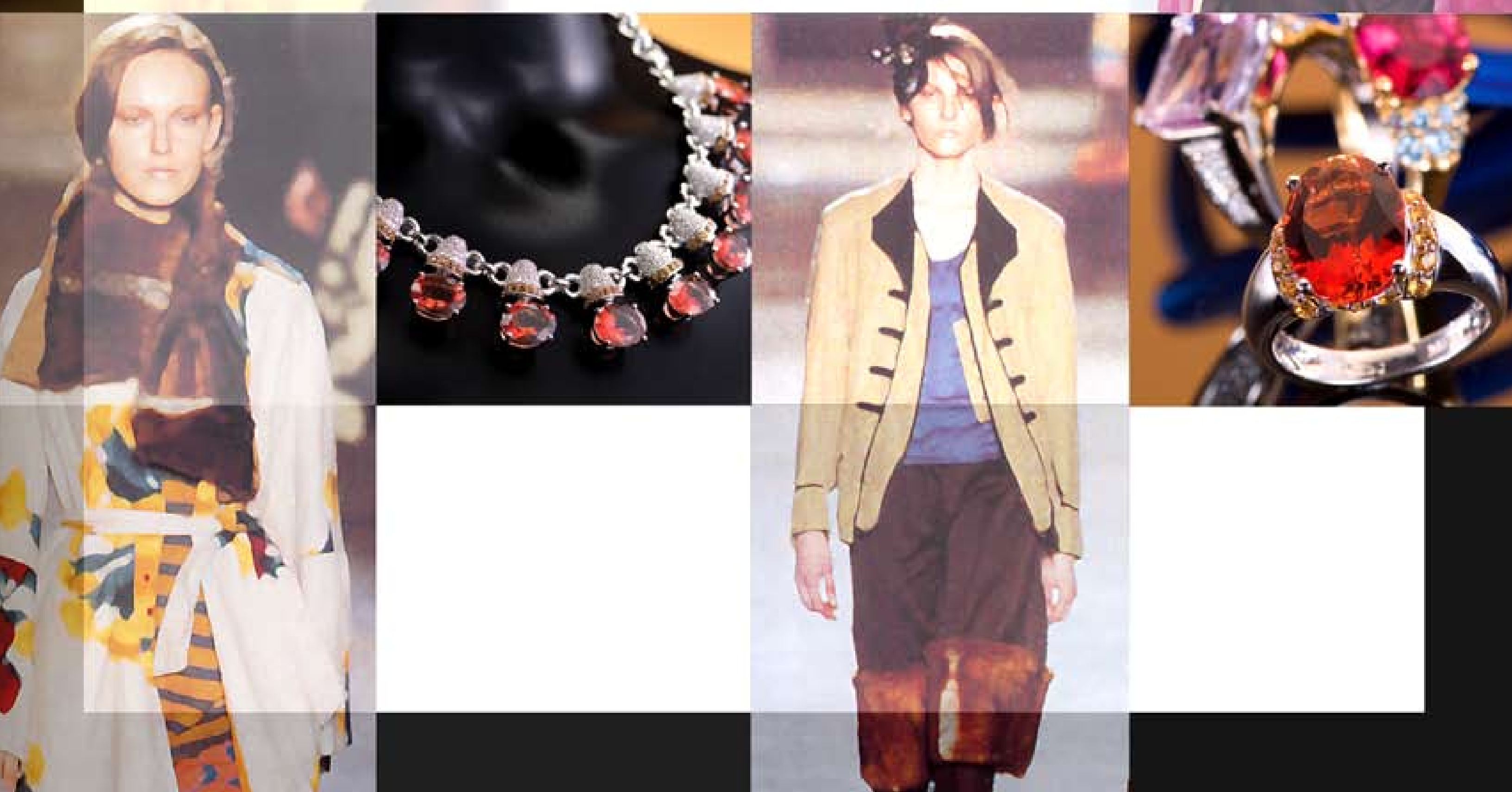



LJ International Inc.

ANNUAL REPORT
2004

COMPANY PROFILE

LJ International Inc. (NASDAQ/NMS:JADE) is the publicly-owned company behind Lorenzo and its sparkling array of fine jewelry for the discerning contemporary woman.

We design, brand, market, retail and distribute a comprehensive range of fine jewelry and our intricate designs come in a dazzling spectrum of vibrant colors from pink and purple to burgundy, turquoise to emerald green, and amber to tangerine. Our innovatively trendy styles, whether alluringly simple or tastefully ornate, are set in diamonds, rare and exotic gems, pearls and colored stones such as amethyst, topaz, garnet, citrine, aquamarine and peridot.

Thanks to our successful "mine-to-market" strategy and the unwavering commitment to quality and service, we enjoy a global reach. In the US, we sell to major department stores such as Macy's and JC Penny, more than half the top US national jewelry chain stores such as Zales, Sterling and Helzberg, as well as worldwide giant retailers including Carrefour and Walmart.

LJI also sells through all top three TV shopping channels in the US and other countries, which together have a market size of over $2 billion in the US and $7 billion globally.

Outside the US, the Lorenzo appeal is also enjoying growing reception in China, Europe, Japan and Australia.

In addition to our well established "Lorenzo" brand in the US, we have launched the "ENZO" brand for the increasingly savvy consumers in China, and are serving this clientele through retailing, including a flagship store in Shanghai.

LJI has more than 20 designers in Hong Kong, the US, Brazil and China, working with 2,500 craftsmen in our state-of-the-art China plant, to produce over three million carats of cut stones and fashion two million pieces of fine jewelry each year.

Cautionary Statement: The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. Certain information included in this Shareholder Report and other materials filed or to be filed by us with the Securities and Exchange Commission (as well as information included in oral statements or other written statements made or to be made by us) contains statements that are forward-looking, such as statements relating to plans for future expansion and other business development activities as well as other capital spending, financing sources and the effects of competition. Such forward-looking information involves important risks and uncertainties that could significantly affect anticipated results in the future and, accordingly, such results may differ from those expressed in any forward-looking statements made by or on our behalf. These risks and uncertainties include, but are not limited to, those relating to dependence upon certain customers, dependence upon key personnel, control by principal shareholder, competition from larger competitors, material factors relating to the operations of the business, People's Republic of China and Hong Kong political considerations, dependence on factories in China, and general economic conditions.

CONTENTS

Financial Highlights

(US dollars in thousands, except per share data)

Income Statement Data	Year Ended December 31, 2004	Year Ended December 31, 2003	8 months Ended December 31, 2002	Year Ended April 30, 2002
Revenues	77,379	58,167	31,809	39,240
Gross Profit	16,114	13,220	8,989	3,509
Operating expenses	(13,092)	(10,763)	(8,239)	(11,241)
Income (loss) from operations	3,022	2,457	750	(7,732)
Net income (loss)	2,687	1,813	333	(7,901)

Earnings Per Share Data

Net income (loss) per shares:				
Basic	0.24	0.21	0.04	(0.91)
Diluted	0.22	0.19	0.04	(0.91)
Weighted average number of shares:				
Basic	11,119	8,757	8,493	8,672
Diluted	12,107	9,706	8,493	8,779

Balance Sheet Data

Working capital	23,617	17,053	11,896	12,115
Total assets	75,039	60,686	48,888	43,523
Long-term obligation	58	77	-	8
Total stockholders' equity	34,156	27,902	23,294	23,557

LORENZO

The new line draws inspiration from the figure 8 - symbolizing prosperity and, which when viewed horizontally, is the sign for infinity. And this is what ENZO 88 with its novel cut promises – diamonds that are forever and representing eternal love.

ENZO 88

Masterwork

The Lorenzo colorful gemstone jewelry series scales the height of perfection with fashionable flourish

Distinctive Craftsmanship

All the colorful gemstones are selected by our professional designers who ensure the brilliance of their colors and the splendor of their luster

Great Originality

Wearing Lorenzo colorful gemstone jewelry manifests both the individuality of the wearer and the originality of the designs

LORENZO

Letter to Our Shareholders

Yu Chuan Yih
Chairman & CEO

"There's a tide in the affairs of men, which, taken at the flood, leads into fortune…."

These words from Shakespeare's "Julius Caesar" apply to the world of commerce as well as to the affairs of the state. We at LJ International are proud and delighted to report once again that we have been riding that tide and taking "the current when it serves," enlarging the fortunes of our business in the process.

The timing of our entry into the burgeoning retail market in China is one example of our ability to seize the right opportunities, at the right moment, in the right place. While our bigger and long-standing markets elsewhere have contributed to another highly profitable financial year for us in 2004, it is our successful retailing and branding efforts in China that form the most exciting chapter of the LJI story last year.

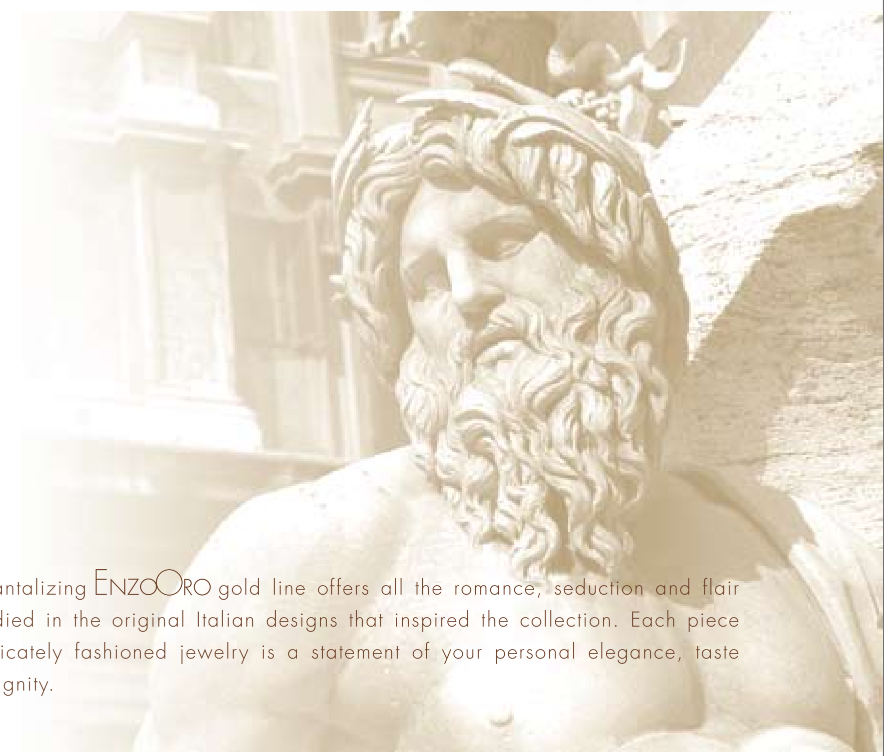
We said in this letter last June that we felt confident charging full-throttle ahead. This confidence has been justified by our annual results for 2004. Revenue for the full year ended December 31 rose 33% over the previous year's figure to $77.4 million, beating even the higher end of our own projection of $76 million. Net income soared to $2.7 million, or $0.22 per fully diluted share, up 16% from $1.8 million, or $0.19 per share, in 2003.

These achievements reflect not only robust growth, but also our capacity to generate higher sales in our established markets while forging confidently into uncharted but exciting new ones.

With China becoming a member of the World Trade Organisation at the end of 2003, we knew it was time to enhance our presence in the jewelry market there. From the initial toehold we had secured this time last year, we have been making great strides forward. Identifying the fashion-conscious, self-assured contemporary woman in this expanding economy as our target client, we created the ENZO brand exclusively for this market and staged its debut with the official opening of a flagship store in Shanghai in November 2004.

Another store also in Shanghai started welcoming customers before the year was out, bringing to three the number of stores we had in China, including the 2,000-square foot showroom in Hong Kong's jewelry district. By now, ENZO has another four stores, all opened in May – two in Beijing, one in Harbin and another in Shanghai.

At the same time, the picture from our longstanding markets continued to be robust last year. We booked expanded orders from most of our major customers, which include the three largest U.S. home-shopping networks, two-thirds of the top 40 US jewelry chains, as well as some of the world's largest retailers. We also won important new clients in these markets. For example, we introduced our



Our tantalizing EnzoOro gold line offers all the romance, seduction and flair embodied in the original Italian designs that inspired the collection. Each piece of intricately fashioned jewelry is a statement of your personal elegance, taste and dignity.

EnzoOro
Italian Gold Series

fine jewelry in a U.S. national rollout involving more than 2,000 stores of a major retail chain. This took place after a highly successful initial test-marketing program with the customer that saw 50 of its stores participating.

Elsewhere in our global market, which stretches from Europe through Asia to Australia, sales have been trending upwards. While growing in volume and dollar value, our U.S. market share decreased from 73.7% in 2003 to 72.6% last year. On the other hand, European sales rose to 16.9% from 13.8%, and our Hong Kong sales rose to 4.9% from 3.4%.

In addition to our excellent sales performance, we achieved further savings through our efficient cost controls. Operating expenses slipped to 16.9% of sales last year, compared with 18.5% in 2003 and 28% in 2002. Moreover, sales, general and administrative expenses accounted for 15% of revenue, down from 16% in 2003. Our net profit margin, meanwhile, moved up to 3.5%, from 3.1% in 2003 and a loss of 15.7% in 2002.

With the economy of our dominant market, the U.S., expected to perform better than most other major economies, and our new market, China, displaying every sign of continuing its phenomenal growth, we are optimistic that 2005 will again see us posting double-digit revenue and net income growth and enhancing shareholder value while honoring our unwavering commitment to quality and service.

Riding the China Crest

Our performance in the first quarter of 2005 indicates that we ground this positive outlook on solid facts. Revenue for the three months ended March 31, 2005, rose 20% above that for the first quarter of 2004. This was the result of higher orders from both existing and new customers.

To ride the crest of this surging market, we will open another five ENZO stores across China by the end of 2005, bringing the number of retail stores in the country to 12.

Financing for our expansion into China came from a private share issue in September last year, which reduced our EPS for the full year to $0.22. Without these added shares, EPS would have been $0.28, a rise of 50% over $0.19 in 2003.

Raising our Profile

Maintaining a high profile with customers has been part of our proactive marketing strategy. To this end, we continue to participate, in prestigious trade shows such as the JCK show in the US and Basel. At the JCK show in Las Vegas last June, which attracted 19,750 buyers, we received orders topping the previous year's bookings by 10-15%.

We are also proud participants at respected investor forums, such as those hosted by Informed Investors, Inc and Roth Capital Partners.

Adding Luster to our Brand

Encouraged by the heightened response to the intricacy of our craftsmanship and the originality of our designs, we have continued to build on our brand by creating high-end jewelry lines such as the ENZO 88 diamonds and the ENZO Oro gold series.

Under the leadership of Creative Director Omar Torres, our talented team of designers will keep coming up with more innovative ideas that turn our jewelry into celestial gifts.

Partners in the Upswing

Meanwhile we remain relentless in our search for more distribution channels and outlets to offer our full complement of exquisite jewelry. We now have over 700 authorized dealers carrying the "Lorenzo" brand in the US.

We have delivered on our promise to charge full blast forward over the past year. The results, I am confident you will agree, are such that we see every reason to believe that the momentum will continue. This time next year, I expect to have a report at least as uplifting as the one I give you today.

Sincerely,

Yu Chuan Yih
Chairman & CEO

In creating the Rainbow Series with claret-red garnet, golden citrine, olive green peridot, sky blue topaz and grape amethyst, we are offering you a colorful and dazzling way of establishing a sacred love covenant with your beloved.

ENZO
Rainbow
Series

Report of the Auditors

Moores Rowland Mazars

To The Shareholders and The Board of Directors of
LJ International Inc.

We have audited the accompanying consolidated balance sheets of LJ International Inc. and its subsidiaries as of December 31, 2004, December 31, 2003 and December 31, 2002 and the related consolidated statements of operations, shareholders' equity and cash flows for each of the years in the two-year period ended December 31, 2004, for the eight-month period ended December 31, 2002 and for the year ended April 30, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of LJ International Inc. and its subsidiaries as of December 31, 2004, December 31, 2003 and December 31, 2002, and the consolidated results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2004, for the eight-month period ended December 31, 2002 and for the year ended April 30, 2002, in conformity with U.S. generally accepted accounting principles.

As discussed in note 2 to the consolidated financial statements, the Company adopted Financial Accounting Standards Boards (FASB) Interpretation No. 46 (Revised December 2003), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" (FIN 46(R)) and, accordingly, began consolidating a variable interest entity as of May 21, 2004.

Moores Rowland Mazars
Chartered Accountants
Certified Public Accountants, Hong Kong

Dated: March 24, 2005

Consolidated Statements of Operations

(Amounts in thousands, except share and per share data)

	Notes	**Year ended December 31, 2004 US$**	Year ended December 31, 2003 US$	8 months ended December 31, 2002 US$	Year ended April 30, 2002 US$
Operating revenue	2(c)	**77,379**	58,167	31,809	39,240
Costs of goods sold		**(61,265)**	(44,947)	(22,820)	(35,731)
Gross profit		**16,114**	13,220	8,989	3,509
Operating expenses					
Selling, general and administrative expenses		**(11,578)**	(9,133)	(6,433)	(8,963)
Unrealized loss on derivatives		**(482)**	(162)	(435)	(660)
Depreciation		**(1,032)**	(1,184)	(863)	(1,031)
Impairment on property, plant and equipment		**—**	(84)	(108)	(345)
Amortization and impairment loss on goodwill	8	**—**	(200)	(400)	(242)
Operating income (loss)		**3,022**	2,457	750	(7,732)
Other revenue and expense					
Other revenues	2(c)	**844**	453	205	352
Interest expenses		**(902)**	(753)	(441)	(652)
Impairment loss on investment securities	9	**—**	—	(200)	—
Income (loss) before income taxes and minority interests		**2,964**	2,157	314	(8,032)
Income taxes (expense) credit	11	**(277)**	(352)	(101)	101
Income (Loss) before minority interests		**2,687**	1,805	213	(7,931)
Minority interests in consolidated subsidiaries		**—**	8	120	30
Net income (loss)		**2,687**	1,813	333	(7,901)
Numerator:					
Net income (loss) used in computing basic earnings (loss) per share		**2,687**	1,813	333	(7,901)
Denominator:					
Weighted average number of shares used in calculating basic earnings (loss) per share		**11,118,995**	8,757,266	8,492,851	8,671,615
Effect of dilutive potential ordinary shares:					
Warrants		**55,693**	183,151	—	7
Stock options		**932,786**	765,267	—	106,759
Weighted average number of shares used in calculating diluted earnings (loss) per share		**12,107,474**	9,705,684	8,492,851	8,778,381
Earnings (loss) per share:					
Basic	2(g)	**0.24**	0.21	0.04	(0.91)
Diluted	2(g)	**0.22**	0.19	0.04	(0.91)

The accompanying notes are an integral part of these financial statements.

Consolidated Balance Sheets

(Amounts in thousands, except share and per share data)

	Notes	2004 US$	As of December 31, 2003 US$	2002 US$
ASSETS				
Current asset				
Cash and cash equivalents		**3,228**	2,722	997
Restricted cash		**6,393**	5,931	6,358
Trade receivables, net of allowance for doubtful accounts (December 31, 2004: US$284; December 31, 2003: US$159; December 31, 2002: US$280)		**15,653**	15,243	10,962
Derivatives		**—**	651	—
Inventories	5	**36,629**	21,487	17,932
Prepayments and other current assets		**2,539**	3,726	1,233
Total current assets		**64,442**	49,760	37,482
Properties held for lease, net	6	**1,452**	1,506	1,561
Property, plant and equipment, net	7	**4,673**	4,931	5,153
Due from related parties	16(b)	**491**	508	511
Goodwill, net	8	**1,521**	1,521	1,721
Investment securities, net	9	**2,460**	2,460	2,460
Total assets		**75,039**	60,686	48,888
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Bank overdrafts	10	**607**	1,312	3,107
Notes payable	10	**2,487**	1,516	1,073
Capitalized lease obligation, current portion		**19**	18	23
Letters of credit, gold and others	10	**21,911**	16,737	12,259
Derivatives		**1,462**	1,430	739
Trade payables		**9,553**	8,417	6,620
Accrued expenses and other payables		**4,631**	2,864	1,696
Income taxes payable		**68**	326	69
Deferred taxation		**87**	87	—
Total current liabilities		**40,825**	32,707	25,586
Capitalized lease obligation, non-current		**58**	77	—
Total liabilities		**40,883**	32,784	25,586
Minority interest		**—**	—	8
Commitments and contingencies	12			
Shareholders' equity				
Common stocks, par value US$0.01 each, Authorized - 100 million shares, Issued – 12,304,658 shares as of December 31, 2004; 9,890,006 shares as of December 31, 2003 and 8,671,615 shares as of December 31, 2002	13	**123**	99	87
Additional paid-in capital		**23,382**	19,802	17,410
Treasury stock	13(b)	**—**	—	(391)
Accumulated other comprehensive loss		**(151)**	(151)	(151)
Unearned compensation	2(q)	**(37)**	—	—
Retained earnings		**10,839**	8,152	6,339
Total shareholders' equity		**34,156**	27,902	23,294
Total liabilities and shareholders' equity		**75,039**	60,686	48,888

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Shareholders' Equity

(Amounts in thousands, except share and per share data)

	Notes	Common stock Number of shares	Common stock Par Value US$	Additional Paid-in Capital US$	Treasury stock Number of shares	Treasury stock Cost US$	Accumulated other comprehensive loss US$	Unearned compensation US$	Retained earnings US$	Total US$
Balance as of April 30, 2001		8,671,615	87	17,167	—	—	—	—	13,907	31,161
Comprehensive loss:										
Net loss		—	—	—	—	—	—	—	(7,901)	(7,901)
Compensation costs for stock-based transactions	15(b)	—	—	297	—	—	—	—	—	297
Balance as of April 30, 2002		8,671,615	87	17,464	—	—	—	—	6,006	23,557
Comprehensive income:										
Net income		—	—	—	—	—	—	—	333	333
Translation adjustment		—	—	—	—	—	(151)	—	—	(151)
Total comprehensive income		—	—	—	—	—	—	—	—	182
Reversal of cancelled warrants		—	—	(54)	—	—	—	—	—	(54)
Purchase of treasury stock	13(b)(i)	—	—	—	(318,200)	(391)	—	—	—	(391)
Balance as of December 31, 2002		8,671,615	87	17,410	(318,200)	(391)	(151)	—	6,339	23,294
Comprehensive income:										
Net income		—	—	—	—	—	—	—	1,813	1,813
Issuance of common stock upon exercise of stock options	13(a)(i)	1,122,500	11	2,234	—	—	—	—	—	2,245
Issuance of common stock upon exercise of warrants	13(a)(i)	95,891	1	(1)	—	—	—	—	—	—
Compensation costs for stock-based transactions	15(b)	—	—	9	—	—	—	—	—	9
Sales of treasury stock	13(b)(i)	—	—	150	318,200	391	—	—	—	541
Balance as of December 31, 2003		9,890,006	99	19,802	—	—	(151)	—	8,152	27,902
Comprehensive income:										
Net income		—	—	—	—	—	—	—	2,687	2,687
Issuance of common stock on private placement	13(a)(ii)	1,614,082	16	2,730	—	—	—	—	—	2,746
Issuance of common stock upon exercise of stock options	13(a)(iii)	405,000	4	806	—	—	—	—	—	810
Issuance of common stock upon exercise of warrants	13(a)(iii)	395,570	4	(4)	—	—	—	—	—	—
Stock options granted	2(q)	—	—	48	—	—	—	(48)	—	—
Compensation expense recognized during the year	2(q)	—	—	—	—	—	—	11	—	11
Balance as of December 31, 2004		**12,304,658**	**123**	**23,382**	**—**	**—**	**(151)**	**(37)**	**10,839**	**34,156**

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

(Amounts in thousands, except share and per share data)

	Notes	Year ended December 31, 2004 US$	Year ended December 31, 2003 US$	8 months ended December 31, 2002 US$	Year ended April 30, 2002 US$
Cash flows from operating activities:					
Net income (loss)		**2,687**	1,813	333	(7,901)
Adjustments to reconcile income (loss) to net cash (used in) provided by operating activities:					
Depreciation of property, plant and equipment and properties held for lease		**1,032**	1,184	863	1,031
Impairment loss on property, plant and equipment		**—**	84	108	345
Amortization and impairment loss on goodwill		**—**	200	400	242
Impairment loss on investment securities		**—**	—	200	—
Unrealized loss on derivatives		**482**	162	435	660
(Gain) Loss on disposal and write-off of property, plant and equipment		**(3)**	2	—	214
Allowance for doubtful debts		**125**	5	61	82
Write-down of inventories		**—**	—	—	5,710
Minority interests		**—**	(8)	(120)	(30)
Costs associated with stock-based transactions		**11**	9	(54)	297
Changes in operating assets and liabilities:					
Trade receivables		**(535)**	(4,286)	(2,448)	(1,873)
Inventories		**(15,142)**	(3,555)	(2,130)	(647)
Prepayments and other current assets		**1,187**	(2,493)	(30)	830
Due from related parties		**17**	3	10	—
Trade payables		**1,136**	1,797	3,310	(120)
Accrued expenses and other payables		**1,767**	1,168	19	(1,101)
Due to a director		**—**	—	—	(247)
Letters of credit and others		**1,804**	5,060	2,351	2,069
Income taxes payable and deferred taxation		**(258)**	344	66	(314)
Net cash (used in) provided by operating activities		**(5,690)**	1,489	3,374	(753)
Cash flows from investing activities:					
Change in restricted cash		**(462)**	427	(715)	(328)
Advance to related parties		**—**	—	—	(5,442)
Purchase of property, plant and equipment		**(727)**	(897)	(1,556)	(420)
Purchase of subsidiary	3	**—**	—	—	(2,381)
Proceeds on disposals of property, plant and equipment		**10**	2	64	12
Repayment from related parties		**—**	—	—	6,311
Net cash used in investing activities		**(1,179)**	(468)	(2,207)	(2,248)

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

(Amounts in thousands, except share and per share data)

	Notes	**Year ended December 31, 2004 US$**	Year ended December 31, 2003 US$	8 months ended December 31, 2002 US$	Year ended April 30, 2002 US$
Cash flows from financing activities:					
Change in bank overdrafts		**(705)**	(1,795)	500	(655)
Proceeds from issuance of shares upon exercise of stock options		**810**	2,245	—	—
Net proceeds from issuance of shares in private placement		**2,746**	—	—	—
Loans acquired		**7,624**	1,516	1,695	3,190
Repayment of loans		**(3,082)**	(1,777)	(2,597)	(490)
Repayment of capitalized lease obligation		**(18)**	(26)	(31)	(28)
Sale (Purchase) of treasury stock		**—**	541	(391)	—
Net cash provided by (used in) financing activities		**7,375**	704	(824)	2,017
Effect of foreign exchange rate change		**—**	—	(68)	—
Net increase (decrease) in cash and cash equivalents		**506**	1,725	275	(984)
Cash and cash equivalents, as of beginning of period		**2,722**	997	722	1,706
Cash and cash equivalents, as of end of period		**3,228**	2,722	997	722
Supplemental disclosure information:					
Interest expense		**872**	728	424	638
Income taxes paid		**535**	9	31	212
Non-cash transactions:					
Purchase of property, plant and equipment under capitalized leases		**—**	98	—	—

The accompanying notes are an integral part of these financial statements.

1. NATURE OF BUSINESS AND BASIS OF FINANCIAL STATEMENTS

LJ International Inc. (LJI), its subsidiaries and variable interest entity (VIE) (collectively referred as the Company) are principally involved in the design, manufacture, marketing and sale of precious and semi-precious gemstones as well as diamond jewelry. While the Company is based in Hong Kong, its manufacturing operations are in the People's Republic of China (PRC) and most of its sales are currently in the United States of America (US). The Company also owns certain commercial and residential properties located in Hong Kong, which are held primarily for investment purposes.

The Company changed to a calendar-year basis of reporting financial results effective May 1, 2002. As a requirement of the change in fiscal year, the Company is reporting consolidated results of operations and cash flows for a special transition period for the eight months ended December 31, 2002. The comparative consolidated balance sheets are as of December 31, 2003 and December 31, 2002.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

The financial statements are prepared in accordance with U.S. generally accepted accounting principles.

(b) Principles of consolidation and goodwill

The consolidated financial statements include the financial information of LJI, its subsidiaries and VIE for which the Company is the primary beneficiary. The results of subsidiaries and VIE acquired or disposed of during the year/period are consolidated from or to their effective dates of acquisition or disposal respectively. All material intercompany balances and transactions have been eliminated on consolidation.

During 2004, the Company adopted Financial Accounting Standards Boards (FASB) Interpretation No. 46 (Revised December 2003), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" (FIN 46(R)). FIN 46(R) requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties.

Lorenzo (Shenzhen) Co., Ltd. (LSC) is a VIE owned by 2 individuals, who are acting as agents. The Company does not have any ownership interest in LSC. The Company is incorporated in the BVI and is considered a foreign entity under the PRC laws. Due to the restrictions on foreign ownership on the retail business of jewelries, the Company, through loans to the agents, established LSC to carry out the retail business of jewelries in the PRC. Pursuant to various agreements entered into between the Company, the agents and LSC on May 21, 2004, the Company generally has control of LSC and is considered the primary beneficiary of LSC. Accordingly, the results of LSC are consolidated in the financial statements of the Company since May 21, 2004.

The application of the consolidation provisions of FIN 46(R) resulted in a decrease in assets and an increase in liabilities as of December 31, 2004 by US$141 and US$82 respectively and an increase in net loss of US$223 for the year ended December 31, 2004.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Principles of consolidation and goodwill (Continued)

Goodwill represents the excess of cost over fair value of acquired net assets. Prior to May 1, 2002, goodwill arising on acquisition of subsidiaries had been amortized on a straight-line basis over 10 years. Following the adoption of Statement of Financial Accounting Standard (SFAS) No. 142, "Goodwill and Other Intangible Assets", issued by the FASB, goodwill is no longer amortized but subject to annual impairment tests. As part of an ongoing review of the valuation of goodwill, management assesses the fair value of the reporting units to determine if changes in facts and circumstances suggest that they may be impaired. If this review indicates that the goodwill is not recoverable, as determined by a discounted cash flow analysis, the carrying value of the Company's goodwill would be reduced to its estimated fair value.

(c) Revenue recognition

Operating revenue represents sale of goods at invoiced value to customers, net of returns and discounts, and is recognized when goods are delivered and title has passed to customers.

Other revenue is recognized on the following basis:

(i) Interest income is accrued on a time proportion basis on the principal outstanding and at the interest rate applicable; and

(ii) Rental income from investment properties under operating leases is recognized in the period in which the properties are let out and on the straight-line basis over the lease terms.

(d) Sales return reserve

The Company has allowed sales returns and its sales generally include specified return policy for certain customers. The Company reserves for sales returns as a reduction of revenue at the time the operating revenue is recognized based on historical sales return experience.

(e) Shipping and handling costs

The shipping and handling costs are included in costs of goods sold. The amounts of revenue received for shipping and handling are included in operating revenue.

(f) Advertising and promotion costs

Advertising and promotion expenses are generally expensed when incurred. Advertising costs included in costs of goods sold were US$364, US$871, US$316 and US$455 for the years ended December 31, 2004 and 2003, for the eight-month period ended December 31, 2002 and for the year ended April 30, 2002 respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Earnings (loss) per share

The calculation of basic earnings (loss) per share is based on net income (loss) for the year/period attributable to shareholders and on the weighted average number of ordinary shares outstanding during the year/period.

The calculation of diluted earnings (loss) per share is based on net income (loss) for the year/period attributable to shareholders and on the weighted average number of ordinary shares outstanding during the year/period, adjusted for the effects of all dilutive potential ordinary shares. The dilutive effect of convertible securities is reflected in diluted earnings (loss) per share by application of the if-converted method.

(h) Fair value of financial instruments

The financial instruments used by the Company in the normal course of business, including cash and cash equivalents, trade receivables, trade payables, notes payable and letter of credit, gold and other loans, have fair values which approximate their recorded value as the financial instruments are either short term in nature or carry interest rate that approximate market rates.

(i) Accounts receivable

Accounts receivable are stated at the amount billed to customers, net of discounts. The Company provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. No interest is chargeable to customers for accounts that are unpaid after the due date. Accounts past due more than one year are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer.

(j) Inventories

Inventories are stated at the lower of cost and market. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Estimated losses on inventories represent reserves for obsolescence, excess quantities, irregulars and slow moving inventory. The Company estimates the loss/write-down on the basis of its assessment of the inventory's net realizable value based upon current market conditions and historical experience.

Specifically, gemstones built up, prior to the year ended April 30, 2002, which were intended to meet orders in relation to special programs were stated at net realizable value as those orders did not materialize. Slow moving fine jewelry inventories in this respect were stated at net realizable value based on forecasts for close-out sales in the ensuing years. The effect of such estimate has resulted in a write-down of inventories amounting to US$5,710 being recognized in costs of goods sold for the year ended April 30, 2002.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Properties held for lease

Properties held for lease are carried at cost, less accumulated depreciation, which is computed using the straight-line method over the estimated useful lives of the assets. Rental income from these properties is recorded on a monthly basis in accordance with the lease terms.

(l) Property, plant and equipment (PPE) and depreciation

PPE are stated at cost, less accumulated depreciation and accumulated impairment loss, and include expenditure that substantially increases the useful lives of existing assets. Maintenance and repairs are charged to current operations as incurred. Upon sale, retirement, or other disposition of these assets, the cost and related accumulated depreciation and accumulated impairment loss are removed from the respective accounts, and any gain or loss is included in the consolidated statement of operations.

Depreciation is provided by using the straight-line method over the estimated useful lives of the related assets at the following annual rates:

Leasehold land and buildings	2% or over the unexpired term of leases
Leasehold improvement	shorter of 10% or the unexpired term of leases
Furniture, fixtures and equipment	20% to 50%
Plant and machinery	10%
Motor vehicles	20%

(m) Impairment of long-lived assets

Long-lived assets are reviewed at least annually for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, impairment is measured as the difference between the carrying amount and fair value of the asset. Goodwill will not be allocated to long-lived assets, when tested for impairment.

(n) Investment securities

Investment in non-marketable securities held for an identified long term purpose are stated at cost and subject to impairment review at each reporting date to reflect any diminution in their value, which is expected to be other than temporary. The amount of impairment is recognized as an expense in the period in which the decline occurs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Gold loans and embedded derivative

Gold loans are commodity-indexed debts with an embedded derivative. The loan is recorded at its original amount and adjusted for additional borrowings and repayments. The embedded derivative component was valued at fair value, considering the market price of gold, volatility of gold and the time value of money. Any changes in fair value of embedded derivative are included in the consolidated statement of operations and an asset or liability representing the value of the embedded derivative portion is included in the consolidated balance sheet.

(p) Derivatives

The Company enters into derivative contracts to hedge the future settlement of gold loans in order to mitigate the risk of market price fluctuations. They consist of contracts that are used to hedge against changes in the fair value of gold price when the Company settles the gold loans.

The derivative contracts and the embedded derivative are valued at fair value. Changes in fair value of derivative contracts are included in the consolidated statement of operations, net of changes in fair value of embedded derivative set out in note 2(o).

(q) Stock-based compensation

The Company records compensation expense for stock-based employee compensation plans using the intrinsic value method pursuant to APB Opinion No. 25 in which compensation expense is measured as the excess of the market price of the stock over the exercise price of the award on the measurement date. Compensation expense is charged to income as when incurred if the benefit was fully vested at the date of grant or is recognized proportionately over the vesting period. Unearned compensation is shown separately as a reduction of the stockholders' equity.

At December 31, 2004, the Company has two stock-based employee compensation plans, details of which are set out in note 15(a). In 2004, the Company recorded an unearned compensation of US$48 in the stockholders' equity in relation to the option to purchase 150,000 shares of the common stock of the Company granted to an employee, for which the exercise price was below the market price of the underlying stock at the date of grant. This amount is accrued proportionately as compensation expense over the vesting period. For the year ended December 31, 2004, the Company recognized compensation expense of US$11 in its statement of operations. Other than the above, the exercise price of the Company's incentive stock options was same as or higher than the market price of the underlying stock on the date of grant, no compensation expense was recognized for these stock options granted to employees.

(Amounts in thousands, except share and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Stock-based compensation (Continued)

Had compensation expense for the same stock options been determined based on the fair value on the date of grant and been amortized over the period from the date of grant to the date that the award is vested, consistent with the provisions of SFAS No. 123, the Company's net income and earnings per share would have been reported as follows:

	Year ended December 31, 2004 US$	Year ended December 31, 2003 US$	8 months ended December 31, 2002 US$
Net income, as reported	**2,687**	1,813	333
Add: Stock-based employee compensation expenses included in reported net income, net of tax	**11**	—	—
Deduct: Total stock-based employee compensation expenses determined under fair value based method for all awards, net of tax	**(159)**	(160)	—
Pro forma net income	**2,539**	1,653	333

	Year ended December 31, 2004 US$	Year ended December 31, 2003 US$	8 months ended December 31, 2002 US$
Earnings per share:			
Basic, as reported	**0.24**	0.21	0.04
Basic, pro forma	**0.23**	0.19	0.04
Diluted, as reported	**0.22**	0.19	0.04
Diluted, pro forma	**0.21**	0.17	0.04

There were no stock options granted to employees during the year ended April 30, 2002 and accordingly no pro forma net loss and loss per share for the same year is presented.

(Amounts in thousands, except share and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Stock-based compensation (Continued)

The fair value of these options was estimated on the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

	Year ended December 31, 2004	Year ended December 31, 2003	8 months ended December 31, 2002
Expected dividend yield	**—**	—	—
Expected stock price volatility	**61%**	9%	7%
Risk-free interest rate	**4.15%**	3.56%	4.47%
Expected life of options	**3 years**	3 years	3 years

The weighted average fair value per option granted during the years ended December 31, 2004 and 2003 and the eight-month period ended December 31, 2002 was US$1.06, US$0.14 and US$Nil respectively.

(r) Income taxes

The Company accounts for income taxes under the liability method. Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value.

(s) Foreign currencies

LJI's functional currency is United States dollars. The functional currencies of foreign subsidiaries are their respective local currencies. The assets and liabilities of foreign subsidiaries are translated at the exchange rates in effect at the balance sheet date and related revenue and expenses are translated at average exchange rates during the year. Related transaction gains or losses are reported as a separate component of accumulated other comprehensive income (loss). Foreign currency transaction gains and losses are included in the consolidated statement of operations.

(t) Treasury Stock

The Company applies the cost method of accounting for treasury stock. The cost method requires the Company to record the cost of acquiring treasury stock as a deduction from the total capital. The treasury stock account is debited for the cost of the shares acquired and will be credited upon reissuance at cost on a first-in-first-out basis. If the treasury stock is reissued at a price in excess of acquisition cost, the excess will be credited to additional paid-in capital in excess of par value from treasury stock. If the treasury stock is reissued at less than acquisition cost, the deficiency will be treated first as a reduction of any capital in excess of par related to previous reissuances or retirements. If the balance in capital in excess of par value from treasury stock is insufficient to absorb the deficiency, the remainder is recorded as a reduction of retained earnings.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Cash equivalents

The Company considers all short-term, highly liquid investments with maturities of three months or less to be cash equivalents.

(v) Uses of estimates

The preparation of the Company's financial statements in conformity with generally accepted accounting principles requires the Company's management to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. Actual amounts could differ from those estimates.

(w) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(x) Dividends

The Directors of the Company have never declared or paid any cash dividends on the Company's capital stock and do not anticipate paying cash dividends in the foreseeable future. The ability to pay dividends depends upon receipt of dividends or other payments from subsidiaries and other holdings and investments. In addition, the operating subsidiaries from time to time may be subject to restrictions on their ability to make distributions to the Company, including as a result of restrictive covenants in loan agreements, restrictions on the conversion of local currency into US dollars or other currencies and other regulatory restrictions. Currently, none of the subsidiaries has such restriction during the periods presented except for the covenants as set out in note 10 to the financial statements.

(y) New accounting pronouncements

In November 2004, the FASB issued SFAS No. 151 "Inventory Costs, an amendment of ARB No. 43, Chapter 4". This statement amends ARB No. 43, Chapter 4 to clarify that abnormal amounts of idle facility expense, freight, handling costs, and spoilage should be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal" and that fixed production overheads should be allocated to inventory based on the normal capacity of the production facilities. The guidance is effective for inventory costs incurred during fiscal years beginning after June 15, 2005; however, earlier application is permitted for inventory costs incurred during fiscal years beginning after November 23, 2004. The provisions of SFAS No. 151 should be applied prospectively. The Company considered that SFAS No. 151 does not have significant impact on its financial statements when it is adopted.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(y) New accounting pronouncements (Continued)

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment". This statement provides investors and other users of financial statements with more complete and neutral financial information by requiring that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. SFAS No. 123(R) covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. SFAS 123(R) replaces SFAS No. 123, "Accounting for Stock-Based Compensation", and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees". Public entities (other than those filing as small business issuers) will be required to apply this statement as of the first interim or annual reporting period that begins after June 15, 2005. Management has not yet determined whether the adoption of SFAS No. 123(R) will result in amounts that are materially different from those currently provided under the pro forma disclosures under SFAS No. 123 in note 2(q) to the consolidation financial statements. The adoption of SFAS No. 123(R) is not expected to have a material impact on the financial condition, results of operations, or cash flows of the Company.

In December 2004, the FASB issued SFAS No. 153 "Exchanges of Non-monetary Assets, an amendment of APB Opinion No. 29 Accounting for Non-monetary Transactions". The amendments made by SFAS No. 153 are based on the principle that exchanges on non-monetary assets should be measured based on the fair value of the assets exchanged. Further, the amendments eliminate the narrow exception for non-monetary exchanges of similar productive assets and replace it with a broader exception for exchanges of non-monetary assets that do not have commercial substance. A non-monetary exchange has commercial substance if the future cash flows of the entity expected to change significantly as a result of the exchange. SFAS No. 153 is effective for non-monetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Earlier application is permitted for non-monetary asset exchanges occurring in fiscal periods beginning after the date of issuance. The provisions of SFAS No. 153 should be applied prospectively. The Company considered that SFAS No. 153 does not have significant impact on its financial statements when it is adopted.

(Amounts in thousands, except share and per share data)

3. ACQUISITIONS

During the year ended April 30, 2001, the Company acquired 12,000,000 common stocks (16.8% equity interest) of iBBC Inc., a company engaged in marketing jewelry from its display cases in retail shops, for the consideration of US$600. For further expansion through vertical integration and the development of distribution channel, the Company further acquired 49,200,000 common stocks (68.8% equity interest) of iBBC Inc. from entities controlled by a director for a consideration of US$2,460 on March 21, 2002. The objective of the acquisition was to acquire the know-how of interactive showcase as well as the established distribution retail network in the US and therefore increase shareholders' value.

Details of the identifiable assets and liabilities acquired at the date of acquisition are as follows:

	2002 US$
Net assets acquired:	
Property, plant and equipment	1,056
Trade receivables	6
Inventories	43
Other receivables	160
Cash and cash equivalents	79
Trade payables	(133)
Accrued expenses and other payables	(115)
	1,096
Minority interests	(157)
Goodwill arising from acquisition	2,121
Total purchase consideration	3,060
Satisfied by cash paid in the financial year:	
2001	600
2002	2,460
	3,060

None of the amount of goodwill is expected to be deductible for tax purposes.

(Amounts in thousands, except share and per share data)

3. ACQUISITIONS (Continued)

The Company's consolidated results of operations have incorporated iBBC Inc.'s activity on a consolidated basis from the date of acquisition, which was March 21, 2002. The following unaudited consolidated results of operations reflect pro forma results of operations for the year ended April 30, 2002, as if the acquisition had occurred on May 1, 2001, and after giving effect to purchase accounting adjustments. The pro forma results have been prepared for comparative purposes only and do not purport to be indicative of what operating results would have been had the acquisitions actually taken place on May 1, 2001 and may not be indicative of future operating results.

	Year ended April 30, 2002 US$
Pro forma:	
Operating revenue	39,296
Net income (loss)	(9,900)
Earnings (loss) per share:	
Basic	(1.14)
Diluted	(1.14)

4. OPERATING RISKS

(a) Concentrations of credit risks

Details of major customers from which the Company derived operating revenue are shown in note 17(b).

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted. Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for groups of customers or counterparties when there are similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The major concentration of credit risk arises from the Company's receivables. Even though the Company does have major customers, it does not consider itself to be exposed to significant credit risk with regards to collection of the related receivables. Historical losses have not been significant.

(b) Country risks

The Company may also be exposed to certain risks as a result of its manufacturing operation being located in the PRC and its properties held for lease in Hong Kong which are not typically associated with companies operating in North America and Western Europe. These include risks associated with, among others, the political, economic and legal environments and foreign currency exchange. The Company's results may be adversely affected by changes in the political and social conditions in the PRC, and by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things. The Company's management believe these risks not to be significant. There can be no assurance, however, that changes in political, social and other conditions will not result in any adverse impact.

(c) Cash and time deposits

The Company maintains its cash balances and investments in time deposits with various banks and financial institutions. In common with local practice, such amounts are not insured or otherwise protected should the financial institutions be unable to meet their liabilities. There has been no history of credit losses.

(Amounts in thousands, except share and per share data)

5. INVENTORIES

Inventories consisted of the following:

	As of December 31, 2004 US$	As of December 31, 2003 US$	As of December 31, 2002 US$
Raw materials	**25,810**	14,774	12,892
Work-in-progress	**1,423**	742	341
Finished goods	**9,396**	5,971	4,699
	36,629	21,487	17,932

6. PROPERTIES HELD FOR LEASE, NET

The Company owns leasehold land and buildings in Hong Kong and leases them out for lease terms of 2 years. Properties held for lease consists of the following:

		As of December 31,	
	2004 US$	2003 US$	2002 US$
Leasehold land and buildings	**2,037**	2,037	2,037
Less: Accumulated depreciation	**(585)**	(531)	(476)
	1,452	1,506	1,561

The Company pledged all properties held for lease as collateral for general banking facilities granted to the Company as of December 31, 2004, 2003 and 2002 (see note 10).

The future aggregate minimum rental receivables under non-cancellable operating leases are as follows:

	As of December 31, 2004 US$
2005	**88**
2006	**22**
	110

(Amounts in thousands, except share and per share data)

7. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment consist of the following:

	As of December 31,		
	2004	2003	2002
	US$	US$	US$
Leasehold land and buildings	**1,995**	1,995	1,665
Leasehold improvement	**3,326**	2,839	2,650
Furniture, fixtures and equipment	**3,656**	3,475	3,246
Plant and machinery	**2,493**	2,442	2,349
Motor vehicles	**423**	455	322
	11,893	11,206	10,232
Less: Accumulated depreciation and impairment losses	**(7,220)**	(6,275)	(5,079)
	4,673	4,931	5,153

The Company pledged leasehold land and buildings with net book values of US$1,495, US$1,232 and US$898 as of December 31, 2004, 2003 and 2002 respectively as collateral for general banking facilities granted to the Company (see note 10).

8. GOODWILL, NET

Following the adoption of SFAS No. 142, the Company discontinued amortization of goodwill effective May 1, 2002. As of December 31, 2004, goodwill is attributed to the acquisition of a jewelry retail company in 2002 (see note 3).

	Year ended December 31, 2004 US$	Year ended December 31, 2003 US$	8 Months ended December 31, 2002 US$
Carrying value, beginning of year/period	**1,521**	1,721	2,121
Impairment loss	**—**	(200)	(400)
Carrying value, end of year/period	**1,521**	1,521	1,721

The Company conducts annual impairment tests. The testing included the determination of each reporting unit's fair value using the market multiples and discount cash flow analysis. The Company's reduced earnings and cash flow forecast, primarily due to the prolonged downturn in the economy, uncertain demand, and competitive industry conditions, resulted in the Company determining that no goodwill impairment charge was necessary. The accumulated amortization and impairment losses were US$869, US$869, and US$669 as of December 31, 2004, 2003 and 2002 respectively.

(Amounts in thousands, except share and per share data)

9. INVESTMENT SECURITIES, NET

	As of December 31, 2004 US$	2003 US$	2002 US$
Equity securities at cost, unlisted	**2,660**	2,660	2,660
Less: Accumulated impairment losses	**(200)**	(200)	(200)
	2,460	2,460	2,460

During the year ended April 30, 2001, the Company acquired 20% equity interests in a company whose principal activities are the manufacturing and trading of rough and pre-formed gemstones, of which the Company had no significant control and influence over its operating and financial policies.

The directors of the Company consider such acquisition would enhance the Company by forward and backward vertical integration.

No impairment loss was recognized for the years ended December 31, 2004 and 2003 and April 30, 2002. The amount of impairment loss charged to the consolidated statement of operations for the eight-month period ended December 31, 2002 was US$200.

10. BANKING FACILITIES AND OTHER LOANS

	Note	As of December 31, 2004 US$	2003 US$	2002 US$
Bank overdrafts	(a)	**607**	1,312	3,107
Notes payable:				
Current portion	(b)	**2,487**	1,516	1,073
Letters of credit, gold and others:				
Letters of credit and others	(a)	**15,423**	13,619	8,559
Gold loan	(c)	**6,488**	3,118	3,700
		21,911	16,737	12,259

The Company 's banking facilities are collateralized by leasehold land and buildings (see notes 6 and 7), restricted cash deposits, factored receivables, and personal guarantees of and properties owned by a director (see note 16(b)).

10. BANKING FACILITIES AND OTHER LOANS (Continued)

The material provisions of indentures relating to the Company's various banking facility agreements contain covenants pertaining to (i) maintenance of the net worth of LJI and one of its subsidiaries amounting to US$25,000 and US$4,487 respectively; and (ii) cross-default provisions of the subsidiary in the event of default in aggregate of at least US$10,000 under separate loan facilities. In the event of default, the bank would at its discretion to cancel the facilities and demand immediate repayment of all principal, interest, fees and other amount outstanding. As of December 31, 2004, both LJI and the subsidiary maintained the minimum net worth requirement, and the subsidiary did not breach any cross-default provision.

(a) As of December 31, 2004, the Company had various revolving bank facilities of overdrafts, letters of credit and factoring facilities granted by banks, amounting to US$3,461, US$14,487 and US$12,346 respectively.

The bank overdrafts are denominated in Hong Kong dollars, bear interest at the floating commercial bank lending rates in Hong Kong, which ranged from 1.125% to 6.25% per annum as of December 31, 2004.

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

Under the banking facilities arrangements, the Company is required to maintain certain cash balances based on the amount of facilities granted. These balances are reflected as restricted cash in the balance sheet.

(b) The Company also had term loans classified under notes payable which are related to the Company's leasehold land and buildings. These loans aggregated to US$2,487 as of December 31, 2004. The expected maturities of these notes payable are within one year. Interest charges on these loans ranged from 2.7% to 3.5% per annum as of December 31, 2004.

(c) The Company had outstanding loans to purchase 17.9 oz of gold as of December 31, 2004 with the related balances being US$6,488. These loans are due within the following year, however, have been historically renewed. These loans bear interest at 2.1% to 2.5% per annum as of December 31, 2004 and can be repaid in cash at the current exchange rate of gold any time prior to maturity.

(Amounts in thousands, except share and per share data)

11. INCOME TAXES

The Company is subject to income taxes on an entity basis on income arising in or derived from the tax jurisdiction in which it is domiciled and operated. Income tax (expense) credit comprises of the following:

	Year ended December 31, 2004 US$	Year ended December 31, 2003 US$	8 months ended December 31, 2002 US$	Year ended April 30, 2002 US$
Current taxes arising in foreign subsidiaries:				
For the year/period	**(299)**	(357)	(101)	(2)
Over provision in prior years	**22**	92	—	103
Total current tax	**(277)**	(265)	(101)	101
Deferred taxes arising in foreign subsidiaries:				
For the year/period	**—**	(87)	—	—
Income taxes (expense) credit	**(277)**	(352)	(101)	101

Reconciliation to the expected statutory tax rate in Hong Kong of 17.5% (2003: 17.5% and 2002: 16%) is as follows:

	Year ended December 31, 2004 %	Year ended December 31, 2003 %	8 months ended December 31, 2002 %	Year ended April 30, 2002 %
Statutory rate	**17.5**	17.5	16.0	(16.0)
Tax effect of net operating losses	**19.9**	20.0	106.2	6.7
Non taxable profits, net	**(25.3)**	(25.8)	(147.9)	—
Impairment loss on goodwill and investment securities	**—**	1.6	30.6	—
Others	**(2.8)**	3.0	27.3	8.0
Effective rate	**9.3**	16.3	32.2	(1.3)

(Amounts in thousands, except share and per share data)

11. INCOME TAXES (Continued)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows:

	As of December 31,		
	2004	2003	2002
	US$	US$	US$
Deferred tax assets:			
Net operating loss	**2,826**	2,595	1,789
Depreciation	**98**	103	47
Start up costs	**23**	22	32
	2,947	2,720	1,868
Valuation allowance	**(2,911)**	(2,658)	(1,868)
Total deferred tax assets	**36**	62	—
Deferred tax liabilities:			
Accelerated tax allowance	**(123)**	(149)	—
Net deferred tax liabilities	**(87)**	(87)	—

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The increase in valuation allowance for the years ended December 31, 2004 and 2003, the eight-month period ended December 31, 2002 and the year ended April 30, 2002 amounted to US$253, US$790, US$740 and US$1,074 respectively.

Based on the history of the Company's profitability, management believes that it is more likely than not that the Company will realize the benefits of the deferred tax assets of US$36 and US$62, net of valuation allowances as of December 31, 2004 and 2003.

(Amounts in thousands, except share and per share data)

12. COMMITMENTS AND CONTINGENCIES

(a) Commitments

The Company leases certain of its office and factory premises under various operating leases. Rent expenses under these leases totalled approximately US$717, US$657, US$430 and US$599 for the years ended December 31, 2004 and 2003, for the eight-month period ended December 31, 2002 and for the year ended April 30, 2002 respectively.

Future minimum rental payments under capitalized leases and non-cancelable operating leases are approximately as follows:

	As of December, 31 2004	
	Capitalized leases US$	**Operating leases US$**
2005	22	625
2006	22	358
2007	22	131
2008	20	87
Thereafter	—	—
Total future minimum lease payments	86	1,201
Less: Amount representing interest	(9)	
	77	

In addition to the above future minimum lease payments, the terms of the leases in respect of the retail shops in the PRC provide for the payment of contingent rentals based on a percentage of sales in excess of a stipulated amount.

As of December 31, 2004, the Company had capital expenditure commitments of US$64.

(b) Contingencies

As of December 31, 2004, 2003 and 2002, the Company provided guarantee in respect of bank mortgage loans granted to a director, Mr. Yih Yu Chuan to the extent of US$307, US$370 and US$437 respectively.

13. COMMON STOCK AND WARRANTS OTHER THAN STOCK-BASED COMPENSATION

(a) Common stock

(i) During the year ended December 31, 2003, warrants to purchase 150,000 shares of common stock and 1,122,500 stock options were exercised. As a warrantholder elected to take the cashless exercise of 95,891 shares of common stock, a total of 1,218,391 shares of common stock of the Company were issued accordingly.

(ii) In September 2004, the Company completed a private placement of 1,614,082 shares of common stock and 484, 221 warrants at a price of US$2.20 per share. The Company sold all of the shares and the placement raised US$2,746 after underwriting discounts and placement costs.

(iii) During the year ended December 31, 2004, warrants to purchase 600,000 shares of common stock and 405,000 stock options were exercised. As a warrant holder elected to take the cashless exercise of 395,570 shares of common stock, a total of 800,570 shares of common stock of the Company were issued accordingly.

As of December 31, 2004, the Company had 12,304,658 shares of common stock issued.

(b) Treasury stock

(i) During the eight-month period ended December 31, 2002, the Company repurchased, through open market purchases, 318,200 shares of common stock of the Company at an aggregate consideration of US$391. In July 2003, the Company sold all these shares to a non-affiliated party for a consideration of US$541.

(Amounts in thousands, except share and per share data)

13. COMMON STOCK AND WARRANTS OTHER THAN STOCK-BASED COMPENSATION (Continued)

(c) Warrants other than stock-based compensation

	Note	As of December 31, 2004 Number of warrants	2003 Number of warrants	2002 Number of warrants
Outstanding, beginning of year		**1,922,500**	2,068,500	2,068,500
Granted	(i)	**484,221**	—	—
Expired		**(45,000)**	(146,000)	—
Outstanding, end of year		**2,361,721**	1,922,500	2,068,500

The following table shows the warrants outstanding as of December 31, 2004.

Date of grant	Number of warrants outstanding	Exercise price US$	Expiration date
April 15, 1998	**1,679,000**	5.75	April 15, 2005
April 15, 1998	**146,000**	8.25	April 15, 2005
March 22, 2000	**52,500**	6.94	March 31, 2005
September 1, 2004	**484,221**	2.98	September 3, 2009
	2,361,721		

(i) On September 1, 2004, the Company issued Warrants for the investors of a private placement to purchase 484,221 shares of the Company's common stock at an exercise price of US$2.98 per share with an expiration date of September 3, 2009. (See also note 13(a)(ii))

14. EMPLOYEE RETIREMENT BENEFIT PLANS

Prior to December 1, 2000, the Company operated a defined contribution retirement plan (Retirement Plan) which is optional for all qualified employees in Hong Kong. The assets of the Retirement Plan are held separately from those of the Company in a provident fund managed by an independent trustee. The pension cost charge represents contributions payable to the fund by the Company at rates specified in the rules of the Retirement Plan. Where employees leave the Retirement Plan prior to vesting fully in the contributions, the contributions payable by the Company are reduced by the amount of forfeited contributions.

Following the introduction of the Mandatory Provident Fund (MPF) legislation in Hong Kong, the Company has also participated in the defined contribution mandatory provident fund since December 1, 2000. Both the Company and its employees in Hong Kong make monthly contributions to the fund at 5% of the employees' earnings as defined under Mandatory Provident Fund legislation. The 5% monthly contribution of the Company and the employees are subject to a cap of US$0.128 per month and thereafter contributions are voluntary. When employees leave the MPF scheme prior to vesting fully in voluntary contributions, the contributions payable by the Company are reduced by the amount of forfeited contributions.

No amount was forfeited in respect of Retirement Plan and MPF scheme for the year ended December 31, 2004. The amounts of forfeitures for the year ended December 31, 2003, for the eight-month period ended December 31, 2002, for the year ended April 30, 2002 were US$11, US$17 and US$46 respectively which was available to reduce the Company's contribution payable.

The full-time employees of the PRC subsidiaries are entitled to staff welfare benefits, including medical care, welfare subsidies, unemployment insurance and pension benefits. These companies are required to accrue for these benefits based on certain percentages of the employees' salaries in accordance with the relevant regulations, and to make contributions to the state-sponsored pension and medical plans out of the amounts accrued for medical and pension benefits. The state-sponsored retirement plan was responsible for the entire pension obligations for the actual pension payments or post-retirement benefits beyond the annual contributions.

The Company has adopted Profit Sharing Plan and Trust (Profit Sharing Plan) for the benefit of substantially all employees in the US that satisfied the age and service requirements. The Company's contributions are determined according to a discretionary formula in an amount determined each year by the management and will be allocated to each Qualifying Participant's Individual account using the pro rata formula. No profit sharing expense made during all financial periods since its adoption.

Contributions paid and payable by the Company in respect of the employee retirement benefit plans charged to the consolidated statement of operations were US$616, US$543, US$290 and US$481 for the years ended December 31, 2004 and 2003, for the eight-month period ended December 31, 2002 and for the year ended April 30, 2002 respectively.

15. STOCK-BASED COMPENSATION

(a) Stock incentive plan

On June 1, 1998, the Company adopted a stock option plan (The 1998 Plan) which was approved by the shareholders on December 9, 1998. The 1998 Plan allows the Board of Directors, or a committee thereof at the Board's discretion, to provide for a total of 2,000,000 stock options to officers, directors, key employees and advisors of the Company. Out of the stock options provided, 1,285,000 stock options were issued in accordance with the terms of the 1998 Plan on April 12, 1999 to certain officers, directors, key employees and advisors of the Company at an exercise price of US$5.0 per share (the fair market value of the common stock as of April 12, 1999) and are exercisable during the period from April 12, 1999 to April 11, 2009.

Pursuant to the 1999 Annual Meeting of the Shareholders on December 15, 1999, the authorized number of stock options was increased from 2,000,000 to 4,000,000. The purchase price of the shares of the Common Stock covered by the 1998 Plan shall be at least 100% of the fair market value per share of such shares on the date of grant, with a term of ten years.

On July 1, 2003, the Company adopted the second stock plan (The 2003 Plan) which was approved by the shareholders on December 5, 2003. The 2003 Plan allows the Board of Directors, or a committee thereof at the Board's discretion, to provide for a total of 4,000,000 stock options to officers, directors, key employees and advisors of the Company. The purchase price of the shares of the Common Stock covered by The 2003 Plan could be less than, equal to or greater than 100% of the fair market value of the Common Stock at the time of grant, with a term of ten years.

(Amounts in thousands, except share and per share data)

15. STOCK-BASED COMPENSATION (Continued)

(a) Stock incentive plan (Continued)

The stock options activities and related information are summarized as follows:

	Year ended December 31, 2004		Year ended December 31, 2003		8 months ended December 31, 2002		Year ended April 30, 2002	
	Options	**Weighted average exercise price US$**	Options	Weighted average exercise price US$	Options	Weighted average exercise Price US$	Options	Weighted average exercise price US$
Outstanding, beginning of year/period	**3,814,000**	**2.00**	3,025,500	2.00	2,918,000	2.00	3,376,000	2.00
Granted	**350,000**	**2.20**	2,000,000	2.00	300,000	2.00	—	—
Exercised (note 13)	**(405,000)**	**2.00**	(1,122,500)	2.00	—	—	—	—
Cancelled	**—**	**—**	(89,000)	2.00	(192,500)	2.00	(458,000)	2.00
Outstanding, end of year/period	**3,759,000**	**2.02**	3,814,000	2.00	3,025,500	2.00	2,918,000	2.00
Exercise price less than the market price on date of grant	**150,000**	**2.00**	—	—	—	—	—	—
Exercise price equals to market price on date of grant	**1,369,000**	**2.00**	1,739,000	2.00	2,838,000	2.00	2,918,000	2.00
Exercise price exceeds to market price on date of grant	**2,240,000**	**2.03**	2,075,000	2.00	187,500	2.00	—	—
	3,759,000	**2.02**	3,814,000	2.00	3,025,500	2.00	2,918,000	2.00
Range of exercise price								
- US$2.00	**3,559,000**	**2.00**	3,814,000	2.00	3,025,500	2.00	2,918,000	2.00
- US$2.35	**200,000**	**2.35**	—	—	—	—	—	—
	3,759,000	**2.02**	3,814,000	2.00	3,025,500	2.00	2,918,000	2.00
Exercisable, end of year/period								
- exercise price at US$2.00	**2,489,500**	**2.00**	2,557,000	2.00	2,913,000	2.00	2,918,000	2.00
- exercise price at US$2.35	**—**		—		—		—	
	2,489,500		2,557,000		2,913,000		2,918,000	
Weighted average remaining contractual life								
- exercise price at US$2.00	**6.42 years**		7.04 years		5.33 years		6.06 years	
- exercise price at US$2.35	**8.50 years**		—		—		—	

All options issued, other than 1,269,500 options, are immediately exercisable as of December 31, 2004. The 1,269,500 options are issued and outstanding but only vest in additional increments of 415,625, 387,500, 369,500 and 96,875 upon 2005, 2006, 2007 and 2008 respectively.

15. STOCK-BASED COMPENSATION (Continued)

(b) Warrants

(i) On March 22, 2000, the Company issued Warrants to a placement agent to purchase 35,000 shares of the Company's common stock at an exercise price of US$6.94 per share with an expiration date of March 31, 2005, as partial compensation for its services.

(ii) On July 31, 1999 the Company entered into a consulting agreement with a consultant which providing investor relationship services to the Company, and the Company agreed to issue a 5-year common stock purchase warrant, with the expiry date on July 30, 2004. A warrant to purchase 35,000 shares of common stock of the Company at an exercise price of US$5.00 was issued. The consulting agreement was subsequently terminated on January 31, 2000.

(iii) On May 26, 2001, the Company entered into a consulting agreement with a consultant for a period of 24 months commencing on June 1, 2001. Pursuant to the agreement, the Company issued to the consultant warrants to purchase 260,000 shares of common stock of the Company on June 1, 2001. Of the warrants issued on June 1, 2001, the warrantholder is entitled to:

- purchase 100,000 shares at US$2.29 per share exercisable through May 31, 2003 (expired, as of December 31, 2004);
- purchase 80,000 shares at US$3.43 per share exercisable through May 31, 2004 (expired, as of December 31, 2004);
- purchase 80,000 shares at US$4.57 per share exercisable through May 31, 2005.

(iv) On August 16, 2001, the Company issued to an agent warrants to purchase 200,000 shares of common stock of the Company in consideration for consultancy services at US$3.00 per share exercisable through August 15, 2006.

(v) On April 15, 2002, in accordance with a common stock purchase agreement, the Company issued to an investor warrants to purchase 150,000 shares of common stock of the Company at US$1.79 per share exercisable through April 14, 2005. The warrants were exercised in July 2003 and 95,891 shares of common stock were issued accordingly pursuant to the cashless exercise (see note 13(a)(i)).

(Amounts in thousands, except share and per share data)

15. STOCK-BASED COMPENSATION (Continued)

(b) Warrants (Continued)

(vi) Pursuant to a strategic advisory services agreement dated July 1, 2003, the Company issued to a consultant warrants to purchase 600,000 shares of common stock of the Company at US$2 per share exercisable through March 31, 2004. The warrants were exercised in January 2004 and 395,570 shares of common stock were issued accordingly pursuant to the cashless exercise (see note 13 (a)(iii)).

Save as disclosed above, none of the warrants as aforesaid was exercised for the two years ended December 31, 2004 and 2003, for the eight-month period ended December 31, 2002 and for the year period ended April 30, 2002. The costs associated with these transactions are accounted for based on fair value of the warrants on the date of issue.

In addition, incentive stock options were issued to consultants/advisers under The 1998 Plan (see note 15(a)) to purchase the common stock of the Company as part of their fees during the year ended April 30, 2001. The costs associated with these transactions are also accounted for based on the fair value of these options at the date of issue.

Using the Black-Scholes option pricing model with the following weighted-average assumptions:

	Year ended December 31, 2003	April 30, 2002
Expected dividend yield	—	—
Expected stock price volatility	9%	23%
Risk-free interest rate	1.07%	4.23%
Expected life of warrants	0.75 years	3.21 years

The fair value of these warrants and options was estimated as US$9 and US$297, respectively for the years ended December 31, 2003 and April 30, 2002. There were no incentive stock options and warrants granted and issued to consultants/advisers during the year ended December 31, 2004 and the eight-month period ended December 31, 2002, and accordingly no related costs arose. The additional expense was recognized in the consolidated statement of operations and the same amount was recorded in the Company's additional paid-in capital.

(Amounts in thousands, except share and per share data)

16. RELATED PARTY TRANSACTIONS

(a) Names and relationship of related parties:

	Existing relationships with the Company
Yih Yu Chuan	Director and major shareholder of the Company
Gemological Institute of America, Hong Kong Limited	Common director
iBBC Inc.	Common director (Became a subsidiary in March 2002)
Gemriver Jewelry Limited	Common directors (Became a subsidiary in March 2002)
Tanzanite (H.K.) Limited	Common directors

(b) Summary of balances with related parties:

		As of December 31,		
		2004	2003	2002
	Note	**US$**	US$	US$
Due from related parties:				
Gemological Institute of America, Hong Kong Limited		**464**	464	464
Tanzanite (H.K.) Limited		**27**	44	47
	(i)	**491**	508	511
Certain banking facilities granted to the Company collateralized by properties owned by Yih Yu Chuan and his personal guarantee to the extent of		**12,971**	9,147	8,311

(Amounts in thousands, except share and per share data)

16. RELATED PARTY TRANSACTIONS (Continued)

(c) Summary of related party transactions:

	Notes	**Year ended December 31, 2004 US$**	Year ended December 31, 2003 US$	8 months ended December 31, 2002 US$	Year ended April 30, 2002 US$
Purchase of equity interest in iBBC Inc., an entity controlled by Yih Yu Chuan		**—**	—	—	2,460
Advances to:					
Gemriver Jewelry Limited	(ii)	**—**	—	—	679
iBBC Inc.		**—**	—	—	4,763
		—	—	—	5,442
Repayment from:					
Gemriver Jewelry Limited		**—**	—	—	1,360
iBBC Inc.		**—**	—	—	4,951
		—	—	—	6,311
Rental expense to Tanzanite (H.K.) Limited		**77**	23	15	19

(i) The amounts due from related parties represent unsecured advances which are interest-free and repayable on demand.

(ii) The advances were expenses paid on behalf of related parties with terms set out in note 16(c)(i) above.

The related party transactions with Gemriver Jewelry Limited and iBBC Inc. as aforesaid relate to transactions made before they became subsidiaries of the Company.

(Amounts in thousands, except share and per share data)

17. SEGMENT INFORMATION

As over 90% of the Company's turnover and contribution to operating results are derived from the business segment of manufacture and sales of jewelry, the Company considered that it has only one business segment. In respect of geographical areas, revenues are based on the country in which the customer is located. Long-lived assets are where the assets are located.

(a) Geographical areas:

	Year ended December 31, 2004 US$	Year ended December 31, 2003 US$	8 months ended December 31, 2002 US$	Year ended April 30, 2002 US$
Revenue from external customers:				
US & Canada	**56,186**	42,851	24,545	28,810
Hong Kong	**3,765**	1,961	1,451	4,897
Europe and other countries	**13,062**	8,017	3,469	5,518
PRC	**208**	—	—	6
Japan	**4,158**	5,338	2,344	9
	77,379	58,167	31,809	39,240

	As of December 31, 2004 US$	2003 US$	2002 US$
Carrying amount of long-lived assets:			
Hong Kong	**5,385**	5,564	5,744
PRC	**2,922**	3,030	3,027
US	**278**	303	403
Total long-lived assets (excluding goodwill)	**8,585**	8,897	9,174
Reconciling items:			
Others	**66,454**	51,789	39,714
Total consolidated assets	**75,039**	60,686	48,888

(Amounts in thousands, except share and per share data)

17. SEGMENT INFORMATION (Continued)

(b) The Company derived operating revenue from the following major customers, which accounted for over 10% of operating revenue.

	Year ended December 31, 2004		Year ended December 31, 2003		8 months ended December 31, 2002		Year ended April 30, 2002	
	US$	**%**	US$	%	US$	%	US$	%
Customer A	**8,482**	**11**	5,164	9	1,916	6	2,706	7
Customer B	**7,234**	**9**	5,870	10	2,709	9	3,121	8
Customer C	**6,454**	**8**	5,869	10	8,021	25	10,963	28

Trade receivables related to these major customers were US$1,347, US$2,711 and US$1,655, as of December 31, 2004, 2003 and 2002 respectively.

18. SUBSEQUENT EVENTS

Pursuant to the purchase agreement dated January 1, 2005, the Company would pay US$2,828 to Goldleaves International Limited (GIL), in which the Company had 20% equity interests and is classified as investment security (see note 9) as of December 31, 2004, for the issuance of 3,900 new shares in GIL (Acquisition). The Acquisition was completed on January 1, 2005. The Company then became the major stockholder holding 98% equity interests in GIL, which became a subsidiary of the Company.

This investment is currently accounted for using the cost method. As appropriate for a step-acquisition, in the 2005 financial statements, the investment as of December 31, 2004 and 2003 will be restated to account for under the equity method.

19. RECLASSIFICATIONS

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

Market Information

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:

JADE

Quarter ended	High	Low
March 31, 2003	$1.30	$1.14
June 30, 2003	$1.85	$1.17
September 30, 2003	$5.00	$1.85
December 31, 2003	$4.89	$3.44
March 31, 2004	$5.74	$3.75
June 30, 2004	$4.23	$3.14
September 30, 2004	$3.79	$2.25
December 31, 2004	$3.36	$2.21

The Company does not believe that there is any principal non-United States trading market for the common stock or the warrants. The Company believes that a substantial majority of the outstanding common stock and warrants are held in the United States by Cede & Co. as record holder.

Selected Financial Data

(Amounts in thousands, except share and per share data)

	Year ended April 30, 2001	Year ended April 30, 2002	Eight-month period ended December 31, 2001 (Unaudited)	Eight-month period ended December 31, 2002	Year ended December 31, 2002 (Unaudited)	Year ended December 31, 2003	Year ended December 31, 2004
Statement of Operations Data:							
Revenues	46,285	39,240	25,042	31,809	46,007	58,167	77,379
Cost of Goods sold	31,540	35,731	18,602	22,820	39,951	44,947	61,265
Gross profit	14,745	3,509	6,440	8,989	6,056	13,220	16,114
Operating expenses							
Selling, general and administrative	(9,398)	(8,963)	(5,905)	(6,433)	(9,525)	(9,133)	(11,578)
Unrealized gain (loss) on derivatives	44	(660)	(119)	(435)	(975)	(162)	(482)
Depreciation	(808)	(1,031)	(565)	(863)	(1,328)	(1,184)	(1,032)
Impairment on property, plant and equipment	—	(345)	—	(108)	(417)	(84)	—
Amortization and impairment loss on goodwill	(27)	(242)	(18)	(400)	(624)	(200)	—
Income (loss) from operations	4,556	(7,732)	(167)	750	(6,814)	2,457	3,022
Other revenues	570	352	265	205	291	453	844
Interest expenses	(1,780)	(652)	(424)	(441)	(668)	(753)	(902)
Impairment loss on investment security	—	—	—	(200)	(200)	—	—
Operating income (loss) before income taxes and minority interests	3,346	(8,032)	(326)	314	(7,391)	2,157	2,964
Incomes taxes (expense) credit	(211)	101	(39)	(101)	39	(352)	(277)
Income (Loss) before minority interests	3,135	(7,931)	(365)	213	(7,352)	1,805	2,687
Minority interests in consolidated subsidiaries	—	30	—	120	150	8	—
Net income (loss)	3,135	(7,901)	(365)	333	(7,202)	1,813	2,687
Net income (loss) per share:							
Basic	0.37	(0.91)	(0.04)	0.04	(0.84)	0.21	0.24
Diluted	0.37	(0.91)	(0.04)	0.04	(0.84)	0.19	0.22
Pro forma basic	0.13	(0.91)	(0.04)	0.04	(0.84)	0.19	0.23
Pro forma diluted	0.13	(0.91)	(0.04)	0.04	(0.84)	0.17	0.21
Weighted average number of shares							
Basic	8,567	8,672	8,672	8,493	8,551	8,757	11,119
Diluted	8,617	8,779	8,832	8,493	8,551	9,706	12,107
Pro forma basic	8,567	8,672	8,672	8,493	8,551	8,757	11,119
Pro forma diluted	8,617	8,779	8,832	8,493	8,551	9,706	12,107
Balance Sheet Data:							
Working capital	20,153	12,115	18,537	11,896	11,896	17,053	23,617
Total assets	48,094	43,523	51,062	48,888	48,888	60,686	75,039
Long-term obligation	287	8	12	—	—	77	58
Total stockholders' equity	31,161	23,557	30,943	23,294	23,294	27,902	34,156

ENZO Store Location

Shanghai (Flagship store)

Shop S218, City Plaza, 1618 Nanjing West Road, Jiang An District, Shanghai 200040

Tel: 86-21-6288 3102

Harbin

Harbin Parkson

1/F., Parkson Shopping Center, 222 ZhongYang Street, Dongli District, Harbin 150010

Tel: 86-451-8598 1181

Beijing

Beijing Modern Plaza

40 Zhongguancun Avenue, Beijing 100086

Tel: 86-10-6257 6688 ext ENZO

Beijing

Beijing Parkson

1/F Parkson Shopping Center, 101 FuXinMenNei Road, Beijing 100031

Tel. 86-10-6605 8414

Ningbo

Intime Department Store

238 Zhongshan Road (East), Ningbo 315000

Tel: 86-574-8709 2456

Shanghai

Shanghai Parkson Store

1/F., Parkson Store, No.100 Zhunyi Road, Changning District, Shanghai 200051

Tel: 86-21-6237 0760

Show Schedule

LJI will exhibit at the following International Jewelry Shows:

Jun 3 – 7, 2005	JCK Las Vegas Show 2005	Las Vegas, USA
Jul 31 – Aug 3, 2005	JA Int'l Jewelry (Summer) Show	New York, USA
Sept 14 – 18, 2005	6th Shenzhen Int'l Jewellery Fair	Shenzhen, China
Sept 21 – 25, 2005	Hong Kong Jewellery & Watch Fair	Hong Kong, China
Oct 23 – 25, 2005	JANY Special Delivery Show	New York, USA
Jan 17 – 20, 2006	Hong Kong January Int'l Jewellery & Watch Show	Hong Kong, China
Jan 22 – 24, 2006	JA Int'l Jewelry (Winter) Show	New York, USA
Mar 6 – 9, 2006	Hong Kong International Jewellery Show 2006	Hong Kong, China
Mar 30 – Apr 6, 2006	BaselWorld	Basel, Switzerland
June 2006	JCK Las Vegas Show 2006	Las Vegas, USA