

With Their 124 ENZO Retail Stores in 34 Cities, LJI is Leading the Way in Bringing Colored Stone Jewelry to the "Affordable Luxury" Market in China - Globally, LJI is Offering High-Quality Designs to Leading "Blue Chip" Retailers in the United States, Europe, and Japan

**Consumer Goods
Jewelry
(JADE-NasdaqGM)**

LJ International Inc.

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**Ringo Ng
Chief Financial Officer**

BIO:

Ringo Ng is LJ International's (LJI) Chief Financial Officer, responsible for formulating the Company's financial strategy and policies, ensuring their smooth and proper execution, and overseeing all other related matters and activities.

Mr. Ng joined the Company as its CFO in September 1997 and became one of the Company's directors in May 2001. Prior to that, he was a Senior Auditor with Moores Rowland C.A., Certified Public Accountants, serving them from July 1994 until he joined LJI full time.

Mr. Ng graduated with a Bachelor of Science degree in Civil Engineering from

the University of London in 1984 and received his Master of Commerce in Accounting and Commercial Administration from the University of New South Wales in 1994. Mr. Ng is a certified practicing accountant of the Australian Society of CPAs.

Company Profile:

LJ International Inc. (LJI) is engaged in the designing, branding, marketing, and distributing a full range of jewelry. The Company has built its global business on a vertical-integration strategy and an unwavering commitment to quality and service. Through its China-based ENZO retail chain stores, LJI is now a major presence in China's fast-growing, retail-jewelry market. As a wholesaler, LJI distributes to "blue chip" jewelers, fine department stores, national jewelry chains, and electronic and specialty retailers throughout North America and Western Europe. Its product lines incorporate all major categories including: earrings, necklaces, pendants, rings, and bracelets.

**Interview conducted by:
Lynn Fosse, Senior Editor**

CEOCFO: Mr. Ng, what is the focus at LJI today?

Mr. Ng: LJI is a jewelry company. We have two segments: wholesale and retail. Our major market for wholesale is the United States, Europe and Japan, with a target market of consumers aged 25-45 years looking for stylish colored jewelry that is priced to be an "affordable luxury". In addition, LJI has a retail business named ENZO that is exclusively in China. Right now, we are operating around 124 outlets in over 34 cities

throughout China. The strength of LJ International is its celebration of colored and bright stones such as diamonds, amethysts, aquamarines, and tourmalines. A "mine-to-market" strategy is our selling point, and our target retail customer is the growing middle class in second and third-tier cities throughout China.

CEOCFO: How long have you had the stores in China?

Mr. Ng: We opened our first store in late 2004. This was when China's government allowed foreigners to open stores in China.

CEOCFO: Are you opening new stores? What is the plan for growth in the retail sector?

Mr. Ng: We plan to open around 100 stores in the coming 24 months. In fact, we originally opened up 100 stores in the first three years, then took the past two years to consolidate and review internal efficiencies. LJI is proud to have reached a point where that learning phase is now complete. Our current goal is to add 100 new stores in the coming two years, so that by the end of 2011 we will have 200 retail stores.

CEOCFO: Are there many jewelry stores in China today; what is the competitive landscape?

Mr. Ng: Jewelry in China is really fragmented. Allow me to share with you some jewelry history of China. About 20 years ago, when we used the term "jewelry", I would say that jewelry was literally equal to or referring to gold. Gold was jewelry, nothing else, no diamonds, no colored stones, nothing else - just gold. The whole intention of owning jewelry was

for investment purposes. Then, some 15 years ago, a new group from Hong Kong, all diamond players or jewelers, opened stores in China by selling just diamonds. However, about five years ago, before our ENZO stores opened in China, if you went to the jewelry section of any shopping mall, you would still only see two colors, yellow gold and white diamonds. There were only two different kinds of merchandise. LJI leveraged the ability to acquire colored jewelry. This enabled us to open, and to a larger degree, revolutionize the market in China. In addition, over the past two years we have also seen big names such as Tiffany, Cartier, and other high-end jewelers market colored jewelry in China. Their marketing supports our strategy; therefore, we don't mind luxury names sharing the "colored stone" vision. We really want visibility for our colored-stone expertise to grow bigger because everyone benefits. We don't need to dominate the market, just have a solid name among the growing middle class.

CEO CFO: 100 stores in three years is a lot for most companies, how do you decide on locations and how are you equipped to do that successfully?

Mr. Ng: The first 100 stores we opened in three years. We will use the next two years to open an additional 100 stores. We have gained strong relationships with the malls over the past five years in terms of deciding what locations we prefer and how our operation fits within the mall layout and consumer traffic patterns of the mall. I would say that the most difficult part for us in the beginning was identifying strong locations and getting the internal protocol to set up for stores to operate profitably. Funding store openings was never an issue, because we can always get funding from the bank; and we can always rely on our internal cash flow. Remember, we have a strong wholesale division that generates cash. I would say the most critical issue is the human capital resource. We would like to have qualified sales people to operate our stores because we are selling colored

stones that have a moderate-to-high price point. Salespeople need to be equipped with a certain knowledge of gems and how to sell the value of the piece to the customer. Therefore, to open 100 stores, the most critical part is the human component.

CEO CFO: You opened your first stand-alone store recently; will you be doing more?

Mr. Ng: The stand-alone store in Cixi is our "test store". It is our flagship store in the Yangtze Delta Region, about 90 miles from Shanghai. We are going to see how it performs and then learn how to run

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- Ringo Ng

additional independent street stores based on this knowledge.

CEO CFO: Do you do much advertising?

Mr. Ng: We advertise full-page in high-fashion magazines such as Cosmopolitan; of course, it is the Chinese edition. We typically feature a particular piece or a new promotion post billboards outside of the major malls and strategic subway stations. We also advertise through the internet and sponsor some TV series.

CEO CFO: What is happening on the wholesale side of the business?

Mr. Ng: We have been in wholesale for the past 20 years. The major market for us is the United States. The US accounts for 65% of our business, Europe accounts for 30% and then 5% for Japan. Our major customers will be what we call the

"blue chip" jewelers in the US like QVC, Fred Meyer, and Kay Jewelers. Why don't we deal directly with the "mom-and-pop stores"? I had a very bad experience when I first joined the Company in the old days. When I joined LJI, the Service Merchandise went into Chapter Seven. I found out that the account receivables was the number one asset that I needed to save. I immediately went to the insurance house because I wanted to have all account receivables insured. We discovered that we could not get insurance coverage for the small jewelers. Therefore, we only do business with big name stores where we can get proper coverage.

Dealing with "blue chip" customers also benefits the LJI name since it allows us to align our brand with other quality companies.

CEO CFO: Why are places like Kay Jewelers choosing LJI; what is special about your products?

Mr. Ng: Jewelry making is a very labor intensive craft. LJI does business with major players like QVC (Quality Value and Convenience), Zales, Sterling, etc. which have thousands of outlets. When these groups place an order, it is for 20,000 and 30,000 pieces that require consistency in color, size, design, etc. Many jewelry manufacturers cannot fulfill this kind of requirement. LJI is vertically integrated, so we deliver on time with insured quality, which is very important. Our first major customer was QVC and they chose us because we can consistently fill their orders.

CEO CFO: You certainly had some nice quarterly results; would you tell us how business is going?

Mr. Ng: As for the future, I will have a clearer outlook for recovery of the jewelry market, particularly in the U.S., after a few more months of observation. It is hard to comment on how fast the recovery will come. As mentioned, a large portion of LJI's wholesale business comes from the US, and right now is the US market still seems sensitive. Overall, I estimate that growth for LJI's wholesale division

will increase approximately 10% from last year.

CEO CFO: What about the earnings results that you recently published?

Mr. Ng: In the second half, LJI made around \$33 million. We are making close to \$4 million net income.

CEO CFO: You did have a large rise in sales, was that due to the new stores primarily?

Mr. Ng: Our results are improving on the wholesale side. Currently, approximately 25% of our net income comes from our wholesale division. Approximately 75% of our net income has come from ENZO retail. The rise in ENZO retail net income is due to a combination of increased sales as well as improvements in store management and internal efficiencies.

CEO CFO: Do you design your products as well?

Mr. Ng: Yes.

CEO CFO: How do you come up with new designs year after year?

Mr. Ng: We send our designers to all of the leading trade shows around the world. We also send our designers to New York

to go shopping around to see all of the jewelry in the market. That is for the US market side. Also our products in the US are for the “affordable luxury” market, not for the super high-end. On our domestic sales, for the retail side, it is much easier for us to come up with new designs. This is because other local designers do not have the kind of exposure and experience to deal with the US and European markets. Our designers therefore, use designs that are trendy, contemporary, fashionable. We use a lot of the designs from what we have sold in Europe and the US and modify it to jewelry that sells in China with more expensive center stones inset.

CEO CFO: Do you do much investor outreach?

Mr. Ng: I come to the US two or three times a year more often because of the retail business. We have a program in place for U.S. investors to learn about the Company through our New York firm Cooper Global Communications. They serve as our “corporate ambassador” and communicate with fund managers and analysts to introduce our story and keep them up to date in between visits and financial road shows. They also help

arrange analyst and investor visits to our factories and retail stores.

CEO CFO: Why should potential investors look at LJ International?

Mr. Ng: Most investors look at our growth potential in our retail business, which is in China. Therefore, if they want to capture the retail boom in China, we should be one of the candidates. From another perspective, some investors are actually buying LJI for the recovering wholesale/US business, and figure in the China’s retail growth as an added bonus to their investment.

CEO CFO: Final thoughts, what should people remember most when they read about LJ International?

Mr. Ng: What I want people to remember is “Color me Lorenzo”, “Color me ENZO”, and “Color me beautiful”. LJ International has helped many women look beautiful and make a statement through their fashion/jewelry choices about their success and who they are.

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