LJ INTERNATIONAL INC
Form 20-F
May 15, 2003

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U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

[ ] REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

[ ] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended ________

OR

[X] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from May 1, 2002 to December 31, 2002

Commission file number 0-29620

LJ INTERNATIONAL INC.

(Exact name of Registrant as specified in its charter)

LJ INTERNATIONAL INC.

(Translation of Registrant s name into English)

British Virgin Islands

(Jurisdiction of incorporation or organization)

Unit #12, 12/F, Block A
Focal Industrial Centre
21 Man Lok Street
Hung Hom, Kowloon, Hong Kong

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered

None	N/A

Securities registered or to be registered pursuant to Section 12(g) of the Act.

$.01 Par Value Common Stock ("Common Stock")

(Title of Class)

Warrants to Purchase Common Stock ("Warrants")

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of December 31, 2002:

8,671,615 Common Stock
1,679,000 Warrants

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 [ ] Item 18 [X]

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Not Applicable.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report 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 exp statements involve estimates, assumptions and uncertainties that could cause actual results to differ materially from those expressed for the reasons described in this annual report. 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 annual report, 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 in this annual report which we have obtained from internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information they provide has been obtained from sources believed to be reliable but that the accuracy and completeness of such information is not guaranteed. Similarly, we believe that the surveys and market research we or others have performed are reliable, but we have not independently verified this information.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA.

SELECTED CONSOLIDATED FINANCIAL DATA
(Dollars in thousands, except per share amounts)

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

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Selected Financial Data

	Years ended April 30,					Eight-month period ended December 31,
	1998	**1999**	**2000**	**2001**	**2002**	**2002**
Statement of Operations Data:						
Revenues	$16,067	$25,255	$38,926	$ 46,285	$ 39,240	$31,809
Cost of Goods sold	8,188	12,854	24,030	29,575	33,283	21,531
Gross profit	7,879	12,401	14,896	16,710	5,957	10,278
Operating expenses						
Selling, general and administrative	(5,190)	(7,080)	(8,872)	(11,363)	(11,411)	(7,722)
Unrealized (Loss) gain on gold loan	135	81	44	44	(660)	(435)
Depreciation	(245)	(643)	(705)	(808)	(1,031)	(863)
Impairment on property, plant and equipment					(345)	(108)
Amortization and impairment loss on goodwill				(27)	(242)	(400)
Income (loss) from operations	2,579	4,759	5,363	4,556	(7,732)	750
Other revenues	202	280	458	570	352	205
Interest expenses	(928)	(890)	(1,446)	(1,780)	(652)	(441)
Issuance costs for convertible debentures			(585)			
Impairment loss on investment security						(200)
Operating income (loss) before income taxes and minority interests	1,853	4,149	3,790	3,346	(8,032)	314
Incomes taxes (expense) credit	(274)	(49)	(3)	(211)	101	(101)
Income (Loss) before minority interests	1,579	4,100	3,787	3,135	(7,931)	213
Minority interests in consolidated subsidiaries		35	52		30	120
Net income (loss)	$ 1,579	$ 4,135	$ 3,839	$ 3,135	$ (7,901)	$ 333
Net income (loss) per share:						
Basic	$ 0.34	$ 0.65	$ 0.58	$ 0.37	$ (0.91)	$ 0.04
Diluted	$ 0.34	$ 0.65	$ 0.56	$ 0.37	$ (0.91)	$ 0.04
Pro forma basic	$ 0.34	$ 0.22	$ 0.57	$ 0.13	$ (0.91)	$ 0.04
Pro forma diluted	$ 0.34	$ 0.22	$ 0.54	$ 0.13	$ (0.91)	$ 0.04
Weighted average number of shares						
Basic	4,601	6,347	6,589	8,567	8,672	8,493
Diluted	4,606	6,348	6,944	8,617	8,779	8,493
Pro forma basic	4,601	6,347	6,589	8,567	8,672	8,493
Pro forma diluted	4,606	6,348	6,944	8,617	8,779	8,493
Balance Sheet Data:						
Working capital	5,057	9,786	20,561	20,153	12,115	11,896
Total assets	18,410	27,558	39,700	47,300	42,961	46,085
Long-term obligation	1,364	1,168	2,943	287	8	
Total stockholders equity	10,084	15,339	24,739	31,161	23,557	23,294

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B. CAPITALIZATION AND INDEBTEDNESS.

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS.

Not applicable.

D. RISK FACTORS.

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

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

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

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

We face significant competition from larger competitors.

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

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

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

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

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

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

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

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

Since 1978, the Chinese government has been reforming, and is expected to continue to reform, China s economic and political systems. Such reforms have resulted in significant social progress. Other political, economic and social factors could also lead to further readjustment of the reform measures. This refinement and readjustment process may not always have a positive effect on our operations in China. At times, we may also be adversely affected by changes in policies of the Chinese government such as changes in laws and regulations or their interpretation, the introduction of additional measures to control inflation, changes in the rate or method of taxation and imposition of additional restrictions on currency conversion and remittances abroad.

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

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

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

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

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

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

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

We are a British Virgin Islands holding company, and all or a substantial portion of our assets are located in China and Hong Kong. In addition, all but one of our directors and officers are non-residents of the United States, and all or substantial portions of the assets of such non-residents are located outside the United States. As a result, it may not be possible to effect service of process within the United States upon such persons. Moreover, there is doubt as to whether the courts of the British Virgin Islands, China or Hong Kong would enforce:

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

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

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

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

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

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

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

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

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

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

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

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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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ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY.

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

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

Lorenzo Gems Manufacturing (Shenzhen) Co., Ltd.

Lorenzo Jewellery (Shenzhen) Co., Ltd.

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

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

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

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

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

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

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

B. BUSINESS OVERVIEW.

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

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

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

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

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

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

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

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

Approximately 25% of our sales during the eight-month period ended December 31, 2002 was to our largest customer, QVC, Inc., and was not seasonal in nature. It has been our management s

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experience that the remaining 75% of our total sales is seasonally sensitive and is greater during the quarter ending December 31 of each year.

Our Industry

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

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

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

Our Business Strategy

Our business strategy is to:

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

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

- marketing a line of sterling silver jewelry. These are typically merchandised with a retail price range of $30 to $150
- offering a new branded collection of sterling silver and 18 karat gold jewelry with a retail price range of $199 to $999
- offering diamond jewelry and expanding this business to our current client base by adding diamonds to some of our settings, as well as offering newly designed jewelry
- developing a new 18,000 square feet CAD/CAM enabled production facility devoted to diamonds and high-end precious stones, with technology to fully integrate computer design from prototype to sample

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We intend to implement our business strategy by:

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

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

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

Our Production Capability

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

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

Sales and Marketing

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

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

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

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

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

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

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

Design and Product Development

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

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

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

Production Process

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

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

Supply

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

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

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

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

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

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

Security

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

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

Insurance

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

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.

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

- E.E.A.C. Inc.;
- Topaz Group, Inc.; and
- Fabrikant.

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

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C. ORGANIZATIONAL STRUCTURE AS OF DECEMBER 31, 2002:

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

LJ INTERNATIONAL INC.
(British Virgin Islands)

100%

Lorenzo Jewelry Limited
(Hong Kong)

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

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

D. PROPERTY, PLANTS AND EQUIPMENT.

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

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

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

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.

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ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion and analysis should be read in conjunction with our financial statements and notes to the financial statements appearing elsewhere in this Form 20-F. See Special Note Regarding Forward-looking Statements.

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

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

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

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

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

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

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

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

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

A. OPERATING RESULTS.

Revenues

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

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

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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.

Cost of Sales and Gross Profit

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

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

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

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

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

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

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

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

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

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

Selling, General and Administrative Expenses

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

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

Unrealized loss (gain) on gold loan

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

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

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Depreciation

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

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

Impairment on property, plant and equipment

(in thousands)	Years ended April 30, 2000	2001	2002	Eight-month period ended December 31, 2001	2002	% change Year 2000-2001	2001-2002	Eight-month period 2001-2002
				Unaudited				
Impairment on property, plant and equipment	$ 0	$ 0	$ 345	$ 0	$ 108	N/A	N/A	N/A
% of revenues	0%	0%	1%	0%	0%			

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

Amortization and impairment loss on goodwill

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

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

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

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

Interest cost

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

Interest expenses

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

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

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Beneficial Conversion Features of Convertible Debentures

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

Amortization of discount on convertible debentures

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

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

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

Issuing cost of convertible debentures

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

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

Other Revenues

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

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

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

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

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

Income taxes

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

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

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

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

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

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

Inflation

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

Foreign Exchange

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

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 on pages 7 to 10.

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.

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Cash Flows

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

Operating Activities:

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

Investing Activities:

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

For the year ended April 30, 2002 our investing activities included the further acquisition of 68.8% of a subsidiary, iBBC Inc., which engages in marketing jewelry from its display cases in retail shops. As a result of this investment, we now hold 85.6% of the subsidiary. For the year ended April 30, 2001, our negative cash flow from investing activities reflected the acquisition of investment securities for $3,284,000. These investment securities included the acquisition of 20% equity interests in a company whose principal activities are the manufacturing and trading of rough and pre-formed gemstones, and an acquisition of 16.8% equity interests in a jewelry retail company for our further expansion through vertical integration and the development of distribution channels in the United States. We had no significant control and influence over both companies operating and financial policies. Our additional investment for the year ended April

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30, 2000, was the acquisition of the remaining 40% of Lorenzo Marketing, which we did not already own, for $237,000 to further expand our market share in Japan and Europe.

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

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

Financing Activities:

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

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

Financing Sources

Banking Facilities and Notes Payables

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

Letters of Credit and overdrafts:

	Years ended April 30,			Eight-month period ended December 31,	
(in thousands)	2000	2001	2002	2001	2002
				Unaudited	
Facilities granted:					
Letters of credit	$ 8,603	$ 11,125	$ 11,643	$ 10,996	$ 9,615
Overdraft	$ 4,722	$ 6,274	$ 3,532	$ 3,532	$ 3,244
	13,325	17,399	15,175	14,528	12,859
Utilized:					
Letters of credit utilized	$ 3,356	$ 3,649	$ 5,646	$ 7,565	$ 5,756
Overdraft utilized	$ 821	$ 3,262	$ 2,607	$ 2,313	$ 3,107

	4,177	6,911	8,253	9,878	8,863

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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.

Notes payable:

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

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

Gold Loan Facilities:

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

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

Convertible Debentures:

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

Equity Line of Credit:

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

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

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

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

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

(iv) the availability of alternative financing; and

(v) the need and timing for the financing.

Looking Forward:

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

Impact of recently issued US GAAP accounting standards.

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In July 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, which requires costs associated with exit or disposal activities to be recognized when the costs are incurred, rather than at a date of commitment to an exit or disposal plan. The provisions of SFAS 146 are effective for disposal activities initiated after December 31, 2002. The adoption of SFAS No. 146 is not expected to have a material impact on the Group s financial statements.

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

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

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

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

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D. TREND INFORMATION.

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

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ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. DIRECTORS AND SENIOR MANAGEMENT.

Our senior management and directors are as follows:

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

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

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

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

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

Ms. Yue has served as a non-executive director since December 1999. She is a graduate gemologist from the Gemological Institute of America and served as vice president of GIA, Hong Kong, from August 1994 to December 2002. Her responsibilities included managing the Hong Kong office and administering their education programs, marketing and related activities. Since December 2002, Ms. Yue has served as a manager for a colored gems import and export trading company.

Mr. Wang has served as a non-executive director since June 1998. He received his Bachelor of Commerce from Tamkung University, Taipei, Taiwan in 1978, his Master of

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

B. COMPENSATION.

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

Executive Service Contract

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

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

On October 17, 2000, we offered all option holders the opportunity to cancel all or some of their stock options in exchange for new options to be granted on April 30, 2001 to acquire an equal number of shares with an exercise price equal to the then last sale price of the stock on April 30, 2001 for a new term of seven years expiring April 30, 2008. Mr. Yih accepted the offer and now holds an option to acquire an aggregate of 775,000 shares exercisable at $2.00 per share at any time until April 30, 2008.

C. BOARD PRACTICES.

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

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

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

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

D. EMPLOYEES.

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

E. SHARE OWNERSHIP.

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

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

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

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

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

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

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

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

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

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

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

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

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

The 1998 Stock Compensation Plan

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

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

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

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

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

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

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

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

Other Options and Warrants Outstanding

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

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

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

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

options to purchase 35,000 shares at $5.00 per share through July 30, 2004, which we granted to a former financial consultant on July 31, 1999, for services rendered in connection with public relations

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warrants to purchase 75,000 shares at $3.75 per share through November 30, 2004, and warrants to purchase 87,500 shares at $6.9375 per share through March 31, 2005, which we granted to two investors and a placement agent in connection with two tranches of our 3% Convertible Debentures on November 5, 1999, and March 22, 2000

warrants to purchase shares which we granted to a former financial consultant on June 1, 2001, for services rendered in connection with corporate development as follows:

100,000 shares at $2.29 per share exercisable through May 31, 2003;

80,000 shares at $3.43 per share exercisable through May 31, 2004; and

80,000 shares at $4.57 per share exercisable through May 31, 2005.

warrants to purchase 200,000 shares at $3.00 per share through August 15, 2006, which we granted to The Bauer Partnership, Inc. on August 16, 2001, in connection with a proposed debt placement which was never completed

warrants to purchase 150,000 shares at $1.7892 per share through April 14, 2005, which we granted to Navigator Investments Holding IX Limited on April 15, 2002, as a commitment fee in connection with an equity line of credit facility

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. MAJOR SHAREHOLDERS.

Please see Item 6.E. for share ownership information regarding our major shareholder. Our major shareholder does not have different voting rights.

To the extent known to us, we are not directly or indirectly owned or controlled by another corporation, by any foreign government or by any other natural or legal persons severally or jointly.

To our knowledge, there are no arrangements the operation of which may at a subsequent date result in a change in control of our company.

B. RELATED PARTY TRANSACTIONS.

Yu Chuan Yih, our chairman and president, is a director and principal shareholder of Gemological Institute of America, Hong Kong Limited. Mr. Yih is also a director of iBBC Inc. which has a subsidiary, Gemriver Jewelry Limited. During the fiscal years ended April 30, 2001 and 2002, and December 31, 2002, Mr. Yih and these affiliated companies received unsecured advances from, and made unsecured advances to, us, which were interest free and repayable on demand. The maximum amount due from Mr. Yih were $622,000, $243,000 and $0 during the fiscal years ended April 30, 2001 and 2002, and December 31, 2002. The closing balance due to Mr. Yih was $248,000 as of April 30, 2001. There was no outstanding amount with Mr. Yih as of April 30, 2002 and December 31, 2002.

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Certain of our banking facilities are collateralized by properties owned by Yih Yu Chuan and his personal guarantee to the extent of $8,440,000 and $8,311,000 as of April 30, 2002, and December 31, 2002. Mr. Yih has not received any additional compensation or consideration from us in return for his personal guarantees.

During the fiscal year ended April 30, 1999, we provided a guarantee to a bank in respect of mortgage loans granted to Yu Chuan Yih to the extent of $632,000. As of December 31, 2002, the guarantee amount was $437,000.

During the fiscal year ended April 30, 2000, we received management fee income of $36,000 from Gemological Institute of America, Hong Kong Limited, which were determined by the directors for the services provided.

During the fiscal year ended April 30, 2001, we sold finished goods of $158,000 to Gemriver Jewelry Limited, which were made according to the published prices and conditions offered to our major customers. We also received from Gemriver Jewelry Limited for rental and management fee income of $21,000 and $32,000 respectively. In addition, we received management fee income of $27,000 from Gemological Institute of America, Hong Kong Limited, which were determined by the directors for the services provided.

During the fiscal year ended April 30, 2002, we further acquired 68.8% equity interest of iBBC Inc. from entities controlled by a director for a consideration for $2,460,000.

For additional information, refer to Footnote 16 to the Consolidated Financial Statements.

C. INTERESTS OF EXPERTS AND COUNSEL.

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION.

The Consolidated Financial Statements are filed in this Annual Report as Item 18.

B. SIGNIFICANT CHANGES.

We believe that no significant changes have occurred since the date of the annual financial statements.

ITEM 9. THE OFFER AND LISTING

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A. OFFER AND LISTING DETAILS.

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

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

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

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

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

B. PLAN OF DISTRIBUTION.

Not applicable.

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C. MARKETS.

Our common stock and our warrants have been listed and quoted for trading on The Nasdaq National Market System since April 15, 1998.

D. SELLING SHAREHOLDERS.

Not applicable.

E. DILUTION.

Not applicable.

F. EXPENSES OF THE ISSUE.

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. SHARE CAPITAL.

Not applicable.

B. MEMORANDUM AND ARTICLES OF ASSOCIATION.

Corporate Powers. We have been registered in the British Virgin Islands since January 30, 1997, under British Virgin Islands International Business Companies number 216796. Clause 4 of our Memorandum of Association states that the objects for which we are established are to engage in any businesses which are not prohibited by law in force in the British Virgin Islands.

Directors. A director who is materially interested in any transaction with us shall declare the material facts of and nature of his interest at the meeting of the Board of Directors. A director may vote or be counted as the quorum on any resolution of the Board in respect of any transaction in which he is materially interested. With the prior or subsequent approval by a resolution of members, the directors may, by a resolution of directors, fix the emoluments of directors with respect to services to be rendered in any capacity to us. The directors may, by a resolution of directors, exercise all the powers of the Company to borrow money. There is no age limit requirement for retirement or non-retirement of directors. A director shall not require a share qualification.

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Share Rights, Preferences and Restrictions. Our authorized share capital is US$1 million divided into 100 million shares of par value US$0.01 per share. All dividends unclaimed for three years after having been declared may be forfeited by resolution of the directors for our benefit. All shares vote as one class and each whole share has one vote. We may redeem any of our own shares for such fair value as we by a resolution of directors determine. All shares have the same rights with regard to dividends and distributions upon our liquidation.

Changing Share Rights. The rights of each class and series of shares that we are authorized to issue shall be fixed by the resolution of directors. If the authorized capital is divided into different classes, the rights attached to any class may be varied with the consent in writing of the holders of not less than three-fourths of the issued shares of that class and of the holders of not less than three-fourths of the issued shares of any other class which may be affected by such variation.

Shareholder Meetings. The directors may convene meetings of our members at such times and in such manner and places as the directors consider necessary or desirable. The directors shall convene such a meeting upon the written request of members holding 10 percent or more of our outstanding voting shares. At least seven days notice of the meeting shall be given to the members whose names appear on the share register.

Restrictions on Rights to Own Securities. There are no limitations on the rights to own our securities.

Change in Control Provisions. There are no provisions of our Memorandum of Association and Articles of Association that would have an effect of delaying, deferring or preventing a change in our control and that would have operate only with respect to a merger, acquisition or corporate restructuring involving us.

Disclosure of Share Ownership. There are no provisions governing the ownership threshold above which shareholder ownership must be disclosed.

Applicable Law. Under the laws of most jurisdictions in the US, 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. BVI law protecting the interests of minority shareholders may not be as protective in all circumstances as the law protecting minority shareholders in US jurisdictions.

While BVI law does permit a shareholder of a BVI company to sue its directors derivatively, that is, in the name of ,and for the benefit of, our company and to sue a company and its directors for his benefit and for the benefit of others similarly situated, the circumstances in which any such action may be brought, and the procedures and defenses that may be available in respect of any such action, may result in the rights of shareholders of a BVI company being more limited than those of shareholders of a company organized in the US.

Our directors have the power to take certain actions without shareholder approval, including an amendment of our Memorandum of Association or Articles of Association or an

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increase or reduction in our authorized capital, which would require shareholder approval under the laws of most US jurisdictions. In addition, the directors of a BVI corporation, subject in certain cases to court approval but without shareholder approval, may, among other things, implement a reorganization, certain mergers or consolidations, the sale, transfer, exchange or disposition of any assets, property, part of the business, or securities of the corporation, or any combination, if they determine it is in the best interests of the corporation, its creditors, or its shareholders. 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.

The International Business Companies Act of the British Virgin Islands permits the creation in our Memorandum and Articles of Association of staggered terms of directors, cumulative voting, shareholder approval of corporate matters by written consent, and the issuance of preferred shares. Currently, our Memorandum and Articles of Association only provide for shareholder approval of corporate matters by written consent, but not for staggered terms of directors, cumulative voting or the issuance of preferred shares.

As in most US jurisdictions, the board of directors of a BVI corporation is charged with the management of the affairs of the corporation. In most US jurisdictions, directors owe a fiduciary duty to the corporation and its shareholders, including a duty of care, under which directors must properly apprise themselves of all reasonably available information, and a duty of loyalty, under which they must protect the interests of the corporation and refrain from conduct that injures the corporation or its shareholders or that deprives the corporation or its shareholders of any profit or advantage. Many US jurisdictions have enacted various statutory provisions which permit the monetary liability of directors to be eliminated or limited. Under BVI law, liability of a corporate director to the corporation is primarily limited to cases of willful malfeasance in the performance of his duties or to cases where the director has not acted honestly and in good faith and with a view to the best interests of the corporation. However, under our Articles of Association, we are authorized to indemnify any director or officer who is made or threatened to be made a party to a legal or administrative proceeding by virtue of being one of our directors or officers, provided such person acted honestly and in good faith and with a view to our best interests and, in the case of a criminal proceeding, such person had no reasonable cause to believe that his conduct was unlawful. Our Articles of Association also enable us to indemnify any director or officer who was successful in such a proceeding against expense and judgments, fines and amounts paid in settlement and reasonably incurred in connection with the proceeding.

The above description of certain differences between BVI and US corporate laws is only a summary and does not purport to be complete or to address every applicable aspect of such laws. However, we believe that all material differences are disclosed above.

Changes in Capital. Requirements to effect changes in capital are not more stringent than is required by law.

C. MATERIAL CONTRACTS.

None.

D. EXCHANGE CONTROLS.

There are no material British Virgin Islands laws that impose foreign exchange controls on us or that affect our payment of dividends, interest or other payments to non-resident holders of our capital stock. British Virgin Islands law and our Memorandum of Association and Articles of Association impose no limitations on the right of non-resident or foreign owners to hold or vote our common stock.

E. TAXATION.

The following is a summary of antic