

LJ INTERNATIONAL INC
Form DEF 14A
September 26, 2008

SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934
(Amendment No. __)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-11(c) or §240.14a-12

LJ INTERNATIONAL INC.
(Name of Registrant as Specified In Its Charter)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

**LJ INTERNATIONAL INC.
Unit #12, 12/F, Block A
Focal Industrial Centre
21 Man Lok Street
Hung Hom, Kowloon, Hong Kong
(011) 852-2764-3622**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To Be Held Friday, November 14, 2008**

To Our Shareholders:

PLEASE TAKE NOTICE that our annual meeting of shareholders will be held at our Shenzhen office, 10th Floor, Block 18, Free Trade Zone, Shatoujiao, Shenzhen, People's Republic of China, on Friday, November 14, 2008, at 9:30 a.m., local time, for the following purposes:

1. To elect seven directors to hold office for the term specified in the proxy statement or until their successors are elected and qualified;
2. To approve the establishment of our 2008 stock compensation plan for the benefit of our officers, directors, employees and advisors (the 2008 Stock Compensation Plan Proposal); and
3. To transact such other business as may properly come before the meeting or any adjournment.

The board of directors has fixed the close of business on September 24, 2008 as the record date for the determination of shareholders entitled to notice of and to vote at the meeting and at any adjournment. A proxy statement which describes the foregoing proposals and a form of proxy accompany this notice.

By Order of the Board of Directors

Ka Man Au
Secretary

Dated: October 1, 2008

IMPORTANT

Whether or not you expect to attend the meeting, please execute the accompanying proxy and return it promptly in the enclosed reply envelope which requires no postage. If you grant a proxy, you may revoke it at any time prior to the meeting. Also, whether or not you grant a proxy, you may vote in person if you attend the meeting.

LJ INTERNATIONAL INC.
Unit #12, 12/F, Block A
Focal Industrial Centre
21 Man Lok Street
Hung Hom, Kowloon, Hong Kong
PROXY STATEMENT
ANNUAL MEETING OF SHAREHOLDERS
To Be Held Friday, November 14, 2008
SOLICITATION OF PROXY

The accompanying proxy is solicited on behalf of the board of directors of **LJ International Inc.** for use at our annual meeting of shareholders to be held at our Shenzhen office, 10th Floor, Block 18, Free Trade Zone, Shatoujiao, Shenzhen, People's Republic of China, on Friday, November 14, 2008, and at any adjournment. In addition to mail, proxies may be solicited by personal interview, telephone or telegraph by our officers, directors and other employees, who will not receive additional compensation for such services. We may also request brokerage houses, nominees, custodians and fiduciaries to forward the soliciting material to the beneficial owners of stock held of record and will reimburse them at the rates suggested by the New York Stock Exchange. We will bear the cost of this solicitation of proxies, which is expected to be nominal. Proxy solicitation will commence with the mailing of this proxy statement on or about October 1, 2008.

Execution and return of the enclosed proxy will not affect your right to attend the meeting and to vote in person. If you execute a proxy, you still retain the right to revoke it at any time prior to exercise at the meeting. A proxy may be revoked by delivery of written notice of revocation to our Secretary, by execution and delivery of a later proxy or by voting the shares in person at the meeting. A proxy, when executed and not revoked, will be voted in accordance with its instructions. If there are no specific instructions, proxies will be voted **FOR** the election as directors of those nominees named in the proxy statement, **FOR** the proposal to approve the establishment of the 2008 Stock Compensation Plan, and in accordance with his best judgment on all other matters that may properly come before the meeting.

The enclosed form of proxy provides a method for you to withhold authority to vote for any one or more of the nominees for director while granting authority to vote for the remaining nominees. The names of all nominees are listed on the proxy. If you wish to grant authority to vote for all nominees, check the box marked **FOR**. If you wish to withhold authority to vote for all nominees, check the box marked **WITHHOLD**. If you wish your shares to be voted for some nominees and not for one or more of the others, check the box marked **FOR** and indicate the name(s) of the nominee(s) for whom you are withholding the authority to vote by writing the name(s) of such nominee(s) on the proxy in the space provided.

PURPOSE OF MEETING

As stated in the notice of annual meeting of shareholders accompanying this proxy statement, the business to be conducted and the matters to be considered and acted upon at the meeting are as follows:

1. To elect seven directors to hold office for the term specified herein or until their successors are elected and qualified;
2. To approve the establishment of the 2008 stock compensation plan for the benefit of our officers, directors, employees and advisors (the 2008 Stock Compensation Plan Proposal); and
3. To transact such other business as may properly come before the meeting or any adjournment.

VOTING AT MEETING

Our voting securities consist solely of common stock, \$.01 par value per share.

The record date for shareholders entitled to notice of and to vote at the meeting is the close of business on September 24, 2008, at which time we had outstanding and entitled to vote at the meeting 22,761,172 shares of common stock. Shareholders are entitled to one vote, in person or by proxy, for each share of common stock held in their name on the record date. Shareholders representing a majority of the common stock outstanding and entitled to vote must be present or represented by proxy to constitute a quorum.

The election of each director and approval of the 2008 Stock Compensation Plan Proposal each will require the affirmative vote of the holders of a majority of the common stock present or represented by proxy at the meeting and entitled to vote. Cumulative voting for directors is not authorized and proxies cannot be voted for more than seven nominees.

STOCK OWNERSHIP

The following table sets forth certain information regarding the beneficial ownership of our shares of common stock as of June 1, 2008 by:

each person who is known by us to own beneficially more than 5% of our outstanding common stock;

each of our current executive officers and directors; and

all executive officers and directors as a group.

As of June 1, 2008, we had 22,235,672 shares of our common stock issued and outstanding.

This information gives effect to securities deemed outstanding pursuant to Rule 13d-3(d)(1) under the Securities Exchange Act of 1934, as amended.

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

Name of Beneficial Holder	Number Shares Beneficially Owned	Percent
Yu Chuan Yih	2,034,353	9.1
Ka Man Au	254,000(1)	1.1
Hon Tak Ringo Ng	275,000(2)	1.2
Andrew N. Bernstein	0	0
Xiang Xiong Deng	0	0
Jin Wang	0	0
Jieyun Yu	0	0
All directors and executive officers as a group (7 persons)	2,563,353	11.4
Pacific Growth Developments Ltd.	1,500,000	6.7

(1) Includes options currently exercisable to acquire: 150,000 shares of common stock at \$2.00 per share at any time until June 30, 2013.

(2) Includes options currently exercisable to acquire: 150,000 shares of common stock at \$2.00 per share at any time until June 30, 2013.

BOARD OF DIRECTORS

Our board of directors has the responsibility for establishing broad corporate policies and for our overall performance, although it is not involved in day-to-day operating details. The board meets regularly throughout the year, including the annual organization meeting following the annual meeting of shareholders, to review significant developments affecting us and to act upon matters requiring board approval. It also holds special meetings as required from time to time when important matters arise requiring board action between scheduled meetings.

We have established an audit committee, which currently consists of Xiang Xiong Deng, Jin Wang and Jieyun Yu. Its functions are to:

recommend annually to our board of directors the appointment of our independent public accountants;

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discuss and review the scope and the fees of the prospective annual audit and review the results with the independent public accountants;

review and approve non-audit services of the independent public accountants;

review compliance with our existing accounting and financial policies;

review the adequacy of our financial organization; and

review our management's procedures and policies relative to the adequacy of our internal accounting controls and compliance with U.S. federal and state laws relating to financial reporting.

We have established a nominating committee, which currently consists of Andrew N. Bernstein, Xiang Xiong Deng and Jin Wang. Its purpose and functions are to:

assess the size and composition of the board of directors in light of our operating requirements and existing social attitudes and trends;

develop membership qualifications for the board of directors and all board committees;

monitor compliance with board of director and board committee membership criteria;

review and recommend directors for continued service as required based on our evolving needs;

coordinate and assist management and the board of directors in recruiting new members to the board of directors; and

investigate suggestions for candidates for membership on the board of directors and recommend prospective directors, as required, to provide an appropriate balance of knowledge, experience and capability on the board of directors, including stockholder nominations for the board of directors.

We have established a compensation committee, which currently consists of Andrew N. Bernstein, Jieyun Yu and Jin Wang. Its purpose and functions are to:

review and approve corporate goals and objectives relevant to the compensation of the chief executive officer and other executive officers;

evaluate the chief executive officer's performance in light of such goals and objectives at least annually and communicate the results to the chief executive officer and the board of directors;

set the chief executive officer's compensation levels based on the foregoing evaluation (including annual salary, bonus, stock options and other direct and indirect benefits), with ratification by the independent directors of the full board of directors; and

set the other executive officers' compensation levels (including annual salary, bonus, stock options and other direct and indirect benefits).

No director attended fewer than 75 percent of the aggregate of the total number of meetings of the board of directors and the total number of meetings held by all committees of the board on which he or she served.

Each non-employee director is compensated separately for service on the board and is reimbursed for expenses to attend board and committee meetings.

ELECTION OF DIRECTORS

At the meeting, seven directors are to be elected. Each director will be elected for a one-year term or until his successor is elected and qualified.

Shares represented by properly executed proxies will be voted, in the absence of contrary indication or revocation by the shareholder granting such proxy, in favor of the election of the persons named below as directors. The person named as proxy has been designated by management and intends to vote for the election to the board of directors of the persons named below, each of whom now serves as a director. If any nominee is unable to serve as a director, the shares represented by the proxies will be voted, in the absence of contrary indication, for any substitute nominee that management may designate. We know of no reason why any nominee would be unable to serve. The information presented with respect to the nominees was obtained in part from each of them and in part from our records.

Nominees for Election as Directors

Name	Age	Position
Yu Chuan Yih	68	Chairman of the Board of Directors, President and Chief Executive Officer
Ka Man Au	43	Chief Operating Officer, Secretary and Director
Hon Tak Ringo Ng	48	Chief Financial Officer and Director
Andrew N. Bernstein	55	Independent Non-Executive Director
Xiang Xiong Deng	43	Independent Non-Executive Director
Jin Wang	37	Independent Non-Executive Director
Jieyun Yu	42	Independent Non-Executive Director

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

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

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

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

Mr. Bernstein joined us as an independent non-executive director in July 2005. He serves on the Compensation and Nominating Committees. He earned his Bachelor of Science degree from Cornell University in 1974 and his Juris Doctor degree from Boston College Law School in 1977. Since 1978, Mr. Bernstein has been engaged in the private practice of law in Denver, Colorado, with emphasis on the representation of private and public companies and their transactional, corporate and securities matters. Mr. Bernstein has served as our US securities counsel since March 1997.

Mr. Deng joined us as an independent non-executive director in October 2007. He serves on the Audit and Nominating Committees. He has served as a Director of Intermost Corp. (OTCBB: IMOT) since August 2005 and was appointed Acting Chief Executive Officer of that company from August 2005 to September 2007. Mr. Deng graduated from Shenzhen University (Bachelor of Law) and Shanghai Jiao Tong University (MBA). He is a member of the Shenzhen Board of Arbitration and formerly the General Manager of a number of state-owned and private enterprises. He is experienced in both capital management and investment banking.

Mr. Wang joined us as an independent non-executive director in October 2007. He serves as chair of the Audit Committee and a member of the Nominating and Compensation Committees. He is currently Vice President of the Shenzhen Shengwei Taxation Co. Ltd. and has held that position since January 2006. Before that, he served in a number of posts with responsibilities for financial management and auditing. These include Project Manager of the Audit Department at the accounting firm Shenzhen Changcheng (2004-2005), Assistant Financial Manager at Shenzhen Jinggong Design and Decoration Co. Ltd. (2003-2004) and Manager of the Finance Department at Jiaguo Trading (Shenzhen) Co. Ltd., a wholly owned subsidiary of Bank of China Group Investment Co. Ltd (1997-2003).

Ms. Yu joined us as an independent non-executive director in October 2007. She serves on the Audit and Compensation Committees. She is currently Assistant Manager of Finance at the headquarters of the Bank of China Group Insurance Co. Ltd. and General Manager of Finance at the company's Shenzhen Branch Office. She has held these positions since June 2003. Earlier, she served in finance management positions for Midland Realty (Shenzhen) Co. Ltd. (2001-2002), Intermost Corp. (1998-2001) and Guanghua Zhaori Production Co. Ltd. (1992-1998). Before that she was a statistician and auditor (1998-2002) at the Shenzhen Culture Bureau.

Compensation of Directors and Executive Officers

The aggregate compensation paid by us to all of our directors and executive officers as a group for the fiscal year ended December 31, 2007 on an accrual basis, for services in all capacities, was \$1,477,000. During the fiscal year ended December 31, 2007, we contributed an aggregate amount of \$41,000 toward the pension plans of our directors and executive officers.

Executive Service Contract

We entered into an employment agreement with Mr. Yu Chuan Yih, effective January 1, 2007, for a period of three years at an annual salary of \$308,000. Mr. Yih's remuneration package includes benefits with respect to an automobile. In addition, Mr. Yih is entitled to an annual management bonus of a sum to be determined by the compensation committee of the board of directors at its discretion, having regard for our operating results and the performance of Mr. Yih during the relevant financial year.

On January 3, 2005, we had granted Mr. Yih, Ms. Au and Mr. Ng options exercisable to acquire 500,000 shares, 100,000 shares and 100,000 shares, respectively, at \$3.00 per share at any time through March 30, 2005.

On July 22, 2005, we granted Mr. Yih, Ms. Au and Mr. Ng options exercisable to acquire 413,500 shares, 300,000 shares and 300,000 shares, respectively, at \$2.25 per share at any time through April 30, 2008.

We did not grant any options to any of our directors or executive officers during the fiscal years ended December 31, 2004 and 2006.

On January 5, 2007, we had granted Mr. Yih, Ms. Au and Mr. Ng options exercisable to acquire 500,000 shares, 100,000 shares and 100,000 shares, respectively, at \$4.50 per share at any time through February 4, 2007.

The 1998 Stock Compensation Plan

Effective June 1, 1998, we adopted and approved the 1998 Stock Compensation Plan, which our shareholders approved on December 9, 1998. The purpose of the plan is to:

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

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

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

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

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

As of June 1, 2008, 3,980,000 options had been exercised and the following options to purchase shares of our common stock under the plan were outstanding:

a total of 20,000 stock options to purchase 20,000 shares at \$2.00 per share through June 30, 2013, of which no stock options are held by our directors and officers as a group.

The 2003 Stock Compensation Plan

Effective July 1, 2003, we adopted and approved the 2003 Stock Compensation Plan, which our shareholders approved on December 5, 2003. The purpose of the plan is to:

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

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

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

Options constitute either incentive stock options within the meaning of Section 422 of the United States Internal Revenue Code of 1986, as amended, or options which constitute nonqualified options at the time of issuance of such options. The plan provides that incentive stock options and/or nonqualified stock options may be granted to our officers, directors, employees and advisors selected by the compensation committee. A total of 4,000,000 shares of common stock are authorized and reserved for issuance during the term of the plan, which expires in June 2013. The compensation committee has the sole authority to interpret the plan

and make all determinations necessary or advisable for administering the plan. The exercise price for any incentive option or nonqualified option may be less than the fair market value of the shares as of the date of grant. Upon the exercise of the option, the exercise price must be paid in full either in cash, shares of our stock or a combination. If any option is not exercised for any reason, such shares shall again become available for the purposes of the plan.

As of June 1, 2008, 3,394,500 options had been exercised and the following options to purchase shares of our common stock under the plan were outstanding:

a total of 433,500 stock options to purchase 433,500 shares at \$2.00 per share through June 30, 2013, of which 300,000 stock options are held by our directors and officers as a group.

The 2005 Stock Compensation Plan

Effective July 1, 2005, we adopted and approved the 2005 Stock Compensation Plan, which our shareholders approved on September 26, 2005. The purpose of the plan is to:

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

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

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

Options constitute either incentive stock options within the meaning of Section 422 of the United States Internal Revenue Code of 1986, as amended, or options which constitute nonqualified options at the time of issuance of such options. The plan provides that incentive stock options and/or nonqualified stock options may be granted to our officers, directors, employees and advisors selected by the compensation committee. A total of 4,000,000 shares of common stock are authorized and reserved for issuance during the term of the plan, which expires in June 2015. The compensation committee has the sole authority to interpret the plan and make all determinations necessary or advisable for administering the plan. The exercise price for any incentive option or nonqualified option may be less than the fair market value of the shares as of the date of grant. Upon the exercise of the option, the exercise price must be paid in full either in cash, shares of our stock or a combination. If any option is not exercised for any reason, such shares shall again become available for the purposes of the plan.

As of June 1, 2008, 1,500,000 options had been exercised and no options to purchase shares of our common stock under the plan were outstanding.

Other Options and Warrants Outstanding

As of June 1, 2008, the following additional options and warrants to purchase shares of our common stock were outstanding:

warrants to purchase an aggregate of 170,451 shares at \$2.98 per share through September 3, 2009 which we sold to a group of investors as part of a private placement offering on September 1, 2004

On September 25, 2006, we issued, and 11 institutional investors purchased, an aggregate of 1,466,668 shares of our common stock at \$3.75 per share, as well as an aggregate of 236,909 warrants to purchase 236,909 shares at an exercise price of \$4.221 per share (the Short Term Warrants) and 366,668 warrants to purchase 366,668 shares at an exercise price of \$4.50 per share (the Long Term Warrants). In addition, our placement agent received 29,333 Long Term Warrants with identical terms to the Long Term Warrants issued to the investors (the Placement Agent Warrants). The Short Term Warrants were exercisable at any time through February 5, 2007. The Long Term Warrants are exercisable at any time on or after March 25, 2007 for a term of five years thereafter.

As of June 1, 2008, the following warrants remained outstanding:

333,334 Long Term Warrants

29,333 Placement Agent Warrants

THE BOARD OF DIRECTORS RECOMMENDS TO OUR SHAREHOLDERS THAT YOU VOTE FOR THE ELECTION OF SUCH NOMINEES.

CERTAIN TRANSACTIONS

Certain of our banking facilities are collateralized by properties owned by Yu Chuan Yih and his personal guarantee to the extent of \$21,244,000, \$23,161,000 and \$14,708,000 as of December 31, 2005, 2006 and 2007, respectively. Mr. Yih has not received any additional compensation or consideration from us in return for his personal guarantees.

During the fiscal year ended April 30, 1999, we provided a guarantee to a bank in respect of mortgage loans granted to Yu Chuan Yih to the extent of \$632,000. As of December 31, 2007, the balance of the mortgage loans amounted to \$79,000.

We paid Andrew N. Bernstein, P.C., the law firm of which Andrew N. Bernstein, one of our directors, is the sole shareholder, less than \$200,000 for legal services rendered to us during the fiscal year ended December 31, 2007.

**ADDITIONAL MATTER TO BE VOTED UPON BY OUR SHAREHOLDERS
THE 2008 STOCK COMPENSATION PLAN PROPOSAL**

On August 8, 2008, we adopted and approved, subject to approval by our shareholders, our 2008 Stock Compensation Plan (the 2008 Plan). We believe that a new plan is necessary since there are only a minimal number of options remaining under our 2003 Plan and our 2005 Plan. We believe that the grant of stock options is accomplishing its purpose, which is to promote our and your interests by providing key employees with an opportunity to acquire a proprietary interest in us and to develop a stronger incentive to put forth maximum effort for our continued success and growth. In addition, the opportunity to acquire a propriety interest in us aids us in attracting and retaining key personnel of outstanding ability.

Options granted under the 2008 Plan will constitute either incentive stock options within the meaning of Section 422 of the United States Internal Revenue Code of 1986, as amended, or options which constitute nonqualified options at the time of issuance of such options. The 2008 Plan provides that incentive stock options and/or nonqualified stock options may be granted to our officers, directors, employees and advisors selected by the compensation committee. A total of 4,000,000 shares of common stock are authorized and reserved for issuance during the term of the 2008 Plan, which expires in August 2018. The compensation committee has the sole authority to interpret the 2008 Plan and make all determinations necessary or advisable for administering the 2008 Plan. The exercise price for any incentive option or nonqualified option may be less than the fair market value of the shares as of the date of grant. Upon the exercise of the option, the exercise price must be paid in full either in cash, shares of our stock or a combination. If any option is not exercised for any reason, such shares shall again become available for the purposes of the 2008 Plan.

As of October 1, 2008, no options had been granted under the 2008 Plan.

**THE BOARD OF DIRECTORS RECOMMENDS TO OUR SHAREHOLDERS THAT YOU VOTE FOR
THE ESTABLISHMENT AND ADOPTION OF OUR 2008 STOCK COMPENSATION PLAN.**

INDEPENDENT PUBLIC ACCOUNTANTS

A representative of Gruber & Company, LLC is expected to attend the meeting and will have the opportunity to make a statement if he so desires. This representative is expected to be available to respond to appropriate shareholder questions at that time.

**PROPOSALS OF SHAREHOLDERS FOR PRESENTATION
AT NEXT ANNUAL MEETING OF SHAREHOLDERS**

Any shareholder of record who desires to submit a proper proposal for inclusion in the proxy materials relating to our next annual meeting of shareholders must do so in writing and it must be received at our principal executive offices by December 31, 2009. You must be a record or beneficial owner entitled to vote at the next annual meeting on your proposal and must continue to own such security entitling you to vote through the date on which the meeting is held.

ANNUAL REPORT

Our annual report to shareholders concerning our operations during the fiscal year ended December 31, 2007, including audited financial statements, has been distributed to all record holders as of the record date. The annual report is not incorporated in the proxy statement and is not to be considered a part of the soliciting material.

OTHER BUSINESS

Our management is not aware of any other matters which are to be presented at the meeting, nor have we been advised that other persons will present any such matters. However, if other matters properly come before the meeting, the individual named in the accompanying proxy shall vote on such matters in accordance with his best judgment.

AVAILABILITY OF ANNUAL REPORT ON FORM 20-F

UPON WRITTEN REQUEST, WE WILL PROVIDE, WITHOUT CHARGE, A COPY OF OUR ANNUAL REPORT ON FORM 20-F FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007, TO EACH SHAREHOLDER OF RECORD OR TO EACH SHAREHOLDER WHO OWNED OUR COMMON STOCK LISTED IN THE NAME OF A BANK OR BROKER, AS NOMINEE, AT THE CLOSE OF BUSINESS ON SEPTEMBER 24, 2008. ANY REQUEST BY A SHAREHOLDER FOR OUR ANNUAL REPORT ON FORM 20-F SHOULD BE SENT TO OUR SECRETARY, LJ INTERNATIONAL INC., UNIT #12, 12/F, BLOCK A, FOCAL INDUSTRIAL CENTRE, 21 MAN LOK STREET, HUNG HOM, KOWLOON, HONG KONG.

The above notice and proxy statement are sent by order of the board of directors.

KA MAN AU
Secretary
October 1, 2008

It is understood that when properly executed, this proxy will be voted in the manner directed herein by the undersigned shareholder. WHERE NO CHOICE IS SPECIFIED BY THE SHAREHOLDER, THE PROXY WILL BE VOTED FOR THE ELECTION OF DIRECTORS PROPOSED IN ITEM (1) AND IN FAVOR OF ITEM (2).

The undersigned hereby revokes all previous proxies relating to the shares covered hereby and confirms all that said proxy or his substitutes may do by virtue hereof.

Please sign exactly as name appears below. When shares are held by joint tenants, both should sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. If a corporation, please sign in full corporate name by president or other authorized officer. If a partnership, please sign in partnership name by authorized person.

Dated: _____, 2008

Signature

Signature if held jointly

PLEASE MARK, SIGN, DATE AND
RETURN THE PROXY CARD
PROMPTLY

USING THE ENCLOSED ENVELOPE.

PLEASE CHECK THIS BOX IF YOU INTEND TO BE PRESENT AT THE MEETING.