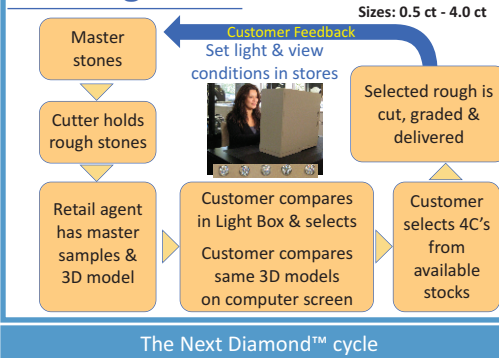




NEW BUSINESS MODEL
FOR SELLING DIAMONDS
2009

Creating Consumer Confidence



The lights in many jewelry stores are so bright that even poorly cut diamonds can look beautiful
Lighting varies from store to store making diamond comparison impossible

	RBC	RBC
Stock#:	14653	14166
Carat:	1.01	1.01
Cut:	V Good	V Good
Colour:	H	H
Clarity:	VVS2	VVS2
Polish:	V Good	Exc
Symmetry:	Exc	V Good
L/W Ratio:	1.01	1.00
Lab Report:	GIA	GIA
Depth %:	64	62.4
Table:	57	61
Size mms:	6.3 X 4.03	6.4 X 3.98
Fluorescent:	None	None
Girdle:	Slt Thick	Thin
Culet:	None	None
Price/Ct:	\$5,605	\$7,083

Offer: A profitable new business solution to problems consumers face buying diamonds. Next Diamond™ offers an investor, retailers and diamond cutters an opportunity to profit. By showing consumer's shapes and qualities of the diamonds that appeal to them personally, before cutting the rough diamond, individual taste is satisfied and large commercial efficiencies can be realized. This is now possible thanks to OctoNus technology and web based communications. Popular sizes and qualities will also be held in Next Diamond™'s inventory for immediate delivery.

The problems:

- Mass market consumers feel they are being ripped off
- The upper market expects custom made jewelry and superior quality diamonds with optimum light performance - but they are offered generic diamond cuts often with poor light performance
- Retailers hold large diamond inventories and low stock turn necessitates high margins
- the Internet is stealing retail business
- Technical jargon & opaque pricing reduces buyer trust

More than half of all diamonds are standard round brilliant cut so consumer choice is limited to just the other 3 natural 3 C's. Buying large diamonds is not relaxing or fun – there is no self-realization experience.

The diamond buyer's nightmare

Diamond shoppers on the Internet and in stores base large purchase decisions on complex technical specifications. e.g.

- Is the diamond that costs 26% more really better?
- Is VG polish & Exc symmetry better than Exc & VG?
- Is a 1% difference in Diameter or Girdle thickness bad?
- Does the expensive stone sparkle more?
- Enough to justify an extra \$1,478?
- Could I see both stones side by side?
- Are the prices competitive?

Few diamonds have a manufacturers brand or name. Can jewelry brands provide a quality guarantee; are Harry Winston diamonds better than Cartier diamonds? Who knows?

You cannot 'test-drive' diamonds side by side in the same lighting conditions in the same shop or know how they will sparkle in a restaurant, on the golf course, on the red carpet.

Diamonds are shrouded in mystery

Other luxury products are more fun to buy and own: compare, choose, customise, discuss and compare with friend's products, dreaming about the next purchase,

“IT suits me, I LOVE IT!”

Diamonds Lag Consumer-Oriented Markets e.g. 'test drives':

- Imagine choosing between two new 4 door black sedans,
- both have 120bhp, 0 – 60mph in 7 seconds with ABS
- They cost \$15,000 and \$30,000

Can you choose with that information? “probably not”

If you knew they were a Hyundai and a Mercedes, would that justify the dramatic price difference? Brand names establish the benefits of technical features like safety, reliability, running costs, engineering quality, prestige etc.

Various models can be compared via market reviews, ratings and magazine test results. You can make a short list - without even leaving home or work.

But would you buy based only on the reviewers opinions?

“Are the seats comfortable?”

What's it like to drive?”

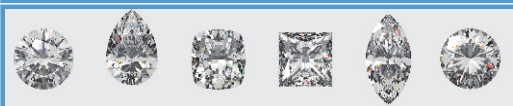
The test drive is the car market's solution;

“which car speaks to me?”

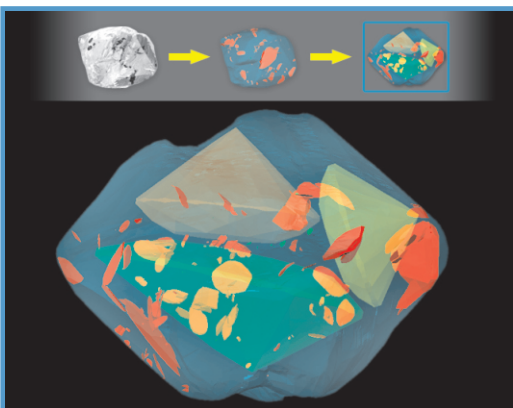
“IT FITS ME, I LOVE IT!”



Test drive diamonds mounted in movable settings and all facing to the same point for easy comparison of any different cut



Examples of stones seen on the computer monitor



The emailed rough diamond planning file can be turned by the customer to see how the cutter will avoid the inclusions to achieve his diamond's chosen clarity

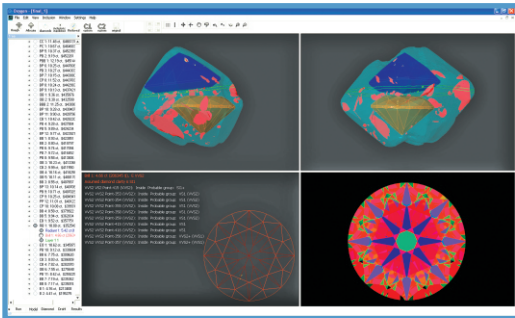
The Next Diamond™ Alternative

Next Diamond™ lets consumers test drive diamonds and really understand the technical features. Retailers are given a Light Box and 10 different polished diamond samples.

The master stones always include an ASG 0 H&A round, an AGS 0 princess and 5 fancy cuts plus 3 of the latest new cuts in an effort to find the best new sellers; these new cuts will become the differentiating feature that will drive Next Diamonds™ market growth. Consumers compare the master samples in the Light Box in various lighting - small differences in brightness, fire and dead or dark zones can be easily distinguished under different lighting environments to help settle on and order a custom cut diamond.

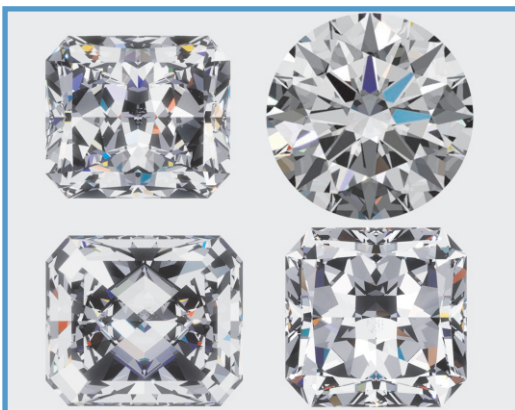
Beside the Light Box a computer runs a short introductory tutorial showing the actual sample stones on the screen. By studying the images on screen of the stores 10 samples, consumers learn to relate the real diamonds in the Light Box, with the sample stone images. Inclusions are displayed onscreen with patented OctoNus technology and differences in color and clarity are demonstrated. Cost differences are explained transparently with the **Next Diamond Pricelist™**. A library of 100 other cuts from various designers can also be accessed for custom orders.

The buyer selects the cut, size and quality to fit their budget from the pricelist. The retailer logs it with Next Diamond™, a match is made, a deposit is paid and the manufacturer polishes the diamond. If there is no exact match a small selection of the closest stones is emailed to both store and consumer. The diamond is graded and delivered to the retailer within 4 weeks and after final approval the balance is paid and the deal is done.



The image above shows the planning process that often leads to several options. Values can be within 10% of each other as shown in this example

Main Diamond				Total for both stones	
Ct	Shape	Cla	\$	Ct	\$
3.13	Radiant	Si1	38241	4.16	43101
2.44	Brilliant	Si1	37869	3.49	42823
3.15	Octa-Em	Si1	38485	3.95	42069
3.08	Sq Rad	Si1	38412	3.92	41961
3.01	Emerald	Si1	36775	3.83	40580
3.14	Cushion1	Si1	36977	3.90	40381
1.51	Brilliant	Vs2	19451	3.53	40107
2.85	Flanders	Si1	35261	3.70	39114
2.84	Flanders	Si1	35261	3.63	38927
2.84	Princ 3s	Si1	34989	3.66	38794



The most valuable potential stones that could be cut from the rough diamond in the example above are shown here as computer images

Manufacturing:

Octonus has many very large manufacturer clients who are interested in this project and are capable of cutting and polishing diamonds to the very high standards required to satisfy Next Diamond™ buyers' orders. These cutters already have or will acquire special rough diamond planning and new CAD-CAM technology needed for this project.

Next Diamond's Pricelist™ offers consumers, for the first time, transparent pricing and also ensures that retailers and manufacturers margins are upheld. Manufacturers will compete for orders based on selection, quality and service. The list will be adjusted from time to time to reduce the price of cuts that are in poor demand.

Once a consumer order is received, data-based technology matches it to the available diamonds from many participating manufacturers.

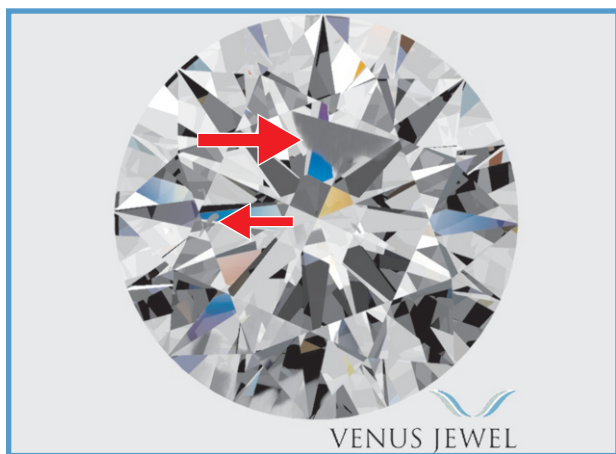
There is an incentive for manufacturers to hold a wide selection of available pre planned rough; if there is only one available stone with a perfect match then that manufacturer wins the business. If there is no perfect fit the closest diamonds will be selected. If two or more manufacturers have a perfect match the order goes to the one with the highest ranking based on open rules:

- The shortest reliable delivery time
- The best record for cut quality control
- The best record for accurate carat weight, clarity and color production

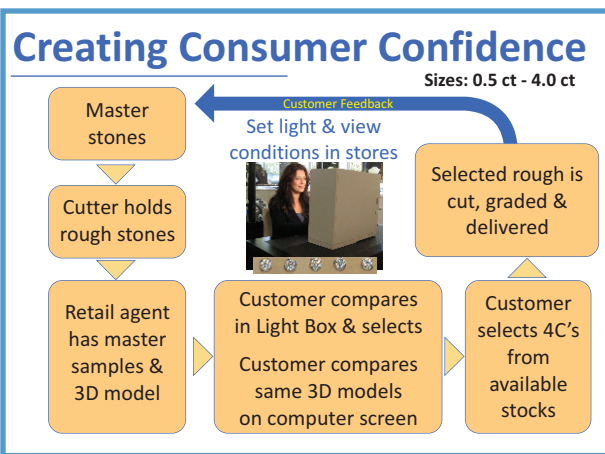
Rough Holding

If 10 manufactures each held only 100 rough stones with 10 profitable promising plans then 10,000 available virtual diamonds with their colour and clarity 3D models would be ready for consumers to select from in their local store. If 100 retailers each sold one diamond every trading day the manufacturers would achieve an average 20 stock turns PA (reduced by the payment cycle to around 7 turns) - and receive immediate payment and a good margin. Naturally they will hold back even more rough from their current business which they will run concurrently with Next Diamond™.

Cut Designers will be paid directly by manufacturers based on direct negotiations. If a designer or manufacturer elects they may use the intellectual property paid protection services offered by OctoNus and the Cut Group. For the first time we expect to see the profession of diamond designers evolve. We have additional plans to grow this new and currently missing segment of the diamond industry.



A computer render of a diamond showing its inclusions



The flow chart process takes around 4 weeks

Grading and Final Price Variations

A third party grading lab will confirm the inclusions and if required it will re-plot them in patented OctoNus Helium Polish and Mbox. A grading report will be issued and the stone is laser inscribed. Next Diamond™ will audit the lab focusing on cut quality. After payment and receipt of the diamond the consumer has the right at any time within 30 days to send the diamond to any lab at their own cost.

Real consumer confidence will be assured as Next Diamond™ itself will guarantee grades and services. If the final polished diamond's colour and clarity grade varies by one grade lower from the planned estimate Next Diamond™ will make a refund against the open pricelist (and claim it back from the manufacturer). For 2 grades lower a penalty refund of double the grade difference will be made. If the polish or symmetry grades fall below Very Good a price reduction will result on each count or the consumer may reject the stone and start again.

Most rejection decisions will be made before the diamond is shipped based on the grading report and the final Gem Adviser Inclusion model which will be emailed to both the retailer and the consumer.

If the diamond has a lower weight within a price category the consumer should accept the stone with a proportional price adjustment. If the weight category drops (from say 1.00ct to 0.99ct) the consumer may reject the stone and start again, or keep it at the much lower price against the list.

Key consumer problems solved by Next Diamond™

1. The visual comparison of different diamonds is inconvenient or impossible.

The best way to compare any two items is to put them side by side and to look from the different directions; 2 paintings can be hung side by side in an art gallery. This comparison can be very difficult to do with loose diamonds. Jewelers may place the stones being compared between two fingers on the back of your hand. The diamonds are rarely perfectly 'face up' and often slip about; the resulting preference could be the opposite in a repeat of the test. Body oils from the fingers can lead to the diamonds becoming dirty spoiling the results.

Next Diamond™ uses a Light Box with holders that fix all the diamonds in the face up position and rock them.

2. It is impossible to 'test-drive' diamonds

Jewelry store lighting can mislead a buyer without giving any idea how the diamond will perform in other lighting or even in another jewelry store!

Next Diamond™ shops all have the same Light Box which models various types of lighting to help assess the performance of a diamond in various environments'.

3. It is impossible to compare fancy cut performance with known standards

The few existing standards for cut quality use different scales to compare different fancy cuts. None compare them to known standards like the Tolkowsky round brilliant.

Next Diamond™ is based on visual comparison with traditional industry standards like an AGSO round and princess cut – all the samples have the same visual spread.

4. Fancy cut inconsistency

Currently when a consumer sees a fancy cut in a store and orders one in an alternative size or quality, the stone supplied has a different appearance. Generic fancies are often cut to different models by different manufacturers and they are even mixed together in the same parcel. The lack of industry standards and different models from producers ensure little or no chance ordered stones will match the appearance of the original sample.

Next Diamond™ ensures the manufacturer is known. All follow the agreed best standards for the sample fancy cut stones. The same performance is repeated every time in whatever color, clarity and size that is requested.

5. Quality and pricing is opaque and based on too much jargon

In Next Diamond™ shops consumers' study both the real stones and enlarged computer photo-realistic image and they learn the key quality factors. Inclusions and differences in color are pointed out and cost differences are explained transparently with the Next Diamond Pricelist™.

Real consumer confidence becomes possible

By the Cut Group

Sergey Sivovolenko, OctoNus, Finland

Janak Mistry, Lexus, India

Garry Holloway, Ideal-Scope, Australia +614 523 369 holloway.garry@gmail.com

Dr Yuri Shelementiev, Russian Gemmological Center, Russia