

## Chasing the Glint of a Different-Colored Gem

**A jeweler is betting that younger consumers in China will take a shine to the semiprecious stones he sells.**

By Don Lee, Times Staff Writer

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SHANGHAI — China's last empress dowager, Cixi, was said to have so loved tourmaline that on her deathbed in 1908, the ironfisted ruler demanded that a pink gemstone mined in Pala, Calif., be placed on her finger.

The story may be apocryphal, but Yu Chuan Yih, who also goes by Lorenzo, has good reason to promote it.

As chief executive of LJ International, Yih has been producing tourmaline, amethyst and other semiprecious jewelry in China for the last two decades. His customers are mainly American retailers, including Wal-Mart, Zales and QVC, the home television shopping network.

Now the native of Sichuan province — who moved to Brazil as a boy, settled in Los Angeles and then returned to Hong Kong — is making a run at the large Chinese retail market.

Since early 2005, Yih has opened 30 stores in a dozen Chinese cities, including one on Nanjing Road, Shanghai's high-end shopping district. Last year his China stores, called Enzo, generated about \$2 million in sales, and Yih expects to quadruple that this year.

"The only one large market left in the world is China," Yih, 67, said during a recent visit to Shanghai before heading to his 250,000-square-foot factory in Shenzhen, the industrial city that borders Hong Kong. From there, he left for Brazil, where he owns a large tourmaline mine.

LJ International, which is based in Hong Kong and traded on Nasdaq (ticker symbol: JADE), reported sales of \$95 million last year, up 22% from 2004. The company has been consistently profitable, although earnings haven't kept pace with revenue growth in recent years. In 2005 it reported a profit of \$3.4 million.

Yih has a jump on the Chinese market. He has opened more retail stores than most of his foreign rivals, except for Hong Kong companies such as Luk Fook and Chow Tai Fook, the leader with about 400 stores on the mainland. Luxury brands such as Cartier and Tiffany are also making a push in China.

China's jewelry market, like those for many consumer goods in the Middle Kingdom, is highly fragmented. Yet sales are booming, averaging 15% to 20% gains annually, thanks to rising incomes and freer trading of gold and diamonds. Retail jewelry sales in China exceeded \$17 billion last year, about a third of the U.S. market, according to industry associations.

Yih is betting that like Cixi, Chinese consumers will be attracted to less-expensive colored stones.

"You see, everything is white, white, white," he said, walking past a pair of jewelry stores at a Shanghai mall where Yih also has a shop. "In 1980 to 1990, everything was yellow. Every 10 years people get tired and change. I think this is the time to start color."

Ren Jin, a gem expert in Beijing, agrees that consumers in China are looking for change, although he said they still heavily favored gold and diamonds because they regarded those purchases as investments.

"People are searching for fashion and special characteristics," said Ren, vice dean of Beijing's Gemological Institute of China University of Geosciences. But it will take time, he added, and heavy promotion to raise consumer awareness of the kinds of lesser-known stones that Yih sells.

Among semiprecious gems, the Chinese prefer rubies, largely because the color red signifies good fortune in China. Amethysts and emeralds are also popular, Chinese jewelers said.

Some Chinese know about tourmalines, thanks to Cixi. In Mandarin, the gem is called *bixi*, which has the same pronunciation for different characters that mean "avoiding misfortune."

Although that double meaning helped spur sales decades ago, such beliefs, like *feng shui*, were banned as superstitious during the Cultural Revolution. Today's young Chinese, who are the biggest buyers of cheaper colored stones, know or care little about such histories, experts said.

Yih knows the trends because he lived through them. He came from a prominent family. His father was a colleague of the late Chinese Communist leader Deng Xiaoping in France but didn't share his ideology.

When the Communist forces gathered steam in the late 1940s, Yih and his family relocated to Hong Kong. In 1950, after the establishment of the People's Republic of China, the family

moved about as far as they could from the Middle Kingdom, to Sao Paulo, Brazil, where they farmed and traded cotton.

Yih trained as an architect in Brazil and for a while ran a construction company. But his love was trading gemstones. In 1980, he started anew in California, launching what is now LJ International. Seven years later, looking for new business opportunities, he returned to Hong Kong and became one of the first foreign investors to set up a jewelry factory in Shenzhen. The city was among the earliest to open up to outside investment and became the hub of China's jewelry industry, with an estimated 60% of domestic gem manufacturing located there.

Yih's experiences have helped him find sources of gems all over the world. Carrying a Brazilian passport, a U.S. green card and a Hong Kong resident's ID, he travels to Mozambique to buy aquamarine and to Arizona for garnets. His jewelry designer is a Cuban living in Florida. His sales managers from Los Angeles are now training teams in China. The avuncular Yi speaks Portuguese, English and several dialects of Chinese.

Like other manufacturers in southeast China, Yi faces rising labor costs. On July 1, Shenzhen's minimum wage went up 17% to \$100 a month, the third increase in as many years. Yih said his labor costs had jumped tenfold in the last decade, but he doesn't see the latest rise as having much effect on his business because his 3,000 workers earn a minimum of almost \$200 a month.

China's jewelry industry also could come under greater scrutiny as labor activists have complained about workers toiling in sweatshops that expose them to dangerous dusts and other health hazards. Yih acknowledged that there are problems but said his plant is among just 10 jewelry operations in Shenzhen's free-trade zone. He welcomes visitors to take a walk through his modern, air-conditioned facilities.

Yih's more immediate challenge is to boost his number of stores and sales in China, when analysts are fretting about over-investment and rising inflation, which have jolted stock markets. LJ International's stock has been trading at about \$4 a share in recent days, down from a 52-week high of almost \$5. The company's market capitalization is about \$70 million.

Sally Wallick, an analyst who follows the company for Dutton Associates, a stock research firm in El Dorado Hills, Calif., considers LJ International a "strong speculative buy."

Xu Jinchi, a jewelry dealer and president of the Shenzhen Gold & Jewelry Assn., said colored gems represented a tiny fraction of China's jewelry market. Chinese consumers have

traditionally considered them cheap, he said, and that will prove a hurdle for companies like LJ International.

At the same time, he added, fashion jewelry is in vogue.

"If each Chinese buys just one," Xu said, "that's still a big market."