135,000 in fiscal 2002. Additional investment property was rented out in fiscal 2002.

Rental income decreased 45% from $113,000 in fiscal 2000 to $62,000 in fiscal 2001. One of the investment properties was left vacant during the year after the expiry of a short-term lease. The said property is being rented to a new tenant for a period of 2 years.

Income taxes

	Years ended April 30,			Eight-month period ended December 31,		% change		
						Year		Eight-month period
(in thousands)	2000	2001	2002	2001	2002	2000-2001	2001-2002	2001-2002
				Unaudited				
Incomes taxes expense (credit)	$3	$211	$(101)	$ 39	$ 101	6933%	-148%	159%
% of revenues	0%	0%	0%	0%	0%			

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We were incorporated in the British Virgin Islands and, under current law of the British Virgin Islands, are not subject to tax on income or on capital gains.

For our subsidiaries in Hong Kong, the prevailing corporate income tax rate is 16%.

Our subsidiaries in China are registered to qualify as Foreign Investment Enterprises in China and are eligible for certain tax holidays and concessions. Accordingly, certain of our Chinese subsidiaries are exempt from Chinese income tax for two years starting from their first profit-making year, followed by a 50% reduction of tax for the next three years.

Two of our subsidiaries in China are currently enjoying the tax holidays or concessions which will expire in fiscal 2005 and 2006 respectively. Other subsidiaries in China either no longer enjoy the tax holiday and concession or have not yet commenced its first profit-making year. PRC income tax is calculated at the applicable rates relevant to these subsidiaries which currently are 15%.

During the years ended April 30, 2000, 2001 and 2002, there were tax overprovision of $156,000, $27,000 and $103,000 respectively, after the finalization of tax assessment for the year.

Inflation

We do not consider inflation to have had a material impact on our results of operations over the last three years.

Foreign Exchange

More than 99% of our sales are denominated in U.S. Dollars whereas the other sales are basically denominated in Hong Kong Dollars. The largest portion of our expenses are denominated in Hong Kong Dollars, followed by U.S. Dollars and Renminbi. The exchange rate of the Hong Kong Dollar is currently pegged to the U.S. Dollar, but during the past several years the market exchange rate has fluctuated within a narrow range. The Chinese government principally sets the exchange rate between the Renminbi and all other currencies. As a result, the exchange rates between the Renminbi and the U.S. Dollar and the Hong Kong Dollar have fluctuated in the past and may fluctuate in the future. If the value of the Renminbi or the Hong Kong Dollar decreases relative to the U.S. Dollar, such fluctuation may have a positive effect on the results of our operations. If the value of the Renminbi or the Hong Kong Dollar increases relative to the U.S. Dollar, such fluctuation may have a negative effect on the results of our operations. We do not currently hedge our foreign exchange positions.

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Governmental economic and political policies and factors

For information regarding governmental economic, fiscal, monetary and political policies that could materially affect our operations, directly or indirectly, please refer to the Risk Factors section.

B. LIQUIDITY AND CAPITAL RESOURCES.

We have no direct business operations other than the ownership of our subsidiaries and investment securities. Our ability to pay dividends and meet other obligations depends upon our receipt of dividends or other payments from our operating subsidiaries and investment securities.

Cash Flows

	Years ended April 30,			Eight-month period ended December 31,	
(in thousands)	2000	2001	2002	2001	2002
				Unaudited	
Net cash provided by (used in) operating activities	$(1,549)	$ 3,707	$ (753)	$(787)	$ 3,533
Net cash provided by (used in) investing activities	(2,067)	(6,058)	(2,248)	(384)	(2,207)
Net cash provided by (used in) financing activities	5,073	2,390	2,017	185	(983)
Effect of foreign exchange rate change					(68)
Net increase (decrease) in cash and cash equivalents	1,457	39	(984)	(986)	275

Operating Activities:

The increase in cash flow in the eight-month period ended December 31, 2002 compared with the same period in 2001 resulted from growth in revenues and improved working capital management. The negative cash flow from operating activities for the eight-month period ended December 31, 2001 reflected our management s deliberate accumulation of cut stones inventory in anticipation of significant increase in sales for the new fiscal year. The rise in the cost of rough gemstones, the build-up of more sample lines of jewelry and the maintaining of sufficient inventory for block-orders also accentuated the negative cash flow.

Investing Activities:

In addition to on-going capital expenditures and restricted cash deposits, we undertook various one-off investments that contributed to changes in our net cash positions for the various reporting periods. The increase in cash used in investing activities for the eight-month period ended December 31, 2002 compared with the same period ended December 31, 2001, was due to new manufacturing facilities in China, as well as an increase in restricted cash deposits for securing banking facilities.

For the year ended April 30, 2002 our investing activities included the further acquisition of 68.8% of a subsidiary, iBBC Inc., which engages in marketing jewelry from its display cases in retail shops. As a result of this investment, we now hold 85.6% of the subsidiary. For the year ended April 30, 2001, our negative cash flow from investing activities reflected the acquisition of investment securities for $3,284,000. These investment securities included the acquisition of 20%

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equity interests in a company whose principal activities are the manufacturing and trading of rough and pre-formed gemstones, and an acquisition of 16.8% equity interests in a jewelry retail company for our further expansion through vertical integration and the development of distribution channels in the United States. We had no significant control and influence over both companies operating and financial policies. Our additional investment for the year ended April 30, 2000, was the acquisition of the remaining 40% of Lorenzo Marketing, which we did not already own, for $237,000 to further expand our market share in Japan and Europe.

Our on-going capital expenditure by category for the periods presented were:

Capital expenditure

(in thousands)	Years ended April 30, 2000	Years ended April 30, 2001	Years ended April 30, 2002	Eight-month period ended December 31, 2001	Eight-month period ended December 31, 2002
				Unaudited	
Land & buildings	$	$	$	$	$ 721
Leasehold improvement	$135	$343	$215	$ 95	$ 159
Furniture, fixtures and equipment	$140	$300	$181	$239	$ 382
Plant and machinery	$176	$178	$ 24	$ 21	$ 282
Motor vehicles	$ 18	$ 16	$	$	$ 12
Total	$469	$837	$420	$355	$1,556

Financing Activities:

The negative net cash from financing activities for the eight-month period ended December 31, 2002, compared with the same period in 2001, reflected the repayment of gold loan of $2,474,000 and the repurchase of common stock of the Company at an aggregate consideration of $391,000. The positive net cash provided by financing activities in each of the other periods mainly reflected our gold loan arrangement and the utilization of overdraft facilities. For the year ended April 30, 2000, it further included proceeds of $6,500,000 from convertible loans, and issuing cost of $585,000.

Our cash and cash equivalents are mainly held in U.S. dollars and HK dollars.

Financing Sources

Banking Facilities and Notes Payables

We have various letters of credit and overdraft under banking facilities. The banking facilities are collateralized by land and buildings, investment properties, restricted cash deposits, factored receivables and personal guarantees of one of our directors.

Letters of Credit and overdrafts:

(in thousands)	Years ended April 30, 2000	Years ended April 30, 2001	Years ended April 30, 2002	Eight-month period ended December 31, 2001	Eight-month period ended December 31, 2002
				Unaudited	
Facilities granted:					
Letters of credit	$ 8,603	$11,125	$11,643	$10,996	$ 8,718
Overdraft	$ 4,722	$ 6,274	$ 3,532	$ 3,532	$ 3,244

	13,325	17,399	15,175	14,528	11,962
Utilized:					
Letters of credit utilized	$ 3,356	$ 3,649	$ 5,646	$ 7,565	$ 5,756
Overdraft utilized	$ 821	$ 3,262	$ 2,607	$ 2,313	$ 3,107
	4,177	6,911	8,253	9,878	8,863

The letters of credit and bank overdrafts are denominated in H.K. dollars and U.S. dollars, bear interest at the floating commercial bank lending rates in Hong Kong, and are renewable annually with the consent of the relevant banks.

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Notes payable:

	Years ended April 30,			Eight-month period ended December 31,	
(in thousands)	2000	2001	2002	2001	2002
				Unaudited	
Notes payable	$1,311	$773	$282	$447	$1,073

We have term loans classified under notes payable which are related to the Group s properties. These loans are denominated in H.K. dollars and Renminbi, bear interest at pre-fixed rates in Hong Kong and China upon renewal.

Gold Loan Facilities:

	Years ended April 30,			Eight-month period ended December 31,	
(in thousands)	2000	2001	2002	2001	2002
				Unaudited	
Gold loans outstanding (in $)	$ 1,327	$ 1,847	$ 5,697	$ 3,442	$ 4,439
Gold loans outstanding (in troy ounces)	4,850	6,950	18,450	12,450	12,950
Gold loan interest rate	3.15%-3.45%	2%-2.9%	1.7%-3.4%	1.65%-4.1%	1.5%-2.4%

We have also secured gold loan facilities with various banks in Hong Kong, which bear a below-market interest rate. Due to lower interest rates charged for gold loans, our cost through our gold loan program has been substantially less than the costs that would have been incurred if we were to finance the purchase of all of our gold requirements with borrowings under our letter of credit facility or other credit arrangements. The gold loan, however, does expose us to certain market risks associated with potential future increases in the price of gold, so since the beginning of 2003, we have put in place mechanisms to hedge against such risks. Under the gold loan arrangements, we may defer the purchase until such time as we deem appropriate, the price to be paid being the current market price at time of payment. At the close of each reporting period, the gold loan is marked to market with changes reflected on the income statement.

Convertible Debentures:

On October 29, 1999, we entered into a Securities Purchase Agreement with an accredited investor pursuant to which we agreed to issue, and the investor agreed to purchase, up to $10,500,000 of 3% convertible debentures, as well as common stock purchase warrants. During the fiscal year ended April 30, 2000, we received gross proceeds of $6,500,000 from the issue of the 3% convertible debentures to that investor. $3,500,000 of the gross proceeds and related interest expenses have been converted into 1,072,412 shares of our common stock as of April 30, 2000. The remaining $3,000,000 and accrued interest was subsequently converted into 1,233,557 shares of our common stock during the fiscal year ended April 30, 2001. The proceeds of convertible debentures was used to provide restricted cash of $906,000 and $1,940,000 as

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collateral for general banking facilities in fiscal 2000 and 2001, and partly used to finance the purchases of investment securities in 2001.

Equity Line of Credit:

We do not currently consider the proceeds of the equity line of credit as a source of liquidity. If the price and the trading volume of our common stock remain at current levels, we will be unable to draw down all or substantially all of the $10,000,000 under the equity line. The maximum draw down amount of any draw down under our equity line facility will be equal to 20% of the weighted average price for our common stock for the particular number of trading days immediately prior to the date that we deliver notice to Navigator of our intention to exercise a draw down multiplied by the total trading volume in respect of our common stock for such period. If our stock price and trading volume remain at current levels, then either the maximum draw down amount formula or the threshold price will probably prevent us from being able to draw down all of the proposed equity line facility with Navigator. For example, during the 10 trading day period ended September 19, 2002, our weighted average stock price was $1.1961 per share and our total daily trading volume was 126,850 shares. Based on such stock price and trading volume levels, the maximum draw down amount available to us during such period would have been $30,345. Accordingly, if our stock price and the trading volume of our stock remain at these levels for the near future, we will be unable to access the full $10,000,000 under the equity line.

The threshold prices which we select for each different draw down will depend, at those times, on a number of different variables which we are not able to quantify at this time, including such factors as:

(i) the then-current trading price of our common stock;

(ii) the then-current net tangible book value of our common stock;

(iii) the amount of equity line financing we are seeking;

(iv) the availability of alternative financing; and

(v) the need and timing for the financing.

Looking Forward:

We anticipate that cash flow from operations, borrowings available under our existing credit line and our gold loan arrangement will be sufficient to satisfy our capital needs for the next twelve months.

Impact of recently issued US GAAP accounting standards.

In July 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities , which requires costs associated with exit or disposal activities to be recognized when the costs are incurred, rather than at a date of commitment to an exit or

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disposal plan. The provisions of SFAS 146 are effective for disposal activities initiated after December 31, 2002. The adoption of SFAS No. 146 is not expected to have a material impact on the Group s financial statements.

In October 2002, the FASB issued SFAS No. 147, Acquisitions of Certain Financial Institutions an amendment of FASB Statements No. 72 and 144 and FASB Interpretation which applies to all acquisitions of a financial institution except those between two or more mutual enterprises, which is being addressed in a separate project. The provisions of SFAS No. 147 are effective on October 1, 2002, and the Company believes that SFAS 147 will not have a material adverse impact on the Group s financial statements.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure an amendment of FASB Statement No. 123 . SFAS No. 148 amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. Companies having a year-end after December 15, 2002 are required to follow the prescribed format and provide the additional disclosures in their annual reports. SFAS No. 148 does not amend SFAS No. 123 to require companies to account for employee stock options using the fair value method. The Company adopted the disclosure provisions required in SFAS No. 148 and has provided the necessary disclosure in note 15.

C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES, ETC.

During each of the last three fiscal years, we did not spend any significant amounts on company-sponsored research and development activities.

D. TREND INFORMATION.

The total production for fiscal year ended December 31, 2003 is estimated to be more than one million pieces which is the same level as the fiscal year 2002. Due to the uncertainty of the US economy, the sales for fiscal year 2003 is estimated at US$46 million, compared to US$32 million for the eight month period ended December 31, 2002. The gross profit margin for the fiscal year 2003 is estimated to stay at the same 30% level as the fiscal year 2002. The average inventory level for fiscal year 2003 is estimated to be approximately $17 million compared with the eight month period ended December 31, 2002 which amounted to $18 million.

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OUR BUSINESS

A. HISTORY AND DEVELOPMENT OF THE COMPANY.

LJ International Inc. (we) was incorporated as an international business company under the International Business Companies Act of the British Virgin Islands on January 30, 1997. We own all of the issued share capital in the following significant subsidiaries:

Lorenzo Jewelry Limited (Lorenzo Jewelry), a company incorporated in Hong Kong on February 20, 1987.

Lorenzo Gems Manufacturing (Shenzhen) Co., Ltd.

Lorenzo Jewellery (Shenzhen) Co., Ltd.

Our principal place of business and our executive offices are located at Units #09-#12, 12/F, Block A, Focal Industrial Centre, 21 Man Lok Street, Hung Hom, Kowloon, Hong Kong, telephone: (011) 852-2764-3622. We have designated CT Corporation, 111 Eighth Avenue, New York, New York 10011 as our agent for service of process in the United States.

During our last three fiscal years, we have made the following significant capital expenditures:

we purchased a 16.8% equity interest in iBBC Inc. for $600,000 during the fiscal year ended April 30, 2001.

we purchased a 20% equity interest in Goldleaves International Inc. for $2,684,000 during the fiscal year ended April 30, 2001.

we purchased 68.8% of the common shares of iBBC Inc. for $2,460,000 during the fiscal year ended April 30, 2002.

we made a capital contribution of $670,000 for our 95% equity interest in Lorenzo Giftware Inc. during the fiscal year ended December 31, 2002.

we invested $721,000 for the purchase of 30,000 square feet of production space in our Shenzhen, China facility during the fiscal year ended December 31, 2002.

B. BUSINESS OVERVIEW.

We are a totally vertically integrated company that designs, brands, markets and distributes a complete range of fine jewelry. While we specialize in the semi-precious jewelry segment, we also offer high-end pieces set in yellow gold, white gold, platinum or sterling silver and adorned with semi-precious stones, diamonds, pearls and precious stones. We distribute mainly to fine jewelers, department stores, national jewelry chains and electronic and specialty retailers throughout North America and Western Europe. Our product lines incorporate all major categories sought by major retailers, including earrings, necklaces, pendants, rings and bracelets.

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We believe that our vertically integrated structure provides significant advantages over our competitors. All profits from value added processes are captured internally, rather than shared with third party manufacturers. This results in very competitive pricing for the retailer and enhanced profits for us. Innovative processes in stone cutting and production further enhance our competitive position.

We employ an international design team and all of our designs and merchandising strategies are proprietary. The exclusive and innovative concepts that we create offer brand potential. Our primary marketing focus has been in North America where we have sold directly to certain high volume customers that need specialized product development services, and through a marketing relationship with International Jewelry Connection (IJC) for those customers that need higher levels of service and training.

We organize our marketing and distribution strategies by retail distribution channels. Concepts are developed for the specific needs of different market segments. We have identified the following as prime retail targets:

- fine jewelers;
- national jewelry chains;
- department stores;
- electronic retailers; and
- specialty retailers.

For the fiscal years ended April 30, 2002 and eight-month period ended December 31, 2002, approximately 73% and 77% of our sales were in North America.

The following is a breakdown of our total revenues (in thousands) by geographic market for each of our past three financial years:

	Years ended April 30,			8 Months ended December 31,	
	2000	2001	2002	2001	2002
	US$	US$	US$	Unaudited US$	US$
US & Canada	29,981	38,463	28,810	19,373	24,545
Hong Kong	2,638	599	4,897	1,383	1,451
Europe and other countries	5,864	7,028	5,518	4,167	3,469
PRC	312	74	6		
Japan	131	121	9	119	2,344
	38,926	46,285	39,240	25,042	31,809

Approximately 25% of our sales during the fiscal year ended December 31, 2002 was to our largest customer, QVC, Inc., and was not seasonal in nature. It has been our management s experience that the remaining 75% of our total sales is seasonally sensitive and is greater during the quarter ending December 31 of each year.

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Our Industry

The jewelry industry is comprised of two major groups that distribute finished jewelry to retailers in the United States:

- a small number of producers that make and distribute their own jewelry directly to retailers; and
- a large number of wholesalers and distributors who purchase products or portions of products from third parties and resell those items to retailers.

We believe that vertically integrated companies that control costs by performing all value added processes enjoy a distinct competitive advantage over wholesalers and distributors who pay premium acquisition prices for items that they intend to resell. We further believe that large retailers want to rely upon prime producers because they believe that prime producers are reliable, low cost producers who can accommodate the large quantities of production that large retailers commonly purchase.

Our Business Strategy

Our business strategy is to:

- increase our market share of moderately priced high-quality gem-set semi-precious and precious jewelry by capitalizing on our unique vertically integrated production processes to produce diamond and high-end precious stone jewelry in addition to high volume, high-quality semi-precious products;
- further develop our existing customer relationships with our specialized services; and
- expand aggressively into new distribution channels, particularly in the United States and throughout Western Europe, Japan, and China.

We are aggressively developing new product lines in exotic stones, which have high perceived values among semi-precious stones. We have recently expanded into new product categories by:

- marketing a line of sterling silver jewelry. These are typically merchandised with a retail price range of $30 to $150
- offering a new branded collection of sterling silver and 18 karat gold jewelry with a retail price range of $199 to $999
- offering diamond jewelry and expanding this business to our current client base by adding diamonds to some of our settings, as well as offering newly designed jewelry

- developing a new 18,000 square feet CAD/CAM enabled production facility devoted to diamonds and high-end precious stones, with technology to fully integrate computer design from prototype to sample

We intend to implement our business strategy by:

- promoting visits with customers to coordinate and cater to their particular promotional sales needs and monitoring their on-hand inventory in order to promote more active sell-through

- expanding our distribution channels to include all major TV shopping programs in North America, Japan and Korea and further developing business with top-20 discount department store chains and one prominent warehouse club in the U.S.

- acquiring an electronic supply and replenish module for independent jewelry stores in the U.S.

Our Production Capability

We have established a sophisticated facility in China that performs stone cutting and polishing and jewelry production. The facility is located in the city of Shenzhen in Guangdong Province, China. We closed our former second facility in Shantou during the fiscal year ended December 31, 2002 and consolidated all our production in the Shenzhen facility, which has been operating for five years and has 86,000 square feet of production space. We currently employ approximately 2,000 skilled gemstone cutters and production personnel and turned out more than a million pieces of finished fine jewelry during the fiscal year ended December 31, 2002.

We purchase imported choice gemstone material, which are from mines located in Africa, China and South America, especially those concentrated in Brazil. We source our diamonds mainly from suppliers in India. Gemstone craftsmen are trained and managed by our Hong Kong personnel to ensure that the highest levels of cutting and polishing quality are achieved. The professional skills possessed by our cutters are applied to a wide variety of shapes and sizes, maximizing the yield and value of the gemstone material that we purchase. By performing internally the value-added processes of cutting and polishing our semi-precious gemstones, we maximize quality control and improve our profitability. We specialize in a wide range of popular and exotic semi-precious gemstones ranging from amethyst, aquamarine and peridot to tanzanite and tourmaline.

Sales and Marketing

Our merchandising strategy is to provide unique and differentiated products that are enhanced by the favorable pricing that results from our vertically integrated structure. We invest significant effort in design and model making to produce items which are distinctly different from our competitors. We continue to devote our efforts towards brand development and utilize marketing concepts to enhance the saleability of our products. We recognize that retailers favor certain price points. As part of our product development strategy, we strive to align our wholesale prices to match retailers target prices as a means of achieving these popular price targets.

Our sales and marketing team is located in our executive offices in Hong Kong. Our marketing and distribution strategy is to identify the strongest retail customers in each distribution channel and to focus design and sales efforts towards the largest and fastest growing retailers. We maintain a broad base of customers and concentrate our efforts on five major jewelry market segments:

- fine jewelers;
- national jewelry chains;
- department stores;
- electronic retailers; and
- specialty retailers.

Our single largest customer is QVC, Inc. which accounted for approximately 28% of our sales during the fiscal year ended April 30, 2002, and 25% of our sales during the eight-month period ended December 31, 2002. We do not sell to QVC, Inc. pursuant to any formal or long-term contracts but only on a purchase order basis. Although we have developed and maintained a good and longstanding relationship with QVC, Inc., the loss of QVC, Inc. as a customer or a significant reduction in its orders, would have a materially adverse effect on us.

In March 2000, our wholly-owned subsidiary Lorenzo Jewelry Mfg. (H.K.) Limited (n/k/a Lorenzo Jewelry Limited) had entered into a three-year agreement with QVC, Inc. Under the terms of the agreement, QVC had the exclusive right to promote, market, sell and distribute all of the jewelry and watches which we produce, develop or sell through direct response television programs in North America, the United Kingdom and Germany. This agreement has now expired.

In addition to direct sales to QVC, Inc. and other retailers, we also sell our products to retailers through International Jewelry Connection. The principal focus of IJC is on major U.S. department stores and jewelry retailers, who require specialized levels of marketing, service and training. These sales representatives are paid on a commission-only basis.

Our sales promotion efforts include attendance by our representatives at U.S. and international trade shows and conventions, including Las Vegas, Orlando, New York, Basel, Switzerland, Hong Kong and Japan. In addition, we advertise actively in trade journals and related industry publications.

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Design and Product Development

We have seven internationally trained designers who work from our Hong Kong executive office and ten designers who work in our Shenzhen facility. Our designers create styles that have been accepted by our various clients worldwide. Our design teams attend trade fairs worldwide to gather product ideas and monitor the latest product trends.

We provide our customers with a broad selection of high-quality 10, 14 and 18 karat gold, platinum and sterling silver jewelry products that incorporate traditional yet fashionable styles and designs. We currently offer approximately 5,000 different styles of rings, bracelets, necklaces, earrings, pendants and matching sets that are contemporary and desired in the market.

We study product trends that are emerging in the international market and adapt these trends to the needs of our retail customers. The jewelry offered for sale considers color, fabric and fashion trends, which are projected over a two-year period. We market our products as lifestyle inspired.

Production Process

We make our jewelry at our facility in Shenzhen, China. Our production processes combine vertical integration, modern technology, mechanization and handcraftsmanship to turn out contemporary and fashionable jewelry. Our production operations basically involve:

- cutting and polishing semi-precious gemstones;
- combining pure gold, platinum or sterling silver with gemstones or diamonds to produce jewelry; and
- finishing operations such as cleaning and polishing, resulting in high quality finished jewelry.

Supply

We produce and cut our own semi-precious stones. We purchase imported gemstones which are from South America, Africa and China. South America is the major source of ametrine, amethyst, aquamarine, imperial topaz, tourmaline and white topaz, and Africa is the main source of tanzanite, mandarine garnet, aquamarine and topaz. We also purchase imported aquamarine, peridot and topaz from China. We source our diamonds mainly from suppliers in India. We believe that we have good relationships with our suppliers, most of whom have supplied us for many years.

We maintain our supply of inventory at our warehouse. The amount of our inventory of a particular gemstone determines the extent and size of our marketing program for that product. We purchase our gemstones and diamonds in advance and in anticipation of orders resulting from our marketing programs.

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We purchase our gold from banks, gold refiners and commodity dealers who supply substantially all of our gold needs, which we believe is sufficient to meet our requirements.

Gold acquired for production is at least .995 fine and is combined with other metals to produce 10, 14 and 18 karat gold. The term karat refers to the gold content of alloyed gold, measured from a maximum of 24 karats, which is 100% fine gold. Varying quantities of metals such as silver, copper, nickel and zinc are combined with fine gold to produce 14 karat gold of different colors. These alloys are in abundant supply and are readily available to us.

We did not engage in hedging activities with respect to possible fluctuations in the price of gold until the start of 2003. Prior to that, we believed the risk of not engaging in such activities was minimal, since we purchase our gold requirements within a reasonable period after each significant purchase order is received. We believe that any change in the price of gold would have had little, if any, impact on the valuation of our inventories.

We purchase supplies and raw materials from a variety of suppliers and we do not believe the loss of any of the suppliers would have a material adverse effect on our business. Alternative sources of supply for raw materials for production of jewelry are readily available.

Security

We have installed certain measures at our Shenzhen, China, production and our Hong Kong administrative facilities to protect against loss, including multiple alarm systems, infrared motion detectors and a system of closed circuit television cameras, which provide surveillance of all critical areas of our premises.

We inspect carefully all materials sent and received from outside suppliers, monitor the location and status of all inventory, and have strict internal control procedures of all jewelry as it proceeds through the production process. A complete physical inventory of gold and gemstones is taken at our production and administrative facilities on a quarterly basis.

Insurance

We maintain primary all-risk insurance, with limits in excess of our current inventory levels, to cover thefts and damage to inventory located on our premises. We also maintain insurance covering thefts and damage to our owned inventory located off-site. The amount of coverage available under such policies is limited and may vary by location, but is generally in excess of the value of the gold and gemstones supplied by us. We carry transit insurance, the coverage of which includes the transportation of jewelry outside of our office.

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Competition

The jewelry production industry is highly competitive, and our competitors include domestic and foreign jewelry manufacturers, wholesalers, and importers who may operate on a national, regional and local scale. Our competitive strategy is to provide competitively priced, high-quality products to the high-volume retail jewelry market. According to our management, competition is based on pricing, quality, service and established customer relationships. We believe that we have positioned ourselves as a low-cost producer without compromising our quality. Our ability to conceive, design and develop products consistent with the requirements of each retail distribution channel represents a competitive advantage.

We believe that few competitors have the capacity and production skills to be effective competitors. We believe that our vertically integrated production capabilities distinguish us from most of our competitors and enable us to produce very competitively priced, high quality and consistent products.

In North America, the market, although highly fragmented, does contain a number of major competitors, many of whom import much of their product from the Far East and many of whom sell higher priced items. The key United States competitors include:

E.E.A.C. Inc.;

Topaz Group, Inc.; and

Fabrikant.

International competitors include Pranda International and Beauty Gems Limited. Most of these manufacturers/wholesalers have been successful vendors for many years and enjoy good relations with their clients. Although it may be difficult for a newcomer to break into established relationships, we have already made substantial inroads in the North American jewelry market and we believe we can remain competitive, based on our vertically integrated, low-cost, high-volume and high-quality production process.

Common Stock Purchase Agreement for Equity Line of Credit Facility

Effective April 15, 2002, we entered into a common stock purchase agreement with Navigator Investments Holding IX Limited, a Nevis corporation, for the future issuance and purchase of shares of our common stock. This common stock purchase agreement establishes what is sometimes termed an equity line of credit or an equity draw down facility.

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Draw Downs

In general, the draw down facility operates as follows: at our sole discretion and from time to time over the course of 24 months, we may make unlimited draw down requests, pursuant to which the investor, Navigator, is obligated to purchase up to an aggregate of $10 million of our common stock. The maximum amount we can draw for each request is limited to 20% of the volume weighted average price of our common stock multiplied by the average daily trading volume multiplied by the number of trading days in the applicable draw down period. We are under no obligation to request a draw down during any period or, in the absence of such a request, to issue any shares to Navigator. If, on any day during the draw down period, the average volume weighted price of our common stock drops below the minimum threshold price that we specify in the draw down request, that day will be excluded from the relevant settlement and the aggregate amount of our draw down request will be reduced accordingly.

The draw down period will be either 5, 10, 15 or 20 consecutive trading days, at our option. The selection of either a 5, 10, 15 or 20 consecutive trading day draw down period would depend, at that time, on the volume, trading price and other indeterminate factors which we are not able to quantify at this time. No later than after each 5 trading days after our delivery of a draw down notice, the final draw down amount for that period is determined. We are entitled to receive funds no later than two days thereafter. The draw down amount will be reduced (by 1/5th, 1/10th, 1/15th or 1/20th, as applicable) for each trading day during the draw down period that the volume weighted average stock price falls below the threshold price set by us. We then use the formulas in the common stock purchase agreement to determine the number of shares that we will issue to Navigator in return for the final draw down amount. The formulas for determining the actual draw down amounts, the number of shares that we issue to Navigator and the price per share paid by Navigator are described in detail beginning on page 79. The aggregate total of all draw downs under the equity draw down facility cannot exceed $10 million.

The per share dollar amount that Navigator pays for our common stock for each draw down includes a 10% discount to the average daily market price of our common stock for each day during the draw down period, weighted by trading volume during each such trading day. We will receive the amount of the draw down less an escrow agent fee of $1,500. The price per share that Navigator ultimately pays is determined by dividing the final draw down amount by the number of shares that we issue to Navigator.

Warrants

In connection with the common stock purchase agreement, we issued to Navigator, as a commitment fee at the initial closing, warrants to purchase up to 150,000 shares of our common stock. The warrant has a term from its date of issuance of three years. The exercise price of the initial warrant is $1.7892 per share. Navigator is under no obligation to exercise their warrants.

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The Draw Down Procedure And The Stock Purchases

We may request a draw down by faxing to Navigator a draw down notice, stating the amount of the draw down that we wish to exercise and the minimum threshold price at which we are willing to sell the shares.

Number of Shares Purchased during a Draw Down

The 5, 10, 15 or 20 (as applicable) trading days immediately following the draw down notice are used to determine the number of shares that we will issue in return for the money provided by Navigator, which then allows us to calculate the price per share that Navigator will pay for our shares.

To determine the number of shares of common stock that we can issue in connection with a draw down, calculate 1/x of the draw down amount determined by the formula above (where x equals the number of trading days in the draw down period). This amount will be referred to as the per-day draw down amount. Then, for each of the 5, 10, 15 or 20 (as applicable) trading days immediately following the date on which we give notice of the draw down, divide the per-day draw down amount by 90% of the volume weighted average daily trading price of our common stock for that day. This 90% accounts for Navigator s discount. The sum of these 5, 10, 15 or 20 (as applicable) daily calculations produces the maximum number of common shares that we can issue, unless, as described above, the volume weighted average daily price for any given trading day is below the threshold amount, trading is suspended for any given trading day or volume is unusually low on any given trading day, in which case those days are ignored in the calculation.

Necessary Conditions Before Navigator Is Obligated to Purchase Our Shares

The following conditions must be satisfied before Navigator is obligated to purchase any common shares that we may request from time to time:

- a registration statement for the shares must be declared effective by the Securities and Exchange Commission and must remain effective, and the prospectus included therein current, including with respect to resales to be made by Navigator, as of the draw down settlement date;

- trading in our common shares must not have been suspended by the Securities and Exchange Commission or The Nasdaq National Market;

- we must not have merged or consolidated with or into another company or transferred all or substantially all of our assets to another company, unless the acquiring company has agreed to honor the common stock purchase agreement;

- our business must not have experienced a material adverse effect; and

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we must have delivered to Navigator an opinion of our legal counsel.

As of July 15, 2003, we had filed a registration statement for the shares but it has not yet been declared effective by the SEC. Therefore, we cannot currently exercise any rights under the equity line of credit facility.

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C. ORGANIZATIONAL STRUCTURE AS OF DECEMBER 31, 2002:

The following diagram provides a listing of our significant subsidiaries. The respective country of organization/incorporation is shown in brackets.

LJ INTERNATIONAL INC.
(British Virgin Islands)

100%

Lorenzo Jewelry Limited
(Hong Kong)

Lorenzo Gems Manufacturing (Shenzhen) Co., Ltd.
(P.R.C.)

Lorenzo Jewellery (Shenzhen) Co., Ltd.
(P.R.C.)

D. PROPERTY, PLANTS AND EQUIPMENT.

Our principal executive offices are located at Units #9-#12, 12/F, Block A, Focal Industrial Centre, 21 Man Lok Street, Hung Hom, Kowloon, Hong Kong. We own approximately 4,800 square feet of office and showroom at this location.

Our jewelry production facility in Shenzhen, China consists of 86,000 square feet of building space located in the Shatoujiao Free Trade Zone, Shenzhen. We own approximately 38,000 square feet of this space. We also currently lease 28,000 square feet for a term of five years expiring August 31, 2007 from an unaffiliated third party at a rental rate of $5,700 per month, and 20,000 square feet for a term of two years expiring June 30, 2004, at a rental rate of $3,600 per month.

We own two warehouse facilities in Hung Hom and Aberdeen consisting of 5,432 square feet and 2,897 square feet. We also own additional properties in Sai Kung and Hung Hom. We lease all four of these properties to non-affiliated third parties. We have pledged all of our land and buildings to collateralize general banking facilities granted to us.

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Our production facilities are currently utilized for one shift per day but are capable of being expanded to accommodate three shifts per day as necessary.

E. ADDITIONAL INFORMATION.

Legal Proceedings

We are not a party to any material legal proceedings and there are no material legal proceedings pending with respect to our property. We are not aware of any legal proceedings contemplated by any governmental authorities involving either us or our property. None of our directors, officers or affiliates is an adverse party in any legal proceedings involving us or our subsidiaries, or has an interest in any proceeding which is adverse to us or our subsidiaries.

Enforceability of Civil Liabilities and Certain Foreign Issuer Considerations

We are a British Virgin Islands holding company, and substantially all of our assets are located in China and/or Hong Kong. In addition, all but one of our directors and officers are non-residents of the United States, and all or a substantial portion of their assets are located outside the United States. As a result, investors may be unable to effect service of process within the United States upon these non-residents or to enforce against them judgments obtained in United States courts, including judgments based upon the civil liability provisions of the securities laws of the United States or any state. There is uncertainty as to whether courts of China, the British Virgin Islands or Hong Kong would enforce:

- judgments of United States courts obtained against us or these non-residents based on the civil liability provisions of the securities laws of the United States or any state; or
- in original actions brought in China, the British Virgin Islands or Hong Kong, liabilities against us or these non-residents based on the securities laws of the United States or any state.

There are no treaties between China and the United States, between the British Virgin Islands and the United States, nor between Hong Kong and the United States providing for the reciprocal enforcement of foreign judgments. However, the courts of China, the British Virgin Islands and Hong Kong may accept a foreign judgment as evidence of a debt due. An action may be commenced in China, the British Virgin Islands or Hong Kong for recovery of this debt. However, a Chinese, British Virgin Islands or Hong Kong court will only accept a foreign judgment as evidence of a debt due, if:

- the judgment is for a liquidated amount in a civil matter;
- the judgment is final and conclusive and has not been stayed or satisfied in full;

the judgment is not directly or indirectly for the payment of foreign taxes, penalties, fines or charges of a like nature. In this regard, a Chinese, British Virgin Islands or Hong Kong court is unlikely to accept a judgment of an amount obtained by doubling, trebling or otherwise multiplying a sum assessed as compensation for the loss or damages sustained by the person in whose favor the judgment is given;

the judgment was not obtained by actual or constructive fraud or duress;

the foreign court has taken jurisdiction on grounds that are recognized by the private international law rules in China as to conflict of laws in China or common law rules as to conflict of laws in the British Virgin Islands or Hong Kong;

the proceedings in which the judgment was obtained were not contrary to the concept of fair adjudication;

the proceedings in which the judgment was obtained, the judgment itself and the enforcement of the judgment are not contrary to the public policy of China, the British Virgin Islands or Hong Kong;

the person against whom the judgment is given is subject to the jurisdiction of the Chinese, the British Virgin Islands or the Hong Kong courts; and

the judgment is not on a claim for contribution in respect of damages awarded by a judgment that does not satisfy the above requirements.

Enforcement of a foreign judgment in China, the British Virgin Islands or Hong Kong also may be limited or otherwise affected by applicable bankruptcy, insolvency, liquidation, arrangement, moratorium or similar laws relating to or affecting creditors rights generally and will be subject to a statutory limitation of time within which proceedings may be brought.

Under United States law, majority and controlling shareholders generally have certain fiduciary responsibilities to minority shareholders. Shareholder action must be taken in good faith and actions by controlling shareholders that are obviously unreasonable may be declared null and void. We believe there are no material differences between the protection afforded to minority shareholders of a company organized as an international business company under the law of the British Virgin Islands from those generally available to shareholders of corporations organized in the United States. However, there may be circumstances where the British Virgin Islands law protecting the interests of minority shareholders may not be as protective as the law protecting minority shareholders in United States jurisdictions. Under British Virgin Islands law, a shareholder of a company organized as an international business company under the laws of the British Virgin Islands may bring an action against a company, even if other shareholders do not wish to bring an action and even though no wrong has been done to the shareholder personally. This is a representative action, that is, an action on the shareholder s own behalf and on behalf of other persons in his class, or similarly situated. Instances where representative actions may be brought include to:

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- compel a company to act in a manner consistent with its Memorandum of Association and Articles of Association;
- restrain directors from acting on resolutions, where notice of a shareholders meeting failed adequately to inform shareholders of a resolution proposed at the meeting;
- restrain a company, where it proposes to perform an act not authorized by the Memorandum of Association and the Articles of Association or to seek damages from a director to compensate a company from the consequences of such an unauthorized act, or to recover property of a company disposed of due to such unauthorized act;
- restrain a company from acting upon a resolution that was not made in good faith and for the benefit of shareholders as a whole;
- redress where a resolution passed at a shareholders meeting was not properly passed, for instance, if it was not passed with the necessary majority;
- restrain a company from performing an act which is contrary to law; and
- restrain a company from taking any action in the name and for the benefit of a company.

Such an action also may be brought against directors and promoters who have breached their fiduciary duties to a company, although acts amounting to a breach of a fiduciary duty can be ratified by a general meeting of shareholders, in the absence of fraud. Such actions against directors and promoters only may be taken, however, if such directors and promoters have power to influence the action taken by a general meeting by means of, for instance, their votes as shareholders, which would prevent a company from suing them in the company s name. Although British Virgin Islands law does permit a shareholder of a British Virgin Islands company to sue its directors representatively or derivatively, the circumstances in which any such action may be brought as set forth above may result in the rights of shareholders of a British Virgin Islands company being more limited than those of shareholders in a United States company.

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OUR MANAGEMENT

A. DIRECTORS AND SENIOR MANAGEMENT.

Our senior management and directors are as follows:

Name	Age	Position
Yu Chuan Yih	63	Chairman of the Board of Directors, President and Chief Executive Officer
Ka Man Au	39	Chief Operating Officer, Secretary and Director
Hon Tak Ringo Ng	43	Chief Financial Officer and Director
Po Yee Elsa Yue	38	Non-Executive Director
Lionel C. Wang	46	Non-Executive Director

None of our directors and officers was selected due to any agreement or understanding with any other person. There is no family relationship between any of our directors or executive officers and any other director or executive officer.

Mr. Yih established the business of Lorenzo Jewelry Ltd. and has served as president and managing director since 1987. Mr. Yih is primarily responsible for business development and overall company management. He has over 20 years of experience in semi-precious stone production and marketing. Mr. Yih had been a gemstone trader in Brazil and has extensive experience and relationships in gem sourcing and jewelry design. Mr. Yih is also the Founding Sponsor of the Hong Kong branch of the Gemological Institute of America (GIA), the nonprofit educational organization for the jewelry industry.

Ms. Au has served as a director of Lorenzo Jewelry Ltd. since its incorporation in 1987. Ms. Au has been our chief operating officer since January 1, 2002 and is primarily responsible for our general administration, human resources, operations and management.

Mr. Ng has served as our chief financial officer since September 1997 and as one of our directors since May 1, 2001. He received his Bachelor of Science degree in civil engineering from the University of London in 1984 and his Master of Commerce in accounting and commercial administration from the University of New South Wales in 1994. From July 1994 through September 1997, he was an audit senior with Moores Rowland C.A., Certified Public Accountants. Mr. Ng is a certified practising accountant of the Australian Society of CPAs.

Ms. Yue has served as a non-executive director since December 1999. She is a graduate gemologist from the Gemological Institute of America and served as vice president of GIA, Hong Kong, from August 1994 to December 2002. Her responsibilities included managing the Hong

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Kong office and administering their education programs, marketing and related activities. Since December 2002, Ms. Yue has served as a manager for a colored gems import and export trading company.

Mr. Wang has served as a non-executive director since June 1998. He received his Bachelor of Commerce from Tamkung University, Taipei, Taiwan in 1978, his Master of Business Administration from California State Polytechnic University in 1980, and his Master of Science from Stanford University in 1981. From 1984 to 1990, Mr. Wang was a marketing research analyst and senior strategic planning analyst for The Gillette Company, Boston, Massachusetts. From 1990 to 1995, he served as associate director and then director of product development for Information Resources, Inc., Waltham, Massachusetts. From 1995 to 1996, Mr. Wang was vice-president at Nielsen North America, with responsibility for analytical and modeling projects on the Kraft Foods/White Plains account. From 1996 until June 2000, Mr. Wang served as director of analytical services for The NPD Group, Inc., Port Washington, New York. From June 2000 until June 2001, he was vice president of product development for NFO Interactive, Greenwich, Connecticut. Since June 2001, Mr. Wang has been president of his own firm, Marketing and Innovation, LLC., Greenwich, Connecticut.

B. COMPENSATION.

The aggregate compensation paid by us to all of our directors and executive officers as a group for the fiscal year ended December 31, 2002 on an accrual basis, for services in all capacities, was $533,000. During the fiscal year ended December 31, 2002, we contributed an aggregate amount of $17,000 toward the pension plans of our directors and executive officers.

Executive Service Contract

We entered into an employment agreement with Mr. Yu Chuan Yih, effective October 1, 2000, for a period of three years at an annual salary of $233,000. Mr. Yih s remuneration package includes benefits with respect to an automobile. In addition, Mr. Yih is entitled to an annual management bonus of a sum to be determined by the board at its absolute discretion, having regard for our operating results and the performance of Mr. Yih during the relevant financial year. The amount payable to Mr. Yih will be decided by majority decision of the members of the board present in the meeting called for that purpose. Mr. Yih shall abstain from voting and not be counted in the quorum in respect of the resolution regarding the amount payable to him.

On May 8, 2000, we granted Mr. Yih options exercisable to acquire 600,000 shares of common stock at $3.00 per share at any time until May 7, 2010.

On October 17, 2000, we offered all option holders the opportunity to cancel all or some of their stock options in exchange for new options to be granted on April 30, 2001 to acquire an equal

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number of shares with an exercise price equal to the then last sale price of the stock on April 30, 2001 for a new term of seven years expiring April 30, 2008. Mr. Yih accepted the offer and now holds an option to acquire an aggregate of 775,000 shares exercisable at $2.00 per share at any time until April 30, 2008.

C. BOARD PRACTICES.

Each of our five current directors was elected at our last annual meeting of shareholders held December 5, 2002 to serve a one-year term or until their successor is elected and qualified.

There are no directors service contracts with us or any of our subsidiaries providing for benefits upon termination of employment.

Our board of directors has established an audit committee, which consists of Messrs. Yih and Wang and Ms. Yue. Its functions are to:

- recommend annually to the board of directors the appointment of our independent public accountants;
- discuss and review the scope and the fees of the prospective annual audit and review the results thereof with the independent public accountants;
- review and approve non-audit services of the independent public accountants;
- review compliance with our existing accounting and financial policies;
- review the adequacy of our financial organization; and
- review our management s procedures and policies relative to the adequacy of our internal accounting controls and compliance with federal and state laws relating to financial reporting.

D. EMPLOYEES.

As of December 31, 2002, we employed approximately 2,000 persons on a full-time basis for our production of jewelry and gemstone cutting and polishing. Approximately 100 of these people include our management and executive staff in Hong Kong and China. None of our employees is represented by a labor union and we believe that our employee relations are good.

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E. SHARE OWNERSHIP.

The following table sets forth certain information regarding the beneficial ownership of our shares of common stock as of December 31, 2002 by:

- each person who is known by us to own beneficially more than 5% of our outstanding common stock;
- each of our current executive officers and directors; and
- all directors and executive officers as a group.

As of December 31, 2002, we had 8,671,615 shares of our common stock issued and outstanding.

This information gives effect to securities deemed outstanding pursuant to Rule 13d-3(d)(l) under the Securities Exchange Act of 1934, as amended.

The address for each person named below is c/o LJ International Inc., Unit #12, 12/F, Block A, Focal Industrial Centre, 21 Man Lok Street, Hung Hom, Kowloon, Hong Kong.

Name of Beneficial Holder	Number	Percent
	Shares Beneficially Owned	
Yu Chuan Yih	3,529,553(1)(2)	36.5%
Ka Man Au	200,000(3)	2.3%
Hon Tak Ringo Ng	200,000(4)	2.3%
Po Yee Elsa Yue	6,000(5)	*
Lionel C. Wang	0	*
Debora Mu Yong Yih	1,260,000(6)	13.9%
All directors and executive officers as a group (5 persons)	3,935,553	37.5%

* Represents less than 1% of the outstanding common stock.

(1) Of Mr. Yih s 2,524,553 shares, 1,500,000 shares are owned of record by Pacific Growth Developments Ltd., a British Virgin Islands corporation, which is owned by Mr. Yih (60%), his wife Tammy Yih (20%) and an adult daughter, Bianca Tzu Hsiu Yih (20%).

(2) Includes options currently exercisable to acquire 775,000 shares of common stock held by Mr. Yih and options currently exercisable to acquire 230,000 shares of common stock held by Mr. Yih s wife at $2.00 per share at any time until April 30, 2008.

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(3) Represents options currently exercisable to acquire 200,000 shares of common stock at $2.00 per share at any time until April 30, 2008.

(4) Represents options currently exercisable to acquire 200,000 shares of common stock at $2.00 per share at any time until April 30, 2008.

(5) Represents options currently exercisable to acquire 6,000 shares of common stock at $2.00 per share at any time until April 30, 2008.

(6) Includes options currently exercisable to acquire 400,000 shares of common stock at $2.00 per share at any time until April 30, 2008.

The 1998 Stock Compensation Plan

Effective June 1, 1998, we adopted and approved the 1998 Stock Compensation Plan. The purpose of the plan is to:

encourage ownership of our common stock by our officers, directors, employees and advisors;

provide additional incentive for them to promote our success and our business; and

encourage them to remain in our employ by providing them with an opportunity to benefit from any appreciation of our common stock through the issuance of stock options.

Options constitute either incentive stock options within the meaning of Section 422 of the United States Internal Revenue Code of 1986, as amended, or options which constitute nonqualified options at the time of issuance of such options. The plan provides that incentive stock options and/or nonqualified stock options may be granted to our officers, directors, employees and advisors selected by the compensation committee. A total of 4,000,000 shares of common stock are authorized and reserved for issuance during the term of the plan which expires in June 2008. The compensation committee has the sole authority to interpret the plan and make all determinations necessary or advisable for administering the plan. The exercise price for any incentive option must be at least equal to the fair market value of the shares as of the date of grant. Upon the exercise of the option, the exercise price must be paid in full either in cash, shares of our stock or a combination. If any option is not exercised for any reason, such shares shall again become available for the purposes of the plan.

On October 17, 2000, the Company offered each option holder the opportunity to cancel all or some of the stock options previously granted in exchange for the granting on April 30, 2001 of options to acquire an equal number of shares with an exercise price equal to the then last sale price of the stock on April 30, 2001, for a new term of seven years expiring April 30, 2008.

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As of December 31, 2002, no options had been exercised and the following exchanged options to purchase shares of our common stock under the Plan remained outstanding:

- stock options to purchase 3,025,500 shares at $2.00 per share through April 30, 2008, of which 1,181,000 are held by our directors and officers as a group.

Other Options and Warrants Outstanding

As of December 31, 2002, the following additional options and warrants to purchase shares of our common stock were outstanding:

- 1,679,000 common stock purchase warrants which are publicly traded and which we issued in our April 1998 initial public offering to purchase 1,679,000 shares of common stock at $5.75 per share through April 15, 2005 (as amended)

- 146,000 stock purchase options to purchase 146,000 shares of common stock at $8.25 per share through April 15, 2005 (as amended), which we sold to the IPO underwriter and/or persons related to the underwriter

- 146,000 warrant purchase options to purchase 146,000 warrants at $0.20625 per warrant to purchase shares of common stock at $8.25 per share through April 15, 2003, which we sold to the IPO underwriter and/or persons related to the underwriter

- options to purchase 35,000 shares at $5.00 per share through July 30, 2004, which we granted to a f