LJ INTERNATIONAL INC
Form POS AM
July 18, 2003

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As filed with the Securities and Exchange Commission on July 18, 2003

Registration No. 333-7912

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**POST EFFECTIVE AMENDMENT NO. 5 TO**
**FORM F-1**
**REGISTRATION STATEMENT**
**UNDER**
**THE SECURITIES ACT OF 1933**

# LJ INTERNATIONAL INC.

(Exact name of Registrant as specified in its charter)

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

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

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

Copies of all communications to:

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

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

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

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

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

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

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

**Calculation of Registration Fee**

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

(footnotes on next page)

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

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

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

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

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

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

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

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

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subject to the Warrant Underwriter Warrants (the Underwriter Underlying Warrants ) are also being registered to cover any adjustment resulting from the operation of the anti-dilution provisions relating to the Warrant Underwriter Warrants.

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

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

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

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**PROSPECTUS**

# LJ INTERNATIONAL INC.

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

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

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

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

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

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

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

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

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

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

**The date of this prospectus is July __, 2003**

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

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## PROSPECTUS SUMMARY

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

### The Company

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

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

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

### The Offering

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

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

**Advisers and Auditors**

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

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## RISK FACTORS

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

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

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

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

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

**We face significant competition from larger competitors.**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

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

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## USE OF PROCEEDS

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

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

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

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

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## NATURE OF TRADING MARKET

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

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

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

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

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

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**DIVIDEND POLICY**

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

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## CAPITALIZATION

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

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

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

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

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## DILUTION

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

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

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

(1) Before deducting estimated expenses payable by us.

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

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

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

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

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**SELECTED CONSOLIDATED FINANCIAL DATA**

**(Dollars in thousands, except per share amounts)**

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

**Selected Financial Data**

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

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

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

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

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

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

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

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

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

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

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

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

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

**A. OPERATING RESULTS.**

Revenues

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

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

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

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**Cost of Sales and Gross Profit**

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

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

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

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

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

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

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

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

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

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

**Selling, General and Administrative Expenses**

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

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

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**Unrealized loss (gain) on gold loan**

| | 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 | | | | |
| Unrealized Loss (gain) on gold loan | $(44) | $(44) | $660 | $ 119 | $ 435 | 0% | -1600% | 266% |
| % of revenues | 0% | 0% | 2% | 0% | 1% | |   | |