LJ INTERNATIONAL INC
Form POS AM
May 19, 2004

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As filed with the Securities and Exchange Commission on May 19, 2004

Registration No. 333-7912

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

POST EFFECTIVE AMENDMENT NO. 6 TO
FORM F-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

LJ INTERNATIONAL INC.
(Exact name of Registrant as specified in its charter)

British Virgin Islands	**3911**	**Not Applicable**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code No.)	(I.R.S. Employer Identification Number)

Unit #12, 12/F, Block A
Focal Industrial Centre
21 Man Lok Street
Hung Hom, Kowloon, Hong Kong
011-852-2764-3622
(Address, including zip code, and telephone number, including area code, of Registrant s principal executive offices)

Andrew N. Bernstein, P.C.
5445 DTC Parkway, Suite 520
Greenwood Village, Colorado 80111
(303) 770-7131
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies of all communications to:

Andrew N. Bernstein, Esq.
Andrew N. Bernstein, P.C.
5445 DTC Parkway, Suite 520
Greenwood Village, Colorado 80111
Telephone: 303-770-7131
Facsimile: 303-770-7332

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

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If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box: þ

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

Calculation of Registration Fee

Title of each class of securities to be registered	Amount to be registered	Proposed maximum offering price per share (1)	Proposed maximum aggregate offering price (1)	Amount of registration fee
Common Stock	1,679,000(2)	$ 5.00	$ 8,395,000	$ 2,477
Redeemable Common Stock Purchase Warrants	1,679,000(3)	$ 0.125	$ 209,875	$ 62
Common Stock underlying Redeemable Common Stock Purchase Warrants	1,679,000(4)	$ 5.00	$ 8,395,000	$ 2,477
Common Stock Underwriter Warrants	146,000(5)	$0.0000342	$ 5	$ 1
Common Stock underlying Common Stock Underwriter Warrants	146,000(6)	$ 8.25	$ 1,204,500	$ 356
Warrant Underwriter Warrants	146,000(7)	$0.0000342	$ 5	$ 1
Underwriter Underlying Warrants	146,000(8)	$ 0.21	$ 30,660	$ 10
Common Stock underlying Underwriter Underlying Warrants	146,000(9)	$ 8.25	$ 1,204,500	$ 356
Total Fee (10)			$19,439,545	$ 5,740

(footnotes on next page)

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(1) Estimated solely for the purpose of calculating the amount of the registration fee in accordance with Rule 457 under the Securities Act of 1933, as amended (the Securities Act).

(2) Includes 219,000 shares of common stock (the Common Stock or the Shares) reserved for the option, exercisable within 45 days after the date on which the Securities and Exchange Commission (the Commission) declares this Registration Statement effective, to cover over-allotments, if any (the Over-Allotment Option), granted by the Company to Barron Chase Securities, Inc. (the Underwriter).

(3) Includes 219,000 Redeemable Common Stock Purchase Warrants (the Purchase Warrants or the Warrants) reserved for the Over-Allotment Option. The Purchase Warrants (a) may be purchased separately from the Common Stock in the Offering, (b) are exercisable during a five-year period commencing on the effective date of this Registration Statement, and (c) shall be redeemable, at the option of the Company, at $0.25 per Purchase Warrant upon 30 days prior written notice, (i) if the closing bid price, as reported on The Nasdaq National Market, or the closing sale price, as reported on a national or regional securities exchange, as applicable, of the shares of the Registrant s Common Stock for 30 consecutive trading days ending within ten days of the notice of redemption of the Purchase Warrants averages in excess of $10.00 per share, subject to adjustment, and (ii) after a then current registration statement has been declared effective by the Commission with regard to the shares of Common Stock to be received by the holder upon exercise, but (iii) during the one-year period after the effective date of this Registration Statement, only with the written consent of the Underwriter. Pursuant to Rule 416 under the Securities Act, such additional number of these securities are also being registered to cover any adjustment resulting from the operation of the anti-dilution provisions relating to the Purchase Warrants.

(4) Reserved for issuance upon exercise of the Purchase Warrants. Pursuant to Rule 416 under the Securities Act, such additional number of shares of Common Stock subject to the Purchase Warrants are also being registered to cover any adjustment resulting from the operation of the anti-dilution provisions relating to the Purchase Warrants.

(5) To be issued to the Underwriter and/or persons related to the Underwriter. Pursuant to Rule 416 under the Securities Act, such additional number of Underwriter stock purchase options (the Common Stock Underwriter Warrants) are also being registered to cover any adjustment resulting from the operation of the anti-dilution provisions relating to the Common Stock Underwriter Warrants.

(6) Reserved for issuance upon exercise of the Common Stock Underwriter Warrants. Pursuant to Rule 416 under the Securities Act, such additional number of shares of Common Stock subject to the Common Stock Underwriter Warrants are also being registered to cover any adjustment resulting from the operation of the anti-dilution provisions relating to the Common Stock Underwriter Warrants.

(7) To be issued to the Underwriter and/or persons related to the Underwriter. Pursuant to Rule 416 under the Securities Act, such additional number of Underwriter warrant purchase options (the Warrant Underwriter Warrants) are also being registered to cover any adjustment resulting from the operation of the anti-dilution provisions relating to the Warrant Underwriter Warrants.

(8) Reserved for issuance upon exercise of the Warrant Underwriter Warrants. Pursuant to Rule 416 under the Securities Act, such additional number of warrants to purchase shares of Common Stock subject to the Warrant Underwriter Warrants (the Underwriter Underlying Warrants) are also

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being registered to cover any adjustment resulting from the operation of the anti-dilution provisions relating to the Warrant Underwriter Warrants.

(9) Reserved for issuance upon exercise of the Underwriter Underlying Warrants. Pursuant to Rule 416 under the Securities Act, such additional number of shares of Common Stock subject to the Underwriter Underlying Warrants are also being registered to cover any adjustment resulting from the operation of the anti-dilution provisions relating to the Underwriter Underlying Warrants.

(10) No additional fees are payable since the Registrant paid a registration fee of $6,434.00 upon the initial filing.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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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 May 19, 2004, 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 May 18, 2004, the last sale prices for the common stock and the warrants were $3.28 per share of common stock and $0.64 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 June __, 2004

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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 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 speciality 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.

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.
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 Mazars 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 large portion of our sales involves offerings to one volume customer, QVC, Inc. For the fiscal years ended December 31, 2002 and 2003, QVC, Inc. accounted for approximately 25% and 10% 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 38.1% of our outstanding shares as of December 31, 2003. 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 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 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.

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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 $19.8 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 35% of our sales during the fiscal year ended December 31, 2003 to our TV shopping channel customers was not seasonal in nature. It has been our management s experience that the remaining 65% of our total sales is seasonally sensitive and is greater during the quarter ending December 31 of each year.

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 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

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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 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.

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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.

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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, estimate, plans, potential, projects, continuing, ongoing, expects, management believes, we believe, we intend and similar expressions. These statements involv 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
- dependence on key personnel
- 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.

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
Year ended December 31, 2003	$5.00	$1.14
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
Quarter ended June 30, 2003	$1.85	$1.17
Quarter ended September 30, 2003	$5.00	$1.85
Quarter ended December 31, 2003	$4.89	$3.44
Quarter ended March 31, 2004	$5.74	$3.75

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Period	High	Low
Month ended November 30, 2003	$4.43	$3.90
Month ended December 31, 2003	$4.08	$3.44
Month ended January 31, 2004	$5.74	$3.75
Month ended February 29, 2004	$5.56	$4.20
Month ended March 31, 2004	$4.51	$3.84
Month ended April 30, 2004	$4.23	$3.36

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
Year ended December 31, 2003	$1.13	$0.02
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
Quarter ended June 30, 2003	$0.12	$0.02
Quarter ended September 30, 2003	$1.13	$0.12
Quarter ended December 31, 2003	$1.08	$0.54
Quarter ended March 31, 2004	$1.30	$0.61
Month ended November 30, 2003	$0.91	$0.68
Month ended December 31, 2003	$0.75	$0.54
Month ended January 31, 2004	$1.30	$0.75
Month ended February 29, 2004	$1.15	$0.75
Month ended March 31, 2004	$0.84	$0.61
Month ended April 30, 2004	$0.82	$0.61

We do not believe that there is any principal non-United States trading market for our common stock or our warrants. We believe that Cede & Co. holds a substantial majority of the outstanding common stock and warrants 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 March 31, 2004 as reflected in our unaudited 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.

	March 31, 2004 (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, 10,650,576 shares issued and outstanding actual, and 10,650,576 shares issued and outstanding as adjusted(1)	$ 107	$ 107
Additional paid-in capital	20,524	20,524
Retained earnings	8,574	8,574
Treasury stock		
Exchange translation reserve	(151)	(151)
Total shareholders equity	29,054	29,054
Total Capitalization	29,054	29,054

(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 March 31, 2004 was $27,532,000, or approximately $2.59 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 March 31, 2004 would have been approximately $37,186,000 or $3.02 per share. This represents an immediate increase in net tangible book value of approximately $0.43 per share to existing shareholders and an immediate dilution in net tangible book value of $2.73 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 March 31, 2004(2)	2.59	
Increase in net tangible book value per share from new investors(1)(3)	0.43	
Pro forma net tangible book value per share after this offering		3.02
Dilution per share to new investors		2.73

(1) Before deducting estimated expenses payable by us.

(2) Calculated based on shares outstanding as of March 31, 2004.

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

The following table summarizes as of March 31, 2004 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
	Number	Percent	Amount	Percent	Share
Existing Shareholders	10,650,576	86%	$15,909,637	62%	$ 1.49
New Investors	1,679,000	14%	$ 9,654,250	38%	$ 5.75
Total	12,329,576	100%	$25,563,887	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 three-year period ended April 30, 2002, the eight months ended December 31, 2002 and the year ended December 31, 2003 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 prospectus.

Selected Financial Data

	Year ended April 30,			Eight-month period ended December 31,		Year ended December 31,	
	2000	**2001**	**2002**	**2001**	**2002**	**2002**	**2003**
				(Unaudited)		(Unaudited)	
Statement of Operations Data:							
Revenues	38,926	46,285	39,240	25,042	31,809	46,007	58,167
Cost of Goods sold	25,496	31,540	35,731	18,602	22,820	39,951	44,947
Gross profit	13,430	14,745	3,509	6,440	8,989	6,056	13,220
Operating expenses							
Selling, general and administrative	(7,406)	(9,398)	(8,963)	(5,905)	(6,433)	(9,525)	(9,133)
Unrealized gain (loss) on derivatives	44	44	(660)	(119)	(435)	(975)	(162)
Depreciation	(705)	(808)	(1,031)	(565)	(863)	(1,328)	(1,184)
Impairment on property, plant and equipment			(345)		(108)	(417)	(84)
Amortization and impairment loss on goodwill		(27)	(242)	(18)	(400)	(624)	(200)
Income (loss) from operations	5,363	4,556	(7,732)	(167)	750	(6,814)	2,457
Other revenues	458	570	352	265	205	291	453
Interest expenses	(1,446)	(1,780)	(652)	(424)	(441)	(668)	(753)
Issuance costs for convertible debentures	(585)						
Impairment loss on investment security					(200)	(200)	
Operating income (loss) before income taxes and minority interests	3,790	3,346	(8,032)	(326)	314	(7,391)	2,157
Incomes taxes (expense) credit	(3)	(211)	101	(39)	(101)	39	(352)
Income (Loss) before minority interests	3,787	3,135	(7,931)	(365)	213	(7,352)	1,805

Minority interests in consolidated subsidiaries	52		30		120	150	8
Net income (loss)	3,839	3,135	(7,901)	(365)	333	(7,202)	1,813
Net income (loss) per share:							
Basic	0.58	0.37	(0.91)	(0.04)	0.04	(0.84)	0.21
Diluted	0.56	0.37	(0.91)	(0.04)	0.04	(0.84)	0.19
Pro forma basic (Note)	0.57	0.13	(0.91)	(0.04)	0.04	(0.84)	0.19
Pro forma diluted (Note)	0.54	0.13	(0.91)	(0.04)	0.04	(0.84)	0.17
Weighted average number of shares							
Basic	6,589	8,567	8,672	8,672	8,493	8,551	8,757
Diluted	6,944	8,617	8,779	8,832	8,493	8,551	9,706
Pro forma basic (Note)	6,589	8,567	8,672	8,672	8,493	8,551	8,757
Pro forma diluted (Note)	6,944	8,617	8,779	8,832	8,493	8,551	9,706
Balance Sheet Data:							
Working capital	20,561	20,153	12,115	18,537	11,896	11,896	17,053
Total assets	40,049	48,094	43,523	51,062	48,888	48,888	60,686
Long-term obligation	2,943	287	8	12			77
Total stockholders equity	24,739	31,161	23,557	30,943	23,294	23,294	27,902

Note: Pro forma information has been prepared as if compensation expense for stock options be determined based on the fair value at the date of grant and been amortized over the period from the date of grant to the date that the award is vested, consistent with the provisions of SFAS No. 123.

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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. All amounts referring to 2002 contained herein represent those of year ended December 31, 2002 (which are unaudited).

We exceeded both internal and external expectations in the fiscal year ended 31 December 2003. Since consolidating all our operations under one roof in our expanded, 9,232 square meters Shenzhen facility at the beginning of 2003, we have achieved double-digit growth in both revenue and profit and won important new clients as well as receiving expanded orders from existing ones. Sales revenue jumped from $46 million in 2002 to nearly $58 million in 2003, an impressive climb of almost 26%, while our gross profit margin rose to 23% from 13%. We also made strategic inroads into a major, fast-growing new market China.

Our continuing focused marketing drive clinched us yet another major client, ShopNBC in 2003, so by now we are selling to all the three biggest US shopping networks: QVC, Home Shopping Network and ShopNBC. Additionally, our US clientele includes two thirds of the Top 40 jewelry chains as well as general large retailers. In fact, we even opened our first US sales and marketing office in August to augment the efforts of our team here in their accelerated penetration of this market.

We have also made significant headway in widening our reach in China. The Chinese government has given us the green light to expand our presence in its jewelry market and we are proceeding with plans to market our Lorenzo brand of top-end jewelry through franchises and eMotion on-line sales kiosks throughout the country. The opening of our 5,000 square-foot showroom in Hong Kong s jewelry district in March 2004 forms part of our strategy to expand into China. Meanwhile, our debut in Australia in January this year, when we won an initial sales order from the country s biggest home shopping channel, also allows us not only to establish our footprint in Australia, but also to enhance our presence in China as the network also broadcasts there.

Besides our concerted marketing efforts, the on-going refinement and diversification of our product lines has also contributed in no small way to expanding our sales coffers, attracting new customers, winning large orders from existing ones and our success at high-profile trade shows such as the JCK Gem Show in Las Vegas in 2003. We continue to develop our highly successful and profitable diamond line, introduced in 2002 and for which we installed a high tech facility, fitted out with CAD/CAM model making equipment and a wide range of wax set molding equipment. Our efforts in fashioning new, creative designs with semi-precious gems remain relentless. In April 2003, we won the trademark for our recently-discovered Brazilian plum-rose colored stone we have named the Rosenite Garnet.

While it may still be premature to talk about a definite global economic recovery, we at

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LJ International can say with reasonable confidence that things are picking up in the jewelry sector and we expect to keep registering in the foreseeable years ahead the kind of double-digit growth in both sales and net income that characterized our company in its early years. We continue to benefit from the cost savings and the administrative, sales and operational efficiencies resulting from the corporate reengineering exercise we undertook in late 2001 and saw our selling, general and administrative expenses in fiscal 2003 falling to $9 million, or 16% of our revenue, compared with nearly $9.6 million, or 21% of our revenue, in 2002. At the same time, we are optimistic that our market expansion and product diversification will continue in 2004 and into the years beyond.

A. OPERATING RESULTS.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

Revenues

							% change		
	Years ended April 30,		Eight-month period ended December 31,		Year ended December 31,		Years ended April 30,	Eight-month period	Years ended December 31,
(in thousands)	2001	2002	2001	2002	2002	2003	2001-2002	2001-2002	2002-2003
			Unaudited		Unaudited				
Revenues	$ 46,285	$ 39,240	$ 25,042	$ 31,809	$ 46,007	$ 58,167	-15%	27%	26%

The increase in revenue for the year ended December 31, 2003, compared with the year ended December 31, 2002,was primarily due to the acceptance of new products, and the increase in orders from existing customers.

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

	Years ended April 30,		Eight-month period ended December 31,		Year ended December 31,		% change: Years ended April 30,	% change: Eight-month period	% change: Years ended December 31,
(in thousands)	**2001**	**2002**	**2001**	**2002**	**2002**	**2003**	**2001-2002**	**2001-2002**	**2002-2003**
			Unaudited		**Unaudited**				
Cost of sales	$31,540	$30,021	$18,602	$22,820	$34,241	$44,947	-5%	23%	31%
% of revenues	68%	77%	74%	72%	74%	77%			
Cost of sales - write down of inventory	$ 0	$ 5,710	$ 0	$ 0	$ 5,710	$ 0	N/A	N/A	-100%
% of revenues	0%	15%	0%	0%	12%	0%			
Gross profit	$14,745	$ 3,509	$ 6,440	$ 8,989	$ 6,056	$13,220	-76%	40%	118%
% of revenues	32%	9%	26%	28%	13%	23%			

The gross profit margin increased to 23% for the year ended December 31, 2003 from 13% for the year ended December 31, 2002. It was due to various adjustments on inventory made for the year ended December 31, 2002 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 25% for the year ended December 31, 2002.

The gross profit margin increased to 28% for the eight-month periods ended December 31, 2002 from 26% for the same period ended December 31, 2001.

The gross profit margin dropped from 32% for the year ended April 30, 2001 to 9% for the year ended April 30, 2002. The decrease was due to various adjustments on inventory as explained for the year 2002. Excluding the above special charge on inventory, the gross profit margin was 24% for the year ended April 30, 2002.

Selling, General and Administrative Expenses

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(in thousands)	Years ended April 30, 2001	Years ended April 30, 2002	Eight-month period ended December 31, 2001	Eight-month period ended December 31, 2002	Year ended December 31, 2002	Year ended December 31, 2003	% change Years ended April 30, 2001-2002	% change Eight-month period 2001-2002	% change Years ended December 31, 2002-2003
			Unaudited		Unaudited				
Selling, general and administrative expenses	$ 9,398	$ 8,963	$ 5,905	$ 6,433	$ 9,525	$ 9,133	-5%	9%	-4%
% of revenues	20%	23%	24%	20%	21%	16%			

Selling, general and administrative (SG&A) expenses decreased by 5% of revenue for the year ended December 31, 2003, compared with the year ended December 31, 2002. Between 2002 and 2003, 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.

Selling, general and administrative (SG&A) expenses increased by 3% of revenue for the year ended April 30, 2002, compared with the year ended April 30, 2001. The increase was mainly attributable to the severance payment on cost-cutting program.

Unrealized loss (gain) on derivatives

(in thousands)	Years ended April 30, 2001	Years ended April 30, 2002	Eight-month period ended December 31, 2001	Eight-month period ended December 31, 2002	Year ended December 31, 2002	Year ended December 31, 2003	% change Years ended April 30, 2001-2002	% change Eight-month period 2001-2002	% change Years ended December 31, 2002-2003
			Unaudited		Unaudited				
Unrealized loss (gain) on derivatives	$ (44)	$ 660	$ 119	$ 435	$ 975	$ 162	-1600%	266%	-83%
% of revenues	0%	2%	0%	1%	2%	0%			

We have 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 valued at fair value 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 unrealized loss on derivatives of $660,000 and $435,000 for the year ended

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April 30, 2002 and for the eight months ended December 31, 2002 to cover possible losses resulting from price fluctuations.

Since 2003, we have commenced hedging the fluctuations in the price of gold related to the gold loans by entering into contracts with financial institutions for the future purchase of gold. As a result, we have reduced the unrealized loss to $162,000 for the year ended December 31, 2003, compared with the unrealized loss of $975,000 for the year ended December 31, 2002 and have realized gain of $249,000 before the hedging activities were in place.

Depreciation

							% change		
	Years ended April 30,		Eight-month period ended December 31,		Year ended December 31,		Years ended April 30,	Eight-month period	Years ended December 31,
(in thousands)	2001	2002	2001	2002	2002	2003	2001-2002	2001-2002	2002-2003
			Unaudited		Unaudited				
Depreciation	$ 808	$ 1,031	$ 565	$ 863	$ 1,328	$ 1,184	28%	53%	-11%
% of revenues	2%	3%	2%	3%	3%	2%			

Depreciation decreased 11% to $1,184,000 for the year ended December 31, 2003 from $1,328,000 for the year ended December 31, 2002, as depreciation of $158,000 on leasehold improvements in production facilities was included in April 2002 that we ceased to use before the expiry of their leases.

The increase in depreciation costs primarily represents the impact of on-going capital expenditures and assets acquired for the eight months ended December 2002 and for the year ended April 30, 2002. It also incorporated 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

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	Years ended April 30,		Eight-month period ended December 31,		Year ended December 31,		% change: Years ended April 30,	% change: Eight-month period	% change: Years ended December 31,
(in thousands)	2001	2002	2001	2002	2002	2003	2001-2002	2001-2002	2002-2003
			Unaudited		Unaudited				
Impairment on property, plant and equipment	$ 0	$ 345	$ 0	$ 108	$ 417	$ 84	N/A	N/A	-80%
% of revenues	0%	1%	0%	0%	1%	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,		Year ended December 31,		% change: Years ended April 30,	% change: Eight-month period	% change: Years ended December 31,
(in thousands)	2001	2002	2001	2002	2002	2003	2001-2002	2001-2002	2002-2003
			Unaudited		Unaudited				
Amortization and impairment loss on goodwill	$ 27	$ 242	$ 18	$ 400	$ 624	$ 200	796%	2122%	-68%
% of revenues	0%	1%	0%	1%	1%	0%			

Amortization of goodwill was related to the acquisition of a jewelry company during 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 expensed the balancing goodwill of $215,000 during the year ended April 30, 2002.

Impairment loss of goodwill for the eight-month period ended December 31, 2002 and for the year ended December 31, 2003 was related to the goodwill arising from the acquisition of the jewelry retail company in March 2002.

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Interest cost

							% change		
	Years ended April 30,		Eight-month period ended December 31,		Year ended December 31,		Years ended April 30,	Eight-month period	Years ended December 31,
(in thousands)	2001	2002	2001	2002	2002	2003	2001-2002	2001-2002	2002-2003
			Unaudited		Unaudited				
Interest expenses	$ 868	$ 652	$ 424	$ 441	$ 668	$ 753	-25%	4%	13%
% of revenues	2%	2%	2%	1%	1%	1%			
Interest expenses arising from beneficial conversion features of convertible debentures	$ 874	$ 0	$ 0	$ 0	$ 0	$ 0	-100%	N/A	N/A
% of revenues	2%	0%	0%	0%	0%	0%			
Amortization of discount on convertible debentures	$ 38	$ 0	$ 0	$ 0	$ 0	$ 0	-100%	N/A	N/A
% of revenues	0%	0%	0%	0%	0%	0%			

Interest expenses

Interest expenses increased for the year ended December 31, 2003 because of a higher utilization rate of credit line facilities.

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

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

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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 $874,000 for the year ended April 30, 2001.

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 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,		Year ended December 31,		% change		
							Years ended April 30,	Eight-month period	Years ended December 31,
(in thousands)	2001	2002	2001	2002	2002	2003	2001-2002	2001-2002	2002-2003
			Unaudited		Unaudited				
Impairment loss on investment securities	$ 0	$ 0	$ 0	$ 200	$ 200	$ 0	N/A	N/A	-100%
% of revenues	0%	0%	0%	1%	0%	0%			

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

Other Revenues

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(in thousands)	Years ended April 30, 2001	Years ended April 30, 2002	Eight-month period ended December 31, 2001	Eight-month period ended December 31, 2002	Year ended December 31, 2002	Year ended December 31, 2003	% change Years ended April 30, 2001-2002	% change Eight-month period 2001-2002	% change Years ended December 31, 2002-2003
			Unaudited		Unaudited				
Interest incomes	$ 508	$ 217	$ 172	$ 47	$ 91	$ 41	-57%	-73%	-55%
% of revenues	1%	1%	1%	0%	0%	0%			
Rental incomes	$ 62	$ 135	$ 93	$ 158	$ 200	$ 163	118%	70%	-19%
% of revenues	0%	0%	0%	0%	0%	0%			
Realized gain on derivative contracts	$ 0	$ 0	$ 0	$ 0	$ 0	$ 249	N/A	N/A	N/A
% of revenues	0%	0%	0%	0%	0%	0%			

Interest income decreased to $41,000 for the year ended December 31, 2003, compared with $91,000 for the year ended December 31, 2002. The decrease was mainly due to the decrease in restricted cash as security deposit for banking facilities.

The decrease in interest income for the eight months ended December 31, 2002 and the year ended April 30, 2002, compared with the corresponding period in 2001, was mainly due to consecutive cuts of interest rates from early 2001 to early 2002.

Rental incomes for the year ended December 31, 2003 decreased by 19% to $163,000, compared with the year ended December 31, 2002, as there was slight price adjustment on renewal of tenancy agreement.

The increase in rental income for the eight months ended December 31, 2002 and for the year ended April 30, 2002, compared with the corresponding periods in 2001 were due to an additional investment property was rented out in 2002.

For the year ended December 31, 2003, we have commenced hedging the fluctuations in the price of gold related to the gold loans by entering into contracts with a financial institution for the future purchase of gold. We have realized gain of $249,000 before the hedging activities were in place.

Income taxes

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(in thousands)	Years ended April 30, 2001	Years ended April 30, 2002	Eight-month period ended December 31, 2001	Eight-month period ended December 31, 2002	Year ended December 31, 2002	Year ended December 31, 2003	% change: Years ended April 30, 2001-2002	% change: Eight-month period 2001-2002	% change: Years ended December 31, 2002-2003
			Unaudited		Unaudited				
Incomes taxes expense (credit)	$ 211	$ (101)	$ 39	$ 101	$ (39)	$ 352	-148%	159%	-1003%
% of revenues	0%	0%	0%	0%	0%	1%			

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 17.5%.

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.

One of our subsidiaries in China is currently enjoying the tax concessions which will expire in fiscal 2005. 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, 2001, and 2002, and December 31, 2003, there were tax overprovision of $27,000, $103,000 and $92,000 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

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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.

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,**		**Years ended December 31,**	
(in thousands)	**2001**	**2002**	**2001**	**2002**	**2002**	**2003**
			(Unaudited)		**(Unaudited)**	
Net cash provided by (used in) operating activities	$ 3,707	$ (753)	$ (787)	$ 3,374	$ 4,276	$ 1,489
Net cash provided by (used in) investing activities	(6,058)	(2,248)	(384)	(2,207)	(4,941)	(468)
Net cash provided by (used in) financing activities	2,390	2,017	185	(824)	1,009	704
Effect of foreign exchange rate change				(68)	(68)	
Net increase (decrease) in cash and cash equivalents	39	(984)	(986)	275	276	1,725

Operating Activities:

The decrease in net cash provided by operating activities in the year ended December 31, 2003 compared with the year ended December 31, 2002, and the negative cash flow from operating activities for the eight-month period ended December 31, 2001 reflected our 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.

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 year ended April 30, 2002 was primarily due to decrease in sales and gross profit margin.

Investing Activities:

For the year ended December 31, 2003, net cash used in investing activities was for the capital expenditures, mainly for new production facilities in Shenzhen, and for other on-going business necessities, reduced by the release of restricted cash deposits from the bank.

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 year ended December 31, 2002 and for the eight-month period ended December 31, 2002, 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 December 31, 2002 and 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. In September 2003, we redeemed all shares of 6,800,000 of common stock held by a former employee at $125. As a result, we now hold 94.6% 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% 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 capital expenditure by category for the periods presented were:

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(in thousands)	Years ended April 30, 2001	Years ended April 30, 2002	Eight-month period ended December 31, 2001	Eight-month period ended December 31, 2002	Years ended December 31, 2002	Years ended December 31, 2003
			(Unaudited)		(Unaudited)	
Land & buildings	$	$	$	$ 721	$ 721	$ 330
Leasehold improvement	$ 343	$ 215	$ 95	$ 159	$ 279	$ 189
Furniture, fixtures and equipment	$ 300	$ 181	$ 239	$ 382	$ 324	$ 250
Plant and machinery	$ 178	$ 24	$ 21	$ 282	$ 285	$ 93
Motor vehicles	$ 16	$	$	$ 12	$ 12	$ 133
Total	$ 837	$ 420	$ 355	$ 1,556	$ 1,621	$ 995

Financing Activities:

Net cash provided by financing activities for the year ended December 31, 2003 was $704,000. It was represented by the proceeds from issuance of shares upon exercise of stock options of $2,245,000 and sales of treasury stock of $541,000, raise of new bank loans, reduced by repayment of matured bank loans, and decrease in utilization of bank overdraft facilities.

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.

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, factoring facilities and overdrafts under banking facilities. The banking facilities are collateralized by land and buildings, investment properties, restricted cash deposits, factored receivables and personal guarantees of and properties owned by one of our directors.

Letters of Credit, overdrafts and others:

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(in thousands)	As of April 30, 2001	As of April 30, 2002	As of December 31, 2001	As of December 31, 2002	As of December 31, 2002	As of December 31, 2003
			(Unaudited)			
Facilities granted						
Letters of credit and others	$13,001	$17,748	$14,424	$12,985	$12,985	$19,005
Overdrafts	$ 6,274	$ 3,532	$ 3,532	$ 3,244	$ 3,244	$ 3,397
	19,275	21,280	17,956	16,229	16,229	22,402
Utilized						
Letters of credit and others utilized	$ 4,139	$ 6,208	$ 8,197	$ 8,559	$ 8,559	$13,619
Overdrafts utilized	$ 3,262	$ 2,607	$ 2,313	$ 3,107	$ 3,107	$ 1,312
	7,401	8,815	10,510	11,666	11,666	14,931

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.

The factoring facilities granted are limited to the extent of accounts receivable collateralized to the banks.

Notes payable:

(in thousands)	As of April 30, 2001	As of April 30, 2002	As of December 31, 2001	As of December 31, 2002	As of December 31, 2002	As of December 31, 2003
			(Unaudited)			
Notes payable	$ 773	$ 282	$ 447	$ 1,073	$ 1,073	$ 1,516

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:

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(in thousands)	As of April 30, 2001	As of April 30, 2002	As of December 31, 2001	As of December 31, 2002	As of December 31, 2002	As of December 31, 2003
			(Unaudited)			
Gold loans outstanding (in $)	$ 2,151	$ 5,341	$ 3,627	$ 3,700	$ 3,700	$ 3,118
Gold loans outstanding (in troy ounces)	6,950	18,450	12,450	12,950	12,950	10,900
Gold loan interest rate	2%-2.9%	1.7%-3.4%	1.65%-4.1%	1.5%-2.4%	1.5%-2.4%	1.6%-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 in 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 valued at fair value 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 collateral for general banking facilities in fiscal 2000 and 2001, and partly used to finance the purchases of investment securities in 2001.

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.

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Impact of recently issued US GAAP accounting standards.

In April 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. The new guidance amends SFAS No. 133 for decisions made as part of the Derivatives Implementation Group (DIG) process that effectively required amendments to SFAS No. 133, and decisions made in connection with other FASB projects dealing with financial instruments and in connection with implementation issues raised in relation to the application of the definition of a derivative and characteristics of a derivative that contains financing components. In addition, it clarifies when a derivative contains a financing component that warrants special reporting in the statement of cash flow. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The Company believes that SFAS 149 will not have significant impact on the Company s financial statements.

In May 2003, the FASB issued FASB No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity . This Statement is effective for financial instruments entered into or modified after May 31, 2003. This Statement provides guidance for determining the classification of and accounting for certain financial instruments that embody obligations of the issuing entity. The Company considered that adoption of SFAS No. 150 does not have significant impact on its financial statements.

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.

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D. TREND INFORMATION.

The total production for fiscal year ended December 31, 2004 is estimated to be at least 15% greater than the level for fiscal year 2003. The sales for fiscal year 2004 is estimated at approximately US$68 million, compared to US$58 million for the fiscal year ended December 31, 2003. The gross profit margin for fiscal year 2004 is estimated to stay at the same 23% level as fiscal year 2003.

E. OFF-BALANCE SHEET ARRANGEMENTS.

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS.

As of the December 31, 2003, we had the following known contractual obligations:

	Payments due by period				
	Total	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
	US$	**US$**	**US$**	**US$**	**US$**
Long-Term Debt Obligations	0				
Capital (Finance) Lease Obligations	95	18	38	39	0
Operating Lease Obligations	808	310	283	215	0
Purchase Obligations	0				
Other Long-Term Liabilities Reflected on the Company s	0				
Balance Sheet under the GAAP of the primary financial statements	0				
Total	903	328	321	254	0

We had entered into finance lease agreements for the purchase of motor vehicles in 2003. The financed amount was $95,000, bearing interest at 5%-6% per annum, and repayable in 60 monthly installments beginning in 2003. A minimum finance charge may be charged if we pay off all the balance early**.**

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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.

Shenzhen PGS Jewelry Mfg.

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 3,502 square meters of production space in our Shenzhen, China facility during the fiscal year ended December 31, 2002

we invested $390,000 for the purchase of 1,751 square meters of production space in our Shenzhen, China facility during the fiscal year ended December 31, 2003

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;
- TV shopping channels; and
- discount chain stores.

For the eight-month period ended December 31, 2002 and the year ended December 31, 2003, approximately 77% and 74% 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:

	Year ended April 30,		8 months ended December 31,		Year ended December 31,	
	2001	2002	2001	2002	2002	2003
			(Unaudited)		(Unaudited)	
	US$	US$	US$	US$	US$	US$
US & Canada	38,463	28,810	19,373	24,545	33,886	42,851
Hong Kong	599	4,897	1,383	1,451	4,361	1,961
Europe and other countries	7,028	5,518	4,167	3,469	4,964	8,017
PRC	74	6				
Japan	121	9	119	2,344	2,796	5,338
	46,285	39,240	25,042	31,809	46,007	58,167

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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, China, and Australia.

We are aggressively developing new product lines in exotic stones, which have high perceived values among semi-precious stones. We continue to expand 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
- adding more lines into our Lorenzo branded products 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
- launching Lorenzo Gold , a gold products made from Italy .

We intend to implement our business strategy by:

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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, Korea and Australia and further developing business with top-40 Retail Jewelry Chains in the U.S.

entering the retail jewelry market in China.

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 9,232 square meters 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, 2003.

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 and Los Angeles, California. Our marketing and distribution strategy is to identify the strongest retail

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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;
- TV shopping channels; and
- discount chain stores.

In addition to direct sales to 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.

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;

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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.

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 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

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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.

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.;
- 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

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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 had 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 established what is sometimes termed an equity line of credit or an equity drawn down facility. On June 7, 2002, we filed a registration statement (SEC File No. 333-90016) covering the shares issuable under the equity line of credit.

On July 23, 2003, Navigator and we mutually agreed to terminate the common stock purchase agreement. The registration statement had not been declared effective and no securities had been sold in connection with the offering contemplated by the registration statement. Thereafter, in August 2003, we formally withdrew the registration statement with the SEC.

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C. ORGANIZATIONAL STRUCTURE AS OF DECEMBER 31, 2003:

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.)

- **Shenzhen PGS Jewelry Mfg.**
  (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 9,232 square meters of building space located in the Shatoujiao Free Trade Zone, Shenzhen. We own approximately 5,254 square meters of this space. We also currently lease 1,751 square meters for a term of five years expiring August 31, 2007 from an unaffiliated third party at a rental rate of $5,700 per month; 1,751 square meters for a term of two years expiring June 30, 2004, at a rental rate of $3,600 per month; and 476 square meters for a term of one year expiring December 31, 2004, at a rental rate of $862 per month.

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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.

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: