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A Close Look and Executive Interview with Lorenzo Jewelry International

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Scott S. Fischer submits: I discovered Lorenzo Jewelry International (NASDAQ: JADE - News) in February and met with Betty Ho, CPA, V.P. of Corporate Development in Hong Kong on Monday July 31st 2006. **These are the notes from my meeting:**

Based out of Hong Kong, L.J.I. is the fastest growing jewelry company in the world. They distribute to U.S.A., Europe, and Japan through their wholesale line (30% gross margin) and operate in China on a retail level (50% gross margin). The China jewelry market has grown at an annual rate of over 10% since the 1980' s and is expected to be the largest market in the world by 2010.

I contacted L.J.I. in the Spring and arranged to visit their office on Monday July 31st. I stayed an extra day in H.K. after the group departed for the States. This was my first personal visit to a corporation as an investor and I was not sure what to expect. Nonetheless, I knew the company inside and out and was prepared and ready. It is a matter of time before people begin talking about L.J.I.We exchanged business cards and discussed my trip in China and my experience visiting Enzo stores in Shanghai (flagship store in City Plaza in the Jiang An district on Nanjing Road) and Hong Kong (Tsim Sha Tsui district on Nathan Road opened infirst week of July). Ms. Ho visits the States 3-4 times a year for business.

We watched a 'virtual' tour of the factory (which is located on the mainland of P.R.C.) on DVD and she provided me with some literature and information about the company.

The investment bank (Barron Chase out of Florida, 8 years ago) who took them public went bankrupt immediately, which explains why L.J.I. has been an orphan company for a while. L.J.I. is now going back to the capital markets and getting attention, still not enough. L.J.I. voluntarily files annually and quarterly 6-K (for foreign corporations, equivalent to 10-Q), quarterly earnings conference call, this allows transparency to investors. Majority of their sales are wholesales to the U.S.A./E.U./Australia/Asia.

Wholesale products are sold in 3 categories:

-T.V. shopping
-Department stores
-Chain stores, such as Zales which has 2,500 units – provides L.J.I. with volume and credibility.

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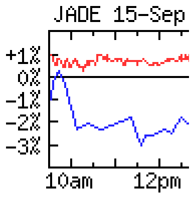

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Their mine to market strategy is full integration, which creates many competitive advantages. Mr. Yu Chuan Yih Chairman/C.E.O is Chinese, but grew up in Brazil and he was able to establish great relationships with direct miners. L.J.I. sells 2 million pieces annually directly to their customers.

L.J.I does not control their mines, but Bazeer does. Bazeers is the only other company with similar vertical integration. The industry is very competitive and most companies buy the cut stone and set it. L.J.I. buys the stone, cuts and shapes it, thus able to meet their customer demands immediately. Wal-Mart and QVC do not want their competitors knowing which designs they are bringing in to sell. Because L.J.I is able to meet large quantity orders, they have a great competitive advantage.

Last November L.J.I. made a major move as key growth factor, to expand in retail China. The Chairman/C.E.O. figured if he cannot compete in U.S.A., then do it in China. China did not allow foreigners to come in, so the Chairman/C.E.O. had a retail business plan sitting waiting for 10 years. He entered the market based on WTO schedule and has a first mover advantage; at the end of 2005 there were 12 stores -- today it has 33 in twelve cities, and the goal is to have 100 by 2008.

China is the key success to L.J.I.' s growth strategy. The China jewelry market is in an infant stage, but it is a growing market, contrasted with the U.S.A./E.U. which is a mature sophisticated market that understands jewelry. The China jewelry market is growing 19%, while its jewelry retail is growing at 15%. 115$ billion in China market share potential, U.S.A. is only 1/3 of China' s market share potential.

Sales per square foot is too early to determine. In the States there is plenty of land supply and each store is the same size, which makes SPSF easy to compare. In China it is difficult to grab prime retail space, so whatever is given, they have to take. Not all stores are stand alone; some shops are in a mall or department store, like walking into Macys in America. Less than 50% of the stores are over one year old.

L.J.I. sees great potential and expects to breakeven by the end of 2007. EBITA level by the end of this year, although this may be too aggressive. They are quite confident they can achieve breakeven. Very
good on the store level. They need to spend a lot on advertising to build the brand. They set aside 10% of sales on advertising. Expect to open their Macau (Vegas of Asia) waterfront store by the end of year.

Cost for retail is store start up expenses. Core business is enjoying great growth bottom and top line. EPS will be 6% more. They understand this year will be affected by retail expenses. EPS may not grow as it should, but beyond 2007 it will be evident.

All of their shops are internally financed and they have not sought outside capital. They can do up to 40 shops and after that they have to think of alternative financing. They have invested $10 million USD in stores thus far.

Today there are 17.6 million shares; the Chairman/C.E.O. owns of 20% equity. There are no significant institution shareholders. This is why they are aggressively visiting funds and institutions.

It becomes obvious to her that I am well informed regarding the company, so she allows me to begin asking questions:

Q: Your customer base includes two-thirds of the largest U.S. jewelry chains, the three largest U.S. home-shopping networks, and some of the world' s largest retailers. Your top three customers account for at least 10% of sales. What steps are you taking to strengthen these relationships? What steps are you taking to increase your international market share with new retailers?

A: Hard to get in the door to sell to these giants, took them 3 years for Wal-Mart, 2 years for shopNBC.com, but once in you are safe. Difficult process to set up as an official vendor, once you have a vendor number, you have their confidence. L.J.I. has ability to create new stones that no one else in the market has because of their mine to market strategy and workmanship. The Chinese craftsmanship is better than Thailand and India (three largest jewelry crafters). It is also necessary to serve Wal-Mart and companies with same efficiency. L.J.I. has ability to meet their needs, while a smaller company has to outsource to many different crafters and thus will not get proper sizes, consistency, etc, which makes it difficult for smaller companies to compete.

Q: The trading volume has jumped recently, who is buying these shares up?

A: Spoke with Investor Relations and believes either a large fund or several small funds are looking to get in.

Q: Competitors, E.E.A.C & Fabrikant International (NYSE: USA - News), Pranda International and Beauty Gems Limited (International) – what steps are you taking to remain competitive with them and guarantee they do not take your market share?

A: Big players, Fabrikant are having financial troubles, in a financial crisis, a Thailand competitor is bankrupt, consolidation stage occurring right now in the sector. Being a solid company like L.J.I., smaller companies can only fulfill 1 or 2 orders, cannot handle large orders like L.J.I. Over the years, L.J.I. is gaining market share and not losing it. Being publicly traded company provides credibility.

Q: We have already discussed the mine to market strategy and other competitive advantages, could you discuss your growth strategy of becoming the leading foreign jewelry retailer in China?

A: The goal is to become first foreign leading jewelry retail in China. Two groups of competitors. One is at mass market low end products, local chain stores. Boring products, either white and diamonds, or yellow and 24 k gold. 3-4 major Hong Kong stores in China. Oldest is TSL, listed in H.K., has 80 stores in China. Has been there since day 1, more than 10 stores. They offer better designs, mostly diamonds and white products. Then at top of the spectrum is Bugari, Tiffany, Cartier, they only have a few stores in China, not chain stores. There is nothing in between; L.J.I. wants to offer different product mix and many colors. Colors offer different product and unique position of Enzo could bring great brand recognition.

Q: We know of the great potential for China, but what steps are you taking to hedge against economic instability in the regions you sell, specifically China and North America?

A: Acknowledges inherent risks, mostly political risk. For Enzo as a retailer – they have minimal risks. Labor and everything is cheap in China. Set up costs for Enzo stores are low, compared to U.S.A. Secondly, unlike U.S.A., they do not have long term leases to any of their shops. In U.S.A. it is 5 year plus lease. In China, turnover is very fast, not long term lease. Always want new stores, new brands. Thirdly, since start up cost is low, in event of stores having problem, there are no lease commitments, no labor laws, can just close down store. Similar to quitting a job with 2 weeks notice in U.S.A. Only product you are left !
with is jewelry, which has intrinsic value. Worse comes to worse can melt it, get gold and stone. Has downside risk. Which is why they have moved aggressively, no other jewelry company can open 33 stores in 18 months.

Q: Are there any share buyback plans in the future?

A: This has always been a discussing point b/w Betty and investors. They have been talking about it, but C.E.O. is not looking at it seriously. After they pointed out to him he only owns 20% share of company, will be a point for him to buy back shares. Company won't buy back shares, accounting rules. C.E.O. may want to buy back shares for personal profit though, when there is a good buying opportunity for him.

Q: As the company expands, what is HR doing to recruit and maintain top talent and management?

A: For core business, 130 people in office. Top senior management is very loyal. Betty is the newest, only on for 5 years. C.F.O. 10 years, C.O.O. since day 1, 1987. Head of product development on for 3 years. Executive team long term consistency can support growth to another stage. For retail they hired C.O.O. who has been in industry for 20 years, worked prior for listed companies in Hong Kong. Two regional managers under him, one in Shanghai and Beijing, both have over twenty years experience. But the China jewelry market is only 20 years old.

The company is efficient in their office space, has been in the same location for all twenty years. Confident and aggressive in their business plan, humble staff.

Disclosure: The author is long shares of JADE